Industry Monitor
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on air transport trends

EUROCONTROL

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- **European flights increased by 1.3% in April 2019 compared with April 2018 and were at the low end of the forecast. The year-to-date growth (January to April) currently stands at 2.1%. Preliminary data for May 2019 show an increase of 1.0% in flights on May 2018.**
- **Major European airlines reported losses from operations during 1Q2019 resulting from volatile oil prices, foreign exchange headwinds, the B737 MAX grounding and the timing of Easter.**
- **Airline ticket prices were up 5.6% in April 2019, an increase partly due to the shift of Easter.**
- **EU carbon prices averaged €25/tonne in May 2019 compared with €15/tonne in May 2018 and were five times more expensive than in May 2017.**
- **Oil prices averaged €64 per barrel in May 2019 and were stable compared with April.**

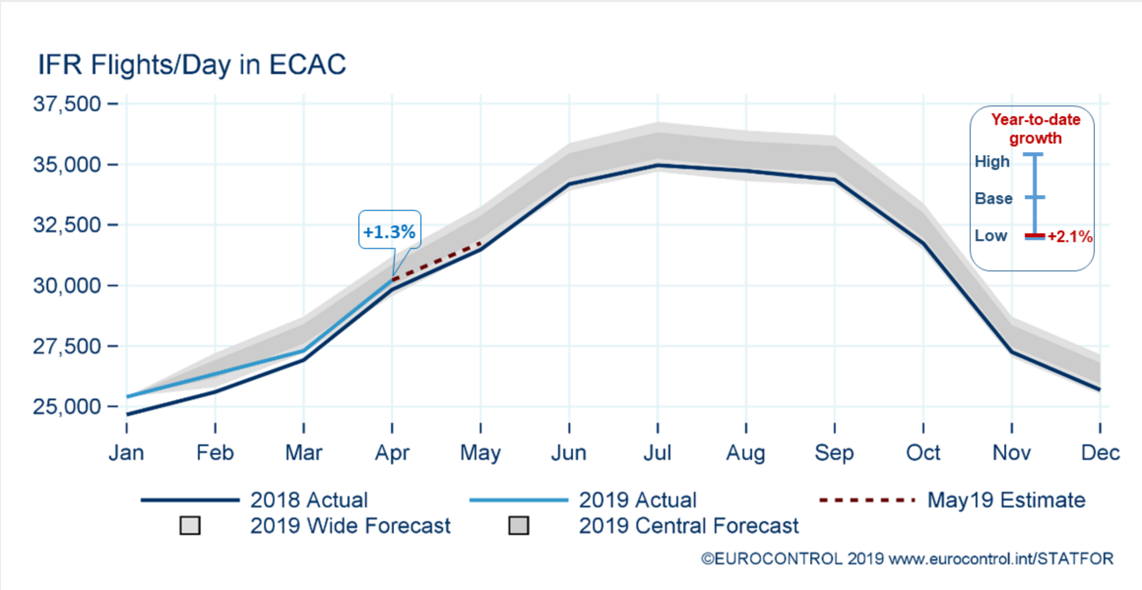

Figure 1: Monthly European Traffic and Forecast (based on the 7-year forecast Feb 2019).

EUROCONTROL Statistics and Forecasts

European flights (ECAC – European Civil Aviation Conference area) increased by 1.3% in April 2019 compared with April 2018 and is in line with the low forecast published in February. The year-to-date growth (January to April) currently stands at 2.1% (the year-to-date forecasted growth was 3.3%). Preliminary data for May 2019 show an increase of 1.0% in flights on May 2018. (Figure 1).

Main contributors to flight growth in Europe in April 2019

Ten states added more than 50 flights per day to the European local traffic (excluding overflights) growth in April 2019 (vs. April 2018). France (bouncing back from industrial action in April 2018) was the top contributor and added 240 flights per day. Spain ranked second with 229 flights/day owing mainly to its flows to and from Germany (+41 flights/day), UK (+34 flights/day), Austria (+26 flights/day), Italy (+20 flights/day) and Canary Islands (+18 flights/day). Italy was the third contributor with 162 extra daily flights owing mainly to its flows to and from Western Europe (Germany +28 flights/day, France +25 flights/day, Spain +19 flights/day) and Egypt (+17 flights/day). Germany ranked fourth and added 138 flights per day due to flows to and from Spain (+42 flights/day), Turkey (+41 flights/day), Italy (+29 flights/day) and France (+25 flights/day). Austria was the fifth contributor with 100 extra flights per day, an 11.3% growth of its local traffic mainly due to its flow to and from Southern Europe (Spain +26 flights/day, Italy +12 flights/day and Greece +8 flights/day). The next five states added together 316 daily flights to the network: Greece (+76 flights/day), Portugal excl. Azores (+67 flights/day), Ukraine (+62 flights/day and 15% growth), Morocco (+60 flights/day up 11.7% growth in April 2018). At the other end of the scale, pilot strikes at SAS Scandinavian Airlines resulted in significantly fewer flights in Sweden (-131 flights/day), a decrease in domestic air passengers also played its part, with an apparent shift to rail, Norway (-103 flights/day) and moderately fewer flights in Denmark (-36 flights/day). Turkey saw 95 fewer daily flights due to its internal flow, which was down 215 flights per day in April 2019 (vs. April 2018). Economic recession leading to reduced consumer buying power and cost-cuttings in local businesses explained the decline (Figure 2) (EUROCONTROL STATFOR, May).

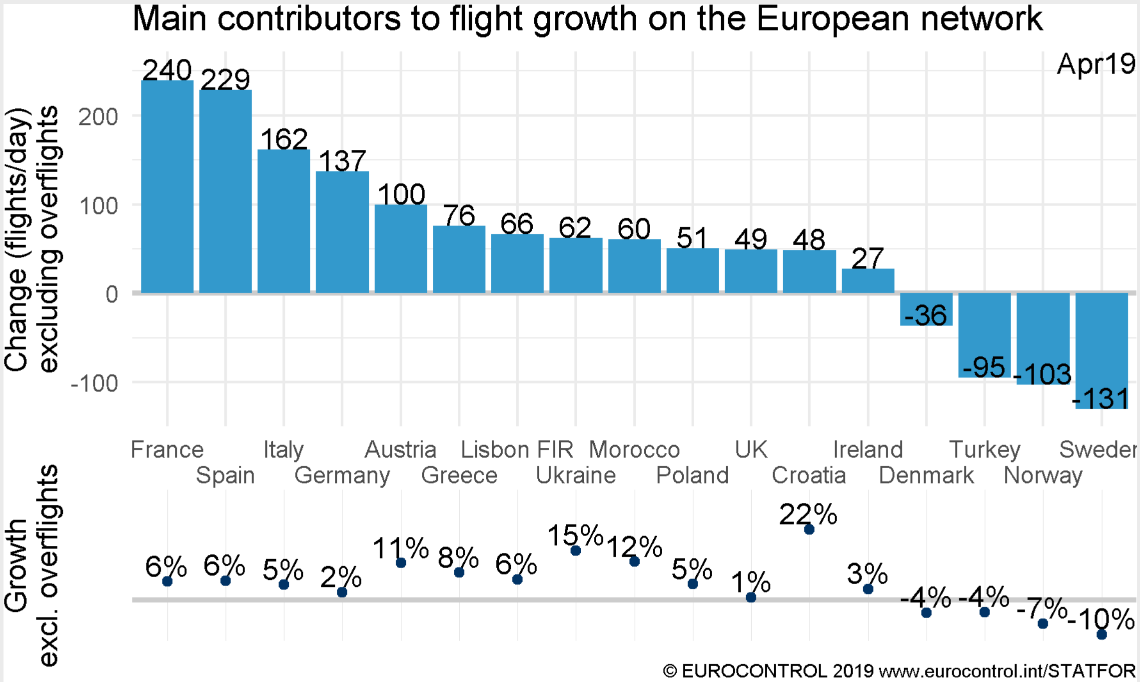

Figure 2: Main changes to traffic on the European network in April 2019.

Flight growth by market segment in April 2019

The charter segment had the fastest growth in April 2019 and was up 5.6% on April 2018 owing to flows between Europe and North-Africa (Egypt and Tunisia mainly), the Russian Federation, Israel and the Middle-East. Easter was a driver of this growth. The low-cost segment saw a 3.4% increase and was the main driver of growth with 309 extra flights per day. The traditional scheduled segment grew by 1.8% whereas the business aviation and all-cargo segments decreased by 6.2% and 3.2% respectively (EUROCONTROL STATFOR, May).

Outside Europe (ECAC) contributors to flight growth in April 2019

The top five external partners in average daily flights on flows in both directions were the United States (1,002 flights, up 0.6%), the Russian Federation (855 flights, up 6%), Morocco (406 flights, up 11.3%), Israel (374 flights, up 4.5%) and Egypt (323 flights, up 13.1%) (EUROCONTROL STATFOR, May).

Top aircraft operators in April 2019

The aircraft operators which added the most flights to the network on a daily basis were Ryanair (+123 flights), Air France (+118 flights), Vueling (+45 flights), LOT (+42 flights) and Wizz Air (+35 flights) (EUROCONTROL STATFOR, May).

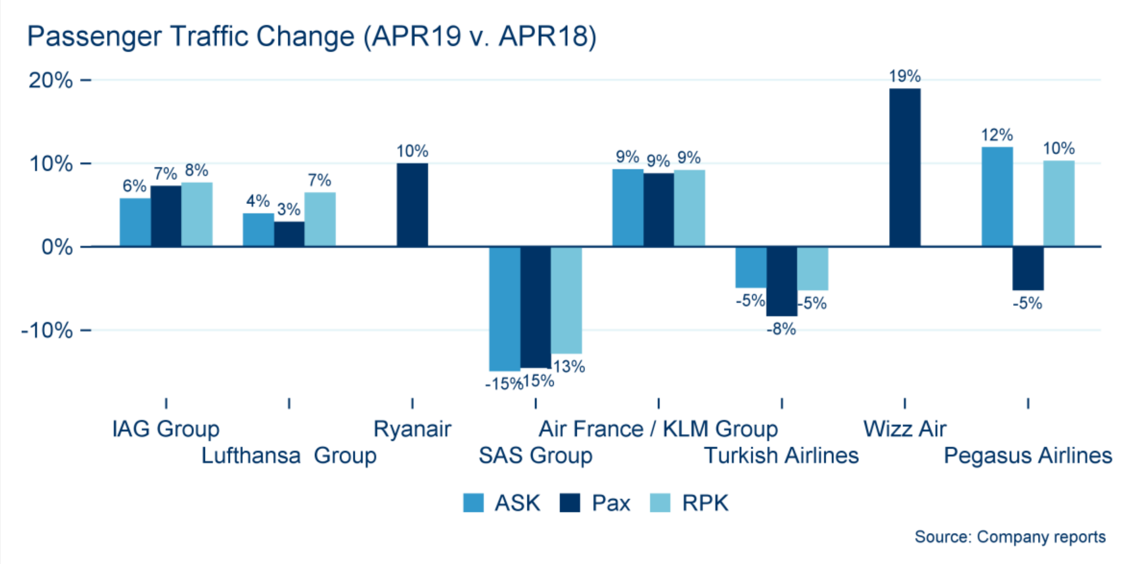

Figure 3: Main carriers' traffic statistics.

All-causes airline delays in April 2019

Based on data from airlines for delays from all causes, the average delay per flight on departure was 11.4 minutes in April 2019, this was a slight improvement compared with 11.6 minutes in April 2018. Analysis of the delay causes shows that reactionary delay contributed 4.6 minutes to the average delay per flight in April 2019. In April 2019, 39.3% of flights departed within 5 minutes before or after the scheduled departure time; a decrease of 0.6 points from 39.9% compared to previous year. Flights delayed >30 minutes from all-causes decreased from 10.5% to 10.2% (EUROCONTROL/CODA, May).

Other Statistics and Forecasts

IATA reported that European scheduled passenger traffic (RPK) increased by 4.9% in March 2019 (vs. March 2018) whereas capacity (ASK) was up by 5.4% and the total passenger load factor was 83.7% (vs. 84.1% in March 2018). For the first quarter of 2019, RPK increased by 6.4% and ASK grew by 7.1% on 1Q2018. The passenger load factor was 81.6% (vs. 82.1% in 1Q2018) (IATA, 8 May).

ACI Europe reported overall passenger counts at European airports to grow by 3.8% in March 2019 (vs. March 2018) whereas overall aircraft movements increased by 2%. During the first quarter of 2019 (vs. same quarter in 2018), overall passenger counts at European airports increased by 4.4% with overall aircraft movements up 3.1% on 1Q2018 (ACI Europe, 14 May).

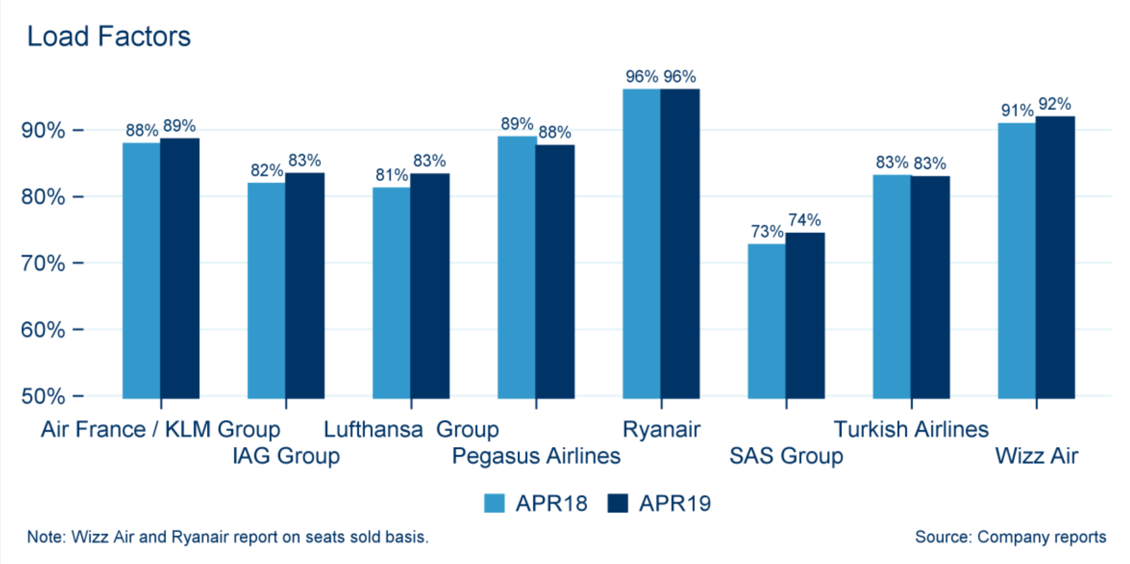

Figure 4: Main carriers' load factors.

Passenger airlines

Traffic Statistics for April

Figure 3 and Figure 4 compare April 2019 figures with April 2018 figures for most of the main European carriers (with the exception of easyJet which now only reports passenger statistics within its quarterly reports). In addition to the number of passengers (PAX), passenger capacity is measured in available seat kilometers (ASK), traffic is measured in revenue passenger kilometers (RPK) and load factor as a percentage (%).

Capacity, routes, alliances, cost, jobs

Lufthansa has abandoned planned growth of its low-cost subsidiary, Eurowings as the latter's financial results continued to deteriorate in 1Q2019 owing to rising fuel prices and ticket price war from over capacity. Originally, Lufthansa wanted to increase Eurowings capacity by 2% in 2019 (Lufthansa, 30 April).

SAS has concluded an agreement with its pilot unions thereby ending a dispute concerning wages and working conditions, which resulted in a 6-day strike in April forcing the airline to cancel circa 2,800 flights in Sweden, Norway and Denmark (SAS, 2 May).

Eurowings will open a new base at Pristina stationing one Airbus A319 aircraft, effective 19 June. It will launch two new routes to Basel and Geneva in addition to its existing connections to Düsseldorf, Munich and Stuttgart (Eurowings, 6 May).

Air France has announced changes in its domestic network, which has been strongly affected by competition from low-cost airlines and the high-speed train expansion in recent years and will reduce its short-haul capacity by 15% by the end of 2021. This decision will result in circa 465 ground staff redundancies by 2020 (Air France, 13 May).

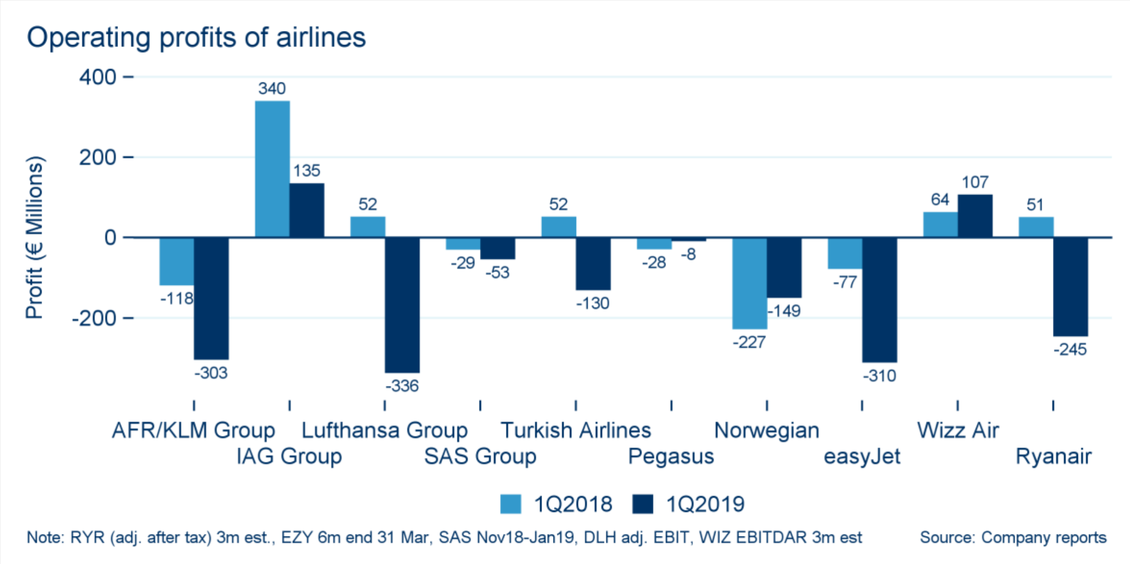

Figure 5: Financial results of airlines in 1Q2019.

Spanish low-cost Volotea will add 6 Airbus A319 aircraft to its fleet as it plans to launch 41 new routes in 2019 to bring its network to 319 routes operated from 12 bases in Europe. The airline is still in the process of phasing out its Boeing 717 aircraft fleet (Volotea, 7 May).

Lufthansa has placed a non-binding offer to purchase Condor, Thomas Cook's German leisure carrier with the option to include all Thomas Cook airlines as the latter plans a strategic review of its airline business to focus on hotel property investments (Lufthansa, 7 May).

SAS and Airbus signed a research agreement to cooperate on hybrid and electric aircraft and infrastructure requirements for large scale commercial use. SAS expects to reduce emissions by 25% by 2040 through fleet modernization and the use of biofuels (SAS, 22 May).

Air France pilots union SNPL ALPA has agreed to start negotiations aiming at increasing the number of aircraft in Air France's low-cost subsidiary Transavia fleet, currently capped at 40 aircraft as agreed in 2014. Transavia France currently operates a fleet of 36 Boeing B737-800 aircraft (Air France-KLM, 27 May).

Financial results of airlines

Figure 5 compares the first quarter of 2019 financial results with the first quarter of 2018 for the main European airlines (based on 1Q2019 flight shares – Alitalia results were not available at the time of publishing). For a traditionally loss-making quarter, only two airlines - IAG Group and Wizz Air- recorded operating profits although IAG's profit declined from €340 million in 1Q2018 to €135 million. Higher fuel prices, adverse currency effects, the B737 MAX grounding and the timing of Easter have impacted the airlines' results to varying degrees.

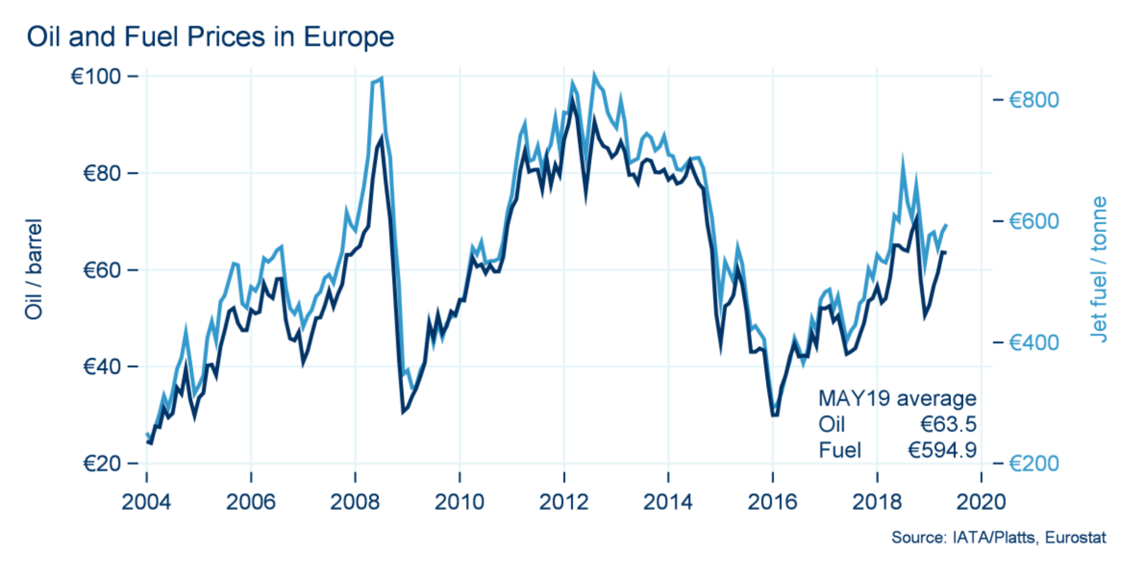

Figure 6: Oil and jet fuel prices.

Oil

Oil prices averaged €64 per barrel in May 2019 and were stable compared with April. Converted indices for oil and jet fuel prices are shown in Figure 6.

Airports

Passenger traffic and commercial aircraft movements at the top five European airports (based on the number of flights) in April 2019 (growth on April 2018) were as follows:

Rank	Airport	Passenger traffic	Aircraft movements
1	Frankfurt	6.0 million (+ 5.2%)	44K (+ 1.8%)
2	Paris CDG*	6.5 million (+12.9%)	42K(+11.3%)
3	Amsterdam	6.1 million (+ 1.4%)	42K (+ 0.1%)
4	London Heathrow	6.8 million (+ 3.3%)	40K (+ 1.0%)
5	Madrid	5.1 million (+ 5.2%)	35K (+ 3.0%)

Source: airport reports, May 2019

*impacted by Air France strikes in April 2018

Heathrow will launch in June a public consultation on its proposed plan for a third runway which could be operational in 2026. The consultation follows the High Court's dismissal of legal challenges against Heathrow expansion. The debate on Heathrow's plans – and its commitments to grow sustainability – has been had and won, both in Parliament and now in the courts (Heathrow, 15 May).

Above-ground construction of New Terminal 3 at Frankfurt has entered the first phase and will handle up to five million passengers a year when completed in 2021. When T3 will be fully operational in 2023, Frankfurt's total capacity will be increased by 21 million passengers per year (Fraport, May).

Figure 7: EU carbon prices (European CO_2 Emissions Allowances).

Scandinavian Mountains Airport in Sweden will be the first airport in the world with a virtual tower instead of an air traffic control tower when it opens on 22 December. The airport will serve both scheduled and charter flights for seasonal ski traffic (Scandinavian Mountains Airport, May).

Cambridge will reportedly close by 2030. In 2018, the airport handled circa 3,000 flights of which 39% were business aviation flights and 22% were traditional scheduled flights from Cambridge to Gothenburg Landvetter and Cambridge to Manchester (ch-aviation, 17 May).

Environment

EU carbon prices (European CO_2 Emissions Allowances) averaged €25.4/tonne in May 2019 compared with €14.8/ tonne in May 2018 and were five times higher than in May 2017 (€4.7/tonne). This remained above the trend (12-month trailing average) shown in Figure 7 (Insider Inc., May).

A European citizens' initiative has called the European Commission to propose to member states the introduction of a tax on aviation kerosene which to date remains untaxed in Europe. The European Federation for Transport and Environment (T&E) said that levying a tax of minimum €330/tonne on all departing flights at European airports was permitted since 2003 by an EU Energy Taxation Directive but never enforced by any EU state. T&E claimed that aviation CO_2 emissions grew 26.3% in the last five years; taxing kerosene would reduce carbon emissions by 11% (EUROPA, 30 April and T&E, 13 May).

KLM will develop and purchase 75,000 tonnes of sustainable aviation fuel (SAF) per annum for a 10-year period SkyNRG, the market leader for SAF will build Europe's first dedicated plant for the production of SAF in the Netherlands, using regional waste and residue streams. SAF will enable a CO_2 reduction of at least 85% compared with fossil fuel. The facility is scheduled to open in 2022 (KLM, 27 May).

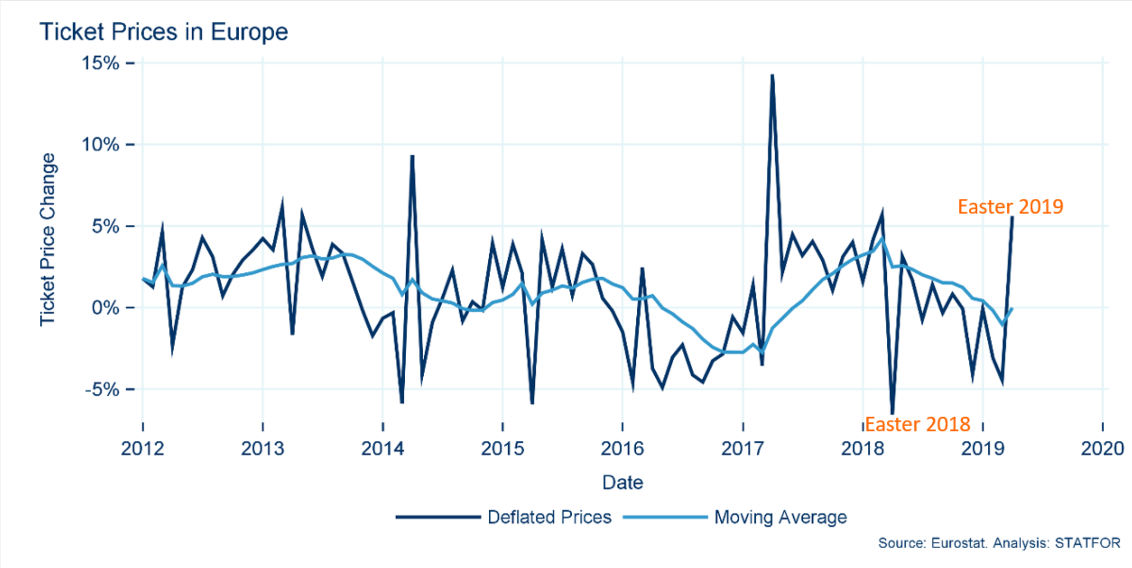

Figure 7: Deflated ticket prices in Europe.

Aircraft Manufacturing

Boeing's software fix for its grounded B737 MAX aircraft is still reportedly pending regulators' approval. The final certification could be delayed until end August. Several aircraft operators are seeking financial compensation from the manufacturer for the financial losses due to the grounding along with delayed B737 MAX deliveries that they have on order (Wall Street Journal, 13 May).

Fares

Ticket prices in Europe increased by 5.6% in April 2019 compared with April 2018, based on preliminary values. This was above the trend (12-month trailing average) shown in Figure 8 although prices typically rise in the run-up to Easter (Eurostat,).

Note: to eliminate the influence of inflation on euro figures, the ticket price is deflated with a price index. The STATFOR deflated ticket prices are estimated in 2015 constant euros. A detailed explanation of the mechanism can be found here.

Economy

In its Spring 2019 European Economic forecast, European Commission estimations in the Euro area were as follows:

	Actual 2018	Forecast 2019	Forecast 2020
GDP	1.9%	1.2%	1.5%
Inflation	1.8%	1.4%	1.4%
Unemployment	8.2%	7.7%	7.3%

(EUROPA, 7 May).

Regulation

EU has signed two aviation agreements with China aiming at boosting the competitiveness of the European aviation and enhancing EU-China cooperation. The first bilateral agreement will remove unnecessary duplication of evaluation and certification activities for aeronautical products by the civil aviation authorities and thereby reduce cost. The second agreement will enable all EU airlines to fly to China from any EU Member State having a bilateral air services agreement with China (EUROPA, 20 May).

The Dutch government plans to levy a national aviation tax of €7 per departing passenger from 1 January 2021 unless the European Union makes progress on imposing a European-wide tax on aviation. The proposed tax would exclude transit passengers. Air cargo would be taxed at a rate of €3.85 per tonne of cargo for noisiest aircraft (Rijksoverheid NL, 14 May).

EUROCONTROL Supporting European Aviation

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