

Airline industry woes chip away passenger choices

REUTERS, London/Frankfurt

Air passengers face higher fares, fewer flight choices and crowded aircraft as European carriers trim seating capacity growth or cut routes altogether, as they battle to salvage profits and fend off the impact of rising fuel prices.

With jet fuel prices near record highs at the same time as taxes and airport charges rise, airlines are curbing the growth of capacity - the number of seats they make available - and the frequency of some flights to lower costs and not drive away customers already spooked by rising fares.

According to the Association of European Airlines, capacity among its member airlines eased by 4.6 percent in the first half of this year compared with the year-earlier period.

But that decline comes after an increase of almost 23 percent between 2004 and 2011, driven by new aircraft ordered by airlines when demand was much stronger than it is now.

"We have 10 to 20 percent overcapacity in Europe, based on the number of seats offered," Philipp Goedeck, managing director and airlines expert at consultancy AlixPartners told Reuters.

Deutsche Lufthansa for instance added more than 50 percent capacity between 2007, the airline industry's last peak, and 2011, according to Reuters data, boosted by the acquisition of carriers including Brussels Airlines and Austrian Airlines.

The low-cost segment has been growing even faster, with Irish low-cost carrier Ryanair adding 72 percent more seats and British peer easyJet growing by 59 percent.

Expansion has slowed dramatically this year, with Lufthansa adding only 2.3 percent capacity in the half of 2012 and British Airways owner IAG 2.6 percent. EasyJet added 5.9 percent more seats in



Chief executive officer of Irish airline Ryanair Michael O'Leary leans on a model Ryanair airplane on Thursday during a press conference in Madrid.

the first nine months of its fiscal year.

Some airlines are now retiring older aircraft sooner than planned, delaying delivery of new planes or selling some smaller aircraft to shrink their fleet, but none want to be caught out with too little capacity when demand picks up again.

Australia's struggling flagship carrier Qantas Airways this week cancelled orders for 35 Boeing Dreamliner jets as part of a plan to cut costs at its loss-making international business.

The airline said it would eliminate loss-making routes and make cuts in jobs and spending, having posted its first annual loss in 17 years.

Most airlines saw profitability - in terms of revenue per seat offered - drop during the global financial crisis as demand for air travel fell faster than they could cut capacity. Since then they have regained ground, but there is concern a further deterioration of European economies will lead to a repeat.

SCRAPPING ROUTES

Spanish carrier Iberia's unit revenue, for instance, dropped to 5.05 euro cents in 2009 from 6.07 in 2007. IAG, the group created by the merger of Iberia and British Airways, had unit revenue of 6.72 euro cents in the first half of 2012.

Lufthansa still plans to grow this year but has cut its capacity expansion plans to 0.5 percent from 12 percent. Air France-KLM has also scaled down capacity growth, having already shrunk 20 percent before the crisis.

Many airlines are focusing on axing some of their less-profitable routes, especially short-haul services to secondary cities in Europe, hitting travellers who rely on regional airports - such as Britons with second homes on the continent.

Nicholas Blair, from Leicester in central England, bought a holiday home in the Loire region of western France five years ago, partly because Ryanair had

regular flights to nearby Nantes from his local airport. However, the Irish carrier stopped services to Nantes late last year.

"It used to take us four hours door to door flying from East Midlands airport, but now we either have to fly to Dublin and change flights or go to Limoges, hire a car and drive, which makes it so much more inconvenient and much more expensive. One of the reasons we bought the property was because of the convenient and cheap travel to it," said Blair.

In Britain, regional airports have also had European services cut by airlines because higher airport charges that came into force this year have made it unprofitable for budget carriers to offer short flights to neighbouring countries.

They have also been hit by the UK's air passenger duty and the winding down of low-cost carrier bmi after its parent was bought by IAG. It plans to scrap several Bmi routes - including to Amritsar in India and Casablanca in Morocco - after the summer, due to "poor revenue performance".

EasyJet recently announced plans to close its base at Madrid airport next year due to a combination of overcapacity, leading to low revenue per passenger, and rising airport charges.

Ryanair routinely justifies route changes with the airport charges and taxes it pays, but it has shifted capacity in recent months from Spain and increased it in faster-growing Poland.

"The major driver is the deals they get from airports, but the economic environment and the nature of the destinations (if it is a sun or city destination) also plays a role," said Merrion Capital analyst Gerard Moore.

Legacy carriers like BA make most of their profit on long-haul flights and need to offer domestic and European flights to bring passengers to their hubs to fill long-haul seats.

China aims to hike foreign stakes in brokerages

AFP, Shanghai

China's stock regulator on Friday proposed allowing foreign investors to hold stakes of up to 49 percent in joint venture securities firms, up from the current 33 percent.

The China Securities Regulatory Commission said the planned change followed a pledge made during key talks between China and the United States which were held in May, according to a statement.

At the annual Strategic and Economic Dialogue, US officials urged China to move forward with economic reforms, including allowing more foreign competition in its tightly guarded markets.

Under the proposal -- open to public comment for the next month -- joint venture securities firms can also expand their business scope after two years of operations, instead of the previous five, the statement said.

Beijing allows Sino-foreign joint venture brokerages to underwrite domestic stock and bond issues, offer brokerage services for bonds and do other business as approved by the regulator, according to existing rules.

But a US business group has previously called for greater reform, including equal treatment for all banks and securities houses operating in China.

In its annual policy "White Paper" for 2012, the American Chamber of Commerce in China urged Beijing to remove limits on foreign ownership in all financial services sectors.

The latest move by the securities regulator comes amid several other reforms aimed at boosting China's flagging stock market and improving the quality of listed companies.

The regulator has pushed listed firms to hike dividends and granted some foreign institutional investors greater access to the financial markets.

Chinese shares ended down nearly one percent on Friday at the lowest close in more than three years on worries over the slowing domestic economy.

Indian gold imports under threat from price rally

REUTERS, Hyderabad, India/London

Gold imports are set to fall further this year as global bullion prices are driven higher by surplus cash in the market and by a weaker dollar, delegates at a major conference on the metal said on Friday.

As it is the biggest consumer of bullion, India's demand has traditionally been a key determinant of gold prices, although it has been overtaken in recent years by the weight of Western investors seeking sanctuary from the global financial crisis.

Speculative and investment demand has led prices to more than double since 2008, curbing purchases from price-sensitive Indian buyers. India's gold imports in the second quarter plunged more than 56 percent on the year to 131 tonnes, according to industry body the World Gold Council.

"For the gold price (rally) to continue, someone else would have to step in to replace India," said one London-based bullion banker attending the International Gold Convention in Hyderabad.

"Investors in America or in Europe might step in and make up the difference, but it (India's falling consumption) is something that will have a negative impact on the gold price."

Gold prices, currently near \$1,670 an ounce, are set to end Friday with their biggest weekly rise since early June, up 3 percent, after minutes of a Federal Reserve meeting showed the US central bank is set to deliver another round of monetary stimulus "fairly soon" unless the country's economy improves considerably.

"Gold is very sensitive to statements from the central banks, largely from the US Federal Reserve and European Central Bank," said Sunil Kashyap, managing director and head of Asia Pacific and Middle East at ScotiaMocatta.

Kashyap pointed to a perception that gold is a hedge against the inflation that could result from looser monetary policy.

"The logic is, if there is more money in the system, there is potential for inflation in future."

Philip Klapwijk, global head of analytics of the London-based consultancy GFMS, said gold prices could peak at \$1,800-\$1,850 an ounce by the end of 2012 as demand in China, the second largest consumer, continued to increase.

"We expect prices to continue to rise in the next few months," he said. "If you have China further cutting interest rates to stimulate the economy, then Chinese investors may buy more gold bars."

Kashyap said prices of the yellow metal were likely to consolidate in the range of \$1,640-\$1,700 an ounce until October, with an upside bias. He said the gold market will also look at demand from Diwali, India's peak festival season.

Government increased import duty for gold earlier in the year, from 1 percent to 2 percent, and then to 4 percent. One bullion banker said delegates at the confer-



Indian actress Madhuri Dixit Nene walks the ramp during the grand finale of India International Jewellery Week 2012 (IIJW) in Mumbai on Thursday.

ence were speculating that this may be raised further to at least 7 percent.

"They want to encourage more people to spend money on Indian goods and consume things in India that will help the economy, rather than have all this money tied up in gold bars and gold jewellery," he said. "The government sees gold as a dead asset."

Local dealers reported an increase in the amount of gold flowing into India unofficially, and scrap sales are on the rise as high rupee prices and a slowing economy result in a mass selling of jewellery in India, he said.

These factors may result in a repeat of the strike action carried out by jewellers in March, the banker added, particularly if the government further increases duties.

Silver prices could be at \$35 an ounce by the end of the year, up 15 percent from the current levels, Klapwijk said, while prices of platinum, which has been a "star performer," are likely to touch \$1,700 an ounce compared with about \$1,550 now.

Facebook envisions swanky new digs as shares sink

REUTERS, San Francisco

Facebook Inc on Friday unveiled plans for a massive new campus annex in Menlo Park to be designed by Frank Gehry, the renowned architect who has won plaudits for metal-sheathed works like the Guggenheim Museum in Bilbao, Spain, and the Walt Disney Concert Hall in Los Angeles.

Plans for the site, which Facebook will submit to local city officials for approval on Monday, depict Gehry's vision of a single-story, hangar-like building covering 420,000 square feet, or roughly the area of eight football fields combined under one roof.

The project will likely amount to a significant expense for a newly public company that's been closely scrutinised by investors since its disappointing May debut. Facebook shares have hovered at nearly half its \$38 IPO price in recent weeks on concerns about whether it can sustain revenue growth.

Facebook declined to reveal the development's projected cost, saying only that it would fall in line with other Silicon Valley office buildings of a similar size.

Facebook intends to shift thousands of software engineers, designers and product executives who work directly on the world's No 1 social network to the new building, which is on the opposite side of a highway from the company's existing campus and near a rugged stretch of the San Francisco Bay waterfront.

Merkel gives Greece grounds for euro hope

AFP, Berlin

Chancellor Angela Merkel offered a ray of hope to Greece Friday, stressing that she wanted the debt-burdened country to stay in the eurozone and pledging German help after crisis talks with the Greek prime minister.

"I want to say very clearly ... that Greece is part of the eurozone and I want Greece to remain part of the eurozone. This guides all our discussions," Merkel said at a joint news conference with Antonis Samaras.

"I am deeply convinced that the new Greek government, under the leadership of Prime Minister Samaras, is doing everything to solve the problems that Greece is facing."

"We know that this requires great sacrifices ... and Germany has always said that it will support Greece in this," added the chancellor.

For his part, Samaras pledged to stick to all of Greece's promises to its

international creditors and said that he was not asking for more bailout money, but just "breathing space" to implement the necessary spending cuts and reforms.

"I am sure our plan will soon bear fruit. We will hit our targets," vowed Samaras, speaking through an interpreter, before adding: "Actions speak louder than words."

"We are at the beginning of a new phase in relations between our two countries," said the Greek prime minister, as ties had become strained between Berlin and Athens as a result of the near three-year eurozone debt crisis.

Samaras was kicking off a two-day trip to northern Europe which will take him on Saturday to Paris for talks with French President Francois Hollande.

He is reportedly drumming up support with the leaders of the eurozone's two top economies for more time to meet a deadline to cut billions of euros (dollars) from his budget.

Asia Commercial Bank (ACB)'s staff prepare dong bank notes for a customer withdrawing cash at an outlet in Hanoi on Friday. Vietnam's stockmarkets have lost more than \$5 billion in value this week since the arrest of two top bankers, as experts warned the scandal could tip the fragile banking sector into full-blown crisis.

AFP

