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## **Boeing considers 737 update**

Expect a decision by midsummer on a new version of the world's most popular jetliner, the 737, Boeing chairman Jim McNerney said Thursday.

If the company moves forward with an updated 737 with new-technology engines, McNerney told analysts at a conference put on by investment firm Cowen and Company, the new version should be rolling off the assembly lines by the middle of the decade.

A decision on the fate of the company's best-selling plane could be followed in early 2011 by a decision on a redo for the company's twin-jet, the 777, the company chairman said.

The decision-making process is being driven in part by new technology developments and competitive pressure.

Canadian, Russian and Chinese planemakers are all entering the lower end of the 737 size range with new planes carrying 100 to 150 passengers powered by new-technology engines. And in the large size, twin-aisle market, Boeing rival Airbus is considering building a stretched version of its A350XWB widebody called the A350-1000 that would encroach on the 777's size range.

Airbus is also considering re-powering its A320, the competitor to the 737.

"What it finally gets down to is how big is the productivity and performance leap that's available through re-engining for our customers," said the Boeing CEO. "If you try to force a re-engining and it doesn't provide enough productivity or performance for your customers, all it does is suck orders out of your current airplane, and yet if it does provide a big enough leap, it will be worth it," he said.

Both Boeing and Airbus in recent years had considered creating fresh single-aisle planes using composite technology such as that used in Boeing's new 787 Dreamliner.

Both aircraft makers, burned by new plane development that has proven far more expensive and difficult than they

planned, have shied away from building clean-sheet aircraft in the single-aisle category until technology advances far enough that the new design will yield a major leap in efficiency.

Instead, they are now looking at installing new engines that could improve fuel efficiency 12 percent to 15 percent over existing designs and, in the case of the 777, perhaps designing a new composite wing that could reduce weight, improve aerodynamics and cut maintenance.

Creating updates of the two planes rather than new designs could cost perhaps 30 percent of the costs of creating new planes from scratch. The updates could also mean more assurance of continuing business for the Western Washington factories where the planes are now built. Boeing has said it might hold another contest to determine where to build new-design planes as it did with the 787 Dreamliner. Boeing will build some of those planes in South Carolina. Boeing builds 737s in Renton and 777s in Everett.

Boeing could offer more than a single brand of engine for the 737 this time around. The 737 is now offered only with an engine built by CFM, a partnership of General Electric and France's Snecma. All three engine-makers, Pratt &Whitney, Rolls-Royce and General Electric, are designing new engines for the A320 and 737.

"The engine boys, they are pushing very hard," McNerney said. "They are very convinced - virtually all three of the major ones are convinced - that they have the technology that will give us enough, but I think we've got to vet that, and I think we've got to spend a lot of time talking to customers this year, but this will be the year we make the call."

Source: John Gillie, [thenewstribune.com](http://thenewstribune.com) - 12<sup>th</sup> February 2010

## IBA's Comment:

"Boeing is correct in its assertion that only a big shift in performance and operating cost will justify the new project. Boeing will wish to prolong the working life of current models and avoid forcing large amounts of spare current models onto the market when the replacement is rolled out."  
- David Rushe

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## Kingfisher Airlines goes international

Kingfisher Airlines, billed as "India's only Five Star Airline", on Wednesday said the Indian Government has granted it traffic rights to fly to five international destinations including Dubai, London, Hong Kong, Bangkok and Colombo.

Dr Vijay Mallya, Chairman and CEO of Kingfisher Airlines Limited, said: "I am delighted to announce that Kingfisher Airlines will soon be commencing flights from New Delhi to London Heathrow along with six other new international routes. The launch of these new flights will further enhance the international route network of Kingfisher Airlines."

Mallya added: "The addition of these new services will mean that we will now be able to further leverage the unparalleled domestic route network of Kingfisher Airlines to maximise yields. With their unique domain expertise in aviation in general and in network-planning in particular, Seabury, our globally renowned advisers, will ensure excellent connectivity for all these new services."

Mallya added: "We may even look at inducting new aircraft into our fleet sooner than planned so that we are fully geared to capitalise on the upturn. We are actively pursuing various options for fundraising and our plans are on track. Given the tremendous equity that Seabury enjoys with global investors, Kingfisher Airlines is benchmarking itself against the best in the world."

"At a time when the industry is facing remarkably difficult challenges to becoming profitable, the appointment of Seabury is a proactive step taken towards ensuring that the leadership team is supported by and has access to seasoned advisers with proven expertise in aviation".

The flights on the New Delhi-London-New Delhi and New Delhi-Hong Kong-New Delhi routes will be operated with Airbus A330 aircraft while flights on the other routes will use Airbus A320s.

Source: gulfnews.com - 11<sup>th</sup> February 2010

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- Dr Vijay Mallya

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## AirAsia sets up Vietnam low-cost airline

AirAsia, a major low-cost airline in Asia, said it has purchased a 30 percent stake in VietJet Aviation of Vietnam to establish a budget carrier based in the country.

AirAsia's Vietnam representative office sent out a statement Thursday saying that the new carrier will be called VietJet

AirAsia.

AirAsia said in a statement late Wednesday from Kuala Lumpur that the Ministry of Transportation of Vietnam approved the share acquisition on Tuesday, February 9. It did not reveal how much it paid for the acquisition.

The new carrier will be operating both domestic and international flights, AirAsia said. It is currently finalizing details regarding routes, frequencies and launch of flights.

The formation of the new airline makes Vietnam AirAsia's fourth country base, following Malaysia, Thailand and Indonesia.

AirAsia said it joined the venture to expand its reach in Vietnam and open the country as another gateway in the ASEAN region.

It added the joint venture "will be tapping the expertise of both AirAsia and VietJet Air for the successful operation and marketing of low-cost flights."

Subject to regulatory approval, the venture is expected to start operations either in April or June this year.

VietJet Air was licensed to operate in December 2007 as a partnership of SOVICO Holdings (an established corporation with interests in banking and finance, real estate, plantation and power plants), T&C Group and Ho Chi Minh City Housing Development Bank, or HDBank.

However, VietJet Air has not launched its flights due to fuel price fluctuations and the global economic downturn that began late 2008.

Vietnam has so far approved three private airlines namely VietJet Air, Indochina Airlines and Mekong Aviation. Indochina Airlines stopped flights in November last year due to losses. Mekong Aviation had plans to start operations this year on domestic routes but no developments have been seen so far.

Meanwhile, there are no signs of when the national carrier - Vietnam Airlines - would launch low-cost services.

Source: saigon-gpdaily.com.vn - 11th February 2010

## IBA's Comment:

"As has been the case in Europe and India, legacy carriers in Vietnam are now under pressure from low-cost carriers. The low-cost model has proven to be an excellent stimulus for domestic air travel in many Asian countries."  
- David Rushe

## Delta gets limited approval for La Guardia expansion

Delta Air Lines won government approval for a slot-swap deal that would strengthen its presence at New York's LaGuardia Airport, but it says conditions placed on the deal by regulators are too onerous and it may ditch the plan.

The U.S. Department of Transportation on Tuesday issued tentative approval of the deal between Delta and US Airways, under which Delta would get 125 slots, a term for government-awarded landing and takeoff rights at congested airports, from US Airways. In return it would give US Airways 42 slots at Washington's Reagan National Airport.

Delta has wanted to use the slot swap to establish what it calls a "domestic hub" at LaGuardia.

The DOT said that in order to reduce the effect to consumers from the airlines' market dominance at each airport, they should be required to sell 14 slot pairs at Washington's Reagan National and 20 slot pairs at LaGuardia to carriers new to those airports or with limited service there, such as AirTran Airways, JetBlue, Southwest and Spirit.

The DOT decision comes after the Justice Department indicated it planned to challenge the deal.

Delta and US Airways said on Tuesday that "if this order is implemented as proposed, the transaction will not go forward and significant consumer benefits will never be realized." They said that they are "disappointed in the DOT's decision that, if implemented, would negatively impact the consumer and economic benefits created by the proposed transaction."

Both airlines plan to review the decision to determine their next steps. The DOT is taking public comments for 30 days before a final decision.

The US Airways pilots union, Spirit and some members of Congress had raised concerns about the deal. Cities, airports, other members of Congress and Delta employees wrote to the DOT in support of the deal.

Source: Kelly Yamanouchi, ajc.com - 10<sup>th</sup> February 2010

"deal between Delta and US Airways, under which Delta would get 125 slots..... from US Airways. In return it would give US Airways 42 slots at Washington's Reagan National Airport."

## Ryanair transforms Kaunas airport

The expansion of foreign airlines into Lithuania following the collapse of flyLAL took a major turn Tuesday when Ryanair announced that it would start flying nine routes out of Kaunas.

The Irish budget airline is turning Kaunas into its 40th operational base, and will have two planes stationed there. Ryanair flights to/from Kaunas were previously centred on British Isles and German destinations, but new routes will include more Continental destinations. On the list is Barcelona, Milan, Oslo, Paris and Tampere in addition to Berlin, Dusseldorf, Edinburgh and London's Gatwick airport.

At a press conference in Kaunas Tuesday, Ryanair CEO Michael O'Leary said that now local customers would have an alternative to airBaltic's higher-priced fares. airBaltic has been steadily expanding their presence in Lithuania over the past few months. Meanwhile Ryanair announced a special week-long £5 (€5.70) ticket sale in conjunction with this announcement.

"Lithuanian consumers and visitors can beat the recession and escape airBaltic's high fares by choosing Ryanair's lowest fares and our no fuel surcharge guarantee to 18 exciting destinations all over Europe including Germany, Italy and Spain among others. Ryanair's 1 million passengers will sustain up to 1,000 jobs at Kaunas Airport," O'Leary told the press.

The Lithuanian government lauded Ryanair's €101 million investment in Kaunas, crediting it to their policy of lowering airport fees. Previously Lithuania's airport fees, especially in Vilnius, were among the most expensive in Europe.

"Now the prices of the airports match what we and Ryanair want," Lithuania Minister of Transport and Communications Eligijus Masiulis told the press. "On a European level, the establishment of the airline's base in Lithuania is good news for business and tourism. This is not only new direct flights, but a major investment and new jobs for the Lithuanian people."

Indeed, Ryanair's investment could prove a boon for the country's tourism industry beleaguered by the crisis and increased taxes. Lithuania has never had this many routes with a budget airline before.

Source: Nathan Greenhalgh, balticreports.com - 10<sup>th</sup> February 2010

### IBA's Comment:

"While public opinion of Ryanair is often mixed, particularly on competitive routes in parts of Western Europe, the carrier has brought air connections to previously sparsely served regions of Europe. The perception of the airline by many in these regions is therefore very positive."

- David Rushe

## Most airlines see better profits this year: IATA

Seventy-six per cent of the world airlines expect profitability to improve over the next 12 months, according to the January Airline Business Confidence Index released by the International Air Transport Association (IATA).

The aviation trade body said it has seen a "significant improvement" in airline business confidence in January, citing its latest quarterly survey.

"A divergence was evident between more positive Asian airlines and more pessimism among European airlines but, for the first time since January 2008, a majority said profitability had improved in the last quarter of 2009," the aviation trade body said in a statement.

The study further reveals that airlines expect a significant narrowing of losses in 2010, but not necessarily a return to profit. IATA's forecast predicts that airline net losses will halve from \$11 billion in 2009 to \$5.6bn in 2010.

The Middle Eastern carriers would, meanwhile, see losses shrink to \$300m in 2010, from a \$1.2bn loss the region's airlines suffered in 2009, the aviation trade body said in its financial outlook for 2010.

While airlines reported that unit costs remained relatively low in the previous quarter, a net balance of airlines are now expecting cost pressures to intensify over the next 12 months, according to the study.

However, there is more optimism over yields suggesting that an improvement in margins is expected, said IATA, adding that there was still a majority of airlines reporting lower yields in the previous quarter - but significantly smaller than in October with expectations for the next 12 months at a high.

Source: Shweta Jain, [zawya.com](http://zawya.com) - 9<sup>th</sup> February 2010

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# NEWSWATCH

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## IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, [www.ibagroup.com](http://www.ibagroup.com)

### Conference Dates

14<sup>th</sup> - 16<sup>th</sup> March 2010 - ISTAT 27<sup>th</sup> Annual Conference, Orlando - IBA will be attending

23<sup>rd</sup> - 26<sup>th</sup> March 2010 - The 24<sup>th</sup> Annual Commercial Aviation Geneva Forum, Geneva - Owen Geach will be speaking and hosting several panels

### Globespan Airways Limited (in Administration)

IBA, on behalf of Globespan Airways Limited (in Administration) welcomes expressions of interest in acquiring the Air Operators Certificate. For further details contact Owen Geach at [owen.geach@ibagroup.com](mailto:owen.geach@ibagroup.com)

### Alitalia Assets

IBA has been appointed by Alitalia's administrator to manage the sale process of a number of engines, simulators, spare parts and tooling. For details of the tender process, please visit our website at: [www.ibagroup.com](http://www.ibagroup.com)

## Publications - 2010 Editions

Please contact [marketing@ibagroup.com](mailto:marketing@ibagroup.com) for more information.

Aircraft Values Book	Published in February & August 2010	£650 per year
Lease Rate Digest	Published in February & August 2010	£375 per year
Engine Values Book	Published in April 2010	£650 per year
Maintenance Cost Journal	Published Quarterly	£175 per year

## Phil Seymour's Notes on the Week

Another very busy week - so short and sweet notes from me.

Some glimmers of hope in the airline news - Kingfisher Airlines announcing eight new international routes from India and their need to accelerate wide body deliveries.

Some rather "awkward to talk about" news - the ATR that crash landed into a rice field, thankfully no injuries. One eye witness said "I heard a snap, crackle and pop" (I feel that I have to explain this - if you need more information google "rice krispies", it's a popular breakfast cereal)

Japanese aircraft seat manufacturer "Koito" is alleged to have falsified test results on thousands of aircraft seats and the FAA may issue an AD - I really hope it turns out to be a mistake as the consequences are potentially huge for our industry if we cannot rely on a company entrusted with our safety.

Anyway I must go - I have just taken delivery of a new Toyota car - speak later, can't stop (that really doesn't need an explanation does it?)

Registered for the ISTAT conference yet? March 14<sup>th</sup> - 16<sup>th</sup>.

Phil

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## Highlights

- Rising volatility
- Competing macro headlines
- Equities lower
- Stronger US dollar

## Helpful Links

[www.wfscorp.com](http://www.wfscorp.com)  
**World Fuel Services corporate site - The Choice for Complete Fuel Management**

[www.eia.doe.gov](http://www.eia.doe.gov)  
**Official Energy Statistics from U.S. Government**

[www.nymex.com](http://www.nymex.com)  
**New York Mercantile Exchange-current market and historical values**

[www.ncdc.noaa.gov](http://www.ncdc.noaa.gov)  
**NOAA site for active weather updates and hurricane news**

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## Executive Summary

Oil prices were incredibly volatile this week – whipped around primarily by competing macroeconomic headlines. Initially, strong performance in GDP growth, manufacturing data and home sales propelled petroleum prices higher only to reverse course due to jobs data, a stronger US dollar and concerns about European debt. At time of this report, benchmark WTI crude oil is trading at about \$71.00 per barrel.

## Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA), lagged by one week, showed a modest build in crude inventories but drawdowns in distillate fuel and gasoline stockpiles.
- ▶ US refinery use for the week fell to 77.7% of operable capacity. The 4-week moving average of refinery crude throughput fell to the lowest, non-hurricane period in 13 years (March 1997).

## Macroeconomic Factors

- ▶ The US Labor Department reported that the economy continues to lose jobs – some 20,000 fewer jobs in January. The US unemployment rate is 9.7%.
- ▶ The jobs data supported the view that the Federal Reserve will leave interest rates at near zero for the foreseeable future.
- ▶ Today, the Dow Jones Industrial Index fell below 10,000 and US dollar rose to the strongest level in 7 months as investment capital flowed from equities and commodities into the safe-haven currency. €1 = \$1.3597 today.
- ▶ Concerns about European debt – Greece, Portugal and Spain in particular – raised worries about the rate of economic recovery in the euro-zone.

## Weather Factors

- ▶ Yet another wave of wintry weather is moving into the eastern half of the US this weekend as the National Weather Service is predicting below-normal temperatures for much of the US, including the northeastern home heating oil market, for the next 6-10 days.
- ▶ Rough seas and high winds closed the Houston Ship Channel for a time this week, creating a backlog of tankers waiting to access the key Gulf Coast waterway.

