

AIRLINE BUSINESS DAILY

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

END OF AN ERA

IATA director general Giovanni Bisignani and an assortment of airline chief executives celebrated the 31 May deadline for 100% electronic ticketing with a photo session here in Istanbul to mark what Bisignani describes as “the end of an era”. The elimination of paper tickets will save the airline industry \$3 billion a year, according to IATA.

“Nobody believed we could make it but we worked hard,” says Bisignani. “The paper ticket has served us well but its time is over.”

IATA announced its goal for 100% e-ticketing four years ago, when only 19% of global airline tickets were electronic. For more on the challenges of killing off the paper ticket, see page 6.



Our industry in crisis – Bisignani

Profitability forecast to be slashed by “double whammy”

BY NICHOLAS IONIDES

Barely two months after reducing its full-year industry profitability forecast to \$4.5 billion, IATA's Annual General Meeting is set to open today with a grim warning: that high oil prices will wipe out any gains this year.

In an interview with *Airline Business Daily* ahead of the AGM, director general and chief executive Giovanni Bisignani warned that the “double whammy” of high oil prices and revenue losses from slowing economic growth, coupled with overcapacity concerns, mean the industry is now in a state of crisis.

“It is a situation where we have a cost problem and a revenue problem. After September 11 it



was a traffic problem. Here we have two things. It started as a revenue issue because of the credit crunch and now it is a revenue and cost issue,” says Bisignani.

“It is difficult to evaluate the level and dimension of the crisis.

But a crisis that has two pillars, revenue and cost, is something that is very difficult to handle. The airlines are under enormous stress. It will be a very challenging period for everybody.”

IATA has already reduced its 2008 profitability forecast twice, with the last downgrade made on 1 April to \$4.5 billion from \$5 billion. It originally forecast 2008 profits of \$7.6 billion.

In the weeks since the last downgrade, oil prices have continued their dramatic rise and Bisignani says there will no longer be any profits this year on a collective basis. A new forecast is to be released today and will show

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THE POWER OF FLIGHT

Industry in crisis continued

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airlines moving back into the red in 2008, after finally making profits again in 2007.

Bisignani says with the industry facing so many challenges, governments must take immediate action to allow for further liberalisation, ease ownership rules and reduce taxes. But he says it may ultimately take the failure of a major flag carrier for governments to truly take notice.

"This is an emergency situation. On fuel and on revenues there is nothing to do. People may travel less and we cannot influence the fuel price. It is basically trying to fasten your seat belt, re-evaluate the efficiency of every route, shrinking as much as you can until the turbulence is over," he says.

"On the other side, governments will have to understand that the time of considering the airline business a cash grab is over."

He says there are some positives going into this year's AGM, however, as airlines have for the most part achieved the goal of moving to 100% electronic ticketing. Bisignani also says initiatives such as IATA's 'e-freight' push and projects related to safety have been successful. In addition, he says there have been real gains over the past 12 months on environmental initiatives. ■

India's airlines to suffer as irrational pricing takes toll

Goyal warns: there will be airline failures unless behaviour changes

BY NICHOLAS IONIDES

Jet Airways chairman Naresh Goyal expects Indian airline losses to double this year as carriers continue their fight for market share and "irrational pricing" takes its toll.

Goyal said here yesterday that he expects the country's carriers will suffer combined losses of \$2 billion in the financial year to March 2009, up from an estimated \$1 billion for the 2007/8 financial year. He says that itself represents a doubling of his estimate of a \$500 million collective loss in 2006/7.

"The whole industry is in trouble," he says. "I don't think there is any choice but to increase fares. Basically we all have to behave and stop this irrational pricing."

India's airline sector has seen dramatic growth since 2003 and many new carriers have launched. Nearly all have been operating in the red, however, and Goyal says it is "very obvious" that if this continues there will be airline failures.

"We, Jet Airways, are going to survive because we don't do this monkey business" in having fares so far below economic viability levels, particularly in a market where fuel taxes are among the highest in the world.

"But everybody is realising that [without fare increases] everyone will go bust. The losses are dou-



"The losses are doubling every year. You can't keep selling below the cost forever"

NARESH GOYAL
Chairman, Jet Airways

bling every year. You can't keep selling below the cost forever."

But he insists Jet will continue moving forward with ambitious international expansion plans.

It is hoping to launch services to

Dubai "in the next one month", in addition to Jeddah and Riyadh in Saudi Arabia. Jet began serving destinations in several other Middle Eastern countries in January. In addition, Goyal says Jet is looking to serve Milan in Italy from Delhi and Mumbai. It is also looking to serve Los Angeles next year and possibly also Chicago.

Low-fare subsidiary JetLite will also be adding international services to the Middle East and parts of Southeast Asia in the near future, he adds. ■

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Editorial team

Kerry Ezard
Nicholas Ionides
David Kaminski-Morrow
Alan Peaford
Mark Pilling

Photographer

Ian Billinghamurst

Video team

Stuart Clarke
Peter Davies
Design & production
Andrea Crisp

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Host's Turkish delight

Turkish Airlines chief executive Temel Kotil says hosting this year's IATA AGM has personal significance as well as significance for the Turkish government.

"The government in the past five years has put together a very active airline business programme. Hosting the AGM will help us and

them," Kotil says.

Turkish, which has doubled in size since 2003, plans to again double in the next five years. Kotil says Istanbul is on track to attract 6 million tourists in 2008, compared with only 3 million in 2003. ■



Oneworld's round the world web first

The oneworld alliance is to become the first to sell multi-airline round-the-world air fares online, it said this morning

BY ALAN PEAFFORD

The alliance is on track to launch its online booking facility in the next few months, initially for oneworld Explorer. This enables passengers to travel right around the world using the flights of any of oneworld's 10 member airlines and 20 or so affiliates, which together serve some 700 destinations in almost 150 countries.

Until now travellers have been able to plan their journeys through the internet but have had to contact airlines or travel agents to complete their bookings and pay for them.

With this launch they will be able to complete this entire process online, via oneworld.com or the website of their preferred oneworld airline. Travel agents worldwide will also have access.

The system will enable customers to plan round-the-world trips of up to 16 segments. It will verify flight availability, displaying only flights that have seats available for the date and routes selected, will automatically ensure the itinerary meets all fare rules and conditions – and then provide an instant price based on the number of con-

tinents visited rather than miles flown.

Oneworld vice-president commercial Nicolas Ferri said: "With so many possibilities of places to visit and routes to take, planning and booking this kind of ticket can be time-consuming – both for our customers and sales representatives. Our new, easy-to-use online booking and payment facility will simplify the entire operation, saving our customers a huge amount of time and providing them with far more flexibility in planning their trips. It will also reduce costs for our member airlines and free up the time of airline and travel agency reservations agents to handle other tasks."

Unlike other round-the-world fares, oneworld Explorer's price is based on the number of continents visited (three to six), not the mileage flown. It covers flights worldwide by all oneworld member and affiliate airlines. Last year some 50,000 people made round-the-world flights with the alliance. The oneworld Explorer can be booked for travel in economy, premium economy (where available), business or even first class. ■



World class: Nicolas Ferri and John McCulloch making world trips easier

Barclay bids farewell

BY NICHOLAS IONIDES

IATA's regional vice-president for the Asia-Pacific, Mike Barclay, is to leave the association.

Barclay has been appointed chief executive officer of Sentosa Development Corporation – a Singapore government body that oversees the development, management and promotion of the city state's resort island of Sentosa. Sentosa Development Corporation says Barclay will take over as chief executive with effect from 25 August.

Barclay has been with IATA since May 2007. Prior to that he was chief executive of Singapore Airlines (SIA) subsidiary SilkAir

for three years. He also spent 13 years with SIA, both in Singapore and in Europe. ■



Fuel rise will impact low-cost carriers

BY NICHOLAS IONIDES

IATA director general and chief executive Giovanni Bisignani expects that the recent sharp increases in fuel costs will have a greater financial impact on low-cost carriers than traditional network carriers.

Speaking to *Airline Business Daily*, Bisignani said: "Logically this will affect more the low-cost airlines, for two reasons. The impact of the fuel price is higher on the low-cost; it is 35% of the total operating cost. Also some of the

airlines are already in difficult waters and will probably be more easy to collapse."

He adds: "It is a low-cost problem, because the impact of fuel on the total operating cost, the influence of the price of fuel, is higher. For our big carriers the cost of fuel [in 2007 was] 29%. In the low-cost sector it is over 35%."

However, Bisignani adds, of increases in fuel prices: "Let's not fool ourselves. It will be a massive kind of impact on everybody. It will hurt anybody." ■

KERRY EZARD ISTANBUL

PAPERING OVER

After one extension and lots of hard work, IATA's 31 May deadline for 100% electronic ticketing has finally come to pass. The industry body is describing it as a "complete success", despite the fact that for a number of reasons the actual rate of e-ticketing will likely hover at around 96.5%

"We don't expect to get literally up to 100% until we take the paper stock away," says Bryan Wilson, project director of e-ticketing at IATA. "Until this point it will not go above 96.5%."

Wilson lists four main reasons why the actual rate of e-ticketing will fall shy of 100%, starting with travel agents: "As long as travel agents have paper tickets there will always be someone who gives a paper ticket rather than an e-ticket." However, he says IATA does not consider this "a real problem" because it only accounts for about 1% of the missing 3.5%.

The second issue relates to interline e-ticketing (see box), where Wilson says that of the thousands of interline agreements, only a proportion of them make economic sense to migrate to e-ticketing. "This was one of the main reasons for extending the deadline," he ex-

plains. "We thought 80% of interline journeys would be covered but as of the end of May close to 90% of all interline journeys will be feasible under e-ticketing in June." The remaining 10% of interline journeys that do not migrate to e-ticketing represent another 1.2% of the 3.5% shortfall.

Another reason for the shortfall is that a small number of carriers have refused to use e-ticketing. "About 15 airlines say it's not appropriate for them to use e-ticketing," says Wilson. "It sounds like quite a lot but these are airlines that make up less than 0.1% of the total BSP volume."

The final issue relates to airlines that still have work to do on the e-ticketing front. "You don't manage to get 350 airlines to move to a new way of distributing their product without there being that small bit [that does not quite make

it]," says Wilson. "But this is a very small volume and there is a way around all of this. For example, for travel agents that can't find a journey with airlines that have e-ticketing, they can take the booking and request the airline to issue a paper ticket."

Smaller airlines have found it particularly difficult to achieve 100% e-ticketing. For instance, Air Seychelles admits that it has found the process extremely challenging and as a result has not quite managed to meet the deadline. "The entire process has been long and arduous and we must not for one minute think that it is over and all plain sailing," says Air Seychelles executive chairman David Savy. "The entire exercise has been capital and human resource intensive to say the least. As a small airline it has been particularly difficult given our human capital and financial outlay."

Savy describes technology as the "cornerstone" in the implementation of e-ticketing and providers as "king", and says larger airlines have a "marked advantage as they often develop those programmes in-house". He adds: "Given the impediments, the deadline of May 2008 was a compromise and should have been extended to this year's end. The lack of time and other constraints means we are not 100% ready." Savy believes e-ticketing is "a good thing", but "for small operators like us the payback time is far



IATA's Bryan Wilson

longer than envisaged and it's been blood and sweat".

For airlines that haven't made the cut, the message from Sue Powers, chief information officer at global distribution system provider Travelport, is don't give up. "To airlines that haven't made the deadline, you certainly shouldn't give up hope," says Powers. "We will continue to offer solutions to new airlines coming on board after the IATA deadline. We will dedicate additional resources to getting them online as soon as possible."

It is not just smaller airlines that have felt the challenge in the move to e-ticketing but also entire regions. IATA's Wilson points to four regions that caused anxiety in the run-up to the deadline: China; Africa; the Middle East/North Africa; and the Commonwealth of Independent States (CIS), particularly Russia (see graph).

INTERLINING WOES

At last year's IATA AGM in Vancouver, a number of smaller airlines expressed concerns that they could lose out on vital interline revenues because they were low down on the priority list of larger airlines as they decided which interline agreements were worth migrating.

David Savy, executive chairman of Air Seychelles, was one of those keen to vocalise such concerns. "While we have been actively working towards the deadline we have implemented 25 interline electronic agreements which cover approximately 85% of our interline traffic," says Savy. "We still have 15% remaining, which for us represents a significant amount of money." Air Seychelles is "on course" to finalise six additional interline e-ticketing agreements in June, but it has been no easy feat. "It has been a mammoth task. We are working as fast as we can...and, if all goes well, we expect to be 99% covered by the end of the year."



China was “the first challenge we spotted” because in 2006 the country only had 2% e-ticketing penetration. However, in the same year e-ticketing penetration in China increased to 90%, which Wilson says “showed that you can increase e-ticketing very quickly”. The next challenge was Africa, which began to concern IATA in 2007. “In Africa the question was: how many of the smaller, operationally fragile airlines that are worried about meeting IOSA targets would be able to do e-ticketing? We gave a lot of help to them and we signed Kenya Airways to act as a consultant to provide specific help to African carriers.” This technique worked and African carriers were up to 90% and rising as of late May.

Two different problems confronted IATA in the Middle East/North Africa region, the first of

which was “large airlines whose system environments were difficult to add e-ticketing to”, says Wilson. “EgyptAir went through a massive change and brought in Amadeus, as did Qatar Airways.” Another challenge in the Middle East was a cultural one, says Frédéric Spagnou, vice-president of Amadeus’ airline business group: “The issue was that people were used to handing over money and getting an official-looking paper ticket. These problems had to be removed one by one.” Central Europe, the Middle East and Africa “were the most difficult regions because they have a significant number of small airlines with limited technological capacity”.

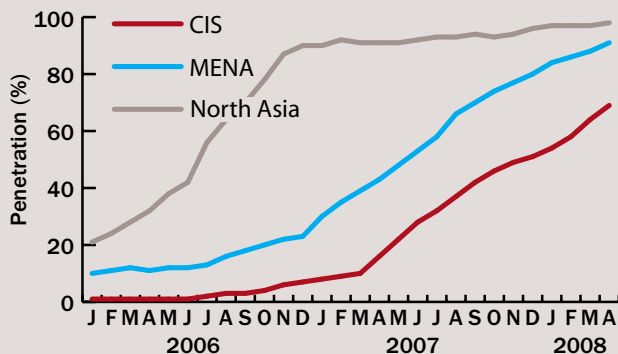
Aside from local barriers such as the cultural issue in the Middle East, you says communication and time pressures added to the challenge. “Communicating and ex-

plaining what would be the risks and that it was more or less not optional was a challenge,” he explains. “Also, we had to develop the solution. There are a limited number of providers so there was a huge ramp-up in demand in a limited timeframe.”

The fourth region that IATA found challenging, this time from a regulatory point of view, was the CIS, or more specifically Russia. “Until February of last year, it was not legally acceptable for a Russian carrier to issue an e-ticket,” says Wilson. After working with Russian carriers, particularly Aeroflot, and the Russian government, IATA was able to achieve a breakthrough. “The law changed but this made Russian carriers late, so we’ve seen slower progress there than we would have liked,” he adds. Russian carriers, as of mid-May, were at 60% e-ticketing.

Wilson describes e-ticketing as a win-win situation for passengers and the airline industry. “The inconvenience of the paper ticket to the consumer, for example, ‘what happens if I lose it?’ is huge. For airlines, there is a significant financial benefit. It’s not so much just saving paper, it’s the process around the paper ticket that airlines are looking forward to eliminating.” IATA expects e-ticketing to save the industry \$3 billion a year. “Whether you’re talking about airlines, passengers, travel agents or handling agents, everyone’s life gets easier.” ■

E-ticketing penetration by region



SOUND BITES VIDEOS ONLINE

Peter Davies, former SN Brussels and Caribbean Airlines chief executive, has joined the Airline Business Daily team for the IATA AGM. If you would like to book an interview, you'll find him in the Media Room (R20).

View interviews online at: flightglobal.com/ab

NARESH GOYAL, JET AIRWAYS



“My feeling is fuel could hit \$200. Consequences are already serious. You cannot stay in business if you do not take care of your capacity. The airlines will have to reduce their capacity, they cannot look for the market share, they must look at their bottom line as they have responsibility to their shareholders”

EMIRSYAH SATAR, GARUDA INDONESIA

“Like it or not we have to be efficient. But I think the most important thing is that we have to make sure the aviation sector becomes efficient, not only the airline. I’m talking about the airports, ground handlers, MROs and all those other units”

ALEX DE GUNTEN, ALTA

“It is a very cyclical industry and we’ve had a number of years of plotted numbers, with everybody focusing on revenue, market share and growth. Now reality is setting in very quickly. It is again back to basics of reduced cost”

Sponsors fly to help Chinese relief effort

BY ALAN PEAFFORD

Airbus, the sponsors of tonight's dinner at the Domabace Palace have been busy over the weekend with another special sponsorship mission.

The company switched two test aircraft, an A380 and an A340-300, to help transport essential relief effort cargo to China's South Western region following the devastating earthquake near Chengdu, in China's Sichuan province three weeks ago.

The two aircraft carried more than 2,000 tents between them to help shelter the thousands of people left homeless.

The relief operation was set up by Airbus, the Chinese Ministry of Foreign Affairs and the Chinese Embassy in Paris and was undertaken in close co-operation with Air France Cargo, Air China and Aéroports de Paris.

For those delegates attending the dinner tonight, buses will depart from the Conrad Hotel from 18.30h. ■

Call for green guidelines

Common reporting standards on environmental issues are needed, according to KPMG

BY MARK PILLING

As its hands out its latest Airline Disclosures Handbook here at the AGM, accountancy giant KPMG is hoping that along with IATA it can encourage the industry to develop common reporting standards on environmental issues.

"Whenever I speak to airline CEOs and CFOs they always tell me they wish there were more guidelines on how they report in this area," says Dr Ashley Steel, global chair for transport at KPMG. There has been a significant increase in the number of carriers, especially from Europe and Asia-Pacific, choosing to report on environmental measures even though there is no accountancy requirement to do so.

In its Disclosures Handbook, KPMG has collected the work several carriers have done on environmental reporting. A particular area of interest is in how to account for the various impacts of emissions trading schemes and carbon offset programmes, says



KPMG's Joe Short, Philip Septon and Martin Sheppard flying high

Martin Sheppard, global head of aviation at KPMG.

KPMG also warns that accounting rules coming into effect in July mean airlines will have to dramatically increase the liabilities they carry on their balance sheets for their frequent flyer programmes.

The "fair valuation" requirement will almost certainly have an adverse impact on accounting profits as they declare loyalty

points and value them, says Sheppard. Following its Chapter 11 bankruptcy exit United Airlines, for example, raised its FFP liability from \$923 million to \$2.4 billion.

KPMG is giving away lots of foam aeroplanes here at the AGM and has a draw for a large radio controlled model aircraft. Drop your business card off at their stand to be in a chance of being the winner. ■

BOC "cautious" in difficult leasing market

BY NICHOLAS IONIDES

Singapore-based aircraft lessor BOC Aviation has yet to see lease rates softening despite new signs of weakness in the airline sector, but it foresees more difficult times ahead for the industry in general.

Chief commercial officer Steven Townend says "cautious is probably the best word" to describe the company's view of the leasing market in the period ahead.



Steven Townend: urges caution

"We do expect to have to move aircraft around" as some airlines seek to withdraw early from lease agreements but "given our fleet and the [young age] of our fleet we are probably one of the best-placed leasing companies".

Bank of China-owned BOC Aviation, formerly Singapore Aircraft Leasing Enterprise, currently has 66 owned and 17 managed aircraft in its portfolio with an average age of 3.9 years.

It also has 56 aircraft on order with Airbus and Boeing and Townend says all but two of those that are due for delivery through 2010 have been placed with airlines.

Townend says there are no immediate plans for additional speculative orders but the company has been acquiring more aircraft from airlines through purchase and lease back deals in recent months. ■

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IN BRIEF

CHINA SOUTHERN TO LAUNCH C-SERIES

China Southern Airlines will become a launch customer for Bombardier's CSeries with an order for 50 of the type, analyst Jacques Kavafian of Research Capital predicts. The deal will represent 25% of the CSeries orders expected to be announced at the Farnborough air show by Bombardier, including those from Lufthansa, ILFC and Qatar Airways. Kavafian adds that others could include Malaysian Airlines and additional Chinese operators.

TACA CRASH INVESTIGATION

Representatives from the US National Transportation Board (NTSB) have arrived in Honduras to assist local authorities in their investigation of a TACA Airbus A320 that overran a runway on Friday at the airport in Tegucigalpa.

FRONTIER CARDS ON THE TABLE

Frontier Airlines has reached an agreement with its credit card processor First Data, after claiming in its Chapter 11 filing in April that holdbacks from the company was a main driver in the carrier seeking bankruptcy protection.

NO SILVER LINING

Silverjet chief Lawrence Hunt is locked in negotiations to rescue the UK all-premium carrier, which suspended operations on Friday affecting an estimated 9,500 customers. The London Luton-based airline launched Boeing 767 operations in January last year.

United and US Airways no longer seeking merger

Star Alliance members US Airways and United Airlines have stopped pursuing merger opportunities, as skyrocketing fuel prices force the carriers to place renewed focus on adapting their business strategies.

Both US majors have been assessing strategic options over the last several months, including a possible tie-up of their own, following a merger announcement from SkyTeam's Delta Air Lines and Northwest Airlines. But these talks did not bear fruit.

In a letter to employees, US Airways chief executive Doug Parker says: "After much work and many conversations with other airlines, we have come to the conclusion that consolidation involving US Airways will not occur at this time."

He stresses that mergers may occur in the future. But for now, it is "simply unlikely that anything will happen in 2008 as our industry continues to struggle with how to function in a world with \$130 per barrel oil prices".

United chief executive Glenn Tilton, in a separate message to



Going their separate ways: United and US Airways

United employees, says the board of directors has determined not to pursue a merger at this time due to issues that could dilute the benefits of such a transaction. "We are

evaluating other options and will do what is right for United," says Tilton. This reportedly includes alliance talks with SkyTeam member Continental Airlines. ■

US to support alternative fuel

US legislators have allocated \$118 million for alternative fuel research, including renewable aviation fuel, through the recently-enacted US Food, Conservation and Energy Act of 2008.

The US Congress overrode a presidential veto last week, more than doubling funding for the

multi agency Biomass Research and Development Initiative. Partner agencies in the initiative include the Department of Energy and the Department of Agriculture. US airlines represented by the Air Transport Association of America (ATA) applauded the effort.

"The legislation contains a strong commitment to the research and development of advanced renewable fuels and its report language expressly recognizes the tremendous potential that exists for renewable aviation fuel," ATA president and chief executive James May says. ■

