

Outlining AEA's 2004 issues and objectives

Vagn Soerensen, AEA Chairman

Ulrich Schulte-Strathaus, AEA Secretary General

Press briefing

Brussels

29.01.2004

AEA in 2003



303 m passengers -
about 70% of all
pax transported
by European carriers
4.6 million tons cargo
USD 61 bn total revenue



1 take-off every 8 secs
306 times daily
around the world



Association of European Airlines

Press Briefing
Brussels – 29.01.2004

AEA Organisational Structure in 2004

Presidents' Assembly

Vagn Soerensen (OS), Chairman 2004



Presidents' Committee 2004

Jean-Cyril Spinetta (AF), Francesco Mengozzi (AZ),
Rod Eddington (BA), Ivan Misetic (OU),
Wolfgang Mayrhofer (LH), Fernando Conte (IB),
Leo van Wijk (KL), Jörgen Lindegaard (SK)



AEA Secretariat

Secretary-General:
Ulrich Schulte-Strathaus

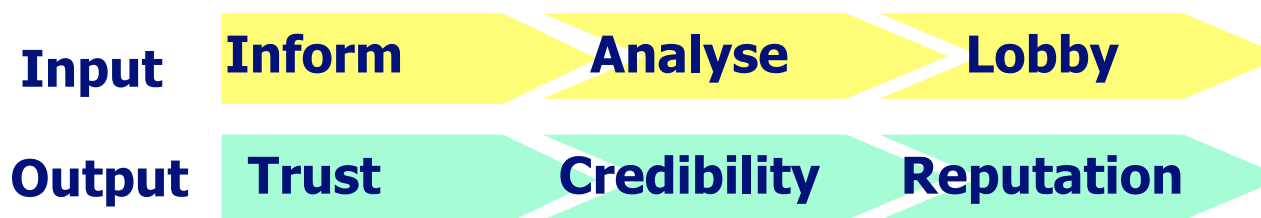
AEA provides added value

1. Informs its members about:

- **Developments in the EU affecting them**
- **Industry, market issues affecting them**

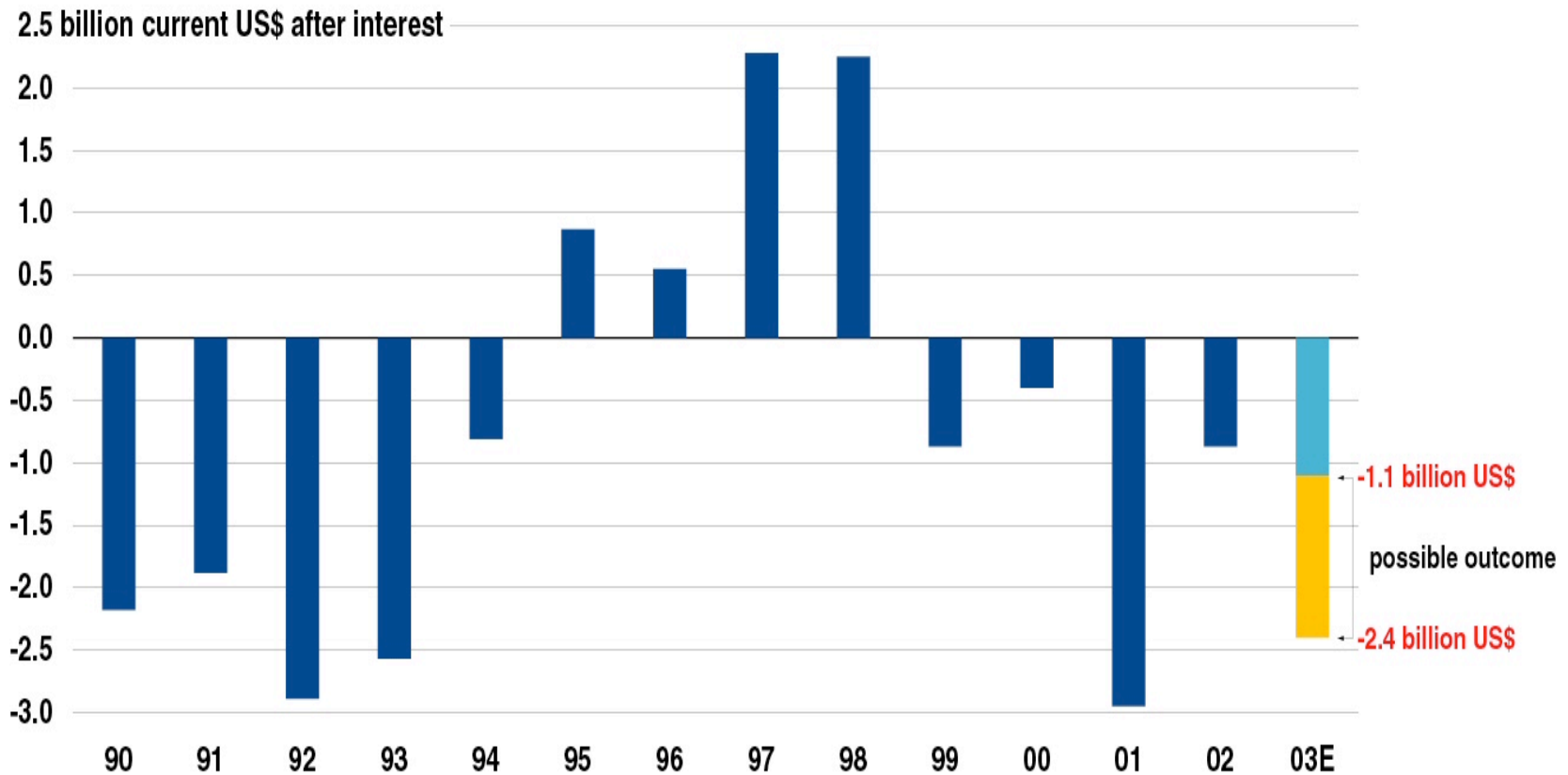
3. Co-ordinates lobbying efforts

4. Provides strategic/political analysis on issues which affect all AEA-members



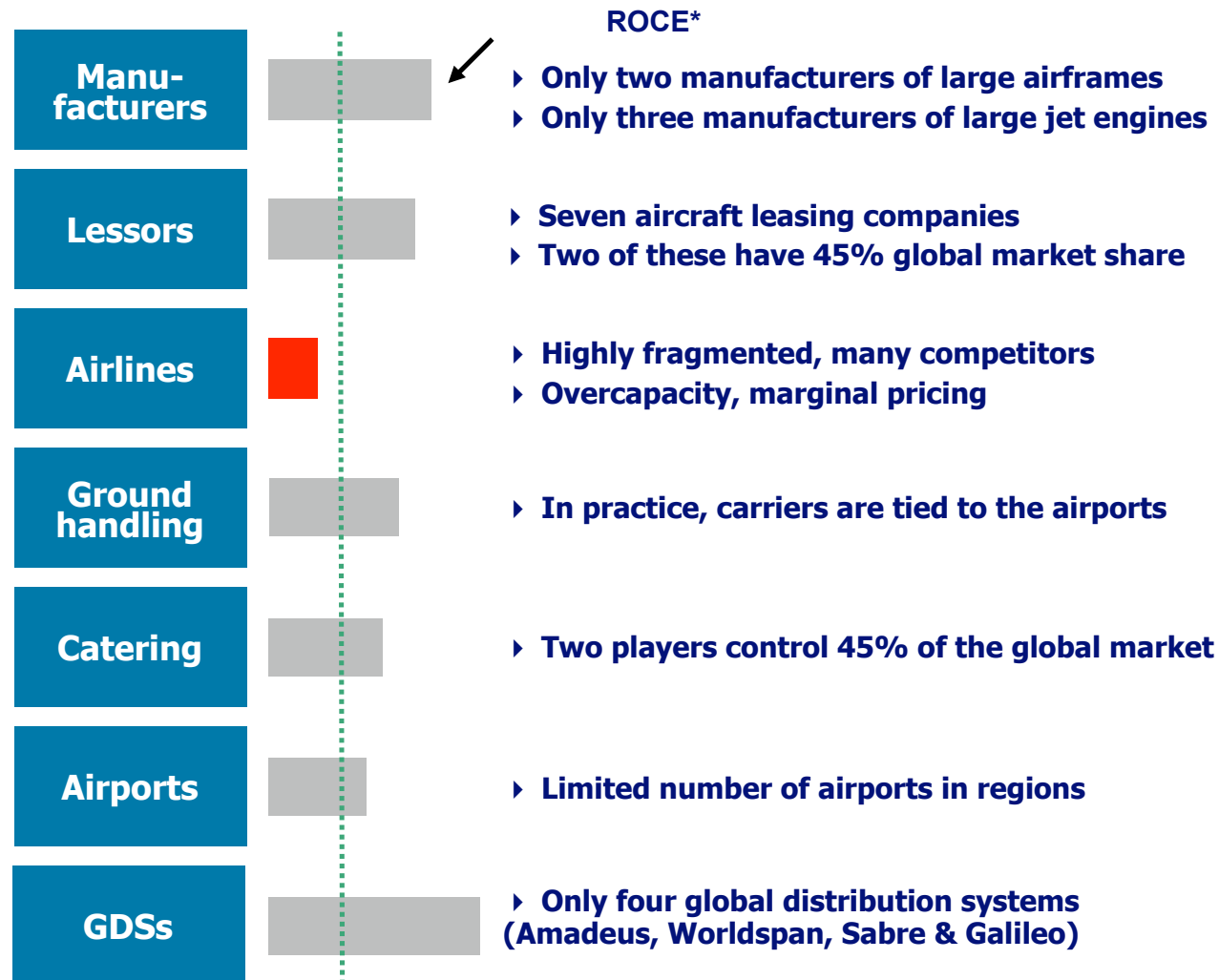
A cash burner industry?

OPERATING PROFIT / LOSS TOTAL SCHEDULED ROUTES



Source: AEA
AEA_YB_03_24

Airlines are subject to enormous cost and competitive pressures



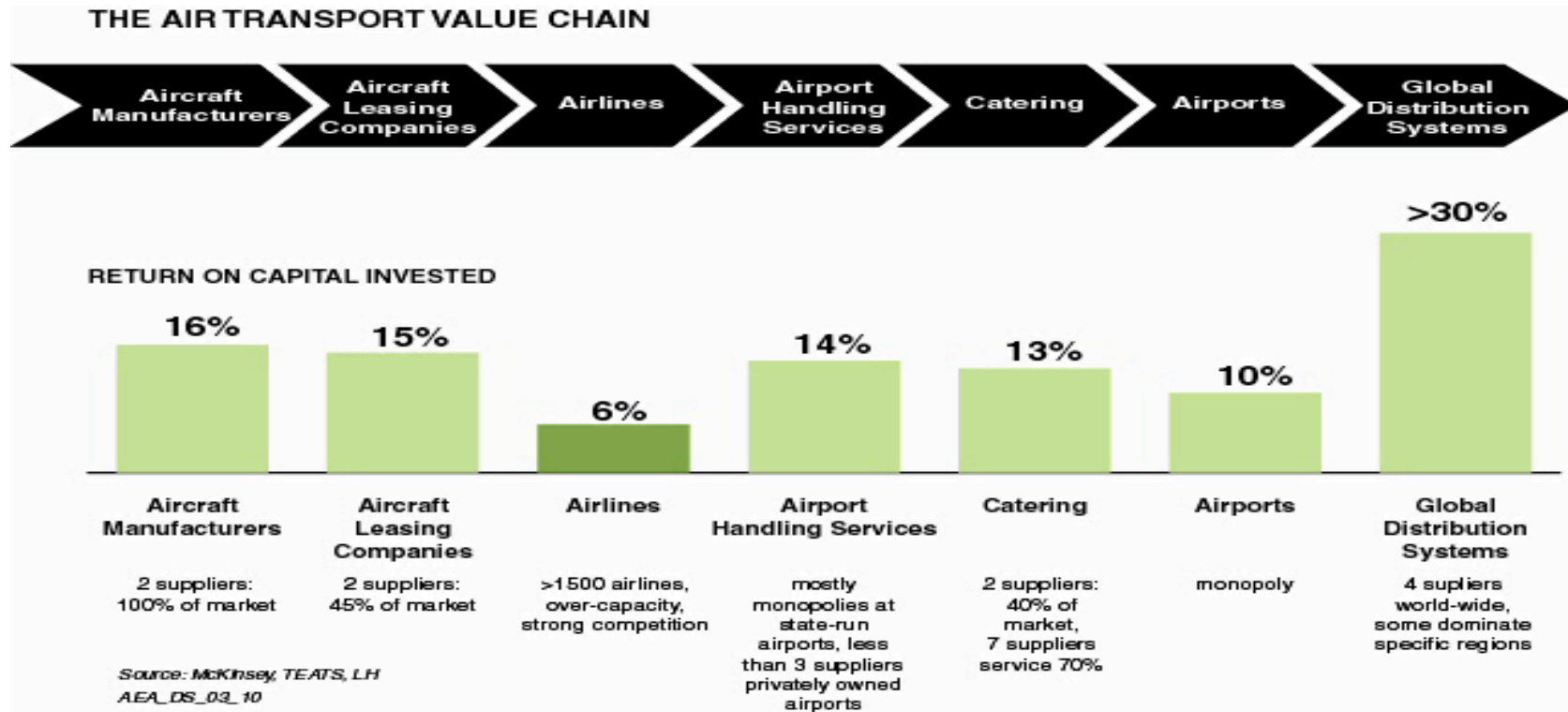
*Return on Capital Employed

Airport Charges

- ▶ In 2002 airport charges for geographical Europe amounted to USD 2.4 billion, which represents 4.4% of AEA's operating costs
- ▶ More than control over charges, AEA is seeking a fundamental structural change so that airlines can challenge monopolistic providers and rebalance commercial relations



Airlines: the weakest link of the value chain



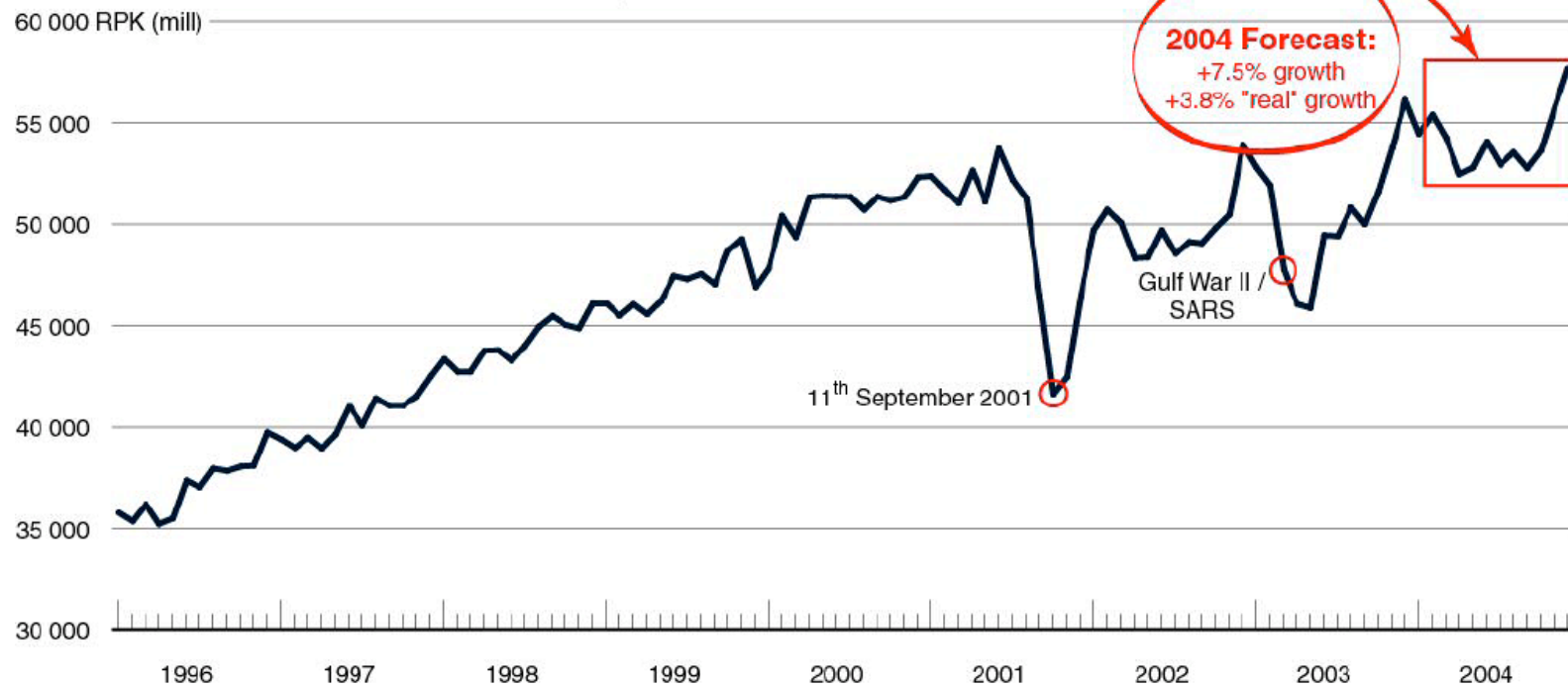
External costs will be tackled more vigorously than ever

Denied Boarding Compensation (DBC)

- ▶ Recent revision to DBC, cancellation and long delay of flights
Regulation causes countless problems
- ▶ Legislation is badly drafted
- ▶ Legal opinion indicates breach of international treaty provisions
- ▶ Lack of clarity in the definitions
- ▶ No evaluation on commercial/business impact
- ▶ Legal challenge ?

AEA Traffic Results 2003 – Outlook 2004

AEA TOTAL SCHEDULED TRAFFIC IN RPK
Adjusted for seasonal variation

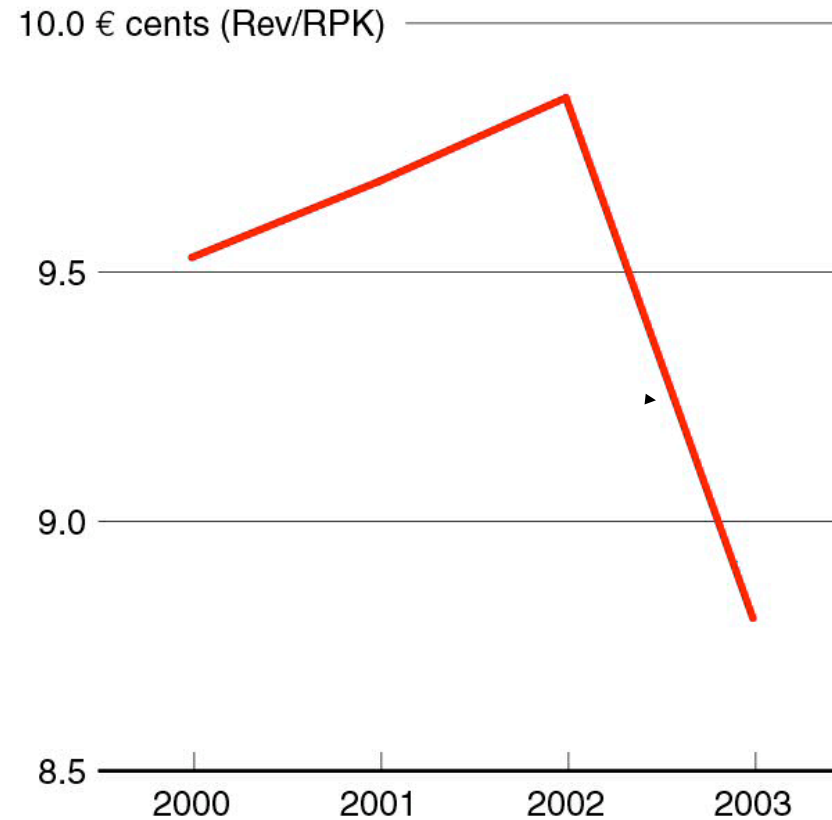


Source: AEA
ds_01.04.01

Yield development

- ▶ Passenger yields in €cent in 2003: minus 10% yoy
- ▶ Half of the effect is to be attributed to the strong appreciation of the € to the USD, JYE...

AEA TOTAL SCHEDULED PASSENGER YIELDS
Current Yields



Source: AEA
DS_02.04.01

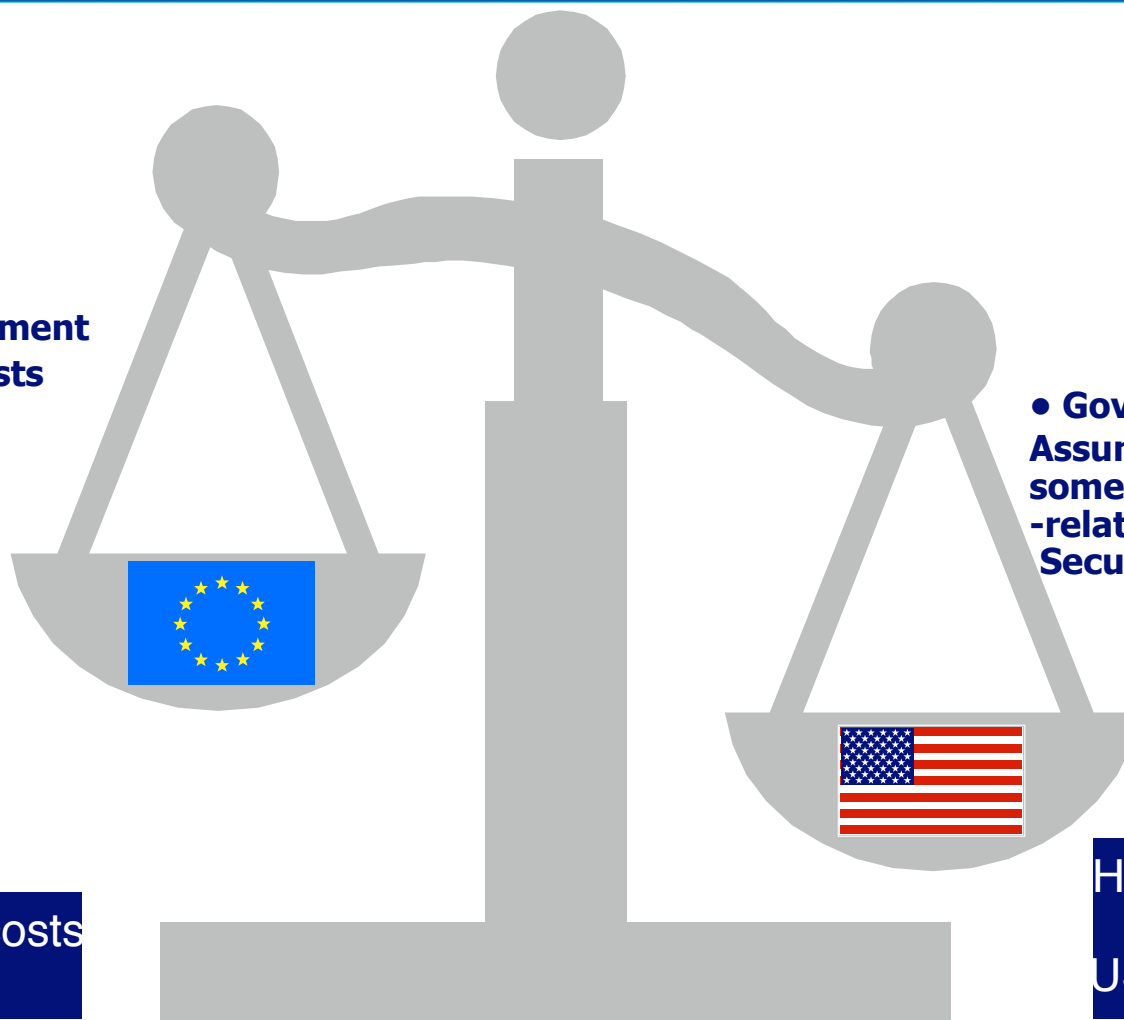
Security

- ▶ Massively increased security burden since 9/11
- ▶ Airlines caught in the middle on Sky Marshals & Passenger Data Transfer issues
- ▶ AEA airlines absorbed some €800 m in additional costs (Sept 2001-2003)
- ▶ US Government paid USD 3 bln to US carriers (Sept 2001-2003)



Distortion of competition between US & EU carriers

- No Government Handouts
- No Government Assumption
- Non-Reimbursement of US Security Costs



- Government Assumption of some terrorism-related Security Costs

Non-reimbursed costs
€ 800m

Handouts by
US Govt:
USD 3 billion

Security

- ▶ Serious impact on European airline results
- ▶ Causes distortion of competition between EUR and US carriers
- ▶ US security measures to be taken in prior consultation with foreign governments
- ▶ Deployment of sky marshals must be linked to a global approach to the carrier's legal and financial responsibility



Infrastructure

- ▶ Huge concerns on recent Air Traffic Control developments
- ▶ Single European Sky: a political compromise between European Parliament and Member States
- ▶ Political decision falls far short of AEA's ideal world
- ▶ National systems retain ultimate control
- ▶ No binding & enforceable degree of cooperation between civil & military authorities
- ▶ No airlines' involvement to economic and performance-related matters

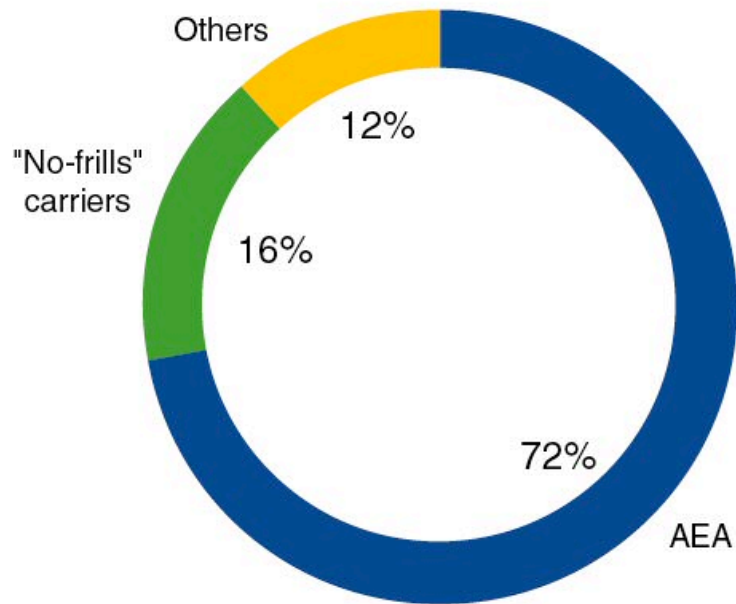


Environmental considerations

- ▶ Civil aviation contributes for only ca 3% of man-made CO₂ emissions on a worldwide scale
- ▶ Introduction of “Kerosene tax” would face strong opposition from international community: ICAO – Chicago Convention
- ▶ Tax on domestic and/or intra-community flights would lead to distortion of competition between EU and non-EU airlines
- ▶ AEA welcomes debate on subsidies to other modes of transport
- ▶ ICAO considers that open Emissions Trading scheme is most effective mechanism to allow aviation industry to reduce its CO₂ impact
- ▶ AEA is committed to promote such a scheme

No-Frills Carriers are a permanent part of the European aviation industry

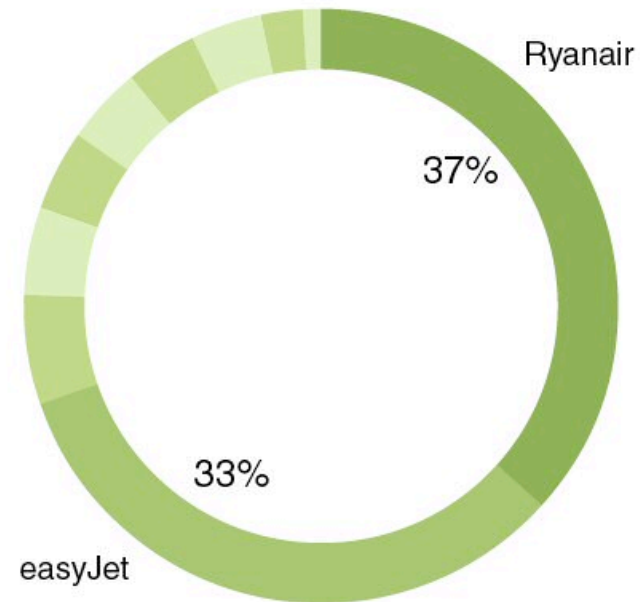
EUROPEAN MARKET SHARES



Summer 203
Scheduled Seats Offered

Source: OAG
AEA_DS_03_13

"NO-FRILLS" MARKET DISTRIBUTION



Summer 203 - Europe
Scheduled Seats Offered

Source: OAG

No Frills Carriers: a few key points

- ▶ Operating in +/- 400 markets – ca 150 airports
- ▶ Market share edging towards 20% - 25-30% in the US. And in Europe 15 – 25%)
- ▶ Urgent need for guidelines to establish a level playing field
- ▶ State aid unfairly penalises airlines endeavouring to be competitive through own efforts
- ▶ Network/Full Service carriers = pro-consumer + low-fare
- ▶ Network carriers are finding the right response & narrowing the competitive disadvantage
- ▶ NFC “miracle” will face increasing challenges, too - staff cost (labour unions) - infrastructure and service Cost (unsustainable discounts, competition scrutiny and stronger airport position)...
- ▶ Network connectivity is key product advantage of network/full-service carriers



2004 AEA highlights

- 1** ▶ The aviation market is on the road to recovery; promising figures for 2004 and beyond
 - ▶ Key issues have been identified: security, infrastructure facilities, international regulatory coherence
- 2** ▶ On security - governments must agree internationally on measures and standards – but also on the funding of the measures
Otherwise security will choke growth and lead to severe distortions to competition
- 3** ▶ Airlines are liberalised - the Aviation Industry is not
 - ▶ To ensure the long-term sustainability of the industry, airlines, air transport providers and suppliers must work closely together
 - ▶ Airlines cannot control the costs of their service provider
Incentive to reduce costs is required so that the “system” can provide products at the price levels travellers are prepared to pay

2004 AEA highlights

- ▶ Problem is structural and not business-model related
- 4 ▶ AEA network carriers have adapted their cost structures
- ▶ There is a lot to be learned from the No Frills Carriers, and we have
- 5 ▶ In their own business model, AEA-members are low-cost carriers already
- ▶ European network carriers face subsidized competition and market pressure which distort competition
- ▶ In the wake of an EU-US agreement, we need further international agreements to create an international level playing field

The key is: to keep control of costs, to offer value for money and to meet consumer requirements in a flexible manner