The Changing Trends in the International Airline Industry

How is Ireland being affected by Changes in the Marketplace?

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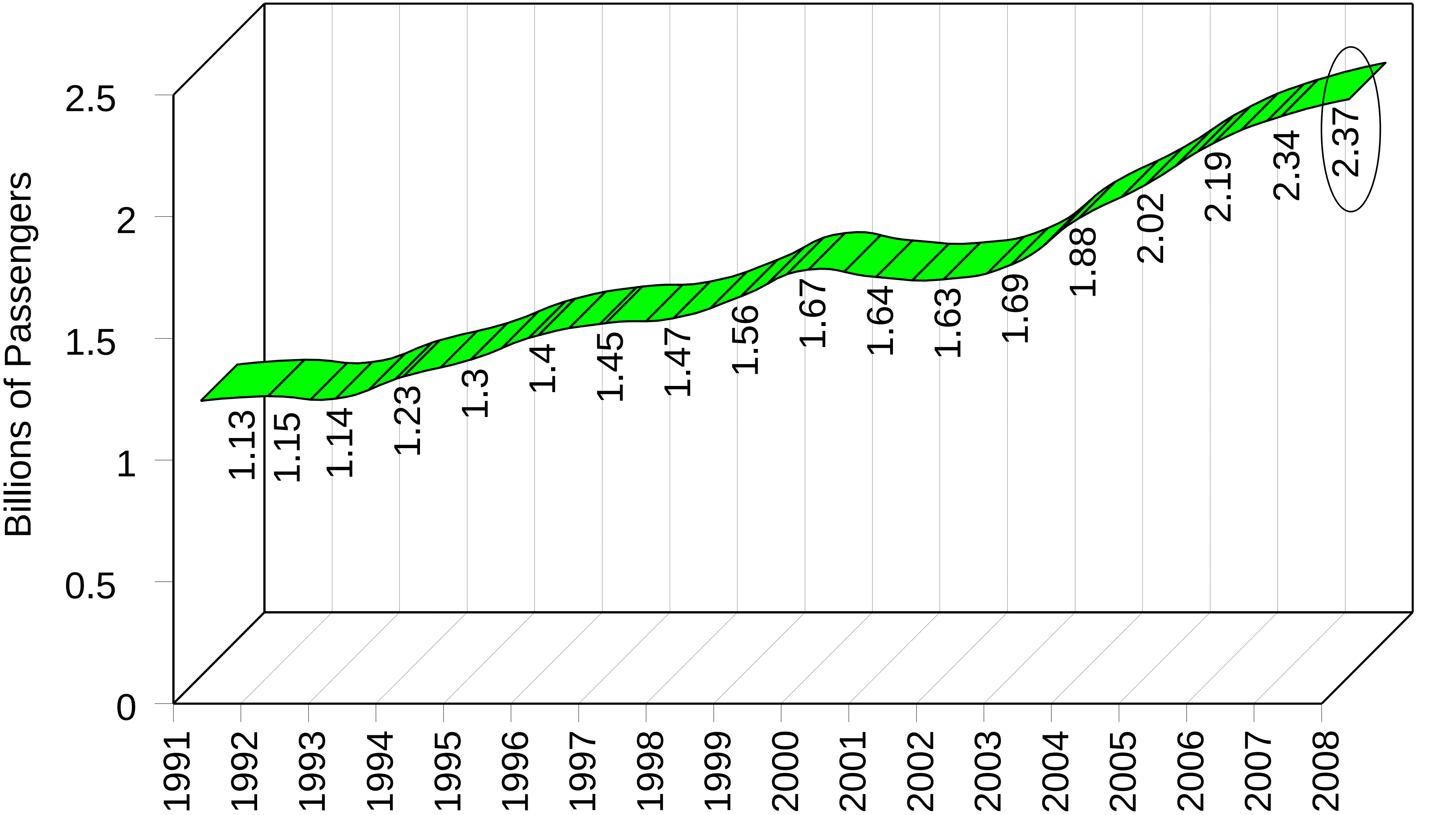
First Annual Tourism Policy Workshop

Dromoland, 2010

Agenda

- The General trend of the Airline industry
- The rise of the low cost carriers
- An insight into the Irish Market
- The Irish Air Travel Tax
- Ryanair v Aer Lingus
- The US – Ireland Open Skies policy
- The impact on Shannon airport

Number of passengers carried worldwide (1991 – 2008)



Source: ATA, AAPA, AEA, AACO, ICAO

Growth in passenger traffic
2003 - 2008

Passengers Transported*

	2003	2008	% change
Full Service Airlines	1.3 billion	1.6 billion	23%
Low Cost Carriers	178 million	495 million	178%
Regional Airlines	147 million	204 million	39%
Charter Airlines	83 million	43 million	-48%
Total	1.7 billion	2.3 billion	35%

* Share by top 200 world airlines

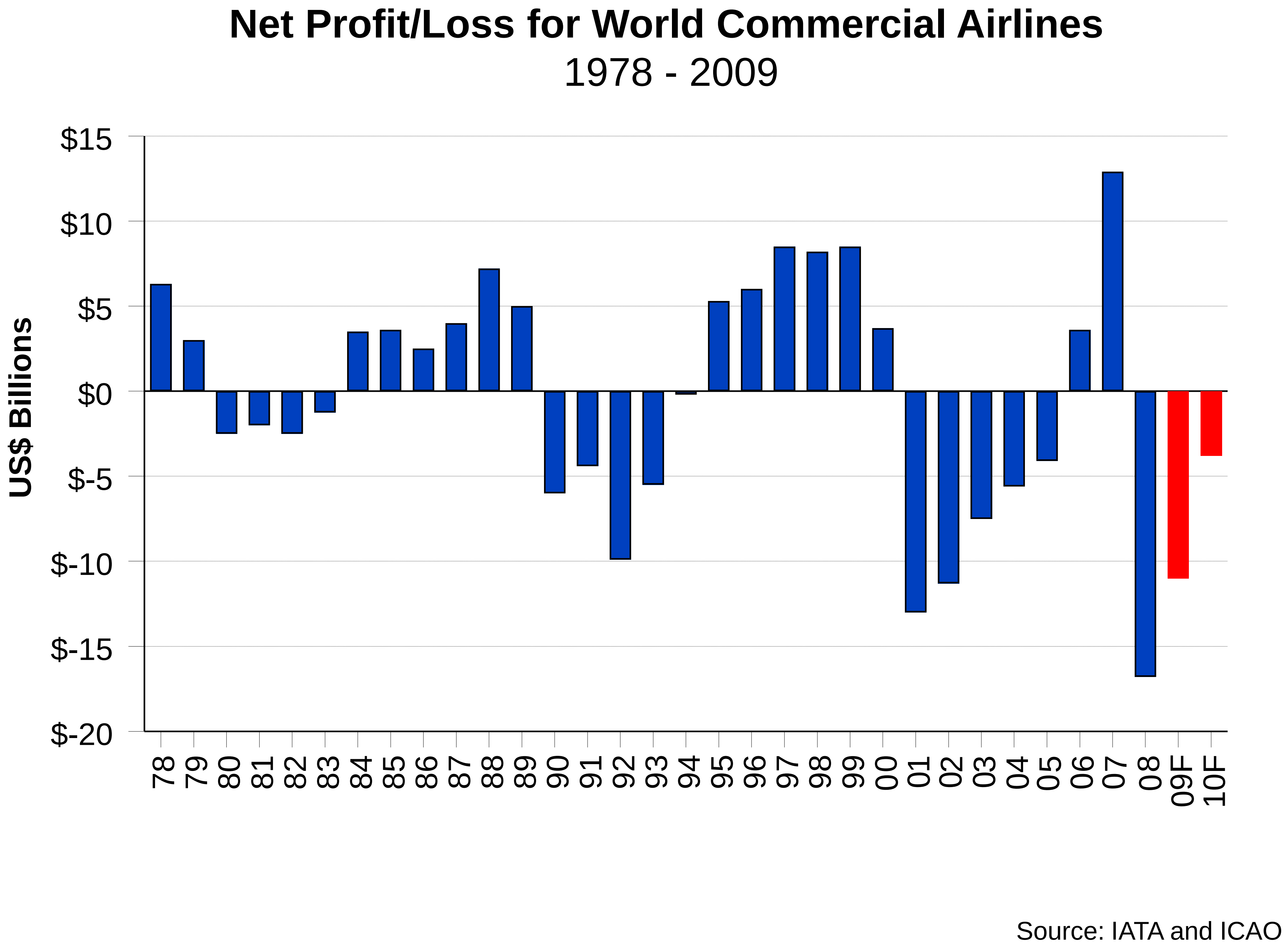
Source: Airline Business August 2004 and August 2009

Change in passenger traffic
2000 - 2008

	Passengers 2000 (millions)	Passengers 2008 (millions)	% Change
North America	726	847	17%
Europe	**420**	**667**	**59%**
Asia-Pacific	378	620	64%
Central/South America	82	116	41%
Middle East	44	86	95%
Africa	29	39	35%
Total	1.67 billion	2.37 billion	42%

* Share by top 200 world airlines

Source: Airline Business, August 2000 and August 2009


Net Profit/Loss for World Commercial Airlines
1978 - 2009
US$ Billions
$15
$10
$5
$0
$-5
$-10
$-15
$-20
78
79
80
81
82
83
84
85
86
87
88
89
90
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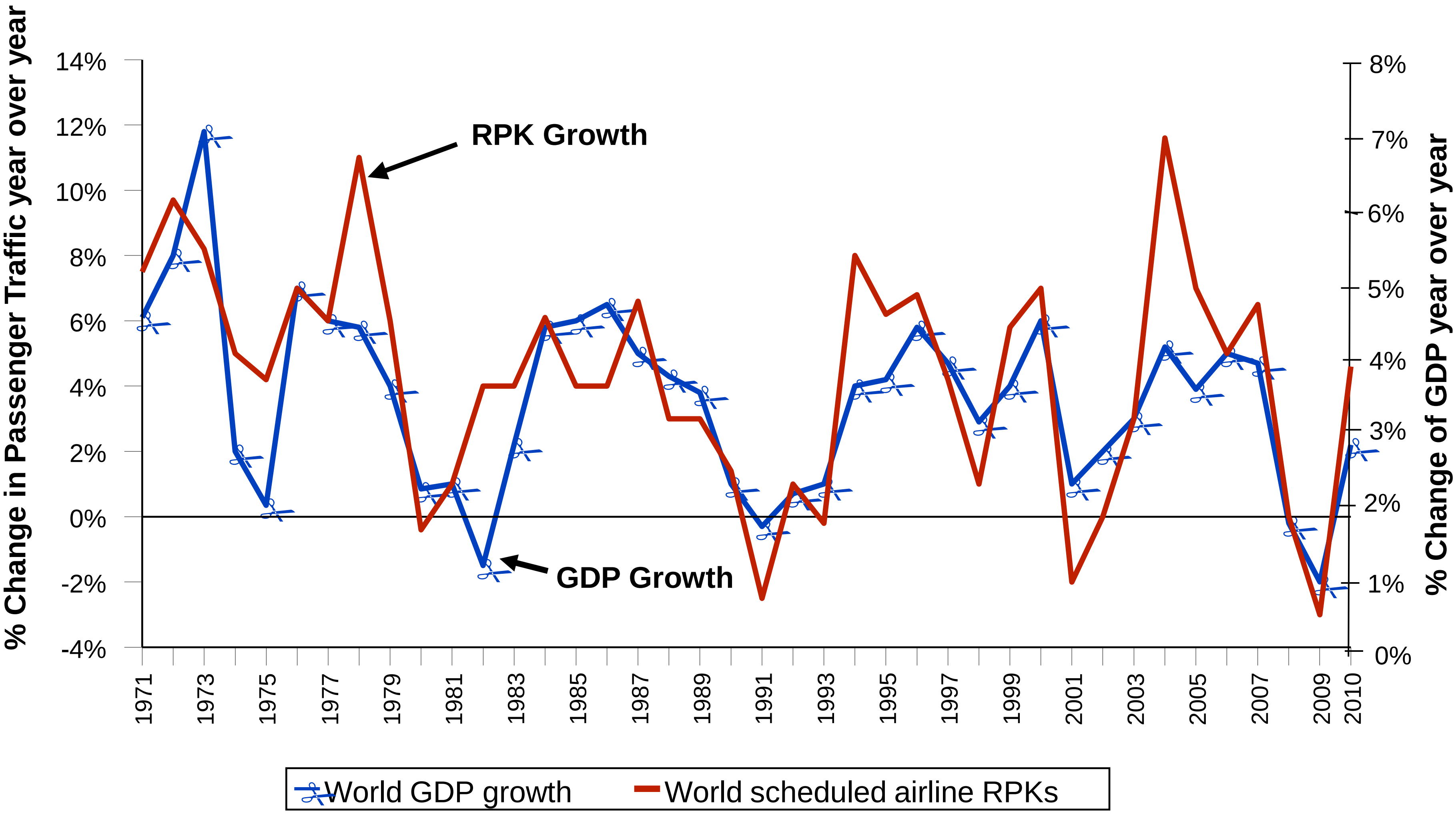
07
08
09F
10F
Source: IATA and ICAO

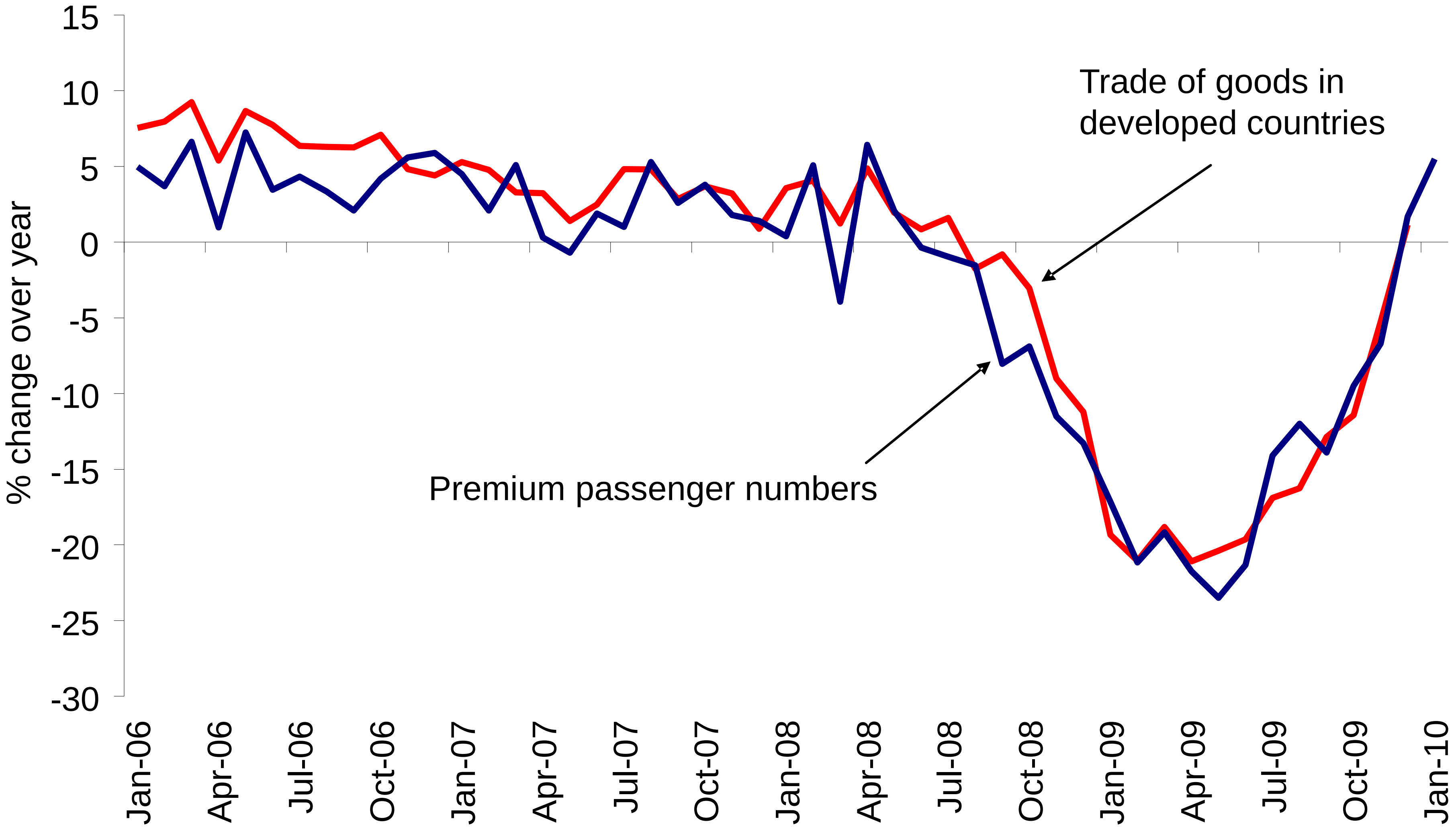
Global Growth in Passenger Traffic and GDP

1971 - 2010



Source: ICAO, IATA and Economist Intelligence Unit, December 2008

Premium passengers and world trade growth

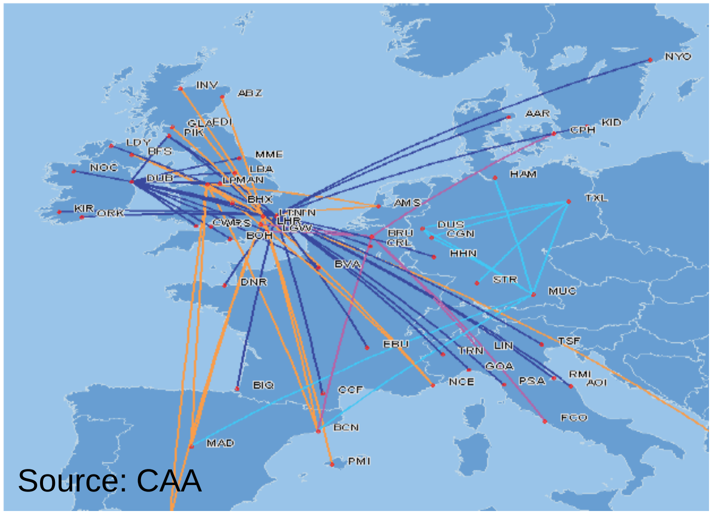


Source: IATA, CPB Netherlands

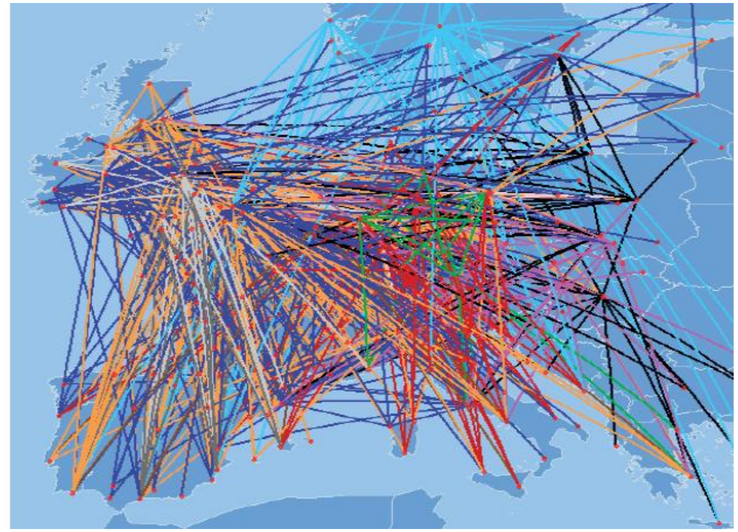
Lets zero into the European market

Europe's Low Cost Carrier market

Low Cost Routes 2000



Low Cost Routes 2008



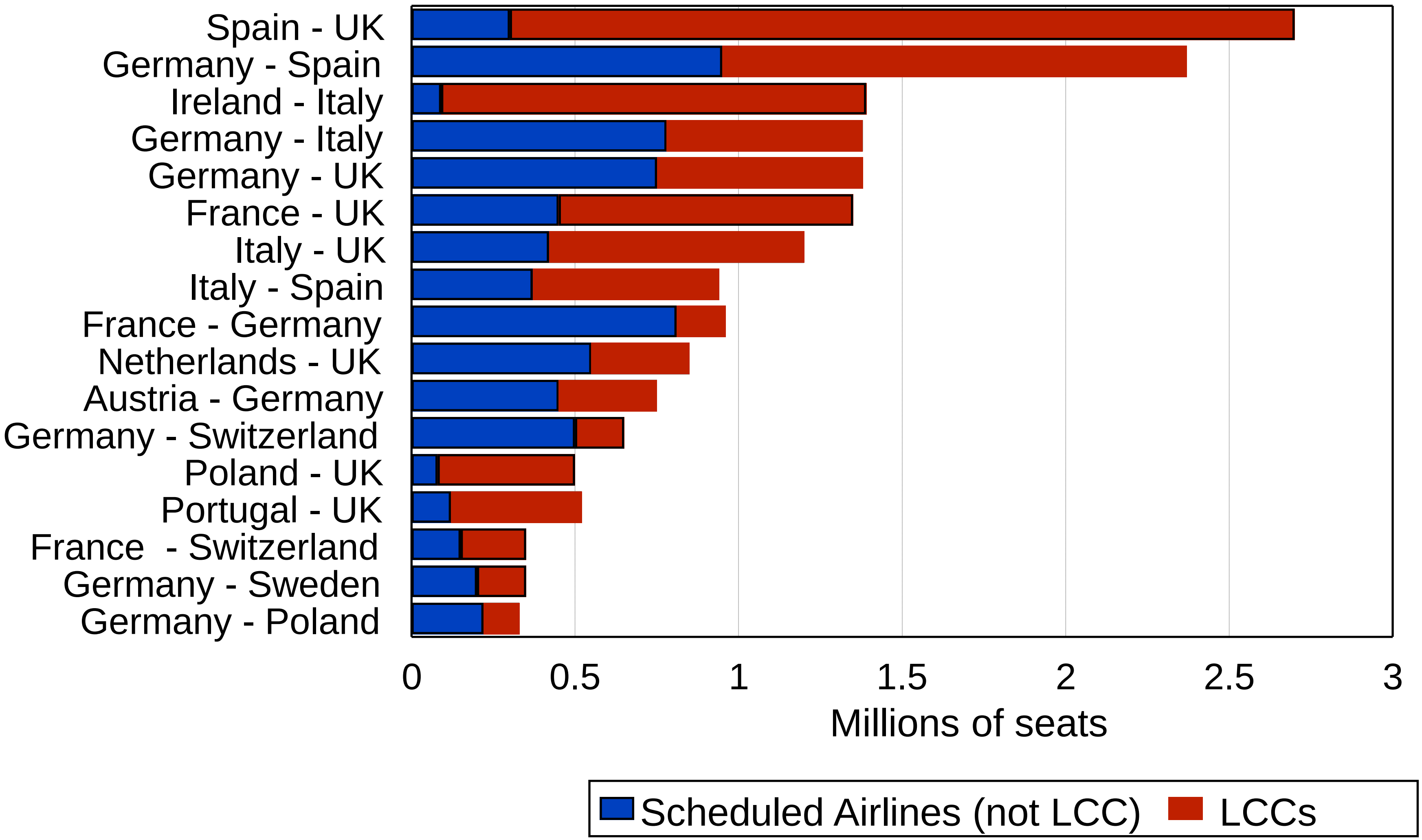
<u>Short-Haul fleet</u> for Network and Low Cost Carriers (October 2009)

Leading LCCs	Current fleet	Firm orders	Options	Leading Euro-Majors	Current fleet	Firm orders	Options
easyJet	168	69	88	Air France	147	16	19
Ryanair	202	110	102	Lufthansa*	158	62	50
Air Berlin	86	124	50	British Airways	102	9	136
Wizz Air	22	115	12	Iberia	81	10	63
SkyEurope (Gone)				Alitalia (28 MD-82s)	137	10	-
				SAS (33 MD-82/87)	84	3	15
Total orders of leading LCCs	478	418	252	Total orders of leading Majors	709	110	283

* Includes 17 firm orders for Embraers with options for 50 more

Source: ACAS, ATI

Low cost carrier influence in Europe's markets
2008 data

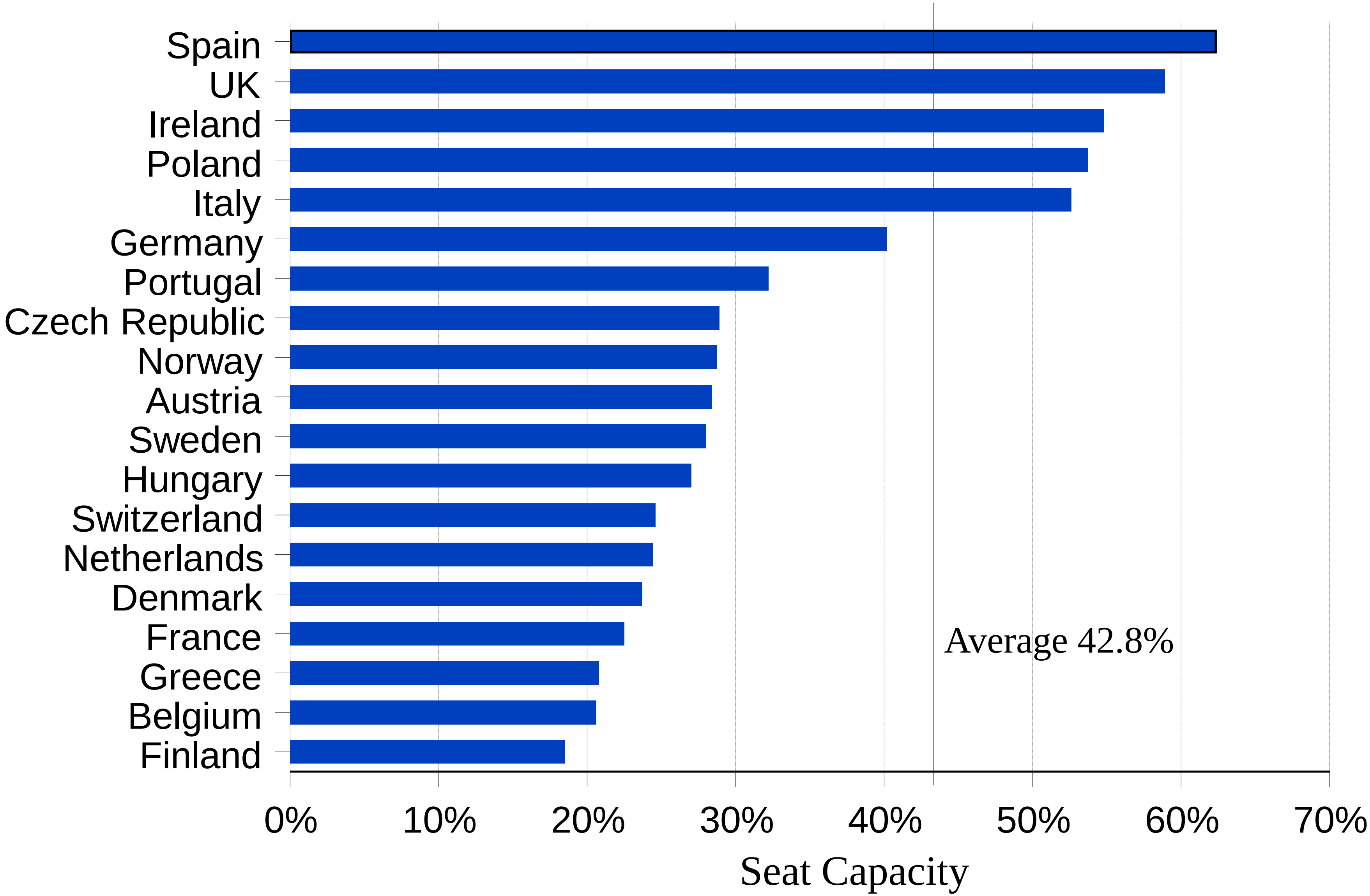


LCCs offer 60% more seats than legacy carriers to Europe

Source: Airbus General Market Forecast, 2009

Market share of Low Cost carriers on intra-European routes

September 2008 data



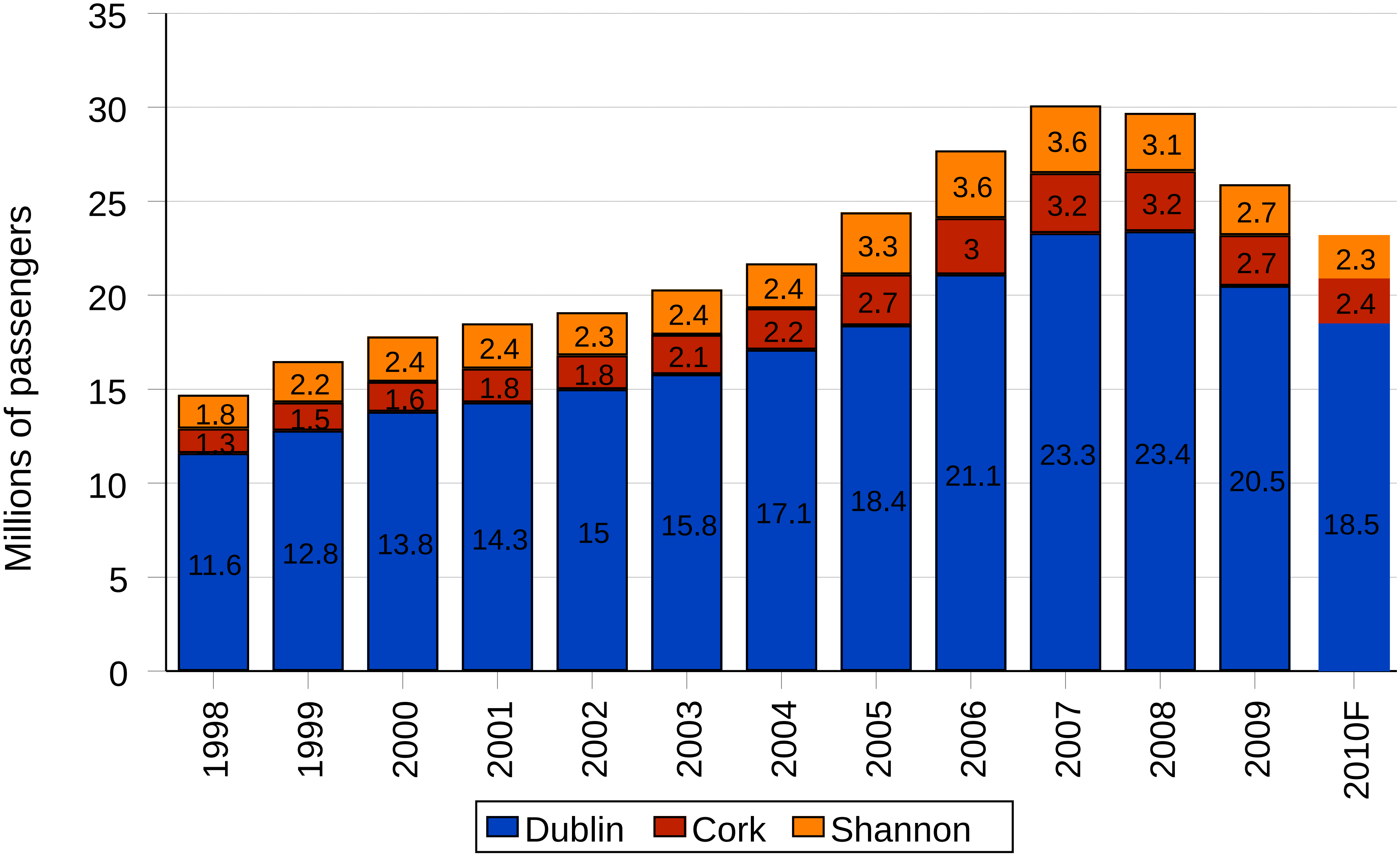
In 2003 Low Cost Carriers represented just 17% of the European market

Source: OAG data

Irish Market

Irish Airport Traffic

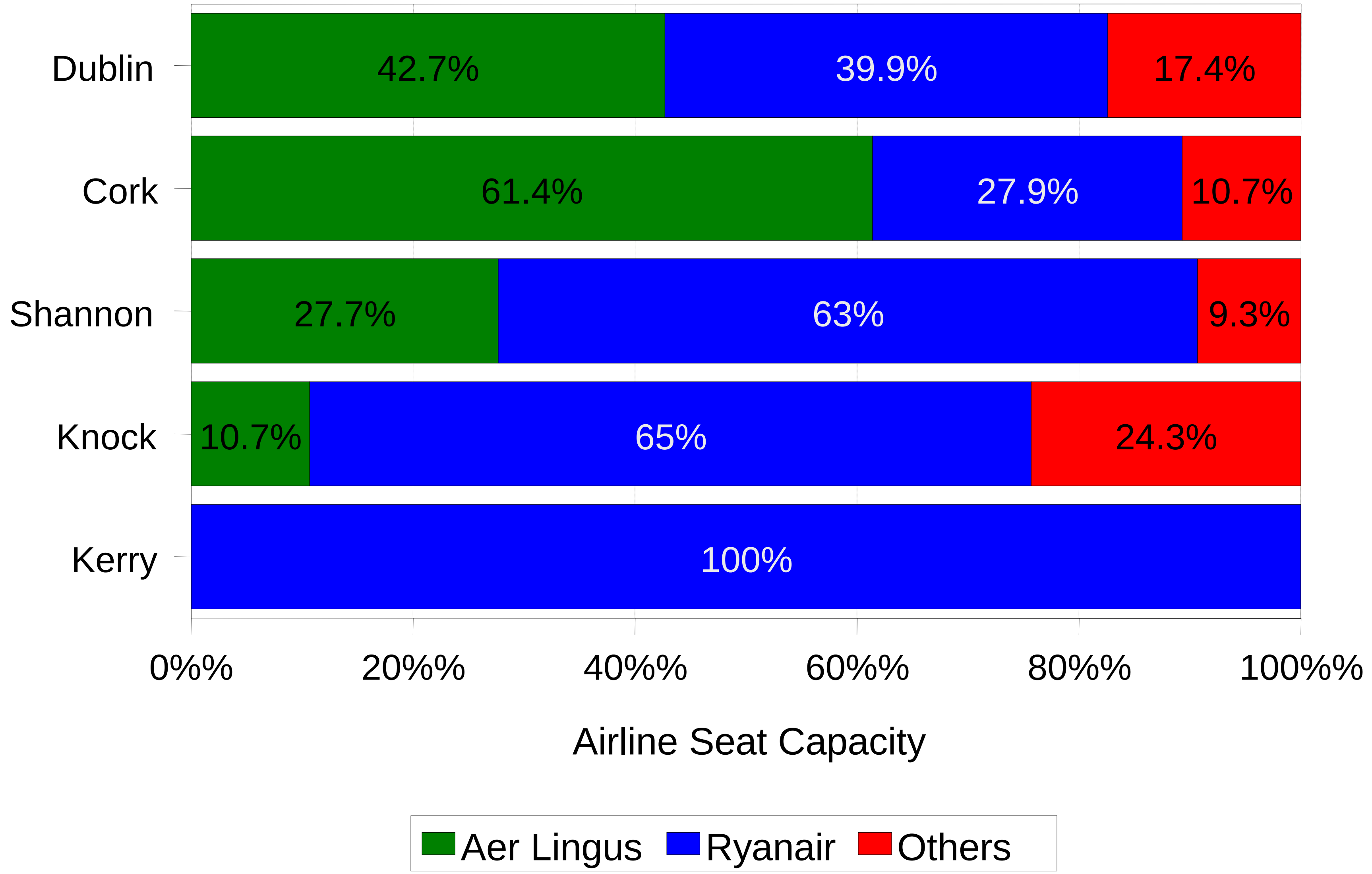
Annual Passengers



Forecast Equation for 2010 $GDP_{RY} = \sum i\ GDP_{Ci} * GDPE_{Ci} * MS_{RCi}$

Airline Market share at leading Irish Airports

Month of April 2010



80% of Ryanair's routes are outside Ireland

Irish Domestic Market

2009 data

- 52% is used on the Dublin – Cork route (231km)
- 38% on PSOs (up for renewal in 2011)
- 10% is miscellaneous (Shannon – Dublin and aircraft repositioning)

Number of flights per week between Dublin and Cork

Taken for first week of May, each year

	2000	2004	2008	2009	2010
Aer Lingus	34				
Aer Arran	6	55	31	16	6
Air Wales		13			
Ryanair			33	33	21
Total	40	68	64	49	27

Source: OAG Max

Glasgow to Barra service

This is really what the PSO routes were designed for

This is what PSOs are designed to do

Public Service Obligations (PSOs)

EU law permits member states to subsidise certain domestic routes so that adequate air services are made available to regional airports enacted under EU Council Regulation No 2408/92. Ireland has six PSO routes, while France has more than 160

Irish PSOs are handed out on a three-year contract basis:

- Ryanair successfully tendered for the Dublin-Kerry route only...Aer Arann lost this
- Aer Arann successfully tendered for the Dublin-Derry; Donegal; Galway and Sligo
- CityJet tendered for the Dublin-Knock route – which later reversed to Aer Arann

These PSOs will cost the taxpayer around €45 million for the 3 years – equal to around €100 per passenger.

There is also €2 million of operational grants given to regional airports.

The roads and rail services have vastly improved over the years. Could Aer Arann survive without subsidies? - It operates 16% of its network as PSO routes

What do you think of the €10 Irish Air Travel Tax??

Research by Amsterdam Aviation Economics (November, 2009)

	Aer Lingus, Ryanair CityJet[1]	Overall Results (All Airlines)
Forecasted Revenues from Travel Tax	€96m	€116m

Revenue Losses as a result of the tax

▪ Airlines	€60/€114m
▪ Airports	€34/€38
▪ Tourism Industry	€292 / €330

Total Revenue loss estimated at €386/€482

[1] These 3 airlines account for 83% of air travel passengers to and from Ireland

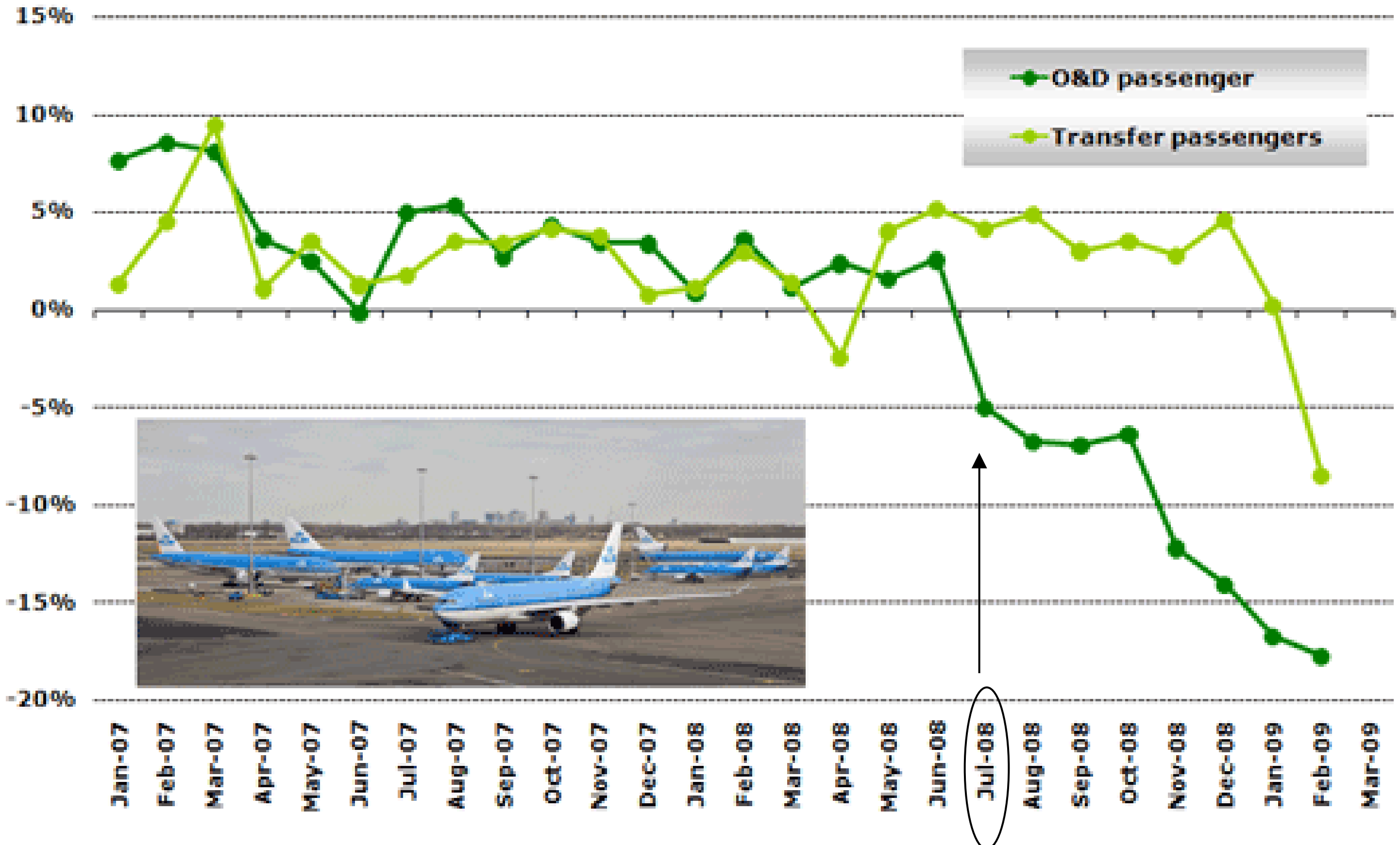
Further Repercussions of the Air Travel Tax

Airlines will absorb the Tax themselves	Airlines will have absorb between 50% - 95% of this tax – more pressure on the finances of EI
Cost the Tourism Industry €292 / €330	Visitors spent about 64% of their holiday money on *Bed & Board* and *Food & Drink*[1] in 2008 which has a huge knock-on effect on hotels, restaurants & bars
3,000 jobs will be lost	Cost the Govt €50 million (reduced income tax and social welfare payments)
Government looses out on VAT receipts	Both locals and Tourists pay a 13.5% VAT on food and accommodation while they pay 21.5% on all alcoholic and non-alcoholic drinks

[1]Figure from Fáilte Ireland's tourism facts 2008.

Dutch Travel Tax

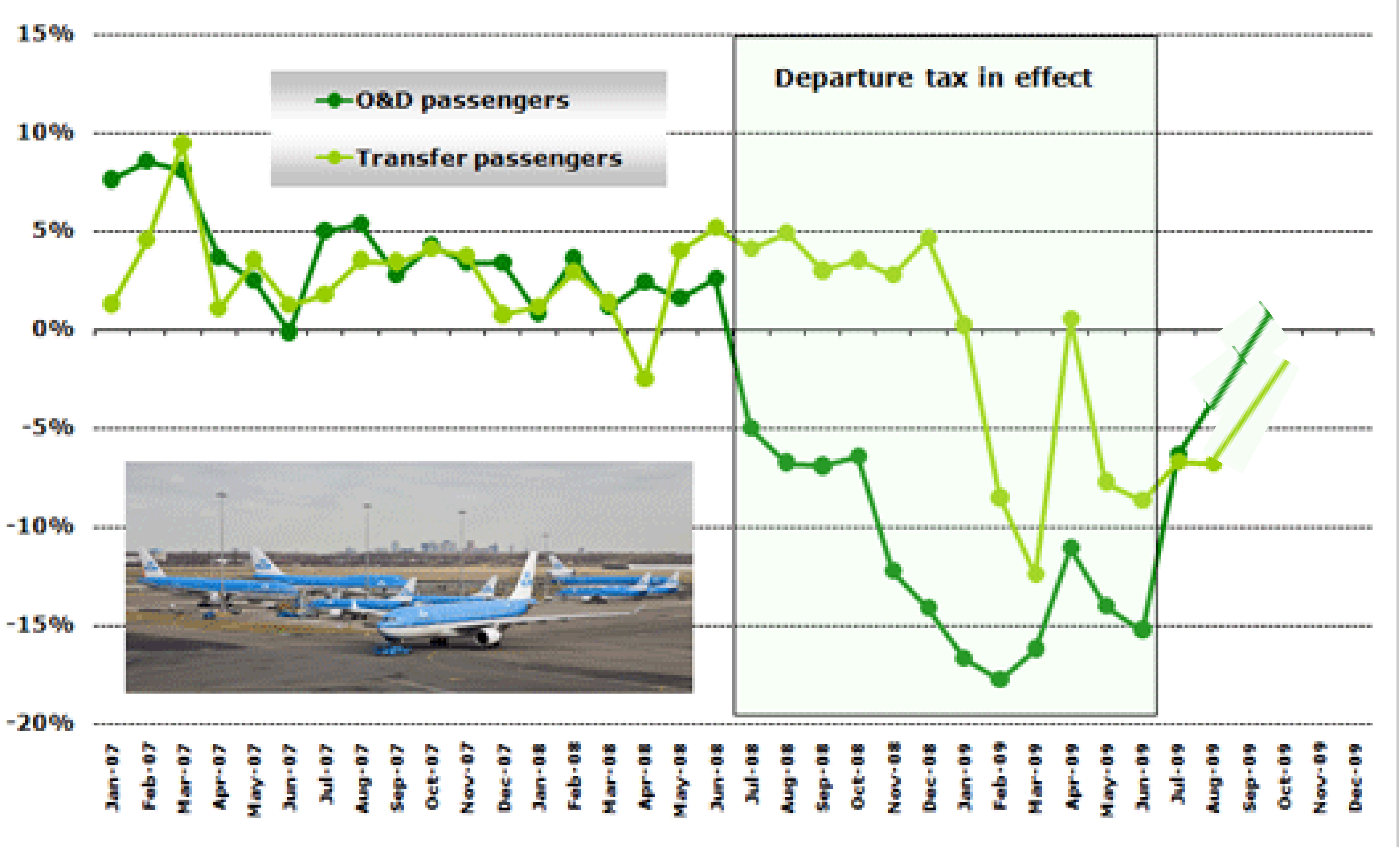
- The Dutch government introduced a travel tax on 1st July 2008 - €11.25 to €45 per pax
- The tax was expected to raise around €300 million ($395m) a year but a commissioned report concluded that it would cost the Dutch economy €1.3 billion in lost revenue.
- It was applicable only to departing O&D passengers and not transfer passengers.



Source: Schiphol Group

Dutch Travel Tax

- The government abolish its aviation departure tax at the end of June 2009



- To encourage new services, and to help retain existing ones Amsterdam Schiphol airport recently announced a freeze on airport fees until at least 1 April 2010

Source: Schiphol Group data

Travel Tax in other countries has also been removed

1. The Belgian Government scrapped its air passenger tax.

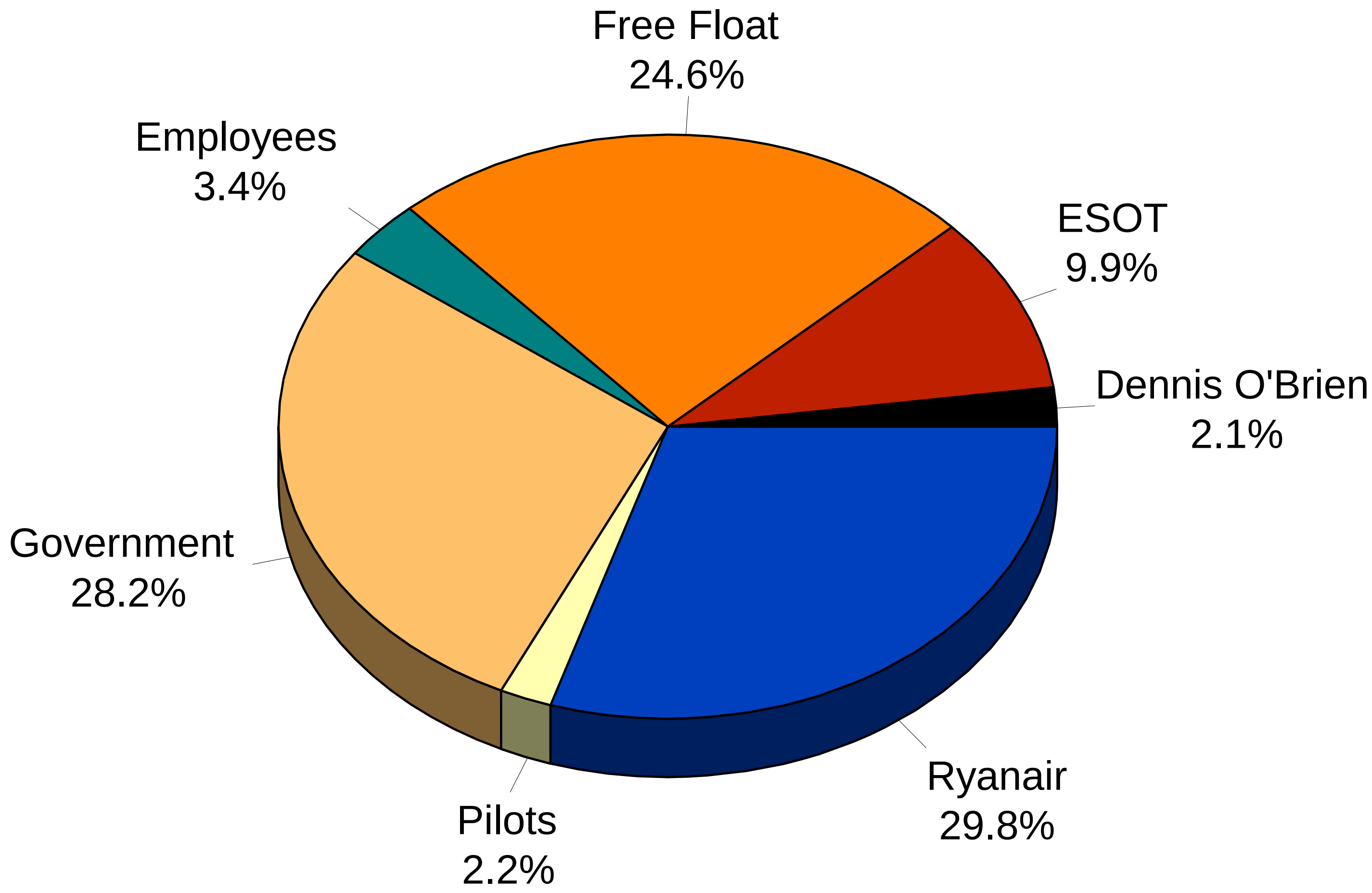
2. The Greek Government reduced its regional airport charges to zero for 2009.

3. The Dutch Government has repealed its air passenger tax.

4. The Spanish Government has announced a zero rate of airport tax for airlines that maintain or grow traffic.

Whatever will be the outcome here?

Aer Lingus Shareholder Base (2010)



- No airline will be interested in Aer Lingus because of its complex ownship structure
- It entitles Ryanair to interfere with Aer Lingus' every move

Ryanair a major shareholder should be working with Aer Lingus??

July 2007 - Aer Lingus announces it will open a base in Belfast
September 2007 - Ryanair announces that it will open a base in Belfast

Summer 2009 - Aer Lingus launched 12 routes from Gatwick (2 to Ireland)
Summer 2009 - Ryanair increases its number of destinations from Gatwick to 8

Summer 2010 - Ryanair will start seven new routes from Cork in June. Six of them will compete with services flown by Aer Lingus

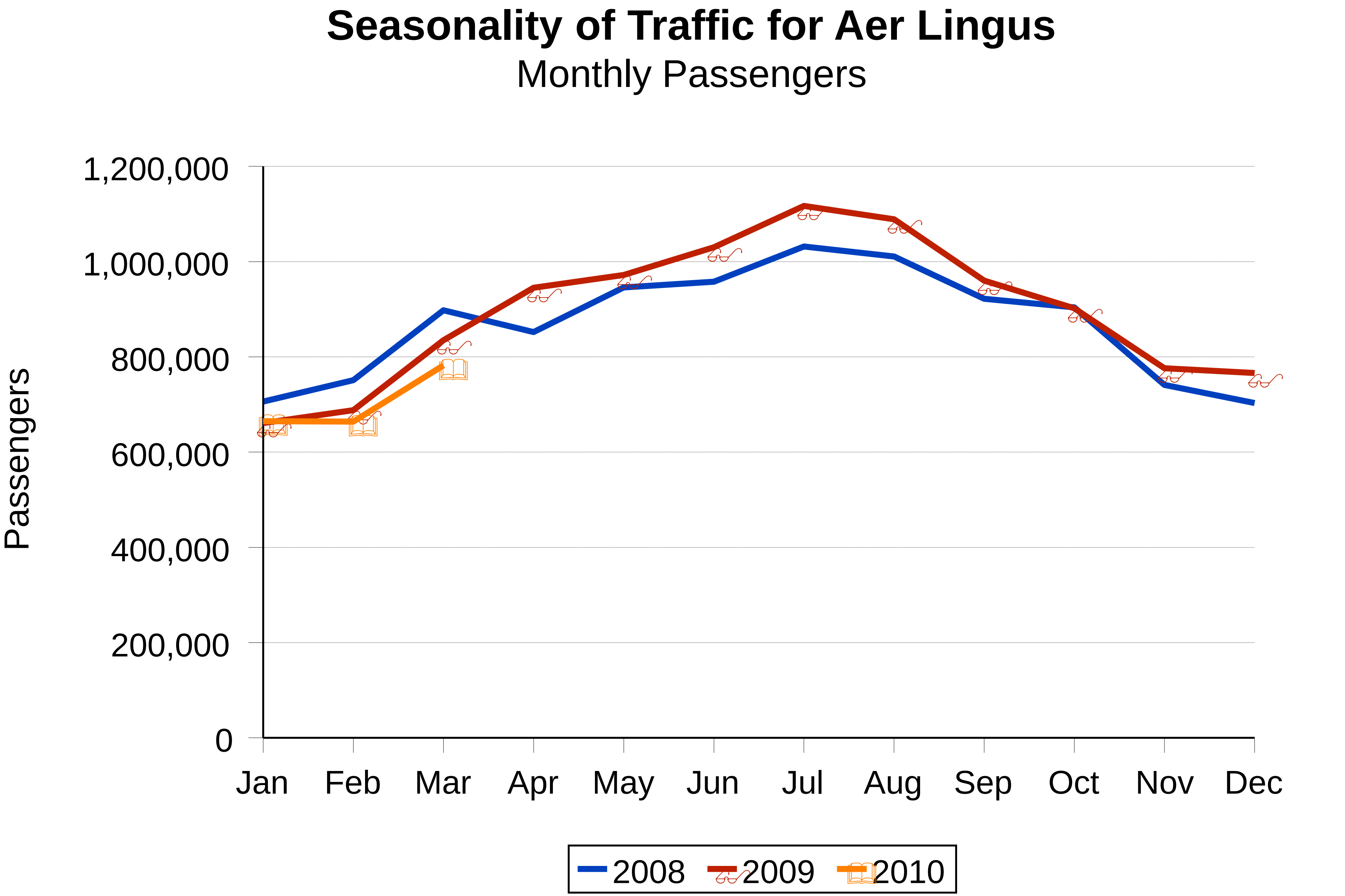
Ryanair will not allow in another low cost carrier into its back yard:-

- easyJet began London Gatwick to Shannon services in January 2005.
- Ryanair responded by also starting both Gatwick and Luton services to Shannon by May 2005 and also increased frequency from Stansted
- easyJet pulled off the Gatwick-Shannon route in the summer of 2006

Aer Lingus short haul route network

2009/10 Short-haul point-to-point

	2001	2009/10
Number of Routes	31	84 → Dublin (50 routes), Cork (14 routes), Belfast Intl (8 routes), Gatwick (12 routes)
Number of Aircraft (S-H)	33	30
Number of Aircraft types	4	1


Seasonality of Traffic for Aer Lingus
Monthly Passengers
Passengers
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2008
2009
2010

Weekly Flights between Ireland to selected EU countries
July, 2000 - 2009

	Ireland - France		Ireland - Germany		Ireland - Spain	
	2000	2009	2000	2009	2000	2009
Aer Lingus	49	59	40	51	2	78
Ryanair	26	61	7	44	0	83
Others	28	71	13	24	10	7
Total	103	191	60	119	12	168

Source: OAG

The US – Irish market

- On a historical note, the obstacles to Open Skies between Ireland and the US were placed there by Ireland – US Airlines were not allowed to serve the Dublin-US route directly for decades until that changed in 2008

- The Shannon stop-over caused much frustration to US carriers as they wanted to serve Dublin directly. Continental Airlines indicated that the Shannon–Dublin cost it an extra $2 million per year in costs

The US market has so much potential

- 40 million Irish Americans
- American firms in Ireland employ 95,000 people, while Irish firms employ 80,000 in the US
- In 2005 over 500,000 Irish citizens visited the US, putting Ireland in the top 10 countries in terms of visitor numbers to the US
- Aer Lingus carried 1 million passengers a year to the US, but the US market is responsible for three-quarters of its losses

Open Skies between the EU and the US
The impact on Ireland

Skies open in March 2008

Ryanair had 36 bases across Europe - mid 2009
Opportunity now exists to operate to the US

Weekly Flights between the US and Ireland

for July 2000 - 2010

	2000	2004	2006	2008	2010?
Aer Lingus	53	47	44	61	41
Delta	14	7	21	28	21
Continental	14	14	21	21	25
US Airways		14	14	12	7
American Airlines			14	7	7
Others	6	0	0	0	0
Total	87	82	114	129	101

Source: OAG

In the Winter of 2009 there were 79 flights a week

US – Ireland change in airport dynamics

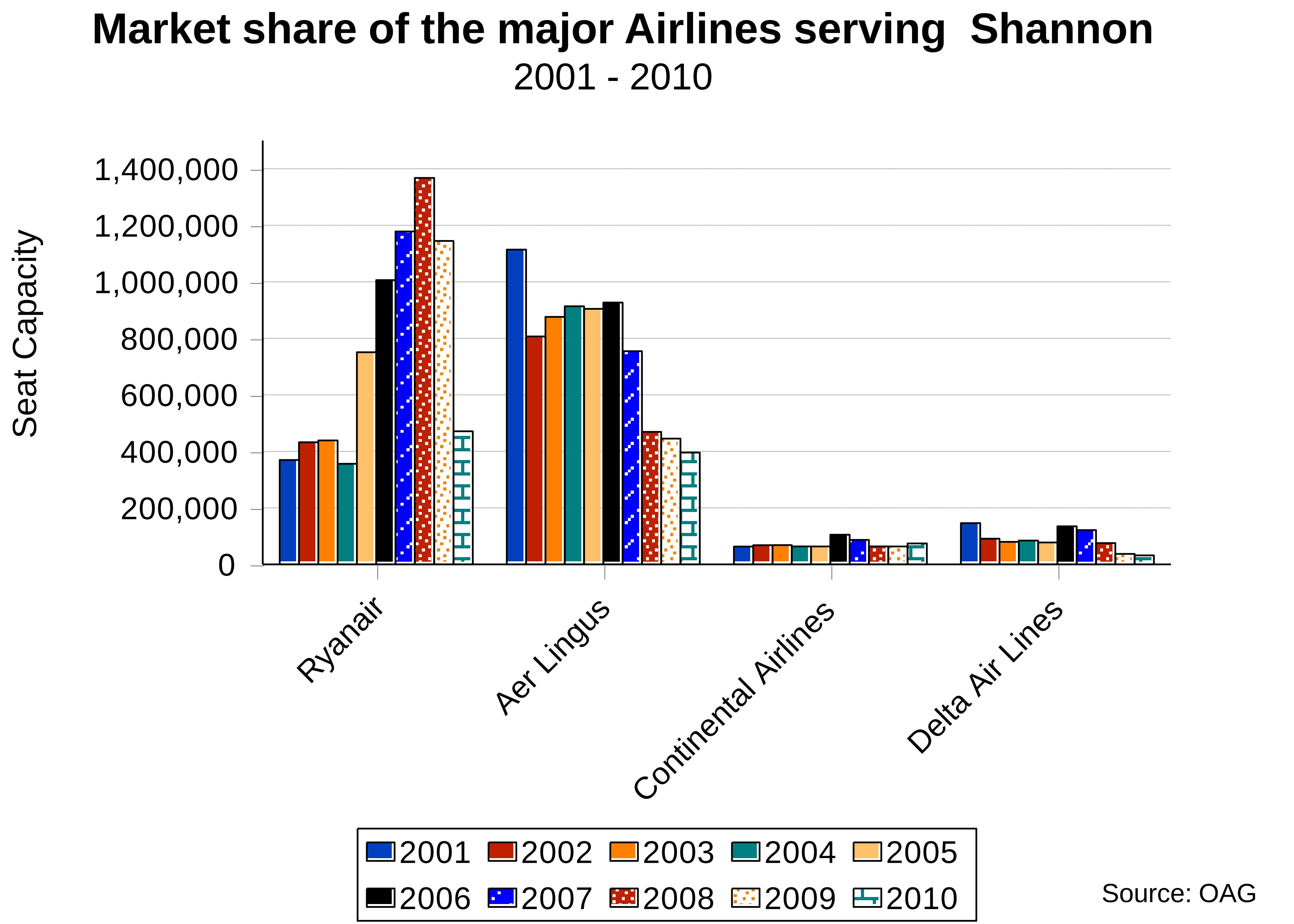
Potential Problem for the Munster region

Data for July, 2004, 2008 and 2010

	2004	2008	2010
US Flights to Shannon	50%	31%	28%
US Flights to Dublin	50%	69%	72%

- Many Americans get only 2 weeks vacation per year and may have only the time to visit Leinster/Connaught provinces, thereby pressurising tourism in the Munster region
- Continental Airlines are dropping Bristol in Nov ’10 after serving it for 5 years US carriers want to go from major city to major city

Source: OAG


Market share of the major Airlines serving Shannon
2001 - 2010
Seat Capacity
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
Ryanair
Aer Lingus
Continental Airlines
Delta Air Lines
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Source: OAG

Conclusion

- Airline traffic and revenues are cyclical
- Low cost carriers will continue to dominate the European market
- The money that is spent on PSOs could be used elsewhere
- Aviation tax should be scrapped immediately
- The future of Aer Lingus remains uncertain
- US flights will increasingly operate to Dublin

Thank you all very much