

Jet fuel prices remain high despite the end of hostilities in Iraq and the related worries of a jeopardized oil supply from the region.

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SARS, War and Higher Fuel Costs Stymie Global Airline Growth Outlook

Fuel managers at international airlines are looking for lower jet fuel prices as a way to shave costs in the extraordinarily difficult environment currently faced by major airlines worldwide. Airlines, under increasing pressure curb expenditures in order to salvage an otherwise brutal period for air travel, see fuel as one of many areas where costs can be reduced.

Thus far, however, the market hasn't cooperated. Jet fuel prices remain high, despite the end of hostilities in Iraq and the related worries over a jeopardized oil supply from the region. "Everybody looked for a drop in prices especially after the

war ended," notes **Jonathan Pardoe**, manager, fuel contracts and hedging for **Virgin Atlantic Airways**. "We were looking for a dramatic falloff in price but that never materialized."

Similarly, **Yoichiro Nakao**, head of fuel purchasing for **All Nippon Airways (ANA)** says the airline had anticipated a fall in price due to lower demand for jet fuel around the world. "Reality isn't like that," he says. "Jet price will be supported by high crude price, especially WT1, for the time being."

At an OPEC meeting June 11, the organization announced that it will

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Interview...

Air TOTAL's Mark Newstead Weighs In On Merger Challenges, Health of Airlines

Since the merger of **TotalFina** with **Elf** in early 2000, the newly formed **Air TOTAL** has worked to streamline operations, reduce bureaucracy and position itself as a leader in customer service with a broad European and African network. Air TOTAL currently has jet fuel sales of about 9 million MT per year (excluding trading), with volumes relatively stable since 2000. The company sells in 70 countries and at more than 200 international airports, primarily in Europe and Africa but also in the United States, Asia Pacific and South America. Air Total sees growth potential in the developing world and Asia, but is predicting slower growth than it did five years ago.

Mark Newstead, general manager, marketing and sales, for Air Total is leaving to take on a general management position at **TOTAL Italia** in Milan, where he will manage six different product lines as specialties director. Newstead, who has 15 years of aviation oil experience was instrumental in helping guide the mergers of three distinct aviation departments. During his tenure Newstead has been a keen observer of industry trends. In an interview with **AAG**, Newstead discussed the challenges of the mergers, issues such as taxation and environmental impact, and the overall health of the global

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A drop in demand for jet fuel from airlines around the world could prompt lower prices in the coming months.

not cut production further and will instead keep current levels of oil production unchanged at 25.4 million barrels a day. However, supplies are low due to the absence of oil from Iraq. "Iraq is not in the market as everybody expected," says **Edgar Lange**, manager, risk management, for **Deutsche Lufthansa**. "Some traders thought after the Gulf War, Iraq would produce at capacity limit with support of the majors from the U.S. and U.K., but many parts of the production facilities, or rather the whole industry in Iraq, have been destroyed.

"Right now we have a very strange situation," Lange continues. "Crude oil is very strong... It increased in the last weeks, getting stronger and stronger after the gulf war. But on the other hand, the differential has gone down."

A drop in demand from airlines around the world could prompt lower prices in the coming months. While most leading European carriers are predicting at- or near-normal flight schedules, Asian airlines are still reeling from the impact of the SARS virus and the subsequent downturn in air travel. Flights have been cut substantially, reducing the demand during the current quarter, and airlines operating Asian routes have thus far seen only a modest uptick in traveler demand for the summer months.

Slower demand for air travel overall, plus a weak world economy, might serve to bring down oil priced in the coming months. That is the hope of **Carlos Alberto Timoteo**, fuel manager at **TAP Air Portugal**, who says the airline's hedging activities were put on hold in early 2003 when prices rose dramatically. "In our opinion, prices could very well end up reflecting the recessionary environment for the world economy, now that supply concerns arising from terrorism and sabotage seem to be put aside after the Iraqi war," he says. "So we are expecting lower prices ahead and will act whenever that occurs."

Other methods of curbing fuel costs can come from fleet changes, a tact that **KLM Royal Dutch Airlines** is taking in a multi-pronged effort to reduce costs. KLM president and CEO **Leo Van Wijk** told analysts in an

earnings meeting in May that he expected the introduction of a fleet of next-generation aircraft, and the rationalization of the airline's original fleet, will enable the airline to "take off quite a bit of our fuel cost" despite higher prices. "In Amsterdam we are operating at very, very thin margins for the suppliers, but quantities can be reduced significantly by using modern aircraft," Wijk said.

KLM's Cargo division also instituted an increased fuel surcharge in March 2003 to partially offset the higher jet fuel costs. The surcharge was raised from 15 cents to 20 cents worldwide.

Hedging Efforts

Most global airlines are reluctant to speak about their specific jet fuel hedging activities for fear of tipping off competitors to their strategies. Still, airlines clearly view hedging as a way to minimize the impact of price fluctuations, and depending on their financial position, can hedge up to three-quarters or more of their jet fuel requirements. With the current economic difficulties faced by most major carriers worldwide, hedging will likely be curtailed somewhat because of the cash outlay the activity requires.

Pardoe of Virgin Atlantic says he is "in a relatively comfortable position on the hedging front" right now, with about 50% of fuel requirements hedged for the remainder of the year. Because of that, he says he can be less aggressive in the current high-price environment. "If we were in a different position I'd have to be a bit more creative," he notes.

Air France is more aggressively hedged, at about 88% for the remainder of this year, according to **Didier Raffaud**, fuel purchasing and risk manager. Calendar year 2004 is hedged at 52% he says. Raffaud adds that he is not expecting any collapse in the price of crude, "but we are praying night and day for prices to be maintained in the lower part of the OPEC range (\$22-\$28/barrel)."

The vagaries of the various markets haven't hampered fuel purchasing at Lufthansa, whose policy is -- among other things -- to be hedged at

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“Our position for the second half of this year is still being built upon, as we avoided being locked in very high prices and stopped hedging when prices went up in early 2003.”

90% for the next six months out on a rolling basis. "Due to this strategy we don't change our hedge ratio if the market is high or low," notes Lange. "We were wonderfully hedged for the first quarter, so we had no negative experience for the first quarter of 2003 because we made of money with our approach." Lange adds that 95% of the airline's hedges are options.

Timoteo of TAP says the airline restarted its hedge program after suspending it earlier this year when prices rose dramatically. "TAP's hedge position for the first half 2003 was built up at moderate prices and covered around 60% of the total anticipated exposure for the period," he notes. "During the first quarter 2003, the hedge in place was very effective and constituted an important buffer against the overshooting in prices.

"Our position for the second half of this year is still being built upon, as we avoided being locked in very high prices and stopped hedging when prices went up in early 2003," Timoteo adds. "We restarted our hedge program since, and so far 65% of Q3 is done and Q4 is being worked on, as is the 2004 exposure."

At All Nippon Airways, hedging continued despite higher prices. Nakao says the airline was hedged at 100% for the first quarter, and about 70% of Q1 and Q2 requirements are currently hedged. "We have a basic hedging plan to make positions continuously and constantly regardless if the market is bullish or bearish," he says. "We believe constant hedging brings us the real hedge effect under such a volatile and unforeseeable market like now."

Ryutaro Nambu, deputy general manager, fuel, for **Japan Airlines**, says the carrier's policy is to hedge up to 36 months ahead. For the next 12 months, Japan Airlines is hedged at about 50%. Nambu declined to discuss specific strategy, pointing out that "someone may take advantage of us in an attempt at front-running."

Other airlines have similar strategies for trying to make their costs more predictable. Hedging is one way for airlines to reduce the impact of high jet fuel prices, but ultimately carriers have limited control on the price of jet

fuel. Since fuel costs generally rank near the top in terms of airline expenses, they are a key element in the cost-saving efforts of global carriers.

Airline Performances

The efforts to reduce costs come at a time of unprecedented difficulty for the global airline industry. The industry started the year struggling with over-capacity, a revenue model that no longer delivers the returns necessary to remain solvent and a weakening global economy, then was lambasted by the dual impact of the U.S. war in Iraq and the outbreak of SARS, both in March of this year. While airlines have generally rebounded from the impact of the war, those heavily reliant on Asian traffic are still reeling from SARS.

While major airline results for the January - March 2003 period were mixed, the more difficult period for carriers outside the U.S. will likely be the current quarter. April through June results are expected to reflect the negative impact of those developments, with many carriers predicting heavy losses.

Preliminary traffic figures for April tell the story. According to the **International Air Transport Association** (IATA), there was an 18.5% drop in global passenger traffic over April 2002, with SARS-hit Asia-Pacific experiencing a 44.8% drop. Available seat kilometers for Asia-Pacific carriers fell by 12.6%, and the average load factor was only 48%, a fall of 28 points over April 2002.

Among Asian airlines, those based in SARS hotspots -- such as **Cathay Pacific** of Hong Kong and **Singapore Airlines** -- are struggling the most. They, and other carriers in the region, have reacted by cutting flights. Cathay Pacific even fought off rumors that it would temporarily stop operations due to sharply reduced demand. In April, a fourth round of cuts resulted in a total of 218 weekly flights cuts, about 45% of the airline's normal schedule. To date, only a few of those flights have been restored. Also in April, the carrier issued a profit warning that said results for the first half of 2003 are expected to

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While airlines have generally rebounded from the impact of the war in Iraq, those heavily reliant on Asian traffic are still reeling from SARS.

U.K. airlines Virgin Atlantic and BMI have held talks about closer cooperation, although both companies have said a full-scale merger isn't in the cards. British Airways has also been reported as considering a bid for Virgin Atlantic.

be "materially adversely affected" by the falloff in demand. Cathay Pacific said the average number of passengers carried per day in April was approximately one-third of the level for the comparable period last year.

Singapore Airlines has also felt the full-blown impact of SARS, which came on the heels of a weak performance for the airline in the last half of its fiscal year (ending March 31, 2003). The Iraq war and the earlier bomb blasts in Bali had already weakened demand, and with the advent of SARS the airlines says it expects that the impact on earnings will be substantial. The airline reduced capacity by 30% for the April-June period and said it will focus on cost reductions until the airline can return to normal operations.

Japan Airlines also entered the first quarter of its fiscal year (April-June) with capacity and demand reductions. The carrier said its international passenger traffic estimates have been revised down by 14% over fiscal 2003. Japan Airlines said the impact of the Iraq war on international passenger demand is expected to last five months (April-August), and the impact of SARS will last until March 2004 on China and Southeast Asia routes, although traffic to other destinations will recover more quickly, the airline predicted.

According to Ryutaro, uplift was down 1% year-on-year for April 2003, and is bottoming out at about 15% decline for May and June. He says the airline doesn't foresee any further decline.

The ANA Group, parent company of All Nippon Airways, reported a net loss of Y28.2 billion (\$235.4 million) for the fiscal year ending March 31, 2003, with the net loss attributed to All Nippon Airways at about Y17 million (\$142 million). The company blamed the severe price competition in the wake of the Japan Airlines/Japan Air System merger for much of the loss, but said the double blow of the Iraq war and the SARS outbreak had a negative impact on passenger numbers, which had been growing rapidly since September 2002. Nakao says the airline's jet fuel demand "will be less than our projected volume

under a normal environment" due to downsizing and suspension of certain international operations.

The outlook is similar for **Qantas Airways**. In May the Australian airline downgraded its profit forecast for the 2002/2003 financial year. The airline said bookings to Hong Kong were down 64% and to Japan down 30%. In addition, bookings from Continental Europe have been hard hit, particularly from France and Italy which were down by 45% and 33% respectively.

While less impacted by SARS, European airlines are also feeling the pinch of the downturn in global air travel. **British Airways**, for example, recorded a 14.2% drop in turnover for the three months ending March 31, although operating profit held steady due to cost cutting efforts. The airline predicted that revenue in its first quarter of fiscal 2000 (April-June 2003) will be lower than that year, and added that "visibility beyond the first quarter is not clear."

In fact, UK-based airlines could be in for a shake-up, with takeover rumors abounding. Virgin Atlantic and regional airline **BMI** have held talks about closer cooperation, although both companies have said a full-scale merger isn't in the cards. British Airways has also been reported as considering a bid for Virgin Atlantic. Virgin, meanwhile, performed better than many of its European competitors in the year ending April 2003, with pre-tax profit coming in at about \$16 million, compared to a loss of more than \$140 million the previous year. Pardoe says some flights have been curtailed in the current quarter, resulting in a decline in traffic of around 10% overall and a 35% drop to markets such as Hong Kong and Tokyo.

Scandinavian Airlines (SAS) operating revenue fell 11.2% in the first quarter of 2003, prompting the airline to expand cost-saving measures and to adjust its fares and services within Europe. Similarly, KLM Royal Dutch Airlines expanded its cost-saving efforts after posting a record loss in its fourth quarter of \$471 million, which included damages paid to Alitalia after KLM

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renege on an alliance contract. The carrier said traffic on its Asia-Pacific routes was down 24% in April. TAP Air Portugal turned in a loss of \$6.35 million for calendar year 2002, a strong improvement over massive losses in recent previous years.

Air France fared better, with turnover up by 1.3% to EUR12.69 billion (\$14.92 billion) for its fiscal year to March 2003. Turnover for the fourth quarter, however, was down by 1.2% to EUR 2.48 billion (\$2.92 billion). Finally, Deutsche Lufthansa AG reported a net loss of EUR356 million (\$418.6 million) for the first quarter of 2003. The company said it

was hit particularly hard by the SARS outbreak, given Lufthansa's strong position in that region. Like nearly all airlines impacted by SARS, Lufthansa has embarked on a cost-saving program to help minimize the impact of sharply reduced demand. Lange says demand appeared to bottom out in late May, and adds that "we believe we'll see a slow recovery." **JFR**



Mark Newstead of Air TOTAL Assesses Merger, Airline Health
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airline industry.

JFR: Can you comment on the positive and negative aspects of the mergers of Fina, Total and Elf; for the company and its customers?

Newstead: Dealing with our side first of all, we have benefited enormously from being able to pool our combined knowledge and working practices, and as a result we are becoming more competent and consistent in what we do. The consolidation of market positions has also allowed us to do some strategic repositioning that would have been difficult before the mergers. The negative aspects have been the practical and technical difficulties in combining the companies and the length of time it has taken to rationalize some of our assets. I think we slightly underestimated the second merger, as joining up with Fina had gone so well, we didn't imagine the second merger could be so complicated. The problems we encountered created the biggest negative: we couldn't match our customers' expectations. I believe that our customers perceive the changes in much the same way. They have been impacted by problems with our IT systems during 2001, and in many cases saw too rapid turnover in our sales managers. We tried to keep our teams as stable as possible, but as our whole company was changing very rapidly there were many good opportunities available, and we lost a number of experienced members of staff. As we were busy digesting the

changes, customers have been critical of our lack of clear strategy. I think we gave this impression simply because immediately following the mergers we had to manage the short-term and were simply concentrating on getting the basics right – that is to say, managing our economic position and better understanding our risks (especially on credit issues). With hindsight, we didn't communicate enough on the issue, and many customers were left confused about our objectives. To finish on a positive note, I hope that airlines will appreciate that we have a more consistent approach than before, we offer the advantages of a significant European and African network, and are now rapidly deploying improvements in our customer services linked to our new IT system – pricing, access to invoices, EDI, etc.

JFR: What do you believe were the individual strengths and weaknesses of the companies?

Newstead: Even though we were culturally similar, the three companies had very different characteristics. At one extreme, Fina had a small, centralized organization, whose main focus was to optimize its activity in a small geographical area by concentrating on economics. Its size made it easy to be customer-focused, but it suffered from lack of resources for development. Total was at the opposite extreme; very ambitious, committed to growth, with very individual relationships with customers,

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“The oil companies didn’t merge in order to strengthen their respective aviation businesses, but I think the result will be beneficial to suppliers and airlines.”

and had had considerable success over the previous 10 years. Its size, however, made it more difficult to manage, and sometimes inconsistent. Elf was probably somewhere in the middle; good at relationships, more focused on economics. It was also selectively developing new projects. Coming back to my earlier reply, you can understand how the combination of these three did confuse some customers as to what our new Strategy could be. The current Air Total combines a commitment to growth and customer service with a desire to be perceived as a leader in its two main markets. It also recognizes that to be a long-term player it needs to understand and manage its risk. The changes we have undergone recently may have obscured these objectives, but things are settling down now, and we have rebuilt a good sales team, taking care to bring in experienced people whenever we could, and this will be our strength in the future.

JFR: Do you believe the industry is better served as a result of recent consolidations?

Newstead: As you know, the oil companies didn’t merge in order to strengthen their respective aviation businesses, but I think the result will be beneficial for suppliers and airlines. Suppliers have been able to rationalize and become stronger. The merger process has also required us to take a good, hard look at the business – so without exception we understand it much better. One result I can already see is a much greater level of consistency in many markets. An airline may of course view this as a problem, as the disappearance of many smaller suppliers has taken variety (and some say, inventiveness) out of the market. This is true, but I believe that on the longer term everyone is better served by consistency and a very clear dialogue about business issues. A fragmented market too often obscures fundamental issues by local marketing ones, and so they are not dealt with. This should no longer happen now.

JFR: Do you believe the European aviation industry would be better served through airline consolidation?

Newstead: I don’t think it’s a question of “will it be better or not?” The recent initiative by the EEC to take over the negotiation of bilaterals – if it

succeeds - implies that national differences will no longer exist within Europe. This changes everything, as the “country of ownership” of a European airline will no longer have any influence on its traffic rights. This new environment means that mergers between airlines are bound to take place in the future, whether we like it or not. I hope that the airlines will emerge in stronger financial shape with a better business model – and that has to be good for the industry. But whether the average passenger living near a secondary airport will enjoy going to one of four or five major hubs, just because his or her national airline has been taken over, is another matter. This of course will make a very fertile ground for low-cost start-ups, so I think we should be very cautious about making forecasts about the future financial health of the industry....

JFR: Environmental and taxation issues carry increased significance in Europe. What do you believe will be the impact on the aviation industry in the future?

Newstead: These issues have been on the agenda for some time now, but the EEC appears to have delayed again in implementing any significant change for the airline industry. I think some change is inevitable, but the timescale is anyone’s guess. The EEC produced a study some years ago which argued that an extra tax of €200/m³, which at the time would have doubled the cost of Jet Fuel, would only reduce demand by 5% in the first year and slow further growth down by 2 percentage points. Taxation will not kill the industry – it does however put significant pressure on all the business models that rely on market growth. Airlines will have to learn to have a profitable business without growth, and I know this is not easy.

JFR: Airlines are under enormous financial pressure and many have reduced staffing at fuel departments. What impact will these airline reductions have on the industry?

Newstead: This is a difficult one to comment on, as the airlines are currently in such a difficult financial position that very short-term decisions sometimes have to be taken. I am sure the decision makers understand that in

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Airlines will have to learn to have a profitable business without growth, and I know this is not easy.

There is also a secondary risk that this short-term view will lose the support of some suppliers, already under pressure within their own companies due to the insufficient returns and perceived high risks of the business.

cutting fuel purchasing departments they are reducing their overheads, but at the expense of the long-term gains their staff can make for the company. The big savings are not made in negotiating sales differentials, they are made by effecting structural change or by reducing the cost of fuel “upstream”, by a good risk management program. It is these benefits that airlines could miss out on due to staff reductions. There is also a secondary risk that this short-term view will lose the support of some suppliers, already under pressure within their own companies due to the insufficient returns and perceived high risks of the business.

JFR: What is your view on the jet fuel supply/demand picture for Europe? Do you believe that Europe will continue to grow its dependence on imported jet fuel, and if so, what are the long-term consequences?

Newstead: If nothing changes, then Europe will become more dependent on imports, even though recent events have brought it very quickly to a “long” position. The oil industry has always adjusted well to economics, so I’m not too concerned about the impact. If it is profitable to move cargoes into Europe, they will arrive; likewise, if there is an economic argument in favor of it, refiners will build more middle-distillate capacity. The underlying question is whether consumption can continue to grow at the rate it has in the past. When we look at the economical and geopolitical issues the airlines face, combined with a strong political desire to reduce the greenhouse gas emissions of the transport sector, growth is less certain now than it was five years ago.

JFR: What do you believe are the most important issues confronting airlines in the future?

Newstead: As with any business, there is only one issue: the requirement to remain profitable. The analysts, IATA, and the airlines all say – as though it is a fact of life – that the industry has never made sufficient returns. This cannot be sustainable. Unfortunately, there doesn’t appear to be a simple solution. As I said earlier, most planning seems to be done on the basis that there will be growth, or that growth can be generated by lowering the price of a ticket. This notion helps

maintain the overcapacity in the market, and many operators continue to behave as though the overcapacity will automatically be absorbed by growth. Furthermore, when capacity reductions are made, they are never permanent; aircraft are mothballed, or sold on, only to return just as yields could have improved. And this leads into the second issue – that the public has got so used to paying “cheap”, that many airlines will never be able to charge the rate they need. I can’t see a solution, and I don’t think either that a general move towards “low-cost” is necessarily the answer.

JFR: What do you believe are the most important issues confronting suppliers in the future?

Newstead: The current issues are those of profitability and risk. We have talked about the financial problems the airline industry is in at the moment, and clearly it is difficult for any supplier of services to this industry to make adequate returns from ailing customers. Likewise, these same customers are becoming greater financial risks – made impossible to ignore considering the poor returns. The daily balancing act we do between these two elements is significant. Looking further into the future, I think that more external influence is going to be put on our industry. It will come from the lawmakers and regulators, from airports and transport authorities. We have been used to our industry changing from the inside, being changed by our customers (especially in the US); that is a lot easier to manage than outside influences. The oil industry will therefore have to get quite involved in order to ensure that its interests are properly understood, and that the solutions found to “fix the problem” do not in fact make things worse. The underlying problem is that faced with the low returns of aviation marketing, many suppliers have reduced their technical support staffs (in the same way as airlines have), so no-one is available to support our joint interests in the face of any undesirable change.

JFR: You have been a key participant in the aviation industry for nearly 15 years. Care to offer any advice on your parting?

Newstead: Like a lot of people

“...clearly it is difficult for any supplier to make adequate returns from ailing customers. Likewise, these same customers are becoming greater financial risks — made impossible to ignore considering the poor returns.”

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Prices, Fees and E-Commerce Are Topics At May IATA Fuel Trade Meeting

By: Keith Carter

A key concern emerging from the meeting was the activity of Platts in recent months, with assessment methodology changes impacting adversely on jet fuel costs.

Despite the economic problems facing the airline industry, and the recent impact of SARS, there was a record attendance at the recent **IATA Fuel Trade Meeting**, held at the Sofitel Forum Hotel in Paris at the beginning of May. Close on 250 delegates from 64 airlines and 34 suppliers attended – a clear demonstration of the importance of this twice-yearly gathering to both buyers and sellers alike.

Frederic Lasserre of **Societe Generale** painted a picture of the oil markets in which the price of crude could fall to \$20 a barrel, or even lower in the coming 18 months, with jet fuel prices reflecting this in due course. This was clearly great news to the airline delegates who are under great pressure from their management to reduce this vital and significant cost area.

Peter Morris, chief economist of IATA, showed in detail the impact of the downturn in business, with only the low cost carriers and cargo operations showing any good news. The ensuing panel discussion focussed on a number of market sectors, including parcel operators, leisure carriers and the military. This last by Air Commodore **Paul Hedges** was very topical and

highlighted the particular problems of sustaining robust supply logistics in a war situation. **Neil Mills** of **EasyJet** also gave a very different view of life, saying how fuel buying was seen as a very simple and straightforward business transaction, and that risk management was not required – though of course in the past few weeks this has changed!

A key concern emerging from the meeting was the activity of **Platts** in recent months, with assessment methodology changes impacting adversely on jet fuel costs. While it was not possible to explore this in detail at the meeting, as strict anti-trust guidelines are needed for any discussion involving price, it is an issue that clearly needs to be addressed and will be followed up by IATA in the coming months, with discussion slated for the next full meeting in Montreal in the fall.

Discussions did make progress, as planned, in two important areas – how to tackle the growth in airport fuel concession fees, and what does the industry need in e-commerce support.

IATA has a clear policy that any fuel fees should be transparent and

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Mark Newstead interview
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in the industry (many of whom have also left), I still believe that relationships can play an important role; they help resolve daily difficulties, and they help each side to understand the other. However, I think we should not assume that through relationships we can solve everything. You have already talked about all the changes we have seen in our industry, relationships are being lost, and both sides are, by staff reductions, being forced to work differently. We should also bear in mind that we are currently facing significant new challenges. I still come across colleagues from both sides who believe that relationships will see us through, but I disagree. They are important, but not enough. The need to maintain the “good relationship” often prevents us from debating the real subject in the

open, or doing something about it. There are times when a good, honest dialogue about the facts would be better for everyone, but still we avoid the issue. Relationships have helped us to overlook the other side’s limitations (and vice versa), it often is much better for the agenda to be out in the open and managed accordingly. There are great people in this industry, and I have been privileged to work alongside a number of good professionals. I am sure they will work it out, and I’m sure that if we meet again in five years time we will discover that the environment didn’t change as quickly as we expected it to.

JFR

IATA Fuel Trade Meeting
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fully cost justified – but this is not the case for many airports who see the levying of a concession fee via the oil company suppliers/marketers as an easy way to raise revenues. Particularly in the current economic crisis this is unacceptable. So ideas for positive action by airlines and suppliers were developed and will be carried forward in the coming months on a case by case basis.

At the last Fuel Trade Meeting in Singapore it was announced that **JET-A.com** had ceased trading, so in Paris delegates discussed what was now needed. A general view emerged that **JET-A.com** had been too ambitious and expensive, and anything new had to be cheaper and more cost effective – especially for smaller carriers. Priorities include ways of reducing paperwork by automation and solving the fuel ticketing nightmare, especially in the United States. Tendering was not seen as a priority.

With the meeting taking place in Paris, there was a strong focus on **European Union** issues which impact on the jet fuel business – taxation and the environment, compulsory storage obligations, and ground handling arrangements at airports. **Monique de Smet** of IATA led delegates through these topics, with support from **Udeke Huiskamp** of **KLM**, **Philip Rochat** of IATA, and **Roderic van Voorst** of the EU.

IATA remains opposed to the taxation of jet fuel for environmental grounds, and supports the principle of

emissions trading as a positive and constructive way forward. It would appear that this message is getting through to the EU, although member states are free to introduce domestic taxation (as some have already implemented) or agree bi-lateral action with other EU members.

Compulsory storage obligations are under review, but there is little enthusiasm or support for change, so probably the structure will continue broadly as it is today in Europe. IATA had approached the EU to try to get some temporary relief from the cost impact of these obligations in the current aviation crisis, but this was unsuccessful.

On ground handling, changes are being considered to the EU Directive, with comments sought from all interested parties. When this legislation was developed in the 1990s, insufficient attention was given to the special needs of the on-airport jet fuel activity, and it is hoped that in any amendments this can be addressed and corrected.

Finally, the meeting marked the end of the chairmanship of **Prakobkiat Ninnad** of **Thai Airways**, with **Ron Taylor** of **Cathay Pacific** elected to serve for the period 2003-2005, supported by a new vice-chair, **Judith Connatty** of **Air Europa**. In the Suppliers Advisory Panel, **Duncan Mann** of **Air Total** stepped down with **Paul Cluett** of **Shell Aviation** and **Tony Conway** of **ConocoPhillips** joining the group. **JFR**

News Briefs

YVR Fuel Mishap Causes Delays

Vancouver... A non-certified jet fuel delivery by **BP** from the **Cherry Point** refinery in Blaine, Washington to **Vancouver International Airport** caused delays on May 24. BP Canada Energy Company suspended the fueling of some aircraft after it was discovered that seven trucks of jet fuel did not undergo a routine certification process prior to departure from the refinery.

BP blamed human error for the slipup, which caused several long-haul flights to be delayed because of a fuel shortage. The fuel was sent back to the Cherry Point refinery and to a testing lab in Bellingham, Washington, where it passed certification. BP said that no

uncertified fuel was transferred to an aircraft.

Lower Demand Hits Asian Fuel Contracts

Asia Pacific... A recent tender by a major Asian airline suggests the serious impact of SARS on contracts, with one source commenting that fixed differentials at Asian airports are eroding since the SARS outbreak. At the same time, the source said, fixed differentials at continental European airports are firming up, due to the dollar's roughly 25% decline against the Euro.

While major airlines are

(Continued on page 10)

World Jet Fuel Prices

Spot Cargoes

Trend ↗

Rotterdam			Mediterranean			Middle East			New York			US Gulf Coast		
6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30
244.4	244.8	233.9	237.6	238.1	227.6	26.65	27.67	28.11	77.05	76.68	75.11	75.14	73.93	71.47
Chicago			Los Angeles			Pacific NW			CIF Japan			Singapore		
6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30
78.76	80.49	77.81	75.00	72.70	70.20	75.90	73.55	70.70	30.05	30.12	29.64	28.25	28.98	28.09

Futures/Differentials

Trend ↗

IPE Gasoil*			NY Heating Oil			WTI Crude			Brent Crude			Rott Jet/IPE Gasoil		
6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30
225.4	220.1	219.5	74.75	79.00	75.60	30.65	31.28	29.10	27.02	28.55	26.10	19.0	24.7	11.40
NY Jet/Heating Oil			Gulf Jet/NY 2 Oil			Gulf/Los Angeles Jet								
6/13	6/6	5/30	6/13	6/6	5/30	6/13	6/6	5/30						
0.58	0.59	1.04	-1.46	-2.05	-2.04	0.14	1.23	1.27						

Key: U.S. weekly averages cents per gallon, WTI Crude, Asian jet in \$/barrel, Europe, Medd \$/Ton

Sources: Opus Jetfax, JFR

constricted by transfer prices, the executive noted that "regional players not bound by transfer prices and return goals of oil majors are more agile in catching up with market developments."

OPEC Decision to Ease Prices

Vienna... OPEC's June 11 decision to leave current levels of oil production unchanged at 25.4 million barrels a day will likely lead to a slight easing in jet fuel prices over the short-term. "The OPEC decision was directionally the right one for jet fuel prices," said **Richard Landers**, senior director of fuel purchasing for US

Airways. "I think OPEC's alternate scenario was to reduce output, which I think would have kept prices near the \$32 level."

OPEC's decision not to change production — coming only a month after the group indicated it was pondering an output cut — is believed to have been triggered by the delays in getting Iraqi oil production back online following the war. "If you look at the last five years, OPEC has done a good job of keeping prices within the ...band of \$25 to \$30," said **Bob Sturtz**, **United Airlines** director of petroleum administration. "They said at the (June

11) meeting they will look at this again in July and if they see Iraqi production ramping up, then I think they'll make an announcement of a million barrel cut."

Still there remains some optimism that the resumption of Iraqi oil could lead to crude oil prices closer to \$25 a barrel. "I think prices will drop somewhat when Iraq production resumes, although I expect prices to stay in the OPEC target range through the rest of the year," said Landers. "I am not surprised that Iraq will take so long, but I was hopeful for a quicker resumption." **JFR**

