IATA

AIRLINE BUSINESS DAILY

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BRINGING YOU THE NEWS FROM THE IATA WORLD AIR TRANSPORT SUMMIT AND ANNUAL GENERAL MEETING IN ISTANBUL

Analysts sound grim warnings

The world's leading airline experts are united in their gloomy assessment of industry prospects

BY MARK PILLING AND DAVID FIELD

One word summed up the mood of the dozen global airline analysts polled in the run-up to IATA's annual gathering by Airline Business editors about the industry's prospects: pessimistic.

"It's going to be ugly," says Peter Harbison, executive chairman of the Centre for Asia Pacific Aviation. According to Chris Tarry, chairman of CTAIRA: "This downturn has the potential to be orders of magnitude worse than it was after 9/11 and more pervasive."

In the US, where soaring fuel prices have already pushed several carriers out of business, "we are in the worst crisis since 9/11, though this is worse", says John Heimlich, the chief economist of US airline group Air Transport Association. "In 2001, we were responding to a single catastrophic event; now we are suffering in response to a lengthy catastrophic

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ISTANBUL WELCOMES IATA

The ancient city of Istanbul, with the magical Blue Mosque one of its historic highlights, is the venue for IATA's 64th Annual General Meeting. Over 600 delegates are expected to attend the event with the highlight being the Chief Executive Forum on Monday afternoon.

Burning question: when will fuel prices fall?

BY KERRY EZARD

Crude oil prices have doubled over the past 12 months and in May hit an all-time high of $135 a barrel. With airlines either dying off or going into crisis mode by slashing capacity and/or deferring aircraft deliveries, the question on everybody's lips is: when will the upward march of oil prices come to an end? And the answer depends on who you ask.

"At some stage there has got to be an end, the trouble is when," says Leo Drollas, chief economist at the London-based Centre for Global Energy Studies. Drollas points out that oil prices soared to $135 a barrel in May from $100 a barrel in January, although "nothing has happened in the last five months to change the picture".

Drollas says today's high oil prices stem from a squeeze in production from OPEC countries that started in 2006. "Saudi Arabia led the cuts because it was afraid of the world economy weakening and a repeat of the 'Ghost of Jakarta' [when OPEC increased production at a meeting in Jakarta in 1997 only to find that the Asian financial crisis eroded oil demand the following year]." He adds there is "not much chance" of OPEC increasing output, describing a recent announcement from Saudi Arabia that it would boost production as "window dressing".

UBS energy economist Jan Stuart does not paint an optimistic picture of oil prices going forward. "I see prices going up this year and next year with a slight pullback in 2010, and then I see the increase resuming in 2011 onwards," he

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BOOK YOUR VIDEO INTERVIEW WITH AIRLINE BUSINESS

The Airline Business Daily team will be sending former SN Brussels and Caribbean Airlines chief executive Peter Davies (*left*) out with a video camera to act as a roving reporter here at the AGM. If you would like to book an interview, visit us in the Press Room. View interviews online at: **flightglobal.com/ab**

INSIDE THIS ISSUE

All three IATA Airline Business Dailies will be available online at: **flightglobal.com/ab**

KERRY EZARD LONDON

KEEPING IT SIMPLE

IATA's Simplifying the Business programme is four years old and still going strong, with newer initiatives still being added

It has been four years since IATA launched its Simplifying the Business campaign, but the programme's director, Philippe Bruyère (*pictured below*), believes the drivers behind it "are still there and are even stronger than when the programme was launched" in 2004. StB is "still extremely relevant", according to Bruyère, because "confidence in the future profitability of the industry is weakening sharply, so further efficiency gains are crucial".

StB is a series of initiatives aimed at using technology to automate and streamline the air transport process for both passengers and freight, which IATA expects will result in annual savings for the industry of $6.5 billion.

Some of the initiatives have been underway for some time, including the goal of achieving 100% electronic ticketing in time for the start of this year's IATA annual general meeting here in Istanbul. However, IATA is keen to publicise two of its more recent StB initiatives – the Baggage Improvement Programme and Fast Travel (*see boxes*).

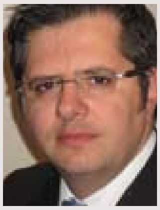
Common Use Self-Service kiosks could bring annual savings of $1 billion

Other older initiatives include Common Use Self-Service, Bar Coded Boarding Passes and e-Freight, all of which are ongoing and have targets of their own to meet. CUSS kiosks are available for use at 94 airports and IATA's objective for 2008 is to increase this to 130 airports. The annual savings expected to be achieved from CUSS amount to $1 billion.

On the BCBP initiative, IATA aims to replace magnetised boarding cards with 2D barcodes to speed up the boarding process and save the industry $500 million a year. The objective is to have "all airlines capable of issuing BCBPs by the end of 2008" in preparation for eventually eradicating magnetised boarding cards. A total of 135 airlines are using BCBP, and over 200 carriers have committed to offering the solution in 2008.

IATA's goal on the e-Freight front – the cargo version of e-ticketing – is to implement it "wherever feasible" by the end of 2010, says Bruyère. He explains that the present system for transporting air cargo requires 35 different documents for each piece of freight, which is "costly and slows down the process". The e-Freight programme is live at six locations: Canada, the UK, the Netherlands, Sweden, Singapore and Hong Kong. "We want to expand to eight more locations by the end of 2008," says Bruyère. ■

BAGGAGE IMPROVEMENTS



After discovering that RFID could only resolve 20% of baggage mishandling problems, IATA was set the challenge by its board of "tackling the whole problem", says Simplifying the Business programme director Philippe Bruyère (*pictured*). The solution that IATA came up with late in 2007 was the Baggage management Improvement Programme, or BIP.

BIP consists of a number of solutions which look at technology, infrastructure, training and data mismanagement, so that solutions can be tailored to specific airlines or airports. BIP will be launched at six airports this year, which have yet to be confirmed, and Lufthansa, Delta Air Lines, Emirates and LAN have all confirmed their participation.

Mishandled baggage cost the industry $3.8 billion in 2007, says IATA.

FASTER TRAVEL

In a bid to offer passengers more self-service options, IATA has launched the Fast Travel initiative. Fast Travel centres around six solutions designed to enable the passenger to take more control over the travel process.

The first four solutions focus on check-in and boarding. They include self check-in methods and enabling passengers to scan their own documents at the airport. A solution IATA calls "Bags ready to go" will allow passengers to deliver self-tagged bags to a common-use bag drop, while "Self-boarding" is aimed at providing auto-boarding gates for passengers at departure.

The other solutions focus on post-flight. "Flight Re-booking" will use self-service kiosks to enable passengers who have missed a connection to re-book without having to queue, while "Bag Recovery" allows mishandled bags to be registered using a self-service kiosk.

"Our objective for 2008 is to make sure the business case for each initiative is sound," says Philippe Bruyère, IATA's Simplifying the Business programme director.

IATA will carry out two live pilot tests of each solution in 2008. "At the end of the year, based on the results of the pilots, we will clarify what needs to be done for a global rollout," says Bruyère. IATA has not set a deadline for implementing the Fast Travel initiatives in full.

Analysts sound grim warnings continued

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process in the form of oil prices."

Asia-Pacific carriers were not hit anywhere near as hard as western ones by the crisis caused by the 2001 terror attacks, but will feel the pain as this downturn bites. "This is probably the most challenging environment since the 1970s," says Damien Horth, head of Asia transport research at UBS in Hong Kong. "If jet fuel stays at these levels [$130 a barrel] it does fundamentally change the industry."

There is massive uncertainty over where the price of oil goes next (*see related story on the front page*), which will have a major bearing on how bad things will get. "It is very, very hard to anticipate what will happen this year," says Andrew Lobbenberg, airline analyst at London's ABN AMRO. "If oil potters on down to $100 it will be a bit of a challenging year, while if it remains at $130 it will be a seriously challenging year," he says. "But at $150 it will be a car crash, or worse."

"This is probably the most challenging environment since the 1970s"
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Head of Asia transport research, UBS Hong Kong

"We are seeing demand softening"
JOHN HEIMLICH
Chief economist, Air Transport Association

"This downturn has the potential to be orders of magnitude worse than it was after 9/11"
CHRIS TARRY
Chairman, CTAIRA

THE CULPRIT IS FUEL

Although it is clear the industry has been slowing for some time, the rise in the price of fuel is the single main factor behind today's turmoil. "This downturn is different because it is primarily cost driven rather than demand driven – at least so far," says Rigas Doganis, the academic and consultant.

If oil stayed at $125 a barrel and airlines did not alter capacity, this year the industry could be facing $65-70 billion more in fuel costs, estimates Tarry. "How do you adjust to that?" he asks.

"This calendar year has been quite unique," says Emilio Posada, the former head of Colombian carrier Avianca, IATA board member and head of the Latin American Airline Association ALTA. "Fuel has increased much faster than carriers could increase revenues, and numerous airlines were no longer properly hedged to cover such unprecedented oil prices."

The need for swift cutbacks is seen by all analysts. "Any responsible boardroom is going to be looking at the need to cut back on capacity and looking at marginal routes," says Harbison. "The downturn may mean some drastic surgery of networks – which airlines find difficult to do," says Doganis. But as recent moves by several carriers, including American and Qantas, show, action is already being taken.

Commenting on the US market, Jamie Baker, the JP Morgan analyst, says: "It may sound callous to frame fuel's rapid ascent against the far greater tragedy of 9/11, [but] the math is indisputable. At current fuel prices, a similar attack on the industry's profitability appears underway." The fuel bill for US carriers in 2008 is likely to exceed that of 2007 by at least $15 billion, Baker says. "To put this in context, $15 billion roughly approximates the operating impact the industry withstood as a result of the 9/11 terrorist attacks."

After a gradual recovery in traffic since then, Heimlich now notes that "we are seeing demand softening. It may be too early to get a good read, but the yield increase is slowing". In fact, premium traffic in North America was down by almost 9% in March, IATA said in late May; premium traffic on the North Atlantic was down by almost 1%, both marking the sharpest decrease since 2003.

This creates a vicious cycle, of which Michael Levine, the former Northwest Airlines executive who is now a distinguished research scholar and senior lecturer at the New York University School of Law, says: "The United States airline market is unique in the world in its integration of convenience-sensitive and price-sensitive customer base. The volume of price-sensitive traffic is a major factor in supporting the scope and scale of the co-ordinated network, greatly enhancing its value to convenience traffic. The growth of both segments has been a virtual cycle for 30 years since deregulation."

But now, "as costs rise, prices must rise. As prices rise, leisure demand shrinks, exacerbated by the weak economic environment. As leisure demand shrinks, the network shrinks, delivering less value to business travellers even as prices rise. The result may be a vicious cycle."

And Levine notes that consolidation alone will not address this. "Consolidation by itself will not reduce supply and may only slightly increase convenience demand overall, although network airlines may benefit by preserving network scale and scope relative to competitors. The real question is where and how supply will be withdrawn and how many firms can survive this process." As Baker says, consolidation in the USA is not likely to advance the industry toward the required level of downsizing of about 20%.

LOSSES MOUNT

Baker does not see the pressure abating any time soon. Instead, he sees losses of about $7.2 billion for the year for US carriers, up from an earlier forecast of $4.6 billion – if demand stays more or less constant. Heimlich is also forecasting likely losses in that range, but will not be drawn out into next year in any such detail. Baker, though, sees 2009 as showing an operating loss of $8.1 billion, and that is with a modest revenue recovery.

So far Europe has not seen a big failure this time round. But, according to Andrew Light, aviation analyst at London-based Citigroup, several private low-cost and smaller government-owned flag carriers are at the highest risk. "We would not be surprised if several of these default – especial-

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Academic and consultant

"A similar attack on the industry's profitability [to 9/11] appears underway"
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"It's going to be ugly"
PETER HARBISON
Executive chairman, Centre for Asia Pacific Aviation

Etienne de Malglaive

"Fuel has increased much faster than carriers could increase revenues"
EMILIO POSADA
Former IATA board member and former ALTA president

ly in the low-fare sector," he says.

Most believe the old adage of the strong getting stronger and the weak growing weaker will apply. "It's fairly straightforward. The three main flags [Air France-KLM, British Airways and Lufthansa] and the two main low-cost carriers [easyJet and Ryanair] will come out of this crisis stronger," says Lobbenberg. And while the crisis broadly accelerates the process of global airline consolidation, "for the strong carriers it's going to be a tempting opportunity to sit on their hands and let the weak carriers fail", he believes, rather than open their cheque books.

For Doganis, the "key year is 2009" in Europe, as this will be when leisure demand could nosedive if prices rise. "Travel spending is no longer discretionary as it was 20 years ago. This year people cut other things in order not to give up their holiday," he says, which has meant leisure travel has stayed solid.

ASIA NOT INSULATED

Asia will by no means be insulated from this downturn, but its economies are expected to keep growing at reasonable rates keeping demand higher. For now, load factors and forward bookings remain strong. In some markets, such as China and India, healthy demand has raised the prospect of oversupply. "It is the old bogey monster of the industry," says Horth of UBS.

And over the last couple of months, the region's growth engine – China – has surprised some as domestic traffic growth pulled back from double-digit rises to just 3-5%. "Everything in China is really on hold until after the Olympics," says Harbison, with the effect of the global sporting extravaganza being to delay some inevitable changes and merger activity. "There will be a pincer movement between high costs and reduced demand which will provoke some really strong action."

India is a market where rapidly slowing growth and overcapacity will prompt a "fairly predictable" shake-up and more consolidation, says Harbison.

"It comes down to who's got the strongest balance sheet and who's got the greatest pricing power," says Horth. In Asia that boils down to the big three: Cathay Pacific, Qantas and Singapore Airlines. "UBS has only SIA and Qantas profitable with $150 jet fuel. Everyone else is debatable."

Restrictions on cross-border ownership mean mergers are tough to do in Asia, but "if oil stays up there we will have to rethink a lot of things, so I wouldn't take that off the table", says Horth. One of the bad side-effects of a protracted crisis is that governments could be tempted to step in and rescue their flag carriers, he notes. Keeping these "zombie" airlines afloat distorts the market and makes it difficult for the rest. ■

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Fuel prices continued

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says. UBS is forecasting average Brent prices of $113.50 per barrel this year, rising to $120 in 2009 and dropping to $116 in 2010.

Both Drollas and Stuart believe the only event that will bring oil prices back down is a global slowdown. "What pulls the price back? A global recession, with an emphasis on global," says Stuart. Adds Drollas: "The trigger to bring prices down is a worsening economic situation. The price could unravel quite quickly. There is no reason why prices shouldn't come down as fast as they went up." ■

IATA's new chairman to take on oil

Samer Majali knows he is in for a year of serious challenges as he takes over the hot seat from Fernando Pinto

BY BRENDAN SOBIE

Royal Jordanian chief executive and incoming IATA chairman Samer Majali (*pictured*) expects fuel prices will move to the front of the IATA agenda at this year's AGM as record fuel costs distract members from discussing some of the ongoing issues.

"It is distracting and it should be. This is the single largest issue facing the airline industry," Majali says. "This is very difficult for the stability of the industry and it makes it very difficult to make any decision on investment and expansion. It's throwing the whole industry out of whack."


Tom Gordon/billypix.com

Majali, who takes over as chairman at the end of the AGM, says IATA needs to discuss what potentially can be done to keep oil prices from continuing to rise. He acknowledges there is no easy solution and points out "if there was something concrete we would have done it already". But he says at the very least members should have a brainstorming session and think about what can be done.

"Fuel and how to deal with it needs to be addressed. This is one of the major issues. It's more pressing than anything else."

He adds oil companies "are benefiting from this squeeze and are not doing anything about it. We should start by making noise and stop being at the thin end of the stick".

But as he prepares for his one year in the chairman's seat, Majali is also ready to tackle other IATA issues, including safety, security, the proposed emissions trading scheme and a looming pilot shortage. The slowdown will give the industry some "breathing space" to address the personnel shortage but Majali says it must start tackling this problem now to avoid problems later. Airport security, he says, is also "a major factor in the viability of the business".

Overall Majali is concerned with the industry's health, saying it can't afford to "lunge" from one crisis to another. "We need to make our industry more resilient."

He claims what the industry is now facing is even more serious than what it faced after the 2001 terrorist attacks. He points out that a few months after 9/11 growth picked up again, but at the current price of fuel there can't be the same kind of recovery. "This will be one of the toughest challenges." ■

Pinto pushes for more industry cost savings

BY BRENDAN SOBIE

TAP Portugal chief executive Fernando Pinto has had a busy year as IATA chairman, overseeing the last phase of the transition to e-ticketing and the association's new focus on the environment. But with fuel prices more than doubling over the past year, Pinto says the board now needs to focus on further simplifying the business to drive more cost savings.

"Any kind of action that will reduce costs for the industry as a whole is important," Pinto says. "We are finishing with the paper ticket – that's a huge saving. Now we are discussing simplifying the cargo business and trying to go as much paperless for cargo as possible. Most of the airlines have an important cargo business."


Etienne de Malglaive

"Any kind of action that will reduce costs for the industry as a whole is important"
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Chairman, IATA

He says IATA's campaign to open up more direct air routes, which already has been successful at opening new routes over China, also becomes even more important as fuel prices soar. Pinto, who will continue to serve on the board of IATA as well as the Association of European Airlines, says the long delayed Single European Skies project also now has more importance. "It's crazy," Pinto says of the delays plaguing SES. "A situation like this where people are very concerned about emissions and everyone is concerned about fuel consumption, how come we are not acting faster and faster on this?"

He adds expanding congested airports in Europe will further help reduce fuel burn. "Of course we need investments on airports. More slots are important so that we don't have to hang on in the sky waiting for space to land.

"In terms of the airport we are also trying to simplify all the procedures the passenger has to pass through. The travel experience is always complex now because of security and the airport environment. We are working on ways of making that simpler, and also protecting us against additional [security] costs."

Pinto has a different take to incoming IATA chairman Samer Majali when it comes to IATA potentially tackling the issue of high fuel costs by confronting the oil industry directly (*see story above*). "We only have about 2% of the world's fuel consumption so there isn't much leverage," Pinto says. "We have no control. We have to pay the price for the fuel itself, which was already expensive, and now we have to pay for the price of the fuel plus the price of all the speculation."

While the board at this year's AGM will discuss projects aimed at reducing fuel consumption, Pinto acknowledges the savings these generate pale in comparison to the recent increase in the industry's fuel bill. "We are talking about trying to reduce the impact but there's not much we can do." ■

Meet Turkey's other IATA members

Atlasjet, Onur and Pegasus may not be household names but they are all eager to shake up the Turkish market

BY BRENDAN SOBIE

Turkey's colourful domestic market has tripled in size since it was liberalised in 2003 and the country now has three scheduled operators competing against flag carrier Turkish Airlines (THY).

The three upstarts – Atlasjet, Onur Air and Pegasus Airlines – along with THY transported 16.3 million domestic passengers last year (*see chart*). Back in 2003, when all these carriers were only authorised to operate charters, Turkey's domestic market consisted of only 5 million passengers.

"Taking into consideration the flag carrier's fares and the volume of coach travel in Europe, we launched domestic services in December 2003," recalls Onur Air chief executive Sahabettin Bolukçu. "We had a remarkable response and had difficulty coping with the excessive demand at the beginning. We have since grown from 15 to 50 daily flights [and 13 destinations] in the domestic operation."

Atlasjet followed by launching domestic services in 2004 and now also serves 13 destinations. Both have bases at Istanbul's Atatürk Airport but Onur focuses on trunk routes under a pure low-cost model while Atlasjet focuses on thin routes, some of which are not even served by THY, under a full-service model. After undergoing an ownership and management change Pegasus launched its low-cost scheduled operation in 2005 with a base at Istanbul's secondary airport Sabiha Gökçen.

Pegasus has quickly overtaken Onur as Turkey's second largest carrier and serves 16 domestic destinations. "The driving force behind our decision to start scheduled flights was the opportunity in the Turkish civil aviation market," says Pegasus chairman Ali Sabanci (*pictured*). "Turkey has long been waiting for private airlines to operate countrywide. Since our first scheduled flight back in November 2005, we have reached a very steady and fast growth rate, both in passengers and destinations."

TURKEY'S DOMESTIC MARKET

Airline	Passengers 2007
Turkish Airlines	8.9m
Pegasus	2.7m
Onur	2.2m
Atlasjet	1.5m
Total	**16.3m**

Pegasus chairman Ali Sabanci has launched a low-cost operation

Atatürk-based THY has seen its domestic market share over the last four years shrink from 100% to 60% and its chief executive, Temel Kotil, expects this figure to go below 50% as it focuses more on international services. "Domestic for us is not such an important market," Kotil says. "It used to be very good but is currently not a money maker. We are leaving the low end of the market to others."

Bolukçu doesn't believe Kotil, pointing out Turkish launched in April a low-cost brand called Anadolu Jet and claiming Turkish is still "fiercely pricing some domestic routes". He adds: "The domestic market is still not fully liberal. THY has a big influence on slot allocation and some government institutions. Additionally we see excessive capacity on most of the routes except for high season."

Bolukçu also complains Onur is unable to expand overseas. "Internationally we would like to operate scheduled services but bilateral agreements are in favour of the national carrier and therefore we are not allowed to operate scheduled services on most of the profitable international routes. We see an opportunity on scheduled routes to the Middle East, Russia and Iran, but unfortunately we don't have scheduled traffic rights."

Atlasjet also is now only operating charters on international routes, competing against Onur, Pegasus and Turkey's six dedicated charter carriers. Pegasus is competing against Turkish on a few scheduled routes to Europe but last year it only carried 550,000 passengers on scheduled international services, compared to 9.7 million for Turkish.

"We believe there is considerable opportunity in the markets which are located south and east of Turkey, like Middle Eastern or CIS countries," says Sabanci. "In general we are limited with Turkey's bilateral agreements in these markets, since Turkish Airlines has most of the rights arising from these agreements. But we believe these markets will be gradually liberalised over time."

CONSOLIDATION

However, as the market liberalises consolidation is inevitable. "Profitable growth in the Turkey domestic market cannot be achieved with fuel price at $130 per barrel," Bolukçu says. "With today's fuel price consolidation is inevitable. The question is, is it going to be voluntary or obligatory consolidation?"

Sabanci adds: "There were more opportunities in the market at the beginning but now the market is more mature compared to 2003. We still believe that there is big potential in the Turkish market when you consider the economic growth and young population in Turkey. We have a dual strategy of not only pursuing organic growth but also acquisitions and mergers."

Ohrun Coskun, Atlasjet chief executive, says: "In Turkey the number of passengers is increasing every day. This absolutely has a very positive impact on the aviation sector. However, the increasing fuel rates are becoming a very serious burden for the sector.

"Another issue is the pressure put by European carriers on the small carriers. This is why we have diverted from their markets and moved on with our plans of operating in the markets the bigger carriers don't." ■

Mayrhuber ready for the harvest

Despite the industry turning into a stiff headwind, Lufthansa chairman Wolfgang Mayrhuber still predicts his group will at least match its record-breaking 2007 financial performance

BY MARK PILLING

"For 2008 we have an ambitious goal," said Wolfgang Mayrhuber at a media briefing in London just days before the IATA annual meeting. A batch of new routes, serving 24 new destinations, a 7% growth in capacity this summer compared with summer 2007, a series of investments that are bearing fruit and the successful integration of Swiss are all behind Mayrhuber's optimism.

After piloting Lufthansa from the dark days after the 2001 terror attacks, Mayrhuber acknowledges that the group is again ready for the worse. "Looking forward we expect the market to become weaker, but we don't see it in the bookings so far," he said. There are market shifts, for example growth on its Chinese routes is slowing, but overall bookings for July and August are up over last year and premium traffic remains strong.

If the downturn does begin to bite, Lufthansa can adapt quickly if it needs to, but as of late May it is sticking to its financial targets. Its conservative aircraft financing policy, where much of its fleet is written down over 12 years means "we can shrink the company without having external elements" come into play, he said. If it becomes necessary the carrier can withstand grounding 100 aircraft. "It is doable because of the strength of the balance sheet. We have the beauty of a smaller financial impact than most of our competitors," he said.

One of the consequences is that it will become more expensive to borrow money, so Mayrhuber's advice is for carriers to "keep your cash cushion dry". He added: "Also, others may get into default. You ask can you then harvest on their market?"

For a strong carrier like Lufthansa, it is inevitably linked almost constantly with the prospect of buying others. Brussels Airlines, Austrian and bmi have all been mentioned, at least in the media. Mayrhuber laughs at the continual speculation: "Except for Air France-KLM every name is on our list," he jokes.

"We are not in the business of buying airlines. We are in the business of growing our network. If we can enter a market and if it's cost effective to do that by buying an airline [we will]," said Mayrhuber. "But if we don't need to do it we try to avoid it. Organic growth is our priority." So, no, Lufthansa has not been asked by Austrian, nor is it seeking to become financially involved there. Neither is it talking to Brussels Airlines, although "it would be a good addition to Star", he said, and neither will Lufthansa invest in a combined United/US Airways if that US merger prospect unfolds.

"Organic growth is our priority"
WOLFGANG MAYRHUBER
Chairman, Lufthansa

However, Lufthansa does have a 30% stake in troubled UK carrier bmi, with its strong London Heathrow base, and the option to buy the airline in the next 12 months if it chooses to do so. Mayrhuber is typically guarded about his plan for bmi. "I could tell you but I will not tell you," he said. "I don't want to tell my competitors [what I intend to do]. For the time being we work closely with Michael [Bishop, the majority shareholder of bmi] and do the best we can. We will do what's commercially sensible for us." ■

Should slot values add to the balance sheet?

BY KERRY EZARD

UK carrier bmi became the first airline to value its take-off and landing slots as assets on its balance sheet when it revealed in its 2007 full-year results that doing so had enabled it to add £770 million ($1.5 billion) to its net asset value. But while there is the potential for rival carriers with valuable slots at airports such as London Heathrow to follow suit, they are not jumping on the bandwagon just yet.

Bmi's decision to use its Heathrow slots to boost its net asset value followed a study by auditing firm Deloitte, which concluded that the failure of European Union slot allocation rules to decrease the presence of large carriers at their home airports, combined with increased demand for slots as a result of EU-USA Open Skies, means that slots at Heathrow and Gatwick have become valuable assets which could be used as security against future borrowings.

"There is definite interest in this subject," says Graham Pickett, aviation partner at Deloitte. "I am aware that certain airlines are doing this, certain airlines are calculating the numbers, and certain airlines are looking to see what everyone else is doing."

Bmi holds 11% of the slots at Heathrow and its main rivals at the airport are British Airways, with 41%, and Virgin Atlantic with 3%. But neither BA nor Virgin is following bmi's lead, at least for the moment. BA says it has reviewed the study by Deloitte but has "no plans at this stage for capitalising ours", while Virgin says it is "not including slot values on our balance sheet in 2007/08". ■

OUT AND ABOUT

While waiting for the IATA AGM to start, why not visit the sights of this fascinating city. Marcelle Nethersole describes her top 10 attractions in Istanbul

Istanbul, formally known as Constantinople the capital of the Ottoman Empire, revels in history. A visit to the famous Blue Mosque is a must, as is a visit to TopKapi Palace, the former home of the Ottoman sultans.

Get lost in the Grand Bazaar with around 4,000 merchants selling their wares. And make sure you don't leave without trying a real Turkish kebab!

1 THE BLUE MOSQUE (SULTAN AHMET CAMII)

This stunning mosque is one of the most prominent landmarks in Istanbul. The mosque was founded by Sultan Ahmet I who asked architect Mehmed Aga to begin construction in 1609. It is purposely located opposite the Church of Hagia Sophia as Sultan Ahmet was trying to compete with its splendour and show the world Ottomans could compete with Christians. It can hold 10,000 people and was completed in 1616.

Today tourists flock to see its stunning architecture, including six minarets, a beautiful courtyard and the stunning interior of its huge dome and pillars with striking blue Iznik tiles – which give the mosque its name.

This historic building is still in use as a mosque, so please dress appropriately. Prayers are said five times a day, so the mosque will be closed to tourists then. It's best to visit mid-morning, between dawn and noon prayers.

2 TOPKAPI PALACE

This work of architecture was the home of all Ottoman sultans for nearly 400 years. Located on the Seraglio Point, it overlooks both the Marmara Sea and the Bosphorus. The palace no longer serves as a residence but is now a popular museum with many treasures on display.

3 & 4 THE CHURCH OF HAGIA SOPHIA AND POINT ZERO

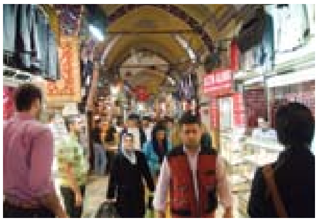
Byzantine architecture mainly consists of churches, and this is by far the most magnificent of them. Covered by a huge dome, the church is packed with mosaics, one of which depicts Jesus sitting on a throne with Emperor Leon VII kneeling before him.

Opposite to Hagia Sophia you will find a stone, Point Zero, which indicated the centre of the known universe during the era of the Eastern Roman Empire.

5 THE GRAND BAZAAR

Shop until you drop at this huge bustling bazaar with over 4,000 merchants selling everything from gold, silver, Turkish carpets, slippers, leather goods, spices and much more.

Delegates should note that the merchants – like Airbus and Boeing – even expect you to haggle – they actually appear to enjoy it. It



might also test your patience as they seem to want to haggle for as long as possible. To hurry things along offer your final price and start to walk away, you'll soon hear them shouting for you to come back and agreeing that sum.

6 THE HIPPODROME

This huge amphitheatre, which can hold 10,000 people, was first built by the Roman Emperor Septimius Severus in 203 AD and occupied an important place in Byzantine life. In Roman times the great chariot races were big social events here, and in Ottoman times polo games were popular, as were circumcision ceremonies of the crown princes!

7 TAKE A CRUISE UP THE BOSPHORUS

If you're finding walking around Istanbul too chaotic, a great way to view the city is by boat.

State-owned Turkish Maritime Lines (TDI) is well reputed for cruises and takes you past all the historic and cultural sights, including on the Asian side, up towards the Black Sea. Boats depart from Eminonu.

8 TAKE A DIP!

Delegates who want stress relief should indulge in a traditional Turkish Bath or Hammen where you can soak, steam or have a massage. They are dotted all over the city so take your pick, but it might be wise to take your own towel, slippers and soap.

9 CHEERS!

One way to forget a day at the show is by sampling the local tipple Raki. The distilled liquor is made with anise and grapes and can be quite potent.

10 THAT'S A WRAP

You should sample the local food, it is delicious! A good first choice is a kebab which is a typical South Eastern Turkish dish. This is a traditional kebab cooled over a flame or grill and served with fresh salad and garlic sauce. ■