



ECONOMIC OUTLOOK

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Chairman's Opening Remarks

**William Pershke, Head, IDFS Development
and Performance, IATA**



Welcome Address

Dr. Emre Serpen, Executive Vice President,
InterVISTAS Consulting Group



Inter*VISTAS*

IATA Cargo Conference

Presented by

Dr. Emre Serpen

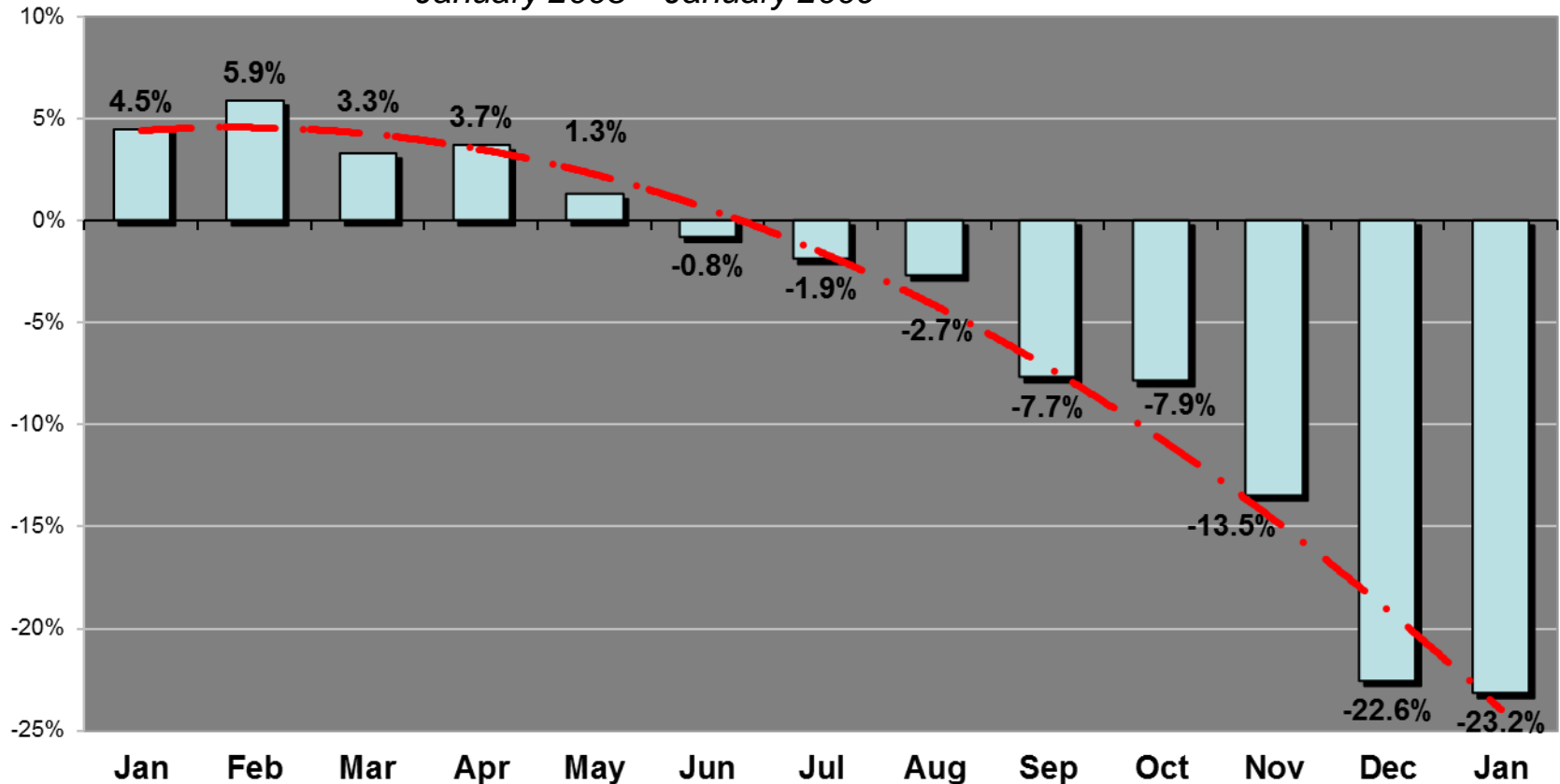
Executive Vice President

March 8 , 2011

...in 2008 world air cargo market looked bleak

YoY
Percent Change

Air Freight Traffic
January 2008 – January 2009



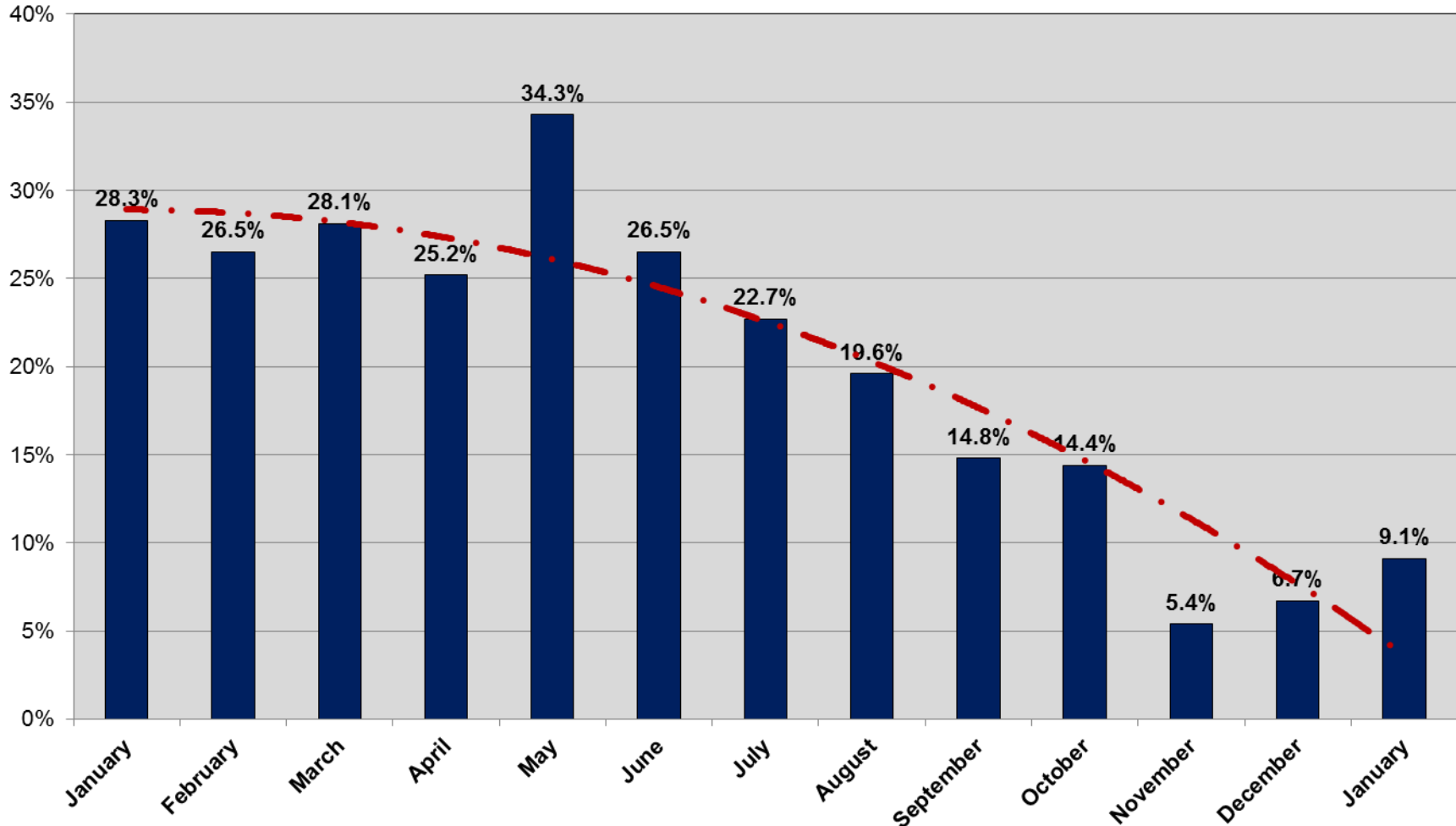
Source: International Air Transport Association

However compared with 2009 world air cargo market expected to grow approx 5.9 % per annum over the next 20 years

Air Freight Traffic Shows Normalisation of cargo traffic in recent months, as high yoy growth rates was due to recovery from recession

YoY
Percent Change

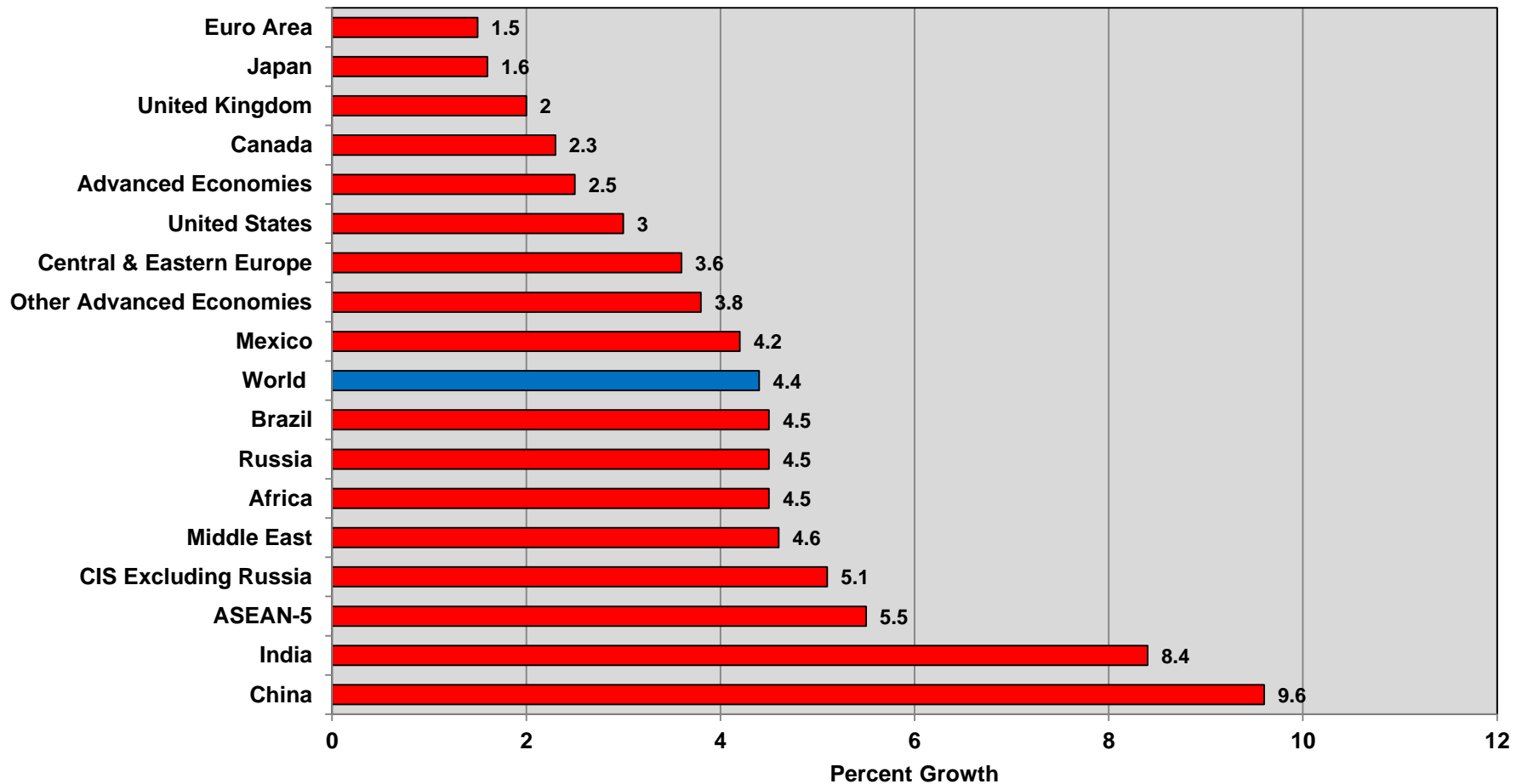
Air Freight Traffic
January 2010 – January 2011



Source: International Air Transport Association

IMF sees strong growth in emerging markets such as India and China

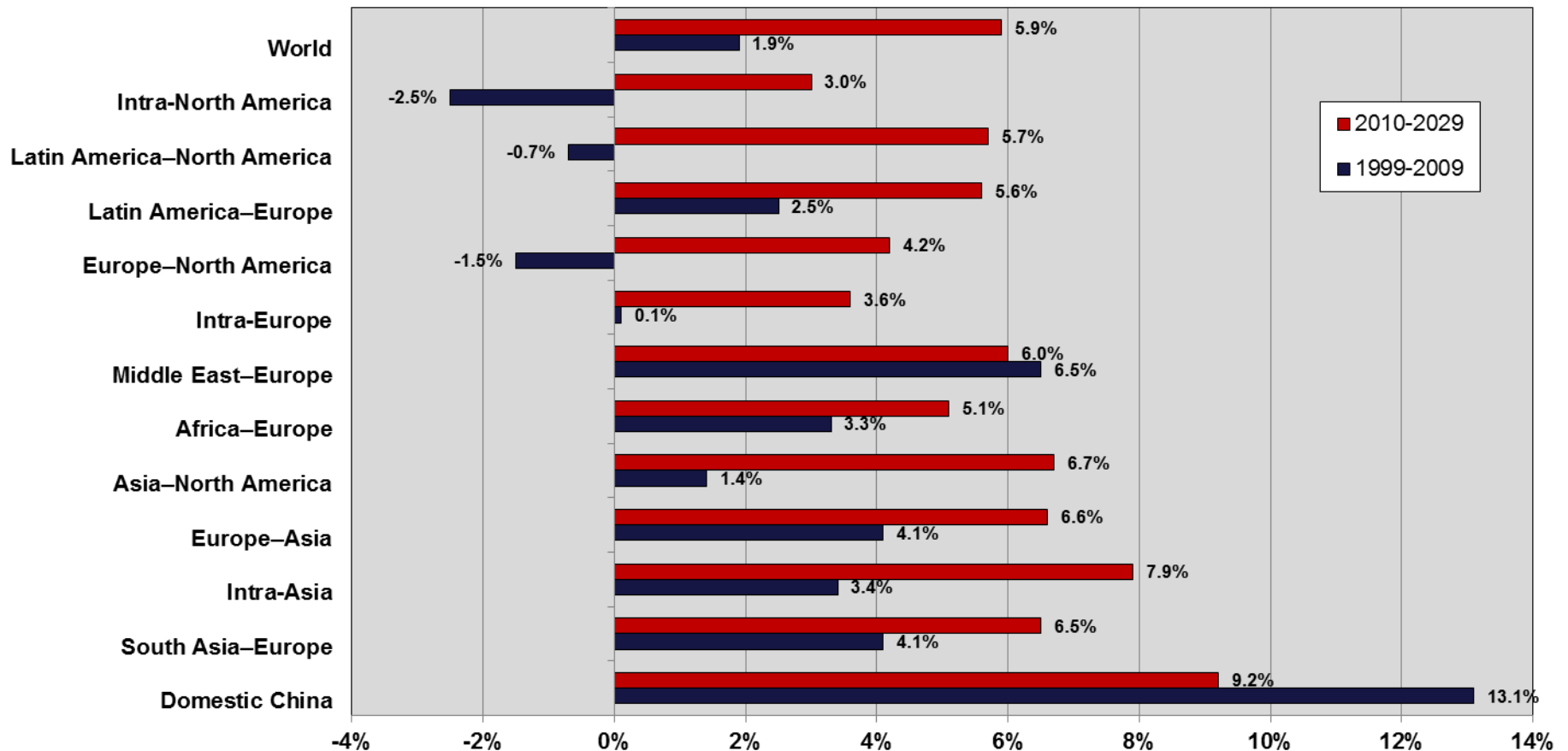
World Economic Outlook Projections (GDP)
2011 Estimates



Asian and Middle Eastern Markets are among fastest growth markets

World Air Cargo Forecast (RTKs)

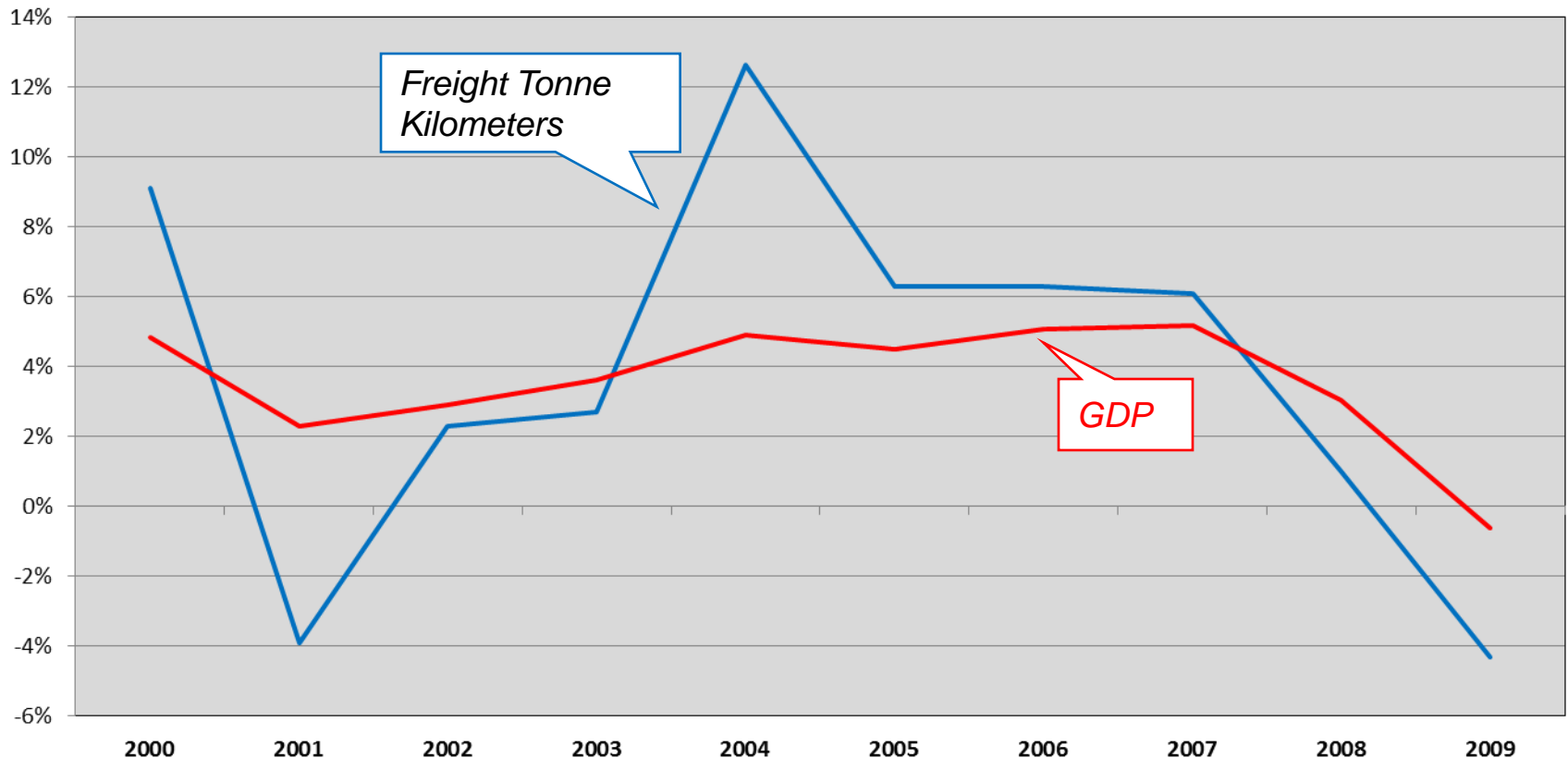
CY 1999 – 2009 (Historical) and CY 2010 – CY 2029 (Long-Term Forecast)



Since 2004, the historical relationship between GDP and air freight volume growth has deteriorated

YoY Percent Growth in Freight Tonne Kilometers vs. World GDP
CY 2000 – CY 2009

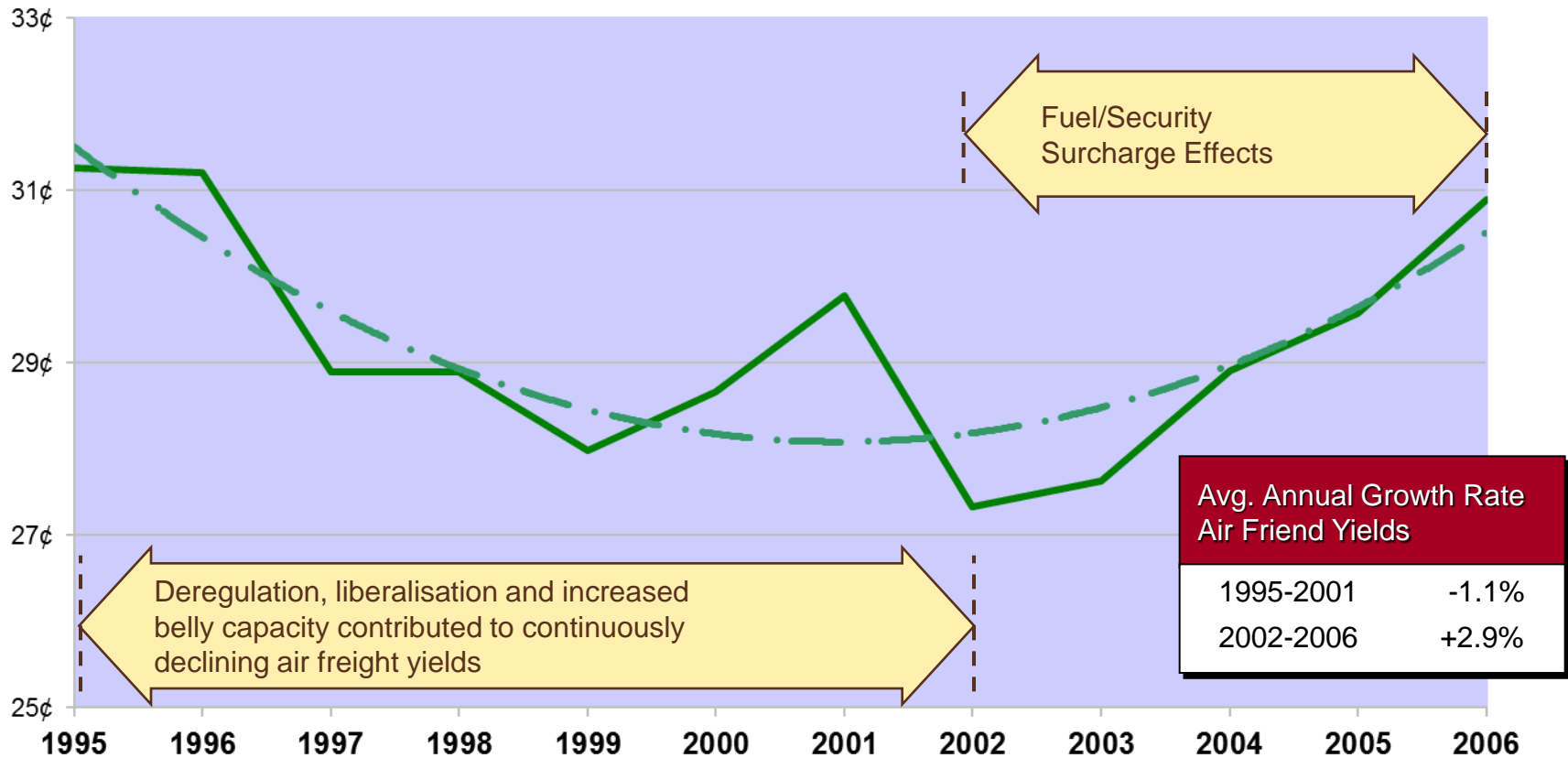
YoY
Percent Growth



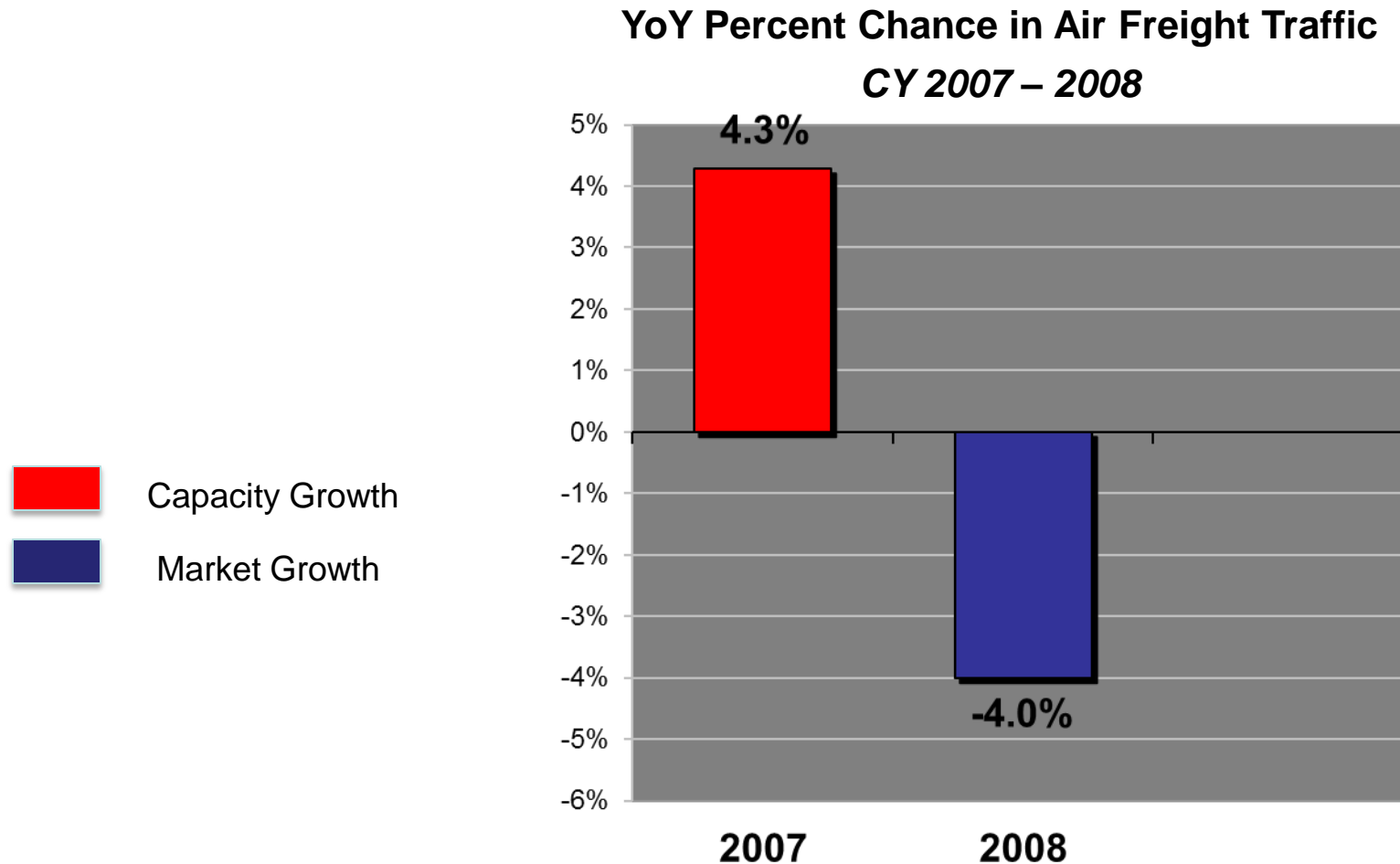
Air freight yields continued to rise thru 2008 with increasing fuel prices than fell 22% 2009 with falling fuel prices

Air Freight Yield
(USD ¢)

Air Freight Operating Revenues per RTK
CY 1995 – CY 2007



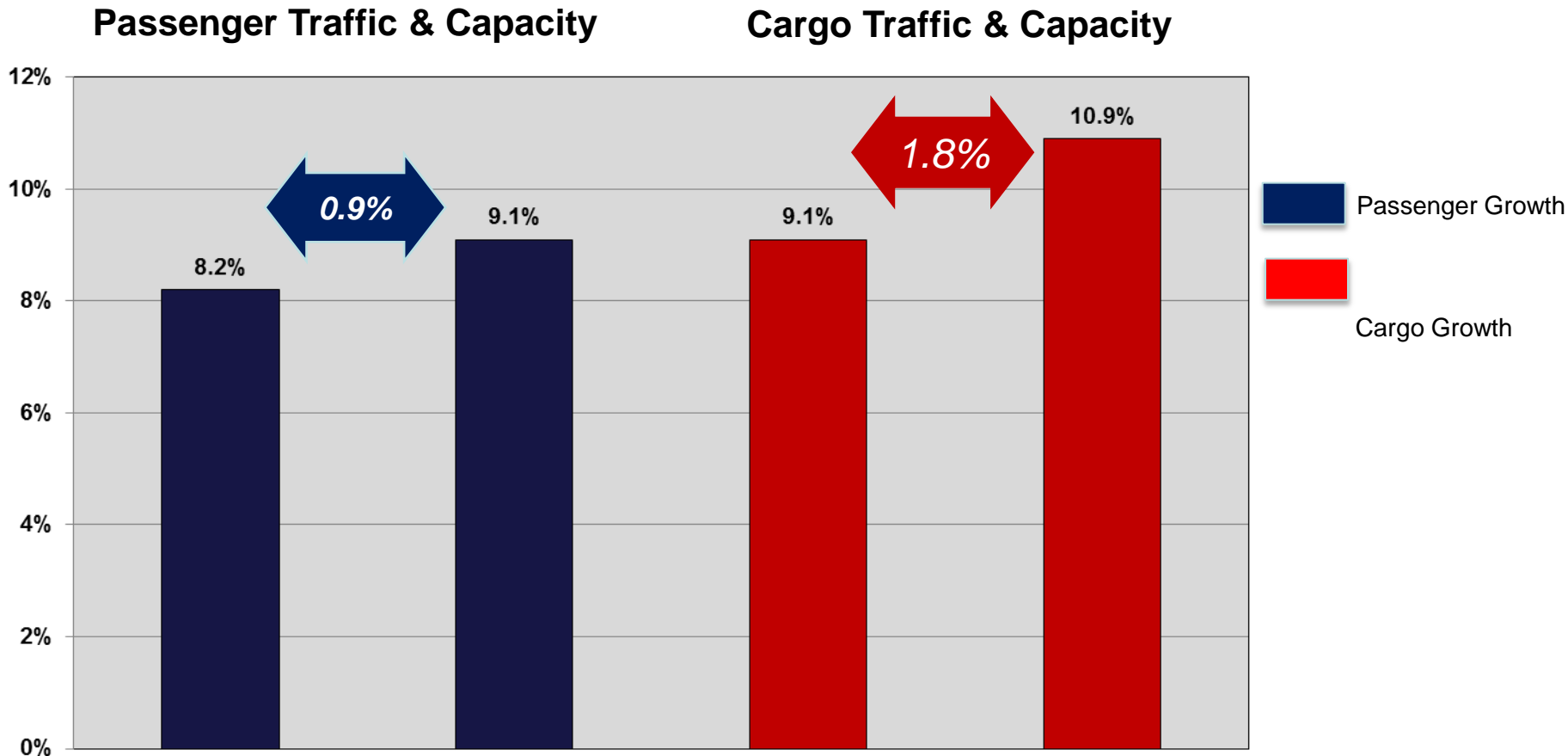
Few years ago compared to passenger airlines cargo airlines were slow in executing capacity adjustments



Source: International Air Transport Association

Cargo Airlines are now doing much better job matching cargo capacity with demand

YoY Percent Change in Traffic and Capacity – Passenger vs. Cargo
January 2011 vs. January 2010

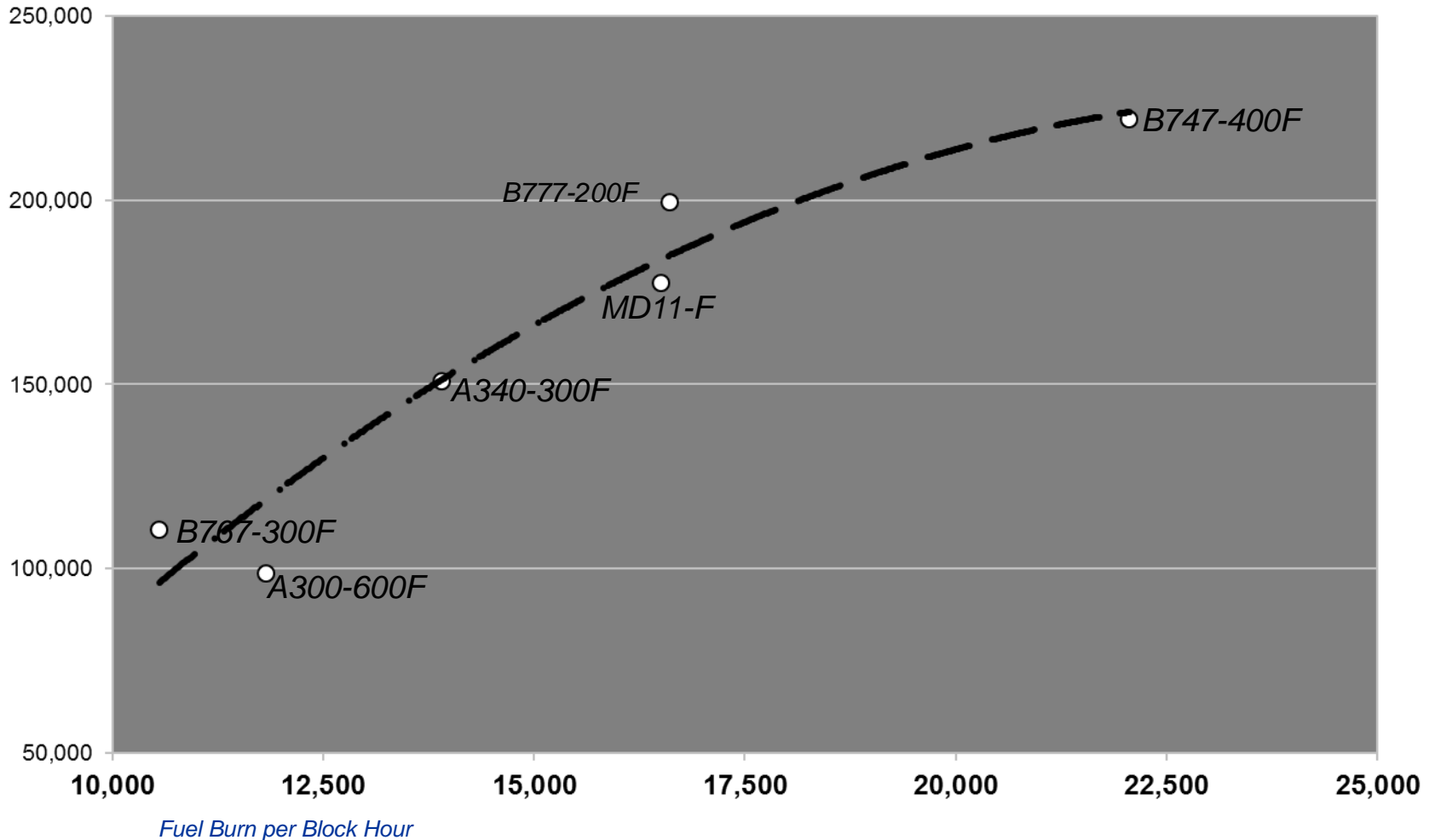


Commercial decision making, Balancing Yield, Price and Service

Operating freighter efficiency critical for profitable operation

Net Payload
(lbs)

Net Payload vs. Fuel Burn per Block Hour for Select Freighter Types

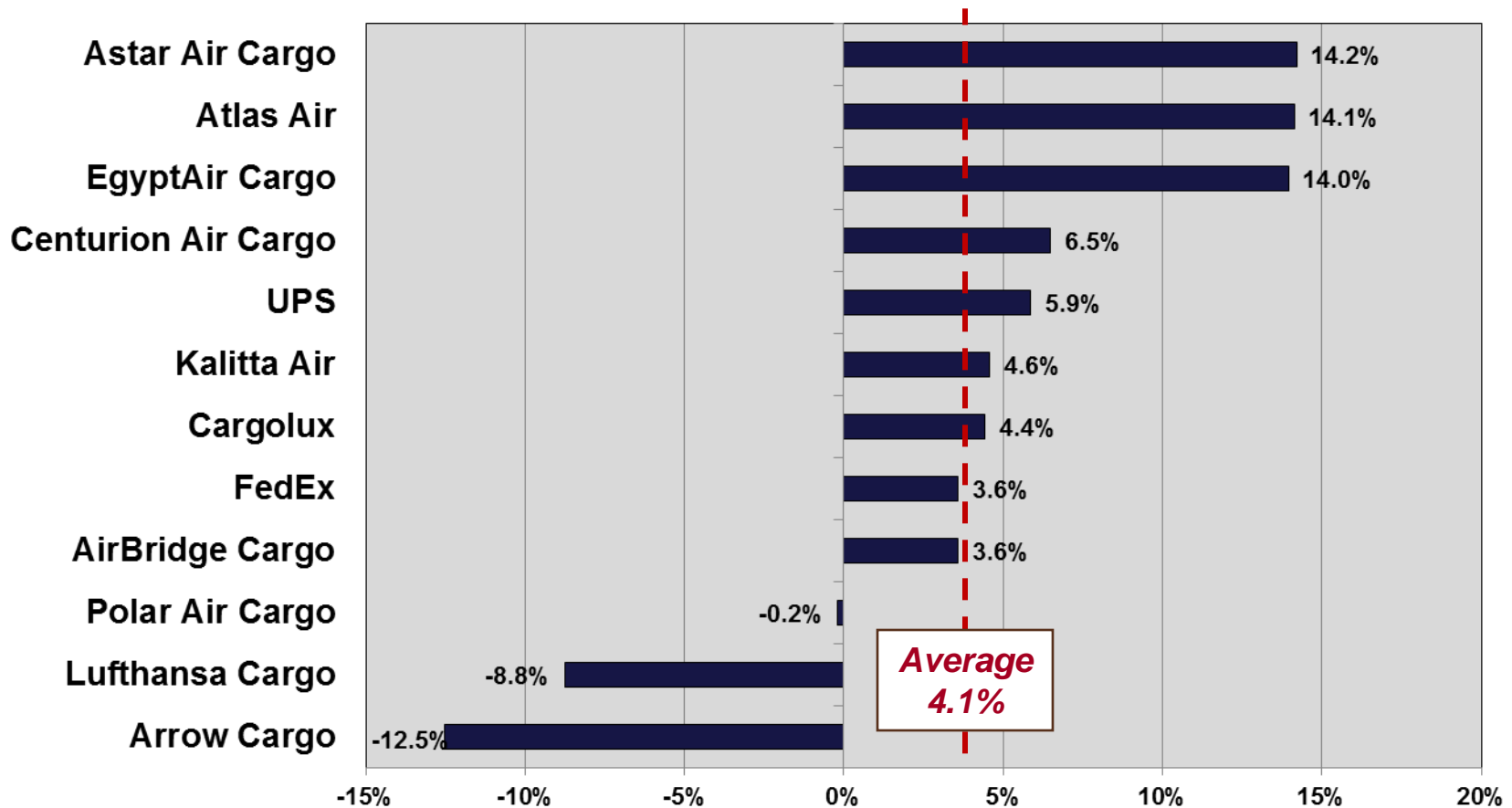


Source: DAC; Note: Fuel burn and net payload at 2,500 km
(net payload at 8.5 lb/cu ft); Boeing

Fleet Trends

Opportunities for improving ' margins with better commercial decisions, route/yield management, fleet mix, and working with other carriers/alliances

Operating Margin for Select Cargo Operators
FY 2009



The logo consists of the text "InterVISTAS" in a serif font, with "Inter" in black and "VISTAS" in red. A red curved line starts below the text and extends to the right.

InterVISTAS

The background features a blue sky with a mountain range. Overlaid on this are several red and white curved lines, some solid and some dotted, creating a sense of motion and connectivity.

Thank You

www.InterVISTAS.com



Keynote: Economic Trends

Brian Pearce, Chief Economist, IATA



Economic outlook: cyclical, capacity and structural issues



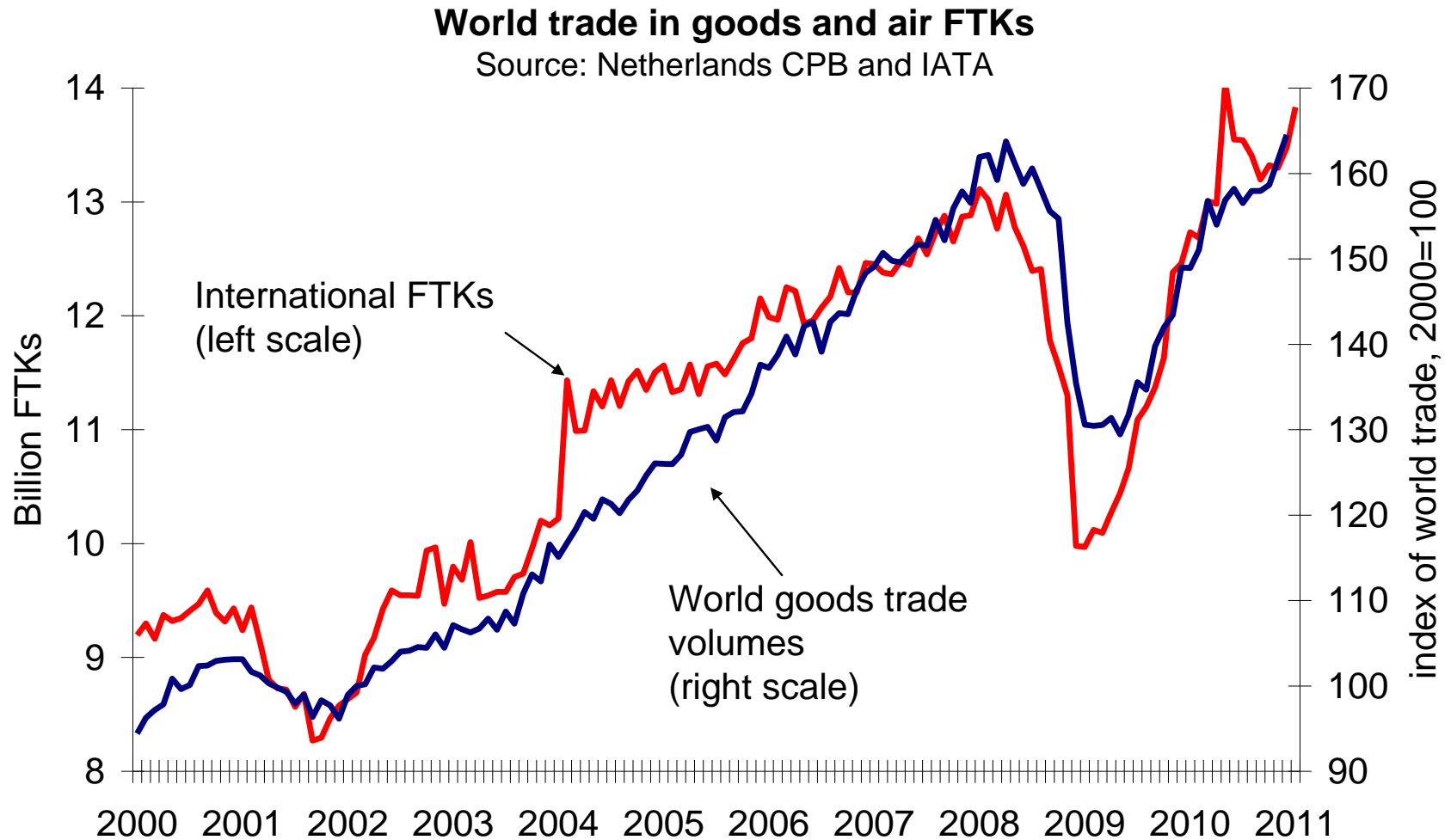
March 2011

Brian Pearce

www.iata.org/economics

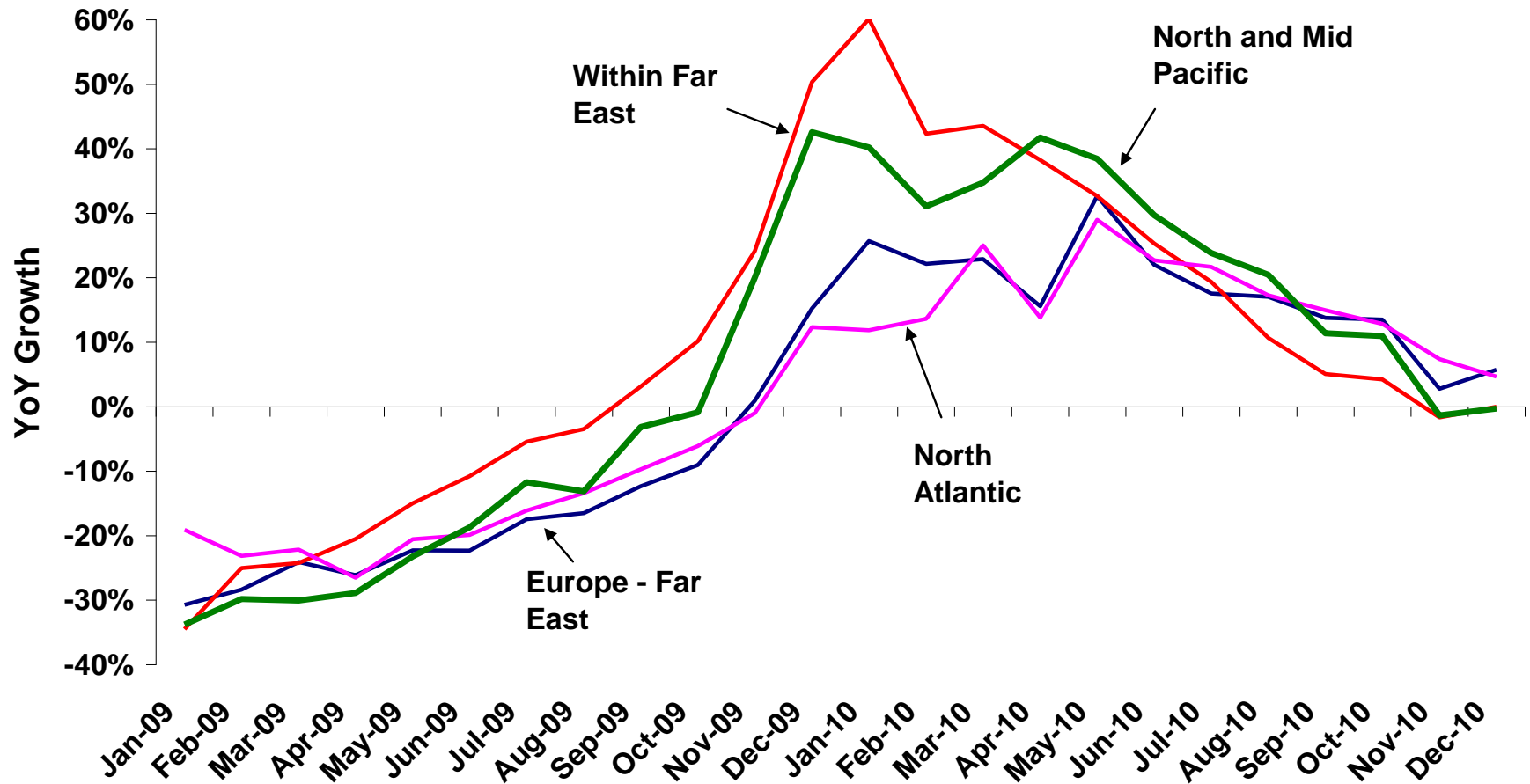
To represent, lead and serve the airline industry

Renewed trade expansion but how fast?



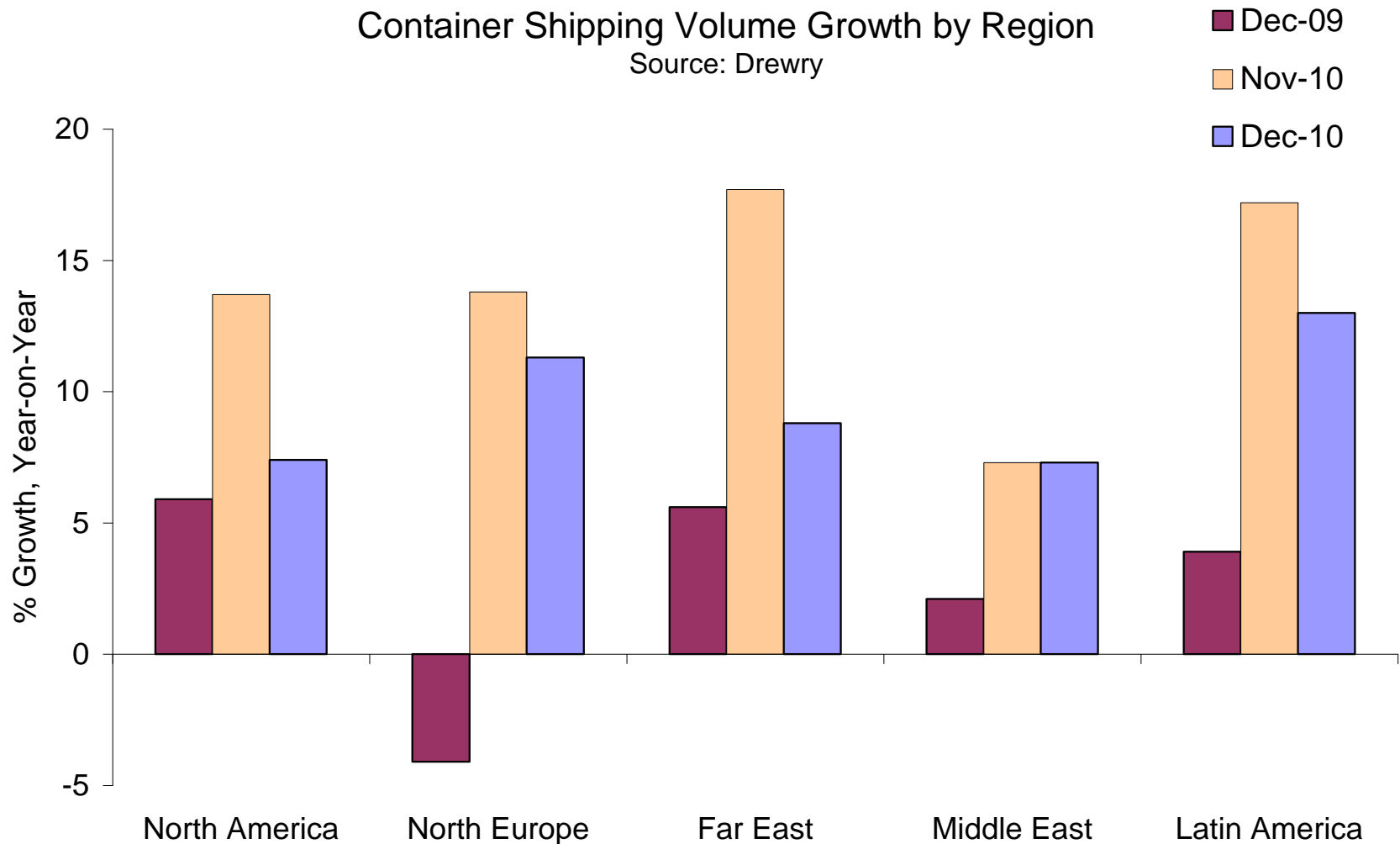
A much slower growth environment for air

International Freight growth by major routes
Source: IATA ODS

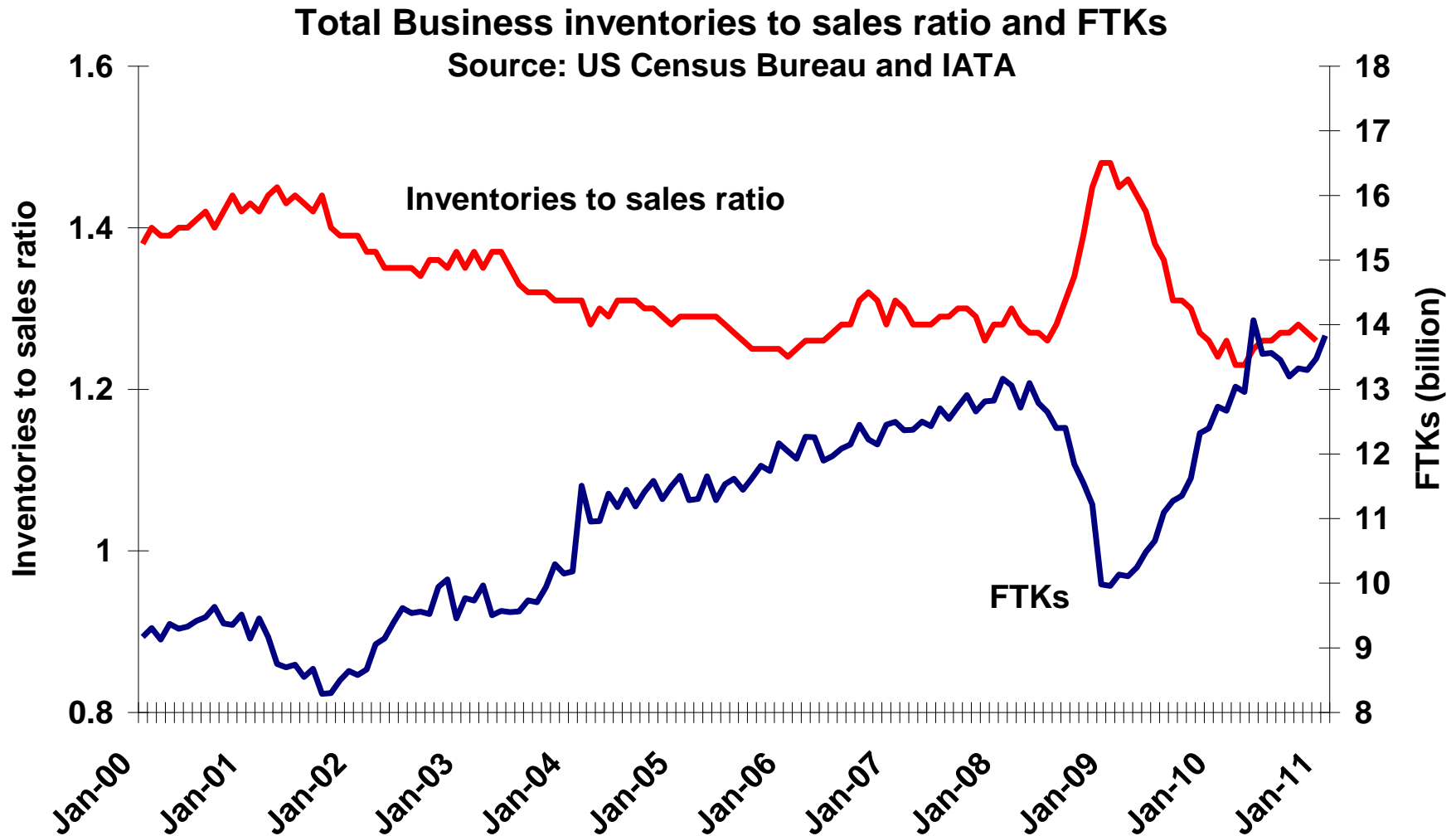


Ocean freight regaining lost share

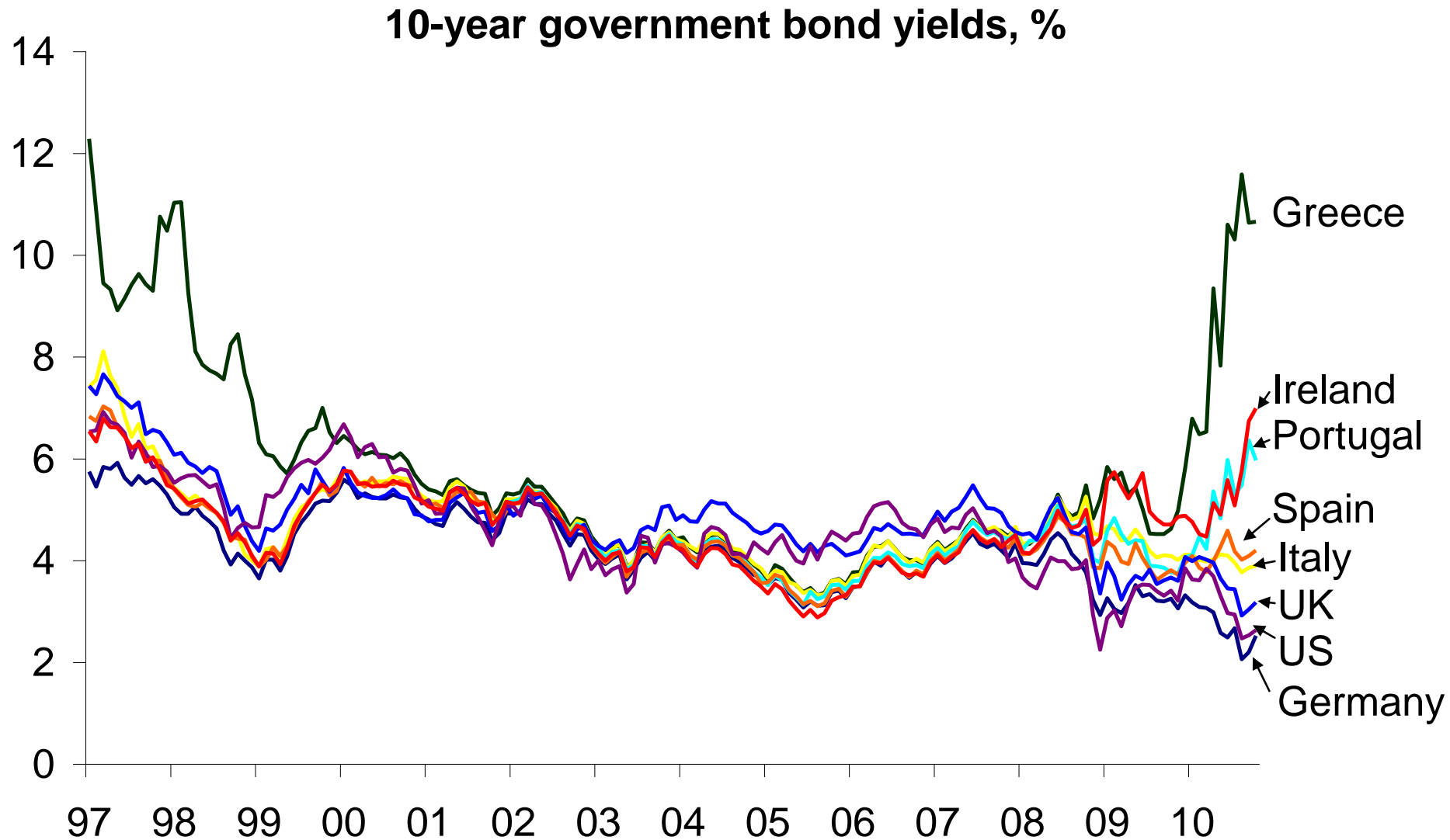
Container Shipping Volume Growth by Region
Source: Drewry



Now that business restocking is over

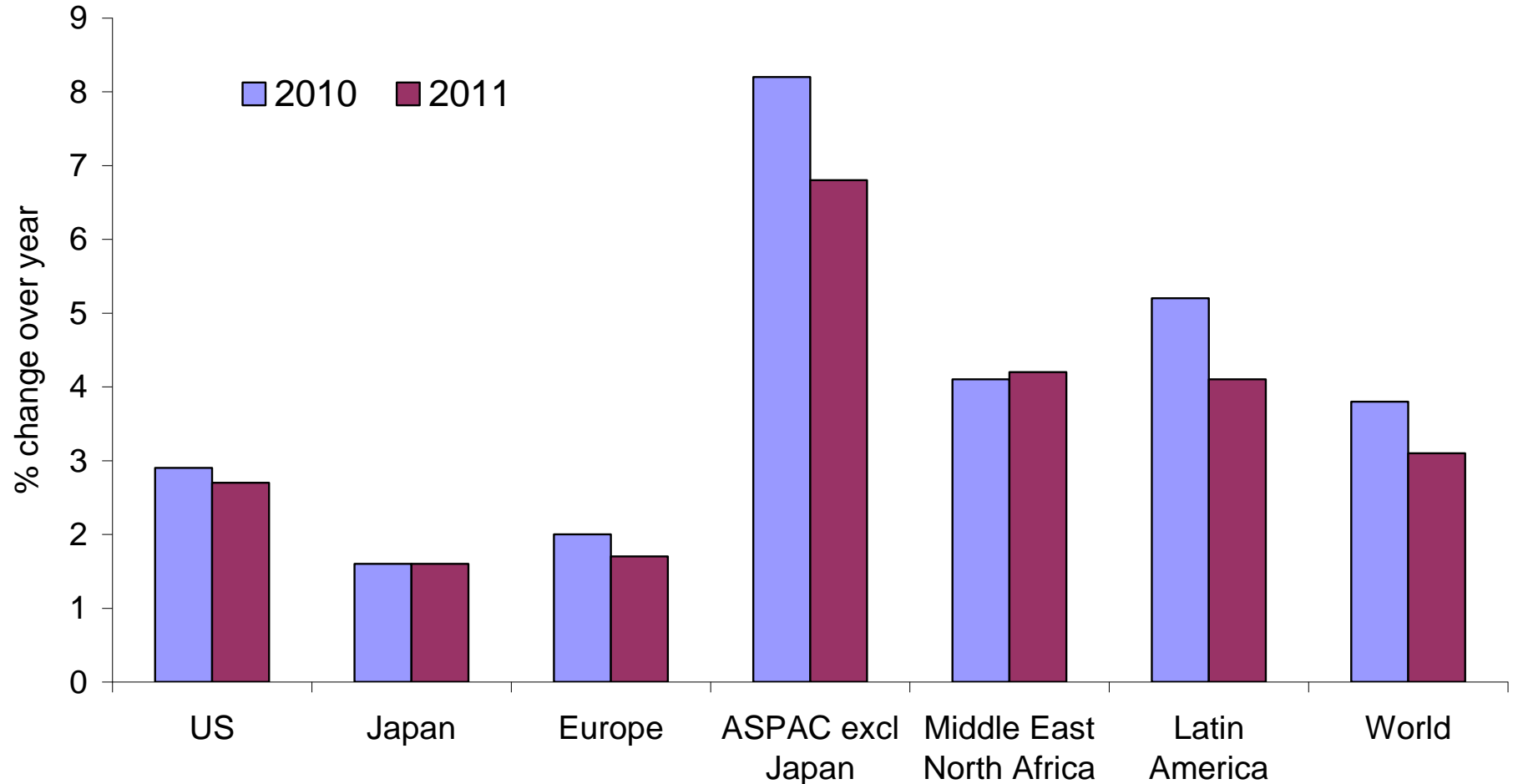


Europe's economic situation remains risky

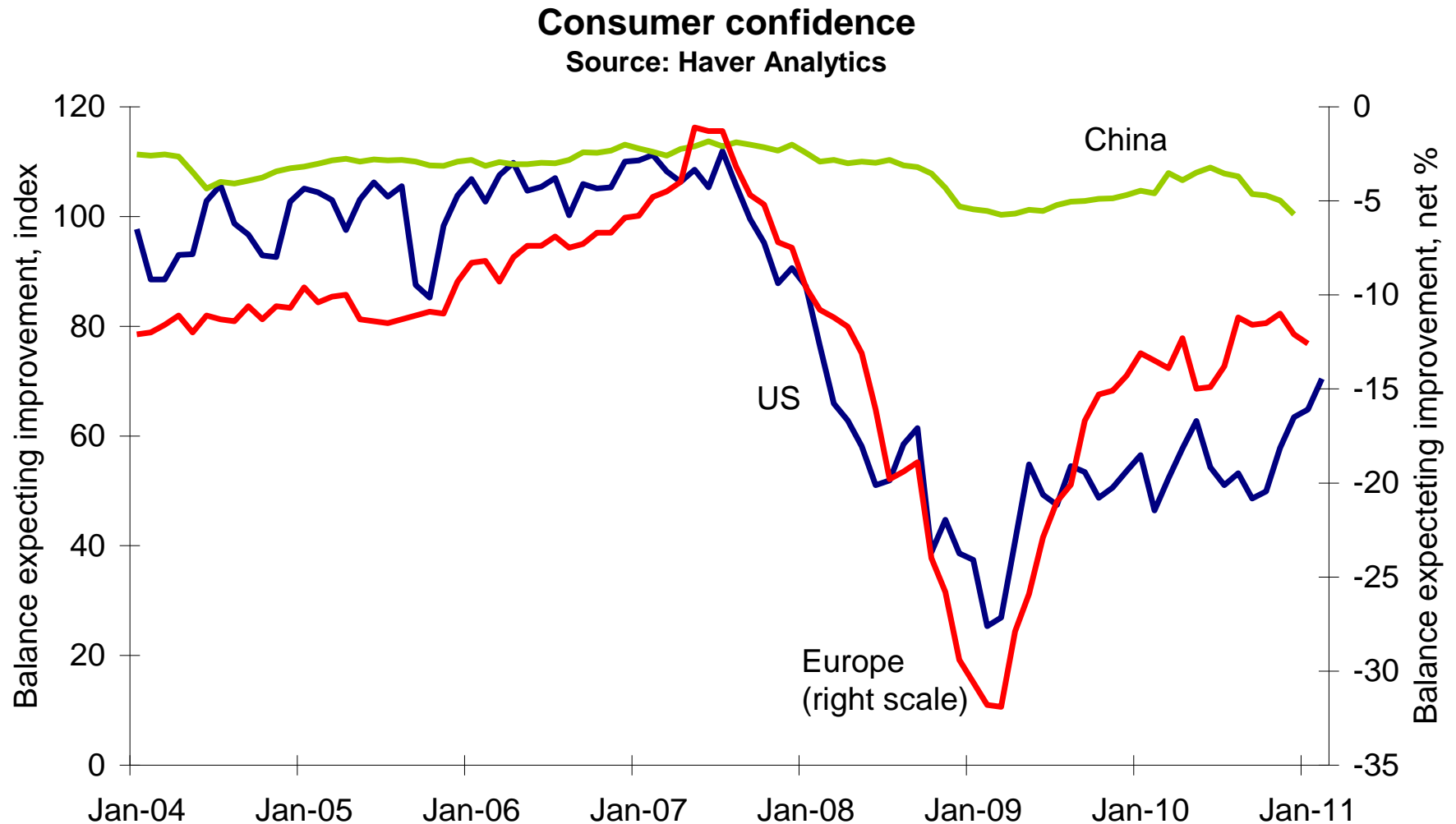


Economic forecasts still relatively rosy

Forecasts for GDP growth
Source: EIU

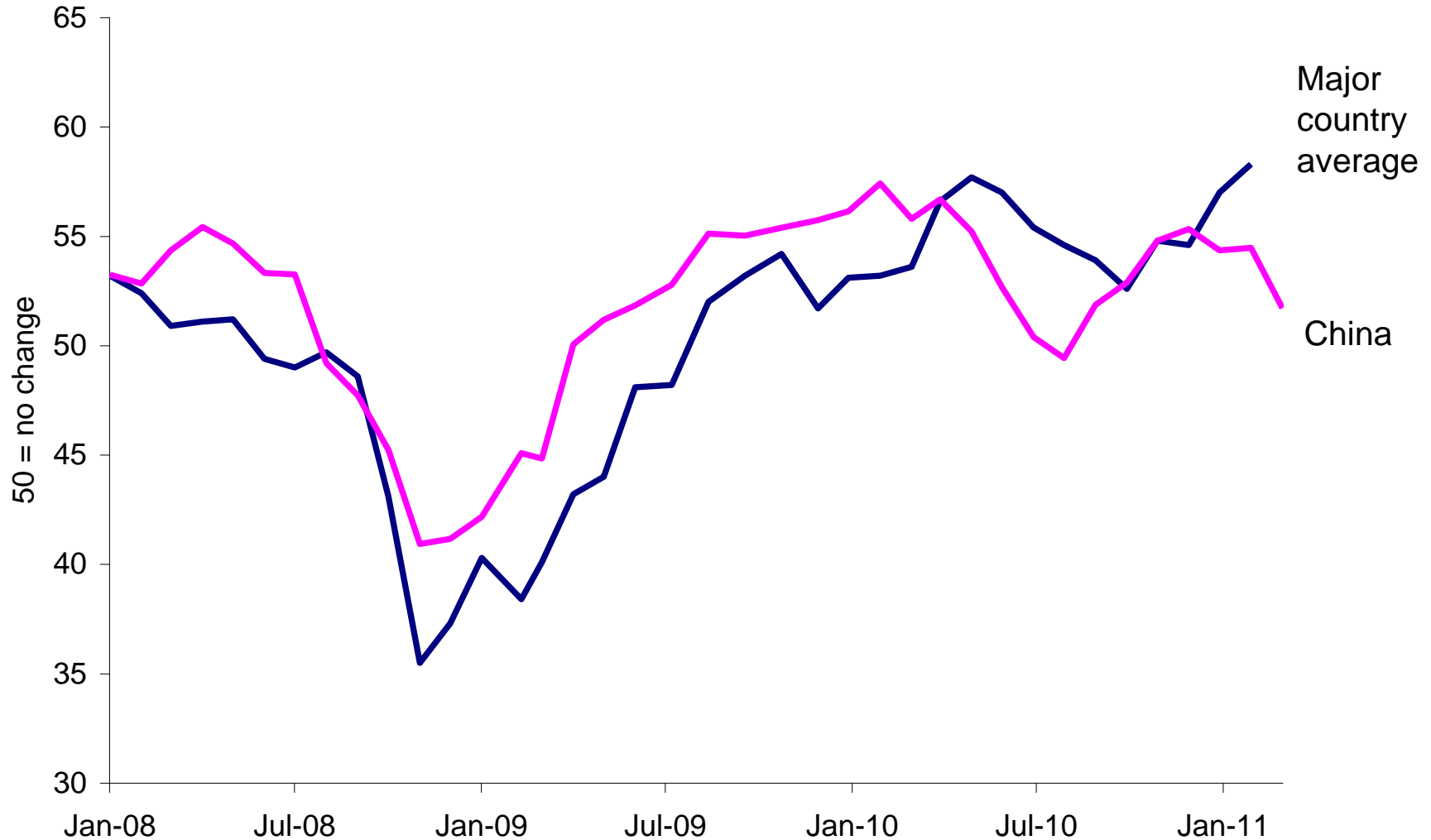


Mixed picture for the consumer demand

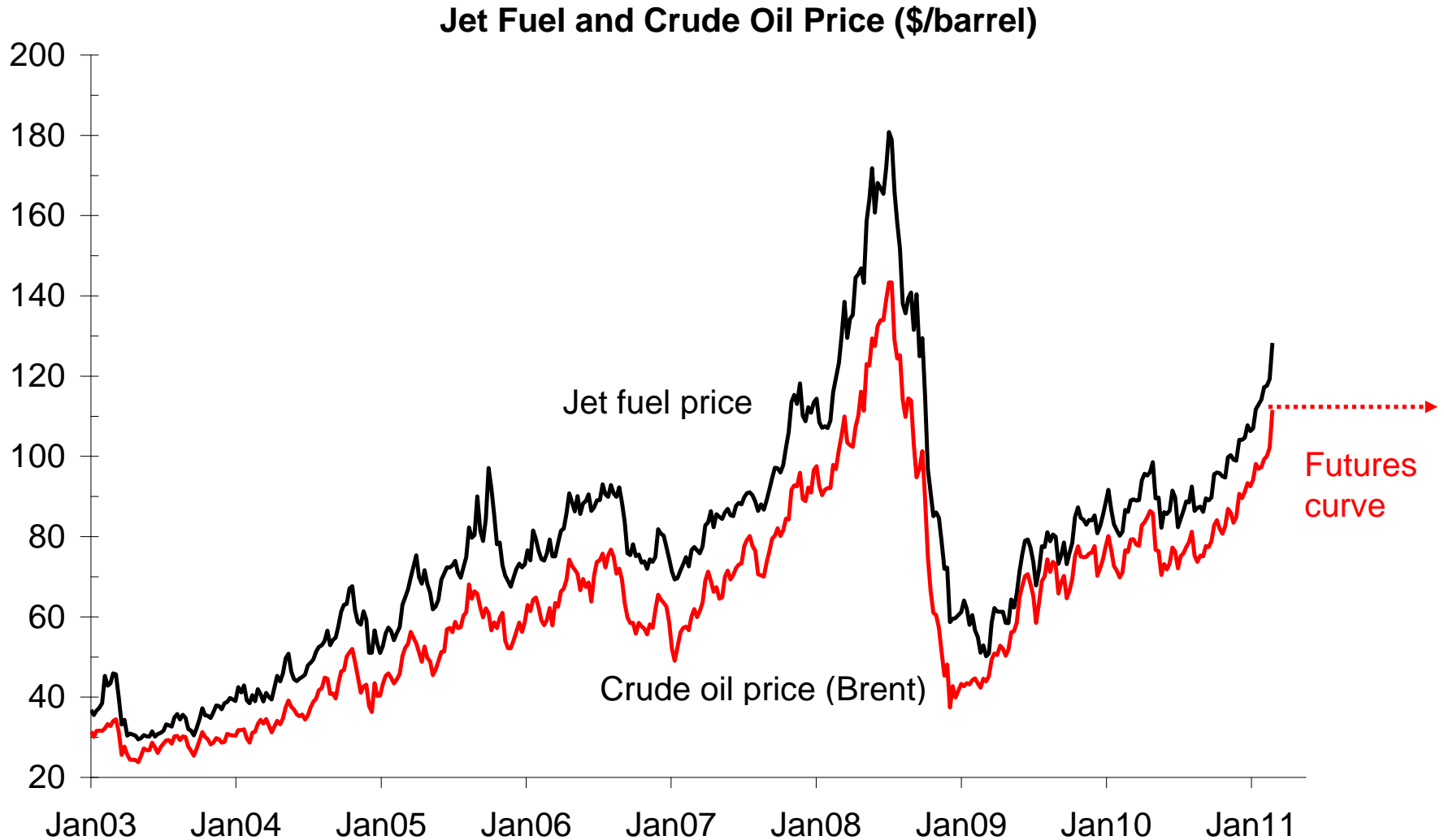


Is a problem developing in China?

Purchasing managers confidence indices



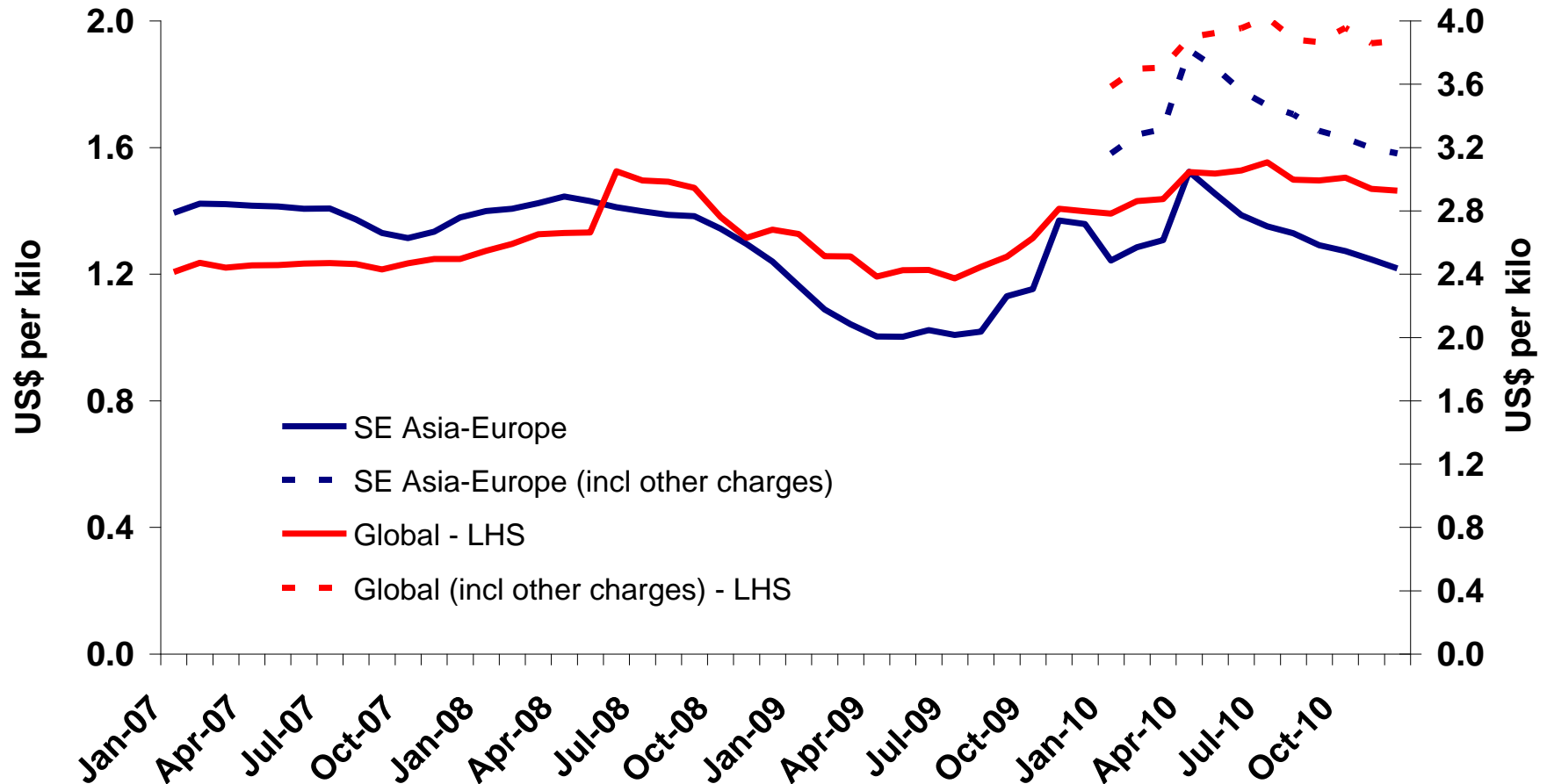
The big challenge will be fuel prices



Source: Platts, Bloomberg

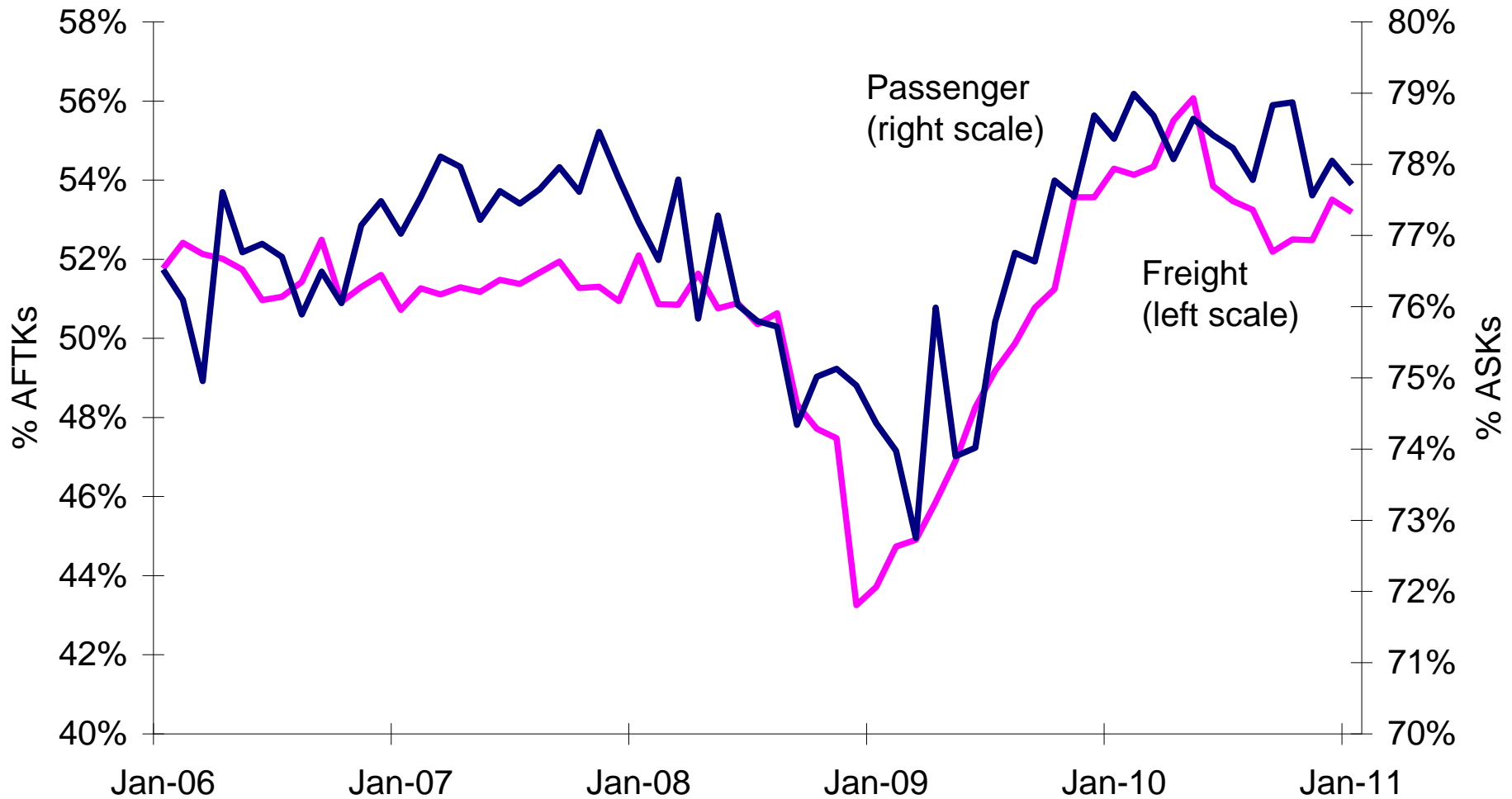
Not clear if cargo costs can be recouped

Air Freight Yields (US\$ per kilo)
Seasonally Adjusted
Source: IATA CASS

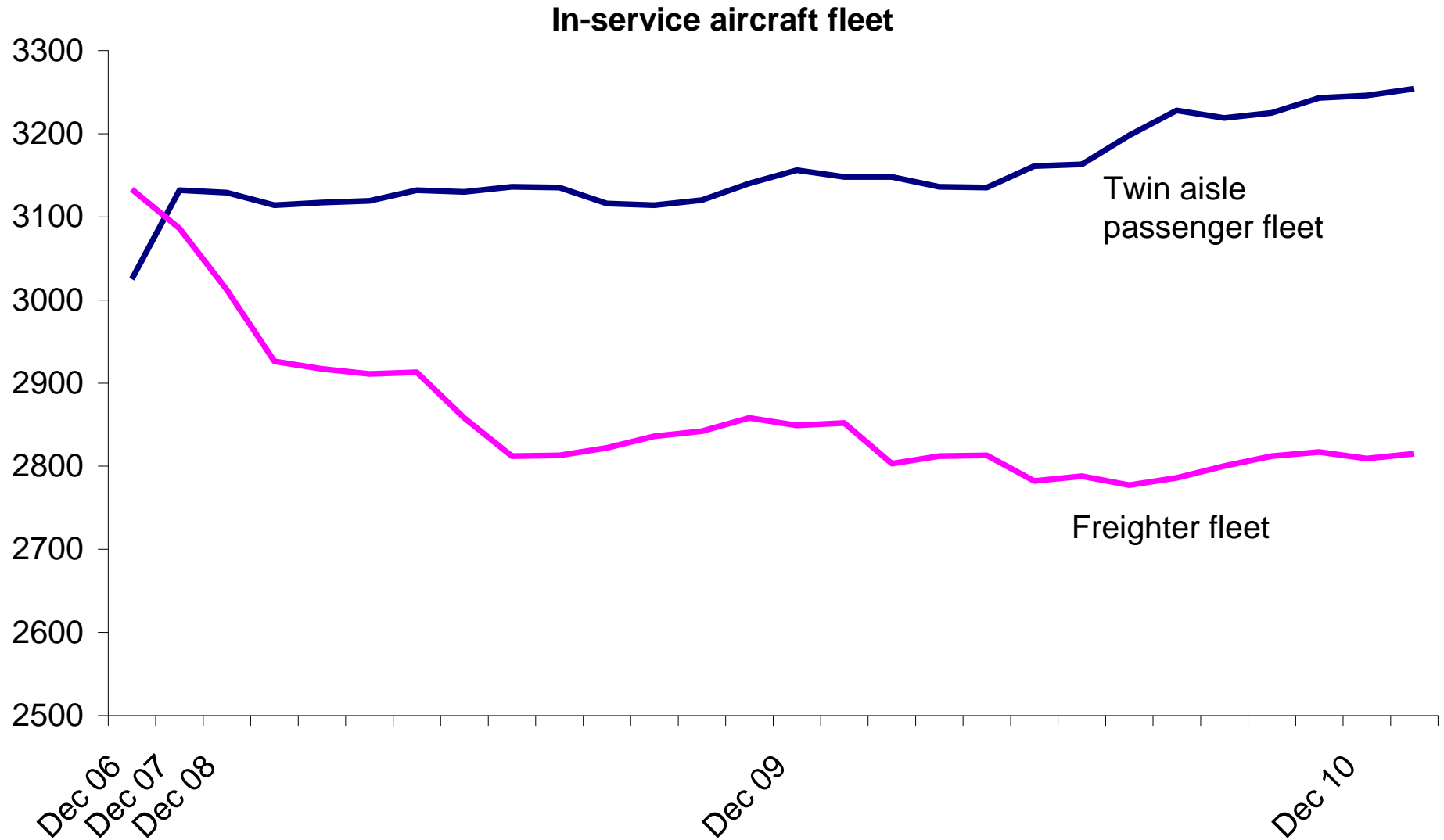


Load factors slipping as capacity expands

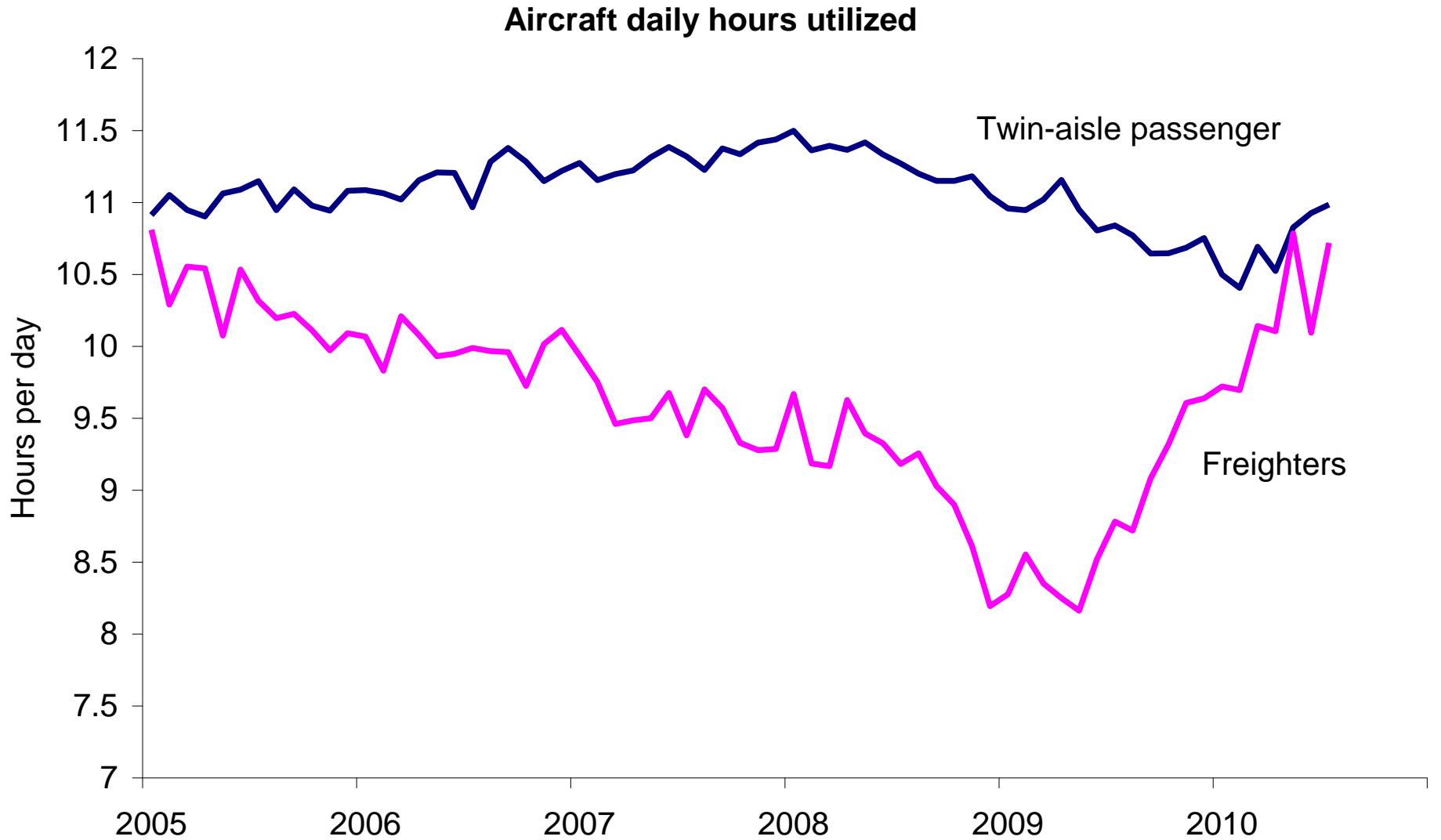
Loads factors on international passenger and freight markets



Downsized freighter fleet little changed



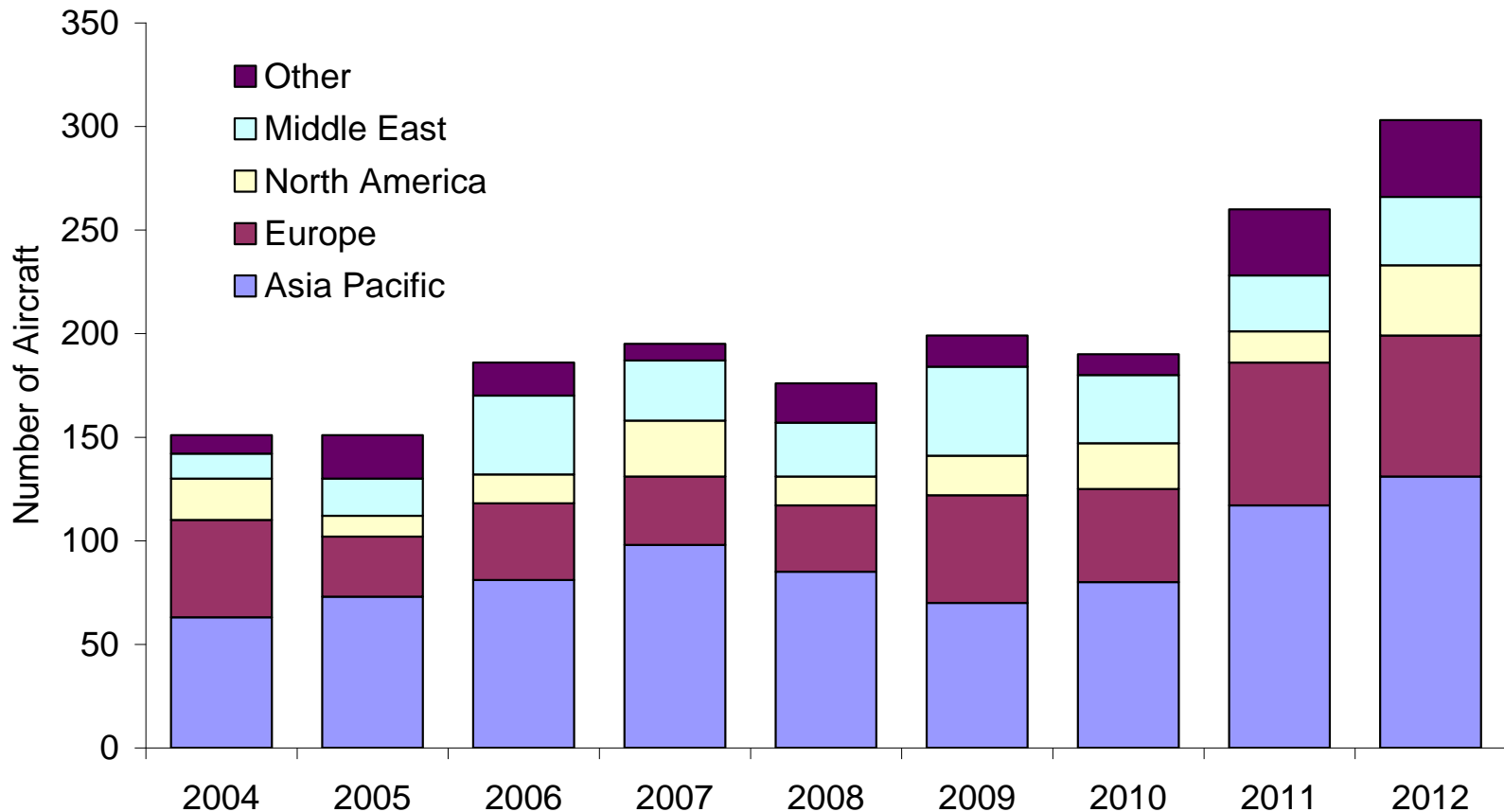
But sharp rise in its utilization



Plenty of wide-body capacity arriving

Twin Aisle Aircraft Deliveries by Airline Region

Source: Ascend



Source: Ascend

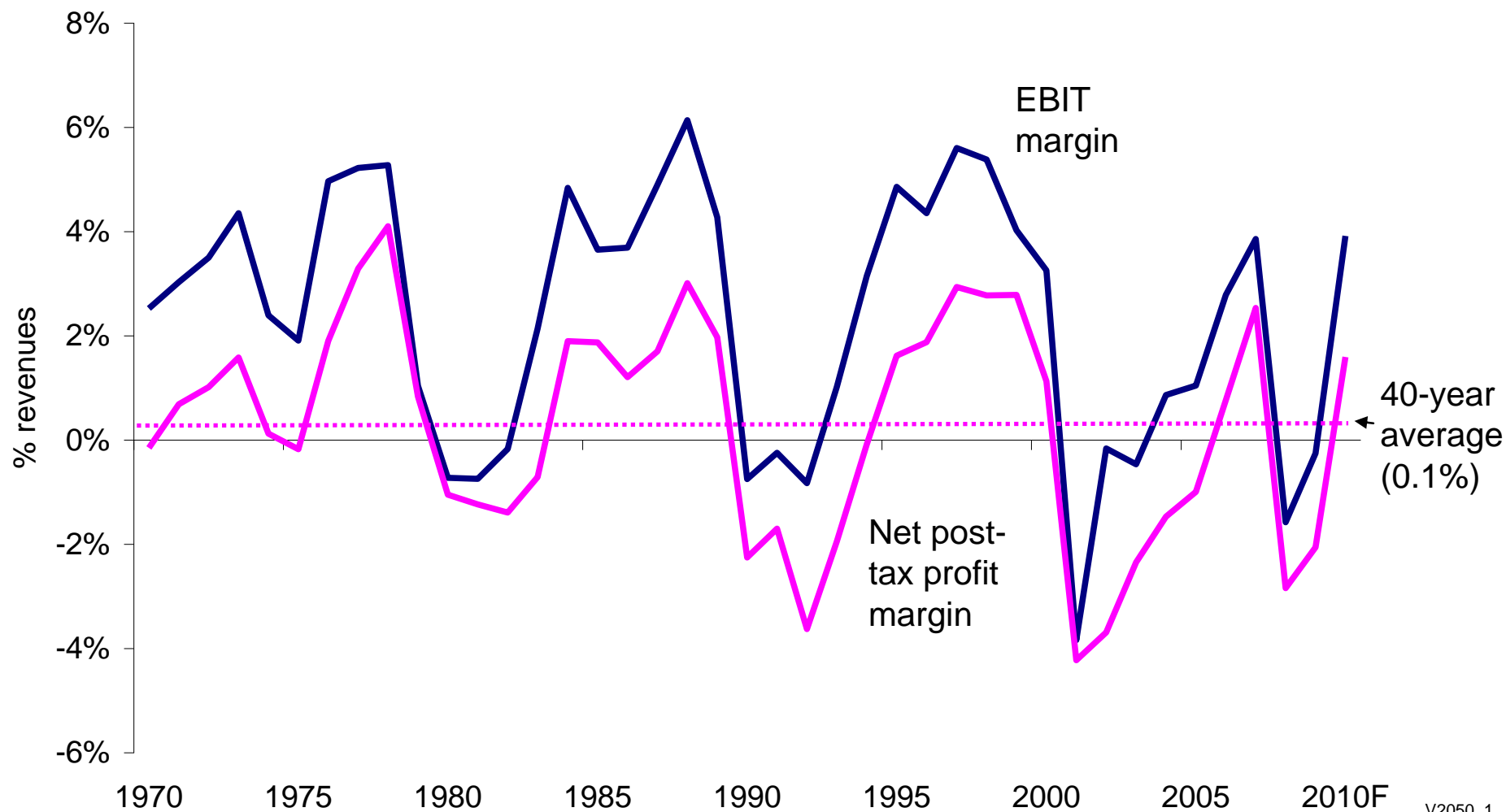
Passenger cooperation and cargo JVs – but does it lead to consolidation?



Poor profitability is a long-term problem

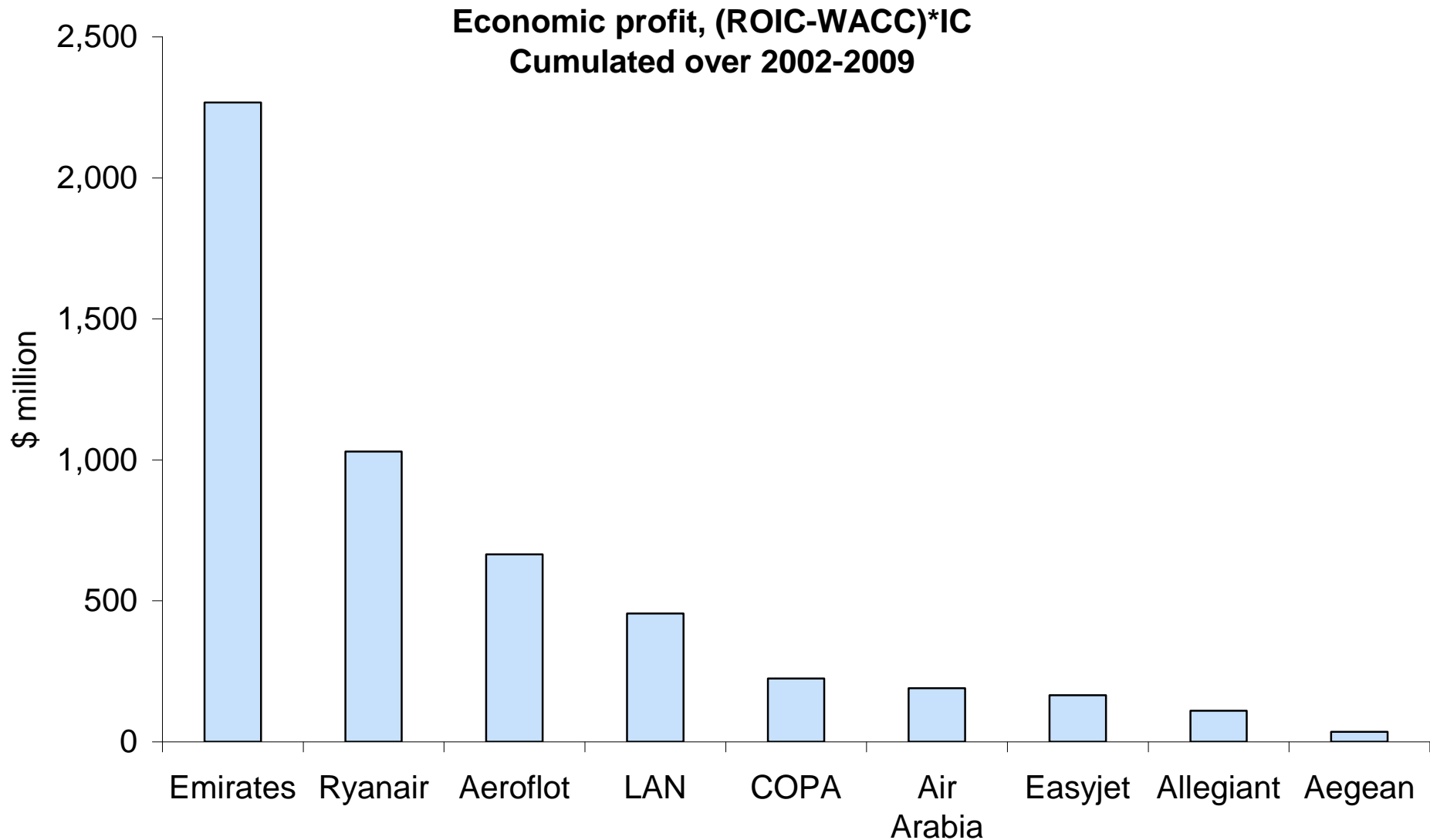
Profitability of the worldwide commercial airline industry

Source: ICAO, IATA



Source: IATA

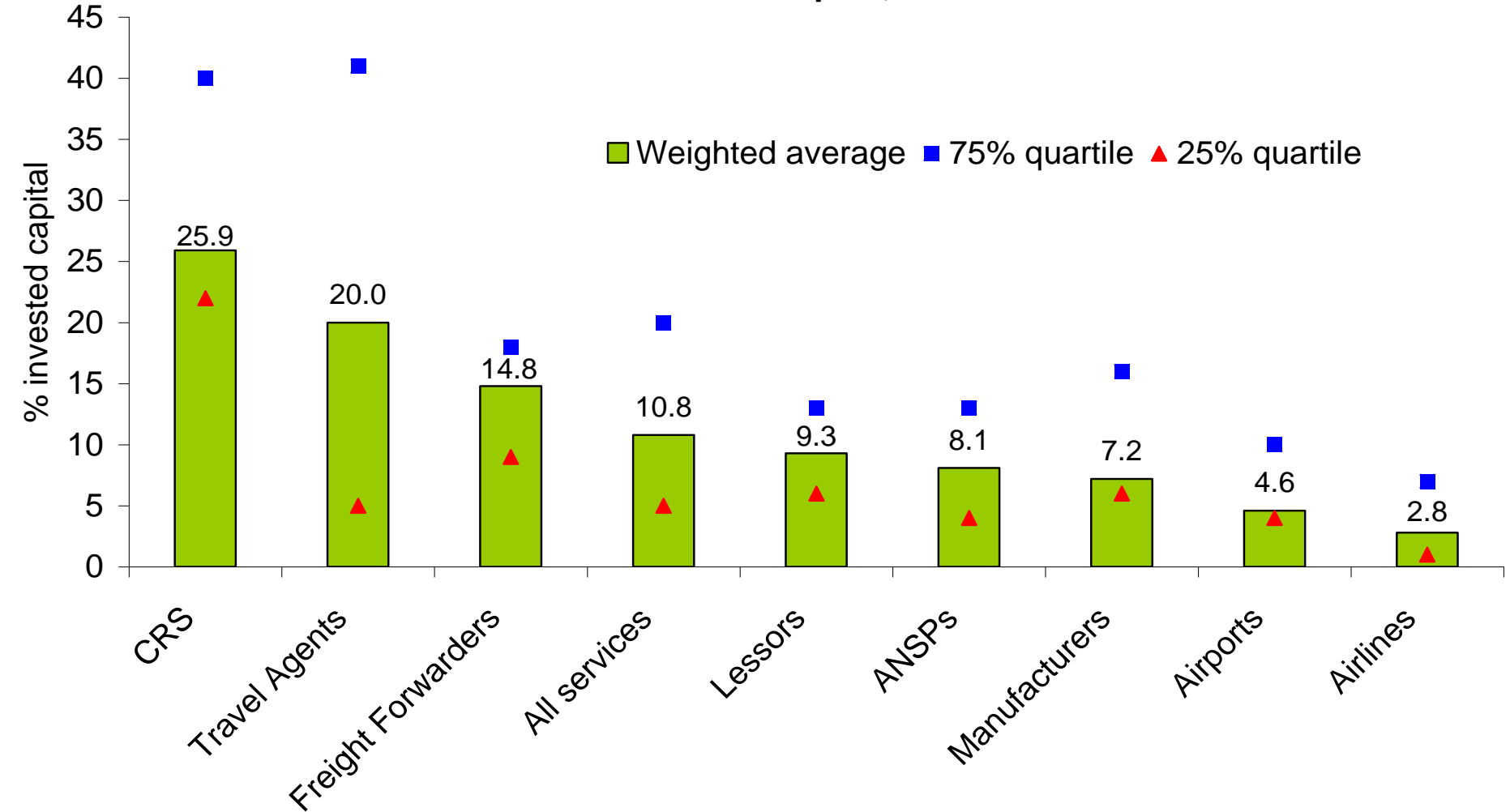
A handful of airlines created value



Source: McKinsey & Company for IATA

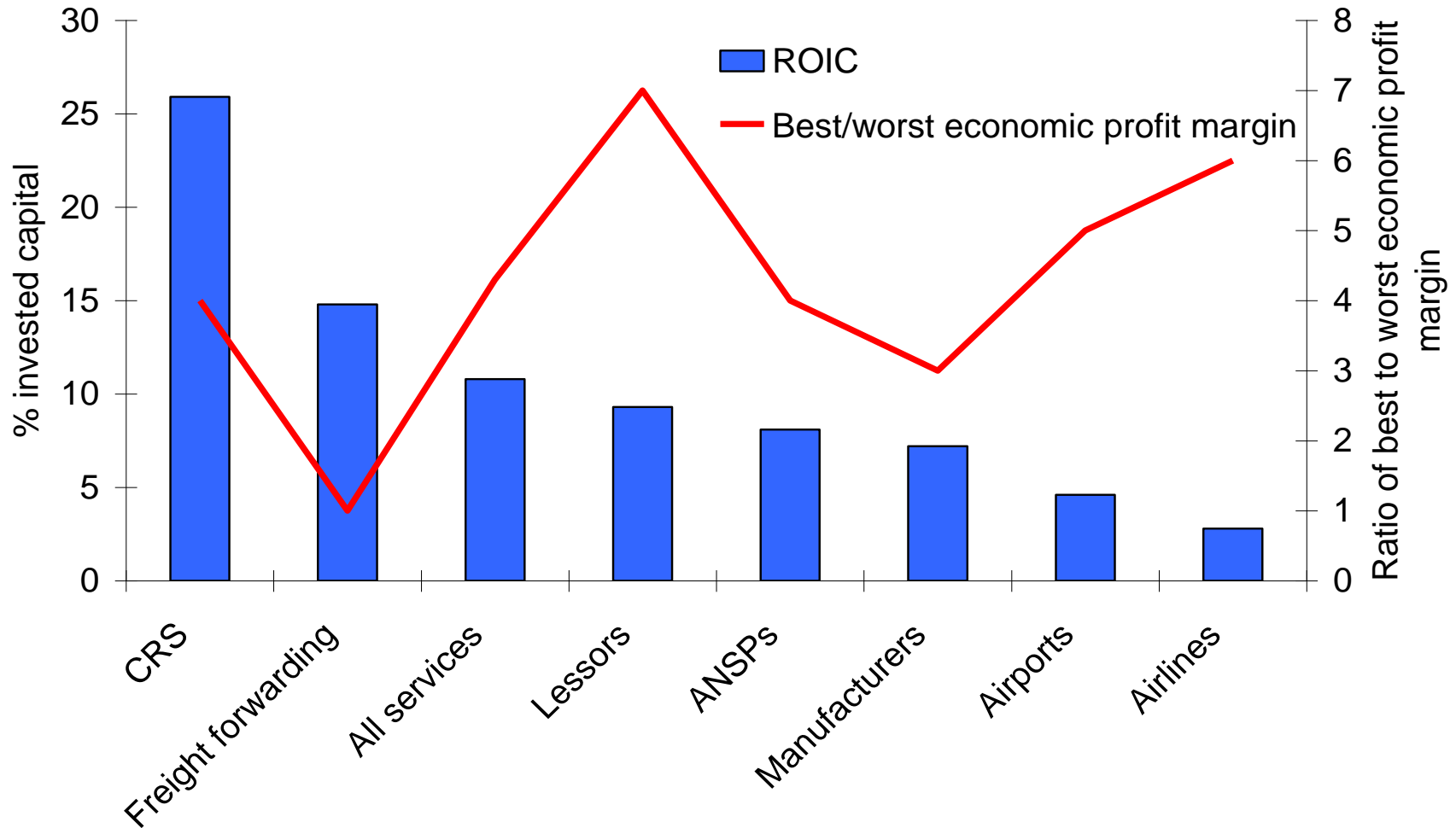
Most of the value chain is profitable

Return on invested capital, 2002-2009



Reward seems not to be related to risk

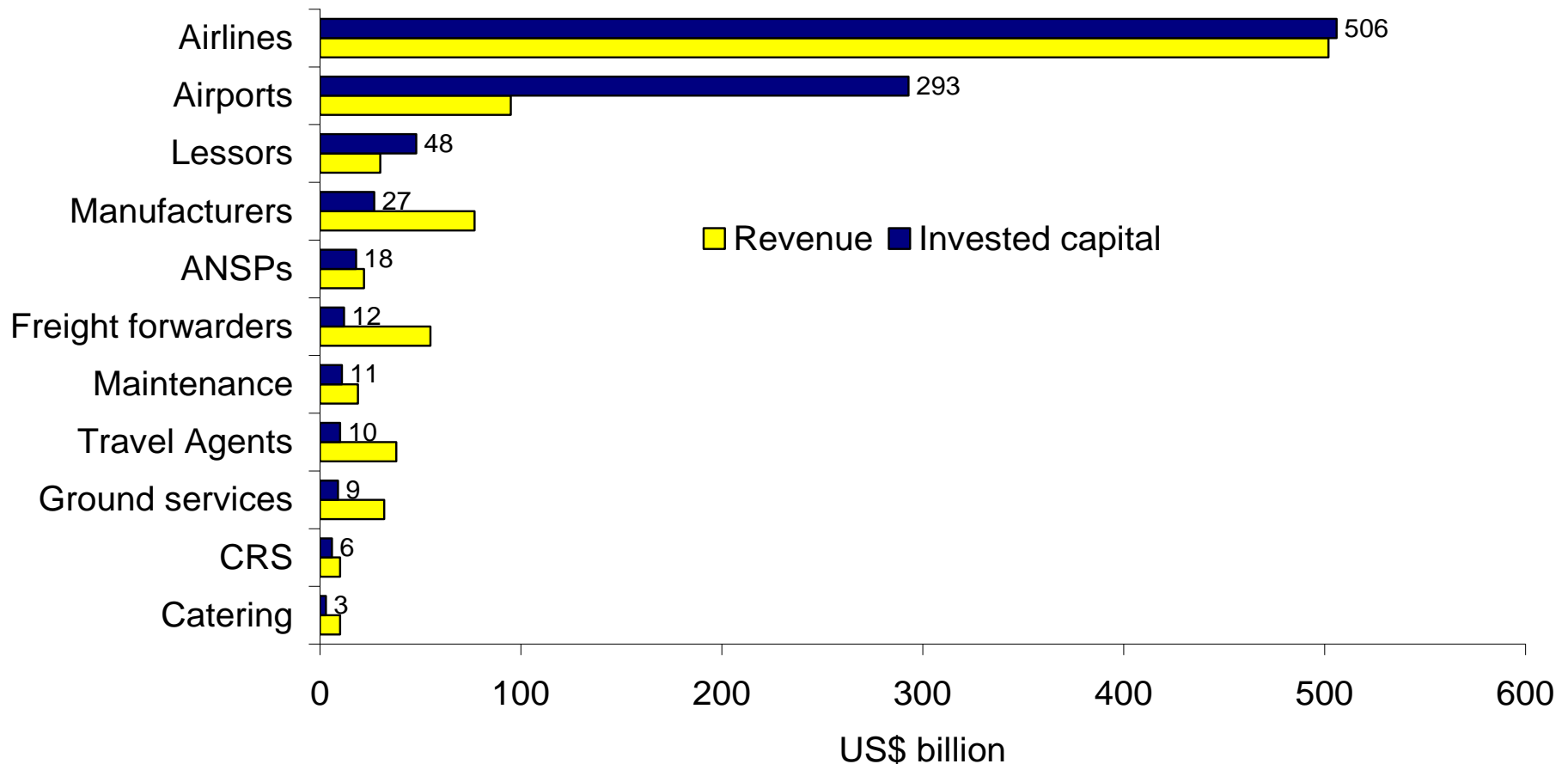
ROIC compared to a measure of risk, 2002-2009



Source: McKinsey & Company for IATA

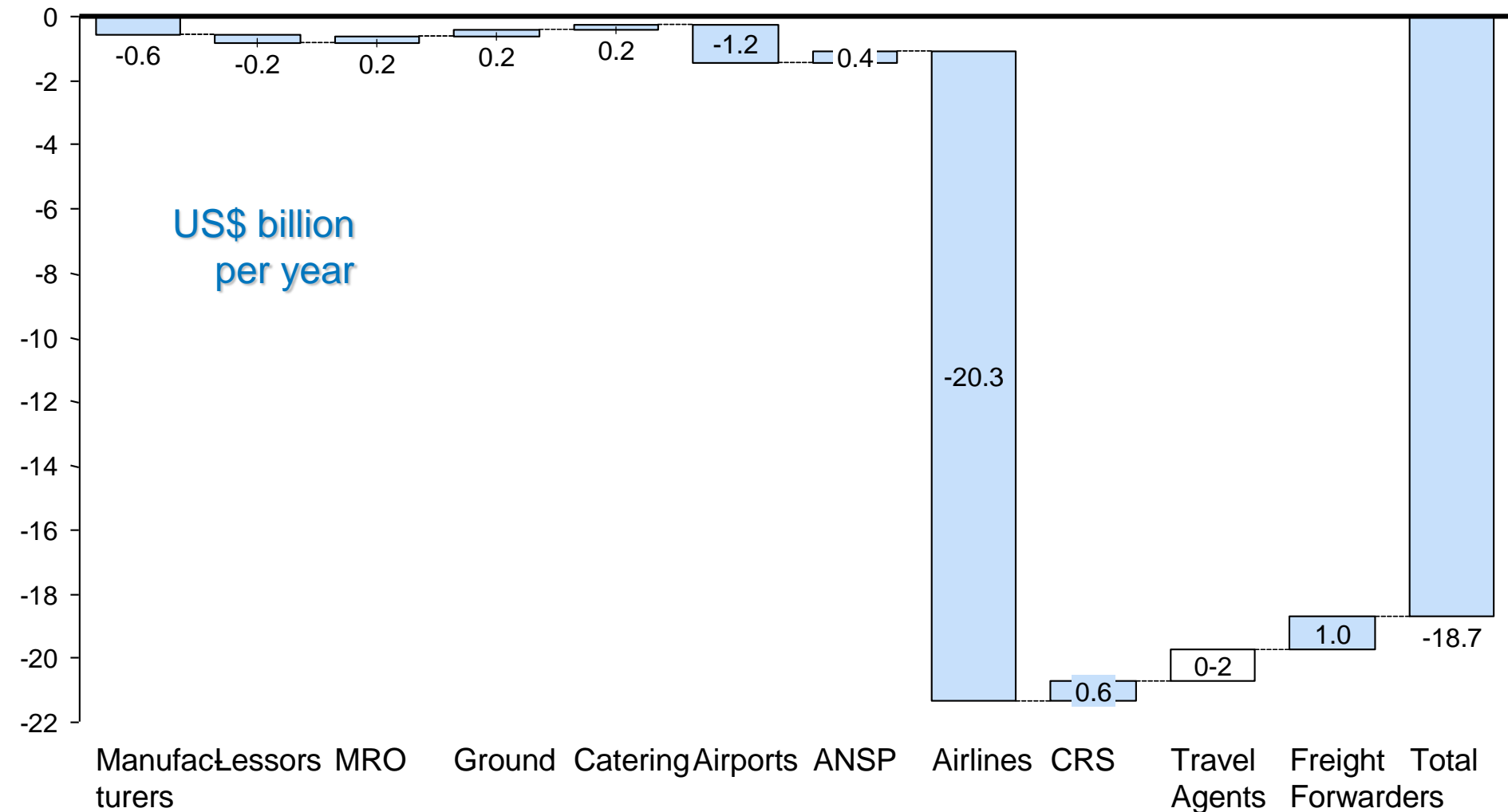
But most profitable sectors are small

Invested capital and revenue by sector, 2009



Source: McKinsey & Company for IATA

The main problem lies in the airline sector



Source: McKinsey & Company for IATA



Panel: Commercial Decision Making

Moderator: William Pershke, Head, IDFS Development and
Performance, IATA

Panel: James Fernandez, CHAMP Cargo Systems

Jay Shelat, Vice President, Cargo, Jet Airways

David Yokeum, President, WCA Family of Logistic Networks Limited

Networking Coffee Break

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EasyDGR 





Keynote: Profitable Techniques to Balance Yield, Price and Service Range

David Hoppin, Managing Director,
D. F. Hoppin & Associates

Profitable Techniques to Balance Yield, Price, and Service Range

Presentation by:

David F. Hoppin

IATA World Cargo Symposium | Istanbul | March 2011



Effective cargo airline strategy development is necessarily iterative and continuous

The Circle of Airline Strategy Development

▪ Which customers?

- Customer selection is the logical starting point because it influences the answers to all other questions

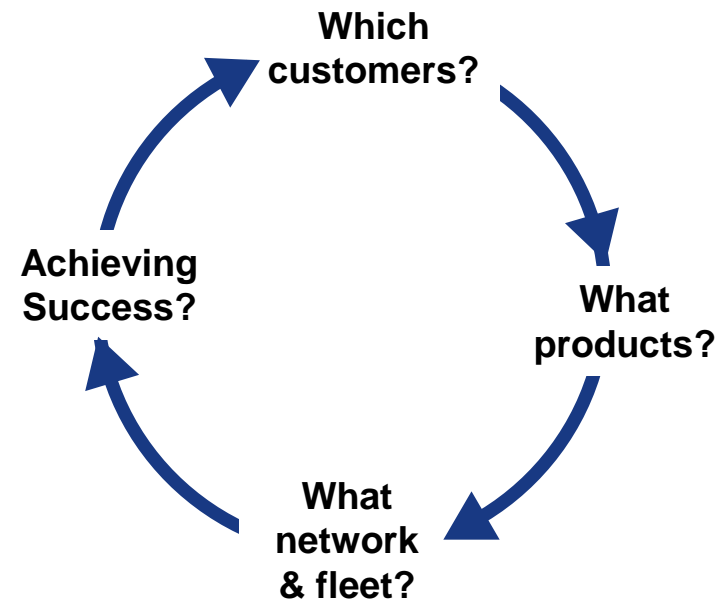
▪ What products?

- Which product(s) do the target customer want, and can we make the desired products at a profit?
- Products defined as scheduled / charter / ACMI, types of A2A products, etc.

▪ What network and fleet?

- Which geographic markets (lanes), how much capacity per departure and per week, and how many frequencies per week?
- Depending on the above answers, what are the best fleet types?

▪ Are you achieving success? And, how do you measure success?



➤ **Critical questions to ask about each customer / product / market choice:**

- Do you have a cost advantage?
- Can you earn at least your “fair share” of revenue?

Which Customers?

Customer selection is the foundation of commercial strategy in the air cargo business

Pick Your Customers Carefully

- Accurately forecasting revenue is typically the most difficult part of airline planning
- Best way is bottom-up forecasting – expected volume and rates by customer by flight
- Robust market research function is of course important – need to analyze available statistics on demand, competition and pricing
- A2A cargo is an industrial market, with a limited number of powerful, well-informed buyers (freight forwarders) – so statistical revenue-forecasting approaches have limited applicability (in contrast to passenger airline business)
- Therefore critical to identify target customers, and to truly know them in terms of requirements and behavior

A number of factors can turn a high-yield customer into a profit problem

Requirements

- Geographic market coverage
- Capacity per departure
- Schedule frequency
- Special handling
- Services beyond A2A

Behavior

- Demand variability (day-of-week, seasonal)
- Demand predictability (tender performance each day)
- Use of ad hoc pricing
- Demand for ad hoc pricing
- Collections & credit risk



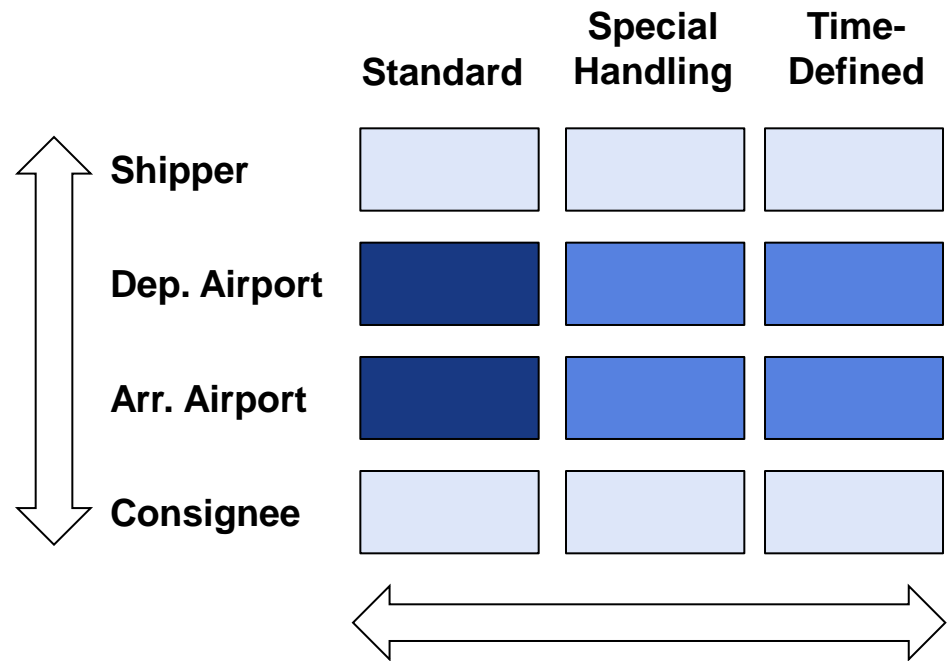
Above factors can make a big difference in the profitability of different customers!

What Products?

It is a real challenge not to succumb to the siren song of high gross yields

Horizontal versus Vertical Expansion Vectors

- The core business of an airline is basic A2A transportation of general freight
- It is possible to increase yields by adding complexity:
 - **Horizontal expansion** into premium products, such as live animals, temperature-controlled, time-definite, etc.
 - **Vertical expansion** into the door-to-door journey – mostly in the form of RFS
- The real challenge is to truly understand the cost of complexity:
 - What is the cost of maintaining facilities, IT and trained staff even if zero demand for the complex service?
 - How does cost increase with volume?



What Network and Fleet?

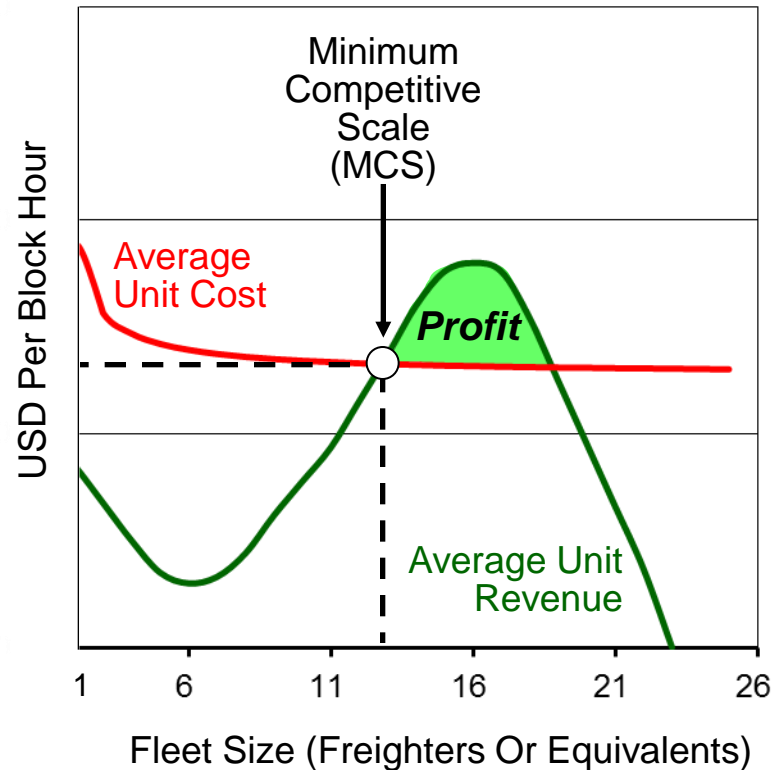
A network's scope and scale affects not only its costs, but also its revenue

Revenue Benefits to Scale

ILLUSTRATION

- Minimum Competitive Scale (MCS) is the fleet size below which unit revenue will not exceed unit cost over the long term.
- Both unit revenue and unit cost curves are unique to each airline.
- An airline manager's objective should be to maximize the profit envelope, not unit cost or unit revenue
- Additionally, many large, powerful customers will not deal extensively with customers who cannot offer a minimum scope
- Accordingly, tuning the network to achieve the goal of maximizing profit is an ongoing operation

Unit Cost versus Unit Revenue USD per Block Hour

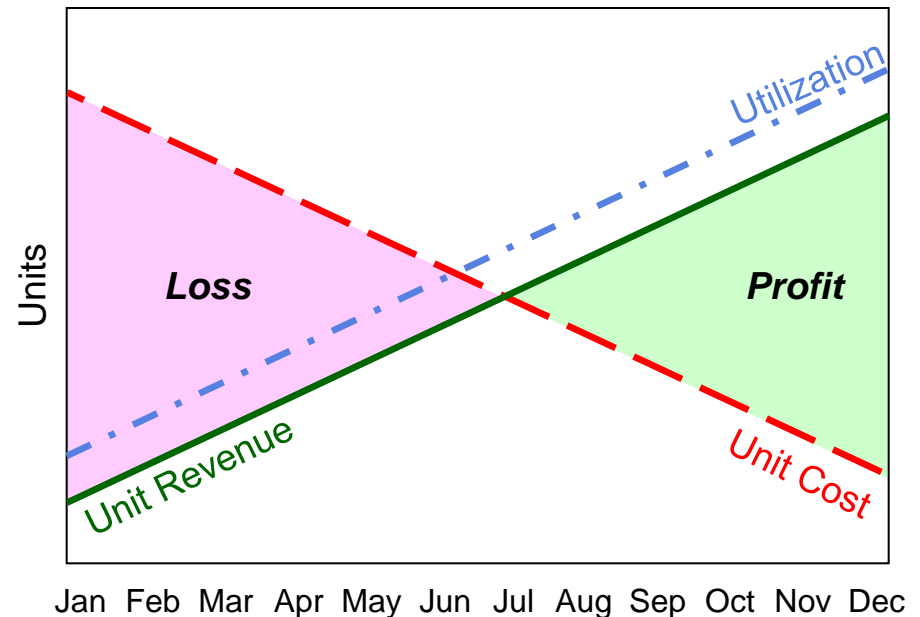


The seasonality of many air freight markets can make it difficult to sustain expensive new freighters

“The Slope Is Too Steep”

ILLUSTRATION

- Air freight demand tends to be highly seasonal. It is not unusual for freighter operators make 60% of annual revenue in four months
- There is a trade-off between minimizing cash operating costs via new, fuel- and maintenance-efficient aircraft, and minimizing ownership costs via older, less expensive and less efficient freighters
- Naturally, in the current environment of rising fuel prices, many executives are focused on fuel efficiency – but do not underestimate the value of flexible utilization that older aircraft offer

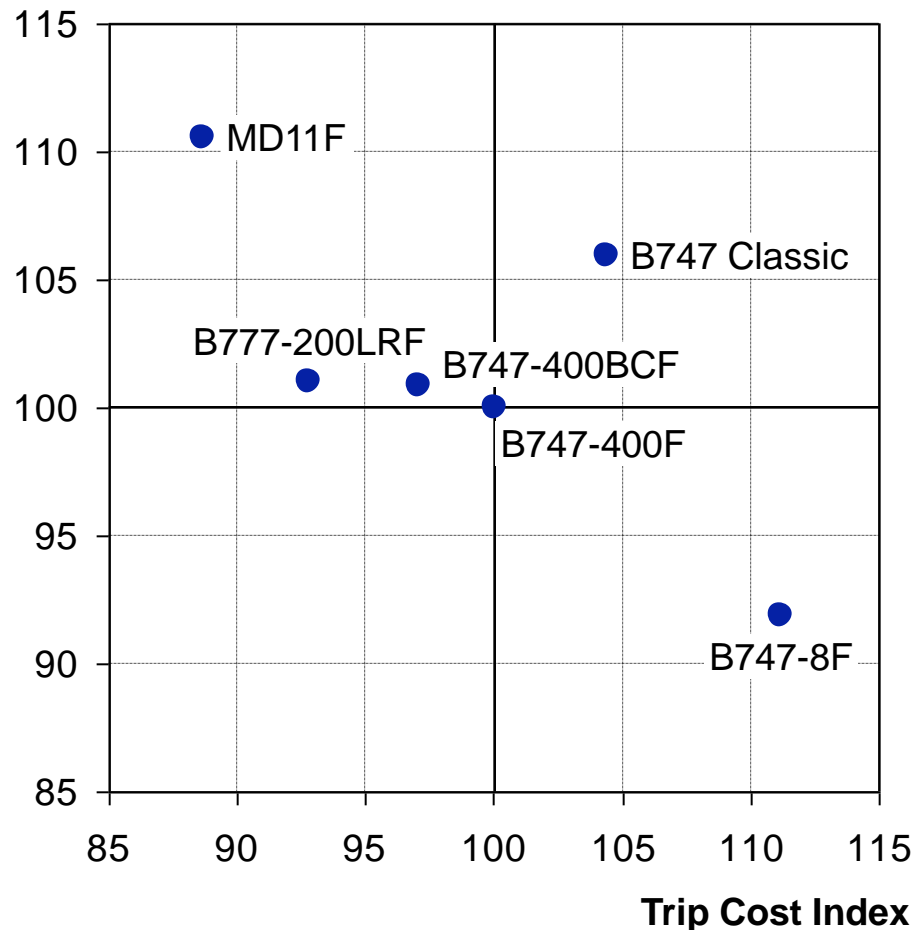


Naturally, the largest aircraft offer the lowest unit cost but also impose the greatest capacity risk

Freighter Trip Cost versus Unit Cost: PVG-[GYD]-LUX-AUH-PVG Rotation
Index, B744F Cost = 100; Fuel Cost = \$2.84 per USG

ILLUSTRATION

Unit Cost Index

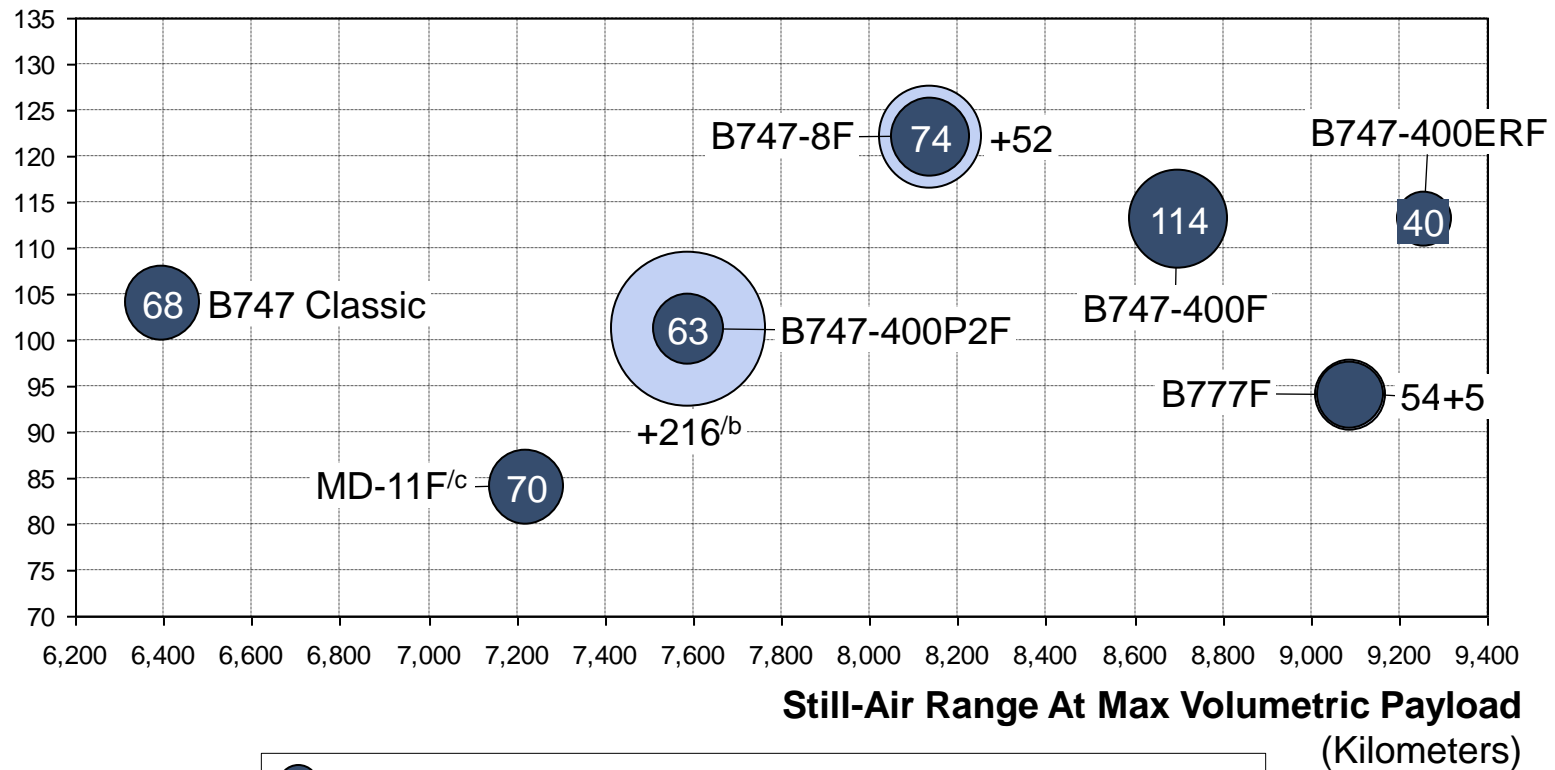


There are a number of large freighter options, each offering distinct trade-offs between capacity risk/unit cost and capital cost/operating efficiency

Primary Large Freighter Fleet Options

Net Payload versus Range; Existing & Potential Fleet Size (Excluding Integrators)

Maximum Volumetric Payload
(Metric Tons – Net)



- Existing + Known Orders
- Potential (Announced Options + Conversion Feedstock)

A “breakeven” calculation – showing breakeven tons and profit potential – can help illustrate each aircraft’s fit within a network

Illustrative Asia-Europe-Asia^a Breakeven Calculation

	MD-11F	B747-400BCF	B777-200LRF	B747-400F	B747-200F	B747-8F
Net Yields (USD/kg)						
Backhaul	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24
Fronthaul	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20
ACMI Rate (USD/BH)	\$5,600	\$5,550	\$7,400	\$6,300	\$4,200	\$8,400
Block Hours/Roundtrip	27.5	25.3	25.6	25.4	27.1	25.1
ACMI	\$153,832	\$140,249	\$189,514	\$159,768	\$113,862	\$211,092
Fuel @ USD 2.84/USG	\$186,470	\$231,840	\$167,356	\$224,777	\$285,545	\$218,790
Landing, Handling, Nav.	\$73,730	\$81,154	\$76,577	\$82,491	\$88,020	\$89,553
Cost Per Roundtrip	\$414,032	\$453,243	\$433,447	\$467,036	\$487,427	\$519,435
Unit Cost (USD/ATK)	\$0.245	\$0.232	\$0.234	\$0.231	\$0.235	\$0.212
Breakeven Load Factor	68.8%	60.6%	64.0%	60.8%	63.9%	55.5%
Tons Of Capacity Per Roundtrip:	153	183	175	191	188	231
Profit Potential →	48	72	63	75	68	103
Breakeven Tons →	105	111	112	116	120	128

Are you achieving success?

What does “success” even mean?

What is Success?

- It is critical that each airline come to internal consensus on what “success” means
- Disparate goals – maximize passenger route profitability, maximize market share, maximize growth, maximize overall profitability, etc. – require disparate targets and strategies
- Whatever the goal is, airlines should ensure that managers have an incentive to make progress towards it, rather than work to benefit only their specific P&L
- Therefore, impose a common analytical framework – and require commercial, operations, and finance areas to use it!

What does “success” even mean?

Some Key Issues in Defining and Measuring Success

- Is there and how do you account for a freighter “halo” effect – the presence of freighters allowing you to capture more and more profitable customers for your belly network?
- How do you set the transfer price of belly capacity for your cargo operation? What behavior does setting it high or low engender?
- What time frame are you analyzing? Are you willing to undergo short-term financial pain in order achieve some long-term strategic gain (e.g., capture market share)?
- Is there a social or government mandate to maintain air service, despite unsatisfactory financial results?

Conclusions

Conclusions

- Keep revisiting the core question: which customers do I want to serve?
- Invest appropriate time and effort in truly understanding your cost-to-serve each customer
 - How would total costs change if we add or totally delete a particular product or service?
- Be a “benevolent dictator”!
 - Impose a common definition of success
 - Ensure that the organization responds timely to new opportunities and threats



Keynote: Cargo Fleet Trends

**Jonathan Lesieur, Freight Aircraft Marketing
Manager, Airbus**



IATA World Cargo Symposium / Istanbul / March 8th, 2011

Cargo Fleet Trends

Measuring the cargo fleet's efficiency

Presented by
Jonathan Lesieur / Marketing manager, Freighters

Turkey is the second largest domicile for Airbus freighters



4 A310-300P2Fs + 1 A330-200F
(+ 4 A330-200F in the backlog)

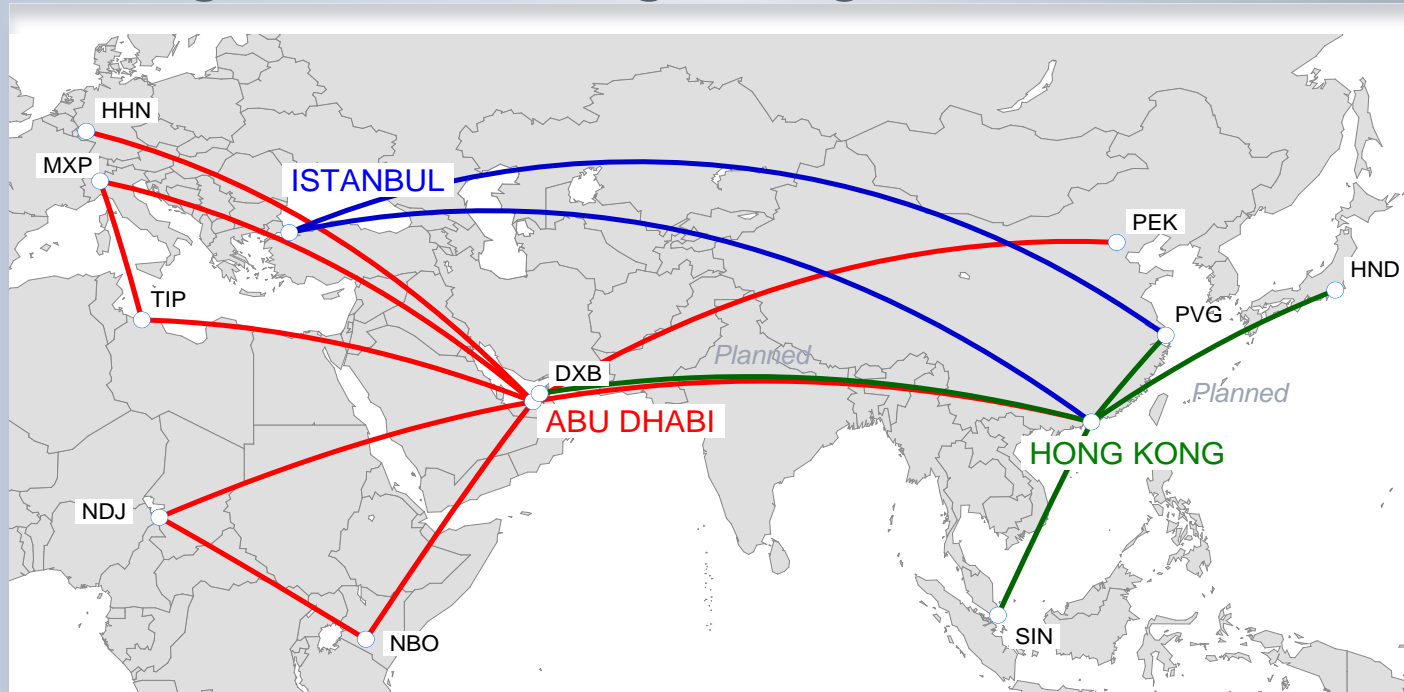


5 A300B4 P2Fs + 2 A300-600P2Fs
(+ 4 A330-200Fs on order)



3 A300B4 P2Fs + 3 A310-300P2Fs

The A330-200F is operating into Beijing, Shanghai and Hong Kong



2 aircraft
EIS: Sept 1st, 2010



1 aircraft
EIS: Oct 14th, 2010



2 aircraft
EIS: Oct 24th, 2010



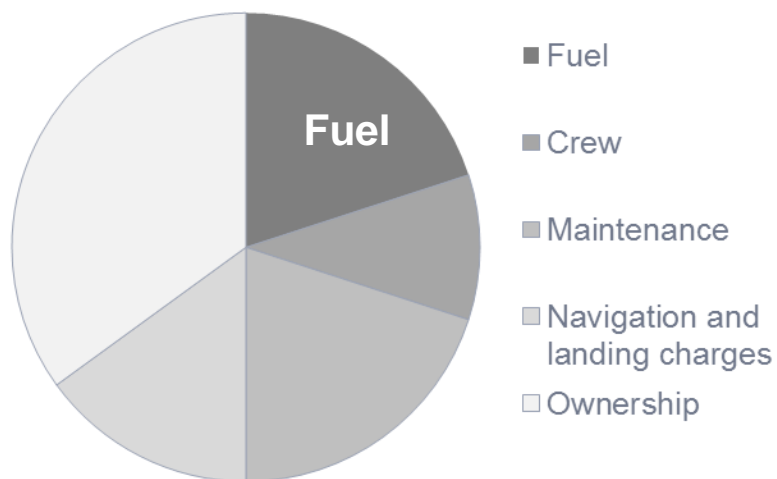
Next new operator, EIS 2011

The A330-200F is operating into China with less sensitivity to imbalanced flows compared to larger freighters

Evaluating an aircraft's efficiency: What's important?

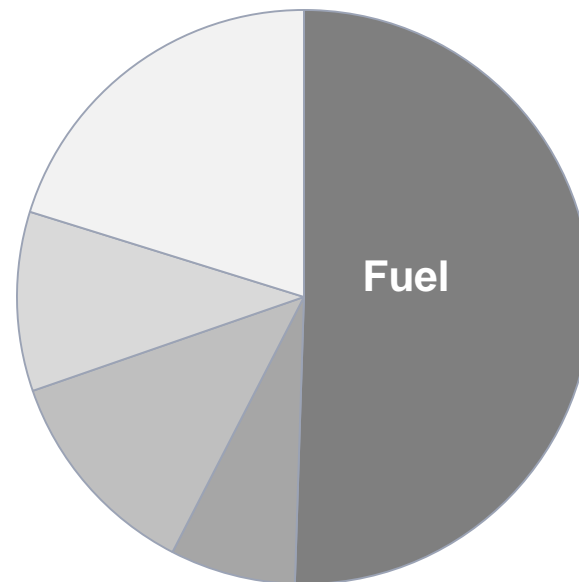


Fuel at \$25 per barrel



Fuel represents
20%
of overall operating costs

Fuel at \$100+ per barrel

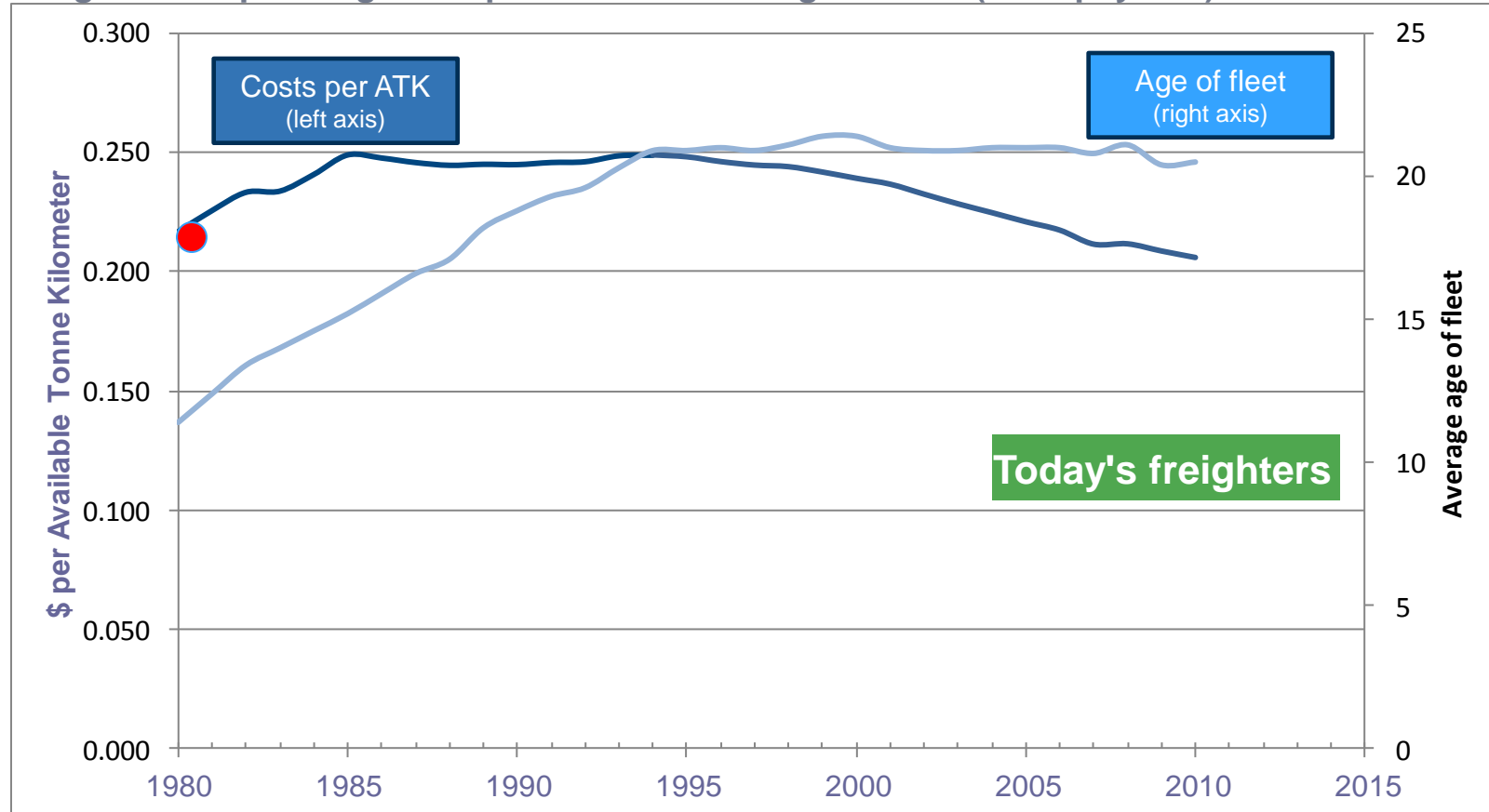


Fuel represents
50%
of overall operating costs

Freighter aircraft are globally getting more efficient...



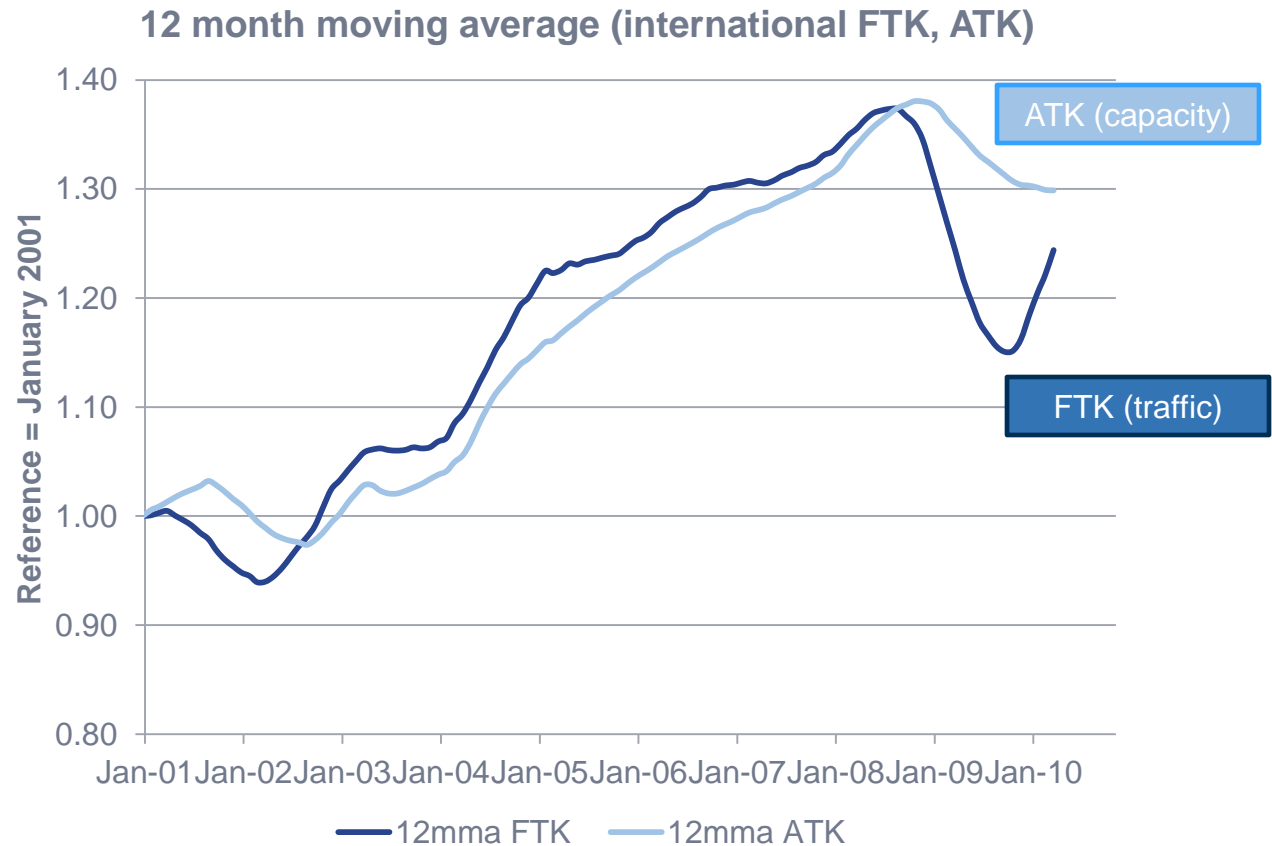
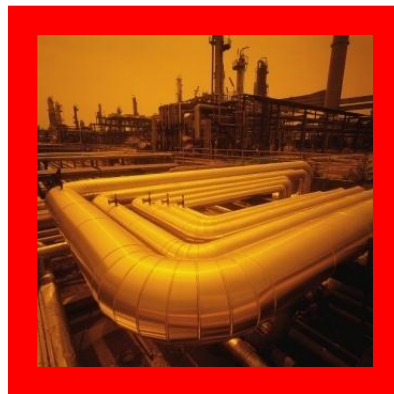
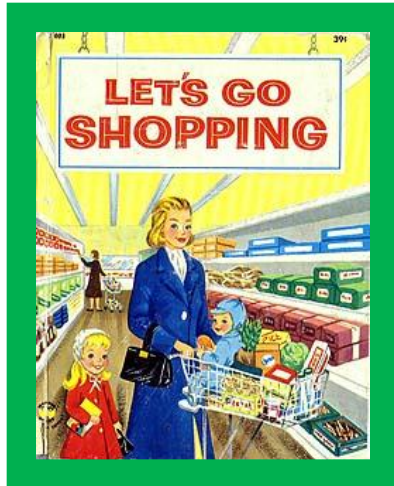
Average Cash operating costs per ATK for the freighter fleet (>15 t payload)



Constant fuel price (today's fuel price)

...but this has translated into fleetwide efficiency gains only since the mid 90s...

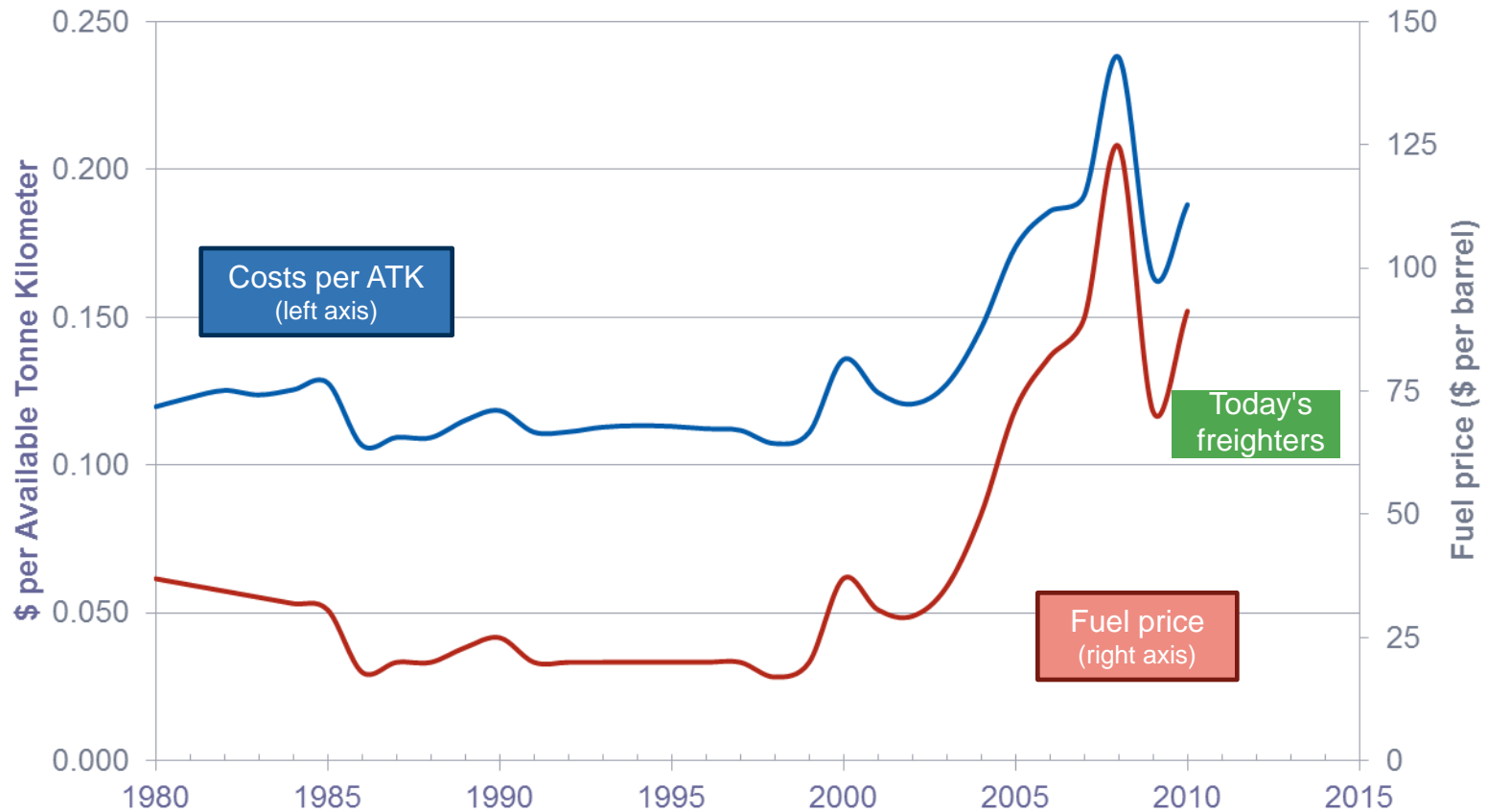
To face increasing demand, expensive capacity is maintained in the market



The current fuel environment is resulting in the freighter fleet being less efficient today than it was 30 years ago!

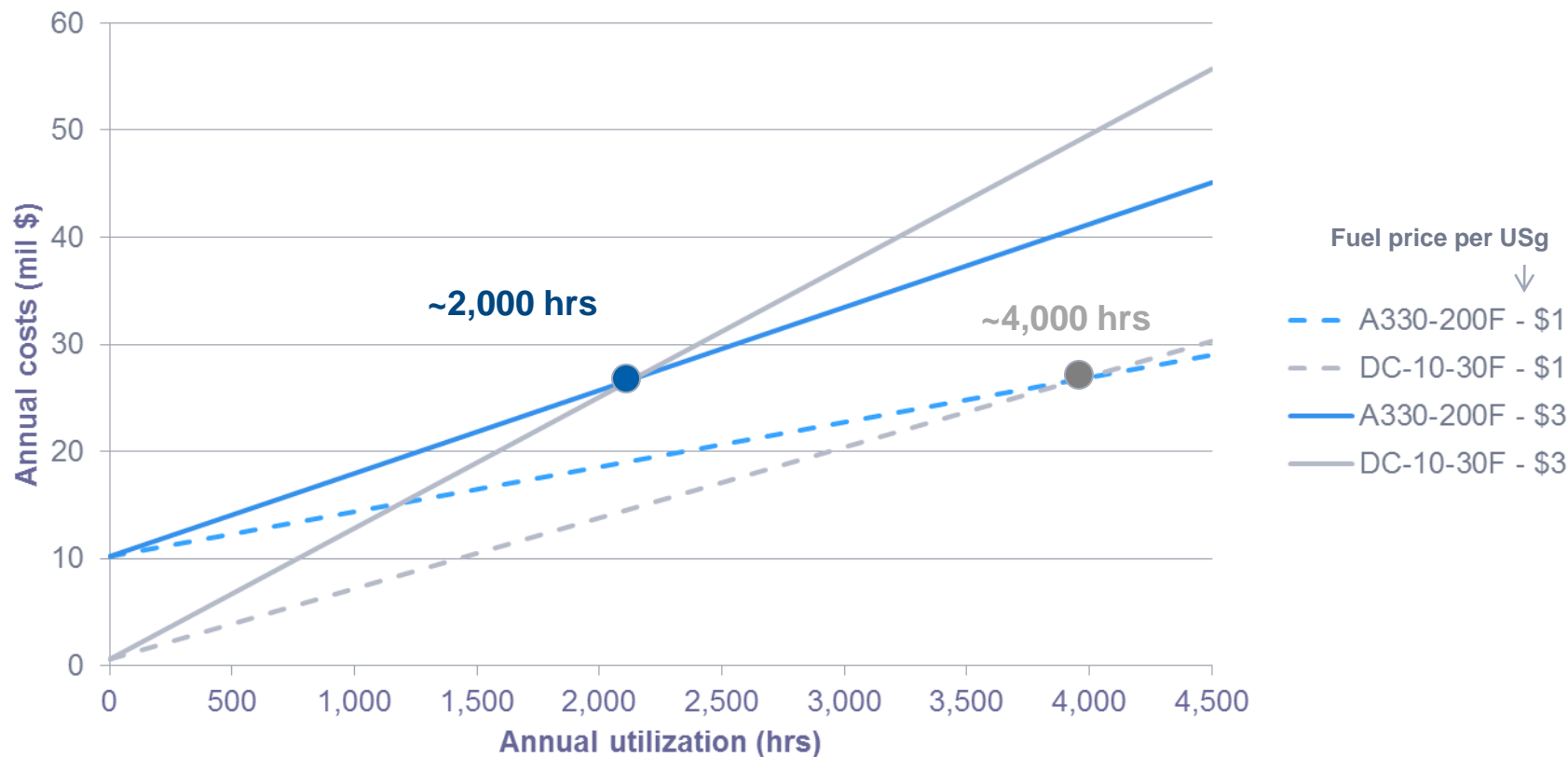


Average Cash operating costs per ATK for the freighter fleet (>15 t payload)



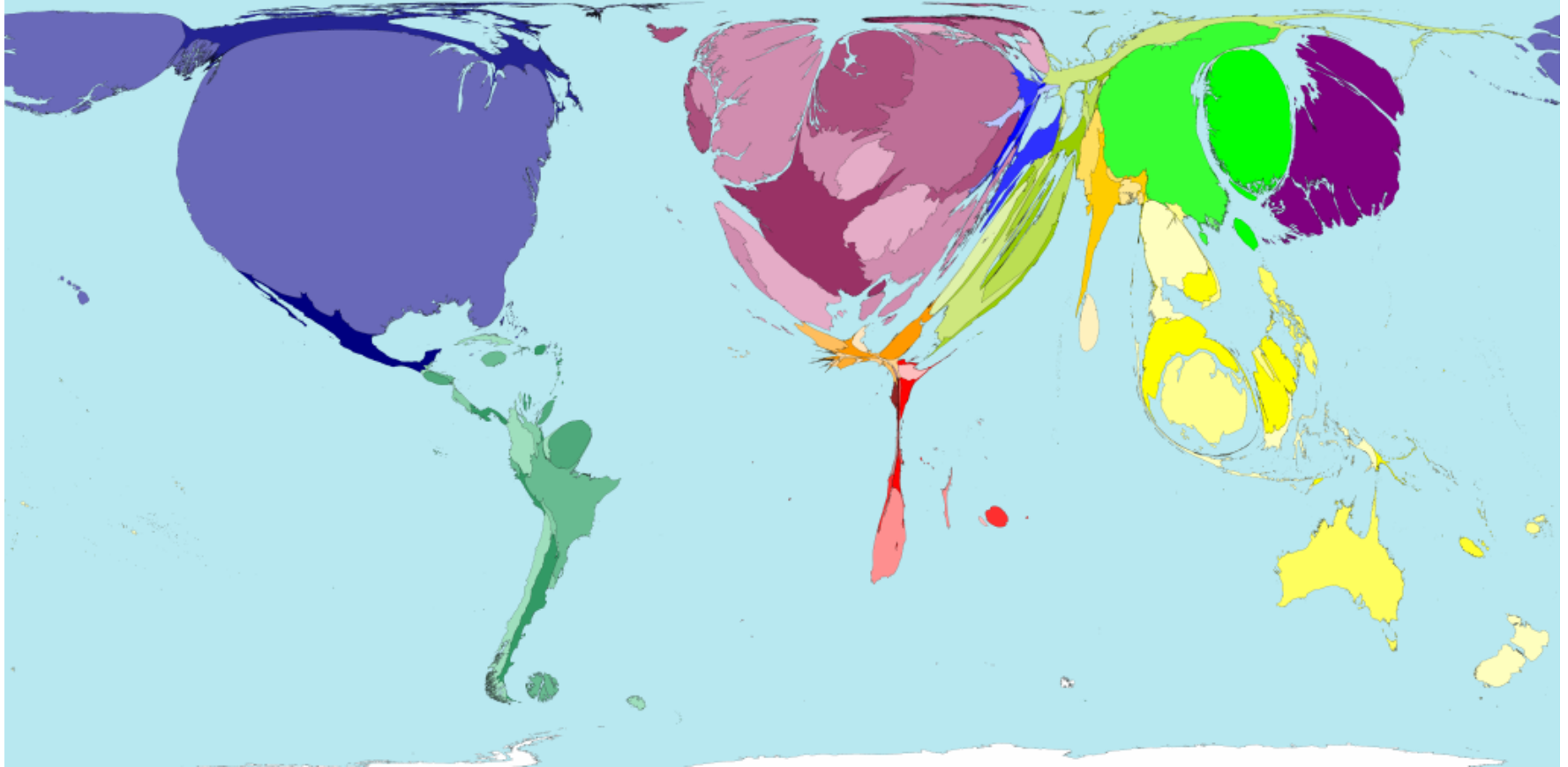
The efficiency of (most of) the available capacity is not adequate for today's conditions

Higher fuel prices are changing the rationale between modern and ageing aircraft



The utilization threshold required to compensate higher acquisition costs gets significantly lower as fuel prices increase

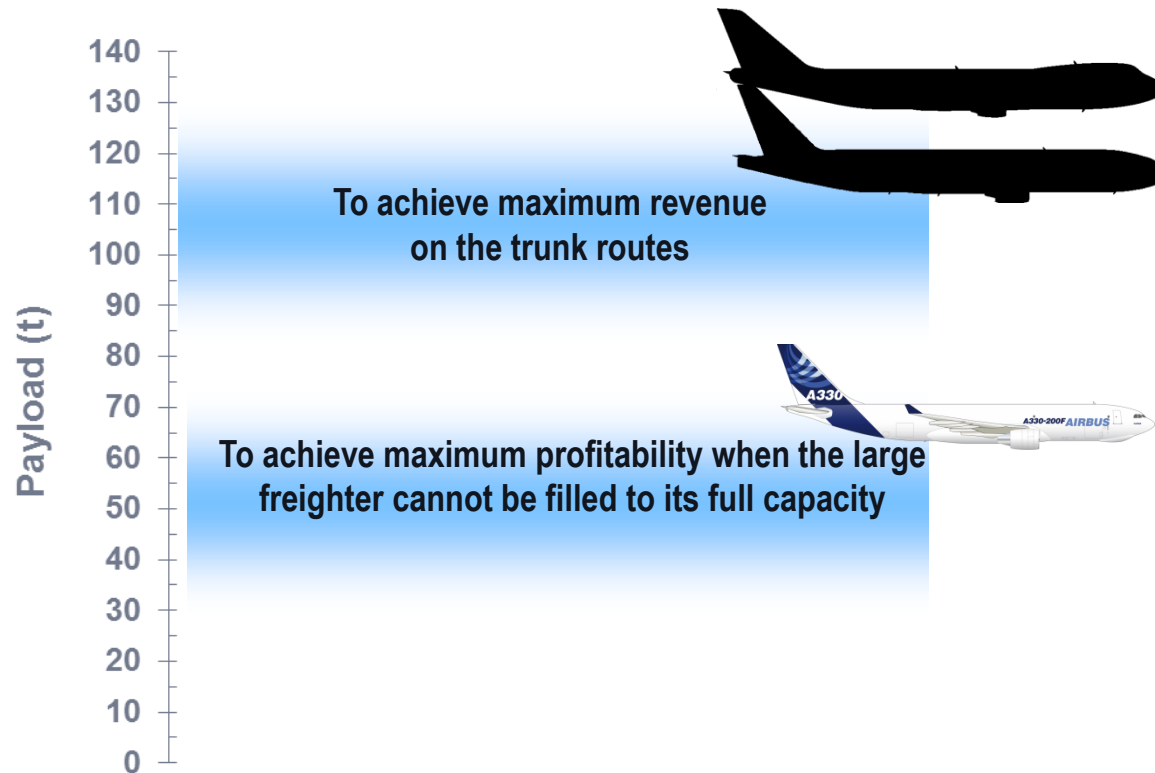
World map distorted by freight volume



Source: www.worldmapper.org

Markets come in all shapes and sizes

Is a “one-size-fits-all” approach to cargo the best approach?



Today's and tomorrow's fuel prices call for increased flexibility in the marketplace



Panel: Consolidation and Alliances

Moderator: **William Pershke**, Head, IDFS Development and Performance, IATA

Panel: **Marco Bloemen**, Vice President, Seabury Aviation & Aerospace LLC

Oliver Evans, Chief Cargo Officer, Swiss International Air Lines Ltd

Neel Shah, Senior Vice President and Chief Cargo Officer Delta AirLines



Chairman's Closing Remarks

**William Pershke, Head, IDFS Development
and Performance, IATA**