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THE U.S. MARKET FOR TRAVEL TO EUROPE • FEB. 15, 2013

EUROPE LOST MARKET SHARE IN 2012, FRANCE LED IN U.S. ARRIVALS

1. **Overall trans-Atlantic traffic continued to slip in January.** The leading carriers reported an average decrease of 2.5 percent compared to a year ago, the fourth consecutive month of decline. Capacity was down an average 4.9 percent and average load factor was up to 78.8, compared to 76.9 a year ago and 73.9 in January 2011. Average capacity has declined—and average load factor has increased to the satisfaction of the airlines—for 13 consecutive months. See the **Trans-Atlantic Traffic Trends** chart.
2. **Europe's share of U.S. citizens traveling overseas declined slightly in 2012 to 39.5 percent**, according to Dept. of Commerce data. Europe is still well ahead of the Caribbean, at 22.6 percent, and Asia, at 15.1 percent. Total U.S. visits to Europe were up 3.9 percent, as reported in the last issue, but departures to all overseas destinations increased more, by 5.5 percent. See the **Share of U.S. Market** graph.
3. **France was again the No.1 European destination for U.S. travelers in 2012**, with 3.5 million American arrivals (+6-7 percent), according to the early estimate issued by Atout France. That would be well ahead of the 2.9 million U.S. visitors to Britain (+3 percent) estimated by VisitBritain. France has been the leader in recent years, according to figures issued by the respective tourist offices.

**NEXT ISSUE: U.S. Travel to Europe in February
The Outlook for Spring Fares**

MERGER CONSOLIDATES TRANS-ATLANTIC SERVICE

4. **The merger agreement between American and US Airways will further concentrate trans-Atlantic air service from the U.S. under the three big joint ventures.** The addition of US Airways' flights from Philadelphia and Charlotte will boost the American-British Airways/Iberia joint-venture capacity to Europe by 20 percent.

That should pose no problem for regulators on either side of the Atlantic because American-BA/Iberia capacity will still be *LESS* than that of the other two joint ventures: Delta-Air France/KLM or United-Lufthansa/Swiss.

The U.S. and EU governments made it clear in 2007, when the Delta-Air France joint venture was approved, that they were far more concerned about stabilizing carrier finances (U.S. airlines lost \$60 billion through the post-9/11 decade when all the big carriers filed for bankruptcy protection except Continental) than about keeping fares down through competition.

The \$11 billion American-US Airways merger will result in the world's largest airline, exceeding United slightly in 2012 revenue and by larger margins in aircraft, capacity and workers. US Airways' Doug Parker will be the chief executive, American's Tom Horton will be chairman, but without executive authority; American's creditors will get 72 percent of the new stock, US Airways shareholders 28 percent. For more, see No. 11.

'SEQUESTER': THE NEXT BUGABOO FOR THE RECOVERY

5. The fiscal cliff is looming again, in the form the \$1.2 trillion in federal 'sequester' cuts that were delayed by Congress until March 1. The Republicans say they see no compromise that would avoid the cuts, which are so massive they could kill the recovery and result in the loss of 750,000 jobs by some estimates.

President Obama and the Democrats say it is more important now to maintain the recovery than to address the deficit, and that any cuts should be combined with elimination of tax loopholes and other revenue enhancers.

6. Meanwhile, the recovery continues to build up steam. Another 157,000 jobs were added to the economy in January, while December and November job totals were revised upward by 40 percent to a combined 443,000. On the down side, unemployment ticked up to 7.9 percent.

7. Other good signs: After touching 14,037 on Wednesday (ever closer to a new record) **the Dow opened today at 13,973.**

The price of oil was at \$97 per barrel, continuing in the high range that indicated relative optimism about the economy. **Gasoline jumped to \$3.64** a gallon (national average) and aviation fuel is likewise up, which is not so good.

8. Consumer confidence finally turned upward again. The Thomson Reuters/Univ. of Michigan index rose to 76.3 in early February from a revised 73.8 in January (and that revision was actually an increase over December's number). It was the first rise in consumer confidence reported since November. Previously, the Conference Board index had dropped to 58.6 in late January from a revised 66.7 in late December.

9. **The dollar was again rising versus the euro, to €0.75 at week's end**, after dropping to as little as €0.73 at the beginning of February.

BATTERY REDESIGN SOUGHT FOR 787, MERGER'S TRANS-ATLANTIC IMPACT

10. If its weekend test flight of a 787 Dreamliner revealed any hints of what might be bugging the batteries, Boeing was not saying. But a *Wall Street Journal* story said **Boeing is proposing a series of battery-design changes** to minimize the danger of fire.

Boeing hopes the redesign will persuade the Federal Aviation Administration to allow the plane to fly again while investigators continue to search for the precise nature of the problem.

All 50 787s in service have been grounded since Jan. 16 when a second battery-burn incident occurred on an All Nippon flight over Japan. In the U.S., the National Transportation Safety Board is leading the investigation.

11. **The merging of US Airways' trans-Atlantic service into the American-British Airways/Iberia joint venture won't reduce or increase competition.** US Airways has no competition today on its routes to Europe from Philadelphia and Charlotte. The question is whether the joint venture might reduce service from Philadelphia and, particularly, from Charlotte.

Each joint venture operates as a single airline on its U.S.-Europe routes: Costs, revenues (estimated at \$10 billion for Delta-Air France in 2011) and profits are shared by the member carriers; the flights, fares and marketing are carefully coordinated. They are specifically exempted from anti-trust restraints.

12. **The merger will leave only a handful of European airlines flying from the U.S. to Europe independent of the three joint ventures.** These include Air Berlin, Scandinavian, Turkish, Aer Lingus, TAP Air Portugal, Finnair and Icelandair, among others. None operate out of what are considered leading hubs in Europe, with the possible exception of Turkish Airlines at Istanbul.

Note: Alitalia is already part of the Delta-Air France joint venture; Virgin is expected to be approved to join the same group by the end of the year. Austrian, a Lufthansa subsidiary, is part of the United-Lufthansa/Swiss joint venture.

13. **Aer Lingus and Alitalia are under pressure.** Ryanair's third attempt to take over Aer Lingus is expected to be blocked by the European Commission, even though Ryanair promises to turn over major operations to British Airways and Flybe in answer to earlier EU objections.
14. Meanwhile, **Alitalia may be headed toward a takeover by Air France/KLM.** The

CAI consortium, which took over the airline in 2008, is back in the red and deeper in debt. Air France, which already holds 25 percent of Alitalia, may offer the other shareholders 20 percent more than they paid for their stock, according to a Rome newspaper.

Alitalia is an issue in the current election campaign. Silvio Berlusconi, whose support for an independent Alitalia was critical in 2008, has indicated he might come to the rescue again if his party succeeds in the Feb. 24-25 election.

POPE TRUMPS ELECTION, U.S. CAUTIOUS IN TURKEY

15. **The Italian campaign was suddenly overshadowed by Pope Benedict XVI's surprise announcement that he will depart the papacy Feb. 28.** Polling, which earlier showed Berlusconi closing the gap on Pier Luigi Bersani's center-left coalition, is suspended until votes are cast. Media coverage is now focused on the pope and that succession. Yet the election is deemed vital to the economic future of both Italy and the entire euro zone.
16. **The State Dept. advised Americans in Turkey to avoid visits to U.S. consulates** in Istanbul and Adana, and to the embassy in Ankara after a suicide bomber killed himself and a Turkish guard Feb. 1 at the entrance of the embassy. The Turkish government identified the bomber not as a jihadist, but as a member of a Marxist, anti-NATO group called the Revolutionary People's Liberation Party.
17. **Thank you, PBS!** Hurtigruten, the Norwegian coastal cruise line, said January bookings and revenues were up 54 percent and 45 percent respectively, thanks in part to the November broadcast of "A Norway Passage," by PBS stations. The documentary followed the *Nordnorge* as it made its way from Bergen to Kirkenes, far above the Arctic Circle. Eleven Hurtigruten ships follow each other day by day through the year in making the 12-day roundtrip.
18. **Portugal surfing record?** A surfer from Hawaii rode a wave that may have reached 100 feet off the beach at Nazaré. The Portuguese coast is frequently pounded by Atlantic swells rolling unhindered for hundreds of miles; winter storms add to the energy. But Nazaré's waves are further amplified by a 16,000-foot-deep undersea canyon, according to Micah Sklut of SwellInfo.com.
The big wave was claimed by people watching Hawaiian Garrett MacNamara and others on Jan. 28. Time.com has Tobias Ilsanker's terrifying video at <http://lightbox.time.com/2013/01/30/surfs-way-up-garrett-mcnamara-claims-to-ride-record-wave-in-portugal/?iid=lb-gal-viewagn#end>

CRUISE HORRIBILIS, LAS VEGAS'S GOOD YEAR, VEMEX IN NOVEMBER

19. **Cruise ships will carry a record 21 million passengers in 2013**, the Cruise Lines Industry Association has projected. That would be a 3.3 percent increase over the 2012 total for all the U.S. and international lines now represented by the CLIA, which has expanded to include more international cruise organizations.
- "Our ships are filled and more and more we've seen people around the world are interested in cruising as a vacation," said CLIA President Christine Duffy.
20. **That was 11 days before an engine-room fire knocked out most of the power aboard the *Carnival Triumph***, setting her adrift off the Yucatan peninsula with 3,143 passengers and 1,000-plus crew. It took more than four days to tow the 14-story, mega-ship into Mobile harbor. Dazed and exhausted passengers told of severe listing, overflowing sewage and waste, lack of food, little running water, poop bags and ondeck sleeping. However, the crew was widely praised and only one person required helicopter evacuation.
- Carnival Cruise CEO Garry Cahill met the ship to apologize and promise refunds, free trips and \$500 in additional payments per person. Will it be another difficult year for Carnival and cruising? It was a year ago Jan. 13 that the *Costa Concordia*, operated by a Carnival subsidiary, foundered on a Tuscan reef.
21. Further confirming the recovery in travel, **Las Vegas reported a record 39.7 million visitors in 2012**. The previous high of 39.2 million was reached in 2007. Occupancy of the city's 150,000 hotel rooms was 84.4 percent, compared to the national average of 61.4 percent. Average room rate rose \$3 to \$108. Gross gaming revenue was up 1.9 percent to \$9.4 billion.
22. **The Visit Europe Media Exchange is scheduled for November**. VEMEX will open in **Toronto** on Friday, Nov. 15, at the Toronto Board of Trade, then go to **New York** on Monday, Nov. 18, at the Harvard Club, and to **San Francisco** on Wednesday, Nov. 20, at the Sheraton Fisherman's Wharf.
- The 2013 website—**VisitEuropeMediaExchange.com**—will go up in March.

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Trans-Atlantic Traffic Trends, January '13

Compared to previous year, +/- percent

RPMs	Feb. '12 *	March '12	April '12	May '12	June '12	July '12	Aug. '12	Sept. '12	Oct. '12 **	Nov. '12 **	Dec. '12	Jan. '13	ASMs (Jan. '13)	load factor
Delta (Sky)	+3.1	-0.4	-6.1	-4.4	-5.5	-6.7	-5.1	-0.3	-3.0	-3.1	-4.3	-6.4	-10.4	77.5
Air France/ KLM (Sky)	+13.1	+9.7	+2.3	-1.8	+5.6	+2.0	+0.0	+1.1	-3.3	+1.0	-0.1	-0.7	-1.2	87.4
United (Star)	+0.8	+1.4	-6.0	-1.7	-1.4	-5.8	-2.4	-5.3	-9.6	-7.2	-4.6	-4.7	-8.2	72.9
Lufthansa/ Swiss/ Aus. (Star)	+0.8	+6.0	+1.5	+2.0	+3.8	+2.1	+4.2	+0.4	-1.0	+3.4	-0.8	+2.2	-0.2	81.3
American (One)	+8.0	+2.0	-2.7	-9.6	-5.5	-3.3	-0.6	-0.7	-8.5	-7.8	-4.9	-6.8	-7.9	76.4
British Airways/ Iberia (One)	+11.1	+16.3	+6.8	+6.9	+6.0	+4.1	+6.2	+6.9	+2.4	+3.1	-1.9	+1.2	-1.2	77.0
Leading-carriers average	+6.2/+2.5	+5.8	-0.7	-1.4	+0.5	-1.3	+0.4	+0.4	-3.8	-1.8	-2.8	-2.5	-4.9	78.8

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

U.S.-citizen departures 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 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 our best immediate trend indicators. Capacity is measured in Available-Seat Miles.

% SHARE OF U.S. MARKET BY REGION, 2012

Total U.S.-citizen departures to overseas destinations;
Canada and Mexico excluded:

28,502,145 (5.5% more than 2011)

