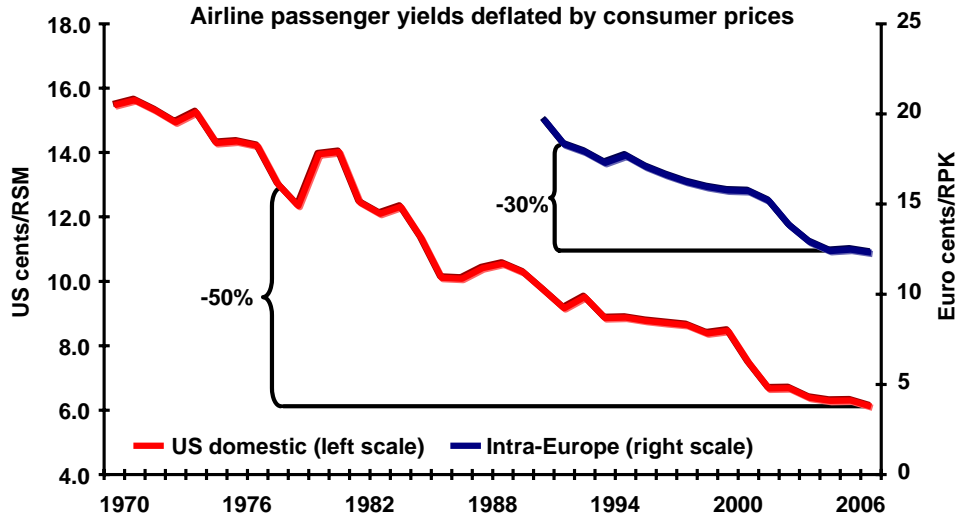




The economic case for deeper liberalization

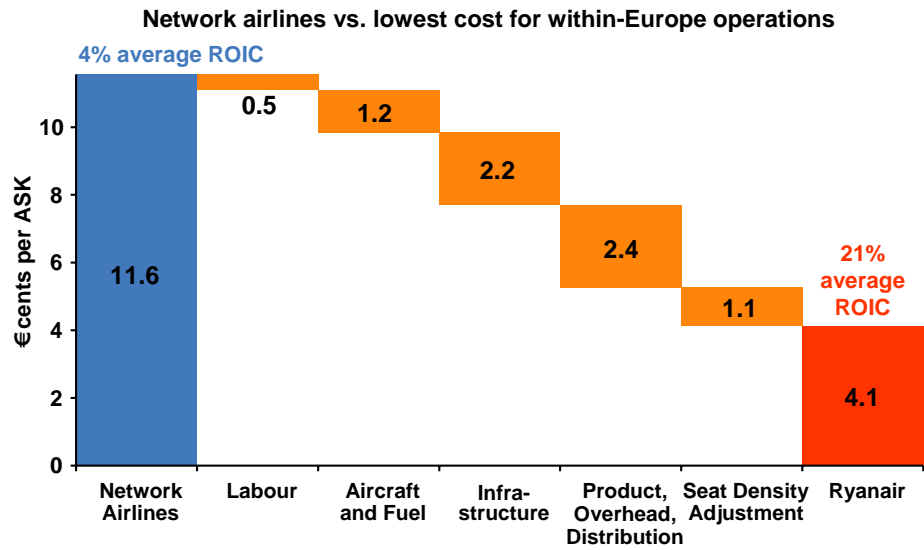
Brian Pearce
Chief Economist

Liberalization has brought large benefits to air travel consumers

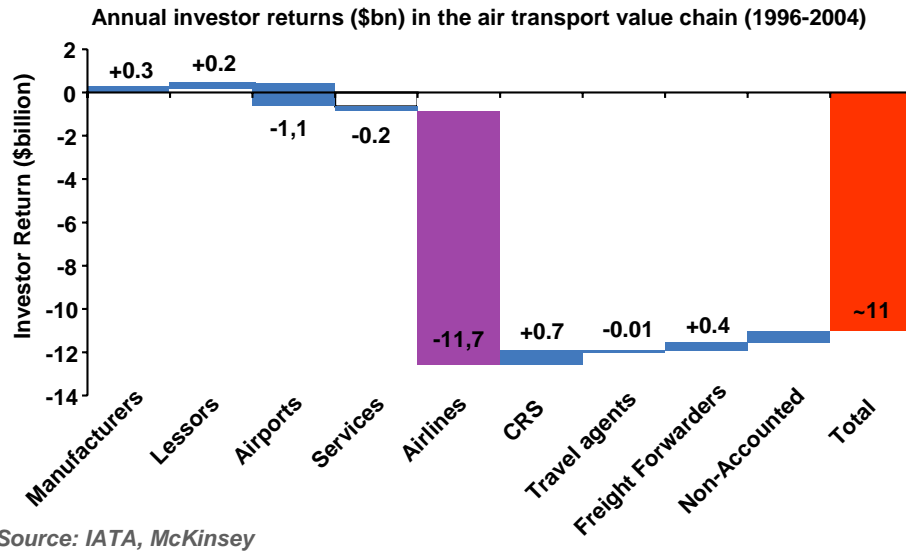


Source: BTS, AEA

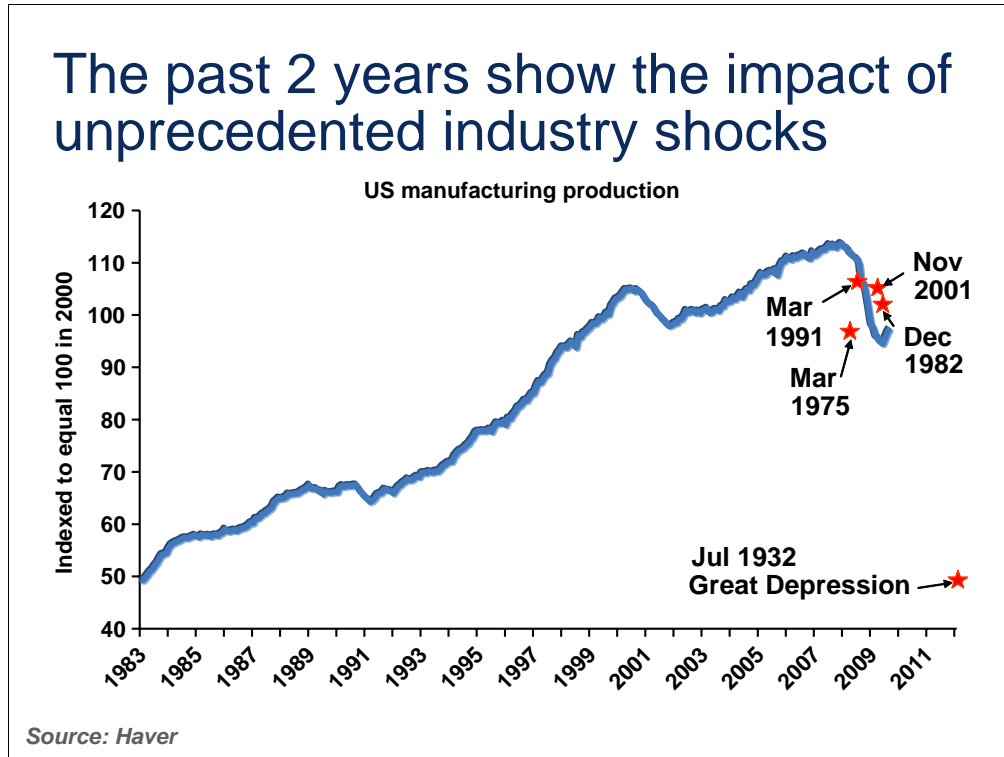
...and further consumer benefits are possible



But \$11 billion of shareholder value is lost by the industry (p.a. average)

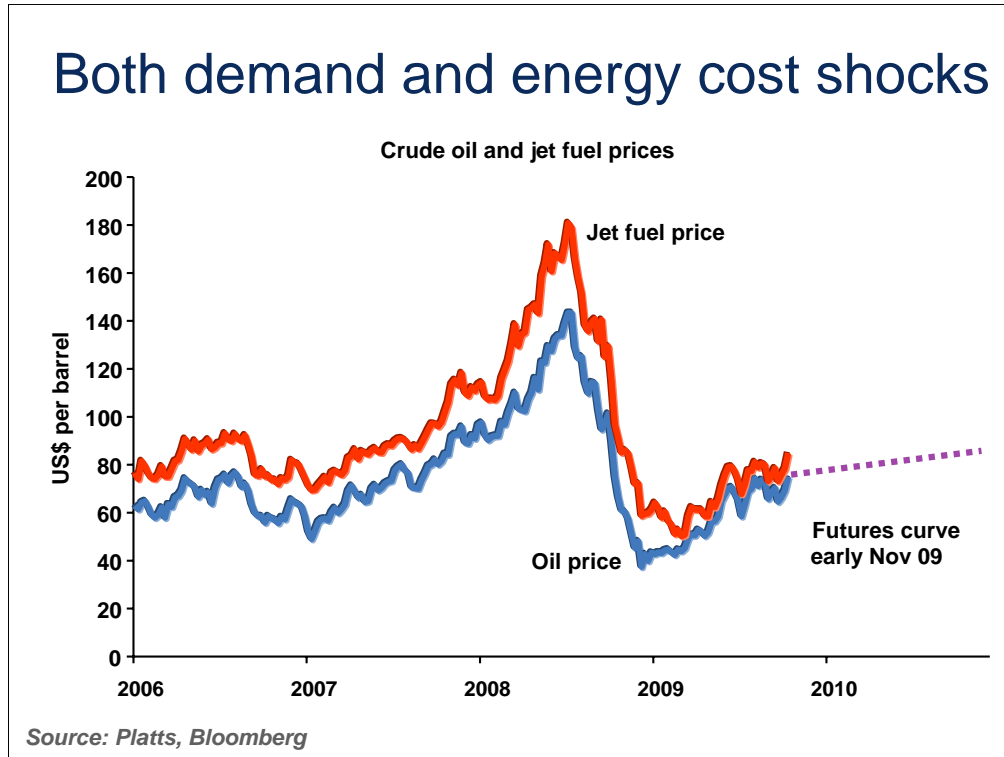


The past 2 years show the impact of unprecedented industry shocks



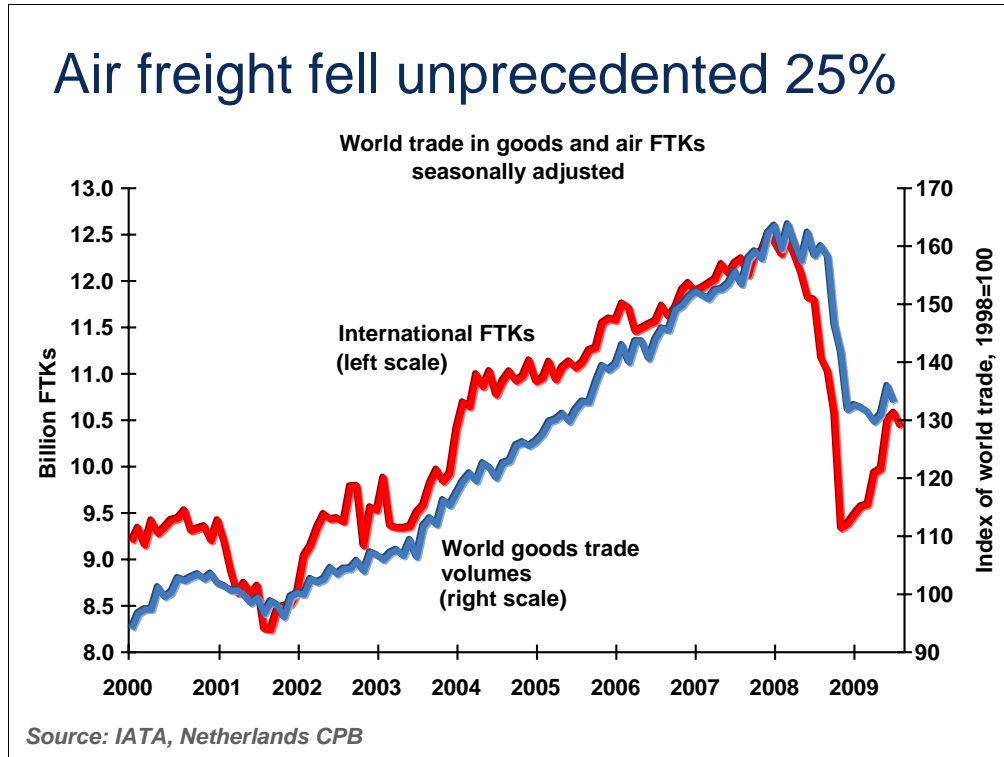
- The operating environment remains very difficult for airlines.
- Based on financial reports released publically so far airlines report net losses in the second quarter roughly twice the size of those from Q2 last year.
- Adding these to losses from the first quarter takes the total for the first half of the year to \$6 billion.

Both demand and energy cost shocks



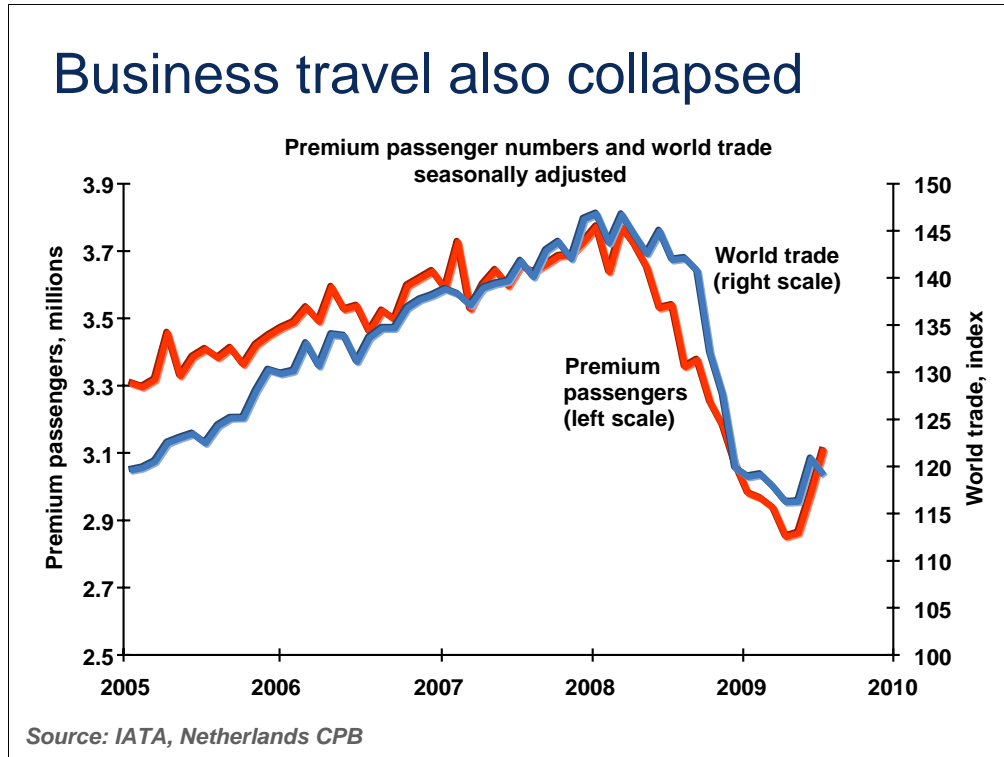
- Economic growth rates will return to positive territory next year but will remain weak – especially in the developed world.

Air freight fell unprecedented 25%



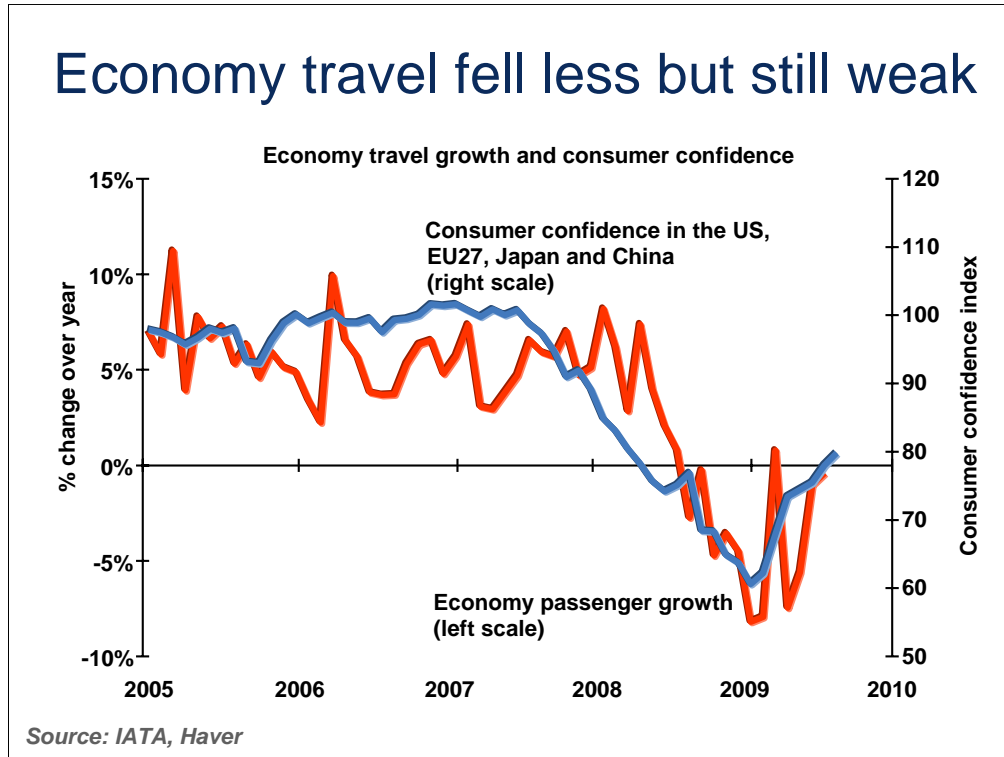
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Business travel also collapsed



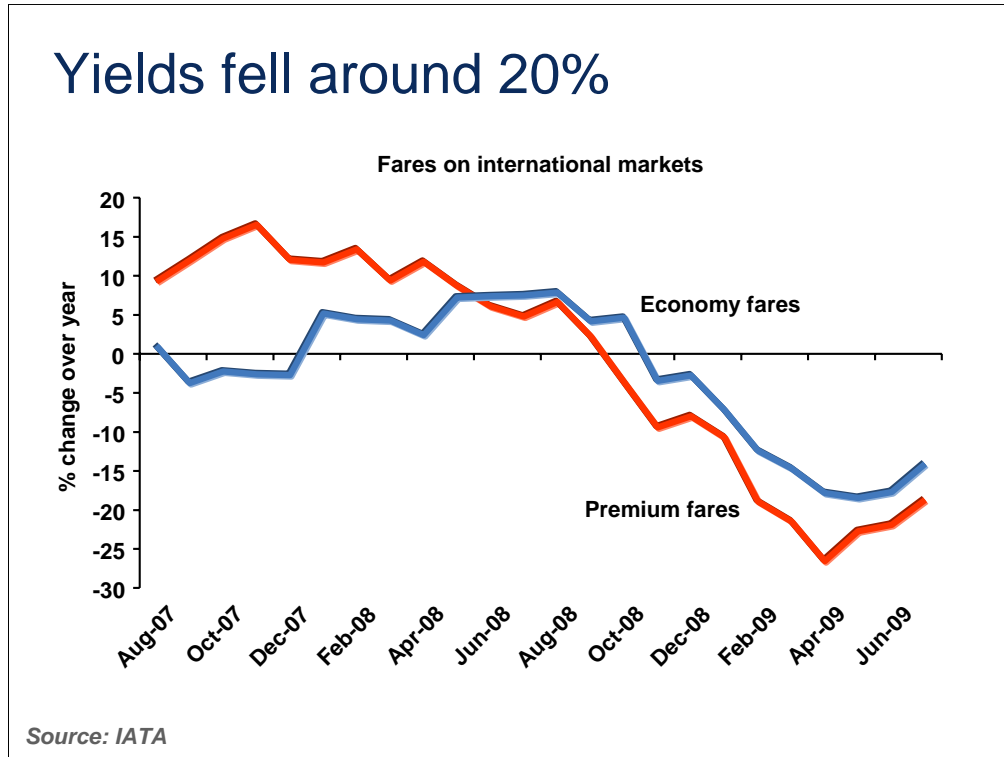
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Economy travel fell less but still weak



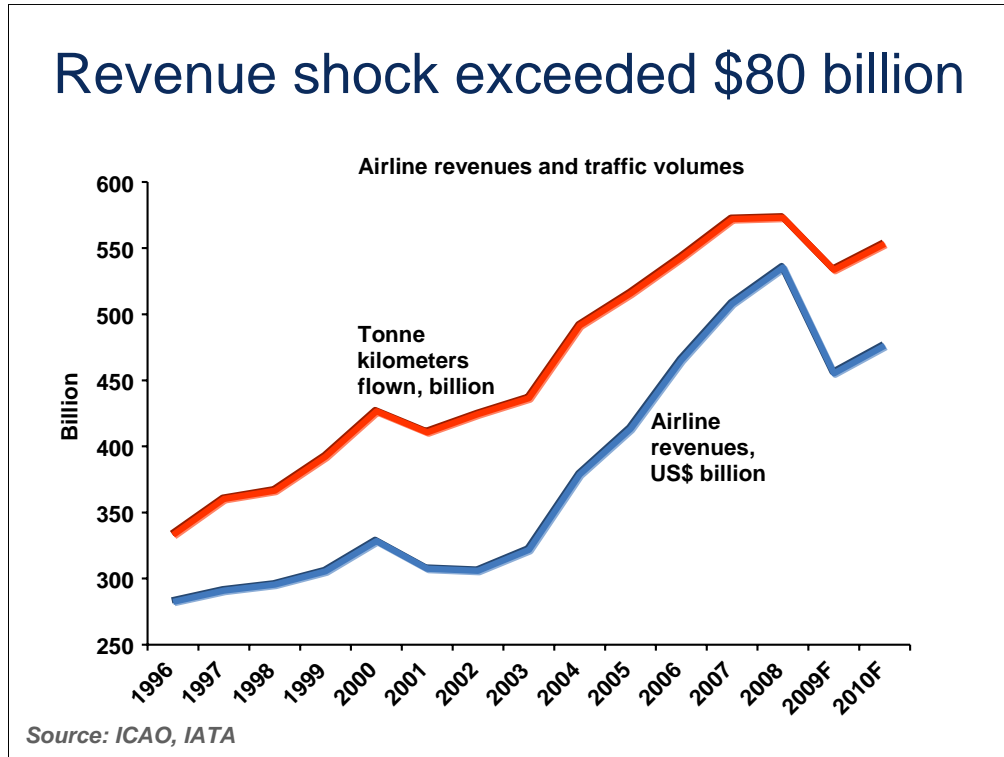
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Yields fell around 20%



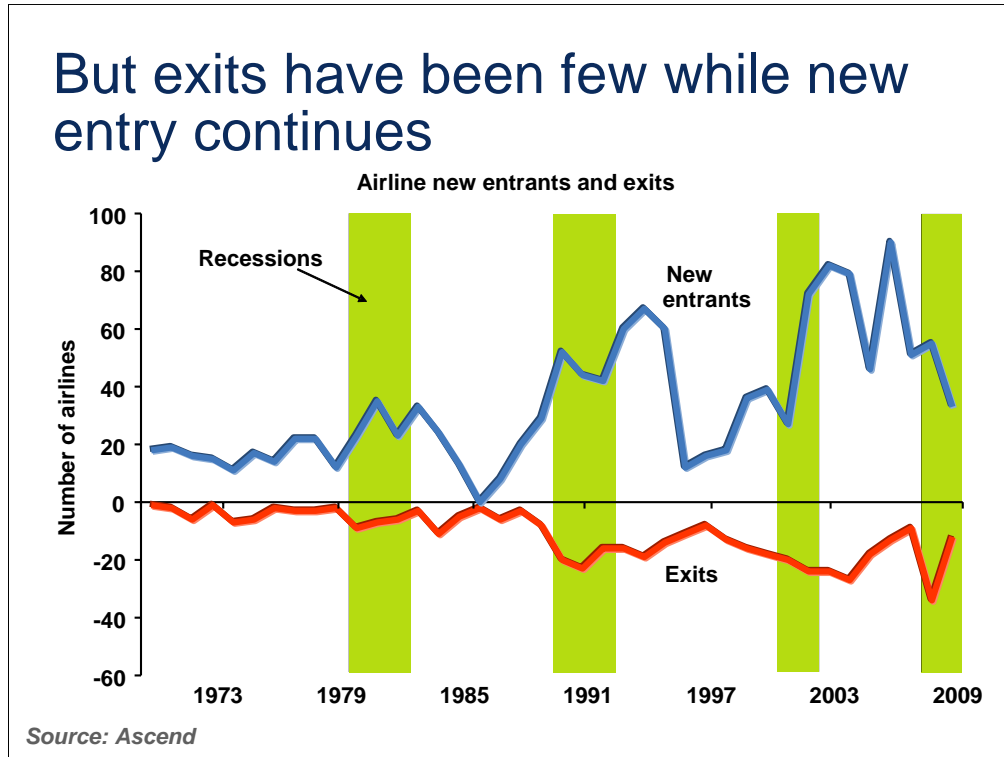
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Revenue shock exceeded \$80 billion



- Despite partial recovery in traffic next year, revenue growth will remain weak due to low yields.
- It will take several (2-3) years before industry revenues climb above those seen in 2008.

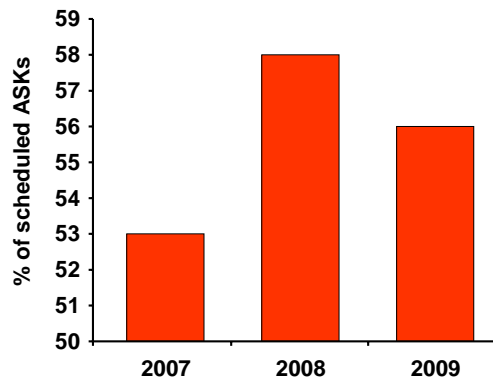
But exits have been few while new entry continues



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Airlines have tried to resize and reshape by turning to the alliances

Share of scheduled ASKs of One World, Star and Skyteam alliances



Source: SRS Analyser

More joined



One left



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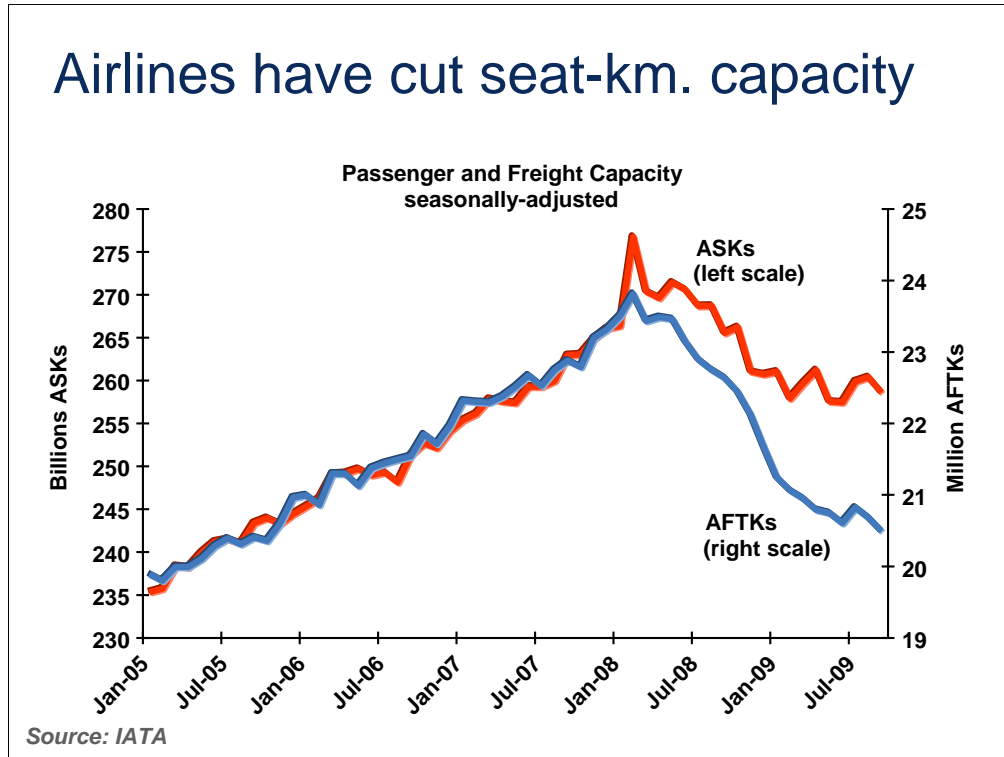
M&A has taken place but restructuring potential is limited



Source: Bloomberg

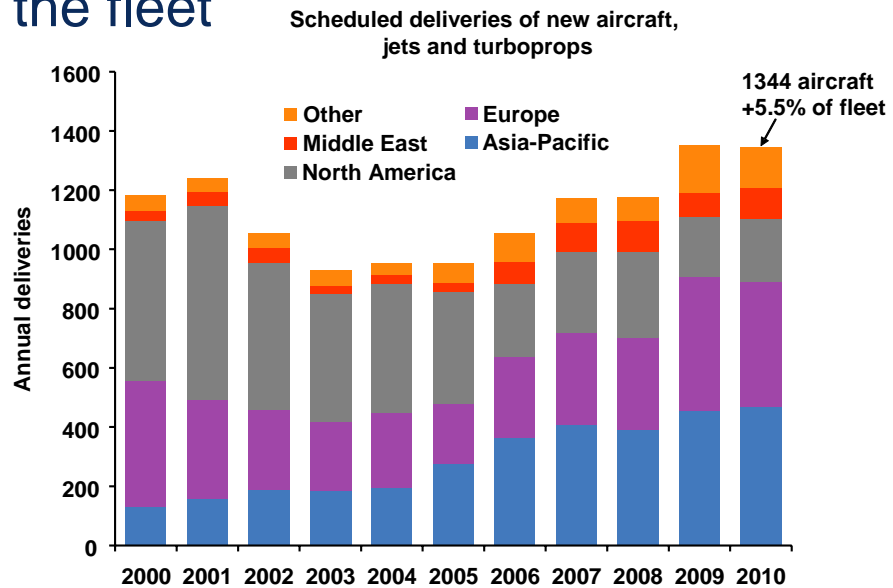
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Airlines have cut seat-km. capacity



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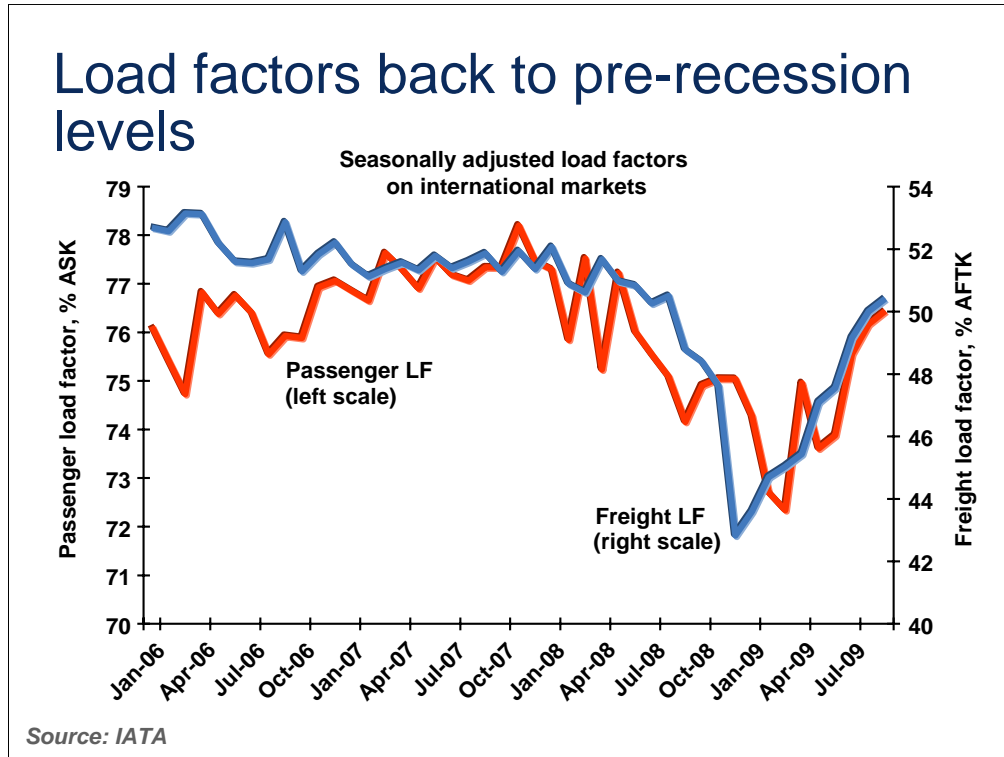
But it has not been possible to cut the fleet



Source: Ascend

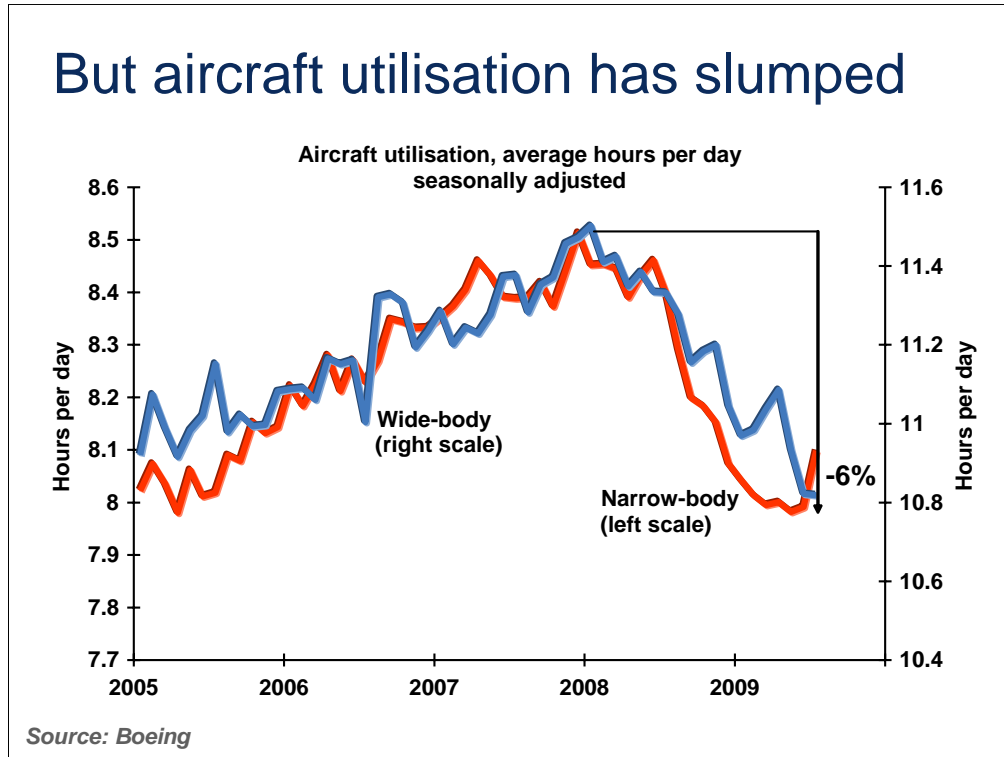
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Load factors back to pre-recession levels



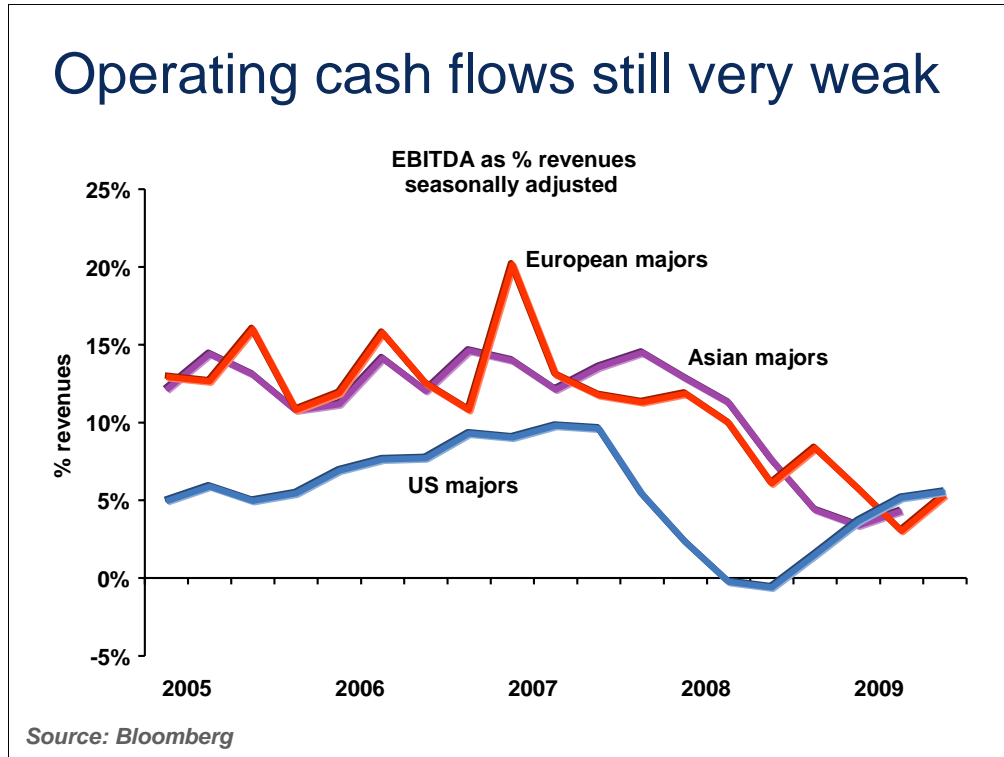
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But aircraft utilisation has slumped



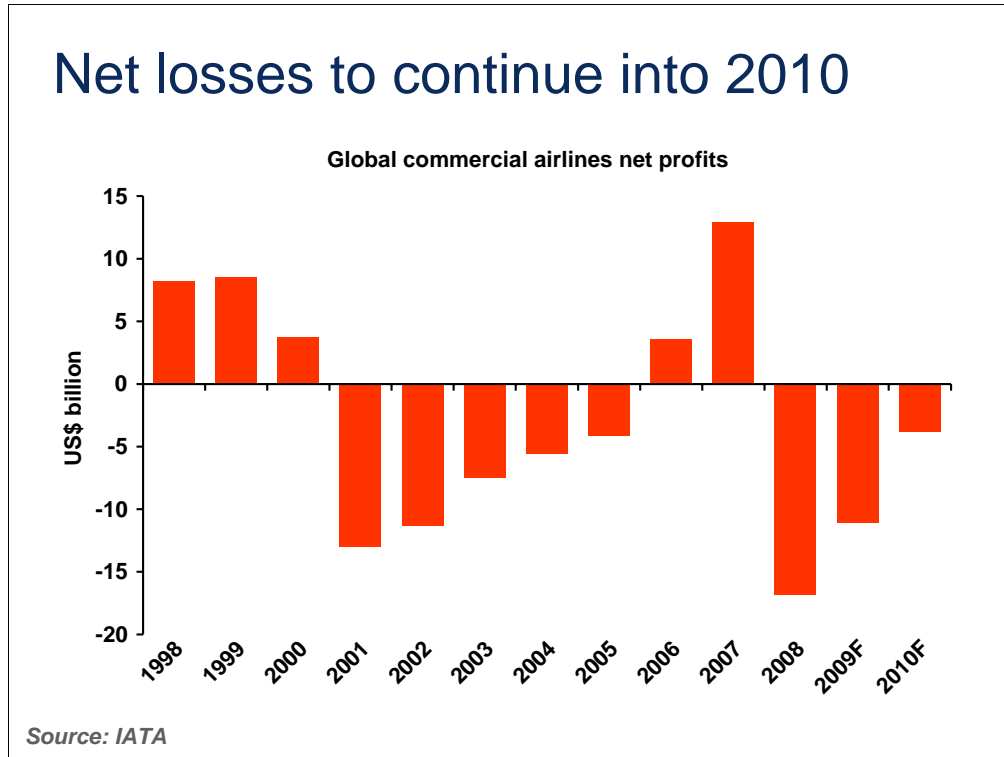
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Operating cash flows still very weak



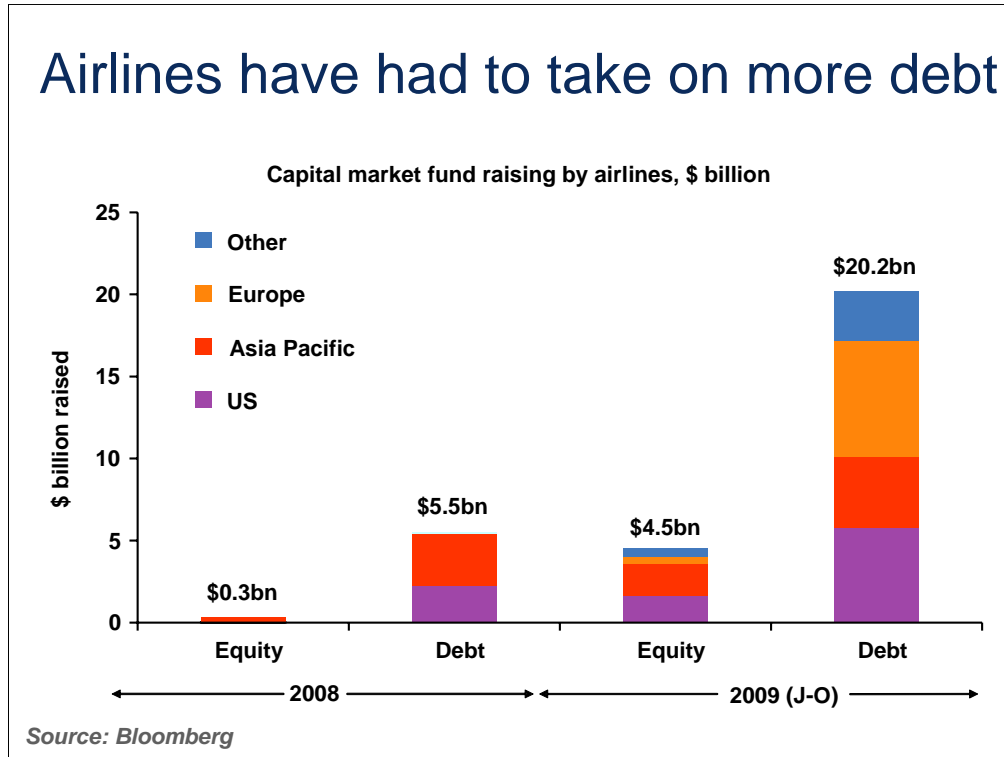
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Net losses to continue into 2010



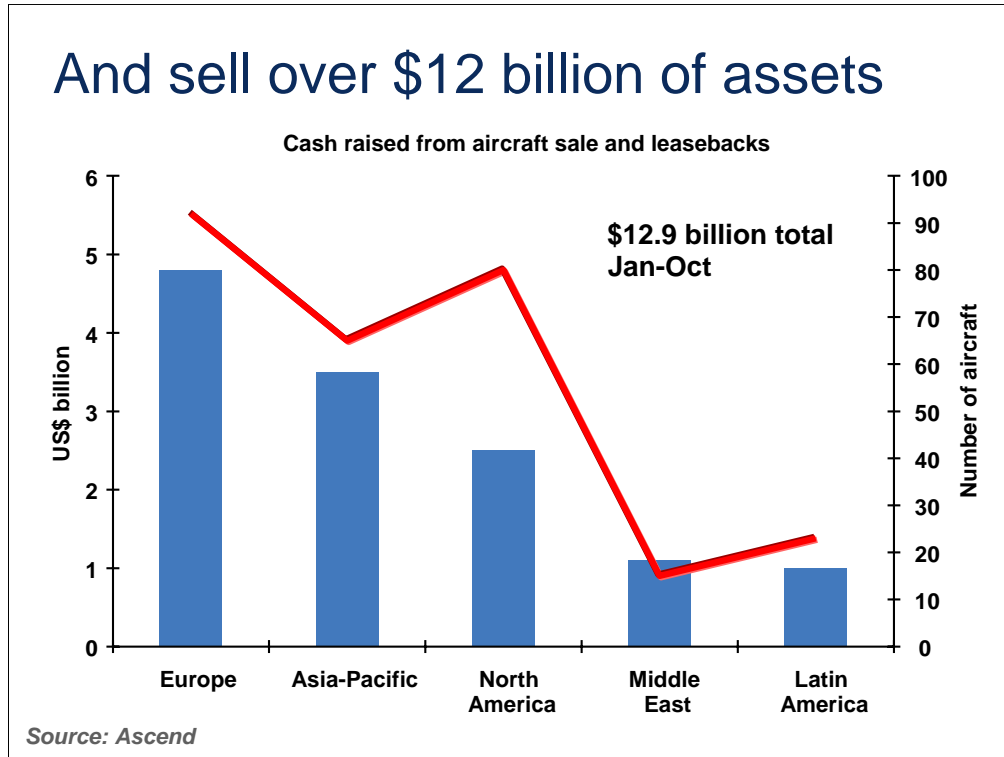
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Airlines have had to take on more debt



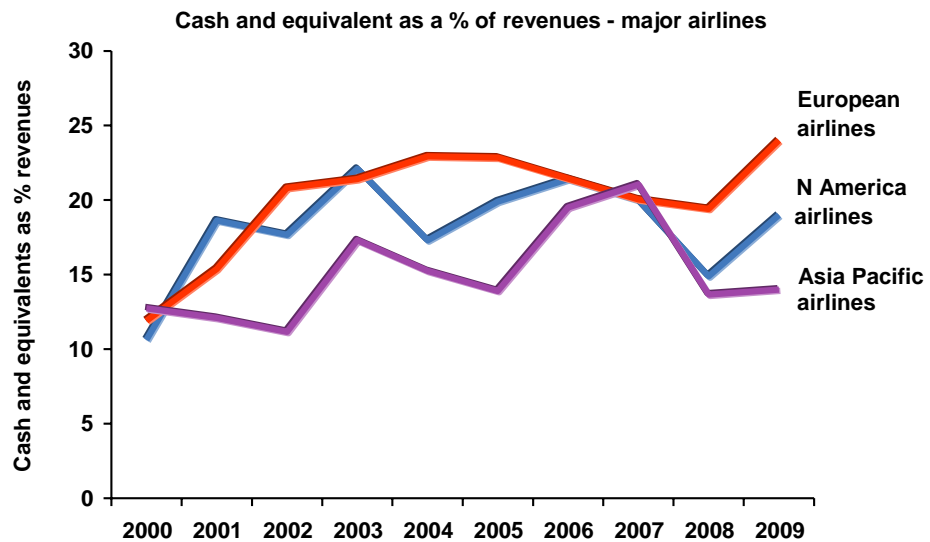
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And sell over \$12 billion of assets



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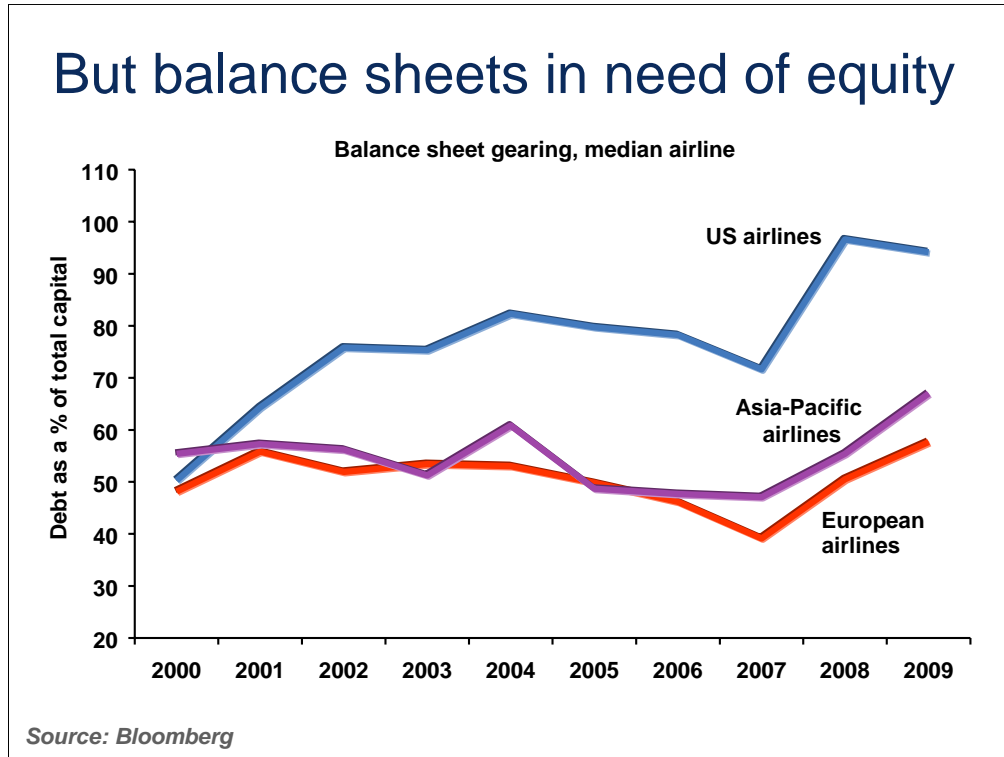
This has raised cash balances



Source: Bloomberg, Airline reports

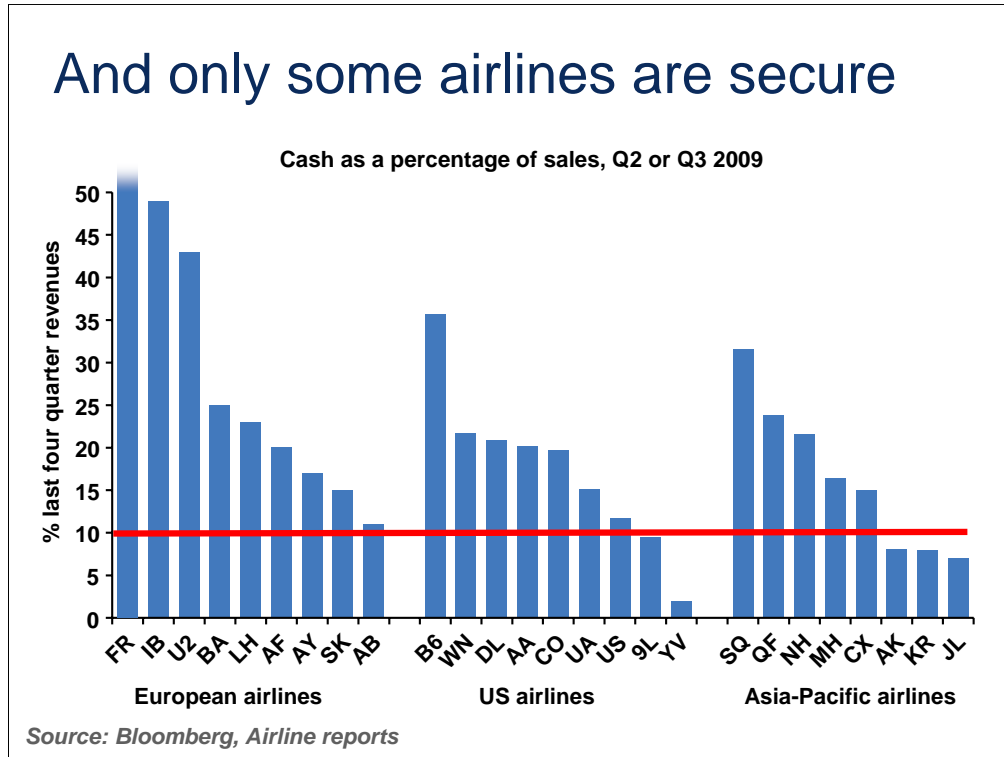
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But balance sheets in need of equity



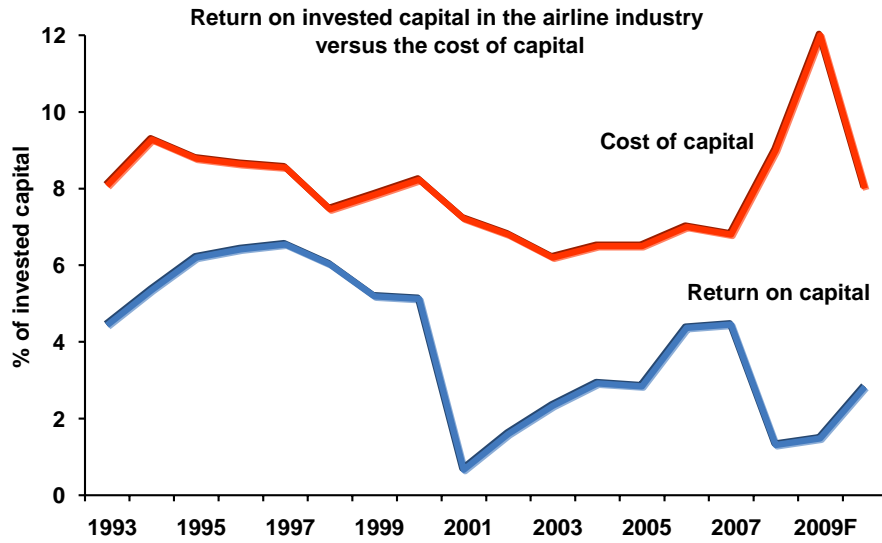
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And only some airlines are secure



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But even in good years returns are too low: risking wider economic benefits



Source: IATA, Haver

We commissioned independent economic studies for 12 economies



Source: IATA

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