



JLT Aerospace



PLANE TALKING

JULY AUGUST 2007

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Editorial

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Comment

Mood Swing

The summer months see the airline insurance market passing through a relatively quiet period. The real renewal season is still a few months away.

The serenity however, has been disturbed by some unpleasant losses and on 20th August was further accentuated by an incident that could have been much worse when a China Airlines Boeing 737 exploded on the ground at Japan's Naha Airport. It seems that luck played a major part in allowing all 157 passengers plus eight crew members to escape from what started out as a precautionary evacuation and ended in the catastrophic and spectacular destruction of the aircraft.

Whatever is proved to be the cause of this incident, the widely viewed snapshot of a commercial airliner being totally destroyed so suddenly as the last passengers fled on to the runway, is a sobering one.

While it may not seem significant the recent near miss on the ground at Los Angeles Airport involved two passenger jets, one with 150 passengers on board and the other 132. This incident should be allowed the appropriate respect when one considers that it was a matter of only 15 metres between each aircraft as one halted at the last minute before entering the path of the other taking off.

In 2007 we have been watching the margin between premium levels and claims levels narrowing and while this was steady during the first half of the year, during the last two months we have witnessed a sudden increase in this narrowing.

The balance between what has prevailed over the last few years in what will reflectively be described as a soft market and what inevitably must follow is now entering a critical phase.

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July Renewals

July has now become the busiest month for airline renewals so far in 2007 with eleven sizeable operators forming part of our statistics. Since last year we have lost one airline and gained two more, with Turkish Airlines (THY) now being placed under the Lufthansa umbrella and China Airlines and Far Eastern Air Transport both from Taiwan moving their renewals forward from October.

These movements provide approximately the same level of premium on a year-to-year basis and should not distort greatly the "average" movements of exposures and premiums.

Head and shoulders above the rest are two of the world's largest airlines by fleet value, American Airlines and Federal Express. American has a fleet valued in excess of US\$20 billion slightly down on last year and will carry over 120 million passengers during the next 12 months. Federal Express is the largest airline of its type concentrating on cargo and providing an overnight courier service and has shown substantial fleet growth now in excess of US\$12.5 billion.

Other large flag carriers include Aeroflot, Air India, China Airlines and Middle East Airlines.

Exposures continue to rise with fleet values for the month increasing by 7%, revenue passenger kilometres by 1% and passenger numbers by 5%. The all important premium figure showed an overall reduction of about 20%.

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August Renewals

From the hive of activity in July, August suddenly drops away and we enter a form of summer recess where the airline market relaxes with a modest collection of just four renewals included in our statistics.

Monarch Airlines the UK based operator is the largest by fleet value at US\$1.2 billion and carries in excess of 5.5 million passengers annually. Pegasus from Turkey is next in size followed by Gemini Air Cargo from the USA and finally Bangladesh Biman.

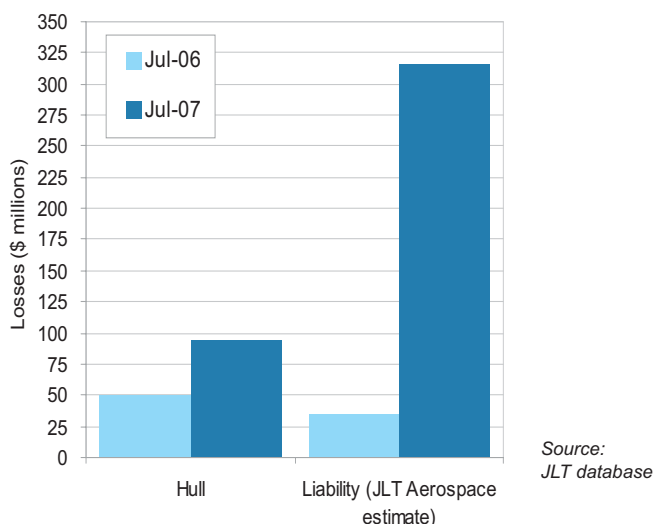
The premium generated should be modest and have little bearing on the current market trends.

Loss Analysis

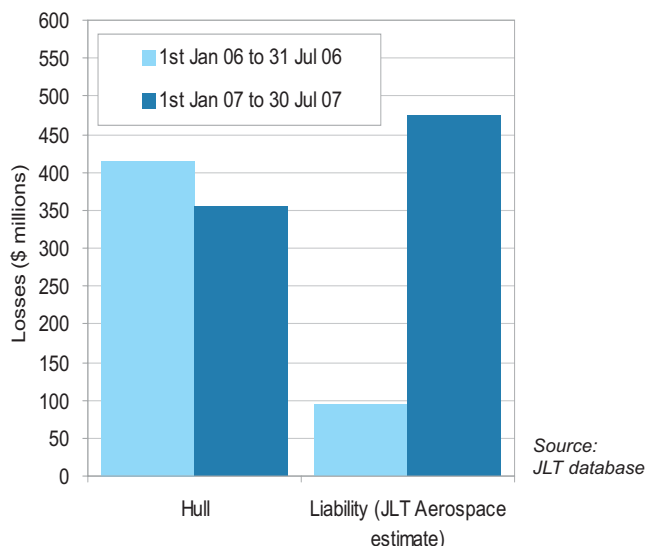
Including an estimate for the TAM loss at Sao Paulo on 17th July, the overall incurred figure for the month now stands at an estimated US\$412 million for hull and liabilities. Therefore the combined hull and liability loss total for the year to date has reached approximately US\$829 million. With 4 months of the year still to go, these figures suggest that this year could be considerably worse than 2006.

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July Losses



Major Airline Losses for Year to Date



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July Losses

1st July	Jet Airways	ATR 72 VT-JCE	Reg	Indore, India	No injuries	Insured value US\$10,500,000
The aircraft suffered a very hard landing and was declared a Constructive Total Loss						
1st July	Air China	B767-200 25553	Reg B-	Beijing, China	8 passengers injured	Reserve tba
Whilst being prepared for departure at the gate, the nose undercarriage was unintentionally raised and the nose hit the ground						
3rd July	Jet Lite	B737-800 VT-SIJ	Reg	Cochin, India	No injuries	Reserve US\$450,000
Suffered an accident at Cochin, India						
5th July	Jett Paqueteria	Sabreliner XA-TFL	Reg	Culiacan, Mexico	Nine crew killed plus six on the ground	Insured value US\$600,000
The cargo aircraft blew a tyre on take off and ran over a motorway destroying a number of cars before hitting buildings						
8th July	Liard Air	Twin Otter C-FAWC	Reg	Muncho Lake Airfield, B.C.	One pax killed plus three injured	Approx value US\$750,000
The aircraft crashed shortly after take off from the gravel airstrip						
8th July	Precision Air	ATR-72 PAR	Reg 5H-	Nairobi	No injuries	Reserve US\$3,000,000
Veered off runway on landing at Nairobi						
16 th July	Pantanal Linhas Aereas	ATR-42 MFX	Reg PT-	Sao Paulo, Brazil	No fatalities	Reserve US\$3,400,000
On landing the aircraft veered off the side of the runway coming to rest in mud with its nosegear broken. The runway of Congonhas was wet and had recently been re-surfaced						
17th July	TAM	A320-200 MBK	Reg PR-	Sao Paulo, Brazil	181 pass, 6 crew plus 12 TP killed	Insured Value US\$41,559,000
On landing in wet conditions at Congonhas Airport the aircraft overshot the end of the runway, ending up hitting buildings where it caught fire, killing all on board plus 12 on the ground						
17th July	Aerorepublica	Embraer 190LR HK-4455	Reg	Santa Marta Island, Colombia	five passengers injured	Reserved as a CTL at US\$35,000,000
On landing the aircraft skidded off the end of the wet runway and fell over an embankment with its nose ending up in the sea.						
29 th July	Atran	AN-12 RA-93912	Reg	Domodedovo Airport, Moscow	7 crew killed	Approx Insured value US\$500,000
Soon after take off in dark and foggy conditions, the cargo aircraft crashed into a forest about 2.5 miles from the airport and exploded in flames.						

July Loss Summary

Hull Losses	Liability Losses (JLT Estimate)	Total
US\$	US\$	US\$
95,250,000	150,000,000	245,250,000

Insurance Industry News

It is estimated that July is now the third biggest month for airline premium income, and this has tended to create an unusual peak in the middle of the year when the renewal season was traditionally reserved for the final quarter. We will have to wait for November and December for the biggest influx of renewal activity and thus move the weathervane of underwriting attitude to show the direction of market intent to the very end of the year.

July indicated quite emphatically that it is business as usual regarding the generally downward direction airline premiums are going at present. There were of course varying degrees of outcomes depending on the particular airlines circumstance, and this was demonstrated by a substantial increase in premium being applied to one operator with a poor loss record.

Capacity is paramount and whatever way you look at it this must surely mean that it still remains an attractive environment to do business. While we now enter a relatively calm time for renewal results in August, September and October, the negotiations taking place for the all important November and December renewals will no doubt be challenging. We eagerly await to hear the results of these renewal negotiations which bring a year to a close that has been relatively turbulent in comparison to the last few.

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Arrivals and Departures

We would like to give a big welcome to our new colleagues Wayne Wignes and Joyce Howard who have expanded our North American network to Chicago.

As two of the most respected and experienced aviation brokers in the USA, we are extremely proud that we have succeeded in persuading Wayne, who has taken up the role of Vice Chairman and Joyce, Executive Vice President, to join us. They are now firmly settled in their new offices in Chicago and they will be a strong force in enhancing our presence across the Atlantic as an independent alternative to our larger competitors for our airline customers and the flexibility that this allows.

Wayne has 29 years experience in the Insurance Broking Industry and spent 11 years of his career at Marsh & McLennan before moving to Aon in 1989 and joining us from his position as President of Aon Aviation. He was a Graduate from the University of Minnesota Carlton School of Management and in 2006 Risk and Insurance Magazine name him 'Aviation Power Broker'.

Joyce was Managing Director of Aviation Syndication of Aon Aviation and developed a wealth of experience in risk management services in all aspects of the aerospace industry. She has been at Aon since 1984 prior to which she worked for Dickens & co / Bayly Martin & Faye from 1980 after beginning her career at United States Aviation Underwriters in 1977.

Limit has attracted a number of new staff including Matt Langmead who has resigned from Aon and will join the 5555 General Aviation team led by Anthony Prokopiou early in September.

Trehane Oliver, is to return to the market to join Limit in the role of Deputy Business Development Manager after taking some years away from London running a family business in Cornwall. He previously worked at Willis up to the position of Executive Director. He will be joining in early October and will be working with Jerry Flaxman.

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Airline Industry News

With the first flight of the radically designed Boeing 787 Dreamliner due in October and, as now officially confirmed, the entry into service of the largest passenger aircraft ever, the A380 in the same month, the aircraft manufacturing industry continues to show that change and innovation remains the order of the day.

With these new products imminently arriving on the scene and the current models being churned out at record levels to meet the insatiable demand from airlines, a backwards glance shows just how fast things are moving on.

Apart from the older jets and turboprops which have reached the end of their economic and natural life, there are now what we only recently described as “new generation” aircraft which broke so much new ground when they entered service that are now beginning to be scrapped or more politely described as being “parted out”. In the early part of the year an A320 was reported to be under the scrap man's torch which is hard to believe when reading what milestones this aircraft reached when it entered service back in 1988.

Another Airbus type, the A340, an ex-Virgin Atlantic aircraft, is also being considered for scrapping. This particular one was built in 1994 and suffered damage in a landing incident in 1997. This would be the first of the A330/A340 type to be broken up.

There must be scores of Boeing 747's already in pieces having been the workhorse of so many international operators throughout the world since it entered service back in 1970. Now we see what has effectively become the 747's successor facing a similar fate. The first of the early 777-200's is about to meet its maker, and the production line for this type did not start until 1995. The flavour at the moment for long distance travel is for the twin-engine wide body models from both Boeing and Airbus. These are proving for obvious reasons to be far more economical than say the 747, which some airlines are now having to consider deleting from their inventories.

The aircraft that started the present fad has just reached the end of its production life and the final A300 from Airbus was recently handed over to FedEx in the form of a -600 series freighter.

This is the first time that Airbus has discontinued one of its models and brings the curtain down on a production run that has covered orders for 561 aircraft.

It is fascinating in hindsight to see the path taken that eventually made the wide-bodied twin the success it is

today. The story can be traced back to 1966 when an executive from American Airlines saw the need for a replacement for the 727 on busy short to medium range routes. At the time Boeing were busy with the 747 and Lockheed and McDonnell Douglas responded with the Tristar and DC-10, suggesting that airlines would never carry as many as 250 passengers on only two engines.

Europe at this time was voicing its resentment at the US domination of civil aviation and wanted an aircraft that could compete with the Americans. Concorde was part of the answer, designed for intercontinental routes, the other was the A300. The emergence of the European collaboration on aircraft design and production during the late sixties and early seventies has been well documented and the present Airbus Industrie is now a worthy competitor to Boeing.

The A300 made its maiden flight in 1972, entering airline service in 1974. Although sales were initially poor, things eventually picked up and by 1977 Eastern Airlines leased four A300's as an in-service trial. Eastern's CEO Frank Borman the ex-astronaut was impressed as the aircraft consumed 30% less fuel than his Tristars and subsequently ordered 23 of the type. This was followed by an order from Pan Am and a number of airlines in Asia.

It should be remembered that the A300 broke a great deal of new ground in many areas of technology and construction. The very nature of the European consortium meant having to move large aircraft sections to Toulouse for final assembly, a method now adopted at Boeing.

Supercritical wings were designed and built in the U.K. with other major components brought in from Spain, Italy and Germany. In fact the A300 bristled with innovations never seen on an aircraft before and now incorporated almost universally.

The concept of the large wide body twin was at the time a bold one and one that took some time to be accepted. Today the medium and long haul market is dominated by these twin engined aircraft because of what Airbus did. The 777 with the capacity to carry 370 passengers over 7,000 miles is now the workhorse for long haul routes where the 747 once prevailed, and this in many ways is mainly due to the most powerful jet engine in the world - the General Electric GE90.

Whether the A380 with its vast dimensions and four engines will change this concept is yet to be decided and very shortly we will find out.

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Time to Take Stock

Our Special Report last month focussed on the excessive expansion of the passenger airline industry and how the infrastructure is coping. This month China has taken a decisive step to curb aviation growth and one of the main reasons cited was that the airports were overstretched in the context of a projected 19.6% increase in passengers being ferried by Chinese airlines this year. The number of low fare flights rocketed from 48 to 2,000 in two years to September 2006.

There are certain start-up applications that may be considered, one criteria being if an airline employs foreign staff. The Chinese Government has identified a shortage of qualified aircraft mechanics, Air Traffic Controllers and pilots and there are particular issues with pilots because some who work for state-owned airlines are attempting to join private carriers but are coming up against obstacles.

It seems the brief window of opportunity for any potential entrepreneurial start-up operation has closed. The Government had only in the last two years relaxed rules to allow for private airlines to enter the arena. It was then that the manager of the only privately owned airline, Okay Airways, was struggling to establish Okay as a true low cost carrier (LCC). Regulations controlled fares, landing fees and other aspects which placed restrictions on all those areas where an LCC concentrates its cost cutting and hence, business strategy. The Government since opted to relax these restrictions to some extent but more importantly has given the green light to a number of new start-up applications.

In the light of the China Airlines Boeing 737 bursting into flames one might agree that it is an appropriate time for China to stop and digest what could be considered as almost 'out of control' passenger airline expansion – a 'lack of control' is certainly a condition that would not be favourable to the Chinese Government.

To summarise, the new stance stipulates that until 2010 for all new Airport Operator Certificates (AOC) will only be given consideration if they fit into the following categories:

- Cargo Airlines
- Airlines that employ foreign pilots
- Airlines that operate mainly at night
- Airlines that use Chinese-build aircraft
- Airlines based in the west and north-west

Current operators will also face additional restrictions.

Heathrow Chaos

Heathrow Airport started the month badly and finished off worse with huge criticisms being directed at the Airport for its shambles of a welcome to arriving passengers and by the time departing passengers actually get on their flights it's likely that they'll be keen to see the back of it.

As August draws to a close another jet bomb security alert has caused mayhem and British Airways slammed the British Airports Authority (BAA) for their inability to cope with increased security checks. The baggage systems could not process all the bags and security delays meant passengers were unable to get to the gates on time to catch their flights after added security measures. British Airways had to cancel 25% of its short haul flights and many left without passengers. Ryanair is also voicing concerns, urging the Government to step in before the London Airports grind to a halt.

BAA which was sold to Spain's Ferrovial in 2006 to whom criticisms are being directed, have allegedly displaced the passengers as their valued customers by opening up swathes of new shops at the cost of passenger seating. Little it seems has been invested in security, leaving passengers having to contend with huge queues on a day to day basis before they can get through to departure lounges. One might suggest to BAA that the quicker they can get the passengers through, the more time they would have to spend in the shops.

Amidst this chaos BAA is still considering cutting staff under 'an efficiency review' and it is also reported that Ferrovial is holding London to ransom over being allowed to increase passenger charges to pay for the construction of Heathrow East. This new terminal, along with Terminal 5 is planned to take over Terminal 1, 2 and 3 in time for the Olympics but Ferrovial is threatening to halt construction.

British Airways has not assisted by its incredibly bad record of losing luggage – some 28 per 1000 bag processed compared to Ryanair's 0.4 per 1000. Amidst discussions about Heathrow chaos this summer British Airways was deemed 'a failure of leadership to the point of incompetence' by Unite, the largest aviation union.

While the airline had to work amidst new challenges in security issues, following last year's liquids ban and the terror attack at Glasgow earlier in the summer, British Airways ability to cope was particularly highlighted by this record in losing luggage. This may be partly due to Ryanair's main hub being Stansted, a much smaller airport than Heathrow where British Airways is largely based.

Heathrow is also considered to be a particular target for terrorists and the busiest hub in Europe. Annually, British Airways ferries 63.5m passengers and Ryanair, 43.3m.

Mid-August headlines again saw Heathrow in the spotlight as protesters rallied against proposed expansion to the hub in the form of a new runway to cope with the huge increase in global airline passenger movement. Heathrow is at the centre of this growth being one of the major hubs through which many of the world's passengers pass – whether to visit the UK or as a transit point from worldwide destinations into Europe.

The final straw has been the investigation launched by the Competition Commission into price fixing on landing fees by BAA. Hopefully this might address the poor consequences that have been brought about by the new owners inability to put the their customers first.

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Launch Log

August Launches

2nd August

Site Baykonur
 Launcher Soyuz U
 Payload Progress M-61

3rd August

Site Cape Canaveral
 Launcher Delta 2/7925H
 Payload Phoenix

7th August

Site Vandenberg
 Launcher Minuteman 3
 Payload GT-194GM

7th August

Site Kennedy
 Launcher Endeavour
 Payload STS-118
 SpaceHab LSM
 ITS-S5

12th August

Site Cape Canaveral
 Launcher Atlas 5/521
 Payload WGS-1

14th August

Site Kourou
 Launcher Ariane 5ECA
 Payload SpaceWay 3
 BSAT-3a

16th August

Site Tanegeshima
 Launcher H-2A/2022
 Payload Kaguya
 µLabSat 2
 RSAT
 VRAD
 µLabSat 2 Subsat

28th August

Site Cape Canaveral
 Launcher Delta 4H
 Payload DSP-23

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