

# Industry Monitor

The EUROCONTROL bulletin on air transport trends

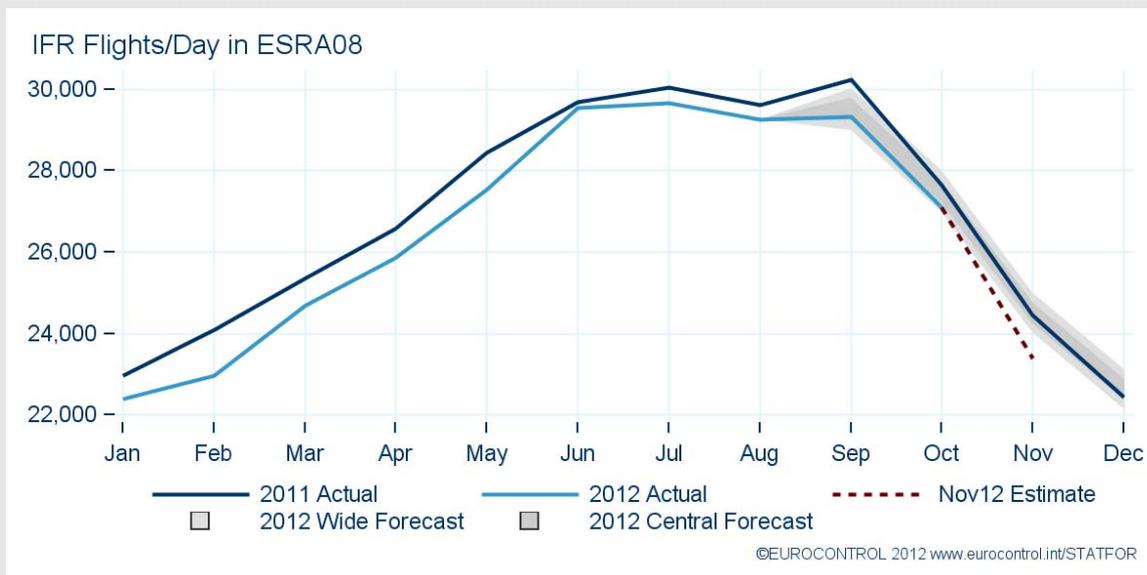
- **European traffic down 2% in October, better than the 2.4% year-to-date decrease but below the forecast.**
- **EC suspended aviation inclusion in the Emissions Trading Scheme (ETS) for international flights until autumn 2013 to allow ICAO to finalize a global emissions scheme.**
- **EC forecasts GDP in the Euro area to contract by 0.4% in 2012 before slightly recovering by 0.1% in 2013.**
- **Oil prices continue around €85 per barrel in November.**

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## EUROCONTROL statistics and forecasts

European flights decreased by 2% in October on 12 months before, better than the 2.4% year-to-date decrease but below the forecast (see [Figure 1](#)). Hurricane Sandy in October impacted the North Atlantic traffic and contributed to circa 0.1% of the monthly decline. Three of the five main market segments decreased in October; scheduled, business aviation and charter carriers were respectively 3.7%, 2.9% and 2.2% below 2011 volumes. Only low-cost and cargo showed some growth at 2.4% and 0.1% respectively. Preliminary data show total flights in November down 4% on November 2011 (EUROCONTROL, November).

Based on preliminary data from airlines for delay from all causes, [36% of flights were delayed on departure](#) in October; this figure remained the same compared with October 2011. Analysis of the causes of delay shows a slight increase in airline- and weather-related delays whereas there were decreases in reactionary delay and ATFCM En-Route delay reported by airlines fell sharply to 0.4 minute per flight from 1.0 minute per flight in October 2011(see [Figure 2](#)) (EUROCONTROL, November).



**Figure 1: Monthly European Traffic and Forecast.**

## Other statistics and forecasts

IATA reported an increase of 2.6% in demand in October 2012 for scheduled passenger traffic (RPK) in Europe. Total load factors for the month stood at 80.9%. Freight traffic was down 4.5% on the same month last year (IATA, 29 November).

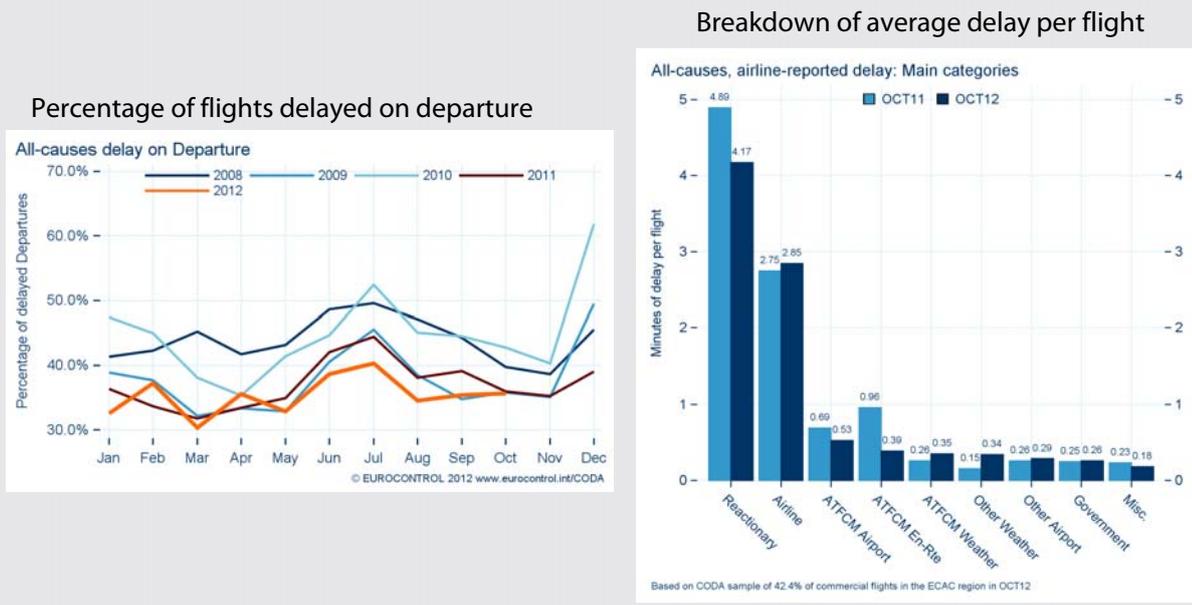
ACI reported overall passenger traffic at European airports to be up only 1.8% in 3Q12 compared with 3Q11 whereas overall aircraft movements decreased by 1.3%. For September 2012, passenger traffic increased by 1.9% whereas overall aircraft movements decreased by 2.2% on the same month last year (ACI, 6 November).

## Passenger airlines

### Capacity, costs and jobs

IAG reportedly offered to purchase the 54% of Vueling's shares that the Group does not already own with a view to restructure Iberia's short-haul operations. In the meantime, IAG unveiled a transformation plan to return its Iberia subsidiary to profitability by mid-2013, calling for the company to cut network capacity by 15%, downsizing its fleet by 25 aircraft and cutting 4,500 jobs. (Reuters, 8 November & IAG, 9 November).

Czech Airlines agreed with pilots association (CZ-ALPA) on a one-year pay freeze and a reduction of the number of pilots' annual days off; as part of the deal there will be no redundancies among pilots in 2013. In the meantime, Czech government reportedly announced a second attempt to privatize CSA Czech Airlines; the first attempt took place in 2009 after heavy losses from a failed expansion plan. Last September, EC gave approval for €100 million in state-aid to the airline (CZ-ALPA, 15 November & Reuters, 7 November).



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

**Estonian Air** revised its strategy to focus only on profitable routes and thereby reduced its destinations and frequencies from Tallinn in an attempt to return to profit. Flights to Helsinki, Tartu, Joensuu and Vienna will be suspended and plans for new routes to London City, Gothenburg, Tbilisi and Hannover will be cancelled. The airline also plans to reduce its workforce by 45% (administrative and flight operations divisions) to 172 staff and its fleet by 50% to 5 aircraft serving 10 core destinations. (Estonian Air, 14 & 20 November).

**SAS** avoided bankruptcy after the unions approved the 4Excellence Next Generation plan which includes jobs, salaries and pensions cuts along with the sale of **Wideroe**, the Group's Norwegian regional airline in order to return to profitability and competitiveness. The plan also includes the addition of 65 aircraft to its fleet, of which 39 new aircraft (30 A320neo, 9 B737NG) and 26 recent models (12 B737NG and 14 A320) (SAS, 12 November).

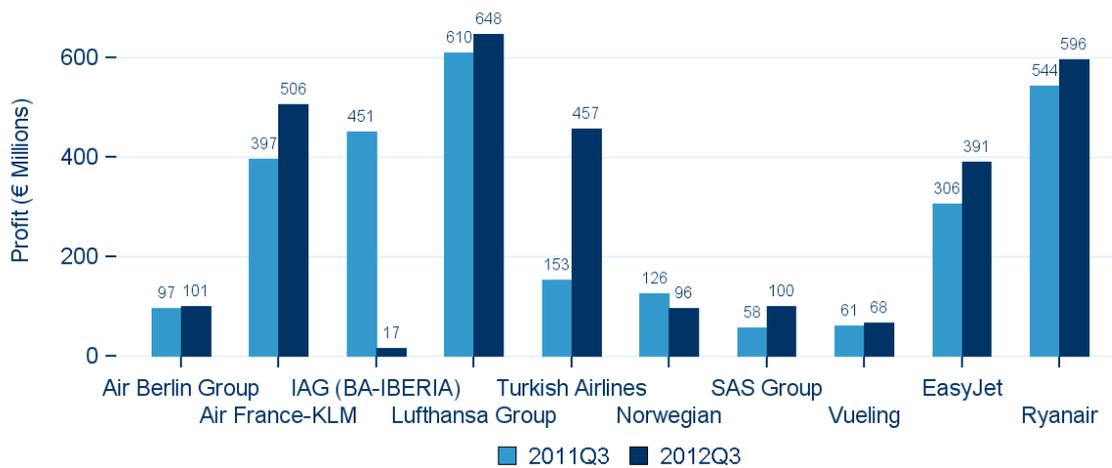
**Lufthansa** reached an agreement with its 18,000 cabin crew to settle their long-lasting pay dispute. The pay agreement includes a pay rise of 3.95% and a one-off payment to all cabin crew of €320 (Lufthansa, 13 November).

As part of its new cost-cutting programme Turbine 2013 ([IM145](#)), **airberlin** is to sell the majority share of its frequent flyer programme, Topbonus as a means to improve 2012 earnings. It is reported that the airline planned to further cut its fleet from 158 to 135 aircraft and to cut 10% of its workforce, which means over 900 jobs next year (airberlin, 16 November, ATW 23 November & Handelsblatt, 13 November).

EC reportedly rejected **Ryanair's** 'remedies package' consisting of circa 40 routes to/from Dublin, Cork offered to other airlines in an attempt to obtain EC competition clearance in Aer Lingus acquisition. The Commission is to make a decision by mid-January 2013 on whether the proposed merger would impede effective competition in EU (Reuters, 14 November).

**LOT** took delivery of its first out of eight B787 Dreamliner on 15 November at Warsaw, making the airline the first European-based operator of the aircraft. Crew familiarization flights on its European network are scheduled from December onwards with the first long-haul flight to Chicago scheduled for January 2013 (LOT, 19 November).

### Operating profits of airlines



Note: AirBerlin, Norwegian, Vueling: EBIT, Ryanair & Easyjet: profits for 6 last months, THY: Q3 estimated

Source: Company reports

**Figure 3: Main carriers' traffic statistics.**

[Cyprus Airways](#) submitted a restructuring plan to the Cyprus government which provides for circa 400 job cuts out of 1,800, the introduction of new working hours and lower salaries. The troubled airline thereby expects the government to release another €31 million share capital increase to ensure its viability and attract a strategic investor (Cyprus Airways, 19 November).

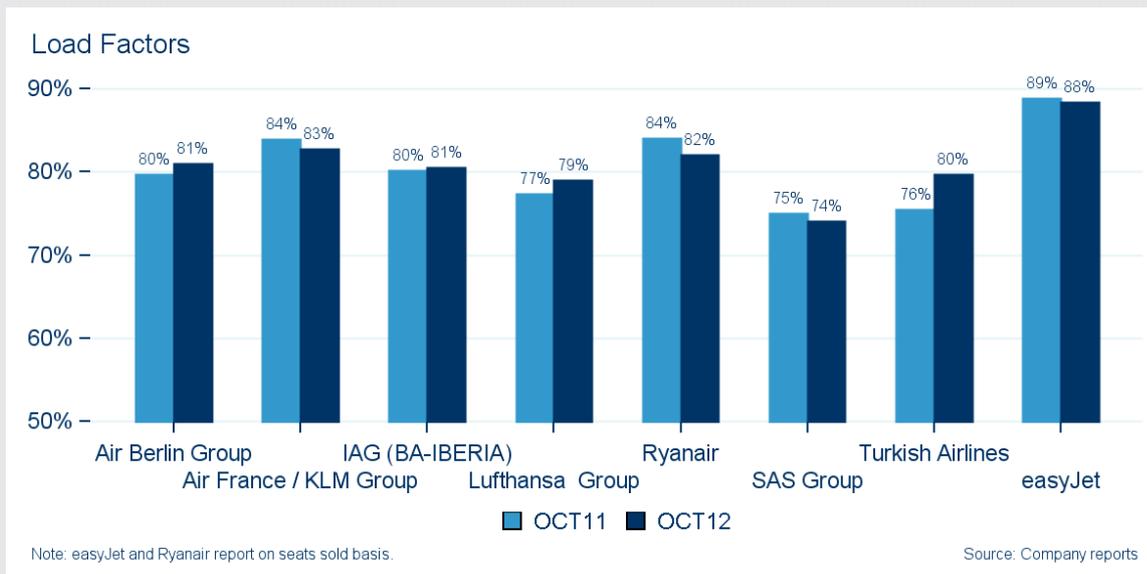
[Virgin Atlantic](#) was reportedly awarded the 12 slots at Heathrow that [IAG](#) had to give up when acquiring [BMI](#) earlier this year ([IM140](#)), Virgin is to use the new slots focusing primarily on flights to Edinburgh and Aberdeen as from March 2013 (BBC news, 19 November).

[Azerbaijan Airlines](#) reportedly placed a firm order for four Embraer E190 aircraft scheduled to be delivered in 3Q13 and two E170 aircraft from Embraer ECC Leasing to be delivered in 2Q13. The airline is introducing Embraer jets to replace its turboprop fleet and aims at increasing frequencies between Baku and Nakhchievan autonomous republic and introducing new routes to Odessa, Volgograd, Sochi and Donetsk (Embraer, 11 November).

Croatian government reportedly approved a major capital injection for its flag-carrier [Croatian Airlines](#) to become profitable from 2013 and prior to the country's entry into EU in July next year so as to avoid EU competition regulations. In return the airline is to gradually cut 10% of its staff over the next two years (Reuters, 20 November).

[Ryanair](#) is to cut its Budapest flights by 40% from January 2013 which means the closure of 10 routes and the loss of over 280 weekly flights, blaming increased airport charges. Ryanair set up a base at Budapest following the collapse of [Malev Airlines](#) last February (Ryanair, 22 November).

Private aviation company, [VistaJet](#) placed a firm order for 56 Bombardier Global Jets with 86 further options. This order is reported by Bombardier as the largest business aircraft sale in its history (VistaJet & Bombardier, 28 November).



**Figure 4: Main carriers' load factors.**

[Air Nostrum](#) is reportedly to apply pay cuts between 25% and 50% for its employees from January 2013 along with plans to reduce its fleet size by 28%, blaming higher costs and the economic crisis in Spain (Europa Press, 16 November).

## Routes, Alliances, Codeshares

[Turkish Airlines](#) is reportedly considering a joint management with [Lufthansa](#) although an official decision should only be taken during Turkish Airlines' annual meeting (Reuters, 6 November).

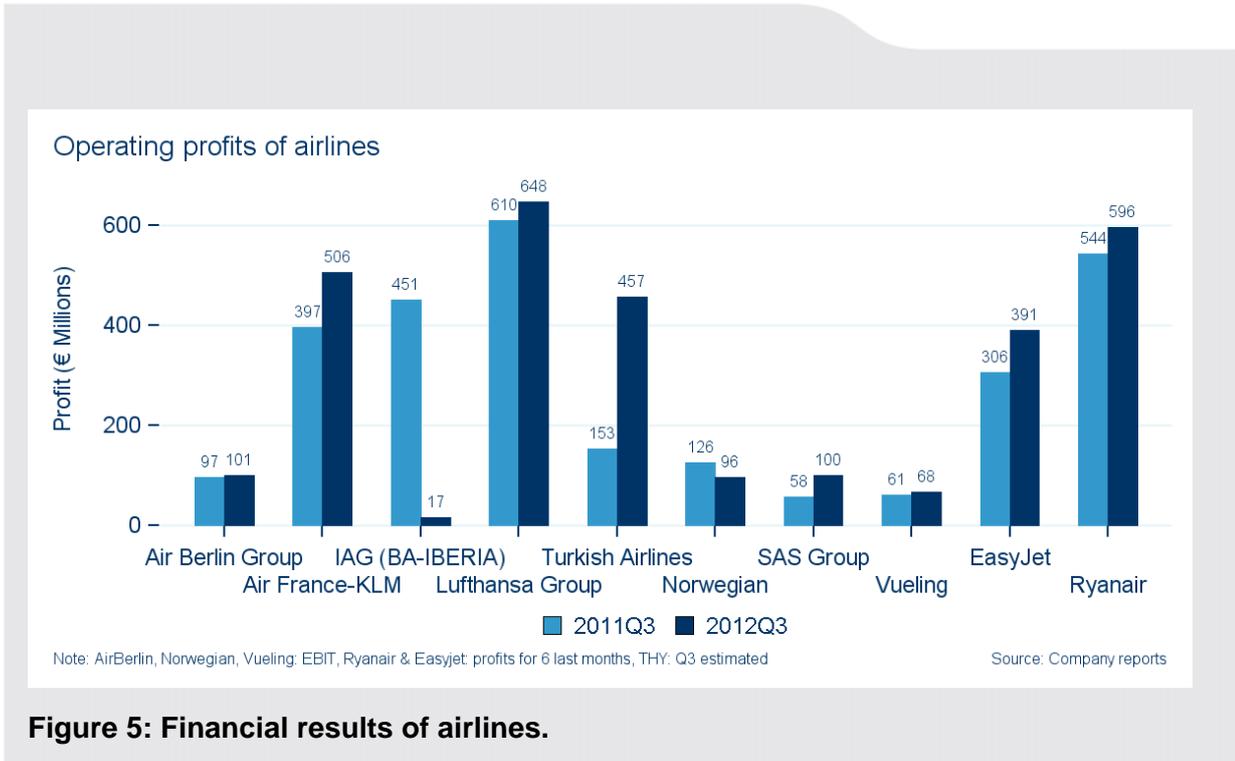
Moroccan low-cost, [Air Arabia](#) is increasing its network in Europe, benefiting from the 'open skies' policy between Morocco and EU and recently launched destinations to Gatwick from Casablanca and Tangiers and to Milan-Bergamo from Marrakech and Casablanca. Air Arabia currently serves 13 routes in EU (Air Arabia, 7 November).

[SAS](#) will launch 45 new routes in 2013 from all of the main airports in the Nordic countries and regional airports and boost the frequencies on some current domestic and European routes (SAS, 23 November).

## Cargo

[Cargolux](#) announced that [Qatar Airways](#) plans to sell its 35% stake in the carrier due to disagreements with Luxembourg government which controls the majority of the shares. It is reported that Cargolux is in talks with potential new investors, Volga Dnepr Airlines and Hainan Airlines Group (Cargolux, 19 November & Le Quotidien, 21 November).

[TNT Express](#) is to sell both its airline operations, [TNT Airways](#) and [Pan Air Lineas Aereas](#) to Dublin-based ASL Aviation Group in order to secure the proposed [UPS-TNT Express merger](#) agreed last March ([IM139](#)) (TNT, 16 November).



**Figure 5: Financial results of airlines.**

## Traffic statistics: October update

[Figure 3](#) and [Figure 4](#) compare October 2012 figures with October 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).

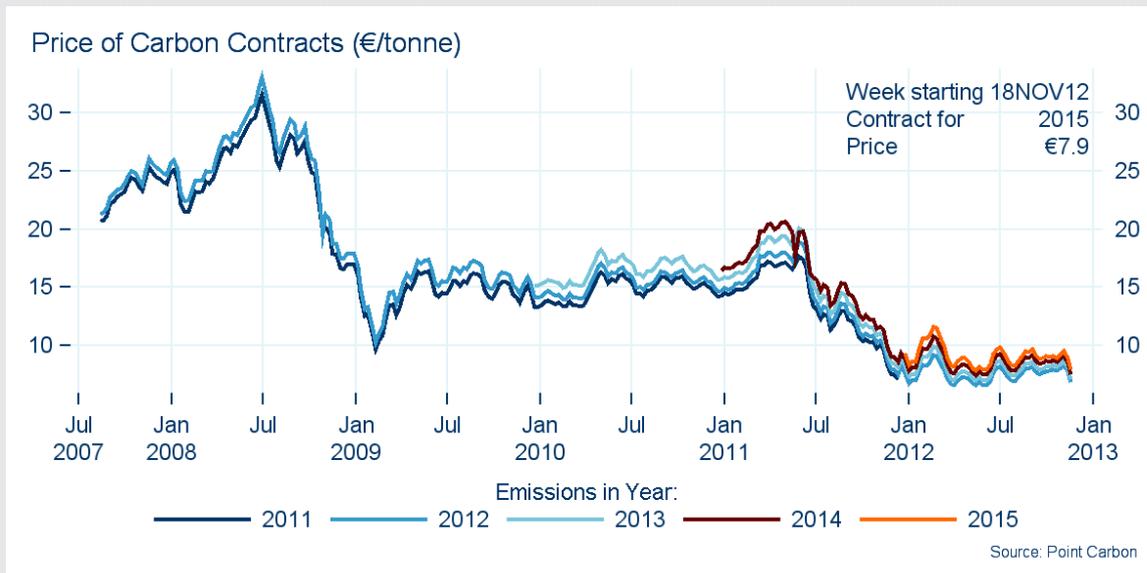
## Financial Results of Airlines

Third quarter's financial results being seasonally the airlines' strongest, most European airlines followed in this bulletin have posted improved operating profits for 2012Q3 compared to last year, except IAG owing to Iberia's losses due to restructuration ([Figure 5](#)) (Company reports, November).

## Airports

[AENA](#), Spain's airport operator, agreed with unions to make 1,600 voluntary redundancies (10% of its workforce) by the end of 2012. This measure aims at reducing AENA's running costs to guarantee its future (AENA, 1 November).

[BAA](#) reported that lack of capacity at [Heathrow](#) is costing the UK economy up to €17 billion a year in lost trade and could increase to €32 billion a year by 2030. There is no extra capacity for new routes to new economies like China for example. The report concludes that UK's connectivity needs can only be met by a single UK hub airport i.e. expanding Heathrow or replacing it with a new hub airport. (BAA, 15 November).



**Figure 6. Carbon prices.**

**Ferrovial**, the Spanish infrastructure group that owns 49.9% of Heathrow Airport Holdings Ltd. (previously known as BAA) announced the sale of 10% of Heathrow to China's sovereign wealth fund (CIC). Last August, Qatar Holdings bought a 20% stake in the Heathrow holding firm (Ferrovial, 31 October).

## Environment

The price of carbon contracts for 2015 was down to 7.9€/tonne in recent weeks and slipped to 6.7€/tonne on 20 November ([Figure 6](#)). EC proposed the withdrawal of 900 million permits in its Emissions Trading Scheme from 2013 to boost low prices.

## Regulation

EC temporarily suspended the inclusion of international aviation into the [Emissions Trading Scheme \(ETS\)](#) for flights to and from non-EU countries, this measure being valid until autumn 2013 to allow [ICAO](#) to finalize a global emissions scheme. ETS currently applies to internal flights that begin and end within EU27 countries (+ Iceland, Liechtenstein and Norway). EC has subsequently requested the European Energy Exchange to put on hold the auctions for 2012 aviation allowances (EUROPA, 13 & 16 November). On 27 November, US President signed a bill into law to stop United States' participation in EU-ETS Scheme to impose an emission tax on American aircraft operators (The White House, 27 November).

EC opened an in-depth investigation to determine whether the Slovenian state's capital injections between 2007 and 2011 in Adria Airways are in line with EU state-aid rules (EUROPA, 20 November).



**Figure 7. Brent and kerosene prices.**

## Oil

Oil prices remained stable at €85 per barrel in November. Converted indices for Kerosene and Brent are shown in [Figure 7](#).

## Economy

[Euro area](#) economy indicator updates:

- Annual [inflation](#) was 2.5% in October 2012 down from 3% in October 2011,
- [GDP](#) contracted 0.6% during 3Q12 compared with 3Q11,
- [Unemployment](#) rate increased to 11.7% in October 2012, all-time high since 1995 (Eurostat, November).

In its autumn's forecast, the [European Commission](#) predicts GDP in the Euro area to contract by 0.4% in 2012 before slightly recovering by 0.1% in 2013. GDP in EU27 is expected to drop by 0.4% in 2012 followed by 0.3% growth in 2013 (EUROPA, 7 November).

## Fares

Deflated<sup>1</sup> ticket prices in Europe increased<sup>1</sup> by 2% in October year-on-year, based on preliminary values (EUROSTAT, 15 November).

<sup>1</sup> To eliminate the influence of inflation on Euro figures, the ticket price is deflated with a price index. The STATFOR deflated ticket prices are estimated in 2005 constant euros.





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