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British Airways readies to tie knot with Iberia

British Airways and Spain's Iberia have signed a preliminary agreement for a \$US7 billion merger to create the world's third-largest airline by revenue.

The deal, which the companies hope to close by the end of 2010, ends the British flag carrier's years of pursuit of Iberia to create an enlarged group to help cope with the industry's largest downturn in decades.

BA shareholders will have 55 per cent of the new firm, with 419 aircraft flying to 205 destinations, while Iberia will hold 45 per cent.

In a joint statement, BA and Iberia said overnight the merger would provide "enhanced scale to compete with other major airlines and participate in future industry consolidation."

The new company will combine British Airways' strong position in Europe-to-North America traffic with Iberia's Latin American business, and will potentially be reinforced by a planned alliance with AMR Corp's American Airlines

Iberia's chairman Antonio Vazquez will be chairman of the new company, while BA's chief executive Willie Walsh will be CEO. Each airline will have seven members on the new 14-member board.

The deal will create a new holding company, which will own the two airlines. The two companies will have dual hubs in London and Madrid, and will keep their own licences, codes and brands for the first five years of the merger.

This mirrors the structure set up by Air France-KLM from the Franco-Dutch merger in 2004, which created a holding company plus two operational units to preserve national identities and bilateral international landing rights.

BA shares closed 7.5 per cent higher at 206.8 pence, while Iberia shares ended up 11.8 per cent at 2.22 euros.

Mr Walsh has been among the most vocally pessimistic airline executives about the outlook for the sector, warning that the key premium market may never recover.

BA last week reported a net loss of 208 million pounds for the six months ending in September, its first-ever loss in the period, as revenue fell 13.7 per cent.

The airline has begun a drastic cost-cutting drive, axing meal services on short-haul flights and announcing sweeping job cuts and pay curbs that have raised the threat of strike action by its 14,000 cabin crew.

The airline has already slashed 2,500 positions between June 2008 and March 2009 and plans to cut another 1,700, freeze pay for current staff and offer lower wages for new employees.

Iberia, meanwhile, is also cutting costs after losing euro 165.4 million in the first half of the year. Its board last month approved a plan to freeze hiring through 2012, freeze salaries for all employees in 2010 and 2011 and offer early retirement for flight attendants over the age of 55.

The strategy also calls for creating more long-haul flights, in which Iberia is the leading European airline for flights to Latin America, and slash short and medium-haul flights, and create a new company to compete better on such routes.

BA and Iberia are members of the Oneworld Alliance and already jointly market, or codeshare, on some routes. BA owns a 13.15 per cent in Iberia, while the Spanish airline has a near 10 per cent stake in the British carrier. A tie-up would create an airline carrying around 60 million passengers a year, with a fleet of 400 aircraft.

Both airlines are also waiting on regulatory approval for a proposed revenue-sharing deal with AMR Corp's American and Iberia that - if approved by US and European authorities - will see the trio set prices together and share seat capacity on trans-Atlantic flights.

The deal would form an alliance on a combined route network serving 443 destinations in 106 countries with 6,200 daily departures.

Trans-Atlantic rival Virgin Atlantic Airways has bitterly opposed the alliance, with boss Richard Branson arguing that the union between BA and American would lead to price-fixing and force travel agents to send business to the pair.

Source: brisbanetimes.com.au - 13th November 2009

IBA's

Comment:

"The new alliance will create a dominant player over the Atlantic, BA on North-Atlantic routes, Iberia to Latin/South America. Both loss-making airlines face competition on short-haul routes from low-cost carriers and will hope to reap the benefits of consolidation and reduce costs."

- David Rushe

Administration wants to fix airlines

The Obama administration is taking its first step toward trying to fix the ailing airline industry, mired in a severe economic slump and facing safety worries.

Transportation Secretary Ray LaHood is holding a forum to discuss the state of the industry and ways that government can help provide economic stability for air carriers. The industry has been rocked by repeated crises in recent years, including the 9/11 terror attacks, the SARS virus and the current economic downturn.

LaHood's invitation to aviation stakeholders says the forum, which is closed to the public and the media, was organized at the request of the AFL-CIO's Transportation Trades Department.

Ed Wytkind, the trades department's president, said the industry has become dysfunctional.

"We can't keep doing things the exact same way and expect a better outcome," Wytkind said, adding that a new regulatory authority for the industry probably should be considered.

Airlines are wary of any discussion of a return to economic regulation. They contend they already are heavily regulated and taxed.

Airline deregulation has been regarded as a success because fares have declined. Other trends, particularly in the safety area, have raised concerns.

A report last year by a government watchdog said nine large U.S. airlines farm out 70 percent of major maintenance. Overseas repair shops handled one-quarter of the work, challenging U.S. safety inspectors.

Major airlines also have farmed out short-haul trips to regional carriers, which now account for half of all domestic flights.

Source: Associated Press, twincities.com - 12th November 2009

"Airlines are wary of any discussion of a return to economic regulation."

Sukhoi Says Superjet Will Be Delayed

Sukhoi Civil Aircraft announced Tuesday that it would delay the first delivery of its Superjet 100 to Aeroflot, in the latest in a string of postponements.

Sukhoi will not be able to deliver the jets by the end of this year as had been expected, Sukhoi head Mikhail Pogosyan told a news conference. He did not specify when the aircraft would be completed.

Earlier this month, Aeroflot head Vitaly Savelyev said the company expected to get its first delivery of Superjet aircraft by the end of the year. The company was supposed to receive one new jet per month starting in December, for a total of 30 aircraft.

Industry sources said that a delay in certification was holding up the first unit's delivery, Interfax reported. Pogosyan said at the annual MAKS Aviation Salon in August that certification would be finished this year.

Alexei Fyodorov, head of the United Aircraft Corporation, Sukhoi's parent company, warned in August that there might be problems making the 2009 deadline and that the first jets may not be delivered before 2010.

Aeroflot ordered 30 Superjets at the discounted price of \$21 million, which was later increased to \$22.4 million because of additional equipment expenses. The airline has an option to buy an additional 15 jets.

Aeroflot, which hopes to replace its old Tu-134 jets with Superjets, has said it will not seek fines for Sukhoi, Vedomosti reported in October.

In return, Sukhoi Civil Aircraft provided a temporary cancel of customs fees for the jets imported by the carrier.

Armenian airline Armavia, which previously expected a 2009 delivery, said last month that it was now expecting its first jet in April.

Armavia head Mikhail Bagdasarov said the delivery of new jets would be delayed till April because of certification problems. He added that Armavia would benefit from the delay, as the

IBA's

Comment:

"Any further delays for the Superjet must be minimised in order to reduce any negative perception of the aircraft, particularly given the sceptical view some hold of Eastern-built aircraft and the Superjet being a new entrant in the very competitive 75-95 seat market."

- David Rushe

passenger flow was lower in the winter months.

Sukhoi currently has orders for 122 Superjets.

The aircraft made its maiden flight, initially planned for 2007, in May 2008 and its first public flight in June this year. It is still undergoing tests.

The industry has high hopes for the medium-range Superjet, which Sukhoi hopes will snap up 20 percent of the world's regional jet market.

In international markets, the Superjet will compete with Brazilian aircraft maker Embraer and Canada's Bombardier, which currently dominate the sector.

The Superjet, the country's first passenger airline in nearly 20 years, was developed with Italy's Finmeccanica and can carry from 75 to 95 passengers.

Source: Irina Filatova, themoscowtimes.com - 12th November 2009

Air India posts 1.2 billion dollar loss

National carrier Air India on Wednesday announced a net loss of 55.48 billion rupees (1.19 billion dollars) for the fiscal year ended March, hit by the global recession and low air traffic.

Revenues for the year to March 2009 fell nearly 12 per cent to 134.79 billion rupees, the airline said in a press release after its board meeting on Wednesday to approve the accounts.

The debt-ridden state-run airline is seeking a financial bailout from the government.

Last month, Civil Aviation Minister Praful Patel said the government may give the ailing flag carrier a one-billion-dollar bailout on condition that it cuts costs.

The government is planning to inject 50 billion rupees (one billion dollars) in phases, Patel said in October, but the handout would be conditional on measures to cut costs and increase revenues.

The minister said Air India had targeted 30 billion rupees in

IBA's

Comment:

"They operate in a highly-competitive domestic market, where over 80% of passengers fly with low-cost carriers."

- David Rushe

cost cuts and was aiming to increase revenues by 20 billion rupees 'over the next two years.' Air India operates 435 flights to 117 destinations in India and overseas daily, with a fleet of 147 aircraft.

The airline has in the past year tried to lower costs by cutting loss-making routes, rationalising wages and phasing out old aircraft.

'Cost-cutting measures and a pick-up in demand in domestic and international traffic are likely to result in improvement in the operating performance for the year 2009-10,' Air India said in its press statement, subject to fuel prices remaining stable.

Air India is not listed.

India's airline industry has been hit by overcapacity and a sharp drop in passenger numbers as a result of the global economic slowdown.

Source: AFP, dawn.com - 12th November 2009

"Revenues for the year to March 2009 fell nearly 12 per cent"

Air cargo at most Gulf airports registers fall

Airports in the Oman, Bahrain and Saudi Arabia, except Dubai, Qatar and Kuwait, have seen a decline in the freight traffic in 2008 compared with 2007 levels, according to a study. Figures for the cargo traffic at Abu Dhabi International Airport were not available.

The report by Kuwait Financial Centre titled "GCC Infrastructure - Airports" released on Tuesday said cargo traffic at Dubai International Airport, ranking fourth in terms of freight traffic globally, rose about 12 per cent in 2008 to about 18,000,000 tonnes from about 16,000,000 tonnes in the previous year.

It slipped by more than 50 per cent in the first half of this year (about 800,000 tonnes) compared with 2008, with the cargo handled in H1 this year almost equalling to 2002 levels, according to the report.

Cargo traffic at Doha International Airport is estimated to have

risen 30 per cent from 2002 to reach 466,612 tonnes in 2008, the report said citing Centre for Asia Pacific Aviation estimates. At Kuwait International Airport, the cargo traffic increased 1.6 per cent to 90,507 tonnes in the first six months of this year compared with the same period last year, following a two per cent annual growth in 2008, said the report.

At Bahrain airport, 368,000 tonnes of cargo were handled in 2008, registering a decline of two per cent over 2007.

In Oman, freight traffic at Muscat and Salalah airports decreased by two per cent in 2008 (about 60,000 tonnes) from 2000 levels. However, the report said the expansion of Muscat International Airport, due for completion in 2011, will boost the freight capacity to 200,000 tonnes.

The cargo traffic passing through Saudi Arabia's 26 airports (four international, 22 domestic) has reached 503,316 tonnes in 2008, growing at an annual rate of one per cent from 2002. The four international airports dominate the cargo sector accounting for 97 per cent of cargo traffic in 2008.

The global economic downturn calls into question not only the GCC's ability to continue funding infrastructure projects, but also the justification of airport expansion in the face of decelerating passenger and cargo traffic growth.

Source: zawya.com - 11th November 2009

“the expansion of Muscat International Airport, due for completion in 2011, will boost the freight capacity to 200,000 tonnes.”

Indochina Air looks for new investors

Indochina Airlines is finding new investors to raise at least VND300 billion (more than US\$16.7 million) to support the continuous operation of Vietnam's first private airline, the commercial director said.

Do Anh Tuan told the Daily that Indochina Airlines was finding new local investors to pump fresh capital investments to prop up the ailing airline.

“We are calling for new investors and give priority to local investors,” Tuan said amidst news that Indochina Airlines had

not been able to operate its only aircraft, a Boeing 737-800, because of prolonged debt.

Tuan explained that the Boeing was undergoing routine checks at Aircraft Maintenance Workshop A75 at Tan Son Nhat Airport and that these checks had lasted longer than scheduled as technical problems were discovered.

What matters is that Indochina Airlines did not receive the new Boeing 737-800 on October 22 as promised by its European aircraft leasing partner. Tuan attributed this delay to the fact that the airline now had no aircraft to fly.

Tuan said Indochina Airlines had to send all its passengers to Vietnam Airlines, in accordance with an agreement it signed with the national carrier earlier this year, until next Monday, the day the private airline expects its only aircraft will be able to take off again.

Tuan said Indochina Airlines had mapped out two plans to operate five Hanoi-HCMC flights and one HCMC-Danang flight a day, or four on the first route and two on the second, when the airline received one more aircraft in the last week of November.

Indochina Airlines was licensed in May, 2008 with initial capital of VND200 billion as required by Vietnam's civil aviation regulations for an airline to operate domestic flights.

Source: english.vietnamnet.vn - 11th November 2009

“Indochina Airlines had not been able to operate its only aircraft, a Boeing 737-800, because of prolonged debt.”



IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, www.ibagroup.com

IBA Aircraft for Sales

IBA has a limited mandate to sell an ATR 42-320 msn 0240. This is a 1991 model, currently on lease to Fly540 in Kenya. The lease is for 60 months from June 2007 at a rental of \$55,000 per month plus maintenance reserves. Options exist to purchase the aircraft with the existing lease in place or with no lease. If this opportunity would be of interest, please contact Owen Geach (owen.geach@ibagroup.com) or David Rushe (david.rushe@ibagroup.com) for further information.

2008 AgustaWestland AW139 Helicopter - MSN: 31121, Total Time: 916, Cycles: 780

2008 AgustaWestland AW139 Helicopter - MSN: 31142, Total Time: 419, Cycles: 223

2002 Embraer Legacy - MSN: 145505, Total time: 2281, Cycles: 1484

Please contact Mark Wooller for further details at mark.wooller@ibagroup.com or call: +44 (0)1293 772743

Publications

Coming soon: IBA's MRO Market Outlook Report

This report studies the following aspects of the Global Airframe MRO Market:

- Demand and major suppliers; New market entrants; A seven year market forecast looking at potential revenues, with detailed analysis of number, type and ownership of aircraft due to undergo heavy checks; A320/737NG first 12 year check focus; Illustrative graphs and tables showing MRO spend by country, airline and region; Future trends - total support concepts and PMA parts, considering in particular how these will impact the Airframe MRO market; A financial model detailing the revenue and costs of aircraft maintenance by aircraft type; Trends in diversified services (Line Maintenance, Ground Handling, Catering etc...); The constraints inherent to the maintenance industry, including availability of personnel and qualifications, regulatory considerations, facilities, spares, tooling, stock and other equipment; Maintenance procedures in the event of airline/MRO mergers and/or alliances.

The study will be substantiated with information gained from various industry sources and databases related to:

- Existing MRO's; IBA intelligence and databases; Aircraft Lessors; Aircraft Manufacturers and where applicable, their local asset managers; Airlines and Legal Owners.

For further details please contact david.rushe@ibagroup.com or call +44(0) 1293 772 745

Phil Seymour's Notes on the Week

I was half way through drafting my notes when I received an email from "a reader" suggesting that the BA and Iberia merger would create some inspiration for my notes of the week. This is fantastic - I suspect that my rather old-fashioned notes of the week will have to move into a blog or even twitter so that we can constantly share the thoughts of us "aviators". However, I am fearful that my self confessed weakness to become easily distracted and unfocussed will be my downfall if I enter the World of Blog and Twitter. Will I ever get any work done?

So the merger of BA and Iberia could lead to various new brands: IberiBA, Briberia or perhaps "IBA". Well I am starting the campaign now "No Way BA to rename itself IBA" or perhaps a simple "Phil says Hands Off Willie" will suffice.

Phil Seymour,

Phil.seymour@ibagroup.com

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Why not set up a free trial to experience the system's cutting edge functionality for yourself? Simply contact Ross Elliott on ross.elliott@ibagroup.com or +44 (0) 1293 772743 for more information.

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