Recent developments in the European aviation

Opportunities & Threats

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European air traffic developments
What drives the development of aviation
- Safety
- Security
- Environment
- Economic climate
- Competition
- Regulation & politics
- Airport capacity
- Air traffic management
- Industry profitability
Conclusions and recommendations
Traffic developments
European traffic in 2013

Last 13 months average daily traffic

Source: Eurocontrol
Flight growth

Average daily traffic for last 5 Years

Source: Eurocontrol
Flight growth – rolling trend

Source: Eurocontrol
Forecast flight growth - 2014

Source: Eurocontrol
Flight growth – 2019 vs 2012

Source: Eurocontrol
Regional Hub feeding

Source: Jean-Yves Grosse, Chairman, Regional presentation at ERA RAC2013
Regional Point to Point

Source: Jean-Yves Grosse, Chairman, Regional presentation at ERA RAC2013
Threats and Opportunities

• Long term growth will happen – opportunity
• Air travel is an essential part of life – opportunity
• The periphery and regions of Europe rely on air travel more than the ‘core’ of Europe – opportunity and threat
What factors drive air travel?
Factors affecting the industry

- Safety
- Security
- Environment
- Economic climate
- Competition
- Regulation and politics
- Infrastructure
- Industry profitability
Factors affecting the industry

• Safety
• Security
• Environment

• Economic climate
• Competition
• Regulation and politics
• Infrastructure
• Industry profitability

Must happen

Variable
Economic climate
Real GDP growth - EU Countries

Source: European EC Economic Forecast, Autumn 2013
Real GDP growth EU Countries

Source: European EC Economic Forecast, Autumn 2013
The status of European air travel

• In Europe, modest economic improvements during Q2 and Q3 2013 and climbing consumer and business confidence have provided a stronger demand for international air travel

• The Eurozone stopped contracting in Q2 and has maintained the modest economic recovery in the second half of 2013.

• The recovery remains fragile and patchy

Source: IATA Oct 2013 Pax market analysis
Threats and Opportunities

• The economy remains fragile – threat
• Consumer confidence still low – threat
• Small airlines more at risk of failure – threat
• Signs of a recovery in the economy – opportunity
Competition
A changing business landscape
A changing business landscape

• Low cost airlines shook up Europe in the ‘90s’ and ‘00s’
• All existing companies have had to adjust their business models to survive
• A progressive convergence of low cost and network airline business models is occurring
• Very few small independent airlines left
• Flexible ‘leased’ capacity is a growing market
• On-going changes in ownership and control
Regulation and politics
Europe now develops a wide range of technical and non-technical regulation. Much of it is beneficial to the industry, but much of it adds complexity and cost and limits the flexibility of operators to be entrepreneurial. Over the last 20 years in Europe we have seen a gradual “re-regulation” of the industry on non-technical issues.
Many parties are involved

Ground handlers

European Parliament

European Council

European Commission

Airports

European Aviation Safety Agency (EASA)

National Safety Authorities

National Regulatory Authorities

Air Navigation Service Providers

Unions

Airlines

Flight Crew

Member States

The “green” lobbyists

Member states

European Civil Aviation Conference (ECAC)

ICAO

Manufacturers

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Current regulatory issues

- Passenger rights rules
- Ground handling rules
- Airport slot allocation rules
- Carriage of Persons with Reduce Mobility (PRMs)
- State aid rules
- Single European Sky
- EU Emissions Trading Scheme
- Revision of the EU Noise Directive
- Contingency planning
- Security rules
- Safety rules
- Maintenance rules
- Operations rules
- Flight Time Limitations, Flight Crew Licencing
- Fatigue Risk Management
The effect of politics

- European institutions and laws have a huge effect on the airline business
  - European Parliament
  - European Council
  - Member States
  - Eurocontrol
  - European Aviation Safety Agency
- These bodies drive the major strategic direction of aviation
- Politics impacts all of these bodies
Threats and Opportunities

- Poor industry image impacts political decision making – threat
- Regulation is hard to change – threat
- Politics has a significant impact on regulation – threat and opportunity
- Industry lobby is relatively weak – threat
- Industry has a recognised voice – opportunity
- There is no clear plan for European air transport – threat and opportunity
The airport capacity challenge
The airport capacity challenge

Source: Eurocontrol
The airport capacity challenge

Average Annual Growth from Europe to World regions, 2035 v 2012

Source: Eurocontrol
The airport capacity challenge

Source: Eurocontrol
The airport capacity challenge

• By 2035, 1.9 million annual flights cannot be accommodated (12% of total demand)
• An estimated 120 million passengers unable to make their planned trips.
• Turkey and the UK have the most un-accommodated demand
• 20 airports are operating at 80% or more of capacity for 6 or more hours per day, compared to just three in Summer 2012

Source: Eurocontrol
The airport capacity challenge

Airports with Summer delays (in minutes/flight) – 2012 vs 2035

Source: Eurocontrol
Threats and opportunities

Mitigating solutions (other than building runways)

• Larger aircraft - threat
• High Speed Train - threat
• Local alternatives – opportunity
• Air traffic management changes – threat and opportunity

Source: Eurocontrol
Air traffic management
What is the problem?

In 2011, the failure to implement a single European sky resulted in:

- 17.9 million minutes of delays costing an estimated €1.45 billion;
- 8.1 million tonnes of wasted CO2
- €3.73 billion in costs from flight inefficiencies
- A total economic cost of €13.49 billion (made up of costs, delays, etc)
## Europe Vs US - 2012

<table>
<thead>
<tr>
<th>Calendar Year 2012</th>
<th>Europe</th>
<th>USA</th>
<th>US vs. Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Area (million km²)</td>
<td>11.5</td>
<td>18.4</td>
<td>≈ -10%</td>
</tr>
<tr>
<td>Nr. of civil en route Air Navigation Service Providers</td>
<td>37</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Number of Air Traffic Controllers (ATCOs in Ops.)</td>
<td>≈17,200</td>
<td>≈13,300</td>
<td>≈ -25%</td>
</tr>
<tr>
<td>Total staff</td>
<td>≈58,000</td>
<td>≈35,500</td>
<td>≈ -39%</td>
</tr>
<tr>
<td>Controlled flights (IFR) (million)</td>
<td>9.5</td>
<td>15.2</td>
<td>≈ +59%</td>
</tr>
<tr>
<td>Flight hours controlled (million)</td>
<td>14.2</td>
<td>22.4</td>
<td>≈ +59%</td>
</tr>
<tr>
<td>Relative density (flight hours per km²)</td>
<td>1.2</td>
<td>2.2</td>
<td>≈ x1.8</td>
</tr>
<tr>
<td>Share of flights to or from top 34 airports</td>
<td>67%</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>Share of General Aviation</td>
<td>3.9%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Average length of flight (within respective airspace)</td>
<td>559 NM</td>
<td>511 NM</td>
<td>≈ -11%</td>
</tr>
<tr>
<td>Number of en route centres</td>
<td>63</td>
<td>20</td>
<td>-42</td>
</tr>
<tr>
<td>Nr. of APP units (Europe) and terminal facilities (US)</td>
<td>260</td>
<td>162</td>
<td>-98</td>
</tr>
<tr>
<td>Number of airports with ATC services</td>
<td>≈433</td>
<td>≈514</td>
<td>+81</td>
</tr>
<tr>
<td>Of which are slot controlled</td>
<td>&gt; 90</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>ATM/CNS provision costs (in billion €2011)</td>
<td>8.4</td>
<td>7.8</td>
<td>-12%</td>
</tr>
<tr>
<td>Source</td>
<td>EUROCONTROL</td>
<td>FAA/ATO</td>
<td></td>
</tr>
</tbody>
</table>
Threats and Opportunities

- New investment in technology – threat and opportunity
- Larger aircraft – threat
- Increasing delays – threat
- Spiralling costs of supporting an old system – threat
- Secondary airports pick up the slack – opportunity
Industry profitability
Airline profitability

Global commercial airline profitability

EBIT margin (left scale)

Net post-tax profit (right scale)

Source: IATA

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## Airline Profitability

<table>
<thead>
<tr>
<th>System-wide global commercial airlines</th>
<th>EBIT margin, % revenues</th>
<th>Net profits, $ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>5.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>North America</td>
<td>5.7%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Europe</td>
<td>2.4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>8.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Africa</td>
<td>1.7%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

**Source:** IATA
Revenue per departing pax US$
Fuel price developments

Jet Fuel and Crude Oil Price ($/barrel)
(Source: Platts, RBS)

Jet fuel price

Crude oil price (Brent)
Threats and Opportunities

• The business continues to be marginal – threat
• High barriers and costs of entry for start-ups – threat and opportunity
• Niche opportunities still exists, especially for regional and small operators – opportunity
Future challenges

• Continued strong competition in the sector
• Europe’s economic prosperity will drive air travel
• Pressure on revenue remains
• Pressure on costs remains
• Regulation and politics will impact the business
• Airport and air traffic capacity shortages are a major block to growth
• Industry profitability will remain fragile
Future challenges

• Safety, Security & the Environment are critical ‘redline’ issues that must continue to be improved and addressed
The future of the industry

- Aviation will remain a vital transport mode for Europe
- The regions (including Finland) will remain reliant on air travel for European, domestic and international transport
The future of the industry

- In the face of a challenging and complex market it is **essential** that a clear strategy and plan is developed for national and European air transport
About ERA

50 Airlines

19 Airports

96 Suppliers

10 Manufacturers

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