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ECONOMY. The air transport industry is affected by both the crisis in the global financial system and its economic fallout. By accelerating the change process, this crisis could spur industry consolidation and a move to more efficient aircraft.

TURBULENCE IN THE AIR

During growth periods, airline traffic generally increases twice as fast as gross domestic product (GDP). But as soon as the economy begins to slow down, the airline industry is often the first hit. Events in 2008 once again confirmed this rule, but they have also spotlighted the difficulties faced by airlines, which had to deal with rising jet fuel costs

Today, despite oil prices which have dropped back under \$50/barrel, airlines' earnings are being heavily affected by drops in both passenger and freight traffic.

"No airline has escaped the slump," observes Giovanni Bisignani, director general and CEO of the International

Air Transport Association (IATA), which groups 230 carriers worldwide. "From 2001 to 2006 our members logged cumulated losses of 42 billion dollars, while only earning 5.6 billion dollars in 2007, a profit margin of less than 1 percent." More than 30 IATA members declared bankruptcy in 2008.

Low-cost carriers prove resilient

Paradoxically, this crisis should enable certain low-cost carriers to bolster their positions. The two European leaders in this sector, EasyJet and Ryanair, both recorded year-to-year sales growth exceeding 20%. Low-cost carriers now account for 17% of the global market, and Ryanair has even outpaced Air France-KLM in European traffic.

In addition to the drop in traffic, we have also seen the advent of a credit crisis – just at a time when many airlines had launched fleet replacement or expansion plans. In consequence, they are having a hard time securing the necessary financing from banks, although few orders have been cancelled for now.

Seeking efficiency

Both aircraft and equipment manufacturers are of course taking the

INTERVIEW



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MICHELINE MAYNARD,
SENIOR BUSINESS CORRESPONDENT AT THE NEW YORK TIMES

Mergers ... if warranted by enhanced efficiency!

What are the major factors in the current crisis?

First, overcapacity, followed by jet fuel prices and, to a lesser degree, competition.

How are the airlines reacting to the crisis?

On one hand, they're raising fares, but this strategy has its limits, since passengers may simply decide not to fly. On the other hand, they are taking measures to reduce costs, in particular retiring older, more fuel-hungry airplanes. In the United States, the first models to be withdrawn from service are the DC-9, MD-80 and older 747s.

How would you describe the outlook for the sector?

The merger trend will continue. Delta and Northwest have already taken the step in the United States and others are exploring this possibility, especially US Airways, United and Continental. It's highly likely that there will be more merger and acquisition proposals. Investors will have to provide the funds for these new transactions, but they will only do so if the Delta-Northwest merger proves to be a success. In Europe, Air France and Lufthansa in particular have launched acquisition initiatives, and we'll be keeping a close watch on these projects.

FRENCH GOVERNMENT AID FOR AIRCRAFT FINANCING

Banks traditionally provide about 40% of the financing for an aircraft purchase, which means that the current credit crisis threatens the civil aviation industry. If airlines have to cancel orders because they can't find financing, aircraft manufacturers will have to lower their production rates, which will directly impact suppliers, whether major system manufacturers or smaller subcontractors. The French aerospace industry – in which Safran is a major player – alerted the government of this looming problem back in November 2008. Realizing the potential



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impact, the French government announced at the end of January 2009 that it would provide some 5 billion euros in financing, in particular to help Airbus customers pay for their orders. These funds will be injected directly into the banks, so that they can

continue to finance aircraft purchases by airlines. In the coming weeks, the French government decision could inspire identical measures by other countries with companies that are partners in Airbus, starting with Germany.



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situation seriously, but without undue panic. Orders in hand at Boeing and Airbus give each company four to five years of production work.

Safran CEO Jean-Paul Herteman does not underestimate the difficulties facing the air transport industry, but he still believes the outlook is positive. "We know that we're in growth businesses, and we are confident in the outlook for our markets. Few sectors have posted the same sort of growth over the last thirty years, and demand for air transport is still far from being saturated, especially in emerging countries." Furthermore, Safran can count on its cutting-edge technologies, an efficient organization and solid market positions to help guarantee future success. ■

LIGHTER, GREENER AND LESS FUEL-HUNGRY AIRPLANES

Airlines were hard hit in 2008 by skyrocketing oil prices and the air transport crisis and are implementing new practices to reduce fuel consumption and generate savings. The main measure taken by the industry is fleet reorganization. They have mothballed the oldest planes in their fleet and replaced them by more recent models. For instance, Northwest Airlines replaced its DC-10s by the Airbus A330, reducing fuel consumption by 38%, and replaced its DC-9s by the Airbus A319, for a 27% improvement in fuel burn. Airlines are eagerly awaiting the next generation of even more fuel-efficient

airplanes and engines. Saving weight has also become a primary objective. At Northwest, for instance, shaving a few dozen kilos from each airplane will generate about \$400,000 in annual savings across the fleet. In consequence, seats, serving carts and beverages have all gone on diets – even the amount of water stored in the toilets has been reduced. Engineers have also gone through the flight deck with a fine-tooth comb: some airlines even want captain and co-pilot to share a single set of flight manuals, which would save about 7.5 kilos. Outside the aircraft, keeping engines clean also helps reduce fuel consumption by cutting drag. Southwest cleans their engines daily, resulting in estimated jet fuel savings of \$1.6 million from April to June 2008.

BUSINESS AVIATION. Well established in the business aircraft market, Safran Group companies are keeping pace with changes in this market while bolstering their own positions.

NEW BIZJETS ON THE HORIZON



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Safran companies equip three Cessna bizjets, including the Citation X.

After two good years for business aircraft, a slowdown in orders is looming because of the global financial crisis. For the moment, however, this slowdown primarily concerns entry-level aircraft. Historically, crises in this sector don't last more than three or four years, with a drop in sales the first year, then a strong recovery as soon as companies once again report higher earnings. "The 'concept buyers'* seem impervious to the crisis for now, and

they are continuing to place orders for high-end bizjets," observes Loïc Nicolas, business jet marketing manager at Snecma (Safran Group).

The United States still accounts for half of the total sales volume in this sector, but in recent years demand has been driven by companies from Europe, now convinced of the benefits of having a bizjet, namely flexibility, speed, efficiency and discretion. "With a business jet," continues Nicolas, "you go where you want, when you

want, and without losing time at the airport!"

These advantages are beginning to win over a new generation of clients from emerging countries, especially the so-called "BRIC" bloc, or Brazil, Russia, India and China. The opening of these new business aviation markets is benefiting the leading manufacturers, namely Cessna, Gulfstream, Hawker Beechcraft, Bombardier, Embraer and Dassault Aviation. It's also good news for Safran, since nearly all Group