THE Armbrust AVIATION GROUP Jet Fuel Report

Volume XII ✈ Issue 2 February 2006

Special Conference Issue

In additional to picking up the worldwide Award, Air BP also took top honors in the Africa/Middle East and European regions.

HIGHLIGHTS

Annual Survey…

Air BP And Q8 Aviation Judged Best Marketers In Survey Of World Airlines

Air BP was voted the overall number one International Jet Fuel Marketer in the tenth annual Armbrust Survey, narrowly edging out last year's winner, **Shell Aviation,** in second place. Air BP's CEO, **Dev Sanyal**, was delighted with the news, saying "my team prides itself on customer focus and commitment, and will continue to work hard to develop a range of offers, identifying opportunities for mutual advantage."

In addition to picking up the worldwide Award, Air BP also took top honors in the Africa/Middle East and European regions. Other winners around the world were **Shell Aviation** in Asia-Pacific, **ExxonMobil Aviation** in Latin America, and **Chevron** in North America.

Regional Marketers

The star performer among the regional marketers was **Q8 Aviation**, who not only picked up the top spot overall, but was also judged number one in Africa/Middle East and European regions. **Nick Nigel,** global sales manager, reflected that "2005 was a year of challenges for the jet fuel markets. It gives us a huge sense of pride that our customers have voted so positively on our performance and I look forward to receiving the award on behalf of Q8 Aviation in Las Vegas. We will continue to ensure we bring value and service to our customers in 2006".

In the other regions around the world, **Petronas** came first in Asia-Pacific, **RepsolYPF** in Latin America, and **World Fuel Services** in North America.

Airline Views, General Concerns

Overall, the responses from the airlines showed a very worrying trend, with more than 70% believing

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Best International Jet Fuel Marketers

	1st	*2nd*	*3rd*
Overall	Air BP	Shell	ExxonMobil
Africa/Middle East	Air BP	Air Total	Shell
Asia/Pacific	Shell	Air BP	Chevron
Europe	Air BP	ExxonMobil	Shell
Latin America	ExxonMobil	Air BP	Chevron
North America	Chevron	Air BP	Shell

Best Regional Jet Fuel Marketers

	1st	2nd	3rd
Overall	Q8 Aviation	Statoil	ConocoPhillips
Africa/Middle East	Q8 Aviation	Engen	ADNOC
Asia/Pacific	Petronas	PTT	Cosmo & Idemitsu
Europe	Q8 Aviation	Statoil	OMV
Latin America	Repsol YPF	Petrobras	ASA
North America	World Fuels	ConocoPhillips	CITGO

"In our estimation, no one has distinguished themselves enough to earn the title of Best Marketer this year."

that the marketers have been exploiting current market and supply conditions to improve margins and increase the prices of jet fuel. One major international airline went as far as to say "In our estimation, no one has distinguished themselves enough to earn the title of Best Marketer this year. It rings hollow, to the point of meaninglessness!"

To compound this …

- 75% of airlines believe there is now less competition in the marketplace.
- Less than a third of marketers are helping their customers tackle their high fuel costs.
- Over 90% of airlines believe refinery and logistics are limiting jet fuel supply – "as evidenced by myriad of shortages."

And, while the vast majority of airlines have applied fuel surcharges in the past year, these "have been nowhere near enough to cover the extra costs."

One airline fuel manager spoke for many commenting "They (the oil companies) have a major public relations problem in dealing with their airline customers. The oil industry is making enormous profits, but the airlines are collectively losing a fortune, face record high prices, and are experiencing product shortages. Something has to give!"

So what is driving price? While airlines had a general view that oil companies have been exploiting their positions in the past year, it was recognized that the key driver for the high jet fuel prices has been the impact

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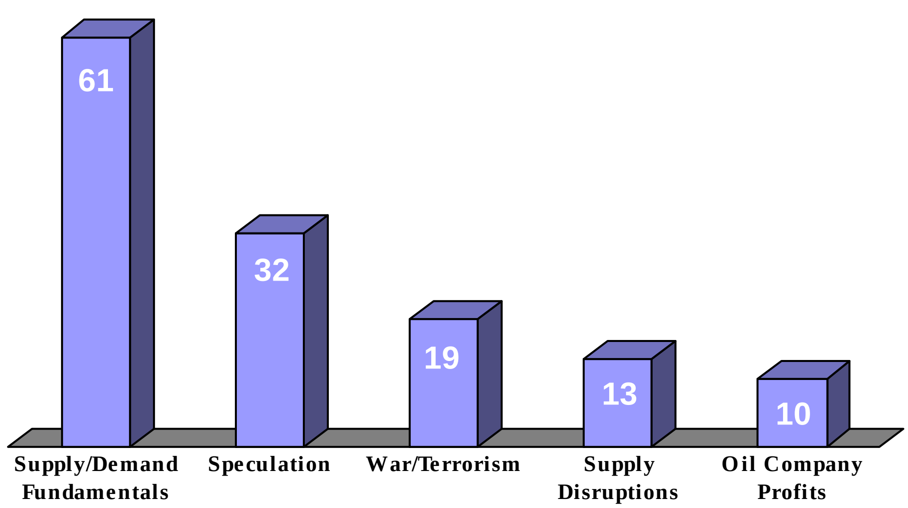
Key Factors Driving Jet Fuel Prices According to Airlines by Percentage



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While airlines had a general view that oil companies have been exploiting their positions in the past year, it was recognized that the key driver for the high jet fuel prices has been the impact of "supply/ demand fundamentals."

of "demand/supply fundamentals", with over 60% of respondents citing this cause, followed by other factors (*see graph, page 2*).

Marketers Individual Traits

Airlines were asked to rank the five international marketers (Air BP, Air Total, Chevron Aviation, ExxonMobil Aviation and Shell Aviation) across a range of twenty customer service categories. Air BP (12 firsts) and Shell (7 firsts) in nineteen of the categories, with ExxonMobil breaking this stranglehold through their performance in invoicing. However, in many of these, the scoring was quite close – although Air BP had a commanding position in its environmental rating, reflecting its strong corporate "beyond petroleum" image.

For the regional marketers, Q8 Aviation swept the board, taking the top spot in all eight categories questioned. However, ConocoPhillips, OMV, RepsolYPF, and Statoil also featured strongly in airline responses which produced a large number of individual nominations for companies around the world.

Internationals Vs. Regionals – Who's Best?

Around 80% of the airlines responding indicated they would be seeking to increase volumes with the Regional marketers, in preference to the big five Internationals. Over a third believed that the Regionals were treating the airlines more fairly in the current difficult market circumstances, and wanted to reduce dependence on the Internationals. Additionally, with some of the "majors" withdrawing from certain markets/locations, the Regionals were seen as essential replacements.

Other key benefits of dealing with the Regionals cited by the airlines were:

- Local market knowledge and intelligence
- Price competitiveness
- Responsiveness

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Gearing Up For The AAG Conference...

As this issue of **JFR** goes to press, the Armbrust Aviation team is busily putting the final touches on the program and arrangements for the ***8th Jet Fuel Marketing and Airport Operations Conference & Exhibition*** in Las Vegas next week. Well over 600 delegates from the world's airlines, suppliers and airports will be converging on the city for this and the parallel Airport Revenue Conference (ARN).

Congratulations go to the winners of the Annual Armbrust Awards which will be presented in Las Vegas. The detailed Survey results will certainly give delegates food for thought, and provide a general backdrop to any debate. There is a clear message from the airline community that they believe the oil companies have been exploiting market conditions, and failing to deliver adequate and robust supply of jet fuel to meet their needs. But equally, jet marketers view the constant and priority short-term focus on price by airline fuel buyers as a fundamental obstacle to longer term relationships and business continuity. These differences will have to be reconciled somehow through discussion, understanding and, ultimately, compromise.

The meeting takes place against a backdrop of continued high oil market commodity levels and jet fuel prices, and supply concerns around the world, reflected in the final agenda. While not all airlines are totally happy with the "agreement" brokered by IATA to revise allocations at London Heathrow, hopefully it will now allow attention to be focussed on solving the real supply and logistics problems for the world's busiest international airport. And changes to the Platts assessment methodology in Europe will come under the microscope. All too few airlines really understand how such adjustments can and do impact on the underlying jet quotations to their contracts; negotiations to shave fractions of a cent off differentials can become almost insignificant if assessed commodity levels "artificially" move by far more!

Finally, this issue welcomes contributions from ***Olle Bjork*** of **SAS**, who provides an insight into STAR as Chair of their Fuel Group, and ***Eva Maschler*** of **Austrian Airlines** on changes at Vienna Airport which may well pave the way for new fuel arrangements at airports around the world.

Keith Carter
Managing Director, International
Armbrust Aviation Group

International Marketers' Services Categories

	1st	2nd	3rd
Manages Supply Disruption	Shell	BP	ExxonMobil
Manages Quality	Shell	BP	Chevron
Fair and Reasonable in Negotiations	Shell	BP	Chevron
Contract Management	Shell	BP	Chevron
Communications	BP	Shell	ExxonMobil
Seamless Global Service	BP	Shell	ExxonMobil
Best Customer Service	BP	Shell	ExxonMobil
Best Invoicing	ExxonMobil	Shell	BP
Innovative Pricing	BP	Shell	ExxonMobil
Flexible Credit	BP	Shell	ExxonMobil
Managing Changing Market	BP	Shell	ExxonMobil
Environment	BP	Shell	ExxonMobil
Best Informed	BP	Shell	ExxonMobil
Best Staff	BP	Shell	Chevron
Best Organization	BP	Shell	ExxonMobil
Relationships	BP	Shell	Chevron
Innovation	Shell	BP	ExxonMobil
Technical and Research	Shell	BP	Chevron
Most Competitive Price	Shell	ExxonMobil & Chevron	BP
Most Improved Marketer	BP	ExxonMobil	Shell

Armbrust Survey Methodology

Two separate questionnaires were distributed directly to all the world's airlines and jet fuel marketers in late 2005; marketers were also asked to encourage their customers to complete the Surveys, and vice-versa. Airlines were requested to rate the marketers and airport operators performance during 2005, the tenth year that AAG has conducted this Survey; marketers were requested to rate the airline fuel departments, a Survey last conducted five years ago.

Marketer respondents numbered 22, accounting for over 26 billion USG of jet fuel supplied to the airline industry; responses were representative of both the major international oil companies and the various regional/national/local suppliers around the world. On the carrier side, 37 airlines submitted their views on the marketers and airport operators, accounting for over 17 billion USG of jet fuel uplifted; there was also a good carrier representation, by size, type and region/location.

In analyzing responses, a common approach/methodology was adopted for all the Surveys and Awards. For those questions seeking a simple "yes/no" response, direct percentages of the total replies were calculated; for those where marketers were rated by airlines, or vice-versa, weighted overall results were established, scoring 3 points for a "first place", 2 points for a "second place" and 1 point for a "third place". However, there were no additional weightings given to the size/volume of the respondent in the marketplace.

Notes :

- All data was submitted to, and is held by the Armbrust Group in the strictest confidence. No individual's information or comment is published or released to third parties without the express permission of the contributors.
- Further information on the methodology is available, on request, from the Armbrust Aviation Group – please contact Keith Carter, Managing Director International at keith@armbrustaviation.com

Regional Marketers Service Categories

	1st	*2nd*	*3rd*
Best Informed	Q8 Aviation	ConocoPhillips	Statoil & Repsol YPF
Best Staff	Q8 Aviation	ConocoPhillips	OMV & Repsol YPF
Best Organization	Q8 Aviation	Statoil & Repsol YPF	OMV
Relationships	Q8 Aviation	Statoil	Repsol YPF
Innovation	Q8 Aviation	ConocoPhillips	Statoil
Technical and Research	Q8 Aviation	Statoil	ConocoPhillips &OMV
Most price Competitive	Q8 Aviation	Statoil & OMV	Repsol/YPF
Most Improved Marketer	Q8 Aviation	Repsol/YPF	OMV

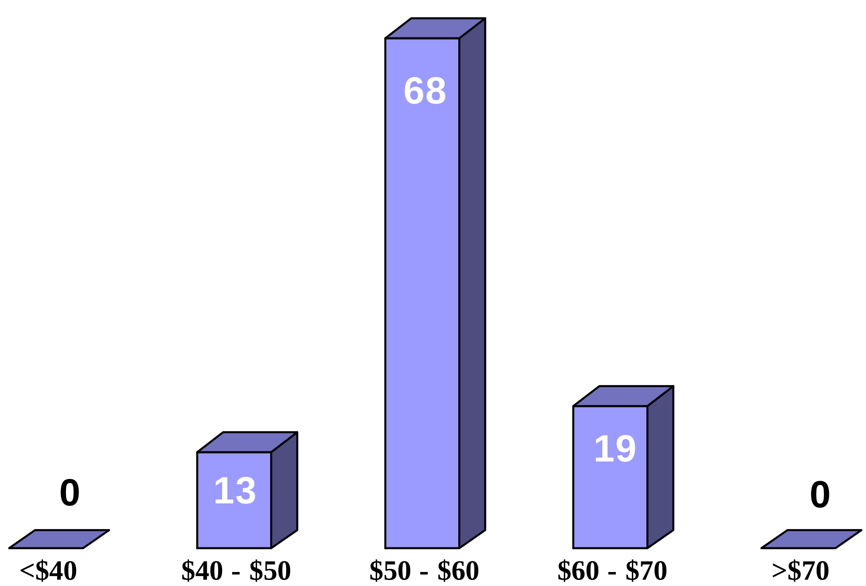
- Flexibility
- Customer relationships
- Credit terms
- Views of the Market & Risk Management plans

As an additional question to airlines responding to the Survey, views were sought on the outlook for future oil commodity levels, and plans for risk management.

The clear consensus of the airline community is an expectation that oil commodity levels, and thus jet fuel prices, will stay at current high levels (*see graphic below*). Fully 75% of airlines responding had risk management programs in place to deal with this, with a little over half having a policy of 50%, or higher, cover for the next 12 months. So, despite the shape of the forward curve for futures, airlines appear to still be very active in the risk management market. **JFR**

Over a third believed that the Regionals were treating the airlines more fairly in the current difficult market circumstances, and wanted to reduce dependence on the Internationals.

Airline Views on Future Oil Prices According to Airlines by Percentage



Annual Survey…

ASIG Voted Best Airport Operator In Annual AAG Survey

"During the past year we have continued to build the infrastructure supporting our service delivery efforts," Keith Ryan, CEO, ASIG.

Aircraft Services International Group (ASIG) was voted the number one "Best Airport Operator" for the second year running in the Armbrust Survey of airlines. They were followed by **Servisair/ GlobeGround** and **Swissport,** second and third respectively**.** This award focused only on the North American market, as while airlines do have the opportunity to contract separately for into-plane services elsewhere, this is extremely limited.

Keith Ryan, CEO of ASIG, will be in Las Vegas to receive the Award, and was delighted that his company was being recognised again.

"It is a wonderful reflection on the effort and good work of each and every ASIG employee. During the past year we have continued to build the infrastructure supporting our service delivery efforts. We feel that these investments in safety, quality assurance, metrics and web based customer support tools have resulted in measurably superior service for our customers."

ASIG also dominated the ratings in the individual performance categories, coming first or tying for first in all.

***Keith Ryan**, CEO, ASIG*

Value of Independent Operators

A clear message emerged from the airline responses, in relation to the value of the independent operators. All were unanimous in their view that companies such as ASIG provided levels of quality and service equal to those of the oil industry, but at lower cost.

Competition was also seen as important, with the availability of alternative operators being considered essential at major locations – though it was recognised that much depended on the specific size and volume. **JFR**

ASIG also dominated the ratings in the individual performance categories, coming first or tying for first in all.

Airport Operator Service Ratings

	1st	*2nd*	*3rd*
Quality of Service	**ASIG**	**Allied**	**Servisair**
Best Staff	**ASIG & Allied**	**Servisair**	**Swissport**
Best Training	**ASIG**	**Servisair**	**Allied**
Fewest Delays and Accidents	**ASIG**	**Servisair**	**Allied**
Innovation	**ASIG**	**Skytanking**	**Servisair**
Technical and Research	*	*	*
Price Competitiveness	**ASIG**	**Allied**	**Servisair**
Most Improved	**ASIG**	**Skytanking**	**Allied**

** All operators were rated equally*

Annual Survey…

Lufthansa Takes Top Honors As World's Best Airline Fuel Department

> **Not only did Lufthansa win the overall international award, they also came first in the European region, and took the top spot in six out of the eight individual categories rated by suppliers.**

A fully integrated and coordinated approach to fuel management, consistently applied over the past few years, has paid dividends for Lufthansa (LH) as they took top honours in the 5th Armbrust Survey to identify the world's best airline fuel department.

Not only did LH win the overall international award, they also came first in the European region, and took the top spot in six out of the eight individual categories rated by suppliers in response to the survey:

- Best informed
- Best staff
- Understanding of business
- Most innovative
- Attention to quality & operations
- Most price conscious

Helmut Fredrich, General Manager for Fuel in LH, who will be in Las Vegas to personally collect the Award, stressed that this result was very much a team effort, and "thanked his team for the achievement, since their professionalism is the reason for Lufthansa's success."

The Award for best airline fuel department has been dormant since 2000, and much has changed in the industry over the past five years. The last holder of the Award was **British Airways** (BA), who had in fact then won two years running. While they did not take any top honors this year, they can take some consolation in their second overall place, shared with Air France (AF). BA also tended to be more favored by the multi-national marketers, and they picked up the top spots in the two individual categories not won by LH:

- Valuing relationships
- Seeking partnerships

Japan Airlines (JL) was voted into the overall third spot, also adding to this success with honors in the Asia-Pacific region. Other winners around the world were **Emirates (EK)** in the Africa/Middle East, **LAN Chile (LA)** in Latin America, and **United Airlines (UA)** in the huge North American market.

A summary of all the points scored by the "top 20" airlines rated by the suppliers in their Survey responses, both worldwide and in the individual regions, is shown (*see table, page 8*).

Also, another 44 airlines around the world were given points in one or more of the categories

(Continued on page 3)

Best Overall Airline Fuel Department

	1st	*2nd*	*3rd*
Overall	Lufthansa	British Airways Air France	Japan Airlines
Africa/Middle East	Emirates	Gulf Air	Tunis Airlines
Asia/Pacific	Japan Airlines	Cathay Pacific	Singapore Airlines
Europe	Lufthansa	British Airways	KLM & Finnair
Latin America	LAN Chile	TAM/Varig/Copa	Avianca AeroMexico
North America	United Airlines	Delta & Northwest	Continental

> **The Award for best airline fuel department has been dormant since 2000, and much has changed in the industry over the past five years.**

The Award for best airline fuel department has been dormant since 2000, and much has changed in the industry over the past five years.

Top 20 Best Airline Fuel Departments (ranked by total points)

	Airline	Points
1	Lufthansa	59
2	British Airways	31
3	Air France	22
4	Japan Airlines	20
5	Cathay-Pacific	13
5	Emirates	13
5	United Airlines	13
8	Singapore Airlines	11
9	Finnair	10
9	Northwest Airlines	10
11	KLM	9
12	Continental Airlines	8
12	Delta Air Lines	8
12	Gulf Air	8
12	Lan Chile	8
12	Thai Airways	8
17	American Airlines	6
17	Kenya Airways	6
17	TAP Air Portugal	6
17	Tunis Air	6

surveyed.

Airline Traits

Not surprisingly, given current market conditions, price was highlighted by over 80% of suppliers as the number one priority for the airlines. This was followed by other commercial terms, such as credit, and in third place came operational quality and supply security. However, with the recent experiences of supply disruption around the world, including the current major problems at London Heathrow, the busiest international airport, this ranking may well change during 2006.

Overall, suppliers view the airlines as being "generally fair" in their commercial relationships, with less than 10% of respondents scoring them poorly in this category. Airlines also adhere to agreed terms once contracts have been awarded, with any shortcomings in this area largely focused on failure to meet the payment terms. And ratings for both integrity and honesty exceeded 7 out of 10 on average, showing that despite all the problems, suppliers have a high level of trust for their customers.

The high emphasis on price was cited by many suppliers as being in real conflict with airlines' declared intentions to be loyal. There were also concerns that the short-term focus could lead to suppliers leaving markets, reducing competition and a lack of investment to meet future demands of the industry.

Tankering, as a commercial lever in negotiations was particularly highlighted as a two-edged sword, with a number of suppliers cautioning the airlines over the longer term consequences of this policy. And while over 70 percent of suppliers were being encouraged to expand and

(Continued on page 3)

BA also tended to be more favored by the multi-national marketers, and they picked up the top spots in the two individual categories not won by Lufthansa, including valuing relationships and seeking partnerships.

Overall, suppliers view the airlines as being "generally fair" in their commercial relationships, with less than 10% of respondents scoring them poorly in this category.

enter new markets, airlines were generally not prepared to make the necessary commitments to support such decisions, as short-term price considerations remained paramount.

Nevertheless, the majority of suppliers indicated they would be seeking to increase their volumes during 2006, through a mixture of "natural growth" and "targeted expansion into profitable markets".

As always, it can be a fine balancing act to manage short versus longer term considerations, but suppliers generally rated their airlines highly (an average score of 7.2 out of 10) in their communications processes, with over 80% of respondents happy with their customer performance.

Not so positive was the suppliers' views of airlines jet fuel market knowledge. While no airline scored badly, the overall level of just 6 out of 10 should be of concern. This is true especially when linked to the supplier views that airline fuel departments are increasingly being staffed by purchasing generalists. Complex and convoluted decision making administrative processes were also noted as a concern. There is a clear message in the responses that the airlines will get the best long-term results by having stable and expert fuel personnel, with clear and simple but robust processes.

Other problem areas identified from the survey included late payments and inconsistent tender procedures - with both of these clearly impacting adversely on the relationships between marketers and their airline customers.

Finally, the suppliers had no consistent view on the impact of airline Alliance fuel management activities. For some this was seen as an opportunity, but for others it was a threat, and a complication and barrier to direct airline relationships. *(An interview with Olle Bjork of SAS, and current Chair of the STAR Fuel Group appears on page 12 of this issue).* The three major Alliances are clearly a potential powerful influence on the workings of the jet fuel business – but so far it would appear that no real conclusions have been reached on their real impact.

Not surprisingly, given current market conditions, price was highlighted by over 80% of suppliers as the number one priority for the airlines.

Looking to the future, the supplier responses to the Survey contain some other significant

***Helmut Fredrich**, general manager, fuel, Lufthansa*

messages that their customers need to seriously consider:

- Airlines should fully understand the consequences of the short-term (price) focus on the longer term markets and jet supply.
- Airlines should take greater advantage of technology to improve business processes.
- Airlines should develop a better understanding of the underlying commodity (Platts) and traded jet markets.

Detailed Airline Performance

Suppliers were asked to rank both the worldwide international airlines, and the smaller regional players, according to a number of specific attributes, in support of the overall Survey scores.

As can be seen, these rankings were dominated by just a small number of international airlines, although many others were rated by individual suppliers in limited specific categories. In particular, there was a natural tendency for the regional and national suppliers to score highly their "home base" airlines. But, overall, the major worldwide carriers have a significant advantage and can command a higher and wider profile in the survey.

It is interesting to note that despite Lufthansa's being the "most

(Continued on page 3)

The high emphasis on price was cited by many suppliers as being in real conflict with airlines' declared intentions to be loyal.

There is a clear message in the responses that the airlines will get the best long-term results by having stable and expert fuel personnel, with clear and simple but robust processes.

price conscious", they were also able to take the top spot in five other categories. The price consciousness could be reflected in the fact that they landed in second place in both the relationships and partnership categories. Clearly, the "integrated and coordinated" approach master-minded by Fredrich has paid off for Lufthansa.

Regional Performances

For regional and local airlines, the results of the survey were far less obvious. The combination of relatively few responses and the fragmented input from the national and regional marketers meant that votes were widely and thinly spread around the carriers, making accurate and meaningful analysis impossible. But two airlines did stand out, with many suppliers giving them top spots in the various categories; they are **EasyJet,** and the **TUI** airline group, who shared the eight honors between them.

EasyJet picked up:

- Understands business
- Most innovative
- Attention to quality & operations
- Most price conscious

with the centralised TUI fuel team winning:

- Best informed
- Best staff
- Values relationships
- Seeks partnerships

JFR

Annual Survey Report…

Pleased, Concerned or Intrigued by the Survey Results?

The analyses of results for Marketers, Operators and Airlines in this issue of JFR are restricted for general publication by confidentiality considerations. However, they do provide clear and unbiased/independent indications of an individual company's performance, both good and bad, in relation to its competition.

Want to Learn More?

The Armbrust Aviation Group can provide detailed individual analysis and follow-up, on a confidential consultancy basis, to help companies better understand their strengths and weaknesses, and improve their business processes. *For more information, and/or to discuss your specific requirements, please contact Keith Carter, Managing Director International, at keith@armbrustaviation.com.*

International Airline Rankings by Performance Criteria

	1st	2nd	3rd
Best Informed	Lufthansa	BA	KLM
Best Staff	Lufthansa	BA/ KLM	Air France
Values Relationships	BA	Lufthansa United Airlines	Japan Airlines
Understands Business	Lufthansa	BA	United Airlines
Most Innovative	Lufthansa	BA	KLM
Seeks Partnerships	BA	Lufthansa	JAL
Attention to Quality	Lufthansa	KLM	BA Air France
Most Price Conscious	Lufthansa	Air France	BA

Industry Interview…

SAS Group's Olle Bjork Provides Insight Into The "STAR" Fuel Group

STAR members are free to decide individually whether or not to participate in the fuel activities as a whole or by a case-by-case basis. However, there has been a consistently high level of involvement by all members since the Fuel Group was set up.

The STAR Airline Alliance currently has 16 members, with SAA and SWISS due to join shortly. Olle Bjork, Vice-President Corporate Fuel Management for the SAS Group has been involved with the STAR Fuel Group's activities since it was formed in May 1997, and assumed the Chair in early 2005, taking over from Helmut Fredrich of Lufthansa.

The Alliance consumes in excess of 13 billion USG of Jet each year, at more than 800 airports worldwide; it is, therefore, a powerful influence on the overall commercial aviation jet fuel business. In an exclusive interview with Jet Fuel Report, Olle Bjork provides a unique insight into the workings of the STAR Fuel Group activities.

JFR: What are the key objectives of the STAR Fuel Group?
Bjork: We have set ourselves two key objectives:

- Security of supply
- Managing fuel costs

Over the past year, with record high oil and jet prices, and supply issues around the world such as those in the USA following hurricane Katrina, and in London following the Buncefield fire, both have had an equally high priority.

JFR: Is membership of the Fuel Group obligatory?
Bjork: No. STAR members are free to decide individually whether or not to participate in the fuel activities as a whole or by a case-by-case basis. However, there has been a consistently high level of involvement by all members since the Fuel Group was set up. This clearly demonstrates that it is delivering value for members. And our work is not always dominated by the bigger airlines in STAR – as may be the perception outside – it is often the smaller players who have more to gain, and everyone contributes 100%!

The Group has recognised the value of meeting face-to-face on a regular basis.

JFR: Do you have strict terms of reference and working procedures?
Bjork: Yes. These were developed early in the life of the Group, and have proved very valuable in helping us manage our affairs efficiently and effectively. We always ensure we have clear agendas for meetings, and documented minutes/reports of our activity and discussions.

JFR: How do you manage communications with 16 members spread around the world?
Bjork: This has been a real challenge for us, with the scale and complexity of the problems growing as STAR increased its membership. We are fortunate that all speak English as a common business language, and e-mails and conference calls help considerably – though the time differences around the world can create some unusual office hours for some of us! But the Group has recognised the value of meeting face-to-face on a regular basis, and we aim to get together at least four times a year, scheduling sessions alongside other events such as the IATA Fuel Forum where possible, to minimise travelling. Failing this, favoured locations are Chicago, Frankfurt and Tokyo.

JFR: What is the role of your Coordinator, Petra Dreyer?
Bjork: Petra has the responsibility for the Alliance's fuel activities. Her key roles are:

- Provision of a single interface with

(Continued on page 12)

***Olle Bjork**, vp, corporate fuel management, SAS Group*

We are always extremely sensitive to any locations where STAR combined volumes and or activities could trigger any infringements of applicable competition laws.

In the early days there was clearly a great deal of suspicion, confusion, and reluctance to deal with us as an Alliance.

suppliers, airlines and other parties for communication on all STAR fuel matters.

- Management of fuel projects across the Alliance.
- Provision of resource to help with STAR fuel matters – which can be very important as individual member resources can be very stretched at times.
- Support to me, as Chairman, in coordinating and managing the Fuel Group. Without her, I would struggle to cope!

JFR : Does your combined STAR volume create anti-trust problems?
Bjork: Yes, we are always extremely sensitive to any locations where STAR combined volumes and/or activities could trigger any infringements of applicable competition laws. Generally this means that we are limited in what we can do at any home base of a STAR member airline – such as here in Stockholm. However, this does not stop us working together to address any common issues such as technical/operational supply problems, which fall outside the anti-trust legislative framework.

JFR: Do members contract with suppliers separately, or individually?
Bjork: Each STAR member has at present their own contracts with the Jet marketers, reflecting the individual specific terms and conditions of supply but this will be adapted in the future according to the needs of the carriers and suppliers. At some locations we may supply each other – for example, SAS has a contract with Lufthansa in Copenhagen, and UAFC supplies some Alliance airlines at certain USA locations.

JFR: Do members exchange information on their prices and other commercial terms and conditions?
Bjork: As we all know, there is lots of "bar-room" discussion and speculation amongst the world's airlines and suppliers about the extent to which confidential information is shared by all the Alliances. But in STAR we do not see the specific prices paid by individuals at each location of particular importance or relevance. The Fuel Group tries to look at the "bigger picture" and address the broader issues that impact on all of us, in pursuit of our key objective of controlling our fuel costs.

JFR: What has been the Suppliers reactions to the work of the STAR Fuel Group?
Bjork: In the early days there was clearly a great deal of suspicion, confusion, and reluctance to deal with us as an Alliance; and even within our own Group things were far from easy at first! However, as the months and years have passed, relationships have settled down, and most parties now view the STAR activities as "opportunities" rather than "threats". We recognise that maybe too much attention has been given by STAR to the multi-national marketers in past years, but we are now balancing this through our relationships with <u>all</u> suppliers, including regional and local players.

JFR: Has the overall Supplier portfolio changed as a result of the Fuel Group's work?
Bjork: The supplier base changes more due to the respective carrier's own commercial decisions and changes in supplier presence than as a result of Star initiatives. But Star activities could of course influence the supplier portfolio in the future.

JFR: How do you "manage" Supplier relationships within STAR?
Bjork: We do not have a single fixed formula or policy. Instead, we try to take a "common sense" approach, and deal with each relationship on its merits. And of course, the prime contact and relationship for their individual network remains between the Star carriers and their suppliers.

JFR: What is the purpose and structure of STAR FUELCO?
Bjork: STAR FUELCO started life in 2003, and is a separate joint venture company incorporated in the USA, to be owned by a number of STAR members. We all believe we need such a "central" company, even though it has yet to be actually used in a fuel procurement initiative. But, it is there, ready for us to use as and when appropriate opportunities arise.

JFR: Does the STAR Fuel Group get involved in other (non-commercial) activities?
Bjork: Whilst commercial matters have tended to dominate, one of our two key objectives outlined earlier is "supply security". Thus, the Group also discusses and shares information on a whole range of technical and

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operational issues. For example, we are currently in regular contact over the London supply problems, and last year United in particular helped other members deal with the adverse consequences of hurricane Katrina. We do not currently operate or share any common "back-office" services – such as accounting and data capture – but anything and everything is "up for grabs" in the future! As explained earlier, the Group is very "flexible".

JFR: And what about Risk Management?
Bjork: Of course we share information and views on market conditions that can impact on our risk management activities; but all execution is strictly down to individual members. Plus, not all airlines are involved in risk management, or it may be managed outside of fuel.

JFR: What are the key lessons learned by the STAR Fuel Group?
Bjork: Our business is very complex, and constantly changing. Thus, there is no single answer or solution that is right for all. When we started back in 1997 none of us really knew how things would develop, or where we would end up. It was important, therefore, to follow an evolutionary process, taking one step at a time within a broad but flexible framework. This approach has served STAR well over the past difficult years, and as Chairman of the Group it is how I intend to continue operating.

JFR: And what have been the benefits?
Bjork: There have been real benefits, both to individual members and STAR collectively. Some have been clearly identifiable and quantifiable; others less tangible. But all have been positive, as demonstrated by the fact that Fuel Group continues to be highly active. And there have been real financial benefits, in line with our "controlling fuel costs" objective – though I am not prepared to quote numbers for the obvious commercial reasons.

JFR: Finally, what are the plans for 2006?
Bjork: The Fuel Group has set itself some very clear objectives for the next twelve months; but at this stage they are private and confidential within our membership. In due course, some will become public as we implement our plans, and I will happy to discuss these further with JFR as and when appropriate. **JFR**

Austrian Airlines Sets Trend For Self-Supply In Europe

Austrian took the decision to acquire its own vehicles, and train its own staff to perform the final delivery function.

At first sight, with six oil companies marketing at Vienna airport – **Air BP, Eni, ExxonMobil, OMV, Shell** and **Air Total** – there should be strong competition for business. However, it is clear that this multiple supply situation has not translated into truly keen pricing for the airline customers.

One key reason is airport logistics. Regardless of the contracted supplier, all jet fuel product delivered into **Vienna Airport** is produced in the **OMV** refinery close-by. **FSH** (a company consisting of the six oil companies), provides the storage and hydrant system. Final delivery into aircraft is made by one of the two into-plane pools – **FSF** (Eni, ExxonMobil and Shell), and **ARC** (Air BP, OMV and Air Total), depending on which marketer the airline has contracted with.

As the main uplifter of jet fuel at Vienna, **Austrian Airlines** was concerned about the cost impact of these supply logistics. It appeared to them that the six oil companies were simply looking to compete against each other within a common framework, rather than seek real cost efficiencies or alternative lower-cost sources of supply. Thus, the carrier looked at the experience of other European carriers at their home bases, and during 2005 decided to introduce alternative arrangements, setting up a self-supply chain to challenge the economics of the oil companies.

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"We plan to double the volume of self supply during 2006, and future volumes will depend on the competitiveness of suppliers' bids in the forthcoming tender rounds."

This became a key objective and responsibility for **Manfred Svaton**, the airline's vice-president procurement, last year.

The task proved far from easy, with many obstacles for Austrian to overcome. But since August 2005, around 15% of Austrian Airline's total current annual Vienna requirements of 500 million litres have been sourced through direct purchases of jet fuel in the Europe market, and supplied by train into Vienna airport via the OMV refinery facilities, with whom Austrian negotiated a throughput agreement.

On-airport, the relatively small volumes, as well as legal complexities, meant that it was not possible to use one of the existing into-plane agents. Thus, Austrian took the decision to acquire its own vehicles, and train its own staff to perform the final delivery function. For the longer term, other options will continue under review.

Austrian's fuel manager, **Eva Maschler's** training as an IATA Quality Inspector, and her links to other members of STAR, clearly gave her a great advantage in planning and implementing this. "It was essential for Austrian Airlines to take control of the escalating costs of fuel at our home base," says Maschler. "By sourcing a proportion of our requirements direct from the market we are able to benchmark proposals from the six suppliers and award contracts accordingly."

Experience over the past six months has been very favourable, with significant cost reductions being achieved, so Austrian are now looking to increase the proportion of self-supply during 2006. "We plan to double the volume of self supply during 2006, and future volumes will depend on the competitiveness of suppliers' bids in the forthcoming tender rounds," Maschler says. But the airline is not seeking to "throw the oil companies off the airport", or enter into head-to-head conflict with them; Austrian has a good relationship with all of the oil companies, both at Vienna and around the world, and wants this to be maintained.

In the past, it has generally been considered that such self-supply arrangements in Europe could only be within the capabilities of the major airlines, such as Air France in Paris, British Airways in London, and Lufthansa in Germany. But the success of Austrian Airlines at Vienna challenges this thinking, and could lead to similar actions by others throughout the region. **JFR**

News Briefs

"We have to be alert about all the changes and new rules from Platts as this restricts normal trading activities!" Kleffman said.

Platts Revises Methodology For Barges In ARA Market

London... **Platts,** London announced today that effective Wednesday February 8 and following industry feedback regarding barge nomination procedures in the ARA oil products market, it will start to reflect barge bids and offers on a Wednesday 5-15 days forward. According to Platts, this will better reflect the two full working days nomination procedure required in the NWE barge market. Monday and Tuesday loading dates will remain 3-15 days forward, and Thursday and Friday 5-15 days forward. Platts is considering adapting the same standard of 5-15 days throughout the whole week.

According to **Katja Kleffman,** manager self supply and risk management at Lufthansa, this "is another step from Platts to interfere in the physical trading activities …. this time with window dates which give another restriction."

"We have to be alert about all the changes and new rules from Platts as this restricts normal trading activities!" Kleffman said. "Especially, the idea of a standard 5-15 days forward window throughout the whole week would ban any spot trading and this is unacceptable! It all started with the MOC (Market on Close). Had the market not accepted that, we would not have had the problem with a 3 or 5 day forward window because trading in the morning would have given us enough time to nominate. We are against all further restrictions from Platts as there is not a standard barge market, situation or even contract," said Kleffmann. AAG has verified with

"We have to be alert about all the changes and new rules from Platts as this restricts normal trading activities!"

at least one other major European carrier who is supportive of the Lufthansa position claiming that " on top of this … the curve of the market (contango/ backwardation) is going to play a role in the pricing of 5-15 days trading range whereas it was supposed to be a spot trade."

New Fuel Allocation Scheme For Heathrow

*London...*A new fuel-allocation scheme for **Heathrow Airport**, which has experienced a sharp reduction in fuel supply since the nearby Buncefield oil depot was destroyed, was announced by the **International Air Transport Association (IATA).** But not all carriers are happy with the outcome. Under a new scheme to begin February 20, there will no longer be differential treatment for ultra-long haul, long-haul and medium-haul flights, but a differential will be maintained for short-haul flights. This replaces the current scheme that has fuel rationed to all carriers but home carriers getting a larger percentage of their fuel needs than "visiting" carriers. IATA director general and CEO Giovanni Bisignani hailed the solution as a "great and historical result," and said airline co-operation was critical. The organization noted that an agreement came after "intense negotiations among airlines."

But **Bob Sturtz** of **United Airlines** said, "United objects to IATA representing that an agreement has been reached among the airlines when United certainly doesn't condone discrimination of any kind in a fuel allocation policy…." Sturtz said United is concerned that representing the new allocation scheme as an agreement among carriers will present problems with fuel shortages elsewhere in the future. "It seems strange that IATA would agree to any proposal that would involve any form of discrimination," Sturtz added.

"United objects to IATA representing that an agreement has been reached among the airlines when United certainly doesn't condone discrimination of any kind in a fuel allocation policy…."

The airport's fuel supply is now at about 78% of the normal 20-21 million liters a day. Although progress has been made since the crisis first hit in mid-December, when supply shrunk to about 65% of normal usage, further substantial gains are not anticipated in the near-term future. Bisignani called on oil companies and the UK government to "move quickly to ensure significant short-term improvement in the fuel supply level. Moreover, going forward, they must work together closely to ensure a much more robust fuel supply for the UK's air transport links," he said, adding that IATA will undertake to develop a global standard for handling future supply crises.

Indian Oil Plans Aviation Fuel Pipelines

Chennai, India... **Indian Oil Corporation** revealed plans to build exclusive pipelines to transmit aviation fuel to major airports throughout India. **Dr. N G Kannan**, director of marketing, told reporters that the company expects demand growth of more than 20% with the advent of the "open sky" policy in the country.

The first project is expected to be a pipeline between Meenambakkam airport in Chennai and Chennai Petroleum Corporation's Manali Refineries, Indian newspapers reported. When completed the pipeline will be able to transmit more than 1,200 kiloliters of aviation turbine fuel from the refinery to the airport each day. Indian Oil plans similar pipelines for transmitting jet fuel from nearby refineries to airports in Kolkata and Mumbai.

Fuel Controversy at Adelaide's New Terminal

Adelaide... **Qantas** and **Virgin Blue** are refusing to move to Adelaide's new terminal because it would require them to use tankers to refuel while the contaminated underground fuel system is being cleaned up. The domestic terminal opening has been delayed for three months due to the contamination, and efforts by the airport to shift carriers to the new terminal before it is ready have failed.

According to a report in The Australian, the site is being cleaned up by fuel supplier **ExxonMobil,** and several international and regional airlines are being fuelled by tanker so they can use the new terminal. The airport contends that there are no safety issues regarding the use of the tankers and no restrictions from Australia's **Civil Aviation Safety Authority.** But a Qantas executive told the newspaper that the airline had safety concerns."The parking bays and layout are not designed for tanker refuelling," said Qantas executive general manager airports and catering Grant Fenn. He added tankers would prohibit the use of airbridges, thus passengers would be in too close proximity to tankers and

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Indian Oil Corporation revealed plans to build exclusive pipelines to transmit aviation fuel to major airports throughout India.

other on-ground equipment, posing a "high-level hazard that can't be mitigated".

Swissport Restructures Into Five Strategic Businesses

Zurich... **Swissport International** will restructure into five strategic business units effective April 1. The five units will comprise Ground Handling Europe, Asia, the Middle East & Africa (headed by Nigel Daniel), Ground Handling Switzerland & Germany (led by Urs Sieber), Ground Handling Americas (led by Richard van Bruygom), Cargo Services (headed by Ludwig Bertsch) and Emerging Businesses (headed by Erich Bodenmann).

The heads of the five strategic business units will all sit on Executive Management. In a further move, **Luis Pascual** (who is with Swissport since October 2005) has been appointed Chief Financial Officer, succeeding **Clive Dolman**.

Swissport International said has decided to restructure its organization, moving away from its previous primarily geographical approach in favor of a business line-based structure, to respond to new needs and developments in the industry. The company said the new organization will ensure a clearer assignment of responsibilities, accelerate decision-making processes and attach greater value to business development activities The new organization will permit cost savings by enhancing processes and making greater and more effective use of synergic potential, the company said. On the operational front and in the day-to-day ground handling business, the new structure is unlikely to result in any major personnel changes, ensuring that Swissport's extensive expertise and its well-established customer contacts are both fully retained.

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Separately, Swissport said it concluded a six-year cooperation agreement with **Ryanair**, under which Swissport will handle more than 54 000 Ryanair flights a year at London Stansted Airport, the carrier's prime UK hub. This agreement, which covers over 150 departures per day, further extends Swissport's leading position in the UK ground services market. The two companies have been business partners at London Stansted Airport, through Swissport's Groundstar UK-based subsidiary since March 2002.

San Jose Rejects AA Jet Fuel Purchasing Deal

San Jose, California... The city council of San Jose has rejected a proposal from **American Airlines** that would have increased sales tax revenues by about $3 million over the next two years. American had proposed that it concentrate the purchase of its statewide jet fuel needs in the city in exchange for a rebate of 65% of the total sales tax bill.

The move, similar to an arrangement that **United Airlines** has with the city of Oakland, would have boosted the coffers of San Jose and saved American a significant amount in sales tax, but would have caused other cities to lose the sales tax revenue on fuel that American currently purchases locally. Oakland brings in about US$1 million per year in jet fuel sales tax revenue from United.

San Jose was in a difficult position because it had formally opposed Oakland's deal with United before it was offered a similar deal from American. "The thought of now reversing our position doesn't sit well with me," San Jose Mayor **Ron Gonzales** said at the council meeting. "Our benefit of a couple million dollars is another city's loss." The deal would have lasted two years, after which time a law barring such arrangements is set to go into effect. American had indicated that it would approach other cities if San Jose rejected the deal. Mitchell Salamon, American's chief tax officer, told the San Jose Mercury News that it is intent finding a solution. "The arrangement United has with Oakland puts us at a competitive disadvantage," Salamon said. "We remain committed to closing whatever competitive gaps exist."

World Air Passenger Traffic Climbs In 2005

Geneva... Global air passenger traffic hit a new record last year, with about 4 billion passengers flying, a 5.5 percent gain, according to **Airports Council International.** That compares to 3.9 billion passengers in 2004.

International traffic increased 6.7 percent while domestic traffic grew 4.4 percent. "This steady growth indicates that concerns for the threat of avian flu, terrorism and higher fuel costs did not dampen passenger demand excessively. **JFR**