

The not have to be  
replaced, changed



The more OPEC cuts the supply of oil, which is needed for airplane fuel, airline companies have to depend more and more on hedging. In an ideal case, the company has a flexible policy regarding hedging that matches to tries to match the fluctuations. If " OPEC" decides to produce more or increase supply then the companies will be left with extra output.

If the company is considering relying on Shell instead of the bigger OPEC then this will be an advantage because this will be a natural hedge against any OPEC decision to cut or increase production, providing the company with more stability in that field. However, the choices are still narrow and changes affect the entire market. One major shift will be the use of certain flowers, or natural herbs (algae, flax, coconut husks or even from used cooking-oil) to produce airplane fuel ( Bio Fuel), this is a huge advantage because the airplanes engines will not have to be replaced, changed or even renewed because of the newly produced fuel. We are talking about a fuel that is eco-friendly and " green" because the plants from which they are derived absorb CO2 from the atmosphere as they grow and release it when they burn, and this fuel is renewable unlike the classic fossil fuel. Since the number of passengers and relatively the number of flights is likely to double as we go into 2030, having such a replacement is good news in a " Win-Win" situation. One example would be Airbus; they also say the technology, in which it and the Bavarian government are investing more than 10 million euros (\$11 million) between them.

Secondly, aircrafts are considered one of the most important and highest expense in the airline industry. The main suppliers within the airline industry are the manufacturers of aircrafts like Airbus and Boeing, Two major

determinants in terms of aircrafts and their manufacturers are sale or lease basis, which means that it mostly depends on the companies and whether they want to have the aircrafts as assets on their balance sheet or would prefer a higher ROA by applying the lease basis. Moreover, at the current stage, aircrafts for long distance travel cannot be substituted by any other product, which strengthens the bargaining power of the suppliers even more.

In this industry, the inputs are extremely standardized allowing for only minor changes. Airline companies only seem to differentiate with amenities. The planes are very similar. Bulky aircraft purchases are also very common. 4