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THE U.S. MARKET FOR TRAVEL TO EUROPE • DEC. 18, 2012

1. **Hurricane Sandy accounted for the small 1.8-percent drop in overall trans-Atlantic traffic reported by leading carriers in November.** It would have been steeper, but the majority of passengers whose Oct. 29–Nov. 3 flights were cancelled rebooked later in November. And Sandy accounted for most, if not all, of the 3.8-percent decline in October traffic.

Average November capacity was down 4.2 percent and **the average load factor was 81.1, the highest for low-traffic November since at least 2000** and possibly the record high for the month. In November of last year, the load factor was 79.2. See No. 9 below and the **Trans-Atlantic Traffic Trends** chart.

2. **Virgin Atlantic is getting a big brother with big pockets as it fights to survive in a mega-carrier world.** Delta has agreed to buy 49 percent of Virgin and to seek anti-trust approval of a trans-Atlantic joint venture with Virgin that will provide Delta with more access to Heathrow and expand its meager 8-percent share of New York-London traffic. Delta and Virgin would split revenues, costs and profits on 31 U.S.-Britain flights. The joint venture would be similar to that between American and British Airways, and between Delta and Air France/KLM (on flights from the U.S. to France and the Netherlands). See No. 13.

BLINKING ON THE 'CLIFF,' CONSUMER CONFIDENCE STUMBLES

3. **Republicans in Congress may now consider an increase in tax rates on higher incomes** in an effort to negotiate the upcoming "fiscal cliff." Now the questions are: How much might those taxes rise? What additional spending cuts might President Obama agree to? And will either side have the votes? It's progress... right?
4. Jobs, the leading economic indicator, did better than expected in the November report: **The U.S. added 146,000 jobs and saw unemployment drop to 7.7 percent**, the lowest in four years, from 7.9 percent. Hurricane Sandy did surprisingly little damage by this measure. But total jobs for October and September were revised downward by 49,000 or 15.4 percent (including 35,000 more government jobs lost than first estimated). The lower unemployment figure was attributed to a drop in job searchers.

5. **Worries about the cliff are slowing the economy.** Businesses and consumers are backing off on spending; some economists say 4th Q growth might be as little as 1.5 percent. Oil prices dropped back to \$87 per barrel (from \$89 at the beginning of December). Gasoline dropped from \$3.40 per gallon to \$3.25 (national average, regular).

But U.S. stock markets have shrugged off cliff concerns in recent days, returning to pre-election levels last week. The Dow closed Monday at 13,235 (it had dropped as low as 12,542 after the election).

6. **Consumer confidence stumbled for the first time since August**, with the Thomson Reuters/Univ. of Michigan index falling to 74.5 in early December from a revised 82.5 in early November (its five-year high). Previously, the Conference Board reported a gain to 84.9 in late November from a revised 73.1 in late October.

7. **Italy took center stage in the euro-debt crisis** with the impending resignation of Prime Minister Mario Monti. That's blamed on Silvio Berlusconi's withdrawal of support, which will lead to elections as early as February. Berlusconi first said he would seek to return to power, then promised to support Monti if the technocrat runs as a leader of "moderates." The center-left coalition headed by Pier Luigi Bersani, who has not rejected the Monti program, is leading in the polls.

If investors get nervous about Italy's commitment to Monti's reforms, Spain is likely to feel it first in terms of higher costs to roll over debt, which would, in turn, threaten to overwhelm its austerity drive.

Meanwhile, euro-zone leaders did agree on a road map to achieve tighter Europe-wide controls on banks.

8. The dynamic between the U.S. cliff talks and euro-zone progress **shifted in favor of the euro versus the dollar**. The latter has dropped to €0.76, its low since late April.

SANDY WHO? U.S. TRAVEL TO BRITAIN SOARED

9. **The Northeast airports shut down by Hurricane Sandy reported the steepest fall-off in departing passengers to Europe in October**, according to Dept. of Commerce breakdowns.

Total departures from the U.S. to Europe were down 67,000, or 3 percent for October. The combined declines from JFK (-6 percent) and Newark (-11 percent) accounted for 58,000 of the dropoff. Also reporting declines: Philadelphia, -8 percent; Dulles, -7 percent; Baltimore, -5 percent.

In contrast, most other gateways were even for the month, like Los Angeles, San Francisco and Houston, or up, including Dallas, +8 percent; Detroit, +8 percent; Atlanta, +6 percent; Seattle, +3 percent. Exceptions were Chicago and Miami, -6 percent each.

10. Despite Sandy, **U.S. visits to Britain jumped more than 14 percent in October**, reversing a three-month slide, reported VisitBritain. Visits by Americans to all of Europe were up only 1.0 percent for the month, as reported here last week.

Visits by Americans to Britain could total around 2.95 million for the year, which would be 3 percent-plus over the 2011 total. Overall visits to Britain are down 1 percent for the year through October, (with visits from European Union countries down 3 percent through October). But spending is up 3 percent, according to VisitBritain's provisional data. VisitBritain.org/insightsandstatistics/inboundvisitorstatistics.

11. **The British government has found revenue riches in its Air Passenger Duty**, and announced an increase of 2.5 percent to about \$107 for long-haul economy tickets and \$215 for business- and first-class, to take effect in April. Opponents—and they go well beyond airlines—say the APD dwarfs similar taxes of other nations and undermines the effort to build Britain's tourism and economic competitiveness.

However, the APD is still relatively low compared to surcharges applied by the airlines (for fuel mainly, but the relationship to the actual price of aviation fuel is fuzzy). Those totaled \$417 last summer on a typical roundtrip ticket from New York to London. That compared to \$196 for and taxes and fees charged by governments on both sides, including the APD) and to a base fare as low as \$325, for a total of ticket price of \$938. Breakouts are not easy to find; this is based in part on an analysis by Rick Seaney for *USA Today*.

HOW DELTA & VIRGIN MAKE OUT, AMERICAN & US AIRWAYS GET CLOSER

12. **World airlines will do considerably better in 2012 than was forecast just two months ago**, said the International Air Transport Association. Overall net income could reach \$6.7 billion, IATA said this month (compared to its October forecast of \$4.1 billion and a 2011 final of \$8.8 billion). Net profit margin will be up, but only to 1.0 percent.

North American carriers will improve from making just \$1.7 billion in 2011 to making 2.4 billion this year with a 3.4 percent net profit margin. European carriers are now expected to break even; two months ago they were projected to lose \$1.2 billion.

13. **More on Delta and Virgin Atlantic:** Virgin banks no cash from the deal; Delta is buying the 49 percent held by Singapore Airlines, which will receive \$360 million (compared to the estimated \$966 million—in 2012 dollars—that it paid Virgin in 1999).

Sir Richard Branson's Virgin Group will continue to hold the controlling 51-percent share and run the brand, but Delta gets three seats on Virgin's board and will be far more involved than Singapore. The hook-up follows various attempts by Virgin to win more slots at Heathrow, expand its share of the busiest routes to London and maintain

independence. Branson bitterly opposed the British Airways-American joint venture and, last year, sought to buy British Midland and its Heathrow slots, only to be outbid by BA.

BA will up the pressure on its nemesis this summer, when new Boeing 787 Dreamliners and Airbus A380 super-jumbos are delivered for likely assignment to the New York-London route. The A380s will feature roomier-than-ever first-class and business-class layouts, with overall seats cut back to 469 (Lufthansa A380s have 526 seats in three classes).

Although Virgin 'punches above its weight,' in Branson's words, it was in danger of being swamped by the new BA-American joint venture. After earning steady profits for the previous five years, Virgin had lost £193.7 million on revenue of £7.8 billion over the past three years of economic turmoil and high fuel prices. Its new partner may not share Virgin's cachet, cool and customer loyalty, but Delta's pockets are bigger than BA's (Delta projects a \$1.6-billion profit for the year), and its vast U.S. network will be open to Virgin customers.

Delta fills a large hole in its schedule. As the No. 1 trans-Atlantic carrier, Delta has invested big time in JFK (its \$1.2-billion Terminal 4 expansion is still in the works), but lacked slots at the Heathrow end of the single most important trans-Atlantic route. Delta and Virgin together will hold 36 percent of the New York-London traffic, *The Wall Street Journal* reported, still second to BA-American's 51 percent, but well ahead of United's 13 percent.

The deal depends on anti-trust approval from the U.S. Dept. of Transportation and the European Union competition office. A joint press release said the airlines expect that approval by the end of 2013. Rejection by the Obama administration would be a surprise; the U.S. has approved the three previous (and larger) joint ventures that dominate the North Atlantic. Unlike those ventures, which had the effect of muting rivalries and stabilizing revenues, this one should enhance competition.

Delta and Virgin both fly to London from JFK, Boston and Orlando. Virgin's other U.S. gateways are Newark, Washington, Miami, Chicago, Las Vegas, Los Angeles and San Francisco. Delta's other gateways to Britain are Atlanta, Cincinnati, Detroit, Minneapolis, Salt Lake City and Seattle.

14. **Momentum is building again for the American-US Airways merger.** Reuters reported that US Airways has proposed a 70-30 split of stock in the combined carrier, with American creditors getting the bigger slice.

Meanwhile, American's pilots approved a new, six-year contract (74 percent voting in favor), which they indicated would support \$1.6 billion in labor savings for American and make it easier for American's creditors to evaluate the best way out of bankruptcy: To continue as a stand-alone carrier or to go immediately to a merger.

The pilots, who will get 13.5 percent of the new American under the contract, favor merger. Failing that, they insist on a new American board and new managers; CEO Tom Horton and his team would be out.

The merged carrier would jump ahead of United as the world's largest in number of passengers carried. It would also have a significantly greater trans-Atlantic presence with the addition of US Airways' routes to Europe from Philadelphia and Charlotte, increasing the capacity of the BA/Iberia-American joint venture by another 1.5 million peak-season ASMs monthly.

SURVIVING MIDAIR STALLS, VIKING ORDERS MORE BOATS

15. **Pilots should be trained to suppress their 'startle reaction' to a stall warning** and to decrease the plane's angle of attack (by pushing the nose down) *before* working to minimize loss of altitude.

Rule changes have been in the works since the Colgan Air accident near Buffalo in February 2009, with new urgency applied after the Air France 447 disaster over the South Atlantic 3½ months later. In each case, pilots failed to recognize they were in a near-stall situation. In each case, the pilots applied more thrust while attempting to pull the plane up. In the Colgan Air case, the aircraft was on a landing approach. In the Air France case, the aircraft was passing through a night storm at cruising altitude.

The changes are laid out in an advisory issued this summer by the Federal Aviation Administration, according to Matt Thurber, writing in *Aviation International News*.

16. The Colgan Air accident also led the FAA to strictly reduce flying hours and increase break periods. **Now pilots in Europe plan a one-day strike in January to demand that similar rules be applied by the European Aviation Safety Agency.** "Surveys show that pilots and cabin crew are already struggling with high levels of fatigue, nodding off at the controls of aircraft," said Nico Voorbach, president of the European Cockpit Association.

17. **Viking Cruises will build still more Longships** for European river cruises. Less than a month after confirming that it would increase its 2013 launchings from eight ships to 10 ships, the line said it has ordered eight more ships to launch in 2014.

That would bring Viking's Longship fleet to 24 boats over three years. And that's in addition to 18 older ships assigned to European rivers (several dating back to Viking's purchase of KD River Cruises in 2000).

Viking Chairman Torstein Hagen said: "Because of the overwhelmingly positive response we have seen from our passengers in the first season of our revolutionary new Viking Longships (the first six sailed this year), we are pleased to continue our expansion to meet that demand."

Viking has won attention as a national corporate sponsor of PBS's *Masterpiece*, which will continue its "Downton Abbey" series into next season. The sponsorship has been extended into 2014.

See the Longship deck plan and photos at:
VikingRiverCruises.com/longships-feature/deckplan.aspx

18. **Viking is going to sea in a big way, too**, with Viking Ocean Cruises signing a letter of agreement to build two additional ocean cruise ships at the Fincantieri yard in Italy. They will be the third and fourth similar-design luxury ships of 48,000 tons, designed to carry 944 passengers; there are also options to build a fifth and sixth. The concept for these yet-to-named ships is to focus on "small-ship destination cruising at a great value," in the words of Hagen, who happens to be a former chief executive of the old Royal Viking Line.

The contract for the first two ships was signed last summer; they are to be delivered in 2015 and 2016.

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Trans-Atlantic Traffic Trends, November '12

Compared to previous year, +/- percent

RPMs	Dec. '11	Jan. '12	Feb. '12 *	March '12	April '12	May '12	June '12	July '12	Aug. '12	Sept. '12	Oct. '12 **	Nov. '12 **	ASMs (Nov. '12)	load factor
Delta (Sky)	- 7.3	- 4.2	+ 3.1	- 0.4	- 6.1	- 4.4	- 5.5	- 6.7	- 5.1	- 0.3	- 3.0	- 3.1	- 6.0	81.0
Air France/ KLM (Sky)	+ 9.0	+ 8.3	+13.1	+ 9.7	+ 2.3	- 1.8	+ 5.6	+ 2.0	+ 0.0	+ 1.1	- 3.3	+ 1.0	- 1.0	85.9
United (Star)	- 1.1	- 1.9	+ 0.8	+ 1.4	- 6.0	- 1.7	- 1.4	- 5.8	- 2.4	- 5.3	- 9.6	- 7.2	- 5.5	75.9
Lufthansa/ Swiss/ Aus. (Star)	+ 2.9	- 0.3	+ 0.8	+ 6.0	+ 1.5	+ 2.0	+ 3.8	+ 2.1	+ 4.2	+ 0.4	- 1.0	+ 3.4	+ 0.6	82.1
American (One)	+ 4.8	+ 3.1	+ 8.0	+ 2.0	- 2.7	- 9.6	- 5.5	- 3.3	- 0.6	- 0.7	- 8.5	- 7.8	- 10.4	79.9
British Airways/ Iberia (One)	+23.3	+ 8.5	+11.1	+16.3	+ 6.8	+ 6.9	+ 6.0	+ 4.1	+ 6.2	+ 6.9	+ 2.4	+ 3.1	- 2.7	82.0
Leading-carriers average	+ 5.3	+ 2.3	+6.2/+2.5	+ 5.8	- 0.7	- 1.4	+ 0.5	- 1.3	+ 0.4	+ 0.4	- 3.8	- 1.8	- 4.2	81.1

All carriers (Airlines for America + Association of European Airlines)

U.S.-citizen traffic to Europe, Dept. of Commerce

* February '12 had 29 days/ average DAILY increase in RPMs was 2.5% for leading carriers, and only 0.7% for all carriers.

** Hurricane Sandy reduced flights and traffic to and from U.S. Northeast Oct. 29-Nov. 3.

Note: Figures include traffic (Revenue-Passenger Miles) generated on both sides of the ocean. Lufthansa figures include traffic between Europe, and Canada, Mexico, the Caribbean and South America; Air France/ KLM figures include the same, minus our best immediate trend indicators. Capacity is measured in Available-Seat Miles. the Caribbean; British Airways/ Iberia figures are for North America only. U.S.-carrier figures include trans-Atlantic traffic beyond Europe. Despite these caveats, they remain