

Industry Monitor

The EUROCONTROL bulletin on air transport trends

- **European flights decreased by 2.1% in January delaying traffic recovery due to severe winter conditions and industrial action**
- **European traffic is forecasted to grow only weakly in 2010**
- **Load factors improved for most of the major European airlines in January**
- **IMF revises upwards Euro zone growth forecast up to 1% in 2010**
- **Oil prices stable at around 77\$ per barrel in February**

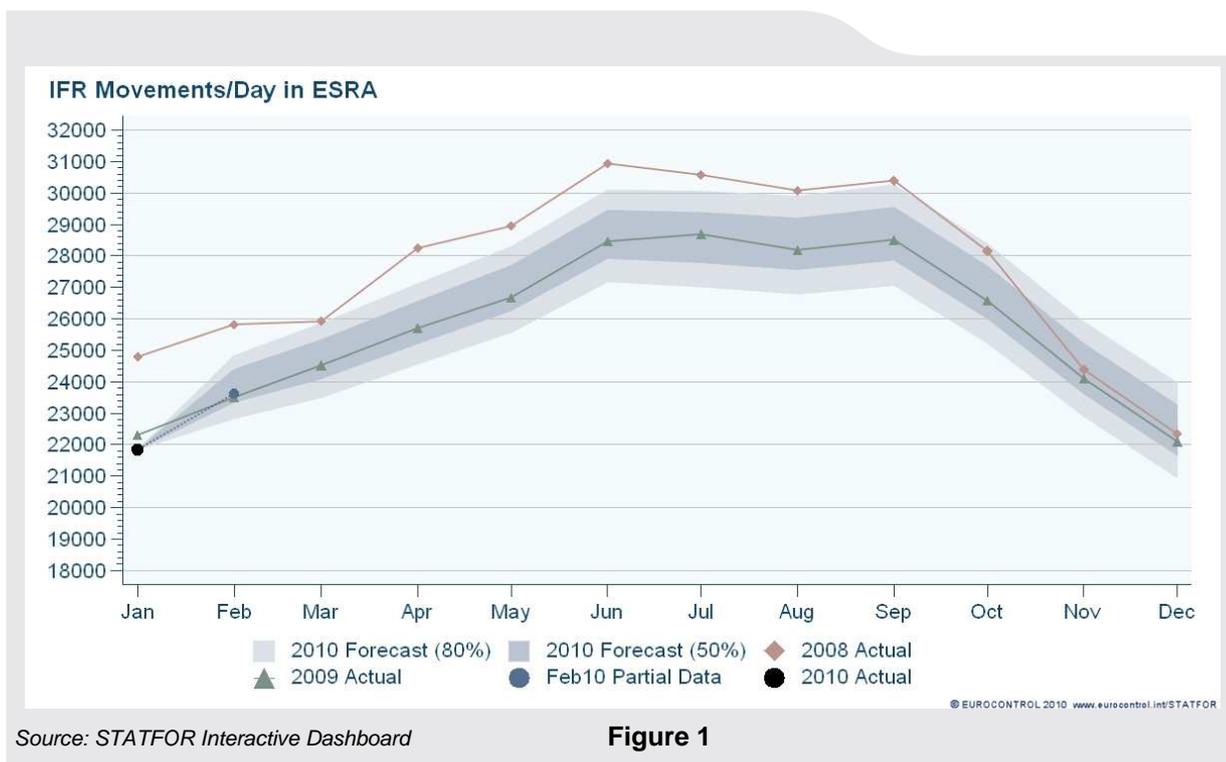
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EUROCONTROL statistics and forecasts

European traffic declined in January by 2.1% on same month last year, a decrease attributed to bad weather and ATC strikes (see Figure 1).

Based on preliminary figures, the average delay per delayed flight (for departures) was up 17% in January at 39 min (compared to January 09). Weather was mostly responsible for this increase, accounting for 34% of primary departure delay minutes (vs. 25% in January 09) as shown in Figure 2 (EUROCONTROL, February).

The new medium-term forecast is that there will be 11.5 million IFR movements in the EUROCONTROL Statistical Reference Area (ESRA) in 2016, 22% (±8%) more than in 2009. Following the economic downturn, responsible for 4 years of lost traffic growth, the traffic is forecast to grow by only 0.8% (±2.7%) in 2010. Traffic will then recover from 2011 at more solid rate around 3% per year (EUROCONTROL, February).



Passenger airlines

Capacity, costs and jobs

Ryanair converted 10 options on 737s in December, bringing to 112 the total number of firm orders to be delivered by March 2013. The budget carrier is unlikely to place additional orders for later years after failed negotiations with Boeing (Ryanair, 1 February).

Turkish Airlines added 20 firm and 15 optional 737s to its fleet to be delivered between 2011 and 2014 (Turkish Airlines, 4 February).

In addition to the already planned saving measures (Core SAS: €540 million), **SAS Group** management has launched another €200 million cost-cutting programme. Further €50 million could be saved in personnel reduction. The group also reduces its capacity by 20% (SAS, 9 February).

London business airline **CityJet** replaced its business offer by a new premium economy offer (CityJet, 15 February).

Air Berlin increased its participation into NIKI Luftfahrt, parent of low-cost carrier **FlyNiki**, to 49.9%. The German carrier subsequently added 11 aircraft to its fleet (Air Berlin, 17 February).

Shareholders of **Olympic Air** and **Aegean Airlines** agreed to create a merged airline, equally owned, and carrying the name of Olympic Air. The agreement has to be approved by the European Commission. The two airlines currently own around 30 aircraft each and respectively employ 1300 and 2500 staff (Aegean Airlines, 22 February).

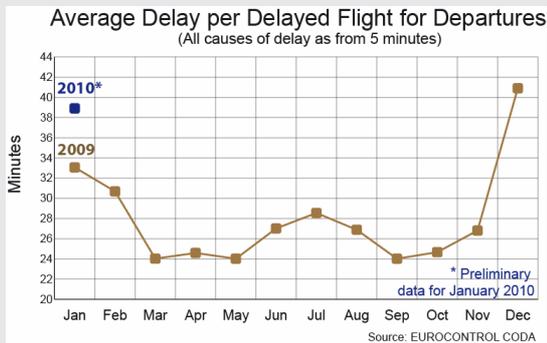
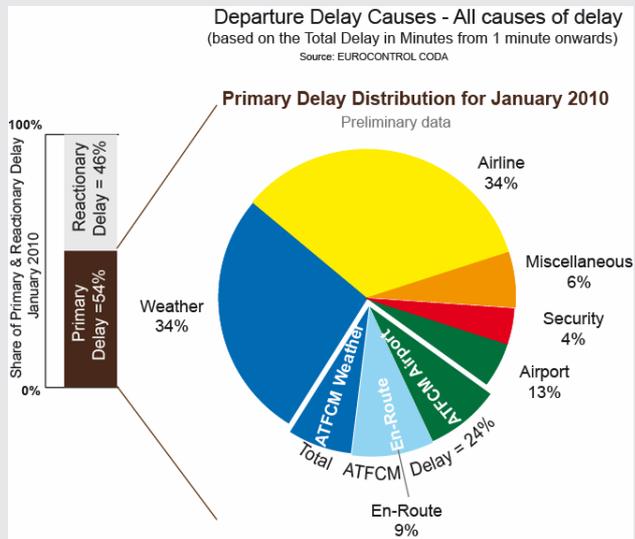


Figure 2

Source: CODA



Failures

French court put [Noor Airways](#) into liquidation due to financial difficulties. The charter airline had already had its licence suspended since end of January (Ouest France, 10 February).

[Hola Airlines](#), charter and ACMI airline based in Palma de Mallorca, ceased operations on 15 February. A “viability plan” is to be presented to the shareholders with small chances to deal with lack of finance (El Economista, 16 February).

Dutch wet-lease specialist [Denim Air](#) has reportedly been declared bankrupt following a slump in business over the recent months (Luchtvaartnieuws, 15 February).

Routes and codeshares

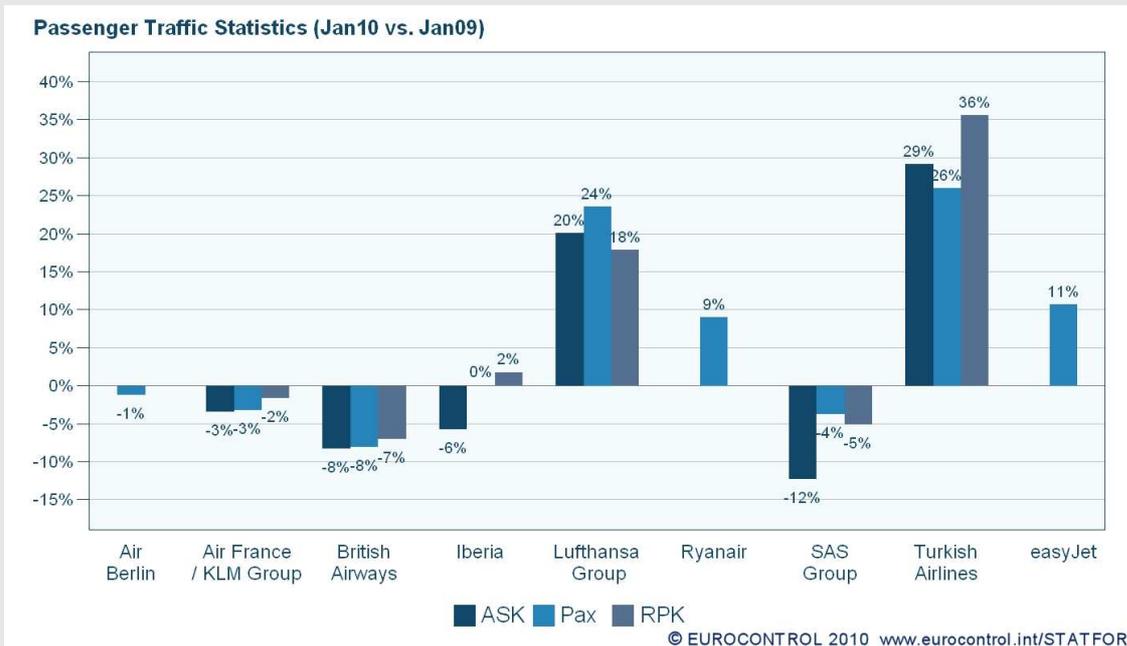
[Continental Airlines](#) will increase its service between New York (Newark) and London (Heathrow) adding a 4th daily flight in Summer and a 5th daily flight in Winter (Continental, 29 January).

BA’s all-premium carrier [Openskies](#) will launch a daily service between Paris Orly and Washington from the 3rd of May (Openskies, 9 February).

[Ryanair](#) will expand its network in

- opening its first Eastern European base at Kaunas (Lithuania) from May with 2 based aircraft, adding 9 new destinations to the 9 existing ones,
- adding 7 new routes from Cork to Spain, France and Portugal from June to August,
- adding 3 new routes from Edinburgh to Faro, Marrakech and Paris from May,
- adding 25 new routes across Europe (most of them being summer destination routes) from Q210,

(Ryanair, 2, 3, 9 and 10 February).



Source: Company reports

Figure 3

easyJet will start four routes between May and August, including flights between Liverpool-Isle of Man as well as new routes to Kosovo and Israel from Geneva. The UK budget carrier passed the 500 routes mark after 15 years of operations (easyJet, 12 and 15 February).

Air Berlin launched new service to Iraq (from Munich) and will start in summer services between Berlin and Gdansk (Air Berlin, 4 and 16 February).

Norwegian will enter the Finnish market with launching 2 direct flights from Oslo and Stockholm to Helsinki from beginning of May (Norwegian, 11 February).

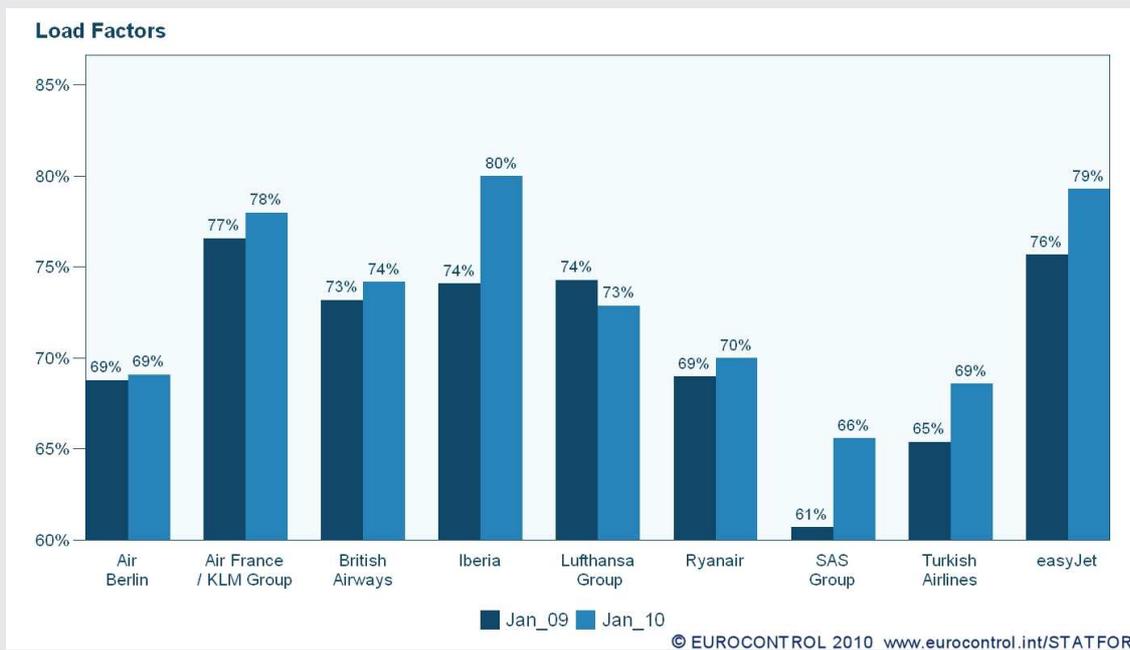
TUI Travel PLC, the UK-based international travel group has recorded improvements in demand across all source markets for Summer 2010. Customer bookings to the UK and Nordics destinations have increased compared to the ones published at the beginning of December (TUI Travel, 9 February).

Traffic statistics: January update

The following figures compare January 10 figures with January 09 ones, unless otherwise mentioned. Passenger capacity is measured in Available Seats Kilometres and traffic is measured in Revenue Passenger Kilometres. Cargo capacity is measured in Available Tonne Kilometres and traffic in Cargo Tonne Kilometres. See Figure 3 and Figure 4.

Traffic in most parts of Europe was affected by disruptions, as a result of heavy snow in early January and local industrial action throughout the month. On the other hand, traffic and capacity increases for some airlines confirm the recovery of the demand, although the year-on-year variations are partially helped by the poor figures experienced in January 2009. See Figure 5.

British Airways recorded 7% decrease in traffic and 8% decrease in capacity. The passenger load factor consequently improved by 1pp at around 74%. Traffic recorded a 2% decrease in premium traffic and an 8% decrease in economy traffic. Cargo traffic improved by 6.5% whereas capacity was cut by 7.4% (BA, 4 February).



Source: Company reports

Figure 4

subsequently improved by more than 1.4 pp to 78%. Cargo traffic increased by 2% whereas capacity decreased by more than 11%. Cargo improved by more than 8 pp to around 64% (AF-KLM, 8 February).

Lufthansa Group increases in both traffic and capacity (still distorted owing to the effect of consolidation) of 18% and 20% respectively. Load factor decreased by 1.4pp to around 73%. Cargo capacity decreased by 1% whereas cargo load factor jumped 14 pp to 64.5% (Lufthansa, 9 February).

SAS Group's traffic fell by 5%. Capacity was cut by more than 12%. Load factor improved almost 5 pp to 65.6% (SAS, 9 February).

Turkish Airlines recorded increases of 29% in capacity and nearly 36% in traffic. Load factor increased by more than 3 pp to 68.6% (Turkish Airlines, 11 February).

easyJet recorded almost a 11% rise in passengers. Load factor increased by 3.6 pp to 79.3% (easyJet, February).

Ryanair's number of passengers grew 9% with a load factor improving by 1 pp to 70% (Ryanair, 3 February).

Iberia recorded increase in traffic (1.8%) on capacity down 5.7%. As a result, load factor reached a record level for January (for the company) of 80%, improving by almost 6 pp (Iberia, 12 February).

Air Berlin's capacity decreased by 0.7%. The German budget airline recorded slight declines in the number of passengers transported (-1.2%) and load factor (-0.3 pp) to 69.1% (Air Berlin, 5 February).

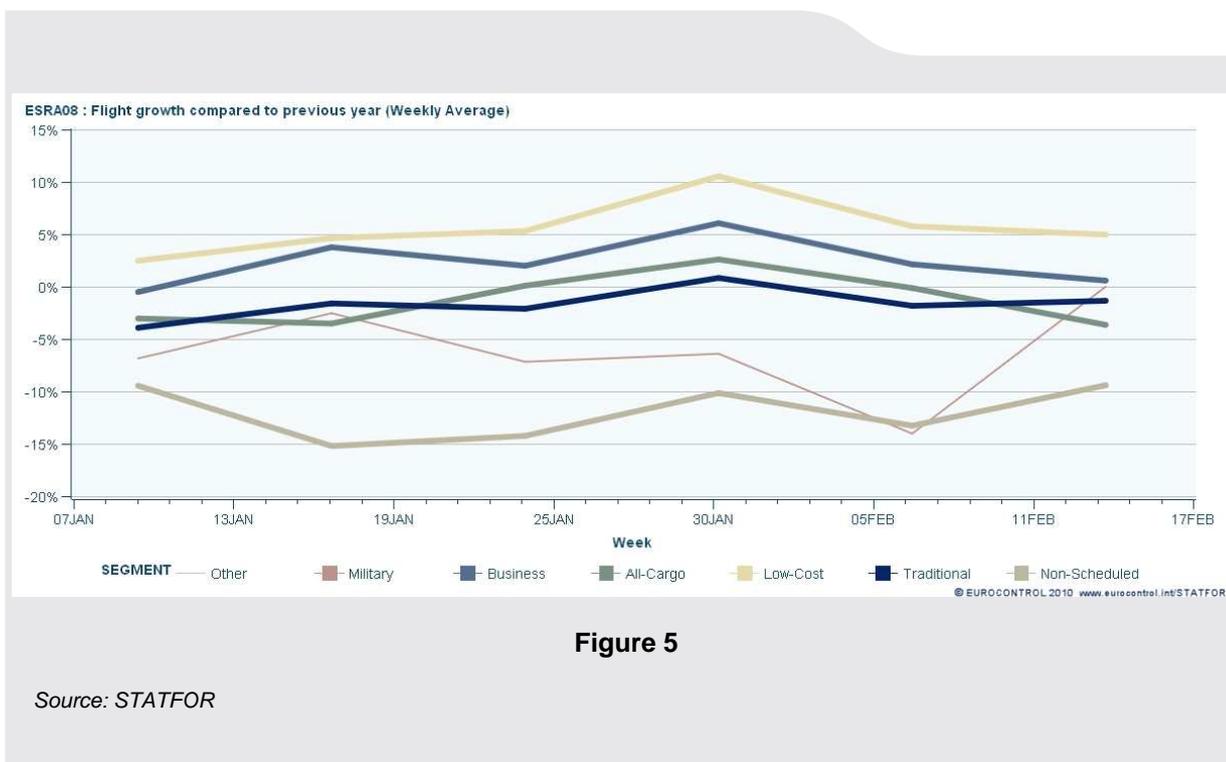


Figure 5

Aircraft manufacturing

Boeing's 2009 profits halved to \$1.3 billion (compared to 2008). The manufacturer attributes this decline to the delays on the 787 and 747-8 programmes. The outlook for 2010 is for fewer deliveries for commercial aircraft (460-465 vs 481 in 2009) especially in twin-aisles. As a consequence, 2010 revenues are expected to decline by 3% to 6% on 2009 (Boeing, 27 January).

Since January, Airbus increased the prices of its aircraft by nearly 6% (on average) to compensate for US dollar weakness and increasing cost of material. The list price had not increased for 2 years (Airbus, 29 January).

From preliminary results, Rolls Royce posted a 4% increase in overall profits (before tax) for 2009. Profits in the civil aerospace business decreased by 7.5% to around €560 million in 2009. The manufacturer delivered 844 engines, 143 lower than in 2008. The fall is mainly explained by the difficult trading conditions, deferment of support requirements from customers and delays of major programmes (A380 and B787). The outlook for 2010 is for a growth similar to 2009. (Rolls Royce, 11 February).

Cargo

First Boeing 747-8F achieved its maiden flight. First delivery is expected by Q410 (Boeing, 26 January and 11 February).

ACI Europe posted declines in freight for 2009 for its 110 member airports with drops by 13% and 7.5% in tonnage and movements respectively, compared to 2008. The positive figure for December 09 however showed that business is well on the way to be restored with nearly 17% increase year-on-year in freight tonnage (ACI, 22 February).

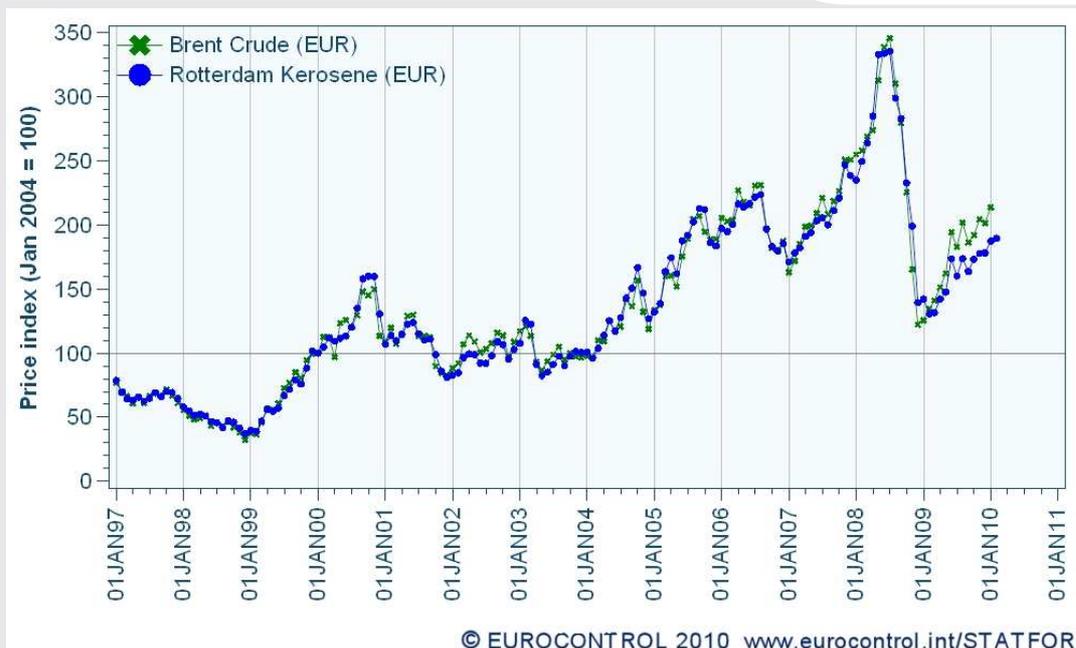


Figure 6

Source: Kerosene Prices – EIA; Prices&Exchnages Rates EUROSTAT.

Frankfurt Airport recorded a 30% increase in cargo tonnage in January compared to January 09, a record level for January for the airport. Intercontinental traffic, notably routes to Far East and North America, boosted the growth. The Fraport Group subsequently recorded a 28% increase in cargo tonnage (Fraport, 10 February).

Airport

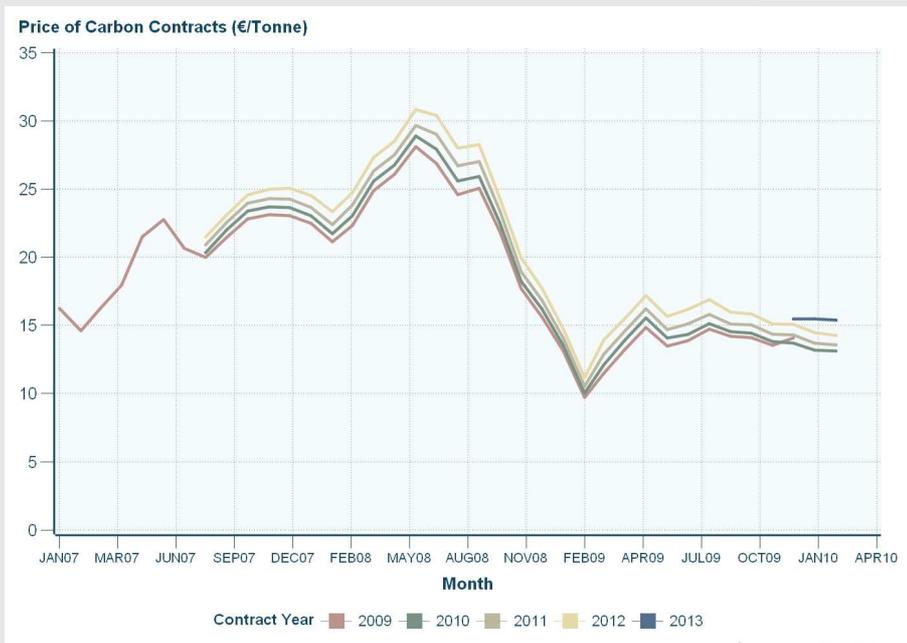
South Korean National Pension Service will reportedly buy a 12% stake in Gatwick Airport from Global Infrastructure Partner who acquired the airport last year after BAA was forced to sell it (timesonline, 2 February).

The Brussels Airport Company posted a 14% drop in profits before interest, tax, depreciation and amortisation for 2009 year-on-year to €191 million. The Belgian airport saw 17 million passengers and 450,000 tonnes of cargo in 2009, which represents drops of 8% and 32% respectively on 2008 (MAP, 5 February).

Fraport and its airline representatives agreed in principle on increasing Frankfurt Airport charges by 2.9% per year between 2012 and 2015. However, if passenger numbers expands rapidly, the airlines will get reimbursement of 1/3 of the additional revenue. The agreement has still to be approved by the airline representative association members (Fraport, 19 February).

Regulation

US DoT gave tentative approval to American Airlines and four European carriers amongst which British Airways, Iberia and Finnair for forming a transatlantic alliance (Oneworld). The approval is subject to 2 conditions for final agreement: the airline partners shall make 4 pairs of slots available to competitors at Heathrow and shall be able to demonstrate capacity growth would still be ensured (DoT, 13 February).



Source: Point Carbon

Figure 7

Economy

GDP declined by -1.8% in the Euro area (-1.9% in the EU27) during Q409 vs. Q408 according to IMF estimates. January's update of the 2010 outlook is for a GDP growth increase by 1% in both the Euro zone and the EU27. This represents upward revisions of 0.7 and 0.5 pp respectively for these regions from October's forecast (IMF, 26 January).

Oil

Oil prices closed at \$77/b on 24th February, remaining on average at around \$75/b for 4 months in a row (Brent). See Figure 7.



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