

## FARNBOROUGH DEALS GIVE HOPE TO AVIATION INDUSTRY

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FARNBOROUGH, England – There was an even louder sound than the roar of jet engines during the daily flying display at the Farnborough International Airshow this week – a collective sigh of relief from the civil aviation industry.

New plane orders of almost \$29 billion suggest the skies ahead are clearing after a deep two-year downturn, although the defense sector is still scarred by savage government budget cuts.

“This airshow ... confirms the recovery trend we have been observing for a couple of months in air traffic globally has endured,” Tom Enders, CEO and President of European plane maker Airbus, said on Thursday, adding that his company planned to set a new sales target for this year.

New orders at the aviation industry’s premier event didn’t come close to the record-breaking \$88.7 billion worth of deals announced at Farnborough in 2008 before the global recession hit demand for both business and leisure air travel.

But they easily surpassed orders of just \$7 billion at Farnborough’s sister show at Le Bourget, near Paris – the pair alternate years – last year.

“I’m encouraged by the fact that the economies around the world are moving in a positive direction now,” Bombardier Commercial Aircraft President Gary Scott told the AP on Thursday, the last major business day of the show. “I think we all know that Europe is struggling maybe a bit more than the U.S. and both are struggling relative to the rest of the world but it’s all moving in the right direction.”

The International Air Transport Association recently forecast that the global industry would make a small profit of \$2.5 billion this year, after a huge loss of \$9.4 billion in 2009 – a marked improvement from its predictions late last year of more losses this year.

Reports from U.S. airlines for the second quarter this week have shown their strongest quarterly results in three years. After huge losses during the recession, Delta, United and US Airways combined to post profits of \$1 billion.

But the rebound came with brutal cost-cutting that included the elimination of hundreds of flights each day by the major carriers. That reduced the supply of seats and drove up fares.

Analysts suggest that the aviation industry rebound will be to a “new normal,” where demand will remain weak, prompting likely mergers and acquisitions and a greater focus on streamlining supply and engineering costs.

At Farnborough, the potential changing face of the aviation industry was reflected in the fact that two plane leasing companies - both created just months ago - were among the biggest buyers.

Air Lease Corp. bought 54 Boeing 737-8s worth \$4.1 billion according to list prices 51 A-320 family jets worth \$4.4 billion and 10 ATR 72-600 turboprops at \$221 million. GE Capital Aviation Services bought 60 A-320s worth \$4.9 billion and 40 Boeing 737-8s worth \$3 billion. Aircraft makers often give discounts to list prices.

Max Sukkhasantikul, Frost & Sullivan’s commercial aviation consulting analyst, said that the deals indicated that many airlines still don’t have the cash flow or credit available to finance their own purchases.

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"It certainly shows that airlines are moving increasingly towards the leasing model as they try to defer their assets and focus on their core business, which is transferring passengers from A to B," Sukkhasantikul said.

Among airline buyers at the show were Qatar, Emirates, Qantas, Aeroflot, Garuda Indonesia and Flybe. EADS-based Airbus pipped Chicago-based Boeing to the post in the traditional race for orders between the two companies at major air shows. Airbus' deals totaled \$13.2 billion, while Boeing's commitments came in at \$12.8 billion. Boeing also signed an order with American Airlines away from the show in Seattle for 35 NextGen 737-800s, worth around \$2.6 billion.

Boeing also stole the limelight early at Farnborough with the international debut of its long overdue 787 jetliner, although it admitted that delivery of the first aircraft to Japan's ANA may slip into the first few weeks of next year instead of late this year.

Boeing CEO Jim McNerney said the company expects to regain market leadership over Airbus within the next one to two years, based on deliveries.

Both companies are facing challenges to redesign existing aircraft to meet competition from smaller manufacturers from Russia, China, Canada and Brazil. Boeing is considering new designs for the 777 and 737, but does not want new programs at the same time.

Brazil's Embraer and Russia's Sukhoi won the race for small regional jet orders, leaving Canada's Bombardier trailing and without any new orders for its much-touted C-series single-aisle jetliner.

The short-haul planes offered by the smaller manufacturers are being snapped up to meet soaring demand for air travel across emerging markets \_ feeding a rise in low-cost airline start-ups across Asia and Latin America \_ before an anticipated later upturn in the United States and Europe.

The renewed cautious optimism in commercial aviation, however, could not dispel the bad news from the defense industry, where governments are cutting budgets after spending billions bailing the global economy. Cuts to Western military budgets have been the talk of Farnborough.

In the U.S., the world's biggest single defense market, the Pentagon is looking to trim some \$100 billion from personnel and procurement costs over the next five years. The U.K., Europe's biggest defense market, is considering defense cuts of up to 20 percent.

Italian Minister Ignazio La Russa said his country will reduce its order of Eurofighter jets by 25 planes to save euro2 billion (\$2.57 billion), while British Defense Secretary Liam Fox told the industry to lower costs or see programs slashed.

The Eurofighter is built by a consortium of European military manufacturers, including Britain's BAE Systems PLC, the German-French EADS NV and Italy's Finmeccanica SpA.

Italy had originally ordered 121 jets and the 25 it wants to cancel come from the last batch of planes, for which contracts have not been finalized. Eurofighter spokesman Marco Valerio Bonelli declined to comment on whether Germany, Britain and Spain could reduce last batch orders as well. Airbus, meanwhile, sought to gloss over problems that have dogged its A400M military transport plane. The hulking gray airlifter is one of two star performers – the other being the also delayed Boeing 787 – of the flying displays at Farnborough.

But the plane is still around four years late and euro3.5 billion over budget, and despite reaching an agreement in principle earlier this year on how to share the cost overruns, the seven customer nations have still to sign the final agreement.

The show continues runs through Sunday with public open days at an airfield about 30 miles (50 kilometers) west of central London.

From the desk of Jane Wardell and Andrew Khouri