

# Airline profits to tumble in 2011: IATA

REUTERS, Singapore

Global airlines cut their 2011 profit forecast by more than half to \$4 billion on Monday as high oil prices and turmoil in Japan, North Africa and the Middle East weigh on the industry's recovery.

The International Air Transport Association (IATA), which represents most global carriers, also warned of a looming trade war if Europe moves ahead with plans to force airlines to join an emissions trading scheme next year. China said it would support legal action.

Airlines say the scheme, designed to tackle growing emissions from the aviation industry, will only increase costs and add to pressures already caused by the sluggish global economy.

"The efficiency gains of the last decade and the strengthening global economic environment are balancing the high price of fuel," the IATA's director general, Giovanni Bisignani, told the group's annual general meeting in Singapore.

"But with a dismal 0.7 percent margin, there is little buffer left against further shocks," he said.

The IATA \$4 billion profit forecast compares with an \$8.6 billion forecast on March 2, just before the Japan earthquake and tsunami triggered a nuclear meltdown at a power station. Since then, the Arab uprisings have spread and oil prices have traded well above \$100 a barrel.

The forecast would also mark a drop of more than three-quarters from the industry's estimated 2010 profit, which was raised to \$18 billion from \$16 billion.

Economists say the industry's outlook is a guide to the strength of cyclical recovery in developed markets and growth in emerging economies, which rely heavily



REUTERS

A plane prepares to land at an airport in New Delhi. The International Air Transport Association, which represents most global carriers, warned of a looming trade war.

on air transport.

Airlines rebounded faster than expected from recession last year, helped by higher traffic and a drive to keep a lid on spare capacity. But far too rapid expansion in capacity, a series of external shocks and higher oil prices have hit the industry hard this year.

Graphic on airline industry, click [link.reuters.com/wuv89r](http://link.reuters.com/wuv89r)

Airlines had been bracing for lower 2011 forecasts at this week's major conference as fears grow over the global economy.

IATA is forecasting a \$110 per barrel average oil price in 2011, up 15 percent from \$96 last year, adding to the case for airlines to raise airfares or fuel surcharges to cover the rising cost of doing business.

Qantas Airways was "looking at more increases going forward," its chief executive, Alan Joyce, told Reuters. "Hedging just gives you time."

IATA warned that capacity was set to expand 5.8 percent in 2011, outstripping a 4.7 percent increase in demand. The 1.1 percentage point gap is sharply higher than the 0.3 percent previously forecast.

Bisignani has said a lack of discipline could dent the industry's recovery as airlines jostle for market share.

In a move with major cost implications for the industry, Rolls-Royce is set to build a new engine to beef up the A350 jetliner being developed by Airbus, industry sources said.

Until now, Airbus and Rolls had defended the engine as an all-rounder capable of powering three separate models of the mid-sized A350, which is designed to carry 270 to 350 people.

In Europe, the EU's planned Emissions Trading Scheme (ETS) would force carriers to buy permits for each tonne of carbon dioxide they emit above a certain cap.

The plan is meant to tackle growing emissions from the \$500 billion aviation industry, which is responsible for about 2 percent of mankind's greenhouse gas pollution.

Governments and airlines have been piling on pressure, some describing the forced inclusion of global airlines as illegal.

The EU has offered to exempt airlines of countries that can prove they are taking equivalent steps to cut emissions.

Representatives from developing countries slammed the proposed rules and said they were unfair.

"Indian airlines which fly overseas, such as Kingfisher, have already made their views known to the minister of civil aviation," said Vijay Mallya, chairman of Kingfisher Airlines, which has the second-largest market share of India's aviation industry.

"We do not have the same level of sophistication or maturity in trading of carbon credits and therefore any such new policy or levy on Indian carriers flying to Europe would be unfair. Now it's a government-to-government matter, not an airline-specific matter," he said.

The China Air Transport Association (CATA) says the scheme will cost Chinese airlines more than \$100 million in the first year and more than triple that by 2020.

"I believe we have to take legal action," said Wei Zhenzhong, secretary general of CATA, adding that Air China was preparing a legal challenge. The U.S. industry group Air Transport Association of America is also challenging the plan in EU courts.

What is needed is a global approach to emissions control, Singapore's deputy prime minister, Tharman Shanmugaratnam, told IATA delegates.

"In addressing climate change, we should harmonise measures at an international level so as to ensure a level playing field for all, as well as minimise multiple cost layers from unilateral localised emissions trading schemes and environmental taxes," he said.

## Invest with your head, not your heart: Barclays

REUTERS, London

Wealthy individuals who make investment decisions based on emotion rather than strategy can lose up to 20 percent of their returns over a 10-year period, a Barclays Wealth study on Monday showed.

Following a pre-determined investment strategy can help investors avoid costly mistakes like buying high and selling low when markets are in crisis, the report said.

"We are suggesting to people not to trade so much because it is not in their interest ... You should only change strategy in periods of quiet reflection. (Investment strategy) is allowed to evolve over time but you have to do it in a thoughtful way," Greg Davies, head of behavioural finance at Barclays Wealth, said.

That discipline pays dividends, Davies said, pointing out that those who stuck to a structured investment strategy are on average 12 percent richer than those who do not.

Davies and his team of behavioural finance specialists track and analyse investor reaction to market dynamics and study how their emotions impact investment decisions.

Their study -- Risk and Rules: The Role of Control in Financial Decision Making -- has highlighted that many of the world's rich wish they had greater willpower to maintain their investment strategies.

Two in five high-net worth individuals said that they wished they traded less and stuck to their investment strategy, with the figure hitting 86 percent in Taiwan and 70 percent in Hong Kong.

UK respondents showed much less appetite for investment rules, with just one in three expressing a desire to curb emotional investing, echoing views from respondents based in South African, the United States, Australia and Spain.

"Countries with a long history of economic stability, financial sophistication and development are those which tend to require less discipline and therefore they use rules less than others," said Davies.

## Maruti in talks with workers as strike halts production

REUTERS, Mumbai

Maruti Suzuki said on Monday its management was in talks with workers at its plant in Manesar where a strike has disrupted production.

Production at the Manesar plant, which produces about 1200 vehicles a day, has been halted after a section of workers went on strike on Saturday, said a spokesman for Maruti.

Around 800 workers went on strike demanding the recognition of a new union -- Maruti Suzuki Employees Union, the spokesman said.

"We are still trying to understand what their grievance is... We've had no discussions with them on this subject ever," RC Bhargava, chairman of Maruti Suzuki, told television channel NDTV Profit.

Bhargava said the management was in talks with the workers to find a solution, but did not give a timeline as to when the strike was expected to be called off.

At present, the company, 54.2 percent

owned by Japan's Suzuki Motor Corp, has one workers' union that is recognized by the management -- Maruti Udyog Kamgar Union.

"It's more surprising that one month ahead of the elections this kind of thing should happen," Bhargava said, referring to the existing union's elections to be held next month.

Last year, Maruti Managing Director Shinzo Nakanishi said the company was looking to advance its capacity expansion plans to meet booming demand in the fast-growing south Asian country.

The company plans to invest \$1.3 billion over the next three years on manufacturing plants to boost capacity. In September 2010, the company said it would build a fourth auto plant in India to lift output to 1.4 million units a year.

Shares of Maruti provisionally ended 0.2 percent lower at 1,231.10 rupees, after falling as much as 1.9 percent in the day in a firm Mumbai market.

## Most Australians against carbon tax: poll

AFP, Sydney

Most Australians oppose a tax on the carbon emissions blamed for global warming and want Prime Minister Julia Gillard to call an early election over the issue, according to a poll released on Monday.

The findings were published a day after thousands of people rallied around the nation in support of the controversial plan, which is the subject of intense debate in Australia.

The Galaxy poll for News Limited newspapers, conducted countrywide on June 1 and 2, revealed 58 percent were against the tax, with just 28 percent in favour and the rest undecided.

Gillard pledged ahead of her election last year that she would not introduce a carbon tax, and the poll showed 64 percent of the 500 voters questioned want her to call a fresh ballot.

Only 24 percent said she had a mandate to implement her proposal.

Heavily reliant on coal-fired power and mining exports, Australia is one of the world's worst per capita polluters and the government wants the tax levied on major industrial polluters by July 1, 2012.

This would give way to an emissions trading scheme within three to five years.

But the conservative opposition says it would damage the economy and drive up the cost of living by making energy far more expensive, bumping up electricity bills.

Nearly three-quarters of those polled believe it would leave them financially worse off and deliver little or no benefit for the environment.

## Kingfisher sees strong growth, revives funding plan

REUTERS, Singapore

Kingfisher Airlines is looking to lease both wide-body and narrow-body aircraft to meet an unanticipated surge in demand as the domestic economy recovers more quickly than expected, the company's chairman, Vijay Mallya, said on Monday.

Mallya also told reporters on the sidelines of the International Air Transport Association's annual meeting in Singapore that the company had revived a plan to sell Global Depository Receipts, taking higher oil prices into calculation.

Asked if Kingfisher's current capacity was enough to cater to the projected increase in demand, he said: "Not quite, that is why we are looking for leased capacity."

"Kingfisher at one time had several aircraft that were on order from Airbus for delivery in 2010 and 2011. During the 2008-2009 crisis, I actually postponed the delivery of those aircraft to 2012 and 2013," Mallya said.

"So right now we are looking for capacity, but our own new deliveries will start in about 18 months."

He said he was looking to lease both narrow-body and wide-body aircraft.

"We have been experiencing for the last six months unprecedented load factors, which I have never seen in the last six years," Mallya said.

"We are running at mid to high 80 percent on every flight, which is extremely healthy."

According to its website, Kingfisher has 66 aircraft, mostly Airbus jets and ATR turbo-prop variants. It has more than 125 planes on order.

Loss-making Kingfisher, India's second-largest airline by market share, has restructured its debt by converting almost 12 billion rupees (\$268 million) of loans into equity. Its current debt stands at about 60 billion rupees.

Last month, it reported a net loss of 10.27 billion rupees in the fiscal year ending March 31, versus a loss of 16.47 billion rupees the year before.



Vijay Mallya

But it had positive earnings before interest, tax, depreciation and amortisation (EBITDA) amounting to 1.4 billion rupees, the company says.

"We reported significantly improved numbers and EBITDA profit for the first time. This is a sign of things to come," Mallya said.

He said the company had also revived a proposal to sell GDRs of \$250 million-350 million, but gave few details.

"We had an excellent roadshow for our GDR in January and early February this year and we presented a compelling business plan."

He said the plan assumed crude oil at \$90 per barrel.

"The minute crude oil prices started going up to \$120 plus per barrel, prospective investors asked us to rework our business plans, which we did."

The flamboyant Mallya, who controls the United Breweries Group, owns a Grand Prix motor racing team and a team in India's IPL cricket league, said Kingfisher's growth should be enhanced as it joins the Oneworld airline alliance, which also includes Cathay Pacific, British Airways and Qantas.

"The opportunities to leverage

this alliance are huge," he said, adding that Kingfisher would become a fully operational member by 2012. "We see this as being a contributor of about 5-6 percent of enhanced revenue to us."

He said Kingfisher was continuing to lobby the government to allow foreign airlines to take stakes in Indian carriers.

"Airlines in India must raise capital and the opportunity to raise capital from foreign airlines must not be excluded and that's why we will continue to request the government of India to reconsider its foreign direct investment policy."

Kingfisher flies to eight international destinations and to more than 50 towns and cities in India. Its fleet of turboprop aircraft will help it to respond to the pattern of wealth creation in India, Mallya added.

"There is a lot of wealth in tier-2 and tier-3 cities that is being created," he said. "It is no longer a situation where wealth in India is restricted to the big metro cities, so it offers a huge amount of opportunity."

"Kingfisher is well positioned because it has a large number of ATR aircraft which are ideal to service the emerging demand in tier-2 and tier-3 cities," he said.



AFP

Delegates sit side-by-side as Iraq signs deals on Sunday in Baghdad with Turkish, Kuwaiti and South Korean energy firms to develop two gas fields in the centre and south of the country, in a bid to help rebuild its energy-dependent economy.