

Throw in the prospect of war on the horizon, and May concludes: "The overall picture is bleak."

HIGHLIGHTS

- **US Airlines Seek SPR Release, But Impact and Viability Questioned**
(Page 1)
- *Guest Editorial...*
Perspective: The Jet Fuel Industry in India
(Page 1)
- *News Briefs...*
Airlines Plan War Contingencies
(Page 6)
- Kuwait Slashes Exports Pre-War**
(Page 7)
- **World Jet Fuel Prices**
(Page 7)

US Airlines Seek SPR Release, But Impact and Viability Questioned

By: *Robert Baal*

Passenger and cargo airlines in the U.S. have formally asked the U.S. Congress for a release of one million barrels of oil per day from the Strategic Petroleum Reserve (SPR), hoping that the infusion will provide at least some temporary relief from the current record high jet fuel prices they are paying as a result of impending war in the Middle East, an ongoing work stoppage in Venezuela and cold weather in the Northeast US.

The case was made to the US Senate Committee on Energy and Natural Resources in mid-

February by James C. May, President and Chief Executive Officer of the Air Transport Association of America. As of press time, little apparent progress has been made in terms of generating serious discussion about the requested release, but industry analysts say that could change quickly if and when war commences and lawmakers start getting additional heat from constituents over rising gasoline prices.

May opened his presentation

(Continued on page 2)

Guest Editorial...

Perspective: The Jet Fuel Industry in India

By: *S. Abbas Akhtar*
Bharat Petroleum Corporation Ltd.

While North American air traffic remains depressed, Asian countries in general and India, in particular, have done very well – much better than expected – over the last year. More than a year after the disaster of September 11, looking back at the Indian Aviation Industry shows a surprisingly good picture, with almost double-digit growth in aircraft movements.

Figures from the state-owned Airports Authority of India,

which manages India's 128 airports, show that during the period of April-October 2002 international and domestic passenger traffic has increased by 5.1% and 6.4% respectively, against the same period in year 2001. The overall increase in passenger traffic was recorded as 5.9%. These figures include passengers embarking and disembarking at the 60 odd operating airfields including a joint sector facility at the coastal city of Cochin. Air traffic has shown a market turn around from the 5.9% decline in

(Continued on page 4)

“We have not experienced price increases of this magnitude since the Gulf War buildup in the fall of 1990,” May said.

by laying out the precarious financial condition of the US airline industry: Two major airlines, representing twenty percent of the industry, are in bankruptcy; passenger carriers reported over \$10 billion in losses in 2002; industry debt now exceeds \$100 billion, while the industry’s \$15 billion total market capitalization continues to decline. Throw in the prospect of war on the horizon, and May concludes: “The overall picture is bleak.”

While the airlines have embarked on what May called “an unprecedented program of self-help to address this ‘perfect storm’ of adversity,” including efforts to remove billions in costs, “issues such as fuel prices... are obviously beyond our ability to battle alone.”

Alarming Trends

Through the first eleven months of 2002, May says ATA-member fuel prices increased by 27%. Beginning in December, the rate of increase ramped up to 55%, bringing a total increase of Jet-A spot prices to 100% in one year. “We have not experienced price increases of this magnitude since the Gulf War buildup in the fall of 1990,” May said.

Increases in fuel prices affect the airlines in two ways, May explained: Along with the obvious affect of immediately increasing the cost of operations (every penny increase in the price of jet fuel costs the industry \$180 million a year, he noted), historically fuel cost increases have repeatedly triggered economic recessions. Providing data that linked the major recessions of the past 30 years with the steep increases in fuel prices that preceded them, May displayed how each incident brought about widespread hardship in the airline industry (see chart page 3) . In effect, he said, it’s not only airline finances that are currently at stake, but also the health of the national economy.

The airlines are doing all they can to conserve fuel, May said, but the

industry’s options for further dramatic improvements are limited.

SPR Options Debated

As a recommended course of action, the ATA is urging the Congress to press the Bush Administration for a minimum of one million barrels per day release from the SPR at least until the arrival of Middle Eastern oil expected as a result of an OPEC quota increase geared to offset the lack of Venezuelan supply. He also called for a repeal of the 4.3 cents per gallon jet fuel tax as a “modest demonstration of a national commitment to bringing oil prices down.

ATA spokesman Ed Merlis reports that the organization has been told that announcing a one million barrel per day release should trigger an immediate \$3 per barrel reduction in crude prices, and once the releases are undertaken the downward trend should continue, depending upon intervening events.

The hang-up in Washington appears to be over the definition of a shortage. The SPR was established to compensate for times of supply disruption, and the ATA contends, based on both inventory and price data, that the US is currently suffering a supply disruption. Government officials, along with many of the companies that supply the airlines with fuel, however, tend to disagree.

US Energy Secretary Spencer Abraham said last week, when the board of the ATA, made up of airline CEOs, was making further rounds in Washington, that the Administration was prepared to act quickly to offset a severe disruption to Middle East supplies in the event of war. Abraham has more recently expressed that the SPR should not be used to address prices. ExxonMobil Chairman Lee Raymond called discussions about an SPR release premature following May’s visit to the Senate, but later acknowledged that Iraq would stop exporting once a war commenced and
(Continued on page 3)

© 2003 World Jet Fuel Report
P.O. Box 30907
Palm Beach Gardens, Florida 33420
U.S.A.

Published biweekly by:
Armbrust Aviation Group, Inc.
The Comeau Building
319 Clematis Street, Suite 211
West Palm Beach, Florida, U.S.A
Telephone: 561-659-6818
Fax: 561-659-0091
Website: www.armbrustaviation.com
E-mail: info@armbrustaviation.com

John H. Armbrust
Publisher
Robert Baal
Managing Editor/Online Director
Scott Eurich
Creative Director
Carol Ward
Correspondent
Michael Patrick
Research Director
Robin Ader
Analyst
Barbara Moreno
Circulation Manager
Patricia Holland
Business Manager

Subscription \$1,675 per year.
Transmitted via electronic mail or
downloaded from Web. License rates
on request.

Copyright © 2003 Armbrust
Aviation Group, Inc. All rights
reserved. Publication or reproduction
of **World Jet Fuel Report** is strictly
forbidden without prior permission
from the publisher.

Other AAG publications: *World
Airport Revenue News*, a monthly
magazine covering issues that concern
airport managers, retailers, and
concessionaires.



“If they can force even a temporary spike downward, they can jump in with some additional hedges at the lower prices to help them ride out the coming months.”

in that case the US could release some oil from the reserve.

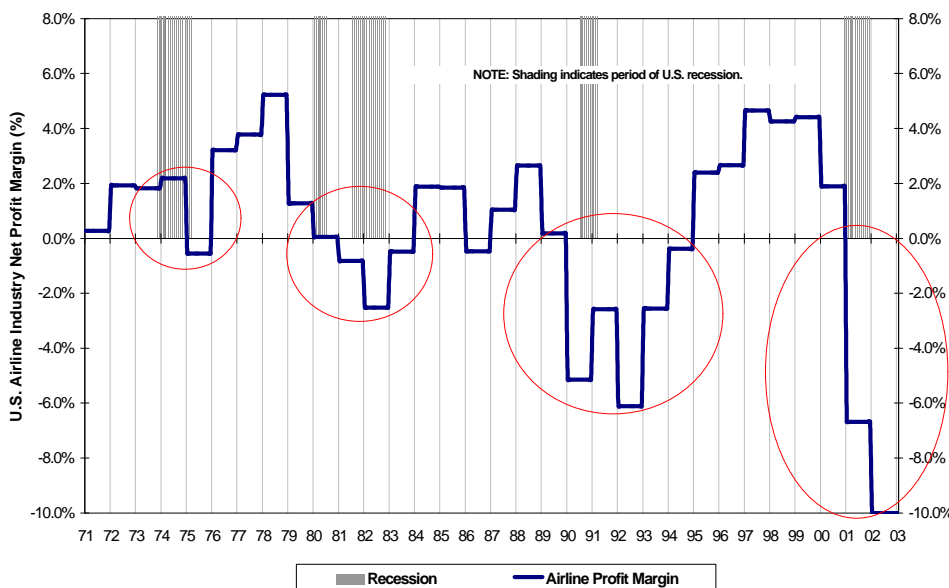
But short of a war erupting that disrupts Middle East supplies, there appears to be little momentum for an SPR release based on current conditions, like May had urged. “It’s an extremely sensitive issue at the moment,” says an oil industry analyst with familiarity with the workings of Washington. There is also a wide

some additional hedges at the lower prices to help them ride out the coming months.”

As noted earlier, even in the event of an SPR release, the significance of any such downward spike is highly debatable. If the ATA’s assumption is correct and it is \$3 right off the bat, the airlines will have succeeded in getting some instant price relief and in some cases

Airline Losses Linked to Recessions and Higher Oil Prices

Source: ATA



range of opinions as to what the effect of a release might be should it happen, he notes.

Grasping at Straws?

Jet fuel supplier representatives who we spoke with believe the airlines are grasping at straws in their pursuit of a pre-war release. “It’s not going to happen,” says one, adding, “Venezuela has only affected a handful of refineries, and that doesn’t constitute a severe shortage.”

He doesn’t fault the airlines for their efforts, however. “They are doing what they can to force some price relief for themselves, because most are hitting the wall in terms of hedging ability,” he explains. “If they can force even a temporary spike downward, they can jump in with

making some hedging moves attractive again. But history shows that there may not be much of a downward spike to be had, particularly where jet fuel is concerned.

The oil industry analyst quoted earlier warns that there is no degree of certainty that whatever impact a release might have on the crude market would carry over to jet. He notes that in the instance of the first Gulf War, even though a 34-million barrel release was announced, only half that was actually sold because prices stabilized so quickly. And in that case, jet fuel-to-heating oil differentials had already blown out to more than 10 cents a gallon by September 1990, during the pre-war

(Continued on page 4)

If the ATA’s assumption is correct and it is \$3 right off the bat, the airlines will have succeeded in getting some instant price relief and in some cases making some hedging moves attractive again.



Without actual vessels of crude coming in, a one-time manipulation of the crude market is not going to have a significant impact on values, he said.

build up. That we are really beyond the build up point now, with margins relatively undisturbed, suggests that we will not see such a blow out of margins this time around, war or no war, leaving little room for a decline related to an SPR release.

The process involved in an SPR release also serves to blunt the impact, says our jet fuel supplier representative. The DOE controls a general release to suppliers, brokers, "anybody who can prove they can make good for it," he says. The bids are made at current market level prices, and comparable like quality barrels have to be replaced in the reserve, usually within a year's time. Such rules make buyers reluctant to jump in and bid on everything that's available, as was seen in the case of the Gulf War release.

Without actual vessels of

crude coming in, a one-time manipulation of the crude market is not going to have a significant impact on values, he said.

Mr. May summed up his presentation to the Senate committee by stressing the precarious situation the US economy finds itself in pending the outcome of the Iraqi engagement. He urged the Congress and the Administration to take steps now, before the first shots are fired, to control "the runaway price spiral currently underway." With Washington still smarting from criticism of its post-9/11 industry bailout, chances are his presentation swayed few minds, despite the worthy effort. **JFR**



Perspective: The Jet Fuel Industry in India
(Continued From Page One)

domestic traffic and 2.7% in international traffic in the full previous year ending in March.

Similarly, international & domestic aircraft movements went up by 4.1% and 10.5% respectively, during the same period. This has led to an overall increase of 9.2% in total aircraft movements with both these segments combined.

Cargo traffic saw the most promising growth of 17.5% in both international and domestic segments during the period of April-October 2002 against the same period in year 2001. Last year cargo traffic had shown a growth of just 0.4% on international traffic and 2.0% on domestic traffic.

It's rush hour in the Indian skies. There is sudden upswing in domestic air travel despite the 10% fare hike by domestic airlines.

Future is Bright

It is not going to end here. The future is bright, as evidenced by these recent developments:

- Domestic airline Air Sahara

plans to add two Boeing 737-800s and two 50 seat regional jets to its fleet in the near future. A number of regional routes are likely to be connected later by adding more 50-seaters.

- State-owned Indian Airline's board has recommended the acquisition of 43 aircraft to be received between 2004 and 2008. Airline is also bringing in four turbo-prop ATR aircraft.
- Indian flag carrier airline Air India has also proposed to modernize its fleet. It has indicated that it will invite bids for 17 medium/large capacity long-range aircraft and un-specified numbers of short capacity short-range aircraft.
- US aircraft maker Boeing Co. has forecast that the Indian market will need 290 new commercial jets worth 22 billion dollars over the next 20 years. Boeing has projected that air-traffic growth in southwest Asia led by India will average 6.7% over the period, which will be among the fastest in

(Continued on page 5)



“Ninety percent of the plan has been cleared between Finance and Civil Aviation ministries. You will now see things happening,” he said

the world. India’s domestic aviation industry will surely never be the same again.

On international sector, although carriers like United Airlines have withdrawn their flights from India, increasing traffic has given the opportunity for other airlines like Lufthansa & Delta Air Lines to fill the space vacated by others.

In order to meet the demand of growing traffic, the government of India has announced an “open sky” policy -- for now restricted only to European and US airlines -- to increase the number of flights from the airports where they are currently operating, between December 2002 and March 2003. But this limited open-sky policy was not received very well by rival airlines, especially those elsewhere in Asia. The majority of American carriers are currently not in a position to expand their networks, but European airlines like Virgin Atlantic, British Airways and Lufthansa are very keen to increase their flights to their current Indian destinations on a permanent basis.

Due to the fact that between December and March India witnesses an increase in inbound traffic – mostly tourist traffic, India’s aviation industry is expected to show better growth until the arrival of spring next year.

Open Skies Coming

Recently, there have been some very encouraging developments on the “open sky” front. An announcement has been made by the Union Finance Minister of India, while addressing the concluding session of the four-day CII Partnership Summit 2003 in Delhi, that very soon Indian skies could be opened to foreign carriers, thus moving from the current Air Bilateral Era to a true Open Air Sky policy.

“Ninety percent of the plan has been cleared between Finance and Civil Aviation ministries. You will now see things happening,” he said

An open Sky Policy will mean that airlines will have a level playing

field in the Indian Sky. Should the government open Indian skies, there will be surge of new flights coming into India, which currently is not possible as entry of foreign carriers at new destinations gets blocked.

Airlines who are very keen to take advantage of such policy changes are Gulf-based and Asia-Pacific airlines. Airlines like Saudi Arabian Airlines, Gulf Air, Emirates, etc. are trying to get new destinations in India, especially Southern India – where Cochin International Airport has been the most sought after target. Some reports suggest that tourist traffic has shown an increase of about 25% from Far East countries and therefore, Singapore and Malaysian Airlines would also take great advantage of this change in policy. There has also been consistent growth on the economic front with the Republic of China. Currently only China Eastern Airlines operates to Delhi, but as the traffic grows this sector also looks very attractive.

Some of the states have also formulated policy for landing of private airlines’ chartered planes on airstrips. Under the new norms, issued by government of Rajasthan, private airlines can apply for permission to use airstrips at tourist destinations, which are not connected through airports. Silk Air, a subsidiary to Singapore Airlines, has already operated its charter to the state and now it is understood that Swiss International Airlines is also bringing a 50-seat charter from Switzerland to Jodhpur.

Thus we can safely predict double-digit growth of the aviation industry in India.

Jet Fuel Scenario

The jet fuel market scenario in India has reflected the pattern displayed by the aviation industry. The jet fuel market in India today stands at 2255 thousand metric tonnes annually, including both civil and

(Continued on page 6)

An open Sky Policy will mean that airlines will have a level playing field in the Indian Sky.



