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Industry Monitor

The EUROCONTROL bulletin on air transport trends

- **European traffic decreased by 0.5% in June and 1.3% in July compared with respective months in 2011.**
- **European Airline's Association AEA expects airlines to lose €1.5 billion in 2012.**
- **Spanish Government increased airport taxes in Spain.**
- **Air France gives up the opening of a fourth regional base in Bordeaux.**
- **Oil prices came very close to $100 per barrel at the end of August, climbing up again from lower June prices.**

EUROCONTROL statistics and forecasts

European flights decreased by 0.5% in June and 1.3% in July on same months a year before, in line with the forecast (see Figure 1). It is the low-cost and charter carriers which are adding traffic over the Summer. Since April, low-cost segment pushed back into growth, reaching a modest 3% growth over the April-to-July period. Charter growth (3.6% year-to-date), is still largely due to the bounce-back from the downturn following the Arab Spring. The traditional scheduled, all-cargo and business aviation segments all remain 3% below 2011 levels, since January 2012 (EUROCONTROL, August).

Based on preliminary data from airlines for delay from all causes, 41% of flights were delayed on departure in July, resulting in a 3 percentage point decrease on July 2011. Analysis of the causes of delay show that reactionary delay saw a decrease in its contribution to the average delay per flight from 5.6 to 4.5 minutes. Airline-related and ATFCM en-route delays also fell (see Figure 2) (EUROCONTROL, August).

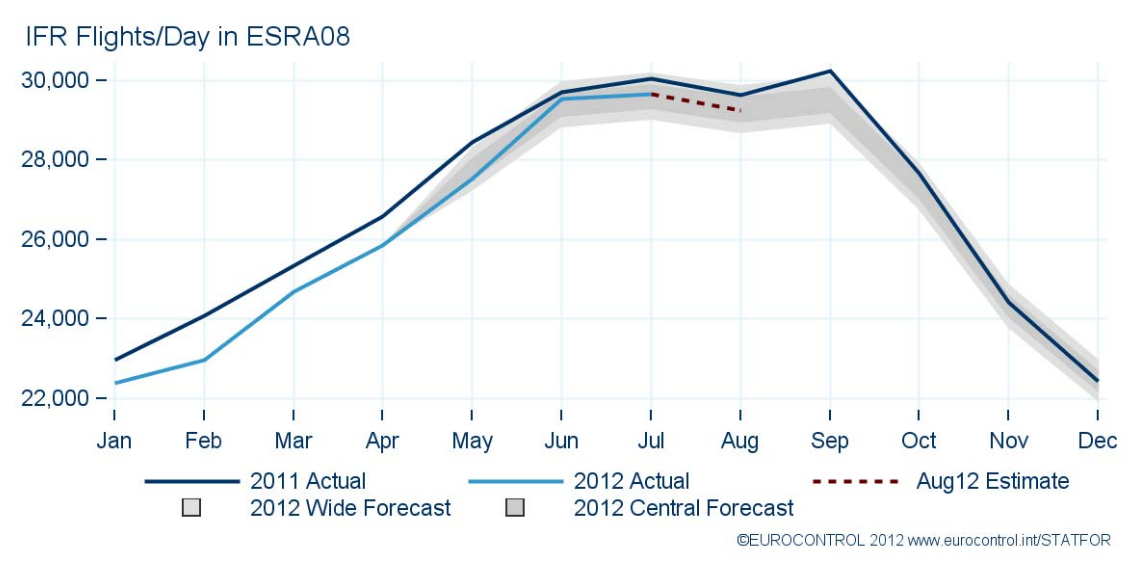


Figure 1: Monthly European Traffic and Forecast.

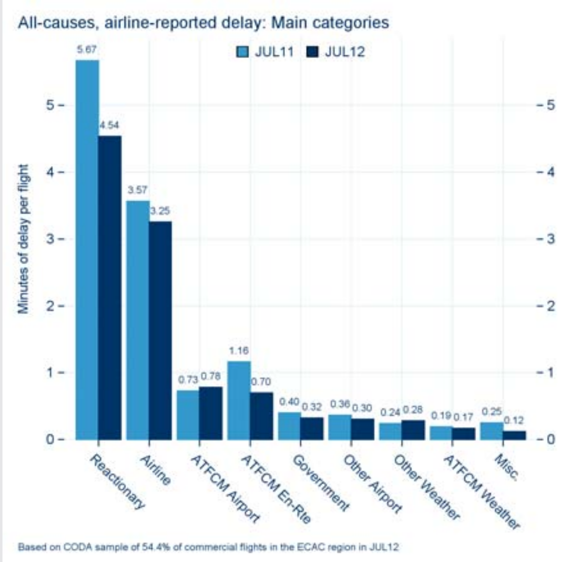
Other statistics and forecasts

IATA reported that scheduled passenger traffic in Europe was up 7% in June 2012 compared to the same period last year. Given the economic uncertainty in Europe, the strong June performance is more likely explained as a result of volatility in weak market conditions. Capacity was up 4.9% and load factors stood at 82.5% (IATA, 28 July and 2 August).

According to AEA's figures for first half of 2012, growth measured in passenger-kilometres increased by 5.5% on the same period last year. While seat capacity increased by 2.7% only, load factor went up by 2 percentage points to 77.1% (compared to the same period in 2011). Part of this growth could be attributed to weakening traffic growth factors taking place in the first half of 2011 (earthquake in Japan, Arab spring). However, the association reports that traffic growth contrasts the financial situation: AEA airlines are expected to lose €1.5 billion (EBIT) in 2012, mainly due to the high rise in fuel and external costs (AEA, 16 July).

Carlson Wagon Lit released its travel Price Forecast showing that 2013 prices are expected to grow modestly in most areas of travel spend, with most significant increases expected throughout Asia/Pacific and Latin America regions. As far as Europe is concerned, EMEA (Europe, Middle East and Africa) average airline ticket prices are expected to increase by 2.5% in 2013. Particularly, in Europe, strong business travel demand is expected in UK and Germany. France is expected to result in only minor price inflation of about 2% whereas Spain and Italy are more likely to experience flat airline pricing in 2013 (CWT, 23 July).

Breakdown of average delay per flight



Percentage of flights delayed on departure

Figure 2: Delay Statistics (all causes, airline-reported delay – preliminary data for July 2012).

Boeing, Embraer and Sukhoi released their 2012 market outlook over the next 20 years:

- Boeing forecasts a demand for 34,000 new aircraft between 2012 and 2031 (33,500 between 2011 and 2030) of which 7,760 are destined for Europe (50% of the new aircraft will be for fleet growth whereas 50% will be dedicated to replacement). By 2030, 94% of the current European fleet will be replaced with newer, more efficient aircraft. The regional traffic growth in Europe in revenue per passenger kilometres is expected to be 4.1% per year (Boeing, 3 July)

- Embraer forecasts a demand for 32,800 new aircraft between 2012 and 2031 (31,435 between 2011 and 2030) of which 7,215 units (1,460 new 30-to 120-Seat jets, 5,150 new Narrow-and Wide-Bodies and 605 new Turboprops) are meant for Europe. The manufacturer forecasts that average annual traffic growth rate (RPK) will increase by 4.1% in Europe over the next 20 years (Embraer, 9 July)

- Sukhoi-parent company forecasts a demand for 5,900 regional jets in the 30- to 120-seat market over the next 20 years of which 1,760 are for Europe. The manufacturer expects an average annual rate of 3.9% for traffic growth in Europe over the next 20 years (SuperJet International, 3 July).

More details in **Aircraft manufacturing** section.

Passenger airlines

Capacity, costs and jobs

Entering into force on July 1, the Spanish government adopted an increase in airport charges of an average of 10.2% but reaching up to 50% at Madrid-Barajas and Barcelona-El Prat (reportedly). This measure is part of the government austerity plan designed to ensure that the country's budgetary adjustment targets will be met (boletin oficial del estado, 30 June).

airberlin will remove routes from the winter schedule, cutting its (seat) capacity by 2% (compared to winter 11/12). The flight offer from Hamburg will be reduced from 220 weekly flights originally planned to 182 while some other some connections (Stuttgart-Milano, Sylt-Cologne) will be removed (airberlin, 10 July).

Aer Lingus is to move its operations from Belfast International to Belfast City as from October 28. For Winter, the Irish flag carrier will both serve London Gatwick and London Heathrow from Belfast, 3 times daily, each way (Aer Lingus, 19 July).

airBaltic signed a letter of intent with Bombardier to acquire 10 CS300 aircraft and put an option a further 10 CS300 jetliners (airBaltic, 10 July).

Air France clarified that the set of regional bases will be limited to the 3 ones in place: Marseilles, Toulouse and Nice with no opening in Bordeaux as originally announced (IM132) (Air France, 30 July).

Air France-KLM gave a larger role to its carrier Transavia France as part its Transform 2015 program to benefit from growth in the leisure segment. The Paris-Orly based carrier will serve additional frequencies and new leisure destinations, increase its fleet by 14 aircraft while reducing by 10% its unit costs (excl. fuel) (Air France-KLM, 30 July).

Air France pilots' union has approved a draft framework agreement aiming at improving the economic efficiency by 20% as planned under the Transform 2015 put in place to restore ariline's profitability (Air France, 17 August).

Flybe Group revised downwards its revenue for the year ending March 2013 with growth between 0% and 2% due to the impact of weak consumer market and high oil prices (Flybe, 10 August).

Sequence of events at OLT Express during summer:

- The regional airline OLT Express Germany took over the business of Contact Air. The agreement for the acquisition is nevertheless still subject to antitrust examination by the European Commission and due to be complete in early September (OLT Express, 5 July),
- Polish affiliate airline OLT Regional Express, filed for bankruptcy and had to suspend its domestic operations in Poland. However, OLT Express Poland charter operations have not been suspended by the Authorities (OLT Express, 27 July),
- OLT Express Germany has been purchased by the Dutch financial investor Panta Holdings BV after previous owner, Polish investor Amber Gold, decided to withdraw from aerospace activities (OLT Express, 8 August).

Loss-making airberlin which has already reduced its fleet by 13 aircraft at the end of June (year-to-date) to 152, reportedly plans to sell 8 aircraft by the end of this year in order to result in a profit, improving its debt to equity ratio and liquidity position (reuters, 15 August).

For the second half of the year, Norwegian plans to continue the introduction of larger aircraft B737-800s in order to reach its 2012 target of 15% increase in capacity (ASK) compared to 2011. As part of its future plans, the low-cost airline also expects to start its long-haul flights during the first half of 2013 (Norwegian, 12 July).

In July, Austrian airlines reduced its capacity (ASK) by more than 10% (on July 2011) due to the sale of 4 B737s. The airline decided to streamline its fleet with replacing its B737s by 7 A320s before next summer to have a harmonized medium-haul fleet in order to save operating costs (Austrian Airlines, 13 July and 9 August).

Ryanair cutting flights to Morocco by way of reducing of 8 weekly frequencies at Nador, 6 at Fez, 8 at Marrakesh, 4 at Tangier and closing operations at Oujda Airport following disagreements with the Moroccan airport authorities (Ryanair, 28 June).

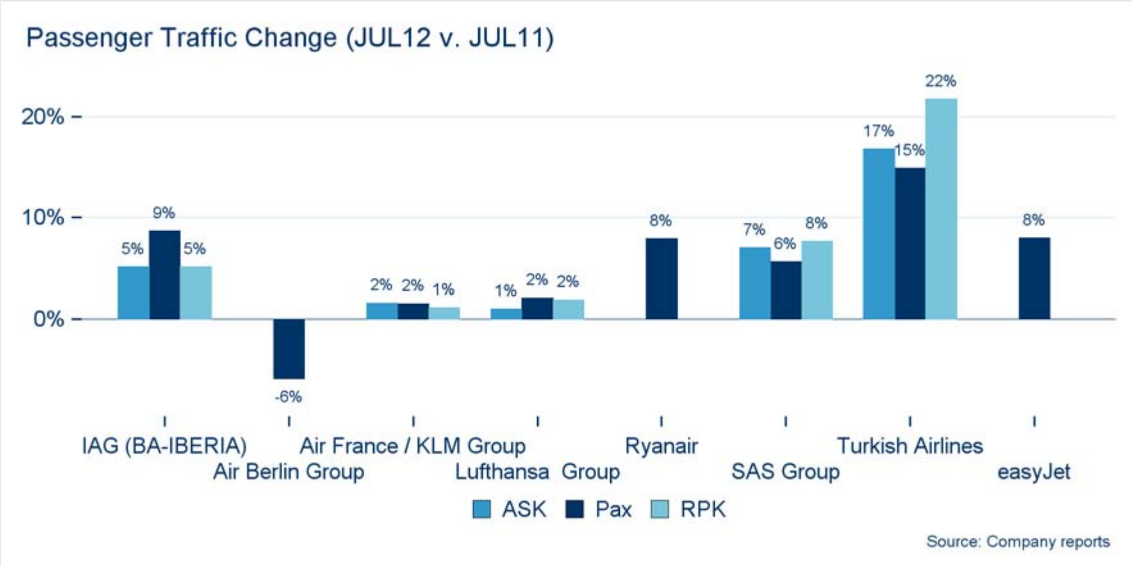


Figure 3: Main carriers' traffic statistics.

Ryanair will cut capacity in Madrid (11 routes cancelled, 24 routes frequency reduction) and Barcelona (4 routes cancelled and 22 routes frequency reduction) during Winter in reaction to the Spanish government's increase of airport departure tax (Ryanair, 12 July).

Routes, Alliances, Codeshares

During the 3rd quarter, Aer Lingus and Etihad Airways are to start a reciprocal code-share cooperating on flights between Abu Dhabi and Dublin. The Irish carrier will have full access to flights across the Middle Eastern network beyond Abu Dhabi while Etihad will have access to 18 Aer Lingus destinations including North-American and other European destinations (Aer Lingus, 30 July).

Finnair and airberlin extend their codeshare agreement and will propose enlarged offer in Scandinavia (Oslo, Gothenburg, Stockholm and Copenhagen) and the Middle East (Abu Dhabi) for Finnair's passengers and in Finland and Estonia for airberlin's passengers from this Winter (Finnair, 17 August).

Iberia added two twice weekly services to its schedule: to Nouakchott via Gran Canaria from 12 July, and to Accra from 18 July (Iberia, 12 and 17 July).

Volotea has reportedly launched new routes improving coverage of Southern Europe region for summer:

- 8 new summer routes as of end June, connecting numerous Italian airports between them and; to Spain (Ibiza), Greece (Mykonos, Corfu), Croatia (Split). Moreover, 3 new routes (Malaga-Bordeaux , Cagliari-Ancona, Venice-Valencia) are scheduled to operate year-round,
- 4 new seasonal routes from mid-July connecting Venice base to 4 other Greek islands,
- 5 new summer routes launched in August from Bordeaux (to Toulon) and Nantes bases (anna.aero, 27 June, 25 July and 9 August).

Vueling has reportedly launched 21 new routes as of end June, expanding to new market in Northern Europe: Germany and Scandinavia. The Spanish low-cost has added Edinburgh, Southampton, Nuremberg, Stavanger, Santander, Split, Santorini and Zagreb to its network (anna.aero, 27 June).

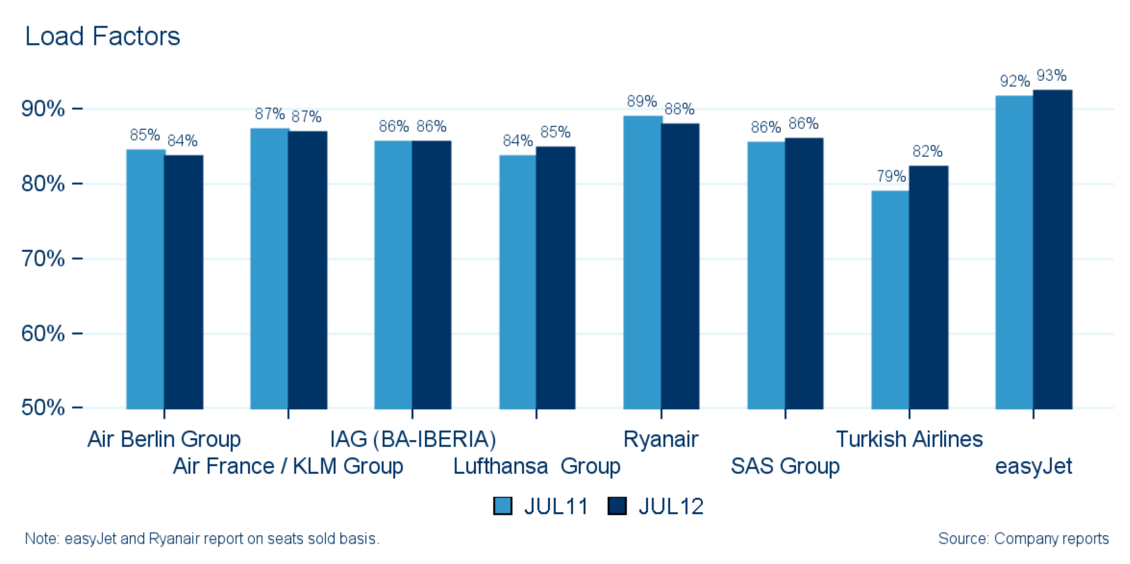


Figure 4: Main carriers' load factors.

Norwegian will launch direct flights from 10 Nordic airports from Winter and increase its existing offer to Gran Canaria (Norwegian, 10 July).

Germanwings has reportedly taken over the 5 weekly services between Stuttgart and Manchester on 15 July previously operated by its parent company Lufthansa. As part of the same "transferring stretegy", Germanwings now operates the 5 weekly services to Manchester (anna.aero, 26 July).

Estonian air published its winter schedule and will increase its number of flights to Stockholm, Vilnius, Oslo, Amsterdam, Brussels, Moscow, St Petersburg and Kiev while discontinuing flights to Kajaani (Finland), Tbilisi and Hannover (Estonian, 20 July).

Flybe added a new route from Southampton to Nantes with a daily year round service from Winter on top of 5 French airports already served (Limoges, Bergerac, Rennes, Chambery, Perpignan and Paris-Orly) (Flybe, 15 August).

United announced the 787 international routes: Denver-Tokyo Narita wil start from Summer 2013, Houston-Amsterdam route will be served between December and March 2013, a daily Los Angeles-Tokyo service and a five weekly service between Houston and Lagos will start in January 2013. In February and March 2013, the Dreamliner will operate between Houston and London Heathrow, and for Summer 2013, the airline will operate flights between Los Angeles and Shanghai as well as the Denver-to-Tokyo route. The airline's 787 domestic routes are to be announced and will start before the international ones (United, 23 August).

Failures

Italy's airline Wind Jet ceased operations on 12 August and risks an operating licence's suspension if it fails to provide a detailed contingency plan that will ensure a return to full operations and flight punctuality (LaStampa, 12 August).

Traffic statistics: July update

Figure 3 and Figure 4 compare July 2012 figures with July 2011 figures. In addition to the number of passengers (PAX), passenger capacity is measured in available seat kilometres (ASK) and traffic is measured in revenue passenger kilometres (RPK).

Airports

London Gatwick airport expects to handle 40 million passengers a year by 2021/22 and might handle its 45 million passengers a year limit by 2030. The airport also reports in its master plan that it does have any current plan for the building of a second runway (Gatwick Airport, 19 July).

Modlin Airport received the permit from Polish Civil Aviation Authorities to open for public use on 12 July. Warsaw's second airport has been inaugurated on 15 July after its first passenger's plane landed. The airport can welcome code C aircraft (i.e. A320s, B737s), has one runway of 2,500 m long and 60 m wide and is currently served by two low-cost airlines. The airport management expects 400 thousands passengers in 2012 and around 2 million travellers in 2013 (Gazeta Prawna, 15 July).

Ferrovial has reached an agreement to sell a 10.6% stake of the holding company which owns BAA Ltd to Qatar Holding LLC. As part of the transaction, other shareholders (i.e non-Ferrovial) of the BAA holding company will sell 9.4% of their stake to Qatar Holding as well. As a result, Qatar holding will indirectly own 20% of BAA while Ferrovial's indirect stake will be 39.4%. The transaction, subject to regulatory authorities' inspection, is expected to be finished by then end of 2012. (Ferrovial, 17 August).

Hahn's airport published a decrease by 8% of its passengers number to 1.28 millions and by 28% of its freight tonnage for the first half of 2012 (compared to the same period in 2011). The airport's management demands the suppression of the German airport tax before 2016. (Hahn Airport, 19 July).

Aircraft Manufacturing

In their current market outlook 2012 – 2031, Boeing and Embraer forecast the aircraft demand follows (the forecasts of 2011 release are mentioned between brackets):
Boeing (passengers aircraft):

- Regional Jets: 2,020 (up from 1,980),
- Single-Aisles: 23,240 (down from 23,370),
- Twin-Aisles: 7,950 (up from 7,330),
- Large: 790 (down from 820).

As the cargo market is stagnating, the manufacturer has revised downwards the forecast for freighters with, still a world fleet expected to double from 1,740 aircraft at the end of 2011 to 3,200 at the end of 2031.

The world fleet is expected to double from 19,890 aircraft at the end of 2011 to 39,780 aircraft in 2031, with a demand of 34,000 new aircraft over the 20 years, out of which 7,760 will be for Europe (Boeing, 3 July).

Embraer

- Turboprops (30+ seats): 2,515 (up from 2,440)
- Small Jets (30-120 seats): 6,795 (down from 7,225)
- Narrow- and Wide-Bodies Jets (120+ seats): 23,490 (up from 21,770)

The world fleet is expected to increase from 19,615 in 2011 to 36,595 in 2031 with 32,800 new deliveries by 2031 (Embraer, 31 July).

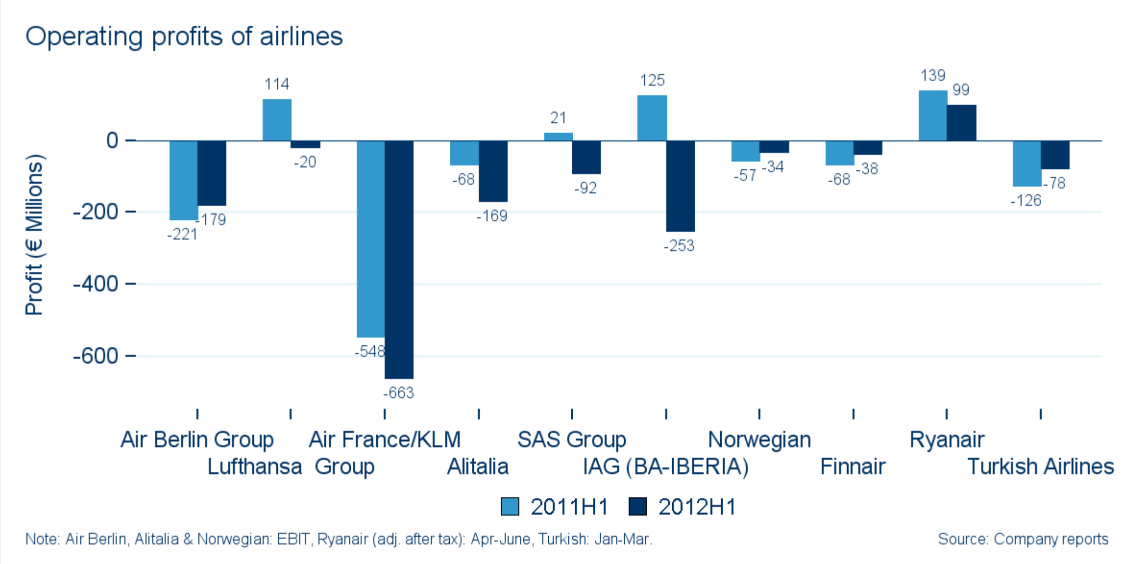


Figure 5: Main carriers' financial results for first half of 2012.

Airbus has moved the A350 XWB Entry into service from mid-2014 (IM135) to the second half of 2014 (EADS, 27 July).

ATR manufacturer, joint venture between EADS and Alenia Aeronautica, recorded 24 aircraft orders (ATR -600s) since the beginning of the year with half of the purchases signed during the Farnborough air show (ATR, 11 July).

Financial results of airlines

With the exception of Ryanair (only quarter ending 30 June), all the airlines followed in this bulletin reported losses from operations during the first half of 2012 (Figure 5). Network carriers appear to undergo the sharpest pressure: they are restructuring their businesses (market offer) in a tough environment (higher fuel costs, turbulent eurozone) as well deploying cost-cutting programmes (company reports, July/August).

IATA reported that initial results for European airlines show profits down significantly with airlines posting around €427 m net losses during Q212 versus €198 m net profits during the same quarter last year (based on a sample of 9 entities) (IATA, 6 August).

Air Malta posted €30 m operating losses for the full year to 31 March 2012, a €4.3 m improvement on the last year's results. The flag carrier reports its performance has been hindered by a 20% capacity reduction agreed in the Restructuring Plan approved by the European Commission and increased average fuel prices (+30% during the period). On 27 June, the EC agreed that €130 m aid amount could be granted to the airline in line with EU state aid rules (IM142) (AirMalta, 8 August, Europa, 27 June).

TAP posted a net loss of €112 m for the first half of 2012, 14.6% worse than during the same period last year attributing the losses to the industrial action in the sector (IM141) as well as higher operating costs hampered by carrier's fuel bill increase (+20% during the period compared to the same period in 2011) (TAP, 16 August).

Figure 6. Brent and kerosene prices.

Oil

Oil prices have been escalating again since the beginning of July and are getting closer to $100 per barrel at the end of August, increasing by $20 on the record-low prices reached at the end of June. Converted indices for Kerosene and Brent are shown in Figure 6.

Regulation

Following negotiations finalised in March (IM139) Israel and the European Union initialled a comprehensive aviation agreement. The agreement, offering more travel opportunities, more direct connections and economic benefits for both sides, will supersede the current bilateral agreements. The agreement however needs formal signatures to enter into force (Europa, 31 July).

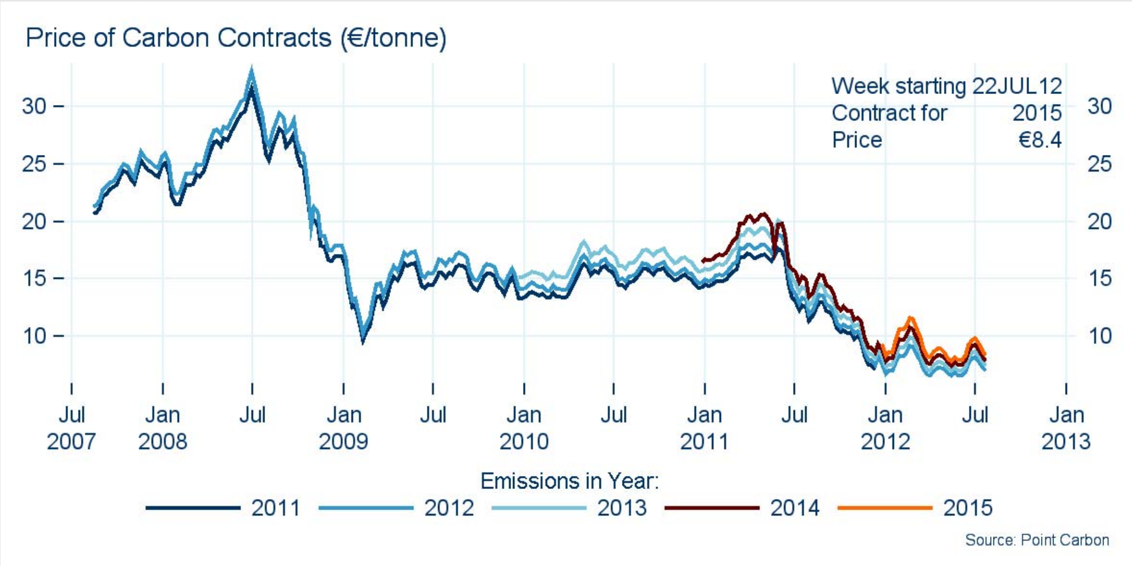


Figure 7: Carbon prices.

Environment

The price of carbon contracts for 2015 went down to around €8/tonne in recent weeks (Figure 7).

Fares

Deflated ticket prices in Europe increased by 4.3% in July year-on-year, based on preliminary values (EUROSTAT,16 August).

EUROCONTROL

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