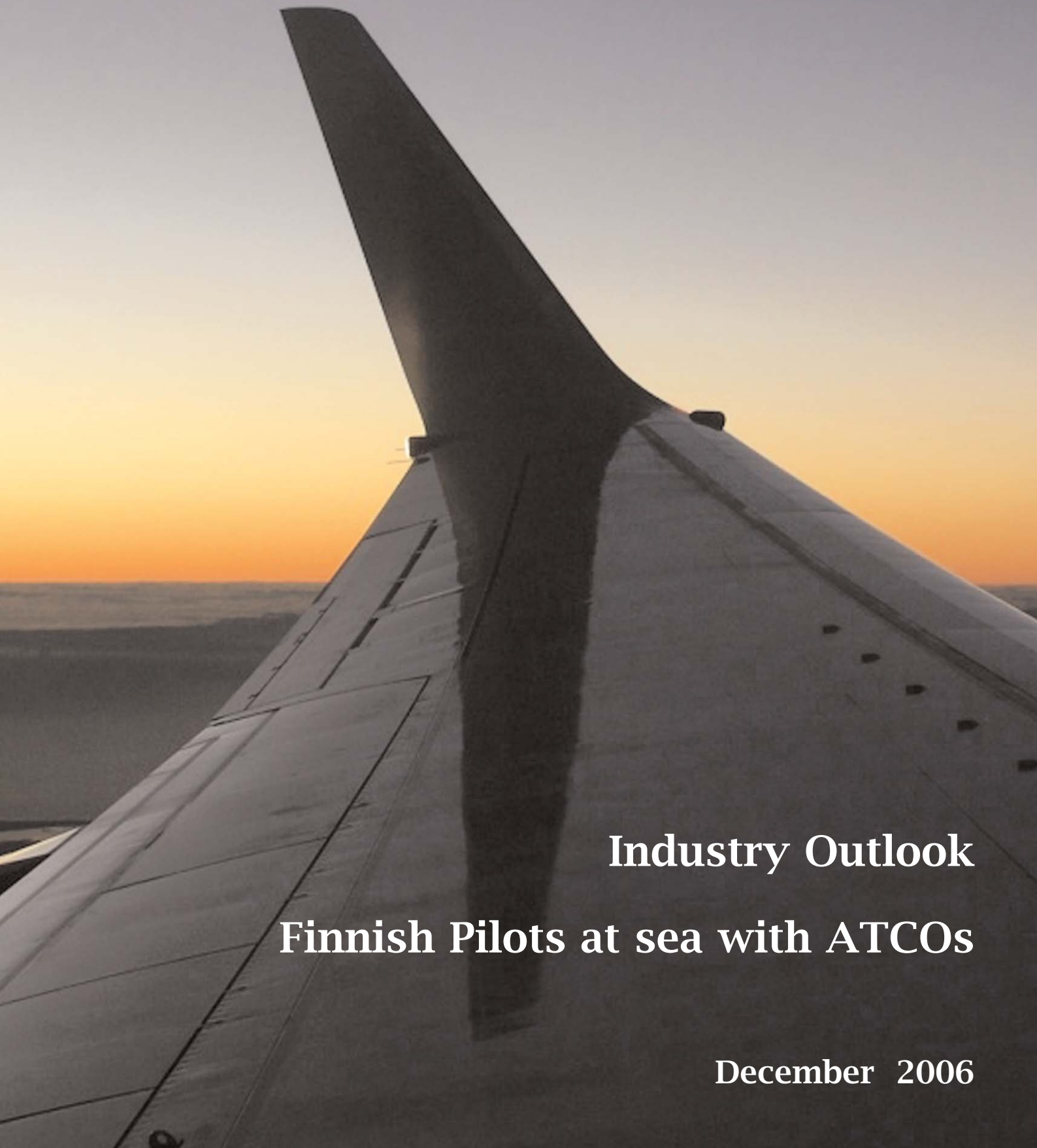


I·F·A·L·P·A
The Global Voice of Pilots



Industry Outlook
Finnish Pilots at sea with ATCOs

December 2006

Forecast: Clearing skies and a warming trend



As the world's economies have strengthened so traffic has picked up outstripping capacity gains for the first time in a number of years and easing pressures on yields.

For the first time in a number of years the outlook for the airline industry is showing a brighter aspect however there may be a few clouds still on the horizon. Even though the financial performance of the industry is forecasted to continue to improve with an overall return to profitability expected during 2007, there are still challenges remaining: An unstable geo-political environment, the threat of increased terrorist activities, and instability in fuel costs all have the potential to derail the progress made.

GDP growth driving recovery...

As has been the case historically, the prime driver for recovery and growth in the airline industry has been economic growth and, although most GDP indicators slowed during 2005, the pace is expected to pick up again during the remainder of this year and into 2007.

Traffic/Capacity growth ratios encouraging for yields

Another positive indicator for airline financial performance is a capacity/traffic ratio which reduces the squeeze on yields. With every region bar one witnessing traffic growth that is outstripping capacity growth by between one and two percentage points. Clearly, this trend will reduce the downward pressure on yields. However, a cautionary note is that while average yields in cash terms have recovered sharply and are, as a result close to their high 1994 levels, in real terms, that adjust for factors like inflation and the decline in US dollar exchange rates the picture is considerably less positive. In reality with these factors taken into account, yields are running at 67% of their 1994 value, although the downward pressure on yields has eased with a flattening of the decline.

Productivity the key to improved financial performance

An analysis of where airlines have been able to improve margin reveals that, overwhelmingly, gains have come from an increase in productivity with average gains of 46% compared with 1994. To put this in perspective, in the same time frame fuel efficiency has improved by 13% largely as a result of the retirement of older, thirstier aircraft. At the same time, there has been 4% improvement in aircraft use.

Economic Growth

	2004	2005	2006F	2007F
World	5%	3.6%	4.9%	4.7%
USA	4.2%	3.5%	3.4%	3.3%
Japan	2.3%	2.7%	2.8%	2.1%
Euro Area	2.1%	1.3%	2%	2.1%
Latin America	5.6%	4.3%	4.3%	3.6%
Emerging Asia	8.4%	8.2%	7.9%	7.6%
Africa	5.5%	5.2%	5.7%	5.5%

Source World Bank May 2006

LCC carriers have captured 6% of traffic in Asia as whole but this is higher in countries with deregulated markets.



take 70% share of India's domestic market by 2010. In addition, the overall size for the domestic market in India is set to rise dramatically as LCCs begin to target the 100 million passengers travelling in first class on the nation's rail network.

European business strengthens

Europe's airlines have continued to maintain a strong

The Tigers still roar

While economic growth throughout the Asia Pacific region remains strong with GDP growth running at almost twice the world average together with an opening of markets through deregulation has driven extraordinary airline growth and profitability there are indications that profits will be lower in 2006 when compared with the previous year (\$1.7 bn vs. \$2.1bn). The fall in expected profits comes as a result of falls in yields thanks to an increase in competition and a low hedge ratio leading to relatively high exposure to fuel price fluctuations. On the positive side cargo traffic remains strong and revenues have been bolstered with an increase in load factors which are expected to rise by 2.3 points to 74%.

recovery despite the spike in fuel prices with 2006 profits expected to hit \$1.8 bn up from 2005's \$1.6bn. This increase is reflected in the region's traffic/capacity growth ratio which saw traffic demand outpace capacity growth by 1.6% in the first half of this year and as a result load factors climbed by 1.1% to 75.5% in the same period. At the same time yields also appear to be improving on long haul markets with a stronger economy driving demand. An interesting development is the establishment of premium class only services on certain long haul markets. The Lufthansa/Privatair joint venture has seen steady growth in its introduction in 2002. The concept which began with a daily service between Dusseldorf and Newark has been expanded to

Challenges to growth

The shortage of qualified pilots in the region especially in China, Japan and India is expected to intensify as demand continues to outstrip the supply. Some airlines have begun to take steps to mitigate the shortage. ANA for example, are setting up a flight crew leasing joint venture to supply qualified pilots to ANA Group airlines.

LCCs maintain growth

At present LCCs account for about 6% of the region's traffic with the market share in countries with deregulation significantly higher. The potential for growth remains enormous with LCCs expected to



The impact of a pilot shortage as well as a lack of fuel hedges may constrict continued growth in China.

While it is fashionable to talk about market segmentation in terms of LCCs there is a growing market for premium class only services as with the Lufthansa/PrivatAir operations.



there will be pressure on yields as capacity continues to grow and possibly begins to overtake growth in traffic. In addition, the relief from extensive fuel hedging will be significantly reduced with an attendant drain on profits. Another element worth considering is 'green taxes' being applied to airline operations which although these are likely to be passed on to the passenger may act to suppress demand for air travel among discretionary and leisure passengers. Clearly, the LCCs will feel the impact more than a legacy airline. As an example of this, the UK has recently announced that it will double tax on airline

include Dusseldorf – Chicago and Munich-Newark. SWISS has also started a premium only service with Privatair between Zurich and Newark. In addition, the last year has seen the launch of two new airlines with a similar offering on routes between the US and UK. What remains to be seen is if this type of product can be maintained without the marketing support of an established legacy airline. Another interesting development is the divestment by BA of its regional operation BA Connect to Regional LCC 'flybe'. The deal is interesting since it calls for flybe to pay for BA Connect by 'selling' BA a stake in itself. In other words having tried the concept before with 'go' BA are back in the LCC business.

tickets a charge which is due to come into effect in February. The charge is based on flat rates and although the top rate is at £80 per leg (on a long haul business class flight), eight times the new short haul base rate, expressed as a percentage of the overall ticket price, the impact is far greater on a short haul budget ticket and as a consequence any impact will be felt in this sector first.

Threats to shorthaul growth from 'green taxes'

In short haul markets, increasingly dominated by LCCs,

North America

North American airlines are expected to continue to improve their position reaching profitability on an operating level but an overall loss of \$4.5 bn. However this is a marked improvement on 2005 when total losses reached \$6.7bn. This improvement is bolstered by an improvement in yields. This improvement is thanks to a

reduction in over-capacity of 1.5 % against a traffic rise of 1.3%. At the same time revenues from higher yield international routes also boosted financial performance. The restructuring is set to continue with consolidation likely to continue with one merger under negotiations while there are strong rumours of a second major merger pending. While still others continue to simmer 'on the back burner'.

Having once dipped a toe in the LCC water with 'go' BA are back tacking a stake in the LCC regional 'flybe' which sees that airline also take over the majors BA Connect subsidiary.



Challenges

It is clear that fuel price volatility remains very much a threat to sustained recovery in this sector burdened as it is with an extraordinary debt load. A small ray of hope is that the fuel price appears to be

Even though KLM retains its identity it is with the 'Air France legend on the nose.



talk of a large scale consolidation in the industry through merger and acquisitions. Certainly there are clear indications that this long vaunted chain of events is about to get underway. In Europe there is the merger of Air France and KLM which, although the latter's aircraft remain operating in their own liveries, it is with the combined logo on the nose. Also in Europe, Lufthansa has acquired SWISS although it appears that, for now, SWISS will retain its own identity. Still with the Europeans, there is the possibility that the struggling Alitalia may become attractive to a northern European predator anxious to establish a southern hub. In the US there is of course the 'on'/'off' merger talks between US Airways and Delta (currently off following the rejection of by the Delta board of the latest overture from US Airways), as well as rumours of the link between Continental and United. This would certainly set the cat among the alliance pigeons since any merger would result in either Continental or United leaving their present alliance. The low cost sector is joining in too with a takeover bid by Air Tran of Midwest turning more hostile.

stabilised and has even declined a little in recent months but the picture for the year as a whole is likely to show that the fuel price remains at its highest ever level some 138% higher than the value for 2003.

Dramatic turn round in Latin America

Forecasts for this year suggest that the industry in Latin America will post an overall profit of some \$100m, a \$200m improvement on the figures for 2005. The prospects for 2007 are looking even better with IATA analysts suggesting that these profits could double during 2007. These assertions are supported with the figures from the first quarter of this year which reveal traffic up 6% compared with the same period in 2005 while capacity only climbed 4.5% and loads hit 69.4%.

LCCs eye the region

With six start up LCCs in Mexico alone it is clear that a number of LCC entrepreneurs view Latin America as a target that will yield excellent returns. As with every other region the threat of high fuel prices remains but it has an additional challenge that the relatively small size of many of the airlines in the region makes them vulnerable to takeover.

Consolidation is coming
For a number of years, there has been

Mergers and takeover bids are rife in the US market with a link between Continental and United the latest to join the rumour mill.



YALPA joins forces with Serbian CAA to implement JAA standards

Velimir Isakovic reports from Belgrade

On the 22nd of November Capt. Predrag Radosavljevic, President of the Yugoslav Air Line Pilots' Association (YALPA), was the guest of Capt. Velibor Vukasinovic the Director of the Safety and Oversight Division of the Serbian Civil Aviation Directorate (CAD), at the CAD's offices for a meeting aimed at formulating plans for implementation of JAA procedures in Serbia following the acceptance of the nation as a member of the JAA on 15 November.

In addition to these talks, Captains Radosavljevic and Vukasinovic also explored methods for future co-operation between the rule making authorities and pilots as 'users' of the regulations. What is encouraging is the Serbian Government is demonstrating that it is seeking the support and professional advice of pilots as it develops an organisational and regulatory structure which follows Europe-wide standards. This is an exciting development since it will put Serbian pilots at the heart of the decision making process as this framework is created and, in future, as changes are developed. According



Capt. Radosavljevic (left) and Capt. Vukasinovic of the CAD.

to Capt. Radosavljevic "The level of co-operation that we will attain while working with our colleagues at the CAD to create the highest safety standards is going to bring benefits to the traveling public here in Serbia as well as throughout the rest of Europe".

Elected Representative Seminar

6-8 February 2007

Chertsey, UK

Taking on the responsibility for the management of your Pilot Association is a daunting prospect for many elected representatives. For the first time, IFALPA is offering a three day seminar which aims to give both newly elected and long serving elected representatives a grounding in a variety of skills vital to the good management of an association.

Topics covered include:

Financial Management, Contract Negotiations, Media Skills, Communications Training and an overview of current flight safety issues

Act Now!

Places at the seminar are limited and will be allocated on a "first come, first served" basis. For more information see www.ifalpa.org To reserve a place contact Tricia Salmon email: triciasalmon@ifalpa.org

Finnish pilot & ATCO meeting concentrates on runway safety



Capt. Tomi Tervo reports from the Baltic

There was a strong IFALPA presence at the Finnish pilot and ATC controller associations' annual seminar which was held on a Baltic Sea cruiser in October. As we all know, questions concerning airspace and airport operations are rarely simple, and misunderstandings and inaccurate information often result from lack of communication. It is also true that the most effective solutions will be the result of input from both sides. The seminar at sea is a long established tradition in Finland enabling pilots and our ATCO counterparts to create a good forum to deal with operational issues and our interaction in our daily work. Although much of the focus of the seminar was runway safety the members also heard about deficiencies in communications.

Communication is needed

The seminar began with welcome greetings and introductions from chairmen Matti Allonen from the Finnish Pilots' Association (FPA) and Sami Fabritius from the ATC controllers' Association (SLJY). In Finland, the basis of all communication and co-operation between pilots and ATC units lies in the hands of active associations. While the seminar is a good vehicle for discussion, it is also true that there is an urgent need for even more dialogue.

The meeting attendees heard the thesis of a student Air Traffic Controller which dealt with pilot and ATC co-operation. The student based his study on the results of a survey of 135 Finnish ATCOs and 71 pilots who responded to a questionnaire sent out by the student. While there were some positive comments, overwhelmingly there was an expression of dissatisfaction and frustration. Indeed some of the comments made were

horrifying. It was clear from this study that many of the problems and the climate of negativity stem from a lack of communication or an exchange of information, and that these problems can be avoided. An example of this situation arises when the need for airspace co-ordination within and between ATC units leads to the pilot lacking background information as to why he is being subjected to seemingly the most bizarre of speed restrictions. Another confusing situation occurs when controllers attempt to ease traffic flow and co-ordinate separation. The ATC unit prefers early descents while pilots are trying to comply with optimum descent profiles for fuel efficiency derived from the FMS. Clearly, these two goals are in opposition and this can lead to annoyance and frustration on both sides. The question is how best to improve dialogue to negate this type of problem? One suggestion was to establish an internet discussion forum where these types of points can be aired as well as questions asked and answers given.

If you enter an active runway too early...

Runway safety is one of the issues where both parties' input and common understanding is essential to reach effective and concrete results. The seminar traditionally gives a lot of emphasis to runway safety issues and this year the attendees had the privilege to have two IFALPA ALR experts among speakers. AGE Committee Vice-Chairman Rob van Eekeren first gave a briefing of what has been done and what is yet to be done in the field of runway safety after the Linate accident. The scale of the problem was revealed by the statistics - during the years 1997-2005 runway incursions have been the second most common reason for accidents.



AGE Vice Chairman, Capt. Rob van Eekeren explains the how incursions are reduced by perimeter taxiways.

Since Linate, a lot of focus has been given to the design of airfields, taxi arrangements and procedures. Our home base, Helsinki-Vantaa, has two parallel runways, but taxiing to the most usual takeoff runway 22R requires crossing of 22L, which is often also used as active landing runway. Although a relatively modern airport, Helsinki is a typical example of a layout that should be avoided. Van Eekeren strongly recommended perimeter taxiways that allow runway access without crossing another active runway. He thought this arrangement would also suit Helsinki. Within Europe, Munich is close to an ideal solution with two parallel runways and the terminal and the whole traffic area situated between them. Opposite examples are found from Malpensa, where runway crossings happen repeatedly, and from Charles de Gaulle, where the four-runway configuration is mixed with language problems. Finally, van Eekeren encouraged the controller side into active use of the stop bar lights, which are an important safety enhancement as long as crossings happen.

...and by slipping off it

Although runway excursions happen with less frequency than incursions, the casualty and damage rates associated with overruns and other excursions are significantly higher. As a result, excursions should therefore have a permanent status in the Local Runway Safety Teams' agendas, reminded van Eekeren. Among the causes for runway excursions, poor or hard to interpret runway condition information was among the leading reasons. Because of the lack of standardisation in friction measurement and the use of ill defined phraseology there was a potential for disinformation. To illustrate this kind of 'disinformation' van Eekeren used some actual NOTAMs. Certainly the group agree that in the case of terminology like "might be slippery when

wet" the informative value is close to zero. The group also thought that the use of clearly defined standard phrases together with the measured friction co-efficient and the type of equipment used should be included in the information relayed to flight crews to improve the validity and usefulness of the information.

Technical solutions

ALR Coordinator Brian Greeves introduced some latest and forthcoming technical developments. Among the most interesting new developments was the ground marker system, where tiny ground mounted marker transmitters send audio warnings to the taxiing aircraft, and warnings such as "Warning: Runway 15 ahead!" can be heard using the traditional marker receivers. This system, besides enhancing safety, also enables reduced runway occupancy times and increased capacity by offering effective exit guidance to landing aircraft via aural cues. For example, "Next exit 500 ft...300ft...100ft..". Greeves broadened his scope from runway safety by introducing LIDAR, the windshear and turbulence detecting and warning system used at Honk Kong's Chek Lap Kok airport. Greeves also shared his thoughts about reasonable crosswind limitations in the active runway selection. Unlike Chek Lap Kok, geography-based windshears are not an everyday challenge in Finland. However, the Finns face stormy winds a couple of times a year, which are often combined with heavy snow, low visibility and low friction coefficients. Intersection was the effect of large buildings nearby and up wind of a runway. This data certainly gave the group something to ponder.



Tomi Tervo is a Captain with Finnair flying E-170/190s. He is also the editor of the Finnish Pilots Association magazine "Liikennelentäjä".

Weiser elected Vice Chairman of ADO Committee



Thomas Weiser, a First Officer flying B-777s for Austrian Airlines, has been elected as Vice Chairman (Design) of the Aircraft Design and Operation Committee. Thomas is ideally placed to assume this role since he has acted as deputy and back up to the outgoing Vice Chairman, Capt. Terry Lutz, on a number of projects including the steep approach trials of the A318 and E-170.

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Current Recruitment Bans

The following airlines are currently subject to recruitment bans and or other sanctions while they are in dispute with an IFALPA Member Association. For full details please see the IFALPA website www.ifalpa.org

Bolivia:

Lloyd Aereo Boliviano

Cyprus:

Cyprus Airways

Hong Kong:

Dragonair

India:

Air India
Air India Charters
Air India Express

Italy:

Italian Helicopter Companies

Kenya:

Kenya Airways

Dates for your Diary

January

22-25

4th Executive Committee & Board Meetings

Chertsey, UK

Contact: Heather Price: heatherprice@ifalpa.org

25

Media Communications Seminar

Chertsey, UK

Contact: triciasalmon@ifalpa.org

26

Committee Chairman's Meeting

Chertsey, UK

Contact: Heather Price: heatherprice@ifalpa.org

February

6-8

Elected Representative Seminar

Chertsey, UK

Contact: Trisha Salmon: triciasalmon@ifalpa.org

March

12-14

5th Executive Committee & Board Meetings

Dubrovnik, Croatia

Contact: Heather Price: heatherprice@ifalpa.org

16-20

62nd Conference

Dubrovnik, Croatia

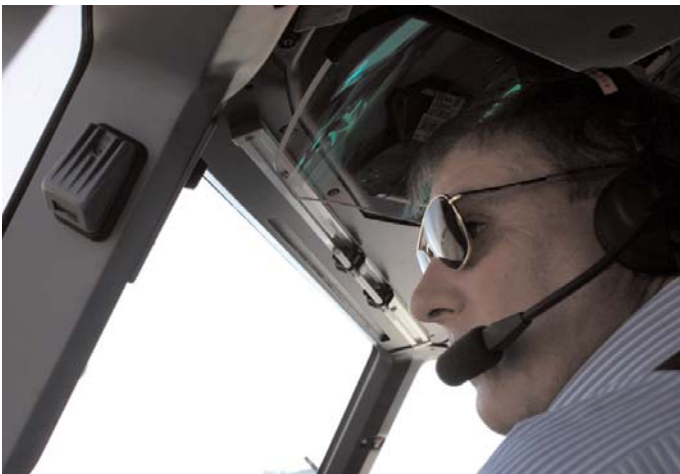
Contact: Heather Price: heatherprice@ifalpa.org

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6th Executive Committee & Board Meetings

Dubrovnik, Croatia

Contact: Heather Price: heatherprice@ifalpa.org



Have an idea for an article or want IFALPAnews to cover your story? Contact Gideon Ewers, IFALPA Media and Communications Officer Tel. +44 1932 579041 or email gideonewers@ifalpa.org