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Oil prices and impact on Aviation Market

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Airneth Seminar



Global network-local expertise

Every day we supply:

- 87 million litres of fuel to...
- 20,000 aircraft belonging to....
- 40 Global Airlines, 500 Special Carriers and 50,000 other customers in....
- 90 countries at....
- 850 international and regional airports, fuelling every....
- 4 seconds, by staff at Solus locations or at the.....
- 60 Joint Venture partnerships we operate in.

And we are rated the Number 1 Supplier by the World's Airlines in 2005



Industry Issues

**Oil Price
Volatility**

**Industry
Consolidation**

**Airlines
Bankruptcies**

**Development of
LCC'S**

Airline costs

**Freight
Volatility**

**Supply Chain
tightness**

**Supply
Infrastructure**

Aviation Tax

**Consortia
Charges**

GTL

Emissions

AA role

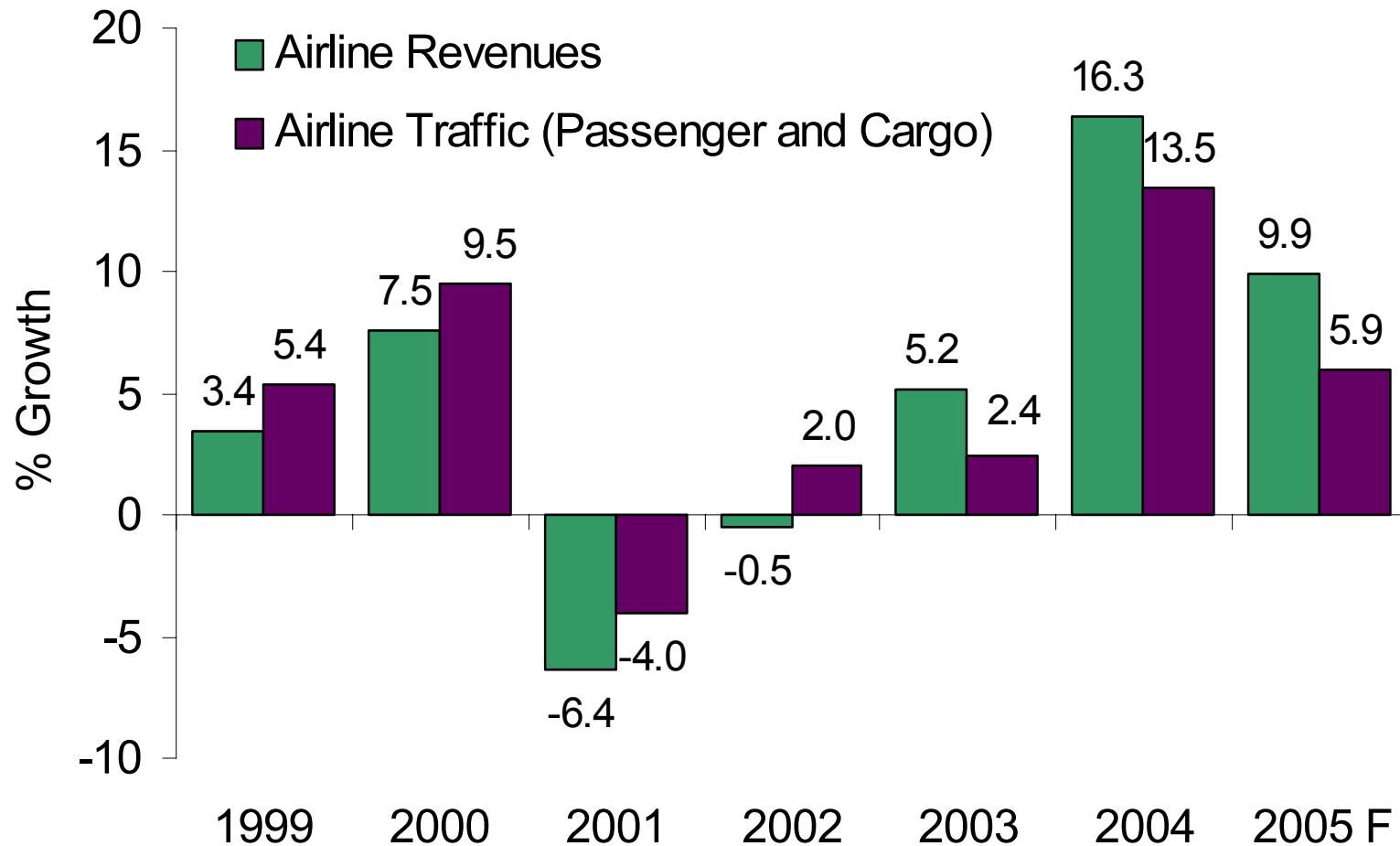
**Cost of
Compliance**

US model

**Allocation of
Supplies**



Airline Revenues and Traffic up but.....



Source: ICAO, IATA



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Significant regional difference in airline profitability

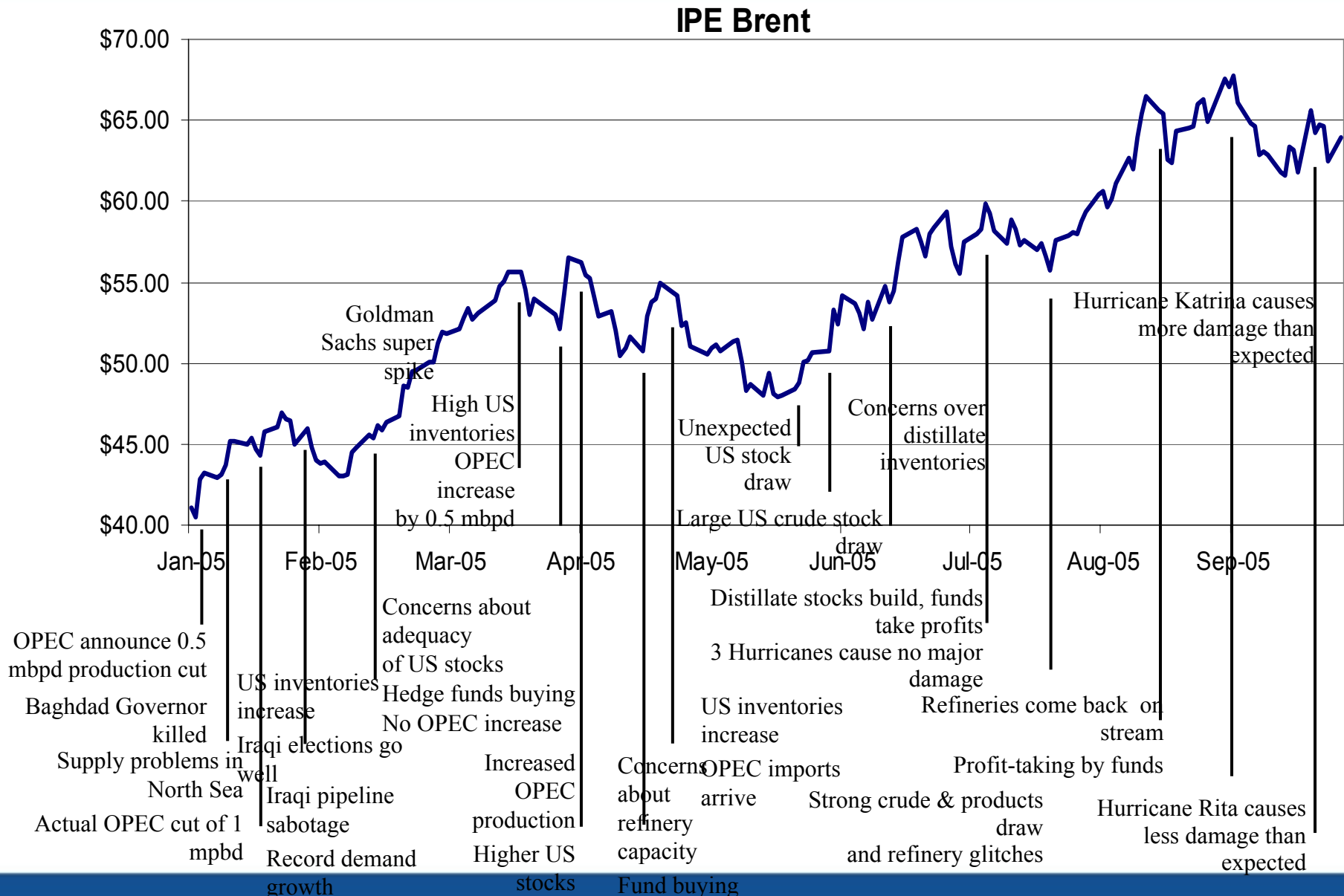


Source: IATA



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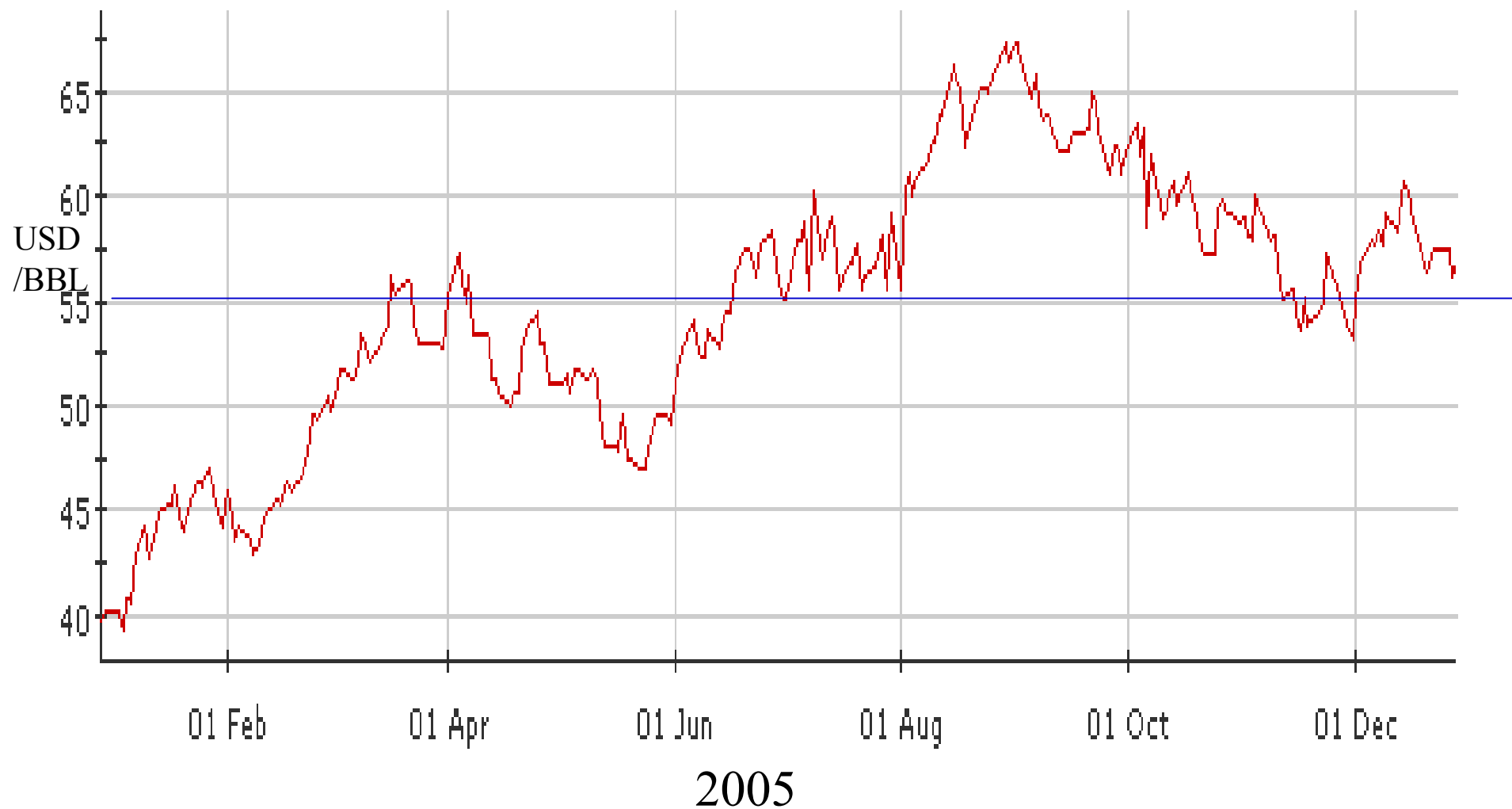
Recent developments have caused oil prices to rise



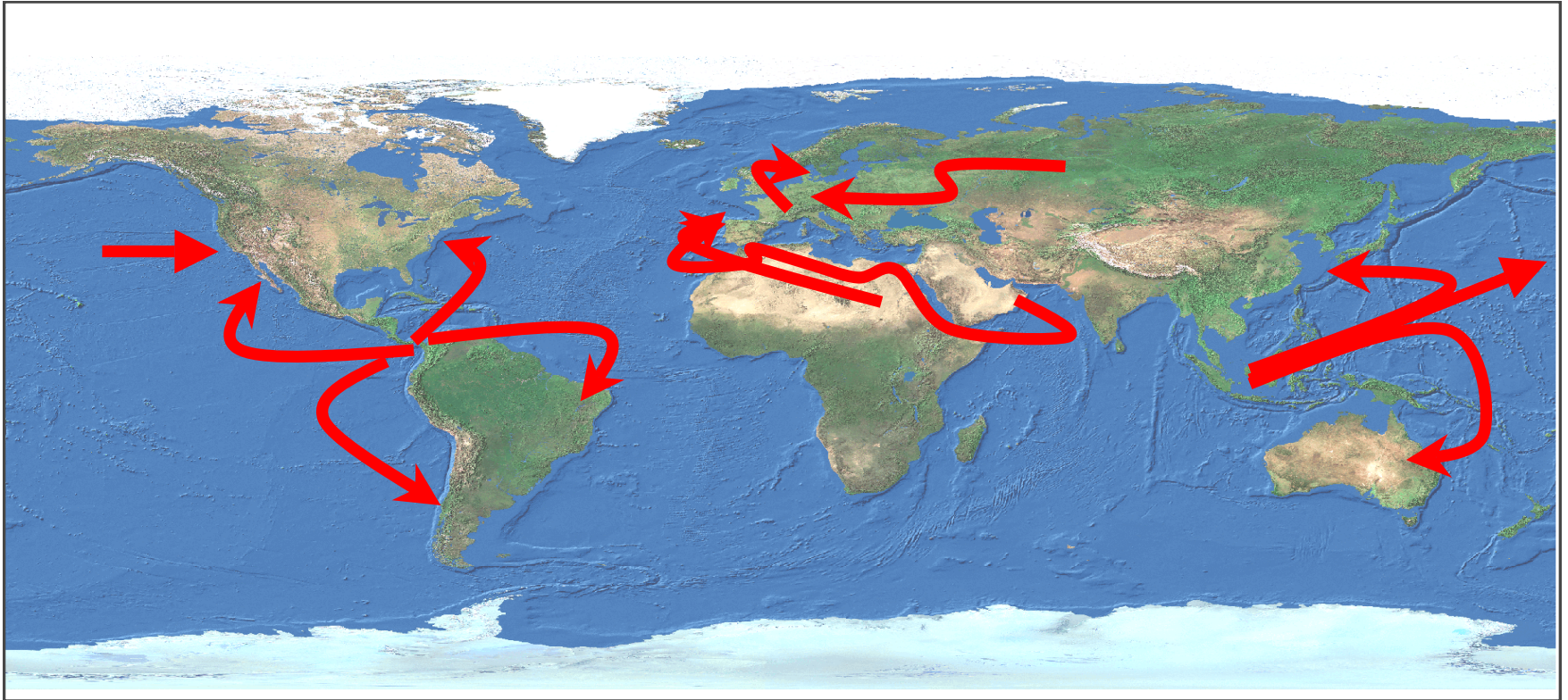


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Brent movement 2005



Global Jet Movement Pre Sept 11

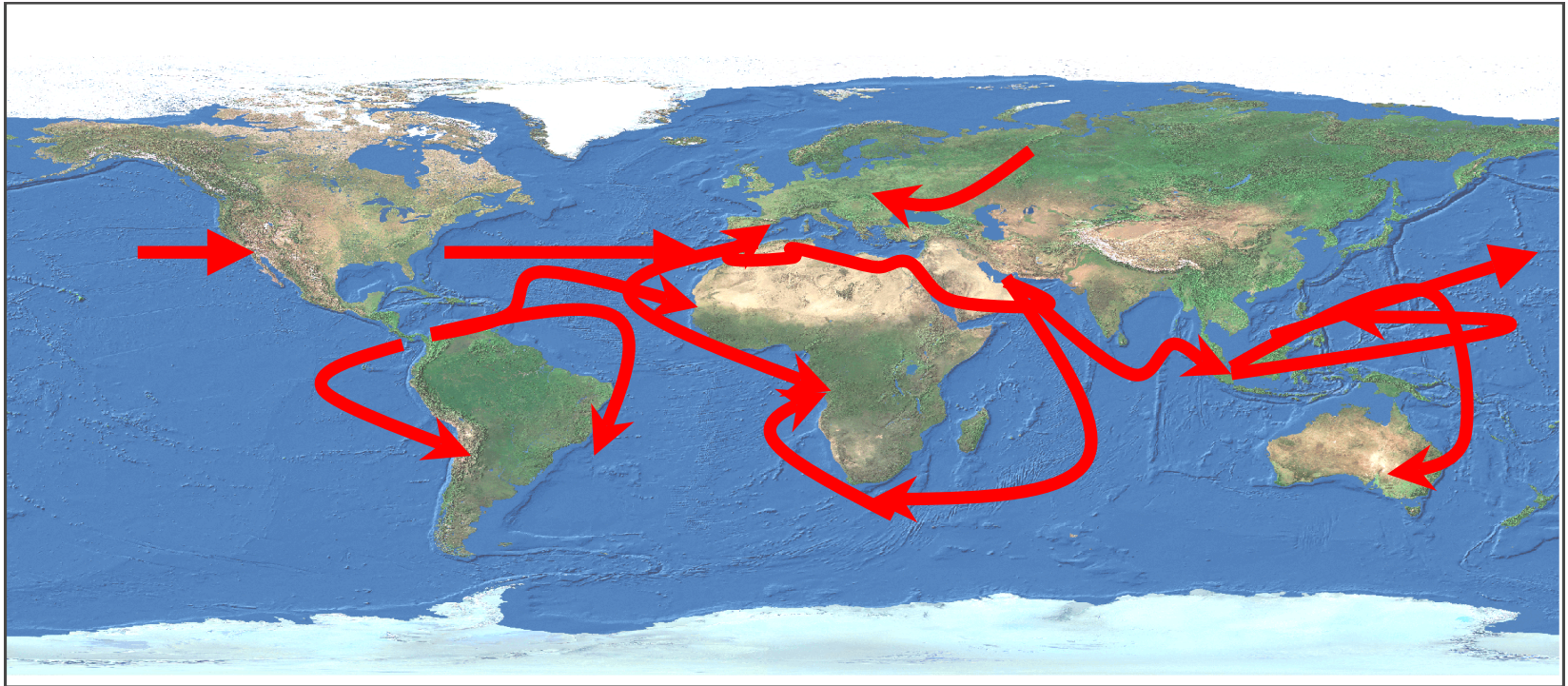


Pre Sept 11

- ✈ Highly Regionalised Trading
- ✈ Traditional Jet Producers



2006 Global Jet Movement



Current Global Movement of Jet

- ✈ Free Flowing Global Movement of Product
- ✈ Limited Product due to Regional Instability
- ✈ Growth of Non-Traditional net exporters i.e. India



What has changed this?

SUPPLY UPSIDE

Growth in Non Traditional Exporters of Jet

(i.e India 2002- 374,000 T; 2003 – 1.5 mln t; 2004 - 2mln t)

Countries not adhering to OPEC Constraints & Quotas

SUPPLY DOWNSIDE

Nigeria & Venezuela Instability

Refinery Margin - Jet vs Diesel

Lack of Expenditure on Refineries/stockouts

Tighter Jet Fuel Specifications

DEMAND UPSIDE

Weak US dollar

China/India

Increase in Number of Low Cost Carriers

Economic Growth

Military Demand Spurs

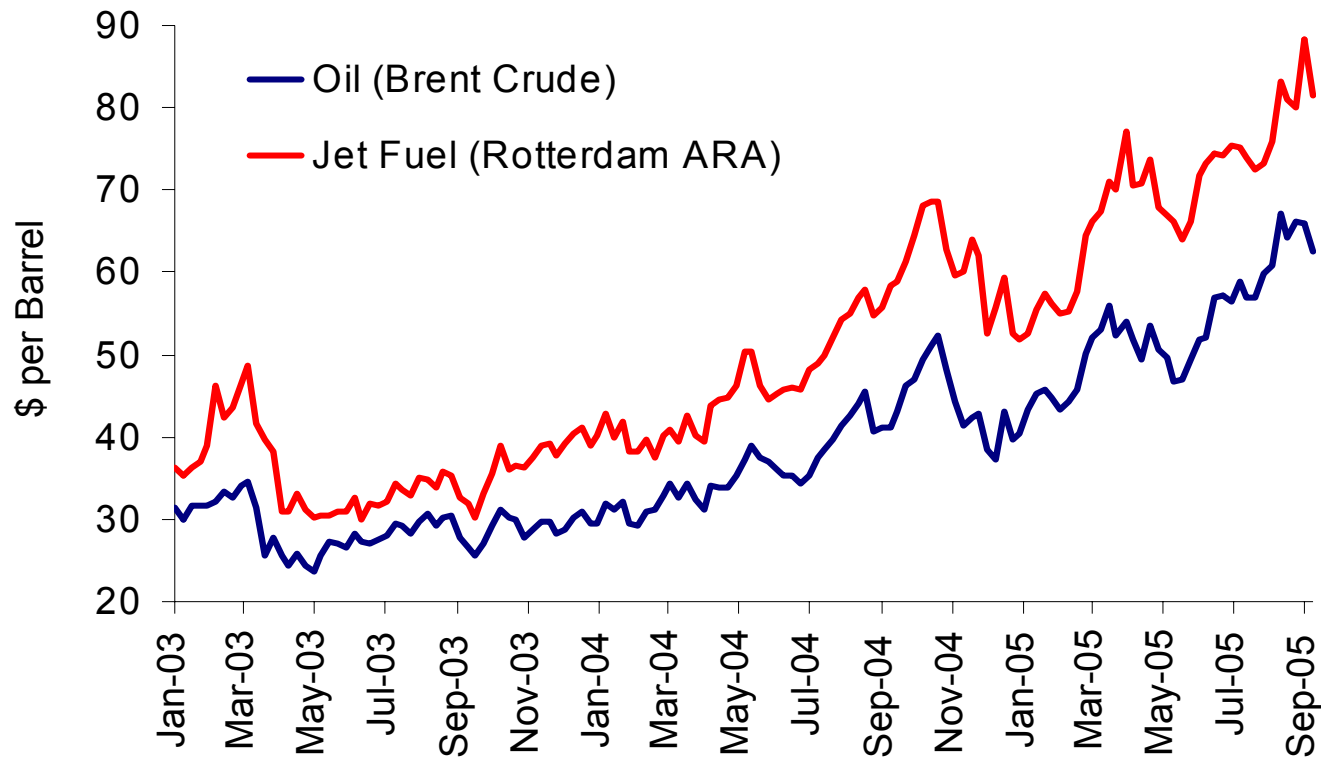
DEMAND DOWNSIDE

Threat of Terrorism





Crude and Jet prices increased



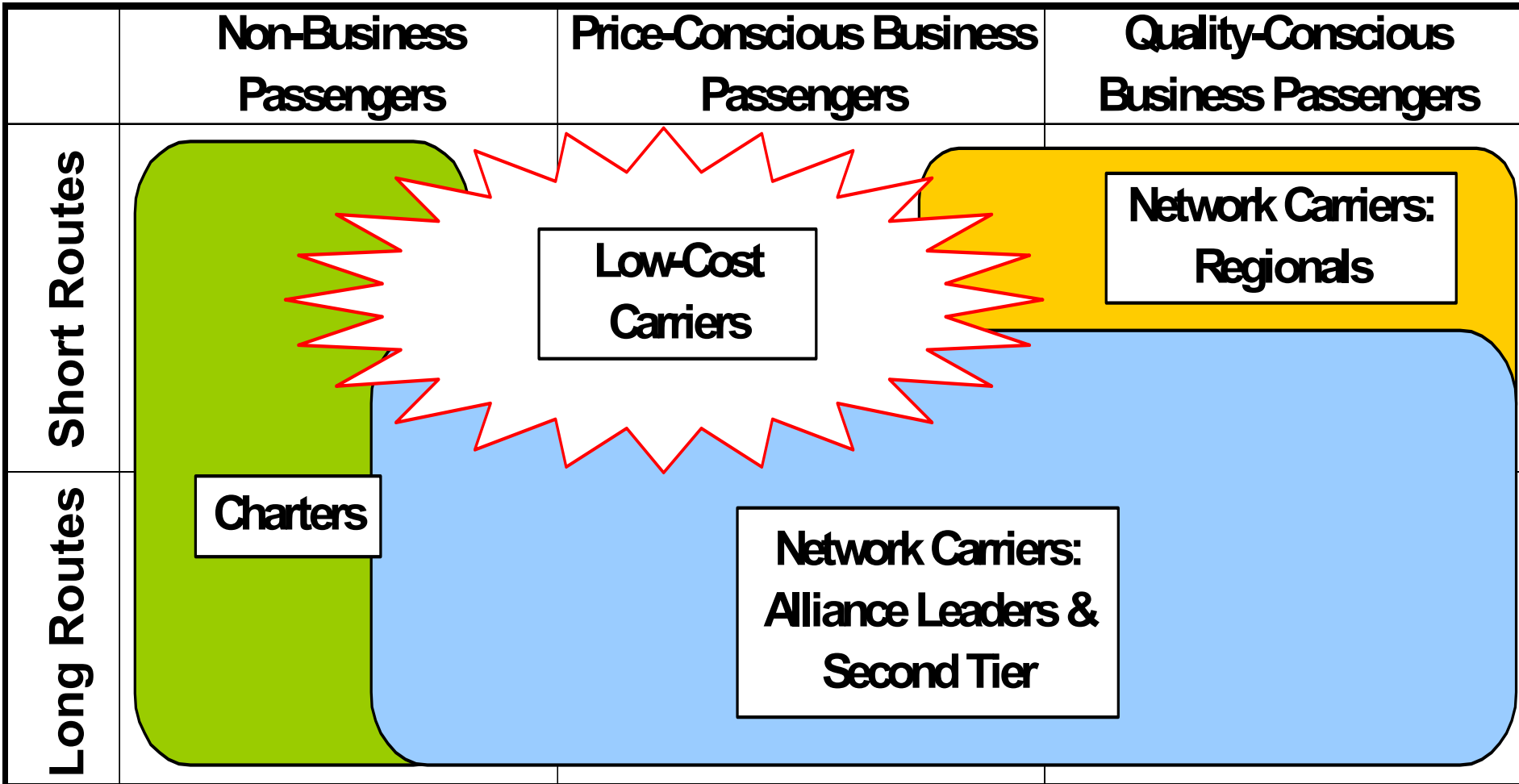
Source: Platts

Additional Cost to Airlines 2005 Vs 2003 price

Jet Fuel margin:
+ \$14 billion

Crude Oil Price:
+ \$37 billion

New competition



What should airlines do – re fuel

- No short/medium term alternative to Aviation Fuel for aircraft.
- Need to continue to buy new fuel efficient aircraft
- Need to buy into the EU emissions trading scheme of which Shell is a player.
- Need to recognise that fuel will remain 20-25% of an airlines operating budget.
- Need to have in house/outsourced risk management expertise to manage price volatility as it will continue.
- Need to work with oilco's on understanding supply chain and their vulnerabilities.
- Need to hold more stock to avoid short term stock outs.
- Need to recognise that Oilco's will not stay in unprofitable locations as Airlines will not stay on unprofitable routes.
- Need for consistency on allocations in times of stock outs and supply disruptions.



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Q & A