

Global Strategy Summit 2009



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Crisis and Opportunities in the Air Transport Sector

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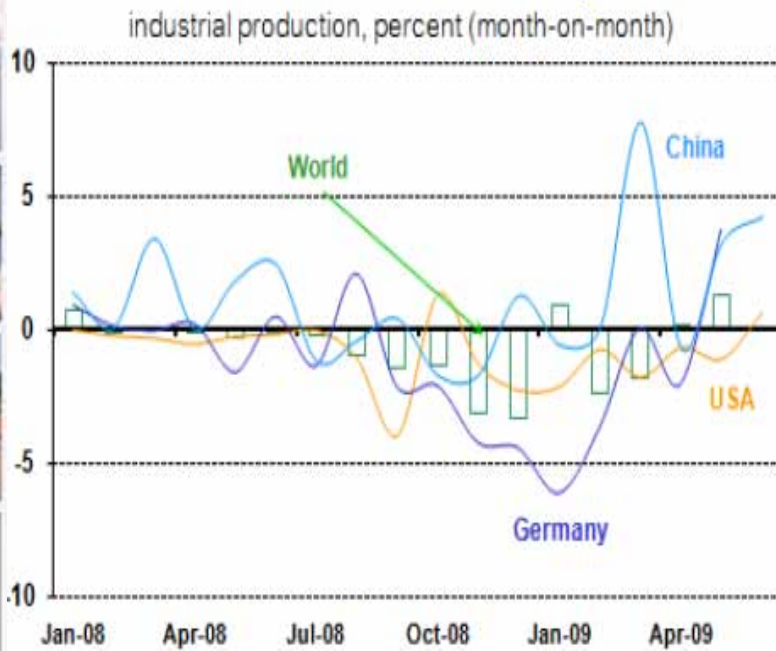
The World Bank

Beijing, China - 14 September 2009



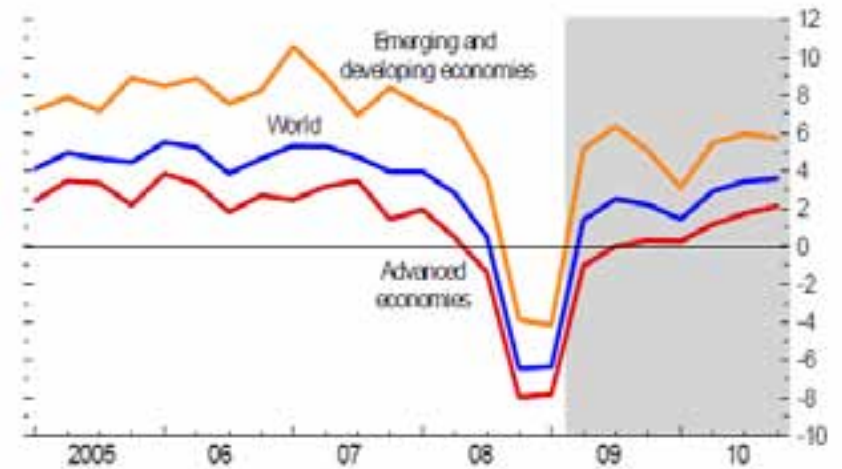
.....Economic Crisis

China at the forefront of the global economic recovery



Source: Thomson/Datastream, Haver, DECPG.

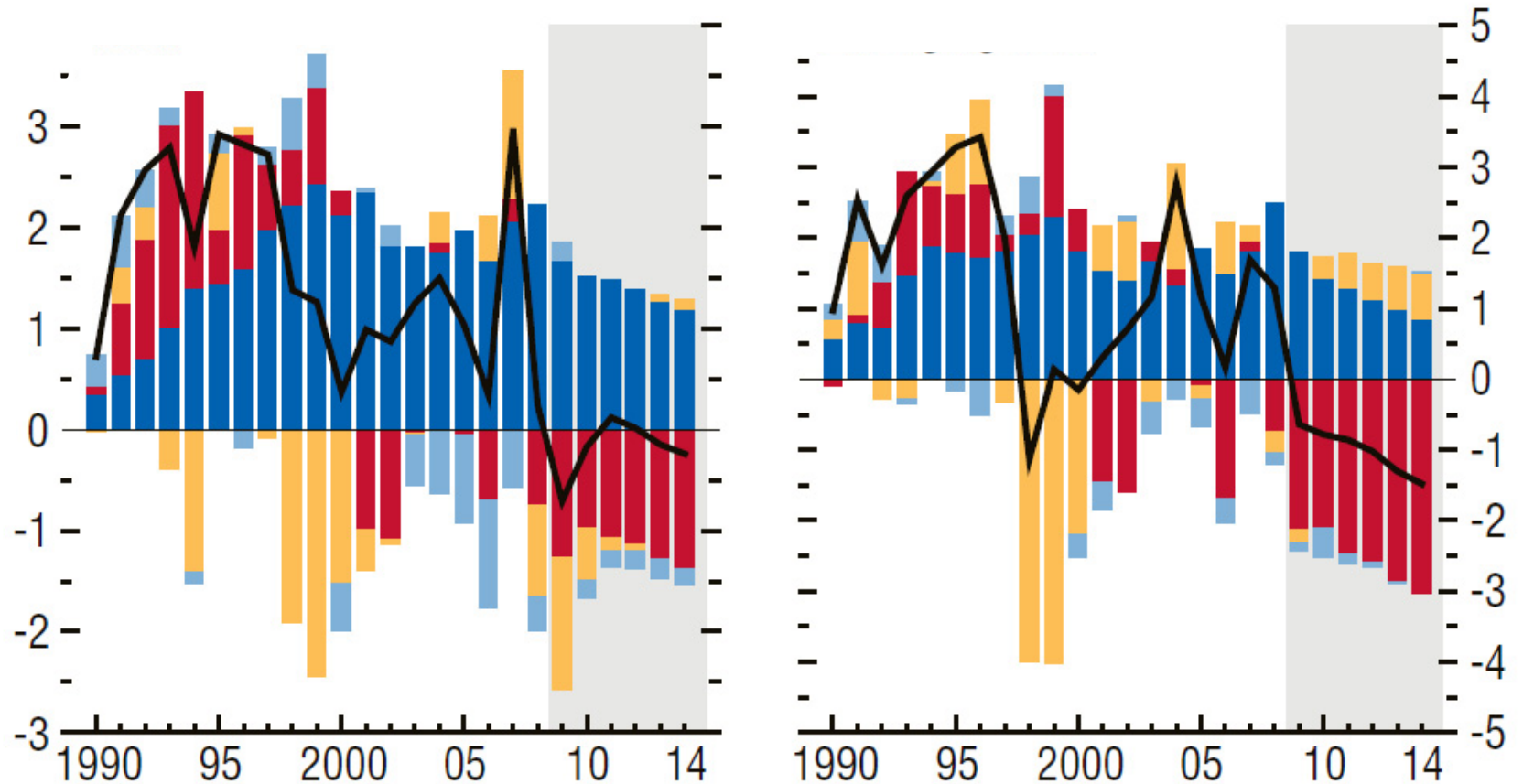
Figure 1. Global GDP Growth (Percent; quarter-over-quarter, annualized)



Source: IMF staff estimates.

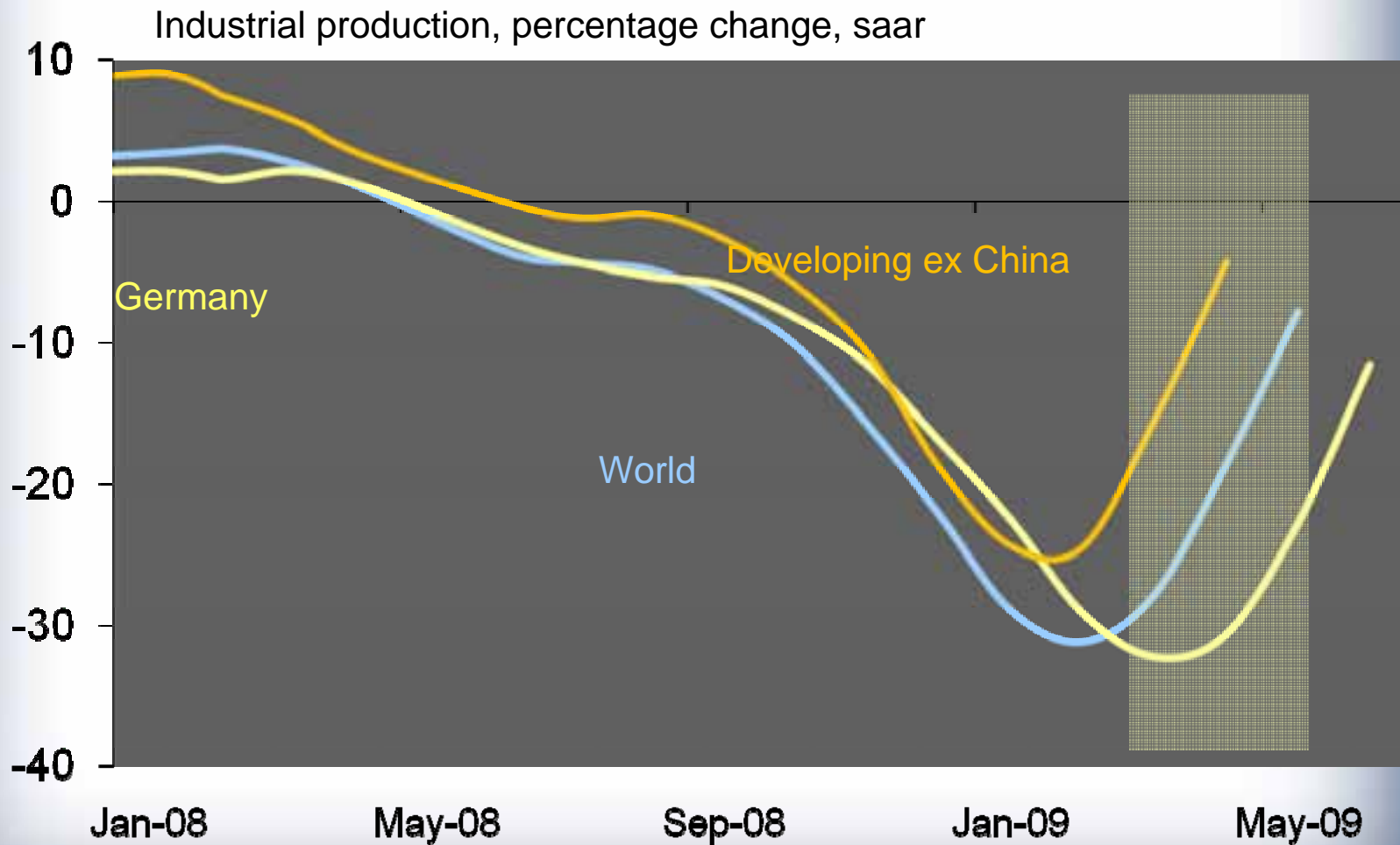
.....and the impacts are expected to linger

Net Capital Flows to Developing Countries (% of GDP)



Private direct investment
Other private capital flows
Private portfolio flows
Official flows
Total

Developing countries leading the recovery?

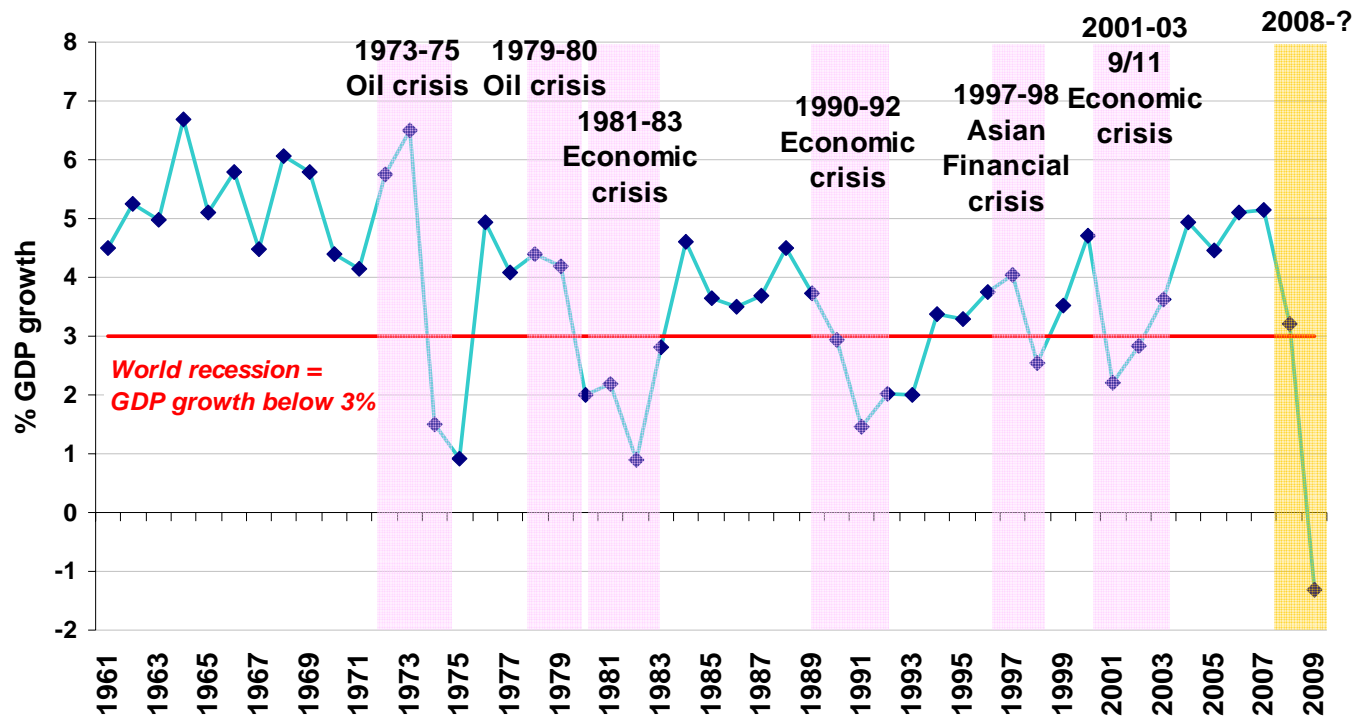


Source: World Bank, DEC Prospects Group.

The worst crisis in air transportation ...

A consequence of the worst economic crisis

Timeline of Economic Crises since 1961



Source: AEA research, World Bank, IMF



The worst crisis in air transportation

A consequence of the worst economic crisis

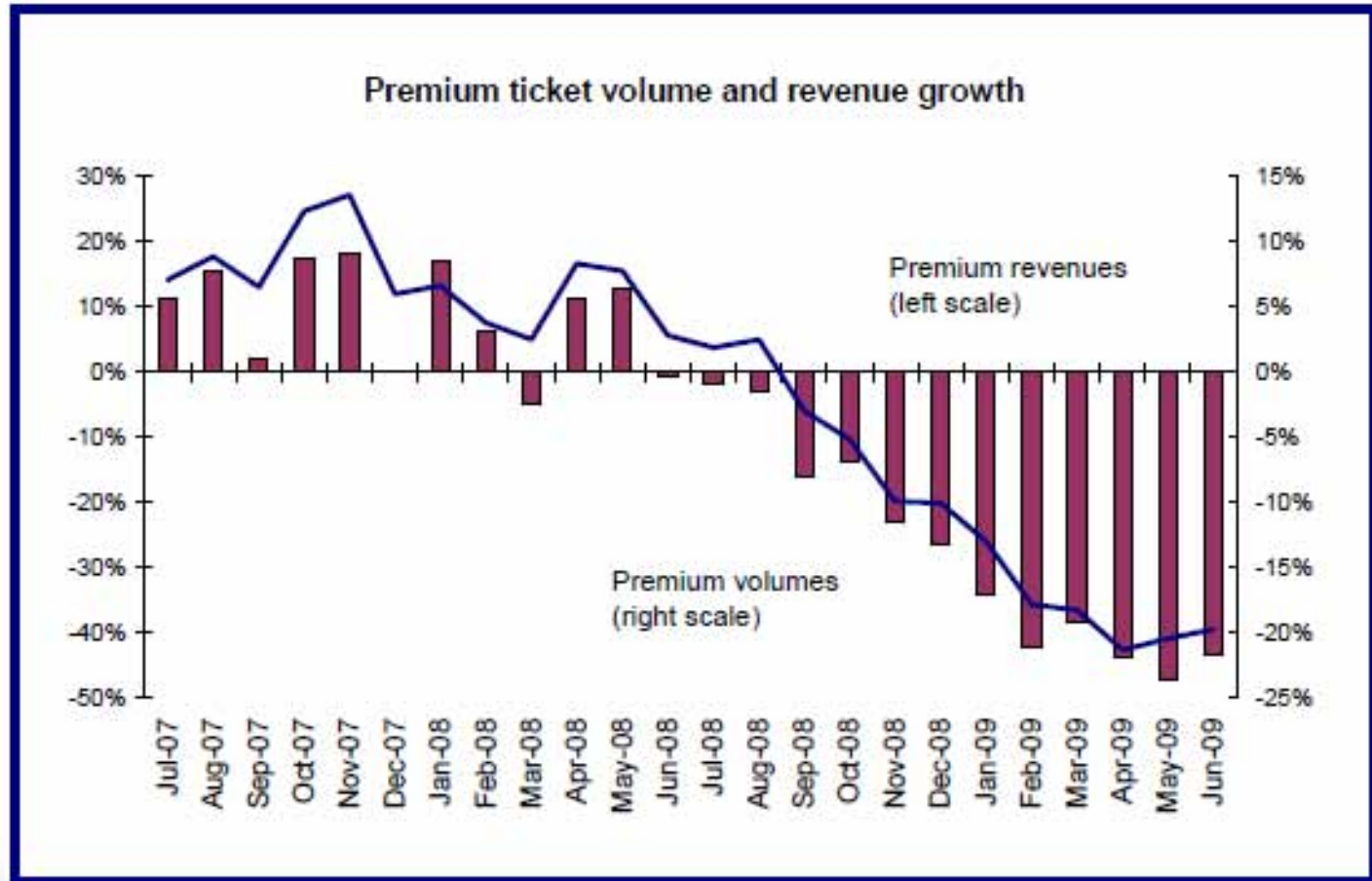
- Current state of the air transport sector:
 - At end-July 2009, freight volumes are down 19% and passenger travel down by 7% compared to 2008
 - Slight improvement since July, with 3% growth over June after adjustment for seasonal factors
 - Parked idle fleet up to 2,860 airliners (13.1% of total fleet) up by 30% over the past 12 months
 - IATA estimates airlines will lose \$9 billion in 2009 after \$8.5 billion in 2008

But also ...The worst crisis in Shipping transportation

A consequence of the worst economic crisis

- Container Port Throughput decline for half-year 2009:
-15% (Rotterdam), -18% (Singapore), -27% (Long Beach)
- In June 2009 1,400 vessels (9% of world shipping fleet) have been laid up (12% of total containerships fleet)
- The world order book represented 49% of the fleet in Feb 2009; up to 45% of newbuildings are expected to be delayed or cancelled over the next two years
- In May 2008 the price of a new Cape size bulk carrier was about \$150 million, in May 2009 it is down to \$60 million
- Charter rates for 3,000/5,000 TEU vessels:
 - 2008 average: \$25,000 per day
 - June 2009: \$5,250 per day
- Anticipated 2009 losses for all container shipping lines: \$10 billion
- Supply-demand balance in container shipping not expected before 2014

The worst crisis in air transportation ... Airline revenue collapsed

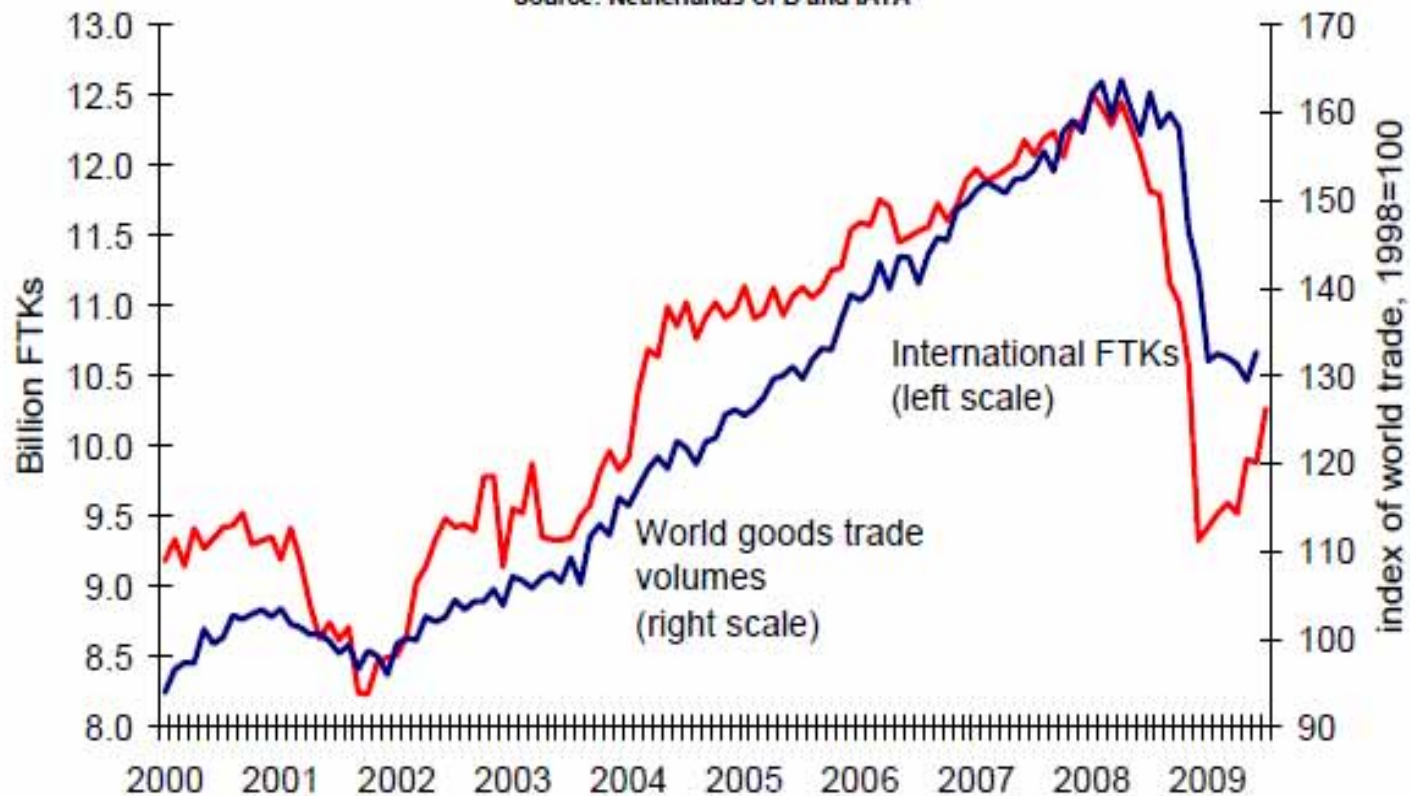


The worst crisis in air transportation ...

Severe reduction in global trade and air freight

World trade in goods and air FTKs

Source: Netherlands CFB and IATA



The worst crisis in air transportation ...

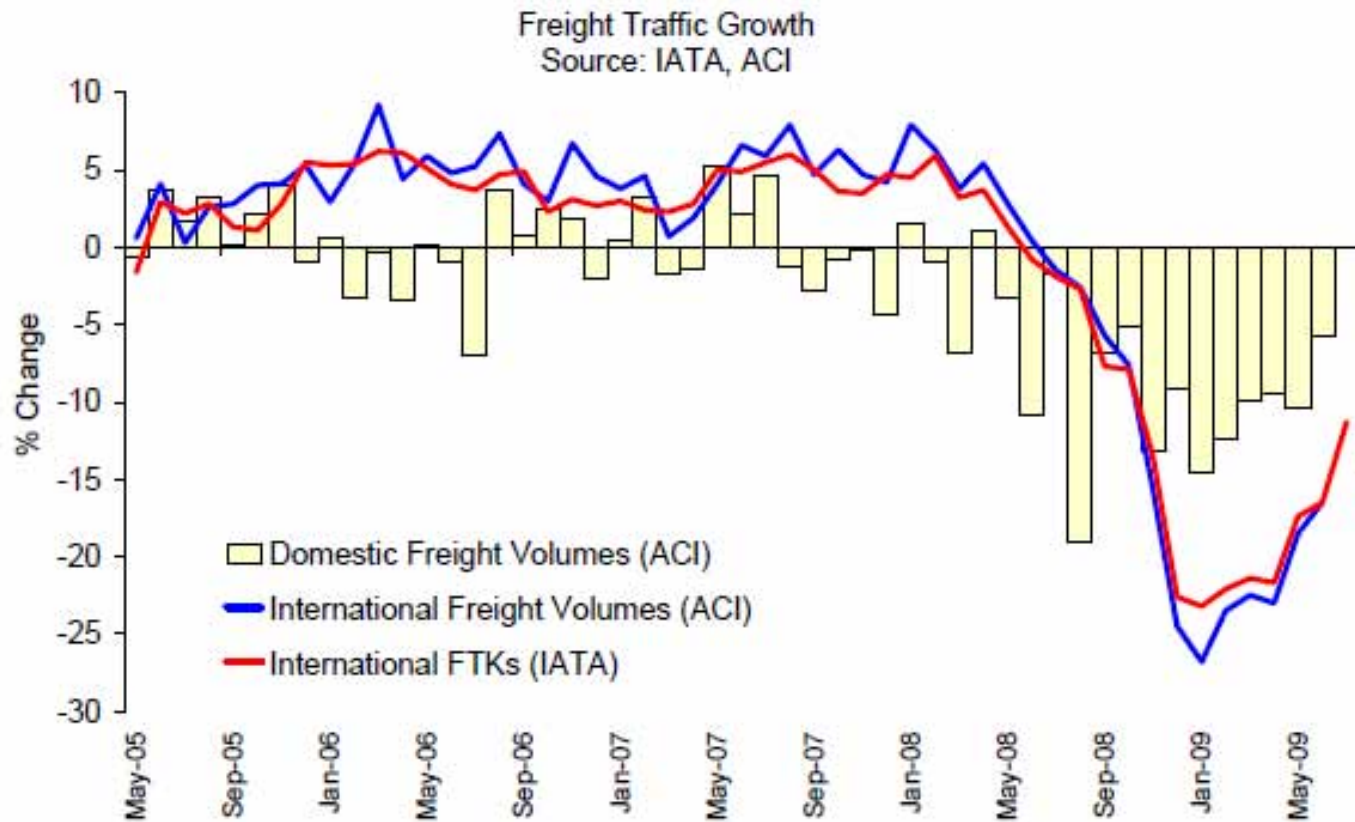
Dramatic reduction in air freight in emerging markets

Freight Traffic Growth by O-D Region - June 2009
Source: ACI



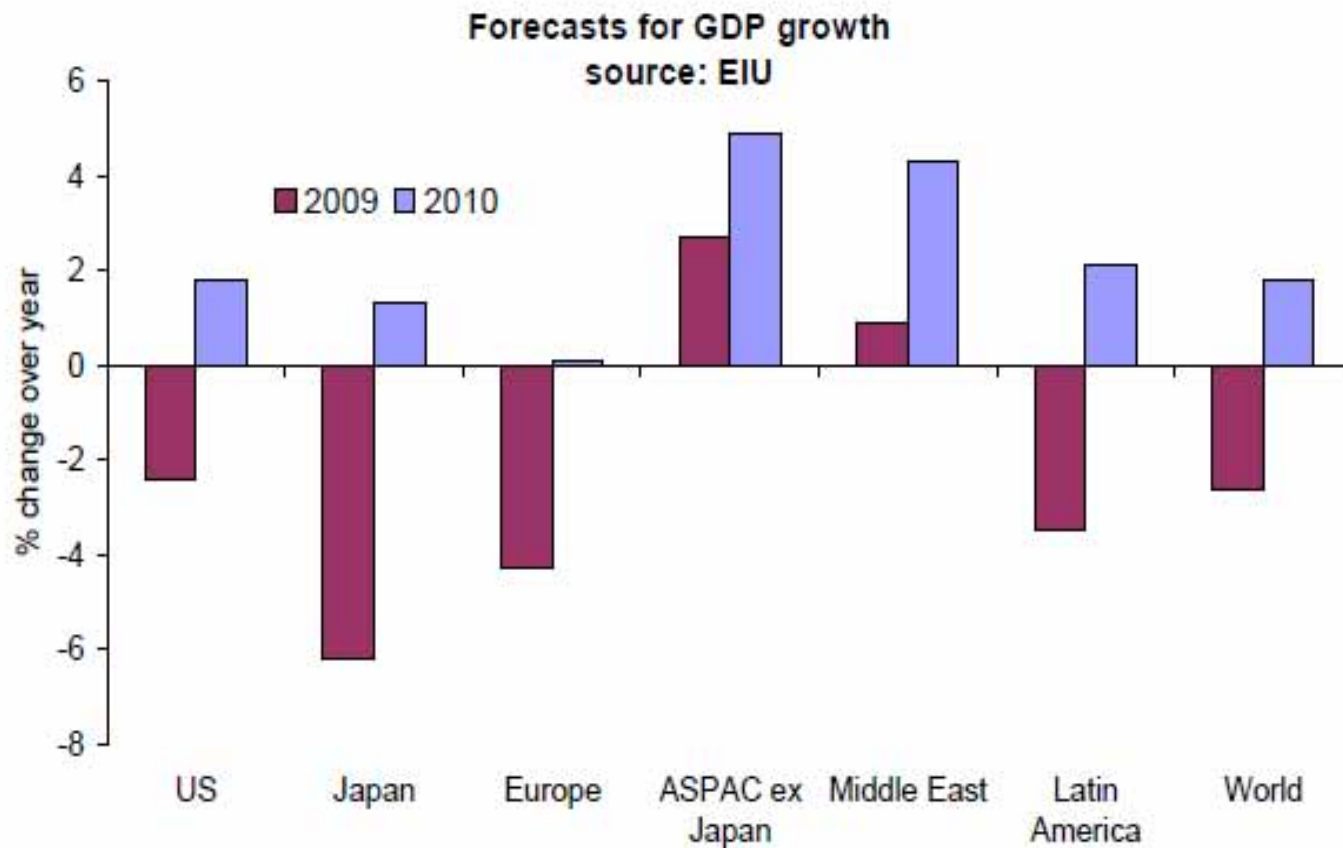
The worst crisis in air transportation ...

The declined has slowed, but still no growth



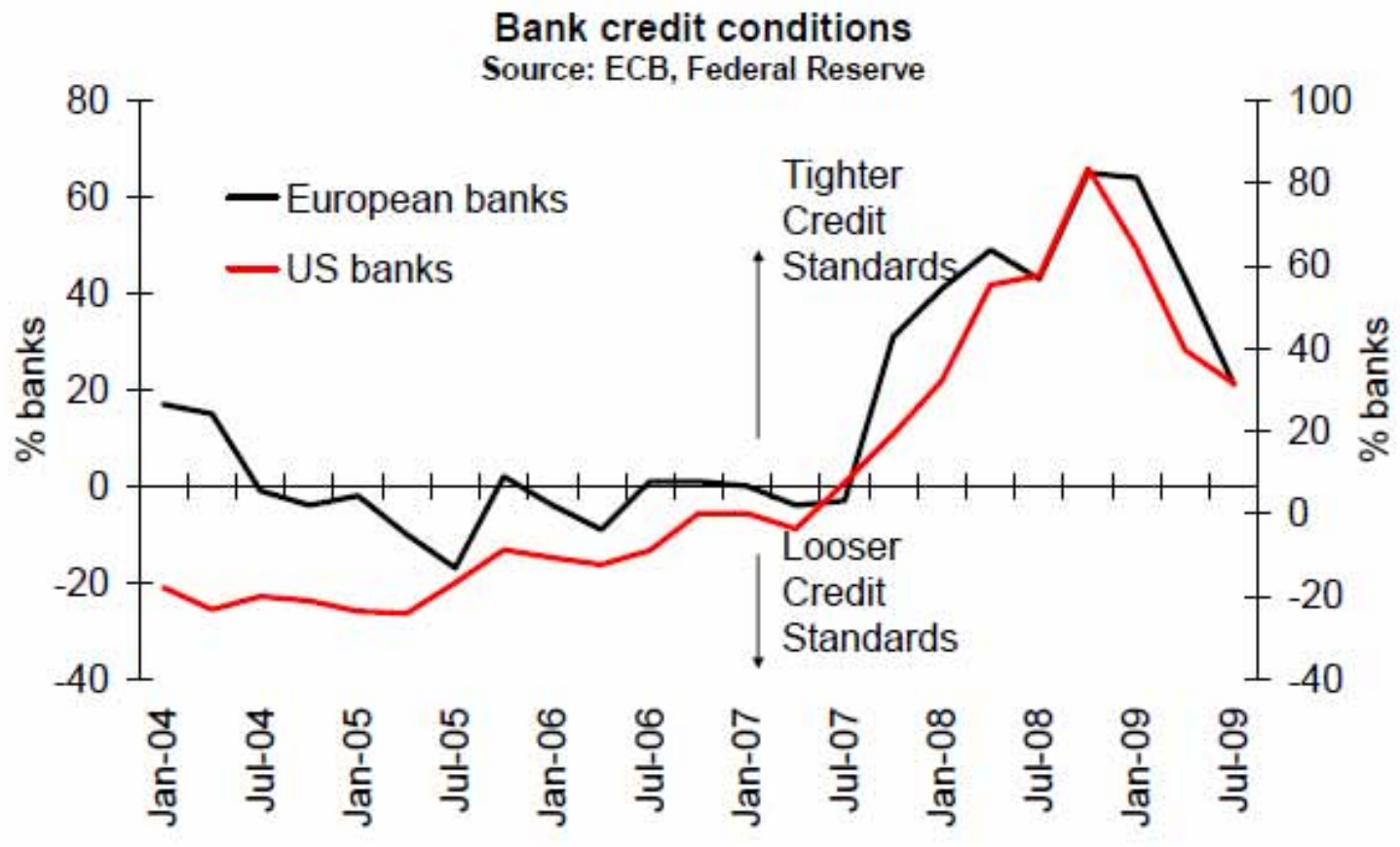
The worst crisis in air transportation ...

There is some light at the end of the tunnel forecasted,
but



Post crisis challenge: Finance

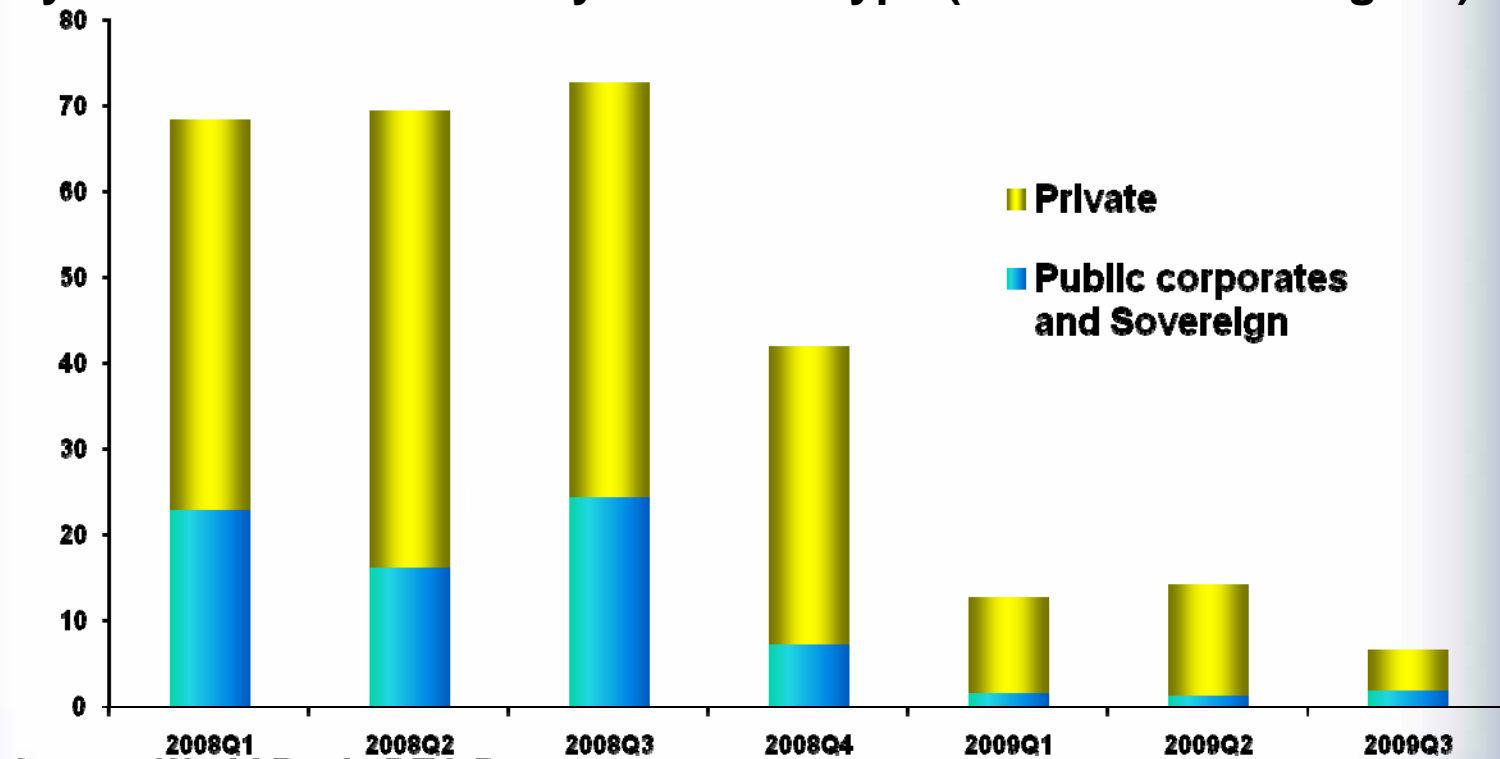
Will financing be available?



Post crisis challenge: Finance

Will financing be available?

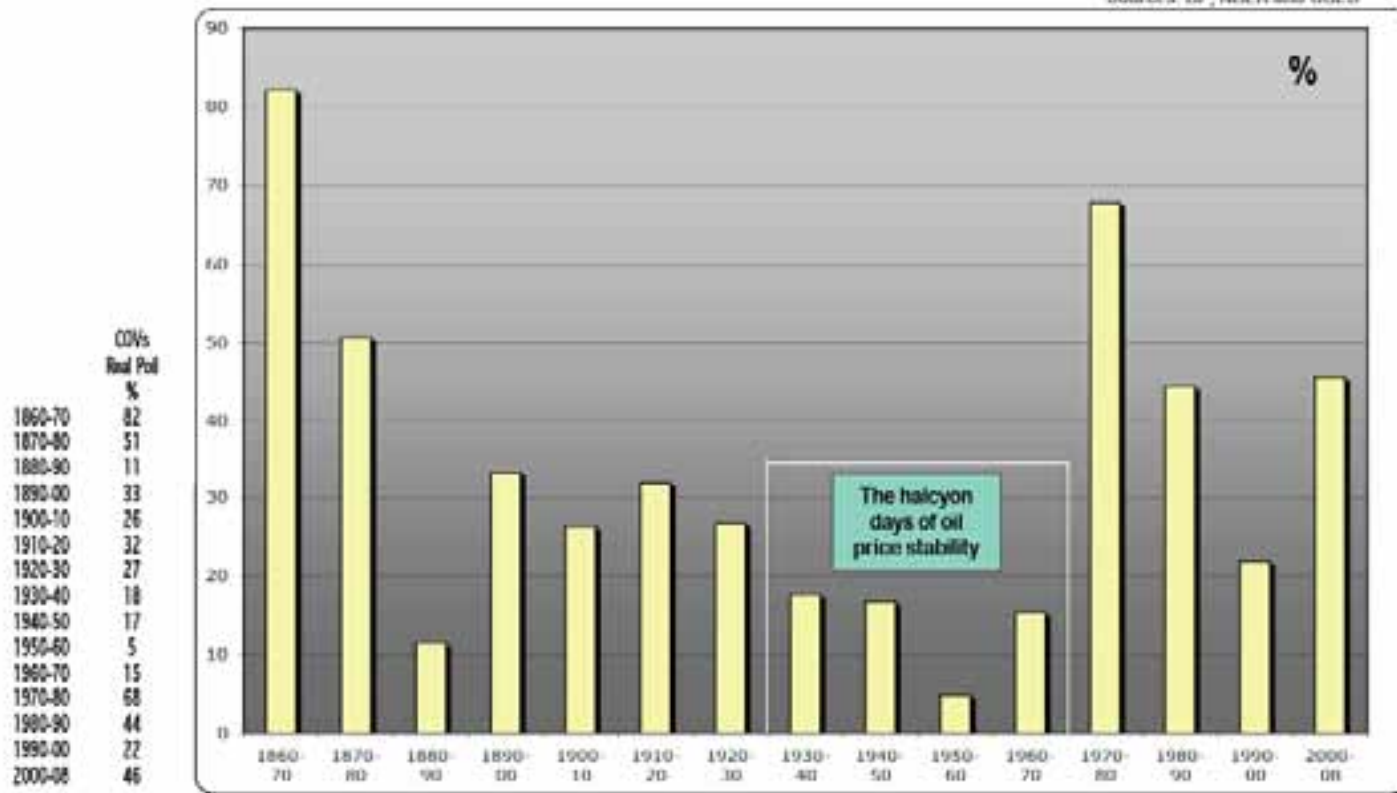
Syndicated bank loans by borrower type (2009 Q3 as of Aug. 25)



Source: World Bank, DEC Prospects Group

Post crisis challenge: Oil Surge in oil price volatility

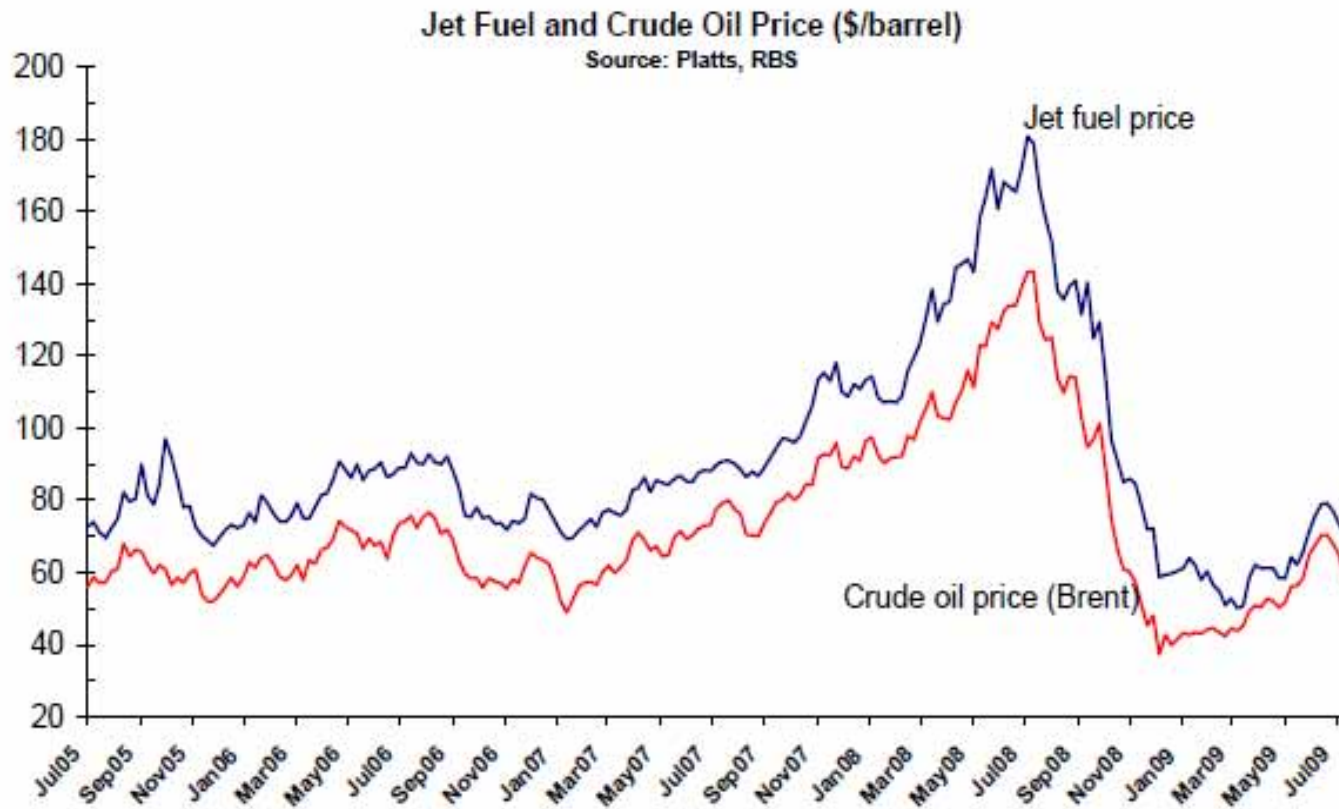
SOURCE: BP, NIGP AND IAGC



Coefficients of variation (COVs, i.e. the ratio of the standard deviation to the mean, expressed in percentage terms) by decade provide a clear indication of the inflation-adjusted oil price's changing volatility over time. The four decades from 1930 to 1970 formed a long period of relative price stability. Volatility has surged in the period since 2000.

Post crisis challenge: Oil

Will jet fuel and crude oil surge again?









Post crisis challenge: Safety

High standards, but not everywhere

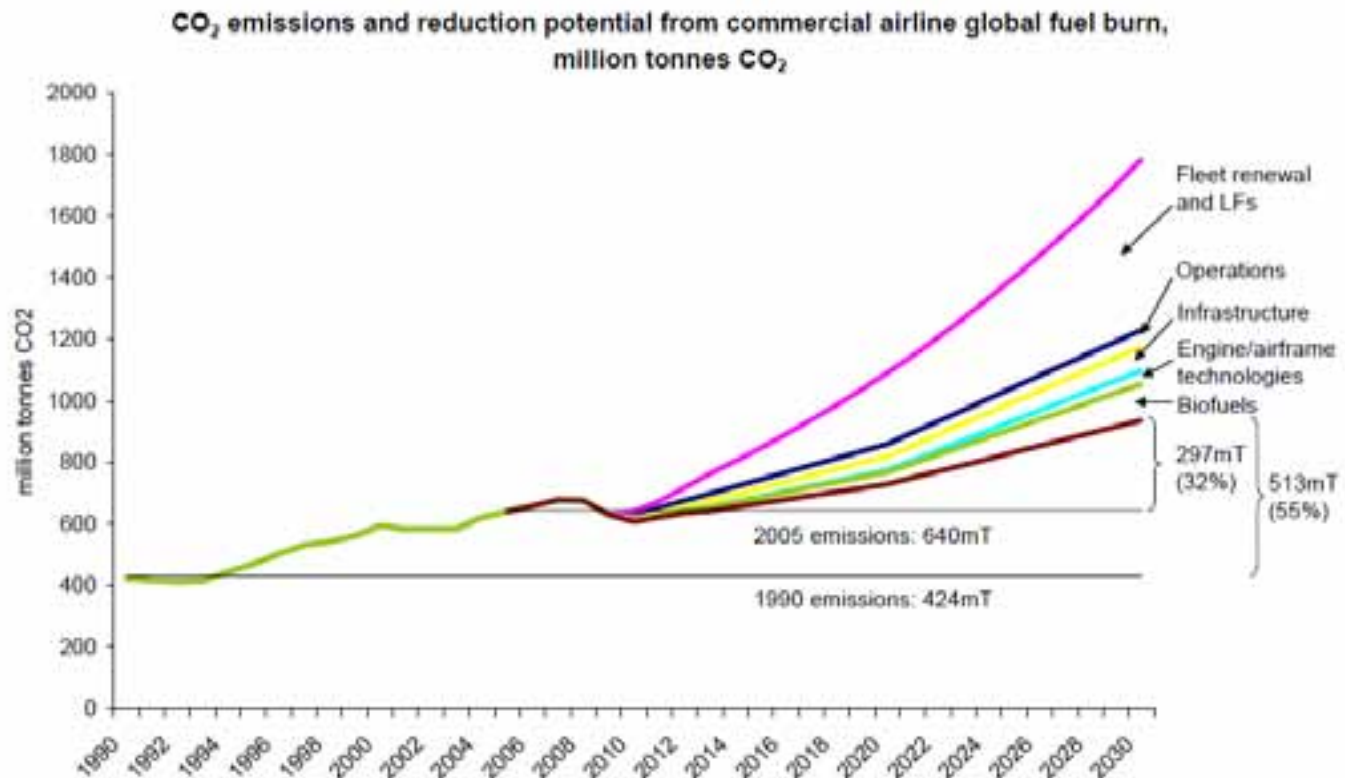
Regional Accident Rates (Western-Built Jet hull losses per million sectors flow)



	 Jet	 Turboprop	Western-built Jet Hull Loss Rate	 Fatal Accidents	 Fatalities
2008	66	43	0.81	23	502
2007	57	43	0.75	20	692

Challenge: Climate Change and Air Transport

Can Carbon Neutral Growth be achieved in 10 years?





Challenges: The Example of China

The five challenges of a growing aviation sector

1. Efficient air traffic management
 - Infrastructure investments
2. Environmental sustainability
 - Climate Change
3. Cost-efficient airport infrastructure
 - New airports and modernization of existing ones
 - Airport charges must be cost-related
4. Internal cost control
 - Chinese aviation sector losses were 28 billion yuan or USD 4.09 in 2008, biggest loss in 30 years
5. Commercial freedoms
 - Liberalization of bilateral air service agreements



Opportunities: Consolidation and Liberalization

Are governments willing to further open-up?

■ Open Skies

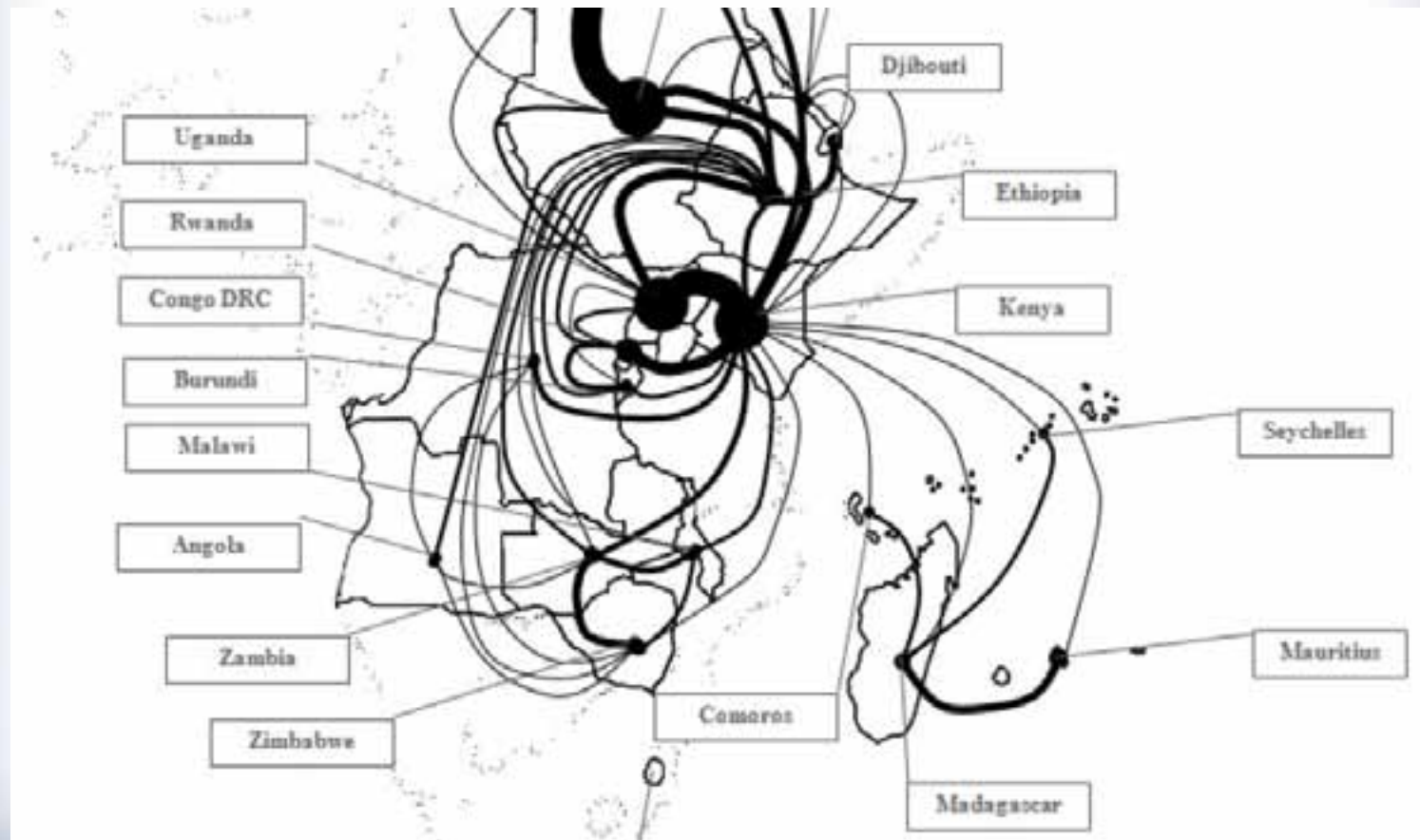
- Great progress in Europe and between USA and Europe
- Slow implementation in Africa or Asia
- Many governments continue to maintain non viable flag carriers

■ Ownership liberalization

- Consolidation of smaller national carriers require ownership liberalization
- Regional organizations play a significant role (e.g. EU), but in many emerging markets they do little progress (e.g. Africa Union, ASEAN)

Opportunities: Consolidation and Liberalization

One good example – Ethiopian Airlines



World Bank Air Transport Focus The current WBG Portfolio

The WBG FY08 Air Transport Portfolio includes:

- 28 major projects in all regions of IBRD and IDA
- 20 active IFC investments and several advisory mandates
- total active portfolio financed by loans or grants of IBRD and IDA increased to US\$ 530.4 million, a 15.4% increase from FY07
- IFC has nearly tripled its air transport investment portfolio to US\$ 841 million
- Overall, the WBG air transport portfolio volume grew by 5.5%, to US\$ 1.37 billion.

World Bank Air Transport Focus

The current WBG Portfolio

Loans, Credits & Commitments	IBRD			IDA			IFC			TOTAL		
	FY08	FY07	change	FY08	FY07	change	FY08	FY07	change	FY08	FY07	change
(in millions USD)												
WB Group Active Portfolio	57,148	54,015	5.8%	48,145	43,776	10.0%	32,200	25,411	26.7%	137,492	123,202	11.6%
WB Group Transport Portfolio	15,409	15,616	-1.3%	7,741	6,915	11.9%	1,740	1,310	32.8%	24,889	23,841	4.4%
% of Active Portfolio	27.0%	28.9%	-1.9%	16.1%	15.8%	0.3%	5.4%	5.2%	0.2%	18.1%	19.4%	-1.2%
Air Transport Commitments & Outstanding Loans	372.1	334.2	11%	158.3	125.1	26.4%	841.5	295.0	185%	1,371.9	754.4	82%
% of Transport Portfolio	2.4%	2.1%		2.0%	1.8%		48.4%	22.5%		5.5%	3.2%	



World Bank Air Transport Focus Projects and Research

The WGB Air Transport Projects include:

- Air Transport Policy advise
- Sector Analysis and Master Planning
- Capacity Building for Regulatory Oversight
- Infrastructure Investments (airports, ATC), and
- Air Carrier Restructuring or Privatization



World Bank Air Transport Focus Projects and Research

The WGB Air Transport Research Projects include:

- liberalization of air transport in Africa
- evaluation of new technologies (ADS-B)
- air transport and energy
- measures in climate change for aviation, and
- Air internal air travel safety advisory service



**Thank you
.....And Have a Safe Flight**