

Platts Changed Price Reporting Methodology Riles Some Airlines

Platts's latest change in price reporting methodology has left some in the industry — particularly certain European airlines — looking for a viable alternative.

HIGHLIGHTS ✂

✂✂ **Platts Methodology Changes Rile Some Airlines**

(Page 1)

✂✂ **Environmental Issues Cause Finger-Pointing; Budget Strain**

(Page 1)

✂✂ **6th International Jet Fuel Conference Returns to Miami**

(Page 3)

✂✂ **News Briefs...**

Confidence Returning After SARS

Servisair/GlobeGround Reorganization

(Page 6)

✂✂ **World Jet Fuel Prices**

(Page 7)

Oil price reporting agency **Platts** has left itself vulnerable to competition with its latest change in price reporting methodology that has left some in the industry -- particularly certain European airlines -- looking for a viable alternative. The changes, instituted in April, include a market-on-close (MOC) methodology for European oil markets, as well as other, less controversial revisions.

Several European airlines have complained that the pricing window, which runs from 4:45 p.m. to 5:30 p.m. London time, cannot adequately reflect accurate pricing because of the low number of trades

conducted. While the oil market in Europe is very large, it is highly fragmented both in terms of specialized products and regional markets. Each segment is small and the level of liquidity is low. There is also a belief that many traders are manipulating pricing by making bids or trades deliberately designed to distort the index.

Deutsche Lufthansa AG has been one of the most outspoken of the European airlines against the methodology change. Among the many complaints the airline has about the Platts approach is that the MOC covers only a "snapshot" of

(Continued on page 2)

Environmental Remediation Issues Cause Finger-Pointing; Budget Strains

Virtually every airport at one time or another has had to deal with remediation of environmental contamination from the past, and many experience environmental "red flags" on a monthly or even weekly basis. The cleanup of the results of past practices is challenging, not only because of the staggering expense involved but also because there is often disagreement over who is responsible.

For current or recent problems, the situation is fairly straightforward. The party operating the system where a problem occurs -- the fixed based operator responsible for fuel farm

maintenance and operation, for example, or the airline in its proprietary maintenance hanger -- is responsible for cleanup of any environmental contamination on the site. So a jet fuel spill is cleaned up by the party operating the fuel facilities.

But if, in the course of that cleanup, a larger area of past contamination is found, then controversy might erupt over who bears the responsibility for remediating the site. Industry executives say past problems are often found during the course of remedying a more recent

(Continued on page 4)

“MOC takes out liquidity in an already very illiquid market by shortening the trading time.”

the market rather than all the trades made throughout the day.

Katja Kleffmann of Deutsche Lufthansa says that makes the price quotation much easier to influence, because the last trade effectively establishes the quotation. "MOC takes out liquidity in an already very illiquid market by shortening the trading time," Kleffman says. "This improves the leverage effect of each trade done."

Price manipulation is also a key concern. **Jim Davies** of **British Airways**, notes that "airline concern, expressed through a recent IATA meeting, is whether there will be more upward manipulation by the major players. "Oil companies can put in high bids at 4:44 p.m. and it's difficult for bids to be hit by sellers," he says, adding "You could always move a market like this but now it appears cheaper to do it."

Another airline fuel executive notes that while Platts has recently become more accurate compared to the early days of the new reporting system, the problem lies in how to deal with trades conducted outside the MOC. "More and more companies and traders deliberately do business outside this window in order to obstruct the methodology," he notes.

Aside from the methodology change, several airline executives have complained that Platts, a division of the McGraw-Hill Companies, neglected to involve airlines and others in the decision-making process. "They didn't take the steps needed to keep their customers or the users of their service informed, and they're not willing to get an exchange of ideas or input," notes one U.S. airline executive.

"The market has come to know that it needs two reporting agencies rather than a monopoly," says Kleffmann. "Everybody is for correct pricing and assessments and wanted to help establish a non-manipulative quotation, but (Platts) just implemented their new idea and disregarded the market. That shocked the industry."

The Platts Case

Amidst the upheaval, Platts thus far is standing by its new approach, although company executives admit they could have done a better job communicating the new approach and its goals to customers.

"We've had many, many meetings with individual airlines and with the IATA lobby group to present the methodology and the reasons for the change," says **Jim Nicholson**, editorial vice president of Platts. "We'd become disturbed by some of the goings-on under the previous methodology, which we thought were leading to some distortions in the market."

"Needless to say not all the airlines were happy with the changes, particularly with the time stamp, which they felt was too late in the day for them to participate in the market," Nicholson continues. "We're continuing to consult with the industry on aspects of the methodology to try to make it work for them."

Nicholson was non-committal about whether talks with airline executives and others could possibly result in a significant departure from the new methodology. The company has, however, issued an "open invitation" to companies to offer feedback on a proposal to move the MOC time forward by up to an hour to better serve companies operating in continental Europe. Platts has also offered up for discussion a proposal to introduce formal "intra-day numbers" to provide an alternative for companies that need price benchmarks that reflect market activity throughout the trading day.

Nicholson stresses that conversations with airlines are continuing, and says the company is committed to working through the problems. "Some people have had some issues with technical implementation of the market-on-close methodology, and clearly we didn't do a good enough job in explaining what we were going to do to start with," he says. "We're going

(Continued on page 3)

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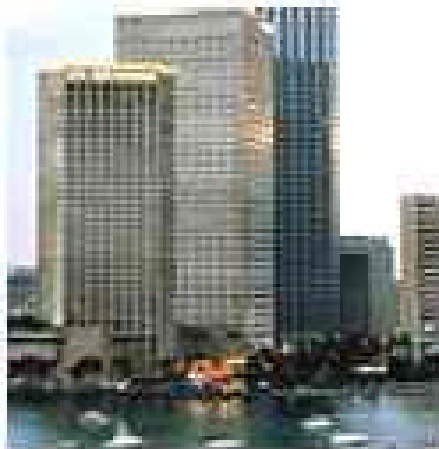
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Mark Your Calendars...

**6th
International Jet Fuel
Conference & Exhibition
Returns to Miami's
Inter-Continental Hotel**



Armbrust Aviation Group is pleased to announce that the **6th Annual International Jet Fuel Conference & Exhibition** is scheduled for March 7 -10, 2004 at Miami's Inter-Continental Hotel.

This will be the second time that the hotel, which overlooks Biscayne Bay, will host the conference.

AAG is currently working with key industry participants to identify topics and speakers to create an informative agenda. Early indications call for significant focus on the accuracy of current pricing models with plans to explore additional pricing options.

AAG plans to facilitate industry challenges regarding existing pricing models in open discussions and working groups. Check back regularly for information on topics and speakers.

We welcome suggestions regarding agenda topics and speakers.

Contact Barb Moreno, Conference Manager at 561.659.6818 ext. 104 or email: bmoreno@armbrustaviation.com

to resolve the problems – we've already made some modifications and we're going to make some more."

Platts refutes the contentions by some airlines that the change in methodology has increased volatility. "Liquidity in key markets has increased, volatility has reduced and prices for related products and crude are better aligned," Nicholson says. "All these factors have improved market transparency." The company argues that the key benefit of the change is the degree of precision that can be brought to bear using an MOC system. It contends that since energy markets generally are extremely volatile and assessments systems designed to capture "all-day" fail to fully reflect the evolution in prices over the course of the day, the result is assessments that inevitably lag movements in the market.

Other changes in methodology have met with less controversy. One change was that the window for delivery and loading used in assessments was extended to 2-15 days forward for barges and 10-25 days forward for cargoes. Platts says that before the change, it had become increasingly uncomfortable with distortions caused by prompt loading or delivery windows. One airline executive says he supports the change, noting there is "probably less manipulation" under the new system.

Platts also removed an "artificial" distinction between material originating from refineries and that from commercial storage, deciding instead to base assessments fully on specifications.

Viable Alternative?

While Platts scrambles to ensure that its customers accept the new methodology, other price reporting agencies see a crack in the armor of the venerable oil price benchmarking leader. The most high profile and potentially threatening to Platts's leadership position is **Argus Media Ltd.** Argus has thus far had only limited

experience in the jet fuel business, but the company sees an opportunity for expansion.

"We are in constant contact with jet fuel producers and know from our bilateral meetings that the new Platts methodology has created a serious situation in the jet market," notes **Peter Caddy**, development director for Argus Media. Caddy says Argus is working both with individual airlines and with the **International Air Transport Association** to promote its own service as a viable alternative.

"In the last few months Argus has held open forums on its European products reporting methodology in London, Rotterdam, Moscow and Riga," Caddy says, adding that "airlines are very welcome to attend these forums." Argus is also planning to launch a weekly report called the Argus Jet Fuel Buyers Report.

According to Caddy, the Argus approach is to look at trade throughout the day, so that any end-of-day distortion can be eliminated. "This makes airlines, and jet fuel suppliers, more confident that the prices published from the spot market are truly representative and reliable as fair market levels," says Caddy. The approach also allows each trade to be represented in the price index.

While Caddy speaks of the confidence that airlines can have in using the Argus methodology, some airline fuel executives express a lack of confidence that Argus is ready to step up and fill Platts's shoes.

"They have a rare opportunity to break into Platts's effective monopoly, but have been slow to respond," says Davies, who adds that much of the concern among airlines lies with doubt about the number, and experience, of Argus reporters.

Kleffmann notes that Argus has a "unique opportunity" to step in as a viable alternative to Platts. "One should not forget that the long-term contracts many companies have in place have been negotiated on the assumption that the quotation used

(Continued on page 4)

reflects the daily average of the market trades," Kleffman says, adding that "the market is very keen to help Argus now and to educate their reporters by giving good market information and backgrounds."

With Argus in a prime position, Platts will have to work hard to prove its mettle. According to Nicholson, Platts's 75-year track record as price reporting leader is not about to be jeopardized.

"We don't upset our customers deliberately, and we're committed to work with them to resolve the issues and give them the

consistent, reliable and accurate price benchmarks that they want," he says. "What does the airline want? What does the oil company want? At the end of the day they want an accurate price, something that is arrived at transparently, and they want to know that the organization providing it has 100% integrity. Platts is able to provide that." **JFR**

Environmental Issues Cause Finger-Pointing; Budget Strain
(Continued From Page One)

contamination, or more likely, during capital improvement projects. In those cases, finding the culprit can be daunting, and sometimes highly inflammatory.

"Say you have a project that the airport initiates, such as a storm sewer project," says **Grant Smith**, director-environmental programs, aviation services group at **Burns & McDonnell Engineering Co.** "The contractor runs into contamination, and then there is a mad scramble to try to associate who is responsible and who is going to pay. In my experience it happens quite a bit."

Other industry executives agree. One fixed-base operator says that "there is a lot of finger pointing going on because it's sometimes hard to place the blame, and nobody wants to take responsibility," and one environmental consultant says that "if airports can assign blame they definitely do, because if they can't it basically becomes the airport's problem."

Airport Protections

Because of this, airports in recent years have become more proactive in anticipating their own liability, and also in attempting to shift some responsibility to their tenants. **Tim Gwynette**, manager of environmental programs for the **Salt Lake City Department of Airports**, says that in most cases the airport can pinpoint the party

responsible for environmental contamination, but for some there is no obvious entity to blame.

"I typically build into my budget on an annual basis money for remediation projects," Gwynette says. "This is primarily for things that we find where we cannot go back to the source. This happens occasionally. But in most cases we are able to go back to the tenant and hold them responsible for it, simply because they had leased the area."

Gwynette says that at Salt Lake City, the airport has begun trying to anticipate problems and working those scenarios into construction contracts. "We're having contingencies put into budgets for projects where we suspect there may be contamination at the site, so that we are prepared," he says, adding that notice of potential contamination and the requirements for addressing it can be put into construction contracts. "If they know it ahead of time and we know it ahead of time we can control the cost a lot better,"

Airports may also try to shift responsibility away from themselves and onto a new tenant, particularly if they don't know if a site is contaminated or not. At Minneapolis-St. Paul, for example, the airport authority uses lease language to try to protect itself. "What we try to do as the airport authority is put environmental

(Continued on page 5)

The Port Authority of New York and New Jersey has had some success in transferring responsibility for environmental cleanup to third parties.

indemnification language into our leases, because we as the underlying land owner often are the party who ends up with responsibility for something, or perhaps joint responsibility with other parties," notes **Betsy Hoium**, attorney for the **Metropolitan Airports Commission**. "Lease language is our best protection in terms of being able to shift the responsibility to another party, especially if that party is an airline or an into-plane fueler or car rental company who is actually doing fueling on the premises."

Hoium adds, however, that many tenants balk at such leases. "If a party is hesitant to take a lease because of potential past environmental issues, we'll do some kind of environmental baseline study and both parties will agree to the condition at the time of the lease," she says. "Any new discovery would likely fall on the tenant."

The Port Authority of New York and New Jersey (PANYNJ) has had some success in transferring responsibility for environmental cleanup to third parties. An authority spokesperson notes that "in cases where remediation is needed, such as sub-surface contamination dating back to the fuel handling practices of the 1950s and 1960s, we seem to have those costs absorbed by tenants or developers," he says. "There are two recent examples of that at JFK (John F. Kennedy International Airport), in the rebuilt Terminal 1 and the new Terminal 4."

PANYNJ is currently facing a similar challenge with Terminal 5 at JFK, the former TWA terminal. When American Airlines acquired certain assets of TWA, it declined to purchase the contaminated site. "The status of recovering costs from remediating the Terminal 5 site, the former TWA terminal, is presently undetermined," the spokesperson says.

Airline Distress

That situation, and similar situations where now-defunct airlines left behind considerable problems for airports or others to

deal with, are particularly telling in light of the severe financial distress faced by many of the nation's leading airlines. Eastern Airlines, Pan Am and TWA all reportedly left behind contaminated facilities, and since those companies no longer exist, airports have little recourse.

While several airports nationwide are currently dealing with those problems -- JFK and Miami International Airport, where Pan Am reportedly left significant contamination, are two good examples -- environmental consultants raise the specter of a similar situation if one or more U.S. carriers is liquidated.

"Costs are going to shift to the airport when companies go bankrupt and cease operations," notes one environmental consultant who has worked with several airports on remediation issues. "Other companies that take them over of course are going to buy the assets that are generating revenue, and they're not going to buy the assets that are going to cost them money, like contaminated maintenance facilities."

One consultant also expressed concern that with the increased financial pressure airlines face, many capital projects have been suspended, and with them the environmental remediation programs that would naturally accompany any major project. And Grant notes that "airlines are trying to get their financial footing so proactive efforts aren't really happening."

But that doesn't necessarily translate into any sort of environmental problem, it just may mean past contamination isn't discovered and addressed as quickly as it might have been had capital plans gone forward. In fact, the operator source notes that the capital projects delays have hindered expansion, but it doesn't mean that maintenance is being ignored. He characterizes it as "making do, but not negligence."

And one airline source notes that particularly in this difficult financial environment for airlines,

(Continued on page 6)

"I think the chances of liquidation for any large carrier are slim because once a carrier goes into bankruptcy, a host of changes take place insofar as the cost structure is concerned, and therefore it is more competitive."

In most cases airports, airlines or operators are expected to foot the bill for any environmental cleanup they undertake.

there is an onus on them to make their facilities as fool-proof as possible. "In all petroleum management, state of the art (facilities) and pipelines have become better, and operation and maintenance practices have changed and become better," the source says. "Fuel is the second most expensive cost element behind labor for the airlines, so we have extremely high incentives not to spill. We have done a lot to invest in management protocols and construction protocols to improve our overall management."

Funding Sources

No matter how much airlines and fixed based operators invest in maintenance and capital improvements to their systems, there are still going to be occasional environmental hazards that need to be addressed. The same is true in discovery of past problems. Under both federal and state law, if an environmental hazard is discovered it must be addressed. That's not to say that cleanup is mandatory -- in some cases contamination can be left as-is if it poses no threat to groundwater or the surrounding community -- but action must be taken to assess the problem.

According to the airline source, the party who discovers the problem would typically start the process of investigation and engage in appropriate cleanup, while at the same time try to sort out who is to blame and, if it is someone else, seek to recover their costs from that party.

One environmental consultant suggests that all parties -- airports, airlines and fixed-base operators -- may not always fully forthcoming. "A lot of these cleanups are done under the big stick of local enforcement," he says. "A lot of (companies) do just enough to stay within compliance of the guidelines. If they find something they may not be completely forthcoming with saying what they have, or they'll let the EPA or local enforcement agency dictate how quickly it gets cleaned up. A lot of them bide time because it gets expensive."

Generally, there are few avenues for funding. In most cases airports, airlines or operators are expected to foot the bill for any environmental cleanup they undertake. Hoium notes that for airports, for example, "for the most part it has to be worked into your budget, because airports are seen as having deep pockets."

Depending on the situation, federal Superfund money is available for certain types of cleanup, particularly solvents used in airline maintenance, sources say, although petroleum contamination is not covered by the fund. There are also various state funding programs. Gwynette, for example, point to the Underground Storage Tank Fund, which is mandated by the federal government but administered by the states and addresses problems caused by leaks in those facilities. Individual state may also have other funding sources.

However, industry sources agree that the lion's share of the cleanup is generally funded by the entity that caused the problem. "It depends on the jurisdiction, but there are some state funding programs, depending on the type of release," notes one consultant. "It may just be a supplement -- it's unlikely that it would cover everything. They may have a preferred remediation method or a preferred disposal method, and that may create an additional burden on the airport, so the state may cover some of that."

One positive note is that the remediation efforts of today and the past decade will likely subside in the future, as much of the contamination from the 1960s and 1970s is addressed. New problems aren't being created at near the same pace, due to far higher standards for containment and cleanup and far more diligent oversight efforts. So while environmental issues will always come part and parcel with airports and their tenants, continued vigilance will likely result in fewer problems -- and lower capital outlay -- in years to come. **JFR**

One positive note is that the remediation efforts of today and the past decade will likely subside in the future, as much of the contamination from the 1960s and 1970s is addressed.

World Jet Fuel Prices

Spot Cargoes

Trend 

Rotterdam			Mediterranean			Middle East			New York			US Gulf Coast		
7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27
255.6	251.3	244.7	248.9	244.6	238.8	27.9	28.0	27.8	80.16	79.11	76.92	77.55	76.39	74.16
Chicago			Los Angeles			Pacific NW			CIF Japan			Singapore		
7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27
82.09	81.65	79.34	82.25	79.70	76.05	83.50	80.70	77.15	29.8	29.7	29.1	28.6	28.6	28.2

Futures/Differentials

Trend 

IPE Gasoil*			NY Heating Oil			WTI Crude			Brent Crude			Rott Jet/IPE Gasoil		
7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27
246.5	231.5	229.5	81.85	78.75	76.75	31.28	30.13	29.01	29.19	27.63	27.04	9.10	19.80	15.20
NY Jet/Heating Oil			Gulf Jet/NY 2 Oil			Gulf/Los Angeles Jet								
7/11	7/4	6/27	7/11	7/4	6/27	7/11	7/4	6/27						
1.62	1.31	1.73	-1.00	-1.38	-1.05	-4.70	-3.31	-5.18						

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

Sources: Opus Jetfax, JFR

News Briefs

Confidence Returning After SARS

Global... The World Health Organization declared in early July that the SARS virus has been contained in all affected countries, prompting beleaguered airlines to announce reinstatement of previously canceled flights and to express confidence of a steady return to normalcy.

At Hong Kong's Chek Lap Kok Airport, for example, June passenger traffic was up by 15% compared to May, although it was still nearly 60% below traffic of the previous June. Airlines throughout Asia announced restoration of services, such as China Airlines' reinstatement of full services to Hong

Kong and Cathay Pacific's declaration that its schedule will be at around 90% by September.

The bounce back should result in increased jet fuel demand from leading carriers. Excess airport capacity is also expected to ease. For example, **Duetsche Lufthansa's** expanded Munich hub got off to an inauspicious start given the SARS crisis and the Iraq war. However, **Helmut Fredrich**, general manager, corporate fuel management for the airline, says fuel demand for 2003 will be roughly the same as 2002, adding that "for next year we are optimistic that the hub in MUC will grow substantially."

Servisair/GlobeGround Reorganization

Great Neck, NY... the newly formed **Servisair/GlobeGround** has reorganized its management structure. Heading up the Americas division will be **Fernando (Fred) DiBenedetto**, who will serve as chief operating officer. DiBenedetto has been with the company for 33 years and will be based in Great Neck, New York. Also, **Richard van Bruygom** was named chief operating officer for Europe and the Rest of World. Van Bruygom spent 17 years at Federal Express. He will be based in Manchester, England.

