

## Fuel Managers Protest Shut Down of Trade Forum

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**F**uel managers are hoping pressure from airline CEO's and letters of protest sent last week to **International Air Transport Association's (IATA)** director general **Giovanni Bisignani** will force a reversal of the decision to effectively end the **Fuel Trade Forum** as a formal body.

The airline fuel managers hope the issue will be a topic of discussion at the upcoming World Air Transport Summit and IATA's 61st Annual General Meeting in Tokyo, May 30 - 31, 2005.

Fuel managers are vehemently opposed to proposed changes by IATA to the

organization's Fuel Trade Forum. In their biannual meeting held May 12th in Cape Town, South Africa, **Jeff Poole**, director, Industry Charges and Taxation briefed airline fuel managers on the new changes that include splitting the commercial and technical fuels groups as well as regionalizing most of their activities. Under the plan, technical functions, known formally as the **Aviation Fuel Working Group (AFWG)** will come under the purview of **Juergen Haacker**, director, Safety, Operations and Infrastructure division while the commercial aspect will come under

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## Canadian Supply Shortage Continues - Refinery Cuts, Other Distillate Demand

**P**roblems with obtaining reasonably priced jet fuel in Canada are continuing, executives say, as supplies remain tight and refiners continue to shift their focus to other distillate products. The supply situation is most severe in Toronto and Montreal. Airlines are increasingly having to rely on imports to fill their needs, and are paying higher prices overall due to supply constraints.

But while supplies may be tight, **Gordon Greene** of **Air Transat** stresses that product is available at a price. "There is no panic, there is product but we're going to pay more for it," he says. "Basically it is just a supply-demand

equation that is out there."

"If you pay a higher price you get the product, if you don't (oil companies) will switch to other commodities," Greene continues. "When they can get cracks that are greater on other products, that's what is going to happen."

In a comment to the International Air Transport Association (IATA), **Air Canada's Geoffrey Arscott** echoed Greene's comments: "Both Montreal and Toronto are short products in general maintaining extreme pressure on Jet, as long as refiners can get the type of cracks on other products. Jet will

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**“Speaking for the intensity of the opposition, one airline fuel manager put it this way, “jet fuel is not a user charge, if they don’t get that, it’s hopeless.”**

Jeff Poole, User Charges and Taxes.

Most airline fuel managers were angry that IATA failed to consult members about the plan. According to the airlines, efforts to split commercial and technical functions would destroy continuity that has led to significant savings for the industry.

According to sources, IATA senior officials are under enormous pressure from airline CEO’s to streamline operations and cut costs. Since his arrival, Bisignani has actively pursued reorganization which has led to significant turnover. One IATA source tells AAG that morale in the organization is very low and, as a result, almost 50% of the approximately 1,500 IATA working members have either left or been replaced over the past two years. Observers close to the situation say the decision to close the Fuel Trade Forum lead to the resignation of Bryan Terry, director fuel services, IATA.

**High Jet Fuel Prices Blamed for Industry Problems**

Some believe that the IATA reorganization will leave the group without an effective means to address rising fuel costs. This in spite of the fact that airline CEO’s routinely blame high fuel prices for the record run of losses. In his opening remarks to the annual meeting in Tokyo, Bisignani underscored the industry problems related to rising fuel costs. "The crisis in our industry continues. Urgent action and change are needed," Bisignani said. He said airline fuel costs will likely jump to \$83 billion this year, 30 percent more than the \$63 billion paid last year. In addition, Bisignani believes global airline losses could top \$6 billion in 2005 putting total losses above \$40 billion for the industry since 2001.

Yet some airlines are puzzled that IATA would take steps to minimize the work of the Fuel Trade Forum at this critical time for the industry. “If we can’t convince the powers that be now about the importance of maintaining an active fuel group, I’m not sure we are ever going to get them to understand,” offered one airline fuel manager. For

some the problems stem from a lack of understanding about jet fuel markets. “Most CEO’s are convinced that short of hedging there is little to be done about high fuel prices. They understand the importance of keeping a dialogue going on technical issues but they really believe the effort on the commercial side is a waste of time,” said another fuel manager.

**Commercial Group of Fuel Trade Forum in Jeopardy**

Some airline fuel managers doubt that IATA has a real understanding of the role that the Fuel Trade Forum has played in helping the industry reduce costs. If current restructuring plans continue, IATA will abandon the Fuel Trade Forum (FTF) and shift focus to the Aviation Fuel Working Group (AFWG) leaving the future of the commercial aspect of FTF in serious doubt. According to some sources the split between the commercial and technical groups may be only a disguise to jettison the commercial group altogether.

At one time senior IATA management had decided to scrap the entire fuel section but in meetings late last year with AFWG representatives, IATA seemed convinced of the value of keeping at least the technical group (AFWG), sources tell AAG. It appears that IATA managers have little regard for the efforts of the commercial group and believe its activities are better represented under the User Charges and Taxation section. Speaking for the intensity of the opposition, one airline fuel manager put it this way, “jet fuel is not a user charge, if they don’t get that, it’s hopeless.” Furthermore, IATA does not believe that the revenues generated by the FTF are at stake as long as the AFWG is maintained.

Presently, IATA receives over \$1 million in annual revenue through its Registered Supplier Program (RSP) whose members include oil companies, financial concerns and aviation equipment manufactures. While some RSP members value the commercial aspects of the Fuel Trade Forum, in recent years the work of the AFWG has taken on added importance for RSP

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**Armbrust Aviation Group, Inc.**  
 8895 N. Military Trail, Suite 201E  
 Palm Beach Gardens, FL 33410  
 Telephone: 561-355-8488  
 Fax: 561-355-8188  
 Website:  
 www.armbrustaviation.com  
 E-mail:  
 info@armbrustaviation.com

**John H. Armbrust**  
*Publisher*  
**Carol Ward**  
*Managing Editor*  
**David Ward**  
*Online Director*  
**Roger Schinkler**  
*Creative Director*  
**Barbara Moreno**  
*Circulation Manager*  
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**“Even if they keep the FTF, unless we get control of the revenue and how it is spent this issue will keep coming back until the whole thing falls apart,” added another RSP member.**

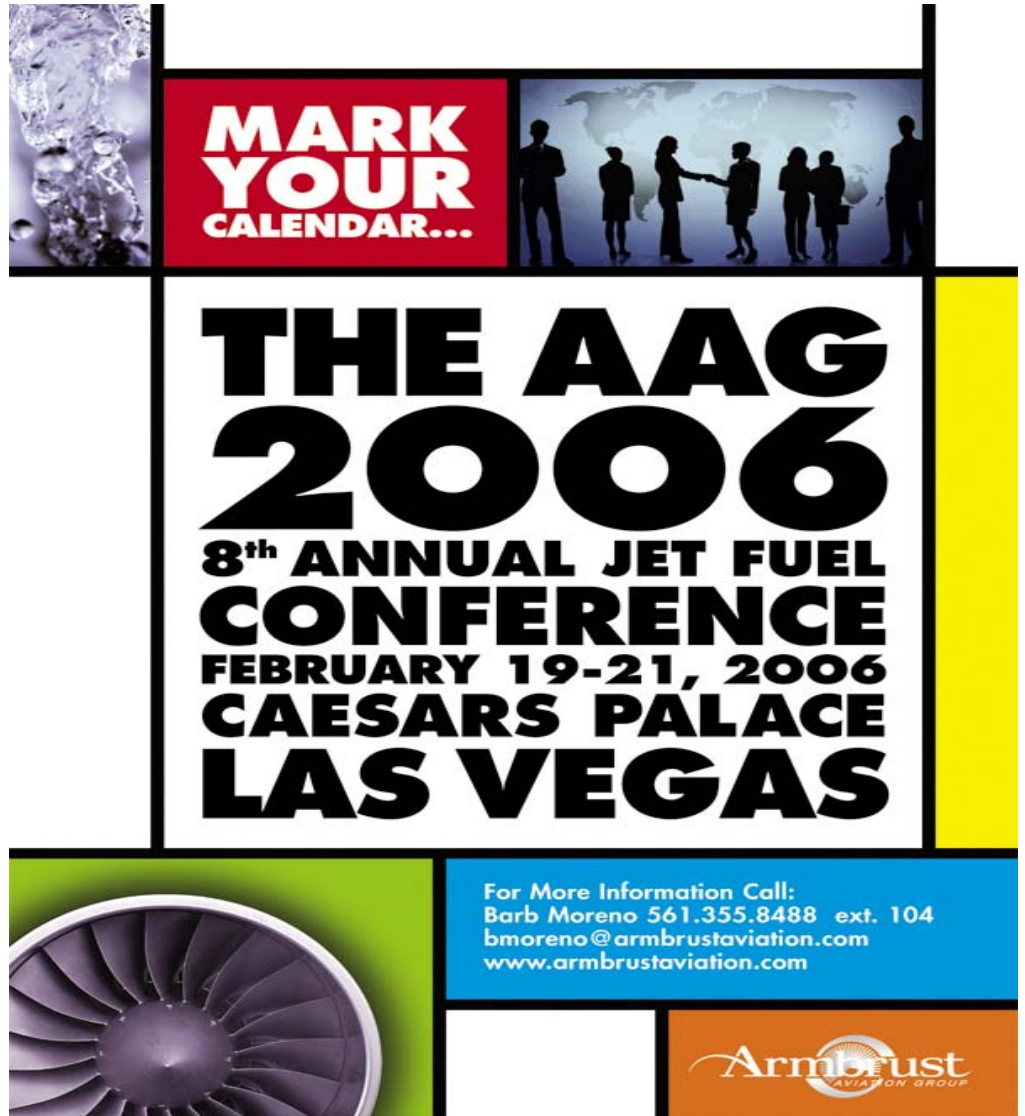
members. "The real value for us is the work that the AFWG is doing. But we are concerned about funding this operation and yet we can't even get money to pay for worthwhile projects," said one RSP member. While annual revenues from the RSP greatly exceed the current FTF budget, airlines and suppliers have had technical project requests turned down. One source tells AAG that a recent request for a technical project that would have cost \$30,000 was rejected by IATA officials. "With more than a million dollars in revenue it is ridiculous that IATA would turn down requests for technical projects when the money is there and it helps the industry," said a member.

**Suppliers Take Sides**

For the most part, RSP members are confused about the latest

direction taken by IATA but support the efforts of fuel managers protesting the reorganization plans. For some time, a few RSP members have openly complained about how much money is raised by the RSP membership and how much is actually spent on fuel issues. "It seems we pay twice - once to meet with the airlines twice a year and again to internally fund programs to deal with technical problems that must be addressed by the industry," said one RSP member. "My problem with the program is the airlines want us involved and to pay the annual membership but they have no control over how the money is spent. Even if they keep the FTF, unless we get control of the revenue and how it is spent this issue will keep coming back until the whole thing falls apart," added another RSP member.

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“I see the AFWG continuing because its work is too important. It used to meet on its own anyway and probably will continue to meet whether it has IATA backing or not. As far as the commercial side, who knows?”



While there remains a chance that the airlines can reach a compromise with IATA executives, several members told AAG that it is clear that FTF holds little influence in the organization and they are beginning to doubt its long term survivability.

Nevertheless, many airline fuel managers hope to persuade their CEO's to raise the issue at the group's annual meeting in hopes of reversing the decision. If that fails, the airlines will likely decide the next steps. One

airline technical manager spoke for many, "I see the AFWG continuing because its work is too important. It used to meet on its own anyway and probably will continue to meet whether it has IATA backing or not. As far as the commercial side, who knows?" **JFR**



**Canadian Jet Fuel Supply Shortage Continues**

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remain in short supply unless buyers are prepared to pay for it. This market is driven by price!"

The difficulties in Canada first came to a head last summer, when several airlines had trouble renewing contracts with local refineries. Not only have priorities at many refineries shifted, but supply has also been eliminated from the system.

**Petro-Canada Steps Out**

The key reason for the jet fuel supply constraints is that **Petro-Canada** recently closed its Oakfield refinery, near **Toronto Pearson International Airport**, and discontinued selling jet fuel out of its Montreal refinery.

"We just shut down the final unit last month (in Oakfield) but we stopped selling jet fuel as of Q4 of last year," says **Jon Hamilton**, senior communications advisor for Petro-Canada. "In Montreal we boosted production but exited the jet fuel business."

"The jet fuel market in Eastern Canada is very competitive," Hamilton continues. "There is a supply-demand imbalance so usually you have low margins and unattractive returns. Jet fuel for us was a specialty product. It helped to balance production in our refineries but given that we no longer have a refinery in the Toronto area we'll be using the remaining capacity (in Montreal) for higher return products." Hamilton says the supplier was a "relatively small player" in the jet fuel business, supplying about 5%

of the needs of carriers at Toronto Pearson International.

Airline fuel executives have known for more than year of the pending drop-off in supplies, yet have been stymied as to how to best deal with the problem. There is an increasing reliance on imports, but that is complicated by the fact that supply options are seasonal due to weather concerns. "The Toronto problem is aggravated by the fact that in the summer you can get product in by water, but in the winter the St. Lawrence Seaway freezes," notes one industry consultant.

**Biting The Hand**

Another problem, the consultant notes, is that airlines are demanding prices that suppliers just aren't willing to give, especially given the demand for other distillates with higher margins. The industry consultant notes that the problem exists on a much broader scale, including not only Canada but also the United States and Europe.

"Suppliers can sell other middle distillates to other consumers in other markets," he notes. "If those alternative markets are more profitable than selling to airlines, the problem will be that you will get people withdrawing from the market, like Petro-Canada, or they'll decide not to make it in their refineries and thus make the business stream hostage to imports."

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**"Some people will go out and order double the volume (they need), then never take it, and of course the oil companies get mad."**





**BP Products has agreed with the three contractors whose workers were killed to assume responsibility for compensating their injured employees and the families of the deceased.**

deeply disturbing. The result was an extraordinary tragedy we didn't foresee," said **Ross Pillari**, president of **BP Products North America, Inc.** "We regret that our mistakes have caused so much suffering. We apologize to those who were harmed and to the Texas City community. We cannot change the past or repair all the damage this incident has done. We can assure that those who were injured and the families of those who died receive financial support and compensation. Our goal is to provide fair compensation without the need for lawsuits or lengthy court proceedings."

BP Products has started contacting the families of the deceased, through their attorneys, in order to begin the process of evaluating and settling claims. To expedite and simplify that process, BP Products has agreed with the three contractors whose workers were killed to assume responsibility for compensating their injured employees and the families of the deceased.

BP's incident investigation was conducted by a team of BP executives, BP refining and safety experts and salaried and union employees of the Texas City refinery. The team was directed to determine the cause of the March 23 explosion and make recommendations for preventing similar incidents in the future. It decided to publish an interim report because the fluid sample analysis and computer modeling that remains to be done is not expected to change the root causes or the recommendations made public today.

"We have accepted the report and its findings and we will implement the team's recommendations," Pillari said. "Some will take time to complete. However, refinery management did not wait for this report to take action. They have clarified and reinforced roles, responsibilities and expectations around startup, operating and evacuation procedures. They have prohibited the occupancy of trailers within 500 feet of blow down stacks and flares and non-essential personnel are being moved out of process areas."

As recommended in the report, the company will commission a third party led facility study to make

recommendations for the safe placement of temporary structures.

"Our goal is to eliminate or greatly reduce the need for temporary buildings at the refinery by limiting the workforce in process areas to operators and people involved in hands-on maintenance," Pillari said. "We are assessing space needs for workers whose jobs require them to be located at the refinery. We are also looking at options for securing leased space in the community for workers whose duties can be performed away from the refinery."

BP will modify or replace all blow down systems which handle heavier-than-air hydrocarbon vapor or light hydrocarbon liquids (gasoline and lighter). In the meantime the company has instituted additional operating requirements to ensure those systems are safely operated until they can be modified or replaced.

"We will move expeditiously to modify these units," Pillari said. "Before work can begin we must complete engineering design and obtain permits and materials. Work will be completed as soon as possible."

To drive implementation of the recommendations in the investigation report, the company has appointed Colin Maclean manager of the Texas City site. He has previously managed BP refineries in Whiting, Indiana; Grangemouth, Scotland; and Bulwer Island in Australia. To provide assurance about processes and procedures at the refinery, BP is conducting a process and operational review of the facility. The review will address all aspects of Texas City operations from procedures and training to process safety and maintenance. The review, which began May 9, is being led by former Deputy Assistant Secretary for OSHA James W. Stanley. BP expects a preliminary view within a month.

In response to the report, BP Products has taken disciplinary action against both supervisory and hourly employees directly responsible for operation of the Isomerization Unit March 22 and 23. These actions range from warnings to termination of

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**In response to the report, BP Products has taken disciplinary action against both supervisory and hourly employees directly responsible.**





# World Jet Fuel Prices

## Spot Cargoes

**Trend** 

Rotterdam			Mediterranean			Middle East			New York			US Gulf Coast		
5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13
497.9	483.2	512.3	489.6	477.3	505.9	60.8	60.5	62.9	144.7	142.8	148.0	142.4	141.2	147.2
Chicago			Los Angeles			Pacific NW			CIF Japan			Singapore		
5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13
146.5	145.6	150.6	153.9	153.4	157.1	154.1	153.7	157.4	63.4	62.5	64.3	61.8	61.0	63.1

## Futures/Differentials

**Trend** 

IPE Gasoil*			NY Heating Oil			WTI Crude			Brent Crude			Rott Jet/IPE Gasoil		
5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13
455.8	442.5	436.7	149.6	144.6	146.5	50.9	46.8	48.7	50.7	48.5	48.5	42.1	40.7	75.6
NY Jet/Heating Oil			Gulf Jet/NY 2 Oil			Gulf/Los Angeles Jet								
5/27	5/20	5/13	5/27	5/20	5/13	5/27	5/20	5/13						
7.13	6.52	7.75	4.33	5.05	7.15	-11.6	-12.2	-9.9						

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

Sources: Opus Jetfax, JFR

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Since jet fuel has a high sulfur content, Baker said the policy will likely be to separate batches of jet fuel and ULSD by running another product in between in the pipeline.

### FSM Management Taps Air Canada's Fee

Toronto ... F S M Management, a division of Vancouver-based PLH Aviation, has

tapped longtime Air Canada fuel executive **James Fee** as vice president and general manager. Fee's contract at Air Canada officially ends July 1, but he has been working at FSM since late March. The company recently took over management of fuel consortiums at eight locations in Canada. Fee said duties at FSM are similar to his role at Air Canada and include liaising with operators, serving as project manager, dealing with banking issues and

others. "The nice change is that we have some support staff," he said, noting that support staff at Air Canada had dropped from four to one. **JFR**

