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Volume 6 Number 09 – Wednesday, 26 February 2014

Airlines: Global Traffic Results for 2013

In the beginning of 2014, the International Air Transport Association (IATA) announced full-year traffic results for the previous year. For 2013 these results showed a 5.2% increase in passenger demand compared to 2012. The 2013 performance is in alignment with the average annual growth rate of the past 30 years. Capacity rose 4.8% and load factor averaged 79.5% up 0.4% compared to 2012. Tony Tyler, IATA's Director General & CEO stated that "We saw healthy demand growth in 2013 despite the very difficult economic environment. There was a clear improvement trend over the course of the year which bodes well for 2014. Last year's demand performance demonstrates the essential and growing role that aviation-enabled connectivity plays in our world. And with system-wide load factors at 79.5% it is also clear that airlines are continuing to drive efficiencies to an ever-higher level".

April 2011	Passengers' Demand	Capacity Expansion	Load Factor
Europe	3.8%	2.8%	81.0%
Middle East	12.1%	12.8%	77.3%
North America	3.0%	2.2%	82.8%
South America	8.1%	7.4%	79.2%
Asia Pacific	5.3%	5.2%	77.7%
Africa	5.5%	5.2%	69.0%

For the region of Asia-Pacific airlines' traffic showcased an annual growth of 5.3% in 2013 slightly above the annual growth of 2012 which reached 5.2%. Capacity expanded by 5.2%, whereas load factor was at 77.7%.

European airlines' saw traffic rise of 3.8% in 2013 compared to 2012, a slowdown compared to annual growth of 5.3% in 2012. Capacity rose by 2.8% and load factor by 0.5% compared to 2012 reaching 81%.

The slowest passenger growth was reported by North American carriers which showcased an annual growth of 3.0% compared to 2012. This was an improvement compared to 2012 growth of 1.3%. Capacity was up by 2.2%, while load factors rose by 0.8% reaching 82.8%.

Middle East airlines recorded the strongest increase in passenger traffic in 2013, rising by 12.1% compared to 2012, but below the 15.4% annual growth recorded in 2012. However, capacity grew faster than passenger traffic by 12.8% and load factor declined slightly by 0.1% to 77.3% from 77.4% in 2012.

Latin American airlines showcased an 8.1% rise in demand in 2013 over 2012, the strongest performance after Middle East. Capacity expanded by 7.4% year over year and load factor climbed to 79.2%, 1.3% higher compared to 2012.

Finally, African airlines' demand rose by 5.5%, whereas capacity expanded by 5.2% and load factors by 1.9%, reaching 69%, the lowest among all the regions.

Kyriazis Vasileios,
Epicos Newsletter Head Editor

Cargo Demand for 2013

According to a report released by the International Air Transport Association (IATA), freight tonne kilometers (FTKs) in 2013 showcased an expansion of 1.4% when compared to 2012. Capacity grew faster than demand at 2.6% and load factors were weak at 45.3%. Tony Tyler, IATA's Director General & CEO stated that: "2013 was a tough year for cargo. While we saw some improvement in demand from the second half of the year, we can still expect that 2014 will be a challenging year. World trade continues to expand more rapidly than demand for air cargo. Trade itself is suffering from increasing protectionist measures by governments. And the relative good fortunes of passenger markets compared to cargo make it difficult for airlines to match capacity to demand".

In the region of Asia-Pacific, carriers showcased a fall in freight volumes of 1.0% for 2013 compared to 2012. Despite shrinking demand, capacity posted a 0.8% annual increase in 2013.

European airlines showcased a cargo growth of 1.8% for 2013. It is important to state that the fourth quarter of 2013 was the strongest for two and a half years. On the contrary air freight volumes in North America fell by 0.4% for 2013 compared to 2012.

Middle Eastern carriers posted a rather impressive annual growth of 12.8% for 2013. This can be mainly attributed to the improving economic conditions in Europe and of course to the solid growth domestic economies showcased. Additionally, the regions' carriers have also captured a significant share of the increase in the volumes out of Africa.

Latin America airlines freight volume increased by 2.4% a slower pace of growth than 2012. This can be mainly attributed to the slow growth in Brazil. Nevertheless, it is rather encouraging that there have been signs of a steady pick-up since the third quarter of the year. Finally, the African airlines posted an annual rise of 1.0% for 2013.

Kyriazis Vasileios,
Epicos Newsletter Head Editor

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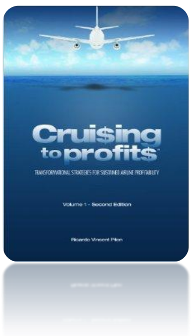
The Commercial Aircraft Finance Handbook, by Ronald Scheinberg

The book offers a complete view of the process of aircraft financing and the myriad issues that can arise, clearly explaining terminology as it works through the steps. It can be used as both a learning aid and resource book. The area of aircraft finance is multidisciplinary (touching professionals across law, finance, insurance, leasing to name a few) and this book arms these diverse individuals with a framework for knowing what questions and issues should be considered in a given situation. It does not aim to make them experts in an area outside of their particular expertise but to understand the perspectives in the "other" disciplines within aircraft finance. This book will provide juniors with an introduction to the myriad of topics in aircraft finance and provide seniors with explanations of matters outside their normal area of expertise.

Cruising to Profits: Transformational Strategies for Sustained Airline Profitability, 2nd Edition, Vol. 1, by Ricardo Vincent Pilon



The content is primarily based on the practical experience of Ricardo Vincent Pilon, his airline management and business consulting work, and also combines results from his work with academic involvement in airline economics as well as management science. The author introduces a three-pillar visionary business transformation and leadership framework entitled BeProFit (BPF), which redefines the role of commercial aviation. The book is an elaborate introduction to a possible evolution in commercial aviation and airline management and paves the way for Volume 2 - The Practical Guide. He further lays the foundation for H2 - Human Capital Profit Multiplier and S.T.A.R., two management tools that identify and enable leadership, as discussed in Volume 3 - The Human Capital Factor. Cruising to Profits offers valuable, actionable management tools so as to execute on the vision and include day-to-day operations towards commercial airline strategy formulation.

Epicos Newsroom

Qantas may cut 5,000 jobs: report

Struggling Australian carrier Qantas on Tuesday said it was committed to slashing costs by Aus$2 billion (US$1.8 billion) but refused to confirm or deny a report that it will axe 5,000 jobs.

The airline has been battling record fuel costs and fierce competition from subsidised rivals and in December said 1,000 jobs would go while warning it faced a half-year loss of up to Aus$300 million.

Its interim result is due on Thursday and the Sydney Daily Telegraph, citing a Qantas source, said the job losses would be much worse as the airline restructures its finances to convince the government it deserves a debt guarantee.

As well as sacking 5,000 staff, the newspaper said Qantas may sell some of its terminals, while The Australian reported it would accelerate the retirement of older planes and defer new orders.

The airline refused to go into details.

"There is fresh speculation about what things we will or won't announce on Thursday as part of our half-year results. We are not in a position to comment on that speculation," the flag carrier said in a statement.

"We have said that we will be making some tough decisions in order to achieve $2 billion in cost savings over the next three years, which is a consequence of an unprecedented set of market conditions now facing Qantas."

- Unease over 'mass sackings' -

Transport Workers Union national secretary Tony Sheldon said Qantas must come clean on its restructuring plans with staff on edge over potential mass sackings.

"Another day, another rumour of massive job cuts and the sale of planes and terminals," he said.

"Each baggage handler, check-in staff and ramp worker generates a $205,000 return to Qantas above the cost of their employment. Sacking them is like a tradesman selling his tools to pay a one-off bill."

Qantas has said it faces "immense" challenges and has been lobbying the government to ease limits in foreign investment or provide state intervention to help shore up its bottom line.

Canberra has made clear there will be no taxpayer handouts but has flagged support for a relaxation of the Qantas Sale Act, which limits foreign ownership in the airline to 49 percent, or a possible debt facility.

Qantas chief Alan Joyce argues that the cap is hurting Qantas's ability to compete by restricting access to capital, particularly against domestic rival Virgin Australia, which is majority-owned by state-backed Singapore Airlines, Air New Zealand and Etihad.

Transport Minister Warren Truss on Tuesday said the conservative government was drafting laws to allow Qantas to be majority foreign-controlled while allowing a single foreign shareholder to own more than 25 percent.

"The government is philosophically attracted to levelling the playing field," he said, although Labor and the Greens have vowed to block any legislation in the upper house Senate.

They are against allowing majority overseas ownership, but open to the government providing an assistance package.

Prime Minister Tony Abbott said the government accepted the carrier was having to compete with the "ball and chain" of the Qantas Act.

"But in the end Qantas do have to get their own house in order," he said.

Following the profit warning in December, Moody's and S&P both downgraded Qantas' credit rating to "junk" status, increasing the cost of financing for the carrier and restricting access for investors that do not put their money in lower-rated companies.

The carrier pledged to press ahead with cost cutting regardless of whether the government decides to help.

"We've said that we must take steps to reduce our costs regardless of whether the federal government acts on the uneven playing field in the Australian aviation market," it said in the statement.

Qantas shares closed 0.40 percent lower at Aus$1.23.5.

Source: 2014 AFP, Agence France-Presse (AFP)

Irish airline Aer Lingus announces new savings plan

Irish airline Aer Lingus on Monday said it expected stable operating profits this year alongside a new savings plan that was expected to result in fewer jobs.

The outlook came as Aer Lingus said its net profit edged up to 34.1 million euros ($46.86 million) in 2013 from 33.9 million euros a year earlier.

Operating profit was down 11.6 percent to 61.1 million euros, the group said in a statement.

Aer Lingus said it expects an operating profit "broadly in line" with 2013.

Sales were up 2.3 percent last year to 1.425 billion euros.

The long haul arm of the business performed strongly, with revenue up 11.1 percent to 381.6 million euros and passenger numbers up 12.2 percent.

Short haul revenue for 2013 was down 3.3 percent as "extremely good weather in Ireland and northern Europe in the peak summer period" saw people staying home for holidays.

Chief executive Christoph Mueller said Aer Lingus would focus on two key areas in 2014 -- service and cost.

He announced a two-year plan, called "CORE", aimed at improving the business but likely to lead to "further headcount reductions".

Mueller welcomed the results, but insisted the company could have improved further.

"2013 was the first year of significant growth for Aer Lingus since the global economic downturn. While I am broadly satisfied with our financial performance for 2013, I believe that we could have done better."

Source: 2014 AFP, Agence France-Presse (AFP)

EU puts low-cost, classic airlines on same state-aid norm

The European Commission on Thursday amended state-aid rules to put low-cost airlines on a par with traditional carriers which complain their rivals can undercut them because of unfair local subsidies.

The new rules "will ensure fair competition regardless of the business model - from flag carriers to low-cost airlines and from regional airports to major hubs," EU Competition Commissioner Joaquin Almunia said.

The aim is to ensure air links "while preserving a level playing field between airports and airlines," Almunia said.

Low-cost carriers base their business on flights to and from regional airports, rather than city hubs, winning passenger payments or lower charges from local authorities anxious to attract people to their regions.

A regional airport can generate significant business, especially if it can get several low-cost carriers to locate there.

Traditional carriers say such payments gives these airlines an unfair advantage while low-cost operators charge back that their competitors are just slow to adapt to a changing market.

The Commission said its new guidelines ensure state aid is properly used and in such a way to "limit distortions of competition that would undermine a level playing field."

Among the measures, aid to regional airports with fewer than three million passengers a year will be allowed for a transition period of 10 years, a statement said.

This will allow these airports "time to adjust their business model" so that in due course the business will result in "full coverage of operating costs."

Recognising the plight of many smaller regional airports, the Commission said those with annual passenger numbers below 700,000 will get special treatment, allowing them higher aid levels and a review of the situation after five years.

Many such airports have passenger numbers of several hundred thousand a year and had feared the Commission would set this threshold at just 200,000.

The Commission said state aid for airport infrastructure will be allowed "if there is a genuine transport need and public support is necessary to ensure the accessibility of a region."

Similarly, state aid is allowed for airlines to launch a new air route "provided it remains limited in time," it added.

Almunia told a press conference he believed the changes would ensure that airports are "not financed by taxpayers ... they should be financed by the owners."

The new guidelines are to come into force in March.

Source: 2014 AFP, Agence France-Presse (AFP)

Pentagon budget looks to leaner, more hi-tech force

Pentagon chief Chuck Hagel on Monday outlined a proposed defense budget for 2015 that will shrink the size of the US Army in favor of new hi-tech weapons.

Here are the highlights of the budget plan, which must be approved by Congress:

Troop numbers

The US Army would be scaled back 13 percent from 520,000 troops to 440,000-450,000 soldiers by 2017, making it the smallest force since before the United States entered World War II.

The Army National Guard would be reduced from 355,000 to 335,000 and the reserves from 205,000 to 195,000.

The US Marine Corps would be cut by roughly 10,000 troops for a force of 182,000.

However, the elite special operations forces -- which draw from different branches of the military -- would see an increase of 3,700 troops, to a total of 69,700.

Pay and benefits

Pay for the Defense Department's 750,000 civilian workers is already frozen for three years. But officials are anxious to rein in the growth in pay and benefits for military personnel, which is eating up an increasing share of the Pentagon's budget.

The proposal calls for a one percent increase in basic pay for troops but excludes a raise for generals and admirals. After 2015, future pay hikes for troops would be "restrained."

Housing allowances for troops would be modestly reduced, subsidies for shops that sell groceries to troops would be scaled back and health insurance fees would increase for retired personnel and some family members.

Army

Apart from reduced troop levels, the US Army also stands to lose its planned "ground combat vehicle," a program that was supposed to produce a hi-tech armored vehicle for the future. The project would be scrapped and commanders would have to draw up a new plan.

The National Guard's fleet of Apache helicopters would be shifted to the active duty army, while the guard would receive Black Hawk helicopters instead.

With older helicopters dropped, the army's overall chopper fleet would decline by 25 percent and the National Guard's by eight percent.

Navy

The US Navy would retain its 11 aircraft carriers. But a decision would have to be taken by 2016 whether to retire the USS George Washington or invest in upgrades worth $6 billion.

The number of new littoral combat ships (LCS) would be curtailed to 32 instead of 52 as initially planned. Hagel questioned if the small, speedy vessel has the firepower and protection to survive against more advanced adversaries, "especially in the Asia-Pacific."

Eleven cruiser ships would be "laid up" for modernization work. The cruisers oversee air defenses for carrier strike groups.

The Pentagon would continue plans to purchase two destroyers and two attack submarines a year, as well as a "floating base" that can accommodate special forces.

Air Force

The proposed budget protects costly and sophisticated new aircraft including the F-35 Joint Strike Fighter, a new long-range bomber, and the new KC-46 refueling tanker.

But 326 "tank-killer" A-10 aircraft, which date back to the Cold War, would be retired, for a savings of $3.5 billion over five years. The A-10's close air support role would be carried out by the F-35 fighter or other warplanes.

Another old work horse would be abandoned -- the famed U-2 spy plane, which first entered into service in the 1950s.

The Pentagon had given the U-2 a new lease on life in 2012 but is now pinning its hopes on the Global Hawk surveillance drone, arguing that the plane is more capable and its operating costs have decreased.

The Air Force would slow the expansion of its fleet of armed drones while investing $1 billion in new jet engines to save fuel and maintenance costs.

Source: 2014 AFP, Agence France-Presse (AFP)

Germany cuts order for Eurofighter jets: report

The German defence ministry is planning to reduce its order for Eurofighter jets from 180 to 143, according to media reports on Thursday.

The German news agency DPA quoted "government sources" as saying that the ministry's number two, Stephane Beemelmans, had informed parliament's defence committee about the decision late on Wednesday.

The reduction had already been decided by the then defence minister Thomas de Maziere, the report said.

Out of the total order, more than 100 jets worth around 14 billion euros ($19.2 billion) have already been delivered, it added.

Source: 2014 AFP, Agence France-Presse (AFP)