



ATR launched upgraded versions of the ATR42 and 72, namely the -600 series with updated avionics among other changes. This is on the back of the buoyancy in the turboprop market seen over the last couple of years - represented above by ATR 42 500 series operated by Contact Air, a member of Lufthansa Regional.

AIR TRANSPORT: QUARTERLY REPORT NO.17

4th QUARTER 2007 (October to December)

1	OVERVIEW.....	2
2.	HIGHLIGHTS AND KEY DEVELOPMENTS.....	3
2.1	REGULATORY.....	3
2.2	AIRLINES.....	4
2.3	AIRPORTS.....	12
2.4	SAFETY AND SECURITY	15
2.5	ATM.....	16
2.6	MANUFACTURERS	16
2.7	THE ENVIRONMENT	18

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1

Overview

The final horizontal agreement of the year initialled between EU and Kazakhstan, removing nationality restrictions in that country's bilateral air services agreements with EU states, brings to thirty-one the number of such agreements in place at the end of 2007. The Commission also began negotiations for an open aviation area agreement with Canada.

The European network of air services continued to expand. Compared to Q4 of 2006, there was 8% growth in the number of EU domestic routes served, while cross-border intra-EU routes were up by just over 10%. The mobility and ease of entering and leaving routes was reflected in the high turnover of routes: the comparison of Q4 2006 and 2007 shows three hundred routes dropped, while 574 were started. LCCs were prominent in the generation of traffic and creation of new routes. In total, these new LCC routes were served by some 1400 round-trip flights each week.

AEA airlines reported passenger traffic up by 4.3 in the three months to the end of November 2007. Average load factors were up on services to all regions, including the important North American routes, where growth in demand outstripped a significant increase in capacity. Among the largest European carriers, Air France and Lufthansa saw growth in capacity, but Lufthansa managed to fill more seats, putting itself in top position among EU carriers in terms of RPK. At British Airways, capacity continued to fall (down 1%), but the airline was able to increase its load factor slightly. Virgin Atlantic reported an impressive fourteen percent growth in RPK together with a six point boost in load-factor.

A number of airlines reported Q3 financial results. As the period covers the peak summer months, the quarter produces the year's best operating margins. There was a general improvement in these margins over the same period of 2006, reflecting positive fundamentals in spite of increased oil prices. All, except Alitalia, produced positive operating and net profits. For the group of major carriers, operating margins improved by 2.3 points to 10.7%, an encouraging level for the industry. Among LCCs, Ryanair reported a healthy operating margin of 35%, while Air France-KLM, BA, SAS and Swiss recorded margins above ten percent.

In terms of passenger traffic, ACI's European airports were up over six percent in passenger throughput to end-November, above the 5.7% increase in the association's world-wide airports. Nineteen European airports are placed within the world's top thirty airports in terms of international traffic, with four occupying the top positions. Year to October growth in international passenger traffic was positive at all these large European airports, but it was particularly strong at Barcelona (international traffic up 12%) and Madrid (up 17%), as LCCs continue to expand their Spanish networks.

London's Gatwick and Heathrow were the worst performing European airports in terms of delay, according to statistics reported by AEA. At both airports only around three out of five of flights departed within fifteen minutes of their scheduled time, although at Gatwick this represents an improvement over 2006. Improvements were recorded at a number of other airports, including Amsterdam, Barcelona, Brussels and Madrid.

2. Highlights and key developments

2.1 Regulatory

In October, the Commission received a mandate from the EU Council of Ministers to negotiate an “Open Aviation Area” agreement with Canada. The first round of negotiations was conducted in Brussels at the end of November. Currently, bilateral air services agreements exist between Canada and nineteen Member States.

In November, the Commission proposed to open negotiations with Israel on a comprehensive aviation agreement, with a view to gradually lifting market restrictions and achieving a high level of regulatory convergence. This development is part of the process of creating a Common Aviation Area with the EU’s Eastern and Southern neighbours by 2010.

In October, the EU initialled a “horizontal” agreement with Pakistan removing nationality restrictions in the bilateral air services agreements with Member States. Similar agreements were initialled in November with Nepal and in December with Kazakhstan. In November a horizontal agreements was signed with the UAE. In all, thirty one “horizontal” agreements are in place at the end of 2007.

In October, the Commission allowed Italy to grant start-up aid for new air routes from Grosseto regional airport to other European destinations. The measure will last for three years from 2008 and provide up to €27,000 to airlines to finance new routes.

In October, the Commission approved state aid to Newquay Cornwall Airport in respect of the financing of infrastructure developments. The redevelopment of this small airport in South West England is expected to cost €65 million, of which €29 million will comprise Community funds.

Also in October, the Commission approved state aid to Rzeszów Jasionka Airport in Poland for the financing of infrastructure developments. The overall costs of the project are €8.6 million, up to 49% of which may be contributed by the Polish State.

In November, the Commission adopted the sixth update of the Community’s list of airlines banned in the EU. The operational restrictions previously imposed on Pakistan International Airlines were lifted. The full listing of the airlines on which restrictions are in place is available on the Commission’s website:

http://ec.europa.eu/transport/air_portal/safety/black_list_en.htm

In November, the Commission launched a formal investigation into contracts concluded by the Chambre de Commerce et d’Industrie de Pau-Béarn with Ryanair and its subsidiary, Airport Marketing Services Ltd.

In November, the Commission adopted a Communication on the application of Regulation (EEC) 95/93 on common rules for the allocation of slots at Community airports, as amended. The Communication concluded that there have been improvements in the use of scarce airport capacity, but there is still room for improvement, especially where it concerns market access and efficient use of slots. The provisions that aim to encourage new entrants to get a foothold at congested airports would appear to have had only a limited effect on competition and on the best use of scarce capacity. In addition, there are concerns about the neutrality and

independence of the slot coordinator at coordinated Community airports, with evidence suggesting that the relevant provisions have not yet been implemented consistently in all Member States.

In December, the Commission adopted a regulation allowing air passengers arriving from Singapore and transferring at an EU airport to take duty-free liquids on-board their connecting flights. This is the first application of (EC) Regulation No 915/2007, which introduced the possibility of exemptions for liquids purchased at the airports of third countries.

In December, the Commission approved changes to social aid for air travel between mainland Portugal and the Autonomous Region of Madeira. The modified arrangements introduced a fixed subsidy of €60 per return journey, in respect of fares higher than this amount, for residents of Madeira and for students travelling between the mainland and Madeira. In future, subsidy payments will be made after travel has taken place, with beneficiaries having to request payment from the regional authority.

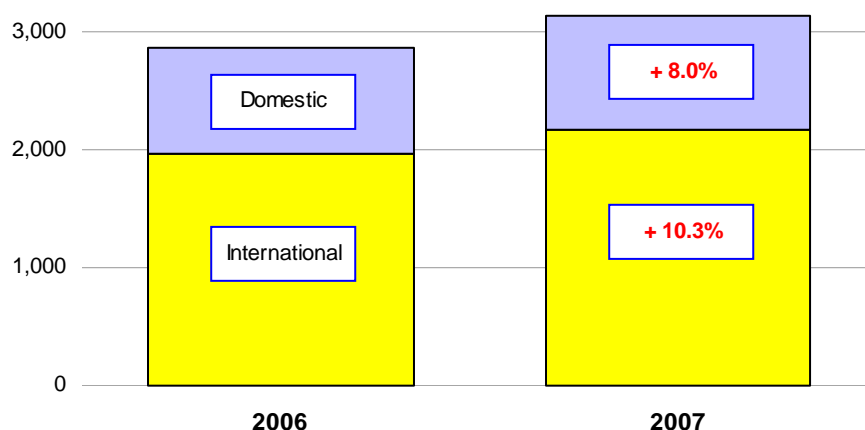
In December, the Commission launched a formal investigation into a number of financial flows and transfers provided by Greece to Olympic Airways Services and Olympic Airlines that may constitute illegal and incompatible State aid. Greece has one month to respond to the Commission and provide the required information.

2.2 Airlines

2.2.1 Capacity and routes

There was significant growth in the number of domestic and cross-border routes offered by air carriers within and between EU states between the final quarters of 2006 and 2007. The figure below shows the intra-EU international network was extended by over ten percent, while domestic expansion was only a little less limited, at eight percent.

Routes operated within the EU air transport network, Q4 2006 and 2007



Source: OAG

The routes are airport pairs, and only those served consistently throughout the three months of each quarter are considered. The number of flights operated also increased,

but at 5.8% growth, this was below the 9.6% increase in route numbers, suggesting a significant proportion of the new routes are operated at relatively low frequencies.

Total figures of routes served hide the flux of routes dropped and routes started. Over the twelve month period, some three hundred airport-pairs lost their service.

European routes dropped and started between Q4 of 2006 and 2007

	Dropped	Started	Balance
Domestic	70	142	72
International	230	432	202
TOTAL	300	574	274

Within domestic markets, only Finland recorded the loss of routes (four) and no gains at all. Here, Finncom pulled out of its Varkaus routes to Helsinki and Savonlinna, and between Helsinki and Lappeenranta, while Finnair withdrew its Oulu Rovaniemi service.

LCC were prominent in generating traffic and creating new routes. Ryanair alone added 136 routes to its network in Q4 of 2007. The airline created four bases within its network, at Alicante, Belfast City, Bristol and Valencia.

New routes inaugurated by low-cost carriers in Q4 2007

	number of routes	round-trips per week	avge round-trips per week
Air Berlin	7	38	5.4
Blue Air	4	10	2.5
Blu-Express	1	21	21.0
bmibaby	1	4	4.0
Centralwings	9	23	2.6
Click Air	7	94	13.4
easyJet	46	221	4.8
Flybe	3	16	5.3
Flyglobespan	6	7	1.2
Germanwings	4	29	7.3
jet2.com	4	6	1.5
jet4you	1	5	5.0
MyAir	5	9	1.8
Norwegian	9	25	2.8
Ryanair	136	548	4.0
SkyEurope	19	111	5.8
Sterling	17	48	2.8
Thomsonfly	3	11	3.7
Transavia France	9	17	1.9
Transavia.com	3	11	3.7
Volareweb	10	49	4.9
Vueling	16	65	4.1
WindJet	1	1	1.0
Wizz Air	7	18	2.6
XL.com	1	6	6.0
TOTAL	25	329	4.2

EasyJet was second in the league of network expansion, with forty-six new routes. In all, just twenty-five LCC contributed 329 airport pairs to the European network, creating some additional 2,800 flights each week.

The average frequencies offered on the new routes of the LCC leader, Ryanair, was four round-trips per week. EasyJet offered higher frequencies, with an average of just under five per week, but one of the densest developing LCC networks appears to be that of Click Air. This Barcelona carrier opened its route to Bilbao at a frequency of four flights daily, and those to the Balearic destinations of Palma and Mahon at three times a day.

2.2.2 Charter carrier news

Bundeskartellamt, Germany's Competition Regulator, has extended its inquiry into Air Berlin's acquisition of Condor, with the result of its deliberations now not expected before April 2008.

UK start-up charter carrier Premjet is planning to start premium class operations from Luton and Manchester airports to Mediterranean and Canary Islands resorts in summer 2008 using MD-83 aircraft configured with 80 seats.

UK based charter airline Flyjet, acquired by premium carrier Silverjet in 2006, ceased operations at the end of October.

Following the crash of an MD-83 in November, Turkey's regulatory authorities have been cracking down on operators, with charter carrier Tarhan Tower Airlines having its flights suspended and Fly Air having its Air Operators Certificate cancelled.

Europe Airpost, based at Charles de Gaulle airport, has been sold by the French Postal Service to Air Contractors Group. Europe Airpost operates mail and freight services at night and undertakes passenger charter flights during the day.

UK-based charter airline Astraeus has become a fully-owned subsidiary of Icelandic leisure company, Northern Travel Holdings. As a result of changing market conditions, Astraeus will become less reliant on the UK charter market and focus more on wet lease contracts.

2.2.3 Traffic

Scheduled services of AEA members, September - November 2007

	Passengers	ASK	RPK	Load Factor
	thousands	millions	millions	%
Domestic	28,925	22,819	15,686	68.7%
Cross-border Europe	44,031	65,912	46,801	71.0%
Europe / N Africa Mid East	2,938	11,662	8,364	71.7%
North Atlantic	7,251	61,468	49,422	80.4%
South/Mid Atlantic	2,964	28,941	24,118	83.3%
Europe/rest Africa	2,046	17,356	13,677	78.8%
Europe /Far East, Australasia	4,745	46,242	39,036	84.4%
Other	36	102	49	
TOTAL	92,936	254,502	197,153	77.5%

Source:AEA

Passenger traffic carried by AEA airlines in the three months to the end of November 2007 was up by over four percent on the same period 2006, totalling just under ninety-three million passengers. Not surprisingly, much of this traffic was carried on intra-European sectors (domestic and cross-border), although quite clearly the longer haul services accounted for the majority of RPK. Just over one-quarter of total RPK were generated on the North Atlantic, while air services between Europe and Far East/Australia-Pacific routes accounted for 20% of AEA airlines' RPK.

AEA carriers cut back capacity (ASK) on domestic networks very slightly, but were able to attract increased traffic (RPK), resulting in a growth in the average passenger load-factor on these domestic services of 1.3 percentage points. Expansion in European cross-border capacity was more than taken up by traffic growth, resulting in a positive movement in load-factor of almost one percent.

AEA members, September – November 2007, growth over same period 2006

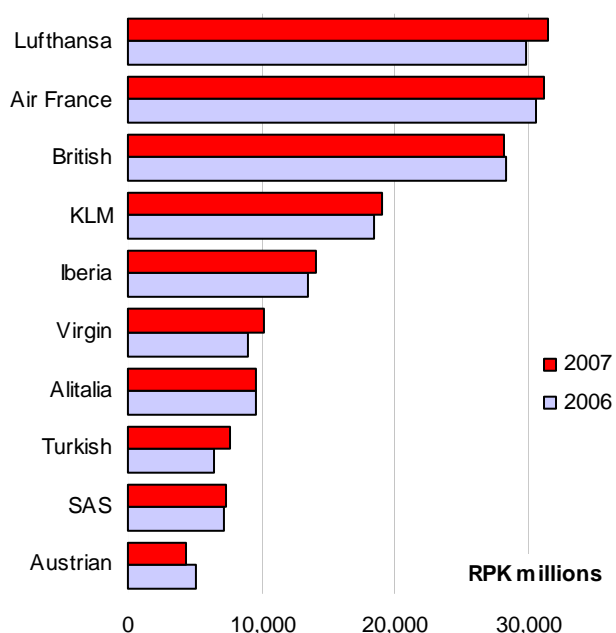
	Passengers	ASK	RPK	Load Factor
	thousands	millions	millions	change (points)
Domestic	1.1%	-0.8%	1.1%	1.3
Cross-border Europe	5.9%	6.0%	7.4%	0.9
Europe / N Africa Mid East	8.9%	3.2%	8.0%	3.2
North Atlantic	5.8%	5.1%	5.6%	0.4
South/Mid Atlantic	8.1%	7.0%	7.4%	0.3
Europe/rest Africa	4.4%	3.8%	3.3%	-0.4
Europe /Far East, Australasia	3.2%	-0.3%	2.1%	2.0
TOTAL	4.3%	3.8%	5.1%	0.9

Source: AEA

There were higher load-factor increases in other markets, with the Asia Pacific routes improving by two percentage points, as capacity was cut slightly. There was good news in the highly competitive North Atlantic market where traffic increases outstripped growth in capacity, leading to a load-factor of 80.4%, up by almost half a point over the same period in 2006.

Among AEA member airlines, Lufthansa was top performer in terms of RPK generation in the three months to end November 2007, with a very small lead over Air France. Both these carriers increased capacity, (LH up 4%, AF 3%) but Lufthansa was more successful in filling seats (RPK at LH up 5.4%, up 2.2% at AF). The result was growth of one point in average load-factor for Lufthansa, while Air France LF dropped by 0.7 points. British Airways records capacity down by one point, but RPK fell by less than one-third of a point, giving the carrier an average increase in load-factor. Although Austrian managed to maintain its average load-factor at 76.3%, capacity continued to fall, reflecting the rationalisation of the carrier's long-haul route network.

Ten largest AEA members, September–November 2007, RPK growth over 2006



Virgin recorded a fourteen percent increase to RPK on its extended network, boosting the average load-factor on its services by six points to over 77%. KLM average load factor fell slightly as the airline extended its capacity by 5%.

Air freight traffic AEA members, September–November 2007 vs same period 2006

	Freight (TFTK)	
	millions	change
Domestic	30	-7.5%
Cross-border Europe	192	-4.7%
Europe / N Africa Mid East	290	-1.0%
North Atlantic	2,810	4.3%
South/Mid Atlantic	1,082	5.8%
Europe/rest Africa	884	10.3%
Europe /Far East, Australasia	4,659	1.0%
TOTAL	9,949	3.0%

Source: AEA

Air freight carried in the three months was 3.0% up on the same period one year earlier. The weakest performances were in the European markets, where domestic freight traffic was down over seven percent. However, domestic and cross-border European markets represent only a very small part of total freight carried by AEA airlines. The most important market is to the Asia Pacific region, accounting for around half AEA airlines' TFTK, and this market grew by 1.0%. Strong growth on the transatlantic routes, and between Europe and Africa, contributed to the overall solid improvement recorded by AEA carriers.

2.2.4 Financial

European carriers

Financial performance of major EU carriers for July to September 2007

	Revenues (\$m)	Operating result (\$m)	Net result (\$m)	Op.margin %	Net margin %
Air France-KLM	8,982	1,004	1,019	11.2	11.3
Alitalia	1,753	-26	-80	-1.5	-4.5
Austrian Airlines	952	59	40	6.2	4.2
British Airways	4,580	593	437	12.9	9.5
Finnair	755	54	55	7.2	7.3
Iberia	2,019	193	205	9.5	10.2
Lufthansa Group	8,690	789	718	9.1	8.3
Ryanair	1,192	418	373	35.0	31.3
SAS Group	2,514	282	105	11.2	4.2
Swiss	1,077	159*	n/a	14.8	
Total above	31,437	3,365	2,872	10.7	9.5

* EBIT

Source: Airline Business

Results for the third quarter of calendar year 2007 were available for the majority of larger EU airlines, and are shown in the table. This quarter includes three peak summer months and thus should generate the best operating margins. For the group as a whole, operating margins further improved from the same quarter in 2006 of 8.4% to 10.7%, reflecting positive economic fundamentals despite continued high oil prices.

All the major European airlines produced positive operating and net profits for this quarter with the exception of Alitalia, whose position moved closer to breakeven at the operating level. Ryanair's operating margin only dropped one % point, with these margins increasing for all the network carriers in the sample. British Airways increased their operating margin from around 10% for the previous summer, and are close to achieving their target of 10% for the year as a whole.

In addition to the airlines reported above, THY Turkish Airline's operating profit was up from US\$126m to \$231m, giving them a peak quarter margin of 21%. On the other hand, the Icelandair Group also reported lower profits and a fall in operating margin from 19% to 14% in the quarter. Of the smaller LCCs, Norwegian increased their operating margin from 4.5% for July to September 2006 to 11.3% for the latest quarter, contrasting with Vueling's decline in margin from 9.0% to -0.4% (recording a small operating loss but net profit). easyJet and SkyEurope only reported full year results to the end of September 2007, with easyJet increasing its operating margin from 7.3% to 9.6% for the latest twelve months, and SkyEurope reducing its operating loss from \$77m to \$29m (or -9% of revenues).

The US dollar averaged 0.728 to the euro for the third three months of 2007, compared to 0.785 for the same period in 2006, or a depreciation of 7.2%. This gave European carriers an advantage when translating dollar denominated costs such as fuel into euros.

USA and Asia network carriers

Financial performance of major US carriers for July to September 2007

	Revenues (\$m)	Operating result (\$m)	Net result* (\$m)	Op.margin %	Net margin %
Alaska Airlines	995	143	83	14.4	8.3
American Airlines	5,946	319	215	5.4	3.6
Continental	3,820	280	253	7.3	6.6
Delta Air Lines	4,659	166	363	3.6	7.2
Northwest	3,378	459	405	13.6	12.0
UAL	5,527	656	295	11.9	5.3
US Airways	3,036	202	185	6.7	6.1
Southwest	2,588	251	133	9.7	5.1
JetBlue	765	79	23	10.3	3.0
AirTran	609	38	11	6.3	1.8
Total above	31,323	2,593	1,966	8.3	6.3

* excluding reorganisation items

Source: Airline 10Q SEC Filings

The US majors together recorded an operating profit of US\$2.6 billion for the third quarter of 2007 (or 8.3% of revenues), compared with a profit of \$1,312m for the same quarter in 2006. Total revenues were up by over 5% and the net result after tax but before reorganisation add-backs items moved from a profit of \$939 million to a healthier \$2.0 billion. All airlines improved their operating margins significantly with the exception of Southwest whose margin dipped from 11.1% to 9.7%. Both JetBlue and AirTran moved from a small net loss for the previous quarter to profitability.

Financial performance of major Asian carriers for July to September 2007

	Revenues (\$m)	Operating result (\$m)	Net result (\$m)	Op.margin %	Net margin %
AirAsia	134	42	52	31.3	38.8
Air China	1,919	376	290	19.6	15.1
All Nippon Airways	3,656	464	-717	12.7	-19.6
Asiana	1,056	87	40	8.2	3.8
China Airlines	1,035	43	24	4.2	2.3
EVA Air	738	49	9	6.6	1.2
Japan Airlines	5,499	555	97	10.1	1.8
Jet Airways	558	40	7	7.2	1.3
Korean Air	2,564	304	142	11.9	5.5
Malaysia Airlines	1,120	109	106	9.7	9.5
PIA	283	-26	-51	-9.2	-18.0
Singapore Airlines	2,630	344	337	13.1	12.8
Total above	21,192	2,387	336	11.3	1.6

Not all Asian airlines report quarterly financial results, but of those that do, Singapore Airlines improved its operating profit from US\$172m for July to September 2006 to US\$344m for the latest quarter, or 13.1% of revenues. Korean Air, Malaysia Airlines, China Airlines and Asiana also reported improved operating profits. Jet Airways of India moved from an operating loss of US\$4m to a profit of \$40m, while Eva Air of

Taiwan also moved into profit. Japan Airlines only reported for the six months from April to September with a strong improvement in both operating and net profit, although its operating margin was still only 5% on roughly unchanged revenues. LCC AirAsia improved its operating margin for the quarter from 16% to 32%, a level that was comparable to one of the EU LCC leaders, Ryanair.

Key developments and announcements- network carriers

World average jet kerosene prices increased only marginally from US\$2.13 per US gallon at the beginning of July 2007 to US\$2.18 at the end of September (Rotterdam spot price from the US EIA). Given the weakness of the US\$ over the period, fuel prices in euros actually fell by around 5%. Prices scarcely rose above US\$2.30 over the three month period, but by the end of the quarter were still 26% above the price at the beginning of the year.

Acquisitions and disposals:

British Airways (BA) decided in November 2007 not to exercise its pre-exemption rights to acquire any of the Iberia shares being sold by BBVA and Logista. Existing Iberia shareholder Caja Madrid announced its intention to acquire the 6.99% stake of Spanish financial services group BBVA and the 6.42% stake held by Spanish logistics firm Logista in Iberia. Under a pre-exemption agreement signed in 1999, Iberia's core shareholders hold first rights to buy the shares sold by any of their counterparts.

At the end of December, the Italian government authorised Alitalia to begin exclusive privatisation negotiations with its SkyTeam alliance partner Air France-KLM. This followed the selection by Alitalia's board of Air France-KLM as the preferred strategic partner for its development, after a drawn out selection process with Lufthansa deciding against involvement early in the same month.

Lufthansa agreed in December 2007 to acquire a 19% equity stake in US low-cost carrier JetBlue Airways. Under the terms of the agreement, Lufthansa will purchase in a private placement about 42 million newly issued common shares of JetBlue, for \$7.27 apiece, or a total of about \$300 million. This represents a 16% premium to the closing price of \$6.25 on 12 December, the day before the announcement. A Lufthansa nominee will be appointed to the JetBlue board upon closing of the transaction, which is expected to occur in the first quarter of 2008, pending regulatory review and approval. Opportunities to further cooperate will be explored, say the airlines.

SAS Group agreed in October 2007 to sell its 55% holding in Spanish ground handler Newco Airport Services to Marsans Group affiliated investment vehicle Teinver for SKr320 million (\$49.7 million), giving it a 100% stake in the company.

Ryanair insisted in October 2007 that it intended to remain a long-term shareholder in Irish carrier Aer Lingus, despite the latter's attempts to force the airline to divest its near 30% stake. The budget airline has built up a 29.4% stake in Aer Lingus to become its largest single shareholder. Aer Lingus asked the EC to compel Ryanair to sell this stake as part of its recent ruling blocking the Irish carrier from any takeover of Aer Lingus. While the EC has decided it does not have the power to do so, Aer Lingus is to take its efforts to the European courts.

easyJet is to buy London Gatwick-based GB Airways in a £103.5 million (around \$200m) cash deal. It has agreed to buy all of GB Airways, excluding its London Heathrow airport slots, from the Bland Group.

Labour

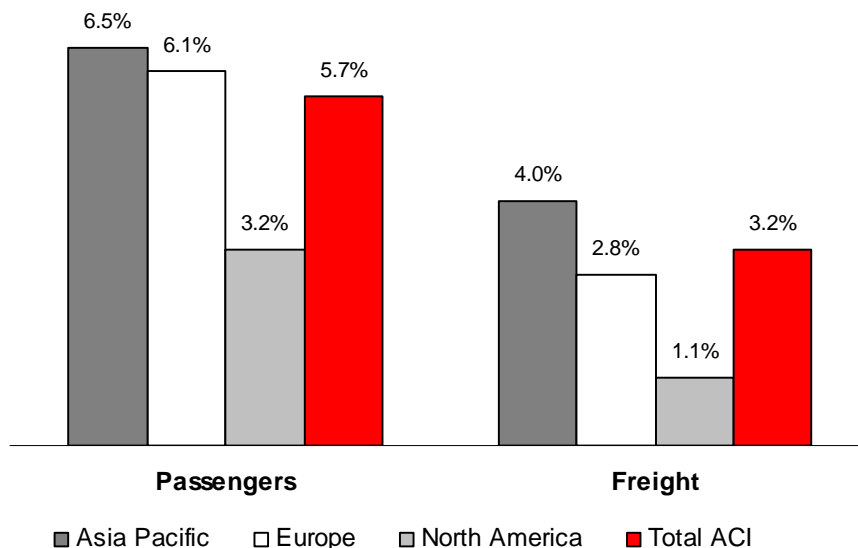
Air France is estimating the net cost of its five-day cabin walkout in October, at around €60 million. Several of Air France’s cabin crew unions staged the walkout between 25 and 29 October in an escalation of a dispute over a new long-term labour agreement. The stoppage caused fairly significant disruption, but Air France declined to comment on the total number of cancellations.

2.3 Airports

2.3.1 Traffic

Europe’s ACI member airports increased passenger throughput by 6.1% in the eleven months to end November 2007, compared with the same period in 2006. This was above the worldwide ACI growth of 5.7%, but below the growth recorded by the organisation’s airports in the Asia Pacific region. North American airports continued to record recovery from lower growth rates reported in earlier quarters of 2007, particularly in international passengers. In all the three major ACI regions, November growth in international traffic outstripped domestic growth. In North America this represented a wide margin (1.5% for domestic passengers, 6.8% for international).

Year to November growth (2007/2006) at ACI airports worldwide



Source: ACI International

Cargo traffic growth worldwide was less strong, ACI airports recording 3.2% annual growth for the same period. There was a slight fall overall in domestic cargo, this representing around one-third of ACI airports total throughput of cargo. The Asia Pacific airports are ACI’s strongest performers in terms of total cargo and increases

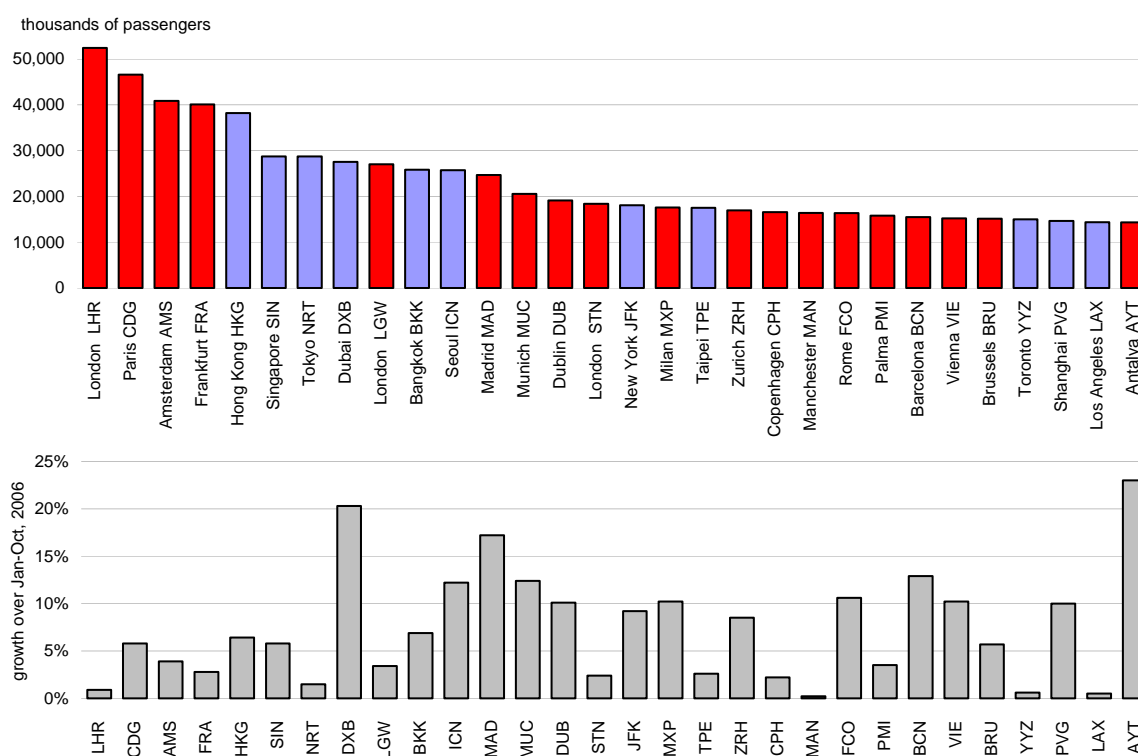
year-on-year to November (up four percent). North American airports represent the second largest market in absolute terms, and here growth was just over one percent.

Looking at the performance of the world's thirty largest airports in terms of international passenger traffic, European airports account for nineteen of them. Indeed, the top four airports are London Heathrow, Paris CDG, Amsterdam and Frankfurt. Hong Kong is Asia's busiest international airport by quite a margin, while New York's JFK leads North American airports.

All thirty airports recorded increases in international passenger traffic in the ten months to October 2007. While the highest relative, year-on-year, growth rate was at the charter-dominated airport of Antalya (up 23%), the greatest absolute increase in passenger numbers was recorded by Dubai, which handled an additional 4.6 million passengers in the ten month period. Among the European airports, Madrid, Barcelona and Munich recorded growth rates comfortably in excess of ten percent.

Manchester was the slowest growing of the thirty airports, recording just one-fifth of a point in growth. This most likely reflected the continuing recovery from BA's sell-off of its regional subsidiary, BAConnect, to Flybe.

International passenger traffic & growth, January-October 2007 at major world airports



Source: ACI Europe

2.3.2 Delays

AEA's latest delay statistics cover punctuality records reported by the organisation's member airlines for Q3 2007. The table below summarises departure and arrival delays at the ten best performing, and ten worst performing, airports. A delay is defined as leaving, or arriving, more than fifteen minutes' later than scheduled.

The best performing airport in terms of departure delays was Dusseldorf, where AEA airlines recorded delays to just under sixteen percent of flights. If arrival delays are considered, Amsterdam had the best record, with 86% of flights arriving on time. At London Gatwick only 58% of flights arrived within fifteen minutes of the scheduled time, and the airport also had the worst record for departures. Surprisingly, Gatwick's poor performance was an improvement on Q3 2006.

Other airports with generally high delay rates improving their Q3 performance in terms of departure delays were Barcelona and Madrid. Average departure delays were between thirty-two minutes (Heathrow) and forty minutes (Larnaca).

Major European airports with the best, and worst, record for departure delays (AEA airlines) Q3 2007

Airport	departures %	compared to Q3 2006	average delay (minutes)	arrivals %	average delay (minutes)
London Gatwick	41.2	▼	33.0	42.1	38.8
London Heathrow	38.9	▲	31.8	33.6	35.2
Rome	36.8	▲	40.0	25.7	41.2
Dublin	34.5	▲	39.1	30.5	39.8
Athens	31.6	▲	40.3	27.6	39.6
Lisbon	30.8	▲	38.6	29.8	36.7
Barcelona	29.8	▼	38.2	26.9	38.5
Istanbul	29.5	▲	33.6	34.2	39.4
Madrid	29.5	▼	42.3	31.9	40.2
Larnaca	29.4	=	46.2	37.4	45.7
Dusseldorf	15.8	=	35.1	21.2	32.8
Brussels	16.4	▼	40.8	16.8	40.9
Stockholm	17.8	=	35.6	20.6	35.9
Oslo	18.2	▲	37.5	21.1	37.3
Vienna	18.3	=	32.2	17.7	37.3
Geneva	19.2	▲	37.6	22.9	34.9
Milan Linate	19.4	▼	34.7	24.6	36.9
Helsinki	20.7	▲	37.1	17.9	38.6
Amsterdam	21.4	▼	38.2	14.0	49.5
Zurich	21.4	▼	33.5	20.6	34.7

Source: AEA

2.3.3 Ownership and airport developments

Flughafen Wien of Austria formed a consortium with two Indian companies, Satyam and NCC Infrastructure Holdings, to bid for Build Operate Transfer contracts at Gulbarga and Shimoga airports in the state of Karnataka. Both Indian partners have each secured a 37% stake in the consortium with the remaining 26% held by the Flughafen Wien subsidiary VIE Indien Projektentwicklung & Beteiligungen.

Macquarie Airports increased its equity stake in Brussels airport to 62.1%. The investment group secured the additional equity from its sister company Macquarie International Infrastructure Fund in a transaction worth €50.9 million.

BAA completed the sale of all of its Australian airport assets in a transaction totalling around €900 million. BAA has relinquished its shares in companies managing Melbourne, Launceston, Perth, Darwin, Alice Springs and Tennant Creek.

The Netherlands government made a final decision not to proceed with the flotation of a minority stake (49%) in the company that manages Amsterdam Schiphol Airport. This decision followed discussions with other shareholders such as the City of Amsterdam.

Birmingham Airport has delayed plans to build a second 2,000m runway. The decision was as a result of revised traffic forecasts which concluded that a second runway would not be needed before 2030. The airport instead will focus on its planning application to extend the main runway.

2.3.4 Regulatory news

German airport operator, Fraport, announced that it was submitting an application to annul the World Bank Arbitration Tribunal decision in August which dismissed its compensation claim against the Philippines Government over the failed Manila international airport terminal project.

The European Parliament transport committee voted in favour of a proposal to apply the proposed directive on airport charges to airports handling in excess of five million passengers annually. The draft directive originally applied airport charges provisions to airports handling in excess of one million passengers. The Directive is aimed at improving relations between airlines and airports and setting common community-wide standards relating to transparency, consultation and arbitration.

2.4 Safety and security

Continuing the trend observed in the first half of 2007, figures for fatal commercial aviation losses for the full year achieved a record low of twenty-four. Similarly, the number of fatalities (687) was below the annual average for the last ten years (864). In terms of passenger services, seven accidents involved jet powered aircraft (responsible for 76% of all fatalities), there were a further seven fatal accidents (resulting in 95 fatalities), and one piston engine aircraft crashed, killing three people.

The worst accident of 2007 was the TAM Linhas Aereas Airbus A320 at Sao Paulo Congonhas airport, which overran the runway killing 187 on board and twelve people on the ground. Apart from this accident, and another in Russia, all passenger aircraft losses either occurred, or involved aircraft registered in, developing countries. The largest number of fatal accidents for a single country was in the Democratic Republic of Congo (six fatal accidents), with Indonesia experiencing two major incidents involving an Adam Air 737-400 and a Garuda 737-400.

An analysis of initial data regarding the primary cause of these accidents indicates that human factors led to ten losses (eleven in 2006), technical / maintenance problems caused a further six (unchanged from 2006), and only a single loss was due to controlled flight into terrain (five in 2006). Aon Insurance reported airline hull losses for 2007 totalled 47 aircraft, stating that 2007 will be the first year since 2000 in which insurers will make a net loss on airlines.

During the third quarter of 2007, IATA reported concerns that the number of fatal accidents at that point was such that, if they continued to occur at the same rate, the annual global hull loss rate for scheduled passenger operations using western-built aircraft might increase for the first time in many years. However, by the end of the year no more serious accidents had occurred, and the final figure is expected to be

similar to that of 2006 (0.65 fatal accidents per million flights). IATA has declared its top safety priorities to be improvements to pilot training for handling critical situations in modern aircraft, and better availability of real-time weather information to crews.

2.5 ATM

Advanced continuous descent, or green approaches are to be introduced into Gothenburg-Landvetter airport following an agreement between SAS and Sweden's airports operator and air traffic control provider, LFV, after flight trials at Stockholm Arlanda airport. These approaches promise approach fuel savings of some 100kg, which convert to 314kg saved in CO₂ emissions and 1.1kg in nitrogen oxide output.

SAS completed Europe's first ever commercial transatlantic green approach when an Airbus A330-300 landed at Stockholm Arlanda following a successful advanced continuous descent approach (A-CDA) on 8 December. The aircraft's flight management system flew the aircraft at idle thrust from top of descent through to the final stage of the approach.

US and European aviation authorities and operators are planning collaborative environmental tests in 2008 to gather operational data on fuel-reducing procedures and technologies. The first will be New York's JFK airport, aiming to optimise ground movements, thereby reducing fuel burned and emissions produced in the airport vicinity.

In December, the European Union's competitiveness council gave the go-ahead for the aeronautical Clean Sky Joint Technology Initiative. Clean Sky is to be carried out in conjunction with the SESAR Single European Sky air traffic management research programme, and aims for reductions of up to 40% in carbon dioxide and 40% in nitrogen oxides and a 20dB reduction in noise levels around airports.

In December the Commission adopted a Communication on the implementation of the Single Sky Legislation (COM(2007) 845 final). This report highlights the main achievements and announces the intention of the Commission to come forward, in the second quarter of 2008, with concrete proposals for a second Single Sky package

2.6 Manufacturers

2.6.1 Aircraft manufacturers

Airbus

Airbus' exposure to the USD was emphasised in this quarter when its CEO announced further restructuring beyond Power8 may be necessary as the dollar stood at \$1.50 against the Euro, compared to the figure of \$1.35 used in its initial estimates.

The A380 programme was given a boost by the announcement by British Airways of an order for twelve of the type. Singapore Airlines finally inaugurated the A380 into service on October and overall its in-service experience seemed to go well. At the

Dubai Air Show in November, Emirates placed orders for seventy A350XWB and eleven more A380s.

By year end provisional figures for orders for the year were at record levels again, although senior managers were saying that such high levels were unlikely to continue.

Boeing

Emirates' decision to order the A350XWB over the B787 was accompanied by a plea from the airline to Boeing to consider B777-300ER replacement sooner rather than later.

Boeing turned down Emirates request to shorten the fuselage of the B747-8I in its passenger version and confirmed that it would be the same length as that of the freighter variant, to date only Lufthansa has placed orders for the passenger variant.

In October, Boeing announced a five month slippage in production of the first B787 delays with flight control software and availability of fasteners have been cited as reasons for the delays. Despite the setback the aircraft continued to sell well with over 850 aircraft ordered by the end of 2007.

Bombardier

Bombardier ended the year considering its future aircraft, while at the same time having to manage SAS' decision to permanently ground its fleet of Q400s following three undercarriage collapses in short succession. Despite SAS' concerns no other Q400 airline took the step of taking the aircraft out of service.

ATR

At the beginning of October ATR launched upgraded versions of the ATR42 and 72, namely the -600 series with updated avionics among other changes. Looking further into the future, ATR announced that they are also considering further stretches to the design to produce a 90 seater variant. This is on the back of the buoyancy in the turboprop market seen over the last couple of years.

Embraer

In October Embraer reached the milestone of delivering its 1,000th ERJ145, the honour went to an aircraft delivered to Grand China Express.

Its 3rd Quarter deliveries were 47 aircraft, significantly above the figure of only 30 for the same period the year before. At that time Embraer was expecting the final year figure to be between 165 and 170. The improvements were based on implementing manufacturing recovery programmes.

Virgin Nigeria placed an order for 10 EJets (7 170s and 3 190s), the airline had found that its existing fleet of 737-300s were too large for their regional route network.

2.6.2 Engine manufacturers

Pratt and Whitney

In mid November Pratt and Whitney began bench testing its Geared Turbofan, which it is developing for the new large regional jet aircraft – the Bombardier C-Series and Mitsubishi Regional Jet. For the company it is viewed as a “game changer”,

addressing the environmental challenges facing the industry and also helping to improve its market share, which has been diminishing recently.

Rolls-Royce

While gaining significant engine orders from the likes of ILFC and BA, Rolls-Royce announced major production plant developments in a bid to stay competitive in the future. New plants in Singapore and the US will be set up.

2.7 The environment

The European Parliament voted on 13 November 2007 to support the European Commission's original plan to include aviation in the European Union Emissions Trading Scheme after adopting a first-reading report earlier this month. This followed Parliament's receipt of reports from the Transport and Environment committees, under the 'enhanced procedures' that apply to this proposal to give a more balanced weighting to the committees' opinions.

On the basis of those reports, MEPs meeting in plenary session voted to reduce the number of authorised CO₂ emissions for aviation to 90% of airlines' average annual emissions during 2004-2006, rather than the EC's originally proposed cap of 100%. MEPs also backed more ambitious emission reductions in future depending on the post-2012 target reductions in overall CO₂ emissions Europe sets itself. MEPs also decided that an initial 25% of permits should be auctioned, with revenues earmarked for research, support for alternative transport modes and to help the EU and third countries manage the impact of climate change.

They disagreed, however, with the EC proposal that the scheme initially covers intra-EU flights from 2011, before extending to international flights from 2012, voting that all flights from EU airports should be covered by 2011. The idea to include international flights in the scheme from one unified date was shared by the environment and transport committees, although they disagreed on the date: 2010 with a baseline reference period of 2004-6 or 2012 with a baseline reference period of 2008-10.

EU ministers reached a political agreement on including aviation in the EU emissions trading scheme on 20 December 2007. The Council position remained close to the Commission's original proposal of 20 December 2006 (IP/06/1862 and MEMO/06/506), and most of the changes are technical improvements. However, there are also changes of a more political nature, including:

- The one-year introductory phase for intra-EU flights proposed by the Commission has been dropped, and the scheme would become operational in a single phase, starting in 2012.
- Emissions will be capped at 100 percent of the average level for the years 2004-2006.
- The level of auctioning has been increased to 10 percent, and revenue from the auctioned allowances should be used to combat climate change.
- An exemption has been introduced for operators with very low traffic levels on routes to, from or within the EU. Under this mechanism many operators from

developing countries with only limited air traffic links with the EU will be exempt. This will not have a significant effect on the emissions covered by the scheme.

- A special reserve of free allowances for new entrants or very fast-growing airlines has been added. While this was not contained in the original Commission proposal, it was found to be acceptable as the reserve is taken from within the overall cap and does not therefore affect the environmental effect of the scheme.
- A new mechanism to ensure consistent and robust enforcement throughout the EU has been introduced. As a last resort, Member States could ask for an operator to be banned from operating in the EU if it persistently has failed to comply with the scheme and other enforcement measures have proven ineffective.
- The political agreement reached will now formally be adopted as a 'common position' some time in 2008. It will then be sent to the European Parliament for a second reading.

In November 2007, two UK government departments (Environment and Transport) published a study to estimate ticket price changes for aviation in the EU ETS. In most cases they predicted that around 100% of the cost of emissions allowances would be passed through in increased ticket prices, with higher rates of up to 150% tending to apply to long-haul flights.

IATA announced in December 2007 that it is pointing to estimated savings of around 25 million tonnes of carbon dioxide over the last two years as evidence that its strategy to address climate change is yielding results. It has developed a four-pronged strategy to tackle aviation's climate change impact comprising investment in new technology, efficient infrastructure, effective aircraft flight and, ultimately financial measures. It reported savings of 15 million tonnes of CO₂ last year and expects to achieve a further saving of 10 million tonnes this year. The strategy is based on shorter routes, best practices in fuel management and better operational procedures.