IRAN Why opportunity knocks for lessors after nation’s nuclear pact

POND LIFE How capacity shapes up across Atlantic

ALLIANCES Tie-ups mature but some old friends become foes

INTERVIEW

LUIS GALLEGEO
Halfway there in his campaign to transform Iberia
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2015 FLEET FORECAST

flightglobal’s latest annual long-term market forecast predicts that almost 41,000 commercial jets and turboprops will be delivered over the next 20 years, worth over $2.8 trillion.

Produced by Flightglobal’s consultancy arm Ascend, the report also examines the cargo sector and forecasts that almost 2,000 passenger aircraft will be converted to freighters over the 20-year period.

The value of new deliveries is estimated using Ascend’s 2015 full-life base values which provide a more realistic benchmark than the inflated list prices often used in forecasts.

Ascend also evaluates the retirement trend, estimating that around 19,000 jets and turboprops will leave passenger service, some of which will be converted for freighter use.

Overall, the global commercial aircraft fleet in service is expected to increase by 82% to 48,760 aircraft in 2034.

The forecast examines key demand drivers and predictions for deliveries by manufacturer and annual fleet growth. An in-depth commentary examines issues such as traffic growth, oil prices and aircraft financing.

More on our forecast report and a summary download at: flightglobal.com/FleetForecast

LATIN LEADERS HEAD TO ALTA

The movers and shakers from Latin America’s airline industry will gather in San Juan, Puerto Rico, in November for the 12th annual ALTA Airline Leaders Forum.

This, the largest event of its type in the region, will take place at the Sheraton Puerto Rico Hotel and Casino on 15-17 November. Hosted by ALTA executive director Eduardo Iglesias, the forum sets out to stimulate international dialogue to create a safer and more efficient air transport sector for the region. The event also creates a platform for networking among members.

Attendees include airline chairman and senior executives as well as leaders from manufacturers, aviation-related organisations and local airline associations. Speakers include chief executives from several of the region’s major airlines as well as ALTA president Andres Conesa and IATA director general Tony Tyler.

Flightglobal is an official partner of the event and the Airline Business team will be on hand in San Juan to cover all the news in three daily papers and online.

flightglobal.com/ALTA

WEBINAR

MARKET DEVELOPMENTS

Flightglobal consultancy arm Ascend holds its latest commercial aviation webinar on 8 September (14:00 GMT), where our leading consultants will examine the key developments in the industry and discuss the latest Flightglobal Fleet Forecast. Areas in the spotlight include leasing markets and the rise in lessor ownership; aircraft values and lease rates; and the recovery of air freight.

Our long-term appraisal of airiner deliveries and retirements will examine whether demand can justify the current and planned production rates as well as the outlook for main-deck freighters.

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This major investment reflects our commitment to quality and service, international reputation and openness to the world.
Neeleman taps Europe link for Azul

Boss looks to close deal for stake in TAP Portugal as United and Star Alliance step up interest in Brazilian carrier

While Brazil is increasingly gripped by economic and political challenges, fortunes are high at David Neeleman’s fast-developing operator Azul.

Interest in the carrier is strong, with United Airlines investing in Azul and Star Alliance courting the Brazilian operator. At the same time Neeleman, who launched Azul in 2008, has been looking further afield for the carrier by leading a consortium to acquire a 61% stake in another Star carrier, TAP Portugal.

In June Neeleman’s Atlantic Gateway consortium, which also includes Portuguese ground transport entrepreneur Humberto Pedrosa, won the race for TAP as Portugal secured an investor at the second time of asking. In August Brazil’s competition authority approved the acquisition of TAP Portugal and Neeleman expects the deal to close at the end of the third quarter.

Neeleman’s involvement in helping to turn around TAP will let the Portuguese carrier and Azul work together in numerous areas, he tells Airline Business. These range from joint procurement of aircraft to negotiating joint contracts for ground handling, fuel, airport and catering services in Brazil among others, he says.

The two airlines already have some fleet commonalities. TAP operates an all-Airbus fleet comprising the A320 family, A330s and A340s. Azul operates A330s on its US long-haul flights and has committed to the A320neo.

No sooner had Neeleman’s consortium been chosen as the winning bidder than plans for TAP’s fleet renewal were announced. TAP would drop its order for 12 A350-900s in exchange for 14 A330-900neos, which Neeleman reckons will better fit TAP’s future network plans. Neeleman also announced that TAP would acquire 39 A321/A320neos.

BIG IN BRAZIL

The acquisition of a stake in TAP would help Neeleman’s Azul gain a foothold in Europe — a continent that may be a possibility for Azul’s network when the airline receives the first of its A350-900s in 2017.

TAP currently serves 12 cities in Brazil, data from Flightglobal’s schedules specialist Innovata shows. The airline’s “strong presence in Brazil” was a big reason behind Neeleman’s interest in acquiring a stake in the carrier, he says. TAP is the only airline operating nonstop between Portugal and Brazil, offering more than 670 flights for July.

The Portuguese carrier serves 11 of the 12 cities nonstop from Lisbon, and also operates from Porto nonstop to both São Paulo Guarulhos and Rio de Janeiro. TAP also flies nonstop between Manaus and Belem in Brazil.

Neeleman believes there is ample potential for TAP to grow its network in North and South America, besides expanding in Europe and Africa. Of particular interest is the US east coast. “A lot of cities along the eastern seaboard have Portuguese immigrants. There are people who want to access not only Lisbon, but also beyond the Lisbon hub to cities in Europe,” he says.

TAP now serves only Miami and Newark Liberty in the USA, while Azul operates to Orlando and Fort Lauderdale — and plans to add New York JFK in 2016.

Azul’s move comes as TAP gets a new Brazilian partner through Star Alliance’s new recruit Avianca Brazil, on top of its existing Brazilian codeshare partner Gol.

TAP Portugal chief executive Fernando Pinto believes there is room for the airline to work with several Brazilian carriers. Speaking in São Paulo in July as Avianca Brazil formally joined Star, Pinto said TAP looks forward to the feed that Avianca Brazil will be able to provide to TAP’s network. He says TAP and Avianca Brazil will likely look at opportunities to codeshare in the future.

While Neeleman’s plans for TAP include a close partnership with Azul, Pinto suggests “that’s not a problem”, when asked about the potential conflict since Azul and Avianca Brazil are competitors. More partners in Brazil will “give more choices to customers”, he says.

As for the codeshare with Gol, Neeleman says that TAP will retain that partnership “for now”, but Azul will receive priority for future Brazil-related co-operation.

UNITED FRONT

For its part Star Alliance sees room for second Brazilian member and has Azul in its sights. Links also tightened after Azul agreed to sell a 5% stake to Star carrier United Airlines for $100 million. Initially focusing on a codeshare relationship and frequent flier agreement, further down the road, an immunised joint venture is “an option”, says Neeleman — especially when US-Brazil open skies are fully implemented from October.

Despite drawing closer to United, Neeleman says there are no immediate plans to join the alliance — even though Star is known to be courting Azul.

“They are for sure,” says Neeleman. “There are no plans... we don’t see a great need for that.”

Read our 2014 cover interview with David Neeleman at:
flightglobal.com/interviews
TAILOR MADE AVIATION MARKETING
LATAM Airlines Group says its new single branding is an essential milestone in its journey to becoming a unified airline, while justifying the investment during a time of weakness in Latin American economies.

The group, which controls LAN Airlines and TAM, expects to spend at least $40 million rolling out the new branding across aircraft, airports and uniforms, among others, and will invest more in related expenditures like marketing and advertising.

LATAM declines to disclose the total it expects to spend unifying under a single brand.

The livery will debut on the group’s aircraft in the first half of 2016, with the branding rolled out gradually across the fleet over the next three years.

“We will keep on investing in our business [despite the economic difficulties],” says LATAM chief executive Enrique Cueto. “The idea behind a single brand is to be recognised by our passengers as a single carrier.”

Latin American countries have faced slowing economic growth and currency devaluation during recent months. Brazil, which LATAM subsidiary TAM operates in, has been hit the hardest.

LAN and TAM closed their merger in 2012, creating Latin America’s biggest airline group, with local subsidiaries in seven countries. While the group reported financial earnings on a joint basis, it still operates under separate brands in the different countries.

**MORE COMPETITIVE**

LATAM chief marketing officer Jerome Cadier says the airline group would be less competitive if it continued operating with two brands. He acknowledges that the airline would prefer unveiling the new branding during better economic conditions in the region, but adds: “Changes are not only for good times. We see this time as a time for opportunities.”

The airline expects to launch a new website for ticketing in 2016, at LATAM.com, as it works to bring both LAN and TAM on to the same reservations system provided by Sabre. TAM currently uses Amadeus. Cadier says that all the airlines should be on Sabre by 2017.

LATAM president Mauricio Amaro acknowledges that the creation of a new branding was not easy, as the process involved “heated discussions” from both sides and each brand had evoked strong emotions. “A new brand is a child that needs to be born. When you raise a child, you want them to be better than you,” he says.

**COLOUR COMBINATION**

LATAM says the new logo incorporates the colour indigo as it was the “best of both worlds” between TAM’s red and LAN’s blue. The livery will be applied to its fleet of more than 300 aircraft as they come through maintenance. “We are doing it in an intelligent way,” says Cadier.

Cadier says the group’s first Airbus A350, to be operated by TAM and expected to be delivered by year-end, will feature the TAM livery rather than the new branding.

“We have a window in which any change to the livery has to be done 12 to 18 months in advance,” he says.

Meanwhile TAM chief executive Claudia Sender says the air- line is pushing ahead with plans for a new hub in the Brazilian northeast, despite scaling back on domestic capacity. She says it will serve as a gateway between South America and Europe.

Avianca seeks chief as Villegas says ‘adios’

Avianca’s chief executive Fabio Villegas will leave the airline with effect from 2016, after more than a decade with the Bogota-based carrier.

The Star Alliance carrier says Villegas is planning to pursue other professional interests, without elaborating on his likely next moves.

He will continue to work in his current positions at Avianca through the end of 2015 as the airline seeks a successor.

Villegas joined Avianca in 2005 as president, shortly after the airline emerged from Chapter 11 bankruptcy protection. The airline was then undergoing restructuring after German Efromovich’s Synergy Group purchased a majority stake in the carrier.

Villegas came to the airline from a Colombian financial institution association, and had also previously worked for the Colombian government.

Villegas was named chief executive of Avianca in 2010 and subsequently led the airline through its merger with Central American airline group Taca, which closed in 2010 to form one of Latin America’s largest airlines.
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Costing out pan-European ambitions

Network carriers Air France-KLM and Lufthansa eye expansion of their low-cost arms in battle for short-haul sustainability

Air France-KLM and Lufthansa are taking further steps to build pan-European operations through their low-cost brands as they continue attempts to restructure their costs on the highly competitive short-haul sector.

The SkyTeam carrier is revisiting its plans to develop its leisure unit Transavia outside of its home markets of France and the Netherlands while Lufthansa in August established a new subsidiary in Austria to build up pan-European operations for budget unit Eurowings.

Air France-KLM Group initially proposed expanding leisure arm Transavia as a pan-European low-cost carrier with bases outside France and the Netherlands last summer. But it prompted a two-week strike by Air France pilots in September 2014. Management eventually dropped the proposal in order to end the walkout – which the airline said had been responsible for a €500 million ($633 million) drag on EBITDA – and agreed to pursue a “made-in-France” solution for Transavia’s operations in the country.

However, Air France-KLM chief executive Alexandre de Juniac on revealing wider first half group losses, said pilot union SNPL – which represents two-thirds of Air France pilots – signalled at the end of June that it would be willing discuss a potential expansion of Transavia outside its two home countries.

De Junaic argues such discussions are “urgently” required to “boost” the establishment of Transavia as a European low-cost carrier outside its home market. He adds that the first Transavia base outside France and the Netherlands is to be opened during the summer of 2016. However, he declines to specify potential locations or the number of such bases.

Subsequent fresh setbacks in talks reported in the French media suggest there is some way to go on the issue yet.

Transavia led Air France-KLM expansion over the summer, capacity increasing almost 8%, while overall group capacity was capped at under 2%.

Transavia’s passenger numbers increased nearly 9% during the second quarter and almost 10% across the first half of 2015.

However, Transavia’s operating loss widened 17% to €75 million. Air France-KLM attributes this mainly to seasonal capacity changes at Transavia’s Dutch operation, which is being restructured from its leisure carrier role to a budget model.

SPREADING ITS WINGS

Under Lufthansa’s group strategy, Eurowings is envisaged as becoming Europe’s third-largest low-cost carrier after EasyJet and Ryanair, establishing several bases across the continent. This will see Eurowings merged with its existing low-cost unit Germanwings, the latter name ceasing to be a customer-facing brand.

The first of these bases is being established in Vienna and was incorporated in August as Eurowings Europe. The unit will “serve as the starting point for further growth”, says Lufthansa.

A first Airbus A320 is to be based in the Austrian capital this winter, with a second to follow next March. Eurowings will serve Barcelona, London Stansted, Majorca and Rome from Vienna.

Lufthansa management has for some time said growth initiatives will be directed to subsidiaries such as Eurowings for as long as there is no reduction in costs at Lufthansa’s mainline operation.

The group expects increased pressure from EasyJet and Ryanair in the autumn as the two low-cost carriers grow their operations in Germany.

Group finance chief Simone Menne says Germanwings’ performance over the past two-and-a-half years shows the success of the unit’s hybrid business model. The group says Germanwings will finish this year in profit for the first time.

However, she says Germanwings’ unit costs are higher than those of EasyJet and Ryanair, while Eurowings and sister carrier Austrian Airlines have unit costs “comparable” to EasyJet’s.

Lufthansa has also indicated it could deploy Eurowings on routes from its main hubs. Eurowings does not operate from Frankfurt and Munich, but Menne says the possibility of flights from Munich “cannot be excluded”, albeit that there are no “short-term plans” for such a move.

WHEN IN ROME

Transavia and Eurowings have some ground to make up if they are to close the gap behind pan-European duo EasyJet and Ryanair. Closer behind is IAG unit Vueling, Europe’s fourth largest low-cost operator by passenger number, which has already expanded with bases beyond its home market – most notably at the Italian capital, Rome.

But Vueling chief executive Alex Cruz does not foresee any “Rome-style” base openings for the Spanish low-cost carrier in the next couple of years.

EUROWINGS IS ENVISAGED AS THE THIRD-LARGEST BUDGET AIRLINE IN EUROPE

Cruz says the Barcelona-based carrier does not intend to make any “multiple aircraft base investment[s]” but could “open up tactically another airport or two” in Europe using single aircraft, as it has done previously at Amsterdam and Brussels.

Vueling opened its Rome Fiumicino airport base in March 2012, and Cruz says routes there are “trading well”. The carrier is “seeing improvement on unit revenues on the routes”, especially on domestic services to southern Italy, he adds.

Read more on low-cost carriers via our premium news service: flightglobal.com/dashboard
IndiGo and Qatar flirt over tie-up

Partnership talks as India’s largest low-cost airline prepares IPO prompt speculation that Gulf carrier could invest

The potential tie-up under discussion between IndiGo and Qatar Airways could enable the Gulf carrier to gain a strong foothold in India and access to significant local traffic flows via the country’s largest low-cost airline.

IndiGo has long been in Qatar Airways’ sights, with chief executive Akbar Al Baker saying last year that he was “very interested to talk” to the Indian carrier about some form of partnership. Speculation about a tie-up has been growing since Qatar Airways recently dismissed talk of plans to acquire a stake in IndiGo’s local rival SpiceJet and stated that IndiGo was the sole Indian carrier it was talking to.

However IndiGo, which is in the midst of launching an IPO, called reports of a stake sale to Qatar Airways “completely baseless”, clarifying that it was only in preliminary discussions about “potential marketing arrangements”.

Analysts say such open flirtation between the two carriers could result in them getting intimate, although chances are this will only happen after IndiGo completes its listing. In early July, IndiGo parent InterGlobe Aviation filed a draft IPO prospectus, disclosing plans to raise Rs12.7 billion ($178 million) through the sale of 30.1 million shares.

RIVAL ADVANTAGE

The consistently profitable IndiGo is an attractive option for Qatar Airways, given its consistent performance in recent years while other Indian carriers have struggled. Gulf rival Etihad Airways has already gone down the acquisition path to gain access to the Indian market, taking a 24% stake in Jet Airways, and the two carriers have been working closely to align their networks.

“IndiGo is a lucrative airline after posting six straight years of profit, while majority of the Indian carriers made losses,” says Michael Hui, an analyst at Flightglobal’s Ascend consultancy.

He adds that Qatar could also be on a “shopping spree” after it took a 10% stake in IAG earlier this year. Unlike Etihad, Qatar is also likely to be “more conservative” with its investment, and any acquisition will likely start small in order to “test waters”, Hui says.

Rajiv Chih, director of aerospace and defence at PricewaterhouseCoopers, says IndiGo’s priority is, however, getting listed, which will also drive up the value of the airline.

“At present, the IPO is of foremost importance to IndiGo and would value [it] at $4 billion, six-and-a-half times the market value of its nearest competitor Jet Airways, and 18 times that of SpiceJet,” he elaborates. He is of the view, however, that Qatar will aim to take a 49% stake in IndiGo, since it will want to have a significant say in the airline.

This corroborates a recent media report quoting Al Baker as saying: “We don’t go and just do 5%. We would always take a bigger share.”

LACKING CODESHARE

The analysts add that a partnership with IndiGo will also further expand Qatar’s Airways’ reach into India, since it does not have a codeshare partner in the region.

FlightMaps Analytics from Flightglobal’s Innovata schedules specialist shows Qatar Airways flies to 12 cities in the sub-continent from Doha. IndiGo, however, does not operate services to Qatar’s Doha base, but rather to Dubai and Muscat from 11 cities in India.

Chih believes such a partnership would likely benefit Qatar more, as it could make Doha “the gateway to the West” by leveraging IndiGo’s passengers originating from India’s Tier 2 cities.

Hui, however, warns of a potential stumbling block: “It will be difficult to work with connectivity between these two airlines, as one is a premium carrier and one is a budget carrier.”

Amid the Qatar speculation, SpiceJet also rebuffed talks of a stake sale but says it is open to raising funds via an issue of new shares. Chief financial officer Kiran Koteswar tells Airline Business that any financial movement by the airline will most likely “be an issue of fresh equity”.

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AARON CHONG SINGAPORE

IndiGo flies to Dubai and Muscat, but doesn’t serve Doha

12 Cities served by Qatar Airways on Indian sub-continent

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With no clarity around any strategy for an outside investor at South African Airways, acting chief executive Nico Bezuidenhout has returned to his position at the helm of low-cost subsidiary Mango. He has been replaced by the flag carrier’s general manager of human resources, Thuli Mpshe, also in the acting role.

The Star Alliance carrier says the decision was taken “following consultation between the boards of directors at both SAA and Mango”, and that it was based on “internal operational requirements within the entire SAA group”.

It adds: “He [Bezuidenhout] led the implementation of the 90-day action plan at SAA and his deployment there was always understood to be in an acting capacity.” Bezuidenhout added the acting SAA role to his existing position as the head of Mango for the second time in as many years in November 2014 in the wake of a board investigation into Monwabisi Kalawe for alleged misconduct. Kalawe resigned from his post in April.

Bezuidenhout immediately embarked on a 90-day plan to stem losses as the carrier’s financial problems grew critical, which put the airline back on a firm enough footing for it to finalise its financial results and secure an additional finance ministry guarantee of R6.48 billion ($565 million). SAA is aiming to return to an EBIT profit in the next year and generate a bottom-line profit in the next five years.

Further ahead an investment partner could be an option to ensure long-term sustainability of the airline, with the Gulf carriers closely linked with interest in the southern African market.

ETIHAD OR EMIRATES?
SAA has extensive codeshares with Etihad and now a deal with Jet Airways

SAA has extensive codeshares with Etihad and now a deal with Jet Airways – in which Etihad holds a 24% stake – covering flights between Abu Dhabi, India and South Africa. SAA pulled its own Johannesburg-Mumbai service in April as part of its network overhaul.

But SAA has also been linked with Emirates, with whom it already has a codeshare. Local media reports suggested that in June it pulled out of plans at the last minute to sign a partnership deal with Emirates. The two carriers have said only talks have taken place within the context of their existing partnership.

Another South African carrier, Comair, which operates British Airways franchise flights and budget operation Kulula, earlier this summer secured an airline investor after China’s HNA Group acquired a 6.2% stake in the airline.
Deal clears path for Iran fleet renewal

Following nuclear pact, analysts see leasing as most likely route for airlines looking to replace their ageing inventories

There’s no doubt huge potential exists for manufacturers to sell a large number of aircraft into Iran following the recent nuclear agreement between six nations – but exactly what the fleet will look like and how it will be financed is still being hammered out by the sector.

Iran is littered with aircraft at the end of their useful lives, as US and European sanctions – some in place since the Islamic Revolution in 1979 – have prevented the nation from purchasing aircraft and spare parts.

However, the pact that Iran, the USA, Germany, France, the UK, China and Russia signed on 14 July in Vienna would lift these sanctions – including those preventing the sale of commercial aircraft – in return for a halt to Tehran’s nuclear weapons programme.

The 160 western-built jets flying with Iranian airlines have an average age of around 23 years, Flightglobal’s Ascend Fleets database shows. This compares with an average age of 10 years for the 20,500 commercial jets that are in airline passenger service globally.

Leading operators include Iran Air, Iran Aseman Airlines and Mahan Air, which between them operate more than half of the country’s jet fleet.

Iranian officials have said the county needs to spend about $20 billion on purchasing 400-500 aircraft over the next decade to rejuvenate the ageing fleet.

However, Ascend’s head of consultancy Rob Morris suggests that this may be an overestimation of around 100-200 units.

“The replacement challenge is evident with largely the whole fleet required to be replaced in the next 10 years, and with some element of growth,” he says. “I’d hesitate to agree that there is demand for 400 aircraft in the next decade, but probably agree that it could be in the vicinity of 300 or so.”

Demand in Iran, which is included in the Middle East region in Ascend’s Flightglobal Fleet Forecast long-term outlook, is “probably masked” by growth from the Gulf states, adds Morris.

By applying generic delivery values for the seating capacities of the aircraft that need to be replaced and estimating demand for 300 aircraft, Morris calculates that the financing required for those aircraft, based on 2015 delivery pricing, will be in the region of $18 billion.

The forecast shows the mix of regional aircraft, single-aisles and twin-aisles remaining the same as in the current fleet. That results in demand for around 80 regional aircraft, 130 single-aisles and 90 twin-aisles, says Morris.

He assumes average delivery pricing of $30 million for regional aircraft, $50 million for single-aisles and $110 million for twin-aisles “on the basis that there will be a healthy slug of A330s in there”.

The most logical step is for the region to ramp up almost overnight

The most logical step, an operating lessor argues, would be for the region to “opt for vintage aircraft and a bunch of spare parts, and ramp up almost overnight”. The lessor dismisses the prospect of a wave of new aircraft orders “anytime soon” – for Boeing at least.

Long lead-times for in-demand aircraft such as 787s and A350s could “almost force” Iranian airlines towards used aircraft, suggests another lessor.

“These airlines need aircraft sooner rather than later, so I can’t really see how they can hold out, even though the lifting of the sanctions will take time. It will most certainly have to be used aircraft, unless some slot-swapping goes on.”

Airbus declined to comment on what the agreement with the six nations would mean for Iran’s aviation sector, saying: “It has yet to be formalised and implemented. Once this takes place, we will evaluate what commercial implications it has in strict compliance with the accord.”

Boeing likewise declined to comment on the implications.

Regardless of the aircraft type selected, some financiers believe leasing is the natural choice for Iranian airlines.

“I don’t see direct orders, as I imagine second- and third-tier lessors – and those that are not public – would be very eager to put planes to work in Iran,” says one.

Leasing is the best method of acquiring aircraft when “the odds are stacked against you as in the case of Iran”, notes a European banker. He adds: “Leasing is the first option when you need modern equipment, you have to be quick, your credit is not bankable, your capital base and funding capabilities are thin, and you have no access to export credit support.”

However, the idea that leasing will be the preferred option in Iran is disputed by an airline fleet planning source, who insists that buying the aircraft will be a priority.

“Outright purchases mean the airlines control the aircraft long term should the positive sentiment erode in the future,” the source says.

“This is extremely important as they have been flying certain aircraft since the Islamic Revolution, and they don’t want to be caught out again.”

Mahan Air has the largest jet fleet, the bulk of which are Airbuses

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The most logical step is for the region to ramp up almost overnight

The most logical step, an operating lessor argues, would be for the region to “opt for vintage aircraft and a bunch of spare parts, and ramp up almost overnight”.

The lessor dismisses the prospect of a wave of new aircraft orders “anytime soon” – for Boeing at least.

Long lead-times for in-demand aircraft such as 787s and A350s could “almost force” Iranian airlines towards used aircraft, suggests another lessor.

“These airlines need aircraft sooner rather than later, so I can’t really see how they can hold out, even though the lifting of the sanctions will take time. It will most certainly have to be used aircraft, unless some slot-swapping goes on.”

Airbus declined to comment on what the agreement with the six nations would mean for Iran’s aviation sector, saying: “It has yet to be formalised and implemented. Once this takes place, we will evaluate what commercial implications it has in strict compliance with the accord.”

Boeing likewise declined to comment on the implications.

Regardless of the aircraft type selected, some financiers believe leasing is the natural choice for Iranian airlines.

“I don’t see direct orders, as I imagine second- and third-tier lessors – and those that are not public – would be very eager to put planes to work in Iran,” says one.

Leasing is the best method of acquiring aircraft when “the odds are stacked against you as in the case of Iran”, notes a European banker. He adds: “Leasing is the first option when you need modern equipment, you have to be quick, your credit is not bankable, your capital base and funding capabilities are thin, and you have no access to export credit support.”

However, the idea that leasing will be the preferred option in Iran is disputed by an airline fleet planning source, who insists that buying the aircraft will be a priority.

“Outright purchases mean the airlines control the aircraft long term should the positive sentiment erode in the future,” the source says.

“This is extremely important as they have been flying certain aircraft since the Islamic Revolution, and they don’t want to be caught out again.”
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Three months since Lufthansa disclosed its surprise move reigniting efforts to tackle its distribution costs, the Star Alliance carrier is pressing ahead with the introduction of a charge on tickets booked through GDSs which continues to cause consternation in the corporate travel sector.

The German carrier will from the start of September add a €16 ($18) fee to all fares booked on the Amadeus, Sabre and Travelport GDSs.

Lufthansa is no stranger to forcing the pace of change in distribution after a lengthy wrangle followed its move to transfer booking fees to travel agents in 2008, before a new full-content agreement with Amadeus was brokered in 2010.

Now the Star Alliance carrier, which generates around 70% of its bookings through the GDSs, is again pushing for change in the model. “We think we can do it. It might be a rocky road,” said Christian Schindler, Lufthansa’s regional director for the UK and Ireland, during a media roundtable in July.

“We assume the industry will move forward and we want to be a mover.”

And there are those who contend the carrier is capitalising on the current strength of the airline sector to disrupt the traditional distribution chain.

Lufthansa’s move to establish an agency portal, through which bookings can be made by the TMC without incurring the tax, has done little to appease corporations. Buyers and TMCs argue this does not allow comparison-shopping, ticket changes, refunds and a long-list of other standard GDS capabilities.

A number of major corporations across Europe and North America have already instructed their TMCs to direct bookings to alternative airlines. While a source from one major independent TMC based in the City of London says the volume of segments it is booking on Lufthansa Group carriers is already plummeting.

**EARLY STAGES**

“We were simply response to the need to maintain the level of services we offer,” Schindler adds. “But we are only a first mover on the network carrier side – the LCCs already did this.”

One of Lufthansa’s complaints about the existing GDS channels is that they do not enable airlines to sell and personalise all options across the travel journey.

This coincides with Lufthansa’s roll-out of a new branded concept for economy class on short-haul flights, split into three bundled packages offering different levels of service options.

“It’s about having the freedom of what we sell, where, like other industries have. GDSs are not completely offering all the capabilities. We’ve had to drive that change. We pay a higher price, but we don’t get the service we need,” argues Schindler.

That addresses the other key complaint from Lufthansa: cost. With the GDS channel, “the cost is much higher than other channels”, says Schindler. “From our side, we want to put them on an equal footing.”

The €16 figure is the extra amount Lufthansa calculates bookings made through the GDS cost the operator.

But emotions continue to run high in the global corporate travel community. Many industry leaders believe the scheme is a tactic to cut segment fees paid to the GDSs, despite the fact that airlines like Lufthansa generate most of their revenue from the channel. Others believe it is an attempt to wrestle back control of customer data by forcing them to book directly.

EXPLANATIONS WANTED

While consternation about the implications of the levy continues to flower, the resentment levelled at the German airline hitherto has been equally strong about the manner in which it was introduced – especially given that corporate travel brings the airline its highest yielding customers.

The global travel procurement director of a major Swiss investment bank – one of Lufthansa’s biggest customers – revealed he has since written to Lufthansa chief executive Carsten Spohr demanding an explanation. “I was shocked when I heard,” he admits. “Our budgets are drawn up against predicted volumes and negotiated rates with all preferred suppliers. This surcharge has the potential to add millions to the bill.”

The Institute of Travel and Meetings – a professional body that represents travel buyers and managers in the UK and Ireland – also wrote to Lufthansa, urging it to scrap, or at least delay, the plan. Simone Buckley, the organisation’s chief, wants the airline’s bosses to engage with customers and partners to map out a mutually beneficial strategy.

“Travel buyers appreciate a company’s right to manage its own affairs and develop its own commercial strategy, but the blatant disregard for their interests in relation to this matter has left many people angry,” she says.

“It is beyond disappointing that the Lufthansa Group treats its loyal high-yield customers in the same way as one-time bookers in the leisure sector.”

**Some believe the scheme is a tactic to drive down fees paid to GDSs**

**€16 Lufthansa’s fee on all fares booked on GDS systems**

**Comparisons:**

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The managed-travel community. Lufthansa Group would, of course, create substantial collateral damage and not just transfer costs, but create new costs within the industry by effectively insisting on its direct-connect strategy for its contracted customers,” he says.

Mitchell and his US associates made their voices heard at the recent Global Business Travel Association convention in Orlando. In addition to a protest networking drinks party – where beverages could only be purchased with €16 vouchers – a discussion group was organised to evaluate the potential consequences of the direct distribution cost.

The President of the American Antitrust Institute, Diana Moss, argues that the current strength of the sector has given airline chiefs the power and confidence to push through bold changes.

“These types of tools and techniques we are currently seeing would never have survived years ago and would be thrown out of the market, but now these ideas are gaining traction,” she says.

“[It] is another move by an airline to frustrate the industry, price discriminate, and hamper competition and control. This could be very detrimental in forms of higher prices and less availability.”

TWIST IN THE TALE

Perhaps the most ironic twist in this saga was Lufthansa’s announcement in late July that it had reached an agreement with Travelport GDS to use its content and branding technology, which allows airlines to better sell products and services through travel intermediaries. Kurt Ekert, chief commercial officer at Travelport, told *Airline Business*: “We represent [Lufthansa’s] most profitable channel of distribution. Direct distributions cost is making booking through the channel more punitive for its most valuable, highest yielding customers.

“The strategy eliminates choice and hampers comparison-shopping,” he says. “But by agreeing to use our merchandising technology, the airline is embracing the channel on one side, but making it more punitive to use on the other. It doesn’t make sense.”

Lufthansa acknowledges the importance of the GDS to its business. “Seventy percent of our tickets are sold by GDS – we don’t want to change that,” says Schindler. “We want to work with the GDS and TMCs. They offer a variety of services we will not offer. We are very open to what comes from the other end. We are talking to the GDSs continuously [and] they will be our partners in the future.

“We are convinced distribution costs can be lower than they are today with the GDSs. This is a great opportunity to lower the costs and increase the options for the booker,” he argues.

“We don’t have time to wait and wait: the demand [for personalisation] from the traveller is there today. Cost and technology both need to move,” he adds.

Thus far no other airlines have followed Lufthansa’s lead in introducing a fee on GDS bookings, though Lufthansa group finance chief Simon Menne says she expected others to follow. As September arrives plenty will be watching to see how Lufthansa’s move plays out.

In July the European Travel Agents Association went down a legal avenue by filing a complaint against the Lufthansa Group with the European competition regulators.

The group argues the charge breaches the computer reservations system code of conduct in addition to other EC statutes. Time will tell if Europe’s mandarins feel Lufthansa is abusing its dominant position.

Across the Atlantic, the Business Travel Coalition – Washington-based lobby group – formed the Air Channel Choice. The new pressure group is being positioned as a broad coalition of global stakeholders promoting travel distribution system choice for travel agencies and customers.

Its chairman Kevin Mitchell says the charge would have negative worldwide implications for the competitive structure of the industry. “In the process of seeking to extract more revenue from the
SPANISH REVIVAL

Iberia is already unrecognisable from the ‘zombie’ Luis Gallego took over in 2013, but there will be no let-up in his efforts to revamp the corporate culture.
You don’t have to go further than Iberia’s Madrid headquarters to get a sense of the new direction in which chief executive Luis Gallego is seeking to take the airline.

After more than 40 years at its old Campos Velazquez base and with offices spread across four other locations around the city, the IAG-owned Spanish flag carrier made the decision to move to the sleek towers of Madrid’s MV49 business park in 2013.

Not only do the modern facilities of MV49 provide the 88-year-old airline with something of a facelift – the building is equipped with an onsite padel tennis court, for one thing – the move allowed Iberia to consolidate its staff at one location, making operations more efficient and cutting costs.

Such a pragmatic approach to modernisation is emblematic of what Gallego sees as his role at Iberia: to alter the carrier’s ethos. “We are changing the way of thinking of the organisation,” Gallego tells Airline Business. “We need an organisation [that is] leaner: we are developing new processes, we are still doing the restructuring of a lot of areas.”

While he says the Spanish carrier is only at the “middle of the path” of its restructuring efforts, there can be no doubt that it has come a long way since Gallego took the helm in March 2013. Back then Iberia was haemorrhaging some €1 million ($1.1 million) a day. Efforts to restructure the company and downsize operations were stalled amid deadlocked talks with unions, and relations between the two sides were at an all-time low. A €351 million loss was posted for 2012.

It is difficult to understate the parlous nature of Iberia’s finances during this period, which Gallego recalls as a time that the airline was “in a very difficult situation: we were almost dying”. He describes Iberia as having been like a “zombie” and says fears it could disappear altogether were not unfounded.

He explains Iberia’s 2012 response thus: “We launched the transformation plan to stop the bleeding.” The target was a turnaround in profitability of at least €600 million from 2012 levels, to bring Iberia up to IAG’s target of a 12% margin by 2015. To accomplish this, tough targets were set – including 4,500 redundancies, removal of 25 aircraft from the fleet and a 15% cut to the network.

Gallego acknowledges that efforts to restructure the company were in motion before he became chief executive, and says the main challenge when he arrived lay in...
“We had a big gap in our costs with our competitors,” he notes. His blunt message to unions: “We change Iberia or we kill Iberia.”

After that, “it took more than one year to reach an agreement”, Gallego recalls. “We had difficult moments but we were convinced that if it we wanted a future for Iberia we needed to have an agreement, so at the end it was a question of [the unions] understanding that we wanted the best for Iberia.”

The breakthrough came in February 2014, when Iberia agreed new productivity pacts – including voluntary redundancy programmes up to 2017 – with cabin crew unions CCOO, CTA Vuelo, STCPLA and UGT, and with pilot union SEPLA.

A month later, the airline closed a labour deal with ground staff unions, bringing to an end a volatile period of labour relations. The benefits of those agreements were quickly felt.

Losses were reduced to €166 million in 2013 and transformed into a €50 million operating profit before exceptional items in 2014 – a result that helped to lift IAG’s profits 80% to €1.39 billion that year.

With transformation complete, Iberia has moved to the next phase in its restructuring programme, dubbed the “plan de futuro”.

The plan includes 32 initiatives broken down into five pillars, which Gallego describes thus: “First is to have a solid revenue base; second is to have simplicity and flexibility; the third one is to have a sustainable, competitive model; fourth, [for] the businesses that are not the airline – like the maintenance and [ground] handling – we need them to help the result of the company and we need them profitable…and the last pillar is the cultural change.”

Gallego says the airline has in place “all the measures” required to reduce costs as part of a restructuring process set to run from 2017 to 2020. He foresees Iberia making profits “in line” with those of IAG sister carriers British Airways and Vueling in 2016.

The carrier is still hopeful that 1,427 people will leave the company, Gallego says progress has been made, with 230 pilots having agreed to voluntary redundancy out of a company target of 244. He says the carrier is now seeking 1,183 ground staff to accept redundancy “in order to have the right ratio of people to aircraft that we need for Iberia”.

Iberia’s decision to now start hiring new pilots after a 11-year hiatus is “a message that things are improving, that we are moving in the right direction, and it’s a message of hope to everybody”, Gallego says.

While being a member of IAG has helped Iberia in its turnaround thanks to efficiencies – for example, in procurement and fleet orders – an outsider may wonder how much freedom each airline has to choose its own path, given the strategic goals handed down by chief executive Willie Walsh and his team.

However, Gallego denies that he feels constrained by membership of IAG. “Really we are in a group where operators have a lot of freedom, because we have a holding company but the operators are responsible,” he says. “It is a group where you can do a lot of things as an operator that you cannot do in other groups in the industry, so to be honest I don’t see the group as a restriction – I see the group as an opportunity.”

Having sealed the productivity deal with ground staff unions, Iberia was able to enter and win a round of tenders to provide services at Spanish airports in May. Gallego sees this as the start of a new period of profitability for its ground handling division.

He also has high hopes for Iberia’s MRO division, which he says has an opportunity to provide services not “only to Iberia, but to the rest of the group because with the things we are doing in Iberia [with] the four businesses that we have – line maintenance, heavy maintenance, components and engines – we can be a provider of reference to the group”.

The closure of labour agreements with staff also allowed Iberia to begin growing its network again after a period of retrenchment.

Gallego describes the carrier’s route development strategy as a “blank sheet of paper”. This is not to suggest that there is no strategy, but to emphasise that Iberia is being open-minded in its approach to new opportunities.

Following the decision by IAG to firm up a number of Airbus A330-200 and A350-900 orders on the back of Iberia’s strong financial performance, the carrier is now undertaking “profitability studies” into possible routes to cities including Tokyo, Doha, Johannesburg, Toronto, Guadalajara, Managua, San Juan in Puerto Rico, Brasilia and Asuncion.

The Latin American markets are at the core of Iberia’s business and Gallego says that, even during the difficult days, the carrier remained a “market leader” in traffic between South America and Europe – a position he is determined to maintain and enhance.

From its Madrid Barajas hub, Iberia now operates to 19 destinations in Latin America, spanning most of the region’s biggest cities.

Iberia marked its return to the Cuban market by opening a new service to Havana in February 2014. Gallego describes the carrier’s route development strategy as a “blank sheet of paper”. This is not to suggest that there is no strategy, but to emphasise that Iberia is being open-minded in its approach to new opportunities.

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Iberia marked its return to the Cuban market...
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in June after a two-year hiatus, with a five-times-weekly service to Havana. Other destinations that have returned to the network include Montevideo and Santo Domingo.

On 3 July, the carrier began serving the Colombian cities of Cali and Medellin for the first time – underscoring the point that Iberia is seeking to go where growth is. “We have started Havana again: why? Mainly because now we have the right cost structure, because we also have an agreement with pilots,” says Gallego. “If the route goes well, we will increase the capacity in the future in the same way we have done for example in Santo Domingo.” To cement the carrier’s position in the market, Gallego is looking at a joint venture with One-world partner LATAM covering routes on the South Atlantic market, on similar lines to the venture on the North Atlantic that Iberia operates with American Airlines and BA.

“What we are doing also is try to see if a new JV can make sense for Iberia, for example in the South Atlantic where, as we said before, we are the leaders in that market and some alliances there can help with the profit-ability of the routes,” says Gallego, who also sees opportunities to make Madrid a connecting point for traffic between South America and Europe and onwards to Asia and Africa.

Gallego says Iberia is also analysing “if Asia can make any sense for us”, noting traffic flows between Asia and South America that could be directed through Madrid.

To support its long-haul expansion, Iberia will receive the first of eight A330-200s at the end of the year. The carrier has a further five A330-200s and 16 A350-900s on order, with the first due for delivery in 2018. These aircraft will be used to replace 16 A340s in the airline’s long-haul fleet.

With IAG having signed a letter of intent for 12 Boeing 787-9s, could Iberia be in line to receive Dreamliners? Gallego stresses that “at some moment we will say what we are going to do with them”, but for the time being there are no plans for additional aircraft.

The Spanish carrier is currently mulling whether to follow BA in introducing a premium economy product on its long-haul fleet.

“What we are evaluating [is] whether the premium makes sense, but we are analysing in which fleet because perhaps it is not good for all of them... For example, maybe we will need more densified aircraft to compete in other destinations,” says Gallego.

While Iberia has managed to restructure its businesses and return to growing its long-haul network, its short-haul operations have followed a very different path.

At the end of 2011, approximately two-thirds of the carrier’s losses were related to the short and medium-haul business, with low-cost rivals such as Ryanair and EasyJet making inroads into Iberia’s core markets.

This prompted Iberia to establish its own standalone carrier on the low-cost model in 2012 – Iberia Express – with a fleet of four A320s in a two-class configuration on services to feed Iberia’s Madrid hub.

Gallego knows Iberia Express inside out, having been appointed as its first chief executive. Indeed, he already had the low-cost ethos in his blood (see box).

“In 2011, Iberia took the decision to launch Iberia Express – and the idea of Iberia Express was first of all to feed Iberia in the hub, because Iberia could not have the right cost structure to do that,” Gallego says. “It was also to take [advantage of] the opportunity and experience that we have, because a big part of the thinking that developed [at] Iberia Express came from Vueling where we were developing a point-to-point operation in Barcelona.

“We considered that Iberia Express could also be an important tool to develop the point-to-point operation in Madrid... and we consider that Iberia had enough experience in the low-cost world to develop a company with the right cost structure, and that was Iberia Express.”

What makes the carrier successful is its cost and management structures. Gallego says Iberia Express’s costs are in the range of €0.04 per ASK excluding fuel: a similar level to Vueling, EasyJet and Norwegian. It was also “key”, he says, to ensure that the company could develop “without influence from the parent company... Otherwise you are going to end up with the cost of the parent company”.

Hence, Iberia Express has a standalone management structure and is physically separated from Iberia, being based at Madrid’s Barajas airport rather than MV49.

Today, it has a fleet of 20 A320s and is expanding its network to destinations not previously served by its parent – but while the budget arm is doing well, Gallego rules out the idea of it taking on a similar role to IAG sister carrier Vueling. Iberia Express will remain a feeder for the mainline business.

Iberia may only be in the middle of its restructuring effort, but all the indications are that the carrier is on the right track.
### DEPARTURES

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Approaching two decades after their inception, the global alliances have reached a maturity, meaning their development now is less about recruitment and more around enhancing value for their members – no easy task, given the combination of widely differing models and the sometimes contradictory nature of airline partnerships.
ALLIANCE EVOLUTION

As the big three groupings mature so the pace of recruitment has slowed, with just one new member in the last 12 months, amid deepening relationships – and tensions – with non-aligned airlines.
After almost two decades of partner recruitment and expansion, the big three alliances are striving to ensure value for members, aiming to overcome the tensions inherent in having such diverse business models working together.

When Avianca Brazil joined the ranks of Star Alliance in late July it was the first new addition to one of the three major groupings since Air India joined the same alliance a year ago.

This illustrates the maturity of the alliances after the recent growth spurts at both OneWorld and SkyTeam. Between 2011 and 2014 there were 19 new members – although that includes two which switched camps – among the three alliances. By comparison, this year Avianca Brazil could be the only new addition to an alliance, depending on how quickly Aer Lingus rejoins OneWorld should IAG complete its acquisition of the Irish carrier. Beyond that, none of the alliances have new members pending.

Getting on for two decades and 63 live members – and five ex-members – since their inception, the alliances predominantly have most of their battlegrounds covered. Much of what recent activity there has been has been driven by consolidation. For example, US Airways and TAM switched to OneWorld following their respective mergers, and TAM’s move prompted Star to seek Avianca Brazil to help fill the void in Brazil.

Others, such as last summer’s revived recruitment by Star of Air India, addressed some of the few remaining holes for the alliances. While some gaps remain – Star, for example, continues to see room for a further member in Brazil – the emphasis has moved from recruitment to deepening relationships.

There is no “theoretical limit” to the number of members, Star Alliance chief Mark Schwab told Airline Business as executives gathered for the alliance’s board meeting in Warsaw in June. But 18 years after its foundation, the alliance has reached a mature phase and its “focus is shifting from building a network to building value”, says Schwab.

This is echoed by his counterparts at OneWorld and SkyTeam.

**TAPPING ASIA**

Much of the recent recruitment activity – representing almost half of the new alliance members over the last five years – has been focused on Asia. But with the alliance entries of SriLankan Airlines and Air India to OneWorld and Star Alliance respectively in 2014, more or less all of the flag carriers in the region have found a home in one of the camps.

Outliers include Philippine Airlines, Pakistan International Airlines, Biman Bangladesh and North Korea’s Air Koryo. In theory, Myanmar could one day produce a large flag carrier, but for the time being its airline sector is highly fragmented. Cambodia has no major airline to speak of, and Lao Airlines is a modest operation.

High-profile, non-flag outliers with no alliance affiliation include Thailand’s Bangkok Airways, Virgin Australia and Hainan Airlines. All have codeshares and partnerships with airlines across the alliances, with Bangkok Airways, for example, saying it prefers to remain independent to enjoy the freedom to work with any carrier it desires.

The fundamental question facing the big three alliances in the region is not the addition of new carriers, of which there are a few qualified candidates, but providing value for existing members. Given the ownership profiles of major carriers in the region, it is clear alliances have reached a certain status quo in Asia-Pacific.

“Alliances have to accommodate growth at different paces”

**GIORGIO CALLEGARI**

Deputy general director, Aeroflot

“Once an airline is in an alliance, it takes something pretty big to make them want to leave it,” says IATA chief executive Tony Tyler. “One thing that can cause this is ownership changes, which can push them to change alliances, and we have seen a bit of that, but that is not a major issue in Asia because ownership is pretty stable owing to government involvement in the industry. Alliances will continue increasing their presence here and keep driving competition.”

Michael Wisbrun, managing director of
SkyTeam and becoming chairman of the group, notes that in a world where consolidation of airlines across national borders is often restricted by law, alliances offer “the next best thing to consolidation”, as they provide scope for carriers to enjoy economies of scale. He estimates that codeshare growth among airlines outpaces organic growth on a scale of three to one.

“It is far more effective to expand your reach through codeshares than through your own fleet,” Wisbrun says. “For the Chinese carriers, it makes a lot of sense to partner with carriers overseas, rather than grow organically. Bringing capacity to a place is one thing, but you need a market on the other side to fill this capacity in a decent, profitable way.”

SkyTeam’s roster includes two of China’s top three airlines, China Eastern and China Southern. Its other Asian carriers include Taiwan’s China Airlines, Garuda Indonesia, Korean Air and Vietnam Airlines.

Oneworld has enjoyed strong growth in the region as well. The alliance’s cornerstone in the region is Cathay Pacific Airways, and it added Malaysia Airlines in 2013 and SriLankan last year.

“With that hectic period of growth behind us, and with fewer significant unaligned airlines remaining as potential recruits, our focus for the past year has been on generating more revenues for our member airlines,” says Oneworld chief executive Bruce Ashby.

Star Alliance’s Asia-Pacific line-up features Air China, Shenzhen Airlines, Air India, Air New Zealand, All Nippon Airways, Asiana Airlines, EVA Air, Thai Airways and Singapore Airlines.

“Airline alliances were driven by the need to reach a broader market, while constrained by the limits of the airline regulatory framework,” says Joanna Lu, head of the Asian arm of Flightglobal’s Ascend advisory service.

“They were initially most effective as marketing alliances rather than a means of cost reduction. A key benefit was offering a broader network to customers, meaning in many cases better connections through key alliance hubs. The hubs offering the best connections will gain the biggest share of connecting traffic. A recent study we conducted for a major Asian airport implies that alliances have greater impact for hub airports rather than for airlines.”

Smaller airlines have pointed to the costs of joining an alliance as a disincentive, and there...
is the sheer scale of work involved in signing up. Lu reels off an imposing list of items carriers need to deal with when joining an alliance. These include agreements around ticketing, baggage, joint fares and reciprocal airports. Other items include blocked-space relationships, computer reservations systems, joint ventures, joint sales offices, e-commerce joint ventures, frequent flyer programme alliances, traffic/revenue pooling, and codesharing.

And if the recent experiences of SriLankan and Malaysia Airlines are anything to go by, alliance membership is by no means a remedy for all challenges. Although improved revenue was one of SriLankan’s reasons for joining OneWorld, it is still losing money.

As for Malaysia Airlines, it was hemorrhaging cash even before the disasters of MH370 in March 2014 and MH17 four months later. A few weeks before MH370 vanished it reported that its annual net loss for 2013 tripled to MYR1 billion ($263 million). Exactly 12 months before this, company executives had described its 2012 entry into OneWorld as the “dawn of a new era”.

“An airline’s profitability is based on its local position,” says SkyTeam’s Wisburn. “If they are getting attacked locally, they have to find their own solution. There is no one recipe for dealing with this situation.”

AFFILIATE SCHEMES

With the key battlegrounds covered, the alliances are turning their attention to plugging smaller gaps across the globe. Both Star Alliance and SkyTeam initially ran regional or associate memberships – under which Star recruited Adria Airways, Blue 1 and Croatia Airlines, while SkyTeam added Air Europa and Kenya Airways – before absorbing the carriers as full members. Both are now studying an affiliate option.

“We continue to explore this idea – are there smaller regional carriers that we could plug into the ends of our network without having them become full members of Star Alliance?” says Star’s Schwab.

“Small gains

The question of whether alliance membership delivers equal value for both large and small carriers is “a good one”, acknowledges Rickard Gustafson, chief executive of long-time Star member SAS Group.

Alliances are especially important for small carriers as they provide access to global networks, but while such carriers represent “no downside” for large members, traffic on the “global highways” of long-haul travel is largely determined by a sub-group of airlines within Star forming individual partnerships, says Gustafson.

He still believes Star provides “significant” benefits for all members, but sees a need for the alliance to “reinvent” itself in line with the shift from establishing a global network and seamless travel for passengers to sharing more resources and data between airlines.

Elsewhere in Star, EgyptAir chief Sameh El-Hefny sees no conflict in having a two-tier system. Large alliance members need to have exclusive privileges, he argues, and the smaller members still gain “lots of benefits” from participating in the alliance, including

Star has welcomed just one member annually over the last three years
access to shared facilities, such as London Heathrow’s Terminal 2, and more attractive frequent-flyer programmes. In any case, joint ventures between airlines tend to reflect not carrier size but geographical location, argues El-Hefny.

For Lufthansa Group chief Carsten Spohr, joint ventures are “a further step toward consolidation” – which, he says, is “urgently” required. In Spohr’s view, the future development of airline alliances will be a factor both of the number of airlines competing in the marketplace – particularly in Europe – and of differences in airlines’ corporate make-up.

“Alliances provide no protection from consolidation,” he says, albeit that “perhaps they slow it down” for small operators. Consolidation has not taken place yet because, Spohr asserts, airlines “do not adhere to the law of business economics”. While some carriers compete on a purely commercial basis, others depend on state support.

Spohr accepts that joint ventures are available primarily to large carriers. But he contends that such tie-ups create neither disadvantages nor benefits for small alliance members.

Sebastian Mikosz, chief executive of Polish flag carrier LOT, takes a different view, however. He sees joint ventures as “very problematic” because they create sub-organisations with a mutually shared business that is “much closer” than is typical within an alliance framework.

In July LOT detailed an expansion strategy, centred on long-haul growth, to be pursued when a state-funded restructuring programme concludes at the end of 2015, freeing the carrier from European Commission-imposed capacity restrictions. Now, LOT must find an investor – or raise capital through share issuance – to fund a planned doubling of the fleet.

Mikosz says LOT benefits from access to Star’s network, the alliance’s terminal facilities and, crucially, its brand – which, he admits, is much more globally recognised than that of LOT. But the advantages for the carrier have so far been “at a much lower level than they should be”, he adds.

He believes LOT must play “a more active role” within Star including through efforts to build joint ventures with other members. Shortly after the Star board meeting in Warsaw, LOT unveiled formative co-operation plans with Star partner Turkish Airlines as a first move towards a future joint venture.

And as LOT requires external investment to pursue its growth strategy – ideally from another airline – Mikosz supports the consolidation argument too. “We [as an industry] should consolidate,” he says, as today’s fragmented airline landscape “is not helpful in the long term”.

Mikosz also sees a need for “a new balance” between general airline alliances and joint ventures among select members.

SkyTeam and Oneworld face similar balancing acts between the larger members, which have established joint ventures in key markets, and the smaller operators within the group.

**WIDENING GULF**

Similarly further adding tension to harmony within the alliances is the divided positions in the industry over the expanding Gulf carriers. Etihad and Emirates – avowed non-alliance members – have key relationships with alliance carriers, while Qatar Airways has been a Oneworld member since 2013.

The latter provides the most high-profile challenge, given that its alliance partner American Airlines is one of the three US carriers at the heart of the dispute with the Gulf carriers over subsidies.

Already Qatar’s outspoken chief executive Akbar Al Baker has raised the spectre of quitting the grouping over the row.

“When alliances provide no protection from consolidation”

**CARSTEN SPOHR**

Chief executive, Lufthansa Group

“If we find that we can’t find a settlement to this issue, than yes, we will exit Oneworld,” Al Baker said during the Paris air show.

He suggests that American was “blocking inventory” on passenger booking systems and preventing gate access for Qatar at New York JFK airport, and argues if his carrier continues to be “cornered” by American, “then there is no purpose to be in an alliance”.

American for its part says it is working with Qatar to find a solution for the airline’s gate needs at JFK. “The times that Qatar has requested for gates conflict with the times we use our gates, and a solution will take some time to work out,” it says, adding it has turned down similar requests from other partner airlines.

If nothing else, it illustrates the difficulty airlines will have in separating the spiralling subsidy battle from the wider operational picture.

“Tensions” within airline alliances over how to deal with rapidly expanding carriers need to be addressed or members “will look for alternatives”, warns Aeroflot’s deputy general director for strategy and alliances Giorgio Callegari.

“Alliances have to be flexible enough to accommodate airlines growing at different paces and, as a result of that, airlines that are making different kinds of investments,” he says.

The Russian carrier, a SkyTeam member since 2006, has previously pressed for an easing of restrictions on deals with airlines from other alliances, and in 2013 hired US consultancy Oliver Wyman to make a comparative study of benefits from operating within SkyTeam and collaborating with outsider airlines.

“If alliances are too dependent on protecting the incumbent carriers, that’s where we have an issue, because instead of representing progress they represent a straitjacket.”

The three alliances have different positions on carriers working with non-alliance – or competing alliance – members, with Oneworld appearing the most relaxed. Schwab though says Star has also “liberalised” some of regulations around how carriers interact with non-aligned carriers or those in rival alliances.

“There are genuine commercial needs in certain sectors in certain parts of the world that cannot be solved within the alliance family,” he says. ■
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Overall airline capacity across the Atlantic remains on the rise despite pressures on yields, exacerbated for US carriers by the weakness of European currencies against the strong dollar.

The question of demand continues to envelope the transatlantic market this year, as airlines add capacity despite weaker results in the first half.

Carriers are piling on seats between North America and Europe, with capacity increasing 5.9% to 13.1 million in the third quarter and 7.4% to 10.4 million in the fourth quarter compared with a year ago, Capstats data shows. The third quarter roughly coincides with the IATA summer schedule, widely seen as peak season across the Atlantic.

Airlines have added a number of new markets. Air Canada and its low-cost subsidiary Air Canada Rouge launched new services and increased frequencies from their Montreal and Toronto hubs to Amsterdam, Athens, Barcelona, Paris and Venice; Air France and KLM added new flights to Edmonton and Vancouver; Delta Air Lines entered the Philadelphia-London Heathrow market and American Airlines retaliated with additional frequencies; while United Airlines added new seasonal routes to Dublin, Newcastle, Rome and Venice.

**CRAIG KREEGER**

Chief executive, Virgin Atlantic

"We’re seeing a little bit of a mix of pressure on yield and load factor"

Making up for lost ground or not, the combined pressure of capacity growth and the strong US dollar is taking a toll on industry yields across the Atlantic.

The euro was down almost around a fifth against the US dollar at €1.10 to $1 in early August compared with a year earlier, while the pound was down 7.7% at £1.55 to $1 on the same day.

The currency situation has driven declines in passenger unit revenues at the US carriers. American Airlines reported a 9.3% fall in passenger revenue per available seat mile (PRASM), Delta Air Lines an 11.5% decrease and United Airlines a 6.4% decline in the second quarter.

"In core European markets, we saw improved US point-of-sale demand, but this was more than offset by a reduced point-of-sale demand in Europe and the effect of the weaker euro," says Ed Bastian, president of Delta.

**DELTA CONNECTIONS**

The SkyTeam carrier is scheduled to increase seat capacity by 9.6% in the third quarter and 8.1% in the fourth quarter, Capstats shows. However, executives have repeatedly said the airline will reduce growth in the market from September so the actual number of additional seats is likely to be less.

Delta’s partners are growing as well. Joint seat capacity with Air France, Alitalia, KLM and Virgin Atlantic Airways, with whom it operates transatlantic joint ventures, will increase 7.6% in the third quarter and 9.1% in the fourth quarter.

London-based Virgin Atlantic is leading the growth. The carrier has been redeploying aircraft and adding flights to the USA and Delta hubs since the two launched their immunised partnership in January 2014, creating a more formidable competitor to the American-British Airways joint business.

“We’re seeing a little bit of pressure on yield and load factor although the summer generally is a great period for us,”
“Capacity growth on the Atlantic has picked back up quite a bit”

JOE DENARDI
Aerospace analyst, Stifel

said Craig Kreeger, chief executive of Virgin Atlantic, on the transatlantic market in June. “I’d describe [the revenue environment] as kind of flattish.”

However, he added that low fuel prices more than outweigh the flattish demand in the market and are likely to drive profits at the airline. British Airways and Iberia parent IAG also saw a flat demand environment during the first half of the year. As a result, it is one of the more disciplined groups in the market with BA seat capacity down 2.7% in the third quarter and down 1.2% in the fourth quarter, Capstats shows.

Iberia’s seat capacity is set to decrease 7.8% in the third quarter and increase 2.5% in the fourth quarter.

FRESH DELIVERY

“We’re taking delivery of a lot of new aircraft and we’re pointing a lot of that new product across the Atlantic,” says Sean Doyle, executive vice-president of the Americas at the Oneworld carrier.

For example, BA has deployed its new Airbus A380s on flights to Los Angeles, San Francisco and Washington Dulles and new Boeing 787s to Austin, Newark and Toronto in recent years.

Doyle is confident about BA’s strength in the London-New York market, even as Delta and Virgin Atlantic have mounted a co-ordinated effort to capture share. He says American and BA offer the “most compelling” network and range of product in the market and, from October, all of the joint business partners’ operations will be consolidated in either Terminal 3 or Terminal 5 at London Heathrow, further easing things for travellers.

Still, the strong transatlantic capacity growth this year echoes the weaknesses that was seen by many in 2014. That year, Air France-KLM and Lufthansa both lowered profit targets due in part to their own capacity additions and those of competitors across the Atlantic. Other airlines also reported weaker demand conditions.

“Capacity growth on the Atlantic has picked back up quite a bit,” says Joe DeNardi, an airlines and aerospace analyst at Stifel. “My expectation is capacity will be down into the winter season.”

CUTS AHEAD

European carriers are driving much of the growth while US carriers are more disciplined, he says, adding that airlines are varying – or peaking – capacity more between the high demand summer season and the lower demand winter this year. While almost every carrier cuts capacity from summer to winter, some are peaking more than others. Delta and United will both make larger cuts to fourth quarter transatlantic seat capacity compared with third quarter capacity this year versus 2014.

“The great thing about our network and our fleet is its flexibility,” says Jim Compton, chief revenue officer of Star Alliance carrier United. “So what you’re seeing in the transatlantic is that fleet flexibility going up, allowing us to gauge appropriately to the demand we expect in the fourth quarter.”

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<tr>
<th>TRANSATLANTIC SEAT CAPACITY THIRD AND FOURTH QUARTERS 2015</th>
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<tr>
<td><strong>Seats</strong></td>
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<td>Air France, Alitalia, Delta Air Lines, KLM and Virgin Atlantic</td>
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<td>Air Canada, Lufthansa and United Airlines</td>
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<td><strong>INDUSTRY TOTAL</strong></td>
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SOURCE: Capstats, covers transatlantic JV operations, Delta has separate JVs with Virgin and with Air France-KLM & Alitalia
Delta Air Lines is taking its growing equity partnership model to China with an investment in its SkyTeam partner China Eastern Airlines, improving both carriers’ positions across the Pacific.

This follows nearly two years of comments on the importance of China to the Atlanta-based carrier’s Asia strategy by chief executive Richard Anderson and other executives.

“In a decade, it would be nice to replicate the joint venture structures we have in Europe and move them to China,” Anderson said in October 2013. He has repeated the sentiment multiple times since.

While not a joint venture – that requires open skies between the USA and China – the $450 million investment in Shanghai-based China Eastern includes an expanded codeshare partnership, a new joint corporate sales office for the market and joint investment in new products and technology. The carriers became co-located in terminal 1 at Shanghai Pudong International airport in April, a move aimed at easing connectivity between their networks.

Delta chief revenue officer Glen Hauenstein said in January that the airline connects on average 200 passengers daily between its network and China Eastern over Shanghai.

Delta and China Eastern have filed a joint notice with the US Department of Transportation to expand their codeshare. Delta will place its code on China Eastern’s flights between Nanjing and Los Angeles, as well as between its gateways in China – Beijing and Shanghai Pudong – and six Chinese cities including Guiyang, Tianjin and Zhengzhou.

**WINNING CODE**

China Eastern will place its code on Delta’s new flights between Shanghai and Los Angeles, as well as on all Delta flights from its US gateways – Los Angeles, New York JFK and San Francisco – to 15 US cities including Austin, Denver and Raleigh-Durham.

This will complement Delta and China Eastern’s existing codeshare that covers 30 domestic routes in the USA, 43 in China and seven transpacific routes.

The investment and codeshare expansion will improve the airlines’ position in the dynamic US-China market. Delta had a 10.5% share and China Eastern a 15.1% share of seats between the two countries in July, Innovata FlightMaps Analytics shows. This places them fifth and third, respectively, in the market.

Their combined market share of 25.6% is second to only the partnership of market leaders Air China and United Airlines.

Airlines have rapidly expanded in the US-China market in recent years. Seat capacity was up 30% this July compared with a year ago and nearly 63% since July 2013, Innovata shows. Every airline has added new routes and flights since 2013. This includes Delta flights from Los Angeles and Seattle to Shanghai, and China Eastern flights linking Nanjing to Los Angeles and Shanghai to San Francisco.

The investment will likely be a boon to Delta in Asia. Cowen Securities analyst Helane Becker sees “further upside” from the deal over the $100 million benefit Delta anticipates from the restructuring of its Asia-Pacific network.

“The investment will give Delta access to another connecting hub in Asia and enhance Delta’s Asia-Pacific strategy,” she says.

**NEW GATEWAY**

Delta began restructuring its Asia network around a new gateway at Seattle-Tacoma International airport in 2013. It has launched new services to Hong Kong, Shanghai Pudong, Seoul Incheon and Tokyo Haneda (discontinued from 30 September) from the gateway and reduced flying to Japan and its Tokyo Narita hub, including axing its Seattle-Osaka service.

The aim is to increase direct flights into Asia from the USA and reduce the reliance on Tokyo Narita as a connecting hub.

“We now have a very detailed plan together over the next decade to grow Shanghai into a strong hub,” Anderson says. “China Eastern and Delta [will] share flying across the Pacific. Delta does the domestic flying in the USA for the partnership and, of course, China Eastern does all of the flying in China beyond Shanghai.”

Delta already has stakes in Aeromexico, its SkyTeam partner, as well as Gol and Virgin Atlantic Airways. The US carrier has taken its partnership with Virgin one step further with an immunised joint venture between the USA and UK, and is seeking a similar partnership with Aeromexico, pending regulatory approval.

Delta’s planned investment will net it 10% of China Eastern’s H shares on the Hong Kong stock exchange, equal to a 3.55% stake. It will also gain an observer seat on China Eastern’s board of directors. It marks the first overseas stake in a Chinese state-owned carrier.

But the US carrier’s interest in participating in the restructuring plan for Japan’s Skymark Airlines came to nothing, after creditors voted in favour of Star Alliance carrier ANA Holdings.

It is a further sign of an increased investment appetite among the highly profitable US carriers, which also saw United Airlines take a small stake in Brazilian partner Azul.
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ALLIANCES AND JOINT VENTURES

Our annual review of the industry’s groupings details new codeshares, joint venture developments and partnership news for members of the three main global alliances, as well as those for the most active non-aligned carriers.

STAR ALLIANCE

STAR HOPES TO MAKE IT THIRD TIME LUCKY IN BRAZIL

Star Alliance, still the largest of the global alliances, is the only one of the groupings to have added a new member in the last 12 months, with the addition of Avianca Brazil in late July.

Brazil, the largest domestic market in the region, had become a high priority again after the loss of TAM, which switched allegiances to OneWorld last year after its merger with LAN – a long-term member of OneWorld. TAM had itself marked Star’s second Brazilian partner after the demise of Varig.

The São Paulo-based carrier will add 15 new destinations in Brazil to Star’s network, on top of the 12 its members already serve. Sister carrier Avianca is already a Star member. “We are back again where we belong,” says Star Alliance chief executive Mark Schwab.

Avianca Brazil has over 200 daily flights to 24 destinations, predominantly in Brazil. The carrier, which operates 41 aircraft, serves only Bogota outside its home country. While the airline re-establishes Star’s presence in Brazil, the grouping is also still keen on Azul as a member. Azul is the third-largest Brazilian domestic carrier in terms of market share, followed by Avianca Brazil, which has a 9% share. “The alliance has always maintained the position that the market is large enough to sustain two members,” says Schwab.

“We have had ongoing discussions with their team,” he says, but he notes that Azul has been “extremely busy” of late and that the grouping wants to wait for “the dust to settle” before resuming talks. Azul founder and chief executive David Neeleman has just bought a stake in TAP Portugal, while another Star partner, United Airlines, has bought a share in Azul.

Neeleman told Airline Business in July that the airline had not decided if it wanted to join Star, although he acknowledged that the alliance had been actively pursuing the carrier.

<table>
<thead>
<tr>
<th>ALLIANCE</th>
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<td>XIAN AIR</td>
<td>1997</td>
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*Third time around: Avianca Brazil fills a gap left by TAM, but Azul interest remains.

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Global Alliances in Numbers

Alliances: Market Share

- Oneworld: 19.0%
- Star Alliance: 24.0%
- SkyTeam: 20.8%
- Non-aligned: 36.2%

63.8% Alliance traffic share

Notes: Based on RPKs for 2014 Top 200 passenger rankings and alliance members outside top 150

Aligntement Networks Weekly Scheduled Operations

<table>
<thead>
<tr>
<th></th>
<th>Destinations Total</th>
<th>Destinations Duplicates</th>
<th>Countries Served</th>
<th>Frequencies ('000)</th>
<th>Capacity (ASK) (bn)</th>
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<td>154</td>
<td>95</td>
<td>28.5</td>
<td>17.3%</td>
</tr>
<tr>
<td>SkyTeam</td>
<td>1,037</td>
<td>347</td>
<td>177</td>
<td>116</td>
<td>31.3</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

Total Alliances 98.6 59.9%

Notes: Analysis based on weekly Innovata schedules for 14-20 September 2015. ASK = Available seat-kilometre. 1 mile = 1.609km. Share is of total nonstop scheduled capacity offered. Destinations are airports served.
After a recent partner recruitment drive swelled its ranks to 20 member airlines and as it marks its 15th anniversary, the focus for SkyTeam has shifted to the next stage of the grouping’s development.

Garuda Indonesia, which joined SkyTeam in March 2014, is the only new airline addition over the last two years.

But the alliance is working on an affiliate programme that would allow airlines on the periphery of the alliance to access parts of its technology platform.

SkyTeam chief executive Michael Wisbrun, who replaces Leo van Wijk as chairman of the grouping this November, says that the SkyTeam Connect programme is still in a development phase but will aim to allow for easier connections with member carriers.

“We are discussing with, for instance, Gol,” he says. “It makes sense for Gol, which is co-operating with 13 members of SkyTeam, to make operational connections with SkyTeam technology.” SkyTeam carriers Air France and Delta both have deep partnerships with the Brazilian carrier, while Korean Air is the latest SkyTeam operator to codeshare with it.

That could allow for easier rebooking in the case of a flight disruption, as well as access to the alliance’s other airport services.

Wisbrun says that for a low-cost carrier, SkyTeam Connect would mean that the airline would not have to be a part of the other working groups and requirements of full membership.

Delta Air Lines executive Perry Cantarutti will succeed Wisbrun as SkyTeam Team chief executive. Cantarutti is Delta’s senior vice-president for Europe, the Middle East and Africa. He joins the alliance management team during September.

**DELTA AIR LINES**
- **Member since:** 2000
- **Codeshares:** 20
- **New:** Shanghai Airlines
- **Partners/stakes:** Holdings 49% stake in Virgin Atlantic Airways, with which it operates a UK/USA route JV. Transatlantic JV with Air France, KLM and Alitalia. Minority stakeholder and partner with Aeromexico and Gol. JV with Virgin Australia on USA-Australia flights. Planned stake and partnership with China Eastern

**KOREAN AIR**
- **Member since:** 2000
- **Codeshares:** 33
- **New:** Aerolíneas Argentinas, Air Europa, American Airlines, Gol
- **Partners/stakes:** Holds a 44% stake in Czech Airlines

**KLM**
- **Member since:** 1997
- **Codeshares:** 27
- **New:** Garuda Indonesia
- **Partners/stakes:** Major shareholder in Air France-KLM Group, which has JV with Alitalia. Together with Air France and Alitalia, is part of transatlantic JV with Delta. Holds a minority stake in Kenya Airways. Wide-ranging codeshare with Etihad

**SAUDIA**
- **Member since:** 2012
- **Codeshares:** 8

**SKYTEAM**

**CANTARUTTI TAKES ON CEO ROLE AT CONSOLIDATING SKYTEAM**

Top job: Delta’s Cantarutti becomes CEO as Wisbrun takes SkyTeam chairman role
ONEWORLD

AER LINGUS SET FOR SECOND ONEWORLD

After its busiest period of expansion, it has been a quiet year for Oneworld, with no new additions. But a familiar face, in the shape of Aer Lingus, is set to return.

Oneworld membership was boosted with the arrival between October 2013 and April 2014 of Qatar Airways, former Star Alliance pair US Airways and TAM, and SriLankan Airlines. Oneworld membership stands at 15 after US Airways was integrated into American Airlines.

US Airways and TAM switched camps as a result of their mergers with Oneworld members American Airlines and LAN, respectively. Now another carrier, Aer Lingus, seems to be following a similar path. IAG, the parent of Oneworld carriers British Airways and Iberia, is closing in on its acquisition of Aer Lingus after securing shareholder support and conditional approval from European regulators for the deal. IAG plans to retain Aer Lingus’s brand and have the Irish airline enter Oneworld and its transatlantic joint venture – with Oneworld partners American Airlines and Finnair – if its takeover bid succeeds.

It would be familiar ground for Aer Lingus, which was one of the earliest members of Oneworld, having joined the grouping in 2000. But the airline quit the alliance in April 2007 to pursue its own low-fare strategy and form new partnerships with other carriers.

Should it rejoin Oneworld, Aer Lingus – already the only airline to leave one of the global alliances to become independent of its own volition – would become the first airline to rejoin the same grouping.

Etihad Airways had also moved to include the Irish carrier as part of its equity-alliance partnership strategy, acquiring a 4% stake in Aer Lingus. But Etihad has said it will sell this stake if IAG gains control of the Irish operator.

AIR BERLIN
Member since: 2012
Codeshares: 22
New: Bulgaria Air, Jet Airways
Partners/stakes: Ethihad holds a 29% stake in the airline and Air Berlin codeshares with a number of Ethihad’s main partners

AMERICAN AIRLINES
Member since: 1998
Codeshares: 33
New: Interjet, Korean Air, SriLankan Airlines
Partners/stakes: A merger with US Airways, which brought the latter carrier into Oneworld in April 2014, has now been completed and the carriers have been operating under a single AOC since April. Transatlantic joint venture with British Airways, Finnair and Iberia in April. JV on Pacific flights with Japan Airlines. Expanding partnership with Qantas on Australian-USA flights. Recent codeshare deal with SkyTeam member Korean Air

BRITISH AIRWAYS
Member since: 1998
Codeshares: 20
Partners/stakes: Is part of IAG, along with Iberia and Vueling, and potentially soon Aer Lingus. Operates an immunised transatlantic joint venture with American Airlines and European partners Finnair and Iberia; Joint venture on Japanese routes with Japan Airlines and Finnair

CATHAY PACIFIC
Member since: 1998
Codeshares: 19
New: Fyfe
Partners/stakes: Part-owned (30%) by Star Alliance carrier Air China. Cathay owns Oneworld affiliate Dragonair

FINNAIR
Member since: 2000
Codeshares: 21
Partners/stakes: Part of American Airlines, British Airways and Iberia’s transatlantic JV and BA’s joint venture with Japan Airlines on routes from Europe to Japan

IBERIA
Member since: 2000
Codeshares: 27
New: AirBaltic, Interjet, TAM
Partners/stakes: Part of IAG along with British Airways and Vueling; operates immunised transatlantic JV with American Airlines and European partners British Airways and Finnair

JAPAN AIRLINES
Member since: 2007
Codeshares: 28
New: TAM

Partners/stakes: Part of JV with American Airlines on flights to the USA, and with British Airways and Finnair on European services

LAN AIRLINES
Member since: 2000
Codeshares: 12
New: Interjet
Partners/stakes: The merger with TAM to create LATAM Airlines Group also saw the Brazilian carrier join it in Oneworld in March 2014. Has unveiled plans to operate with TAM under single LATAM brand

MALAYSIA AIRLINES
Member since: 2012
Codeshares: 29
Ceased: China Southern

QANTAS
Member since: 1998
Codeshares: 25
New: JetStar Japan
Partners/stakes: Launched wide-ranging partnership with Emirates in April 2013, ending Kangaroo route joint venture with British Airways. Is expanding its partnership with American Airlines on Australian-USA flights and is also seeking authority for JV with China Eastern on Australia-China flights. Its Jetstar low-cost unit is involved in a number of carriers in the region

QATAR AIRWAYS
Member since: 2013
Codeshares: 15
New: Royal Jordanian
Partners/stakes: Acquired a near 10% stake in British Airways and Iberia parent IAG in early 2015

ROYAL JORDANIAN
Member since: 2007
Codeshares: 13
New: Qatar Airways

S7 AIRLINES
Member since: 2010
Codeshares: 21
New: Air Moldova, Montenegro Airlines

SRILANKAN AIRLINES
Member since: 2014
Codeshares: 13
New: American Airlines, Jetstar Asia

TAM
Member since: 2014
Codeshares: 13
New: Iberia, JAL, Passaredo
Partners/stakes: The merger with LAN to create LATAM Airlines Group also saw the Brazilian carrier leave Star Alliance after four years to join rival Oneworld. Parent LATAM has unveiled plans to operate with LAM and TAM under single LATAM brand

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November 15-17, 2015
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ETIHAD FINDS STRUCTURE FOR PARTNERS

After its busy period of acquiring airline stakes in support of its equity-alliance partnership strategy, Etihad has put the focus on deepening co-operation across its partners.

In unveiling the Etihad Airways Partners concept last October, the boss of the Abu Dhabi carrier, James Hogan said the initiative will create “synergies and efficiencies for participating airlines on the one side, and enhanced network choice, service and frequent-flyer benefits for the consumer on the other”. He argues that Etihad Airways Partners differs from legacy airline alliances by offering benefits beyond pure commercial co-operation.

Etihad Airways Partners consists of Etihad, Air Berlin, Air Serbia, Air Seychelles, India’s Jet Airways and Darwin Airline, which operates as Etihad Regional. However, Etihad says any airline can become an Etihad Airways Partners member even if it is part of an existing alliance. Alongside its equity partners, it has a struck a series of codeshare deal as part of its efforts to rapidly gain scale.

The new brand included “standardised mileage and tier benefits across all partners, no blackout periods and priority services”, adds Etihad.

That was supported by the appointment of former Air France executive Bruno Mathieu to the new position of chief operating officer equity partners, last December.

The airline has not added to its ranks, though it did in January lift its stake in Virgin Australia to 24% using “creep provisions” provided for in Australia’s corporation laws. Star Alliance carriers Air New Zealand and Singapore Airlines hold 26% and 22% stakes respectively in the Australian carrier.

Of the non-aligned carriers, only Aer Lingus is on course to join an alliance – or in its case rejoin – as it is set to be reacquainted with OneWorld once IAG completes acquisition of the Irish carrier.

Despite the recent capture of Avianca Brazil, Star Alliance continues to eye Brazilian operator Azul to boost its presence in that market. OneWorld already has TAM in its camp following the latter’s merger with LAN, while SkyTeam has a close relationship with Brazilian operator Gol. Air France and Delta Air Lines both have small investments in Gol, while Korean is the latest to codeshare with it.

Royal Air Maroc meanwhile is hoping to reach a preliminary decision on alliance membership by the end of this year, as it reinforces its preference for OneWorld.

| ALASKA AIRLINES |
| Codeshares: 13 |
| **New:** Bangkok Airways, Flybe |
| **Partners/stakes:** Joint venture with Qantas on flights between Australia and Europe via Dubai |

| EMBRITAS |
| Codeshares: 16 |
| **New:** Bangkok Airways, Flybe |
| **Partners/stakes:** Joint venture with Qantas on flights between Australia and Europe via Dubai |

| HAINAN AIRLINES |
| Codeshares: 11 |
| **Partners/stakes:** Part of HNA Group, which also has stakes in China’s Lucky Air (68%), Aigle Azur (48%) and now Comair (6%) |

| JET AIRWAYS |
| Codeshares: 20 |
| **New:** Air Berlin, Air Seychelles, Bangkok Airways |
| **Partners/stakes:** Wide-ranging co-operation with Etihad and its partners, after the Gulf carrier acquired a 24% stake in the airline |

| JETBLUE |
| Codeshares: 11 |
| **New:** Royal Air Maroc |
| **Partners/stakes:** Lufthansa sold its 19% stake in JetBlue |

| JETSTAR |
| Codeshares: 4 |
| **Partners/stakes:** Qantas unit has developed several JV carriers, including Jetstar Japan and Jetstar Hong Kong |

| VIRGIN AUSTRALIA |
| Codeshares: 10 |
| **Partners/stakes:** JV with 26% stakeholder Air New Zealand on trans-Tasman flights. Operates in partnership with Singapore Airlines, which holds a 22% stake; operates a partnership with Etihad Airways, which holds a 24% stake holding. Also operates a JV partnership on US routes with Delta Air Lines |

| TRANSATERO |
| Codeshares: 8 |
| **Partners/stakes:** SkyTeam carrier Delta holds a 49% stake in the airline, with which it operates a JV covering routes between the UK and USA. This is separate from Delta’s transatlantic JV with Air France-KLM and Alitalia |

| VIRGIN ATLANTIC |
| Codeshares: 13 |
| **New:** Philippines Airlines |

| WESTJET |
| Codeshares: 13 |
| **New:** Philippines Airlines |

**SURVEY NOTES**

This year’s *Airline Business* alliance survey features codeshare, joint venture and partnership highlights for all the global alliance members, as well as partnership activity for selected non-aligned carriers. Total number of codeshares are listed for each carrier. New and ceased codeshares highlight some of the main changes since August 2014, but is not an exhaustive list of all changes. Partner/stakes details do not necessarily cover all those owned by the airline, but focus on key relationships and joint ventures. Information is sourced from survey returns, company information and Flightglobal. A full listing of codeshares is available to subscribers on Flightglobal’s dashboard. For more on this premium news service, visit: flightglobal.com/dashboard
Most airline chief executives, chief financial officers and chief operating officers believe crew costs (cockpit and cabin crew), which typically can account for up to 16% of their cost base regardless of business model, are lowered through the use of crew scheduling optimisers. Although optimisers do increase crew efficiency, airlines still experience crew cost overruns. Lacking understanding of the root cause of overruns, airlines often fail to take effective corrective actions, thereby missing their targeted budget for crew costs.

This exposure takes many forms:

Management actions and behaviour
Automated crew planning systems may construct a number of pairings that appear optimal and legal on paper, but in fact provide little buffer to absorb disruptions. Some airlines prefer longer pairings (approximately six days) versus shorter pairings (approximately two days), as the former may offer a lower cost, according to the optimiser. In reality, though, certain scheduling practices leave little room for error and often result in crew costs that are significantly higher than the budget permits. The delay in recognising the crew cost overrun also leads to an ineffective feedback loop, repeating the same poor pairings and scheduling practices month after month.

Furthermore, scheduling of additional crew activities, such as internal meetings, trainings and check rides/initial operating experience, often disrupts pairings. While management may think the number of disrupted pairings are small, the actual cost could be very high because both the original crew and the covering crew have to be paid, potentially at overtime rates. In one example, an airline spent approximately $2 million annually for company (non-union) business.

Crew behaviour
As crew members earn seniority and gain flexibility in scheduling, they are able to “game the system”, taking advantage of loopholes that can dramatically increase their pay while offering no added benefit to the airline. Although legal, such practices drive up overall crew costs unnecessarily and confound crew optimisers, which create the pairings before crew members bid for their schedule. Because crew payroll doesn’t perform a productivity/effectiveness audit, airlines rarely discover these abuses. For the typical mid-size airline, this could lead to some pilots earning up to and in excess of double their base pay by gaming the system. Add it all up and it can equal $4 million to $6 million per year in additional crew cost for a typical mid-size airline with little or no increase in flying hours or productivity.

Post-processing system limitations
Given the complexity of the typical collective bargaining agreements, crew payroll is either handled by a pre-programmed “black box” or, at some airlines, calculated manually. Yet this process, which incorporates no effective checks and balances, is biased against the airline; an underpaid crew member makes sure it is corrected, whereas overpayments go uncorrected. Compounding the error are the additional personnel costs for the staff needed to respond to and act on crew inquiries over pay discrepancies. Our analysis across airlines indicates that manual mistakes alone can account for an increase in crew cost of approximately 5% for a mid-size airline.

Compensation design versus reality
Given the highly complex nature of crew compensation, many airlines design their programmes or union agreements to “intuit” the most efficient and effective structure of crew compensation plans. However, reality does not match the conditions present when the compensation plan was designed. And the optimisers adjust according to the current set of rules and pay – they don’t say when certain conditions in the plan are unduly driving up overall compensation.

In addition, without knowing the potential cost of its actions, the crew planning group must often make a number of policy decisions by the seat of its pants, such as the following:

- Optimal level of reserves versus overtime
- Level of reserves required in order to cover irregular operations
- Optimal mix of long and short pairings
Optimal length of pairings versus potential for broken pairings
Potential cost savings of longer pairings versus increased cost to cover broken pairings
Part 117 (and its global equivalent) duty hour-related challenges
Trade-off between out-and-back crew rotation versus “fly around the network” crew rotation practices
Keeping cabin and cockpit crews together versus optimising crews separately

All in all, few airlines have the right tools to accurately forecast crew costs. Given the magnitude of crew cost overruns airlines are likely experiencing now, they simply must devote more resources to understanding the root cause of these cost overruns. Airline crew planning and scheduling systems often are focused on publishing the next month’s pairings and on matching bids to pairings. They often fail to spend enough time and resources on analysing the effect of their policy decisions, not to mention the cause of cost overruns. The incremental costs of suboptimal crewing should motivate airlines to conduct deeper analysis and acquire advanced analytical tools. Better tools would not only allow them to optimise their policies, but also build in proper buffers, pay crew correctly, understand potential work rule changes during labour negotiations and reduce total crew cost.

There are specialised vendors (not suppliers of the current crew optimiser systems) that effectively help airlines reduce their crew costs through tackling this problem. One such vendor that has worked successfully with LEK Consulting is Rainmaker Technologies, which offers a crew analytics and crew pay rules engine. On a recent deployment, the Rainmaker suite was able to identify and support the implementation of improved reserve utilisation/productivity and reduced related premium through improved modelling of both operational and crewing demands and proactively manage pairing length/mix to mitigate the impact of crew “self-rostering” by dropping trips for leave or sick leave during peak months. It also supports a significant reduction in training and line-check-related disruptions.

Immediate savings for a mid-sized carrier based on its existing performance was roughly $4 million per annum.

The C-suite may treat these products and services as yet another “optimiser”, but in reality, the current process of optimise-bid-award-modify-fly-pay is sub-optimal. It neither affords the airline feedback nor provides an effective tool for analysing the root cause of cost overruns. Applying analytical tools allows airlines to avoid creating expensive pairings, identify and potentially prevent expensive abuses of the system, and determine and avoid the costs of various management actions.

Many systems focus on the next month’s pairings and matching bids to those pairings

John Thomas is managing director and regional head for Asia-Pacific at LEK Consulting
Airlines see past fuel gains

Profits among European and US operators improved again in the second quarter as the lower oil price cut their costs, but on both sides of the Atlantic carriers are taking action to safeguard their fortunes.

There was a familiar ring to results as North American and European carriers disclosed profits during the second-quarter earnings season.

Amid an environment of sharply lower fuel costs, airlines on both sides of the Atlantic have largely been able to improve profits. But while US carriers’ profit run continues almost unabated, much of the talk from Europe’s pressured network carriers is of not allowing lower fuel expenditures to mask the requirement to restructure their cost base.

Second-quarter operating profits covering a dozen North American carriers topped $8 billion in the three months ending June 2015. That is more than $2.5 billion higher than in the same stage in 2014. Collective net profits were more than $2 billion higher at $3.7 billion.

American Airlines, Delta Air Lines, Southwest Airlines and United Airlines all posted operating profits in excess of $1 billion and combined generated profits in excess of $1 billion.

The improved profits among US carriers topped $8 billion in the second quarter, after passenger unit revenue fell 5% in the second quarter. “We don’t see any improvement in the domestic market, but it’s not getting any worse,” says Scott Kirby, president of the Oneworld carrier.

United Airlines executives made a similar statement with the carrier’s result, saying domestic demand had levelled off from the drop it experienced during the first half of the year.

EUROPEAN CONCERNS

While overall European carriers enjoyed improved financial fortunes in the second quarter of the calendar year, airline executives at the region’s network carriers were largely stressing the need for more cost savings.

The improved profits among European carriers in part reflects a stronger performance at Lufthansa Group, which increased its adjusted operating profit more than 50% to €635 million ($696 million) in the second quarter.

Revenue climbed 9% to €8.39 billion as, finance chief Simone Menne says, its passenger airlines “gained extra momentum in the second quarter”. But she adds: “The fall in fuel costs is largely responsible for the improvement in our results.”

That leads her to sound a note of caution: “We assume that the price level for airline tickets will not recover. We will therefore continue to work consistently on the competitive focus of the Lufthansa Group.”

Menne adds that the increases were partly attributable to “weak” results in 2014 and that it will be difficult to maintain the performance during the second half of the year.

Competition is likely to increase especially in the short-haul arena from September as EasyJet and Ryanair expand their operations in Germany, while for Lufthansa’s long-haul business the benefit of favourable currency effects will lessen, says Menne.

Unit revenue rose 2.8% during the first six months, especially on the back of strong performance on routes to North America. But without exchange-rate effects, unit revenue declined 4.1% during the January-June period.

Lufthansa Group has confirmed its full-year outlook. It foresees an adjusted operating profit of more than €1.5 billion “before strike costs”.

Air France-KLM Group mean-

<table>
<thead>
<tr>
<th>Group/airline</th>
<th>Revenues change</th>
<th>Operating result ($m)</th>
<th>Operating margin</th>
<th>Net result ($m)</th>
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</thead>
<tbody>
<tr>
<td>Alaska Air Group</td>
<td>1,437</td>
<td>4.5%</td>
<td>372</td>
<td>263</td>
</tr>
<tr>
<td>Allegiant Travel Company</td>
<td>322</td>
<td>10.9%</td>
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<tr>
<td>American Airlines Group</td>
<td>10,827</td>
<td>-4.6%</td>
<td>1,921</td>
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<td>Delta Air Lines</td>
<td>10,707</td>
<td>0.8%</td>
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<td>571</td>
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<td>1,612</td>
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<td>338</td>
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<tr>
<td>SkyWest Inc</td>
<td>788</td>
<td>-3.4%</td>
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<td>Spirit Airlines</td>
<td>553</td>
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</tr>
<tr>
<td>United Continental</td>
<td>9,914</td>
<td>-0.4%</td>
<td>1,445</td>
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<tr>
<td>Virgin America</td>
<td>401</td>
<td>0.5%</td>
<td>68</td>
<td>47</td>
</tr>
<tr>
<td>TOTAL</td>
<td>42,582</td>
<td>-1.2%</td>
<td>8,061</td>
<td>5,400</td>
</tr>
</tbody>
</table>
while is to implement new cost-saving measures immediately after its latest financial figures showed operating profit down a fifth for the quarter. These measures will include cutting routes and restricting winter capacity.

It sees savings on fuel expenditure offset by unit revenue pressures and the negative effects of currency exchange, in a repeat of what happened in the first half.

This “more challenging revenue environment”, it adds, has spurred the company to accelerate implementation of its Perform 2020 turnaround programme.

A “significant” proportion of Air France’s long-haul network is not profitable, says group chief executive Alexandre de Juniac. If negotiations with unions cannot be concluded by the end of September, he says, “we have to reduce significantly the long-haul network at Air France”.

The carrier’s economic performance is “not sustainable in the long term”, adds Air France chief Frederic Gagey.

Air France-KLM is accelerating its Perform 2020 restructuring plan. While cost savings were previously to be realised over a five-year period, that schedule has been shortened to three years for both carriers, says de Juniac.

Gagey says Air France will return to growth only if targeted cost reductions are implemented. But if this is achieved soon, he indicates, the carrier could start growing again in 2016 or 2017.

Its sister carrier KLM reached €2.2 billion.

IAG chief executive Willie Walsh says the figures show the company is continuing to “take cost out of the business”.

He says IAG is “on track” to reach its full-year targets. It has maintained its expectations of a full-year operating profit exceeding €2.2 billion.

First-half operating losses deepened at IAG’s planned new recruit, Aer Lingus. But the carrier insists it is “well-positioned” to deliver improved operating performance over the third quarter and the full year.

Aer Lingus says it experienced “adverse effects” from unfavourable currency exchange but expects these to “moderate” in the second half, as higher proportions of US dollar revenues emerge. “Both short- and long-haul capacity are set to expand into the peak season, and we are very satisfied with forward yield and load-factor profiles at this time,” says chief executive Stephen Kavanagh.

He adds that he is “very confident” that the Irish carrier can achieve a 10-14% operating profit margin target set by IAG if successfully acquired by the UK-based airline group.

“Our margins have been consistent, but they haven’t seen a step change,” says Kavanagh.

“Now what gives us the confidence is that we can continue to grow the top line, but in the past we have been constrained by costs related to our scale of activity. We haven’t been constrained in terms of network opportunity, but we have been prudent in terms of the risks we were willing to expose the business to in exploiting that opportunity.

“I think those two dynamics fundamentally change as we grow more confident in our ability to grow.”

IAG at the end of July again extended the deadline for Aer Lingus shareholders to accept its takeover offer, adding that the 90% acceptance condition has been waived. Shareholders representing almost 62.5% of Aer Lingus share capital had accepted IAG’s offer as of 30 July.

We assume the price level for airline tickets will not recover
Airlines follow steady growth path

Passenger traffic among the leading operators grew 6% in the first half of 2015, with European and US network carriers keeping capacity tight but above-average expansion among low-cost and Asia-Pacific operators.

Passenger traffic among leading airlines increased 5.9% in the first half, sustaining recent steady growth.

The climb in traffic, as measured by RPKs for around 50 leading carriers during the first half, outpaced the extra 5.7% of capacity these airlines added. As a result, collective load factors rose almost a half point to 80.6%.

While the shackles have been loosened a little in North America, capacity and traffic growth remains relatively slow and below industry levels. North American carriers collectively increased traffic by 3.4% over the first six months of the year. Only the relatively smaller Allegiant Air, Spirit Airlines and Alaska Airlines increased capacity by double digits.

But traffic growth among North American carriers failed to keep pace with additional capacity, leading to a near half-point drop in load factors to 82.8%.

Amid pressure on yields, the major US carriers have eased back the throttle on growth for the second half.

**MIXED PICTURE**

European carriers lifted capacity by 3.8% – almost the same collective rate as their North American counterparts, albeit excluding some of the faster-growing low-cost carriers for which RPK data is unavailable. Passenger traffic outpaced the extra capacity. This helped collective European load factors rise fractionally to 79.0% – again excluding Easyjet and Ryanair, which have higher load factors. Ryanair, back in expansion mode after deliveries began last winter of its new 737-800s, increased passengers by a fifth.

Passenger traffic among Asia-Pacific carriers increased almost 11% over the first half. This outpaced the extra 9% capacity added, helping lift load factors by more than a point to 78.8%.

<table>
<thead>
<tr>
<th>NORTH AMERICAN AIRLINES FIRST-HALF TRAFFIC</th>
</tr>
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<tbody>
<tr>
<td><strong>Airline</strong></td>
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<tr>
<td>-------------</td>
</tr>
<tr>
<td>Air Canada</td>
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<tr>
<td>Alaska Airlines</td>
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<td>Allegiant Air</td>
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<tr>
<td>SkyWest Airlines</td>
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<tr>
<td>Southwest Airlines</td>
</tr>
<tr>
<td>Spirit Airlines</td>
</tr>
<tr>
<td>United Continental</td>
</tr>
<tr>
<td>Virgin America</td>
</tr>
<tr>
<td>WestJet</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

**LATIN AMERICAN AIRLINES FIRST-HALF TRAFFIC**

<table>
<thead>
<tr>
<th><strong>Airline</strong></th>
<th><strong>Traffic (RPK)</strong></th>
<th><strong>Capacity (ASK)</strong></th>
<th><strong>Load factor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeromexico</td>
<td>15,468</td>
<td>17,922</td>
<td>78.4 -0.6</td>
</tr>
<tr>
<td>Avianca Holdings</td>
<td>19,541</td>
<td>24,944</td>
<td>78.3 0.0</td>
</tr>
<tr>
<td>Copa Airlines</td>
<td>12,955</td>
<td>17,365</td>
<td>74.6 -3.1</td>
</tr>
<tr>
<td>Gol Linhas Aereas</td>
<td>20,167</td>
<td>26,096</td>
<td>77.3 1.6</td>
</tr>
<tr>
<td>LAN Airlines</td>
<td>9,769</td>
<td>11,528</td>
<td>84.7 0.0</td>
</tr>
<tr>
<td>TAM Linhas Aereas</td>
<td>29,592</td>
<td>36,268</td>
<td>81.6 -0.2</td>
</tr>
<tr>
<td>Volaris</td>
<td>8,364</td>
<td>10,257</td>
<td>81.5 0.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>115,856</strong></td>
<td><strong>146,187</strong></td>
<td><strong>79.3 -0.2</strong></td>
</tr>
</tbody>
</table>

**ASIA-PACIFIC AIRLINES FIRST-HALF TRAFFIC**

<table>
<thead>
<tr>
<th><strong>Airline</strong></th>
<th><strong>Traffic (RPK)</strong></th>
<th><strong>Capacity (ASK)</strong></th>
<th><strong>Load factor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Air China</td>
<td>82,176</td>
<td>102,881</td>
<td>79.9 -0.7</td>
</tr>
<tr>
<td>Air India</td>
<td>18,831</td>
<td>24,700</td>
<td>76.9 1.0</td>
</tr>
<tr>
<td>Air New Zealand</td>
<td>15,535</td>
<td>18,440</td>
<td>84.2 0.4</td>
</tr>
<tr>
<td>AirAsia</td>
<td>27,808</td>
<td>35,675</td>
<td>79.7 -0.4</td>
</tr>
<tr>
<td>All Nippon Airways</td>
<td>36,170</td>
<td>53,884</td>
<td>67.1 1.9</td>
</tr>
<tr>
<td>Cathay Pacific</td>
<td>59,836</td>
<td>69,689</td>
<td>85.9 2.3</td>
</tr>
<tr>
<td>China Airlines</td>
<td>18,287</td>
<td>23,384</td>
<td>78.2 -0.4</td>
</tr>
<tr>
<td>China Eastern</td>
<td>69,221</td>
<td>86,107</td>
<td>80.4 0.4</td>
</tr>
<tr>
<td>China Southern</td>
<td>91,306</td>
<td>112,935</td>
<td>80.8 1.6</td>
</tr>
<tr>
<td>Eva Air</td>
<td>16,982</td>
<td>20,802</td>
<td>81.6 2.0</td>
</tr>
<tr>
<td>IndiGo</td>
<td>16,819</td>
<td>19,681</td>
<td>85.5 7.9</td>
</tr>
<tr>
<td>Japan Airlines</td>
<td>27,714</td>
<td>38,474</td>
<td>72.0 0.3</td>
</tr>
<tr>
<td>Jet Airways</td>
<td>19,103</td>
<td>22,460</td>
<td>85.1 5.5</td>
</tr>
<tr>
<td>Singapore Airlines</td>
<td>44,657</td>
<td>58,612</td>
<td>76.2 -1.1</td>
</tr>
<tr>
<td>Thai Airways Int’l</td>
<td>29,745</td>
<td>40,875</td>
<td>72.8 5.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>574,140</strong></td>
<td><strong>723,559</strong></td>
<td><strong>78.0 1.3</strong></td>
</tr>
</tbody>
</table>

**EUROPEAN LOW-COST CARRIERS FIRST-HALF TRAFFIC**

<table>
<thead>
<tr>
<th><strong>Airline</strong></th>
<th><strong>Pax: Jan-Jun 2015</strong></th>
<th><strong>Pax: Jan-Jun 2014</strong></th>
<th><strong>Change %</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>EasyJet</td>
<td>33.1m</td>
<td>31.3m</td>
<td>5.6</td>
</tr>
<tr>
<td>Ryanair</td>
<td>46.5m</td>
<td>38.5m</td>
<td>20.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>79.5</strong></td>
<td><strong>69.8</strong></td>
<td><strong>14.0</strong></td>
</tr>
</tbody>
</table>
Will entrants widen narrow focus?

Ascend consultancy head Rob Morris examines the competition facing the single-aisle incumbents over the next 20 years

This year’s Flightglobal Fleet Forecast predicts the delivery of 41,000 new commercial turboprop and jet aircraft over the next 20 years, worth an estimated $2.83 trillion in 2015 delivery values. More than 60% of those deliveries and almost 50% of that value is expected to be in single-aisle aircraft types, which explains why this sector of the market remains of much interest to the industry today.

With Airbus and Boeing’s ubiquitous A320 and 737 families about to see next generation variants entering service in the next couple of years, plus the Bombardier CSeries, Comac C919 and Irkut MC-21 also finally becoming operational realities, the sector seems set for real change over the next few years. But what is the real shape of that change?

**DUOPOLY DOMINANCE**

Airbus and Boeing enjoy a manufacturing duopoly in the single-aisle sector today that has endured since the latter’s acquisition of McDonnell Douglas in 1997. Close to 11,500 A320 and 737 family aircraft have been delivered to airline operators globally since that duopoly was created, resulting in a single-aisle fleet of around 13,000 aircraft in airline passenger service at the end of last year. Despite the entrance of new manufacturers, little is expected to change, with more than 85% of the total deliveries predicted through 2034 still expected to come from Airbus and Boeing.

With today’s fleets dominated by those two manufacturers, this will result in Airbus and Boeing still accounting for close to 90% of the fleet of single-aisle passenger aircraft in service at the end of 2034. So does this mean that the upstart manufacturers will see commercial failure for their programmes? Success is of course relative and the CSeries, C919 and MC-21 are between them predicted to deliver over 3,200 aircraft. But while these programmes will each see output volumes averaging around 60 aircraft a year through their production run, Airbus and Boeing are talking about increasing their production beyond current committed plans to each produce that number of aircraft every month.

**THE CSERIES, C919 AND MC-21 ARE PREDICTED TO DELIVER OVER 3,200 AIRCRAFT**

However, the forecast suggests that demand would not be sufficient to justify such production rate increases. Under the base case scenario, assuming global passenger capacity growth of 4.8% per annum over the next 20 years – which itself services average traffic of around 5% as load factors continue to grow globally, albeit at slightly slower rates than seen previously – together with productivity hikes driven by increasing aircraft size, sector length and utilisation, the highest production rate foreseen in the single-aisle sector for any single manufacturer is 50 aircraft per month.

Airbus is committed to increasing production from the current 42 aircraft per month to 50 per month by the first quarter of 2017, while Boeing is committed to driving its rates from 42 to 47 by that time and further to 52 aircraft per month in 2018. At face value, the final Boeing rate increase appears unjustified by the Fleet Forecast, but it would only need a minor change in some forecast assumption – market growth, retirement rates or productivity adjustments – to absorb the slightly higher production rate. However, further increases, potentially to 60 aircraft per month from each of the two current duopolists, would require more fundamental changes in these assumptions for increments in supply to be justified. Retirements of the existing fleet would have to be higher, aircraft productivity (read efficiency) would have to decline, or traffic would have to grow at faster rates than hypothesised.

Or alternatively, that supply would be absorbed by demand which the forecast currently allocates to production programmes of the single-aisle entrants, thereby weakening the market imperative and reducing market penetration for those aircraft.

**DEMAND CYCLE**

Finally, the Fleet Forecast is a long-term trend forecast, with no attempt to predict the enduring global economic cycle which itself will impact aviation, creating its own demand and supply cycle. We are now seven years into the current cycle which commenced with the downturn in 2008. Every cycle is of course different but previous cycles have typically lasted seven to 10 years. So the risk of some softening of demand over the next few years must increase as the cycle endures, perhaps coinciding with those single-aisle rate increases from the two incumbent manufacturers, bringing obvious consequences for the single-aisle markets.
Discerning the GDP multiplier effect

As a conduit for the economy’s impact on underlying travel demand, cost base and fares are key in capacity decisions.

<table>
<thead>
<tr>
<th>PLANNED CAPACITY GROWTH – NORTH ATLANTIC: SEPTEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Airline</strong></td>
</tr>
<tr>
<td>Delta Air Lines</td>
</tr>
<tr>
<td>United Airlines</td>
</tr>
<tr>
<td>British Airways</td>
</tr>
<tr>
<td>Lufthansa</td>
</tr>
<tr>
<td>Air Canada</td>
</tr>
<tr>
<td>American Airlines</td>
</tr>
<tr>
<td>Air France</td>
</tr>
<tr>
<td>Virgin Atlantic</td>
</tr>
<tr>
<td>US Airways</td>
</tr>
<tr>
<td>KLM</td>
</tr>
<tr>
<td><strong>TOTAL MARKET</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JET KEROSENE SPOT PRICES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Month</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Aug</td>
</tr>
<tr>
<td>Sep</td>
</tr>
<tr>
<td>Oct</td>
</tr>
<tr>
<td>Nov</td>
</tr>
<tr>
<td>Dec</td>
</tr>
<tr>
<td>Av.14</td>
</tr>
<tr>
<td>Jan</td>
</tr>
<tr>
<td>Feb</td>
</tr>
<tr>
<td>Mar</td>
</tr>
<tr>
<td>Apr</td>
</tr>
<tr>
<td>May</td>
</tr>
<tr>
<td>Jun</td>
</tr>
<tr>
<td>Jul</td>
</tr>
</tbody>
</table>

| NOTES: Prices are world average = median of Europe/Singapore cargo and US pipeline spot prices in US¢/gallon. SOURCE: ICIS |

As attention turns to summer 2016 schedules and the slot co-ordination process for the season, it is timely to examine the likely operating environment and how economic expectations are changing, as well as the likely implications involved.

In recent results we have seen a number of airlines – particularly the US majors – reduce their already modest capacity plans to reflect actual and expected economic developments. These include a general response to reduced forecasts for 2015 GDP growth compared with when capacity plans were being decided – and more specific reactions, for example in the case of United Airlines, with further reductions in the US “energy markets”.

This column often focuses on the importance of traffic value rather than volume alone, and how less capacity will generally result in more in terms of the financial outcome. This was a point underlined by United chief executive Jeff Smisek as the most recent results were released, when he said that management would “continue to take the necessary capacity and network decisions to deliver value to our shareholders”.

**TRAFFIC MULTIPLIER**

Moving a little further north, we have also seen the WestJet chief executive Gregg Saretsky appear to question the link between GDP and traffic, while analysts seem to take the view that the airline is adding too much capacity.

It is differences in view that make a market for any company’s shares, but it must be recognised that the supposed GDP/traffic multiplier does not have a constant value along the fare curve, and that for any given rate of GDP growth, an airline offering lower fares will demonstrate a higher multiplier. The extent to which this is “structurally different” and sustainable depends first, of course, on whether such fares are profitable – and secondly on how much further they might fall, which in turn will be determined by the airline’s cost base, even allowing for adjustment lags. A race to the bottom that fails to result in a structural advantage is essentially self-inflicted damage.

The reality is that there is a high-level link between GDP and underlying travel demand (even though it is a revealed relationship). More accurately

World GDP growth forecast for 2015, down from 3.3% predicted a year ago

GDP growth expected for the USA, versus an earlier 3.0% forecast by PwC

Russia’s GDP set to contract, versus a 1.5% rise forecast by PwC last year
GDP should be seen as a proxy for a range of other economic factors that should feature in traffic forecasting models. There is also a need to get behind the high-level figures to examine local circumstances and take a close look at longer-term trends. A myopic view always has the potential to damage the business by missing out on something.

Twelve months ago, when the capacity decisions for the current summer season were being considered, the consensus forecast for world GDP growth was in the order of 2.8% for 2014 and 3.3% for 2015. In the event, the outcome for 2014 was in line with the forecast but, as we move through 2015, forecasts have been cut back and the current expectation is for this year to have an outcome closer to 2.7%. This reflects the effect of a number of movements in different directions at a country level compared with the forecasts made a year ago.

**GREATEST IMPACT**

For these purposes, we have taken the forecasts from PwC’s Global Economy Watch (July 2015 and August 2014 as the comparator), which demonstrate no change for the eurozone (1.5% versus 1.4%) and an increase for India (7.5% versus 6.6%). Among those where the current forecast is now lower than a year ago are the USA (2.3% versus 3.0%), China (7.0% versus 7.3%), Russia (-5.0% versus 1.5%) and Brazil (-0.9% versus 2.5%).

However, since these forecasts were released in July there have been a number of purchasing manager surveys; those most recently published by Markit and JP Morgan “signal a rate of global growth of approximately 2% per annum” and suggest the greatest impact will be felt in some of the emerging markets.

Clearly there is downside risk to some of the key economies for the remainder of 2015. It is inevitable that economic forecasts for 2016 will also be reduced from the current levels, where the expectation was that there would be a bounce-back to the rates of growth that were previously forecast.

However, given the role that experience and behaviour play in conditioning expectations the risk is that although the current forecasts will be cut, the resulting outcomes may be over-pessimistic.
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in some cases – which will tend to reinforce the associated uncertainty.

What, then, of the changes that have taken place in airline capacity? For summer 2015, the schedules from DIIO SRS Analyst suggest that overall there will be 3.4% more flights, 5.7% more seats and 6.6% more ASKs – with larger aircraft flying longer distances.

For the forthcoming winter season, it appears that the trend will continue, with 4.8% more flights, 5.4% more seats and 6.5% more ASKs scheduled. While the summer 2015 outcome appears “within limits”, we would expect the actual outcome to reinforce the associated uncertainty.

It is inevitable that economic forecasts for 2016 will also be reduced

the cost base of an airline and the fares it is able to profitably offer that will determine the apparent GDP multiplier.

Recently, fuel has fallen back to levels last seen at the start of the year, and this (depending on the speed at which the benefit flows through) enables fares to be more competitive if that is necessary.

However, now is perhaps the time for airlines to retain as much of the benefit from lower fuel as they can and, given how economics work, adjust capacity rather than adapting prices to a weaker underlying demand environment.

### EUROPEAN MAJORS (AEA MEMBERS) TRAFFIC: JUNE

<table>
<thead>
<tr>
<th>Region</th>
<th>Pax traffic RPK million</th>
<th>Capacity change</th>
<th>Load factors percent change</th>
<th>Freight FTK million change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>3,563</td>
<td>5.9%</td>
<td>8.4%</td>
<td>-1.8</td>
</tr>
<tr>
<td>Intra-Europe</td>
<td>17,643</td>
<td>4.6%</td>
<td>5.2%</td>
<td>-0.7</td>
</tr>
<tr>
<td>North Atlantic</td>
<td>14,860</td>
<td>5.3%</td>
<td>5.4%</td>
<td>-0.1</td>
</tr>
<tr>
<td>Mid Atlantic</td>
<td>3,281</td>
<td>4.7%</td>
<td>2.6%</td>
<td>88.5%</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>3,547</td>
<td>1.3%</td>
<td>1.2%</td>
<td>85.5%</td>
</tr>
<tr>
<td>Far East/Australia</td>
<td>13,642</td>
<td>7.5%</td>
<td>5.2%</td>
<td>84.9%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4,063</td>
<td>1.8%</td>
<td>2.8%</td>
<td>77.9%</td>
</tr>
<tr>
<td>N.Africa/M.East</td>
<td>2,772</td>
<td>-3.3%</td>
<td>1.2%</td>
<td>74.7%</td>
</tr>
<tr>
<td>TOTAL MONTH</td>
<td>63,392</td>
<td>4.7%</td>
<td>4.7%</td>
<td>83.2%</td>
</tr>
<tr>
<td>YEAR-TO-DATE</td>
<td>357,235</td>
<td>3.3%</td>
<td>3.6%</td>
<td>79.0%</td>
</tr>
</tbody>
</table>

SOURCE: Association of European Airlines

### ARAB AIRLINES (AACO MEMBERS): JUNE

<table>
<thead>
<tr>
<th>Route</th>
<th>Passenger traffic RPK million</th>
<th>Capacity change</th>
<th>Load factors percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra Arab world</td>
<td>5,340</td>
<td>-7.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>With Other Regions</td>
<td>38,694</td>
<td>11.4%</td>
<td>15.9%</td>
</tr>
<tr>
<td>TOTAL MONTH</td>
<td>44,035</td>
<td>8.7%</td>
<td>13.8%</td>
</tr>
<tr>
<td>YEAR-TO-DATE</td>
<td>281,315</td>
<td>8.7%</td>
<td>13.4%</td>
</tr>
</tbody>
</table>


### US MAJORS (A4A MEMBERS) PASSENGER STATISTICS: JUNE

<table>
<thead>
<tr>
<th>Region</th>
<th>Pax traffic RPK million</th>
<th>Capacity change</th>
<th>Load factors percent change</th>
<th>Freight FTK million change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic USA</td>
<td>75,176</td>
<td>5.2%</td>
<td>5.3%</td>
<td>87.7%</td>
</tr>
<tr>
<td>North Atlantic</td>
<td>18,427</td>
<td>0.7%</td>
<td>2.6%</td>
<td>85.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>11,157</td>
<td>3.9%</td>
<td>1.5%</td>
<td>81.6%</td>
</tr>
<tr>
<td>Trans Pacific</td>
<td>10,296</td>
<td>2.0%</td>
<td>1.3%</td>
<td>87.0%</td>
</tr>
<tr>
<td>All International</td>
<td>39,880</td>
<td>1.9%</td>
<td>2.0%</td>
<td>84.7%</td>
</tr>
<tr>
<td>TOTAL MONTH</td>
<td>115,055</td>
<td>4.0%</td>
<td>4.1%</td>
<td>86.6%</td>
</tr>
<tr>
<td>YEAR-TO-DATE</td>
<td>601,385</td>
<td>3.1%</td>
<td>3.7%</td>
<td>83.0%</td>
</tr>
</tbody>
</table>

NOTE: Freight data is May as June n/a. SOURCE: Airlines for America.

### US MAJOR PASSENGER YIELD: A4A AIRFARE REPORT

<table>
<thead>
<tr>
<th>Route</th>
<th>2014 Unit</th>
<th>2015 Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/RPK</td>
<td>10.71</td>
<td>10.34</td>
</tr>
<tr>
<td>change</td>
<td>-2.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Freight FTK</td>
<td>5,384</td>
<td>3.7%</td>
</tr>
<tr>
<td>North Atlantic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/RPK</td>
<td>8.71</td>
<td>9.37</td>
</tr>
<tr>
<td>change</td>
<td>2.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Freight FTK</td>
<td>897</td>
<td>9.61</td>
</tr>
</tbody>
</table>

### ASIA-PACIFIC AIRLINES (AAPA MEMBERS) INTERNATIONAL TRAFFIC

<table>
<thead>
<tr>
<th>Route</th>
<th>Pax traffic RPK million</th>
<th>Capacity change</th>
<th>Load factors percent change</th>
<th>Freight FTK million change</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>80,588</td>
<td>5.7%</td>
<td>78.1%</td>
<td>1.8 5,384 3.7%</td>
</tr>
<tr>
<td>May</td>
<td>80,870</td>
<td>6.7%</td>
<td>76.3%</td>
<td>2.0 5,460 2.9%</td>
</tr>
<tr>
<td>Jun</td>
<td>80,960</td>
<td>6.6%</td>
<td>77.8%</td>
<td>0.3 5,348 -0.5%</td>
</tr>
<tr>
<td>TOTAL YEAR-TO-DATE</td>
<td>484,351</td>
<td>6.8%</td>
<td>77.7%</td>
<td>1.1 32,108 5.2%</td>
</tr>
</tbody>
</table>

SOURCE: Association of Asia Pacific Airlines.

### LATIN AMERICAN AIRLINES (ALTA MEMBERS): JUNE

<table>
<thead>
<tr>
<th>Region</th>
<th>Pax traffic RPK million</th>
<th>Capacity change</th>
<th>Load factors percent change</th>
<th>Freight FTK million change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Intra-LatAm</td>
<td>15,029</td>
<td>3.3%</td>
<td>3.6%</td>
<td>76.2%</td>
</tr>
<tr>
<td>Total Other Int’l</td>
<td>7,154</td>
<td>8.9%</td>
<td>7.9%</td>
<td>84.8%</td>
</tr>
<tr>
<td>TOTAL SYSTEM</td>
<td>22,183</td>
<td>5.1%</td>
<td>4.9%</td>
<td>78.7%</td>
</tr>
<tr>
<td>YEAR-TO-DATE</td>
<td>136,787</td>
<td>5.9%</td>
<td>5.2%</td>
<td>79.2%</td>
</tr>
</tbody>
</table>

NOTE: Domestic and International flights. SOURCE: Asociacion LatinoAmericana de Transporte Aereo.

### ANALYSIS ON TAP

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6.6% Overall capacity growth forecast for global airlines in summer 2015, in terms of ASKs

In some cases – which will tend to reinforce the associated uncertainty.

What, then, of the changes that have taken place in airline capacity? For summer 2015, the schedules from DIIO SRS Analyst suggest that overall there will be 3.4% more flights, 5.7% more seats and 6.6% more ASKs – with larger aircraft flying longer distances.

For the forthcoming winter season, it appears that the trend will continue, with 4.8% more flights, 5.4% more seats and 6.5% more ASKs scheduled. While the summer 2015 outcome appears “within limits”, we would expect the actual outcome to reinforce the associated uncertainty.

**BACK TO BASE**

But there are two other factors to consider, which will bring us back to where we started. It is

the cost base of an airline and the fares it is able to profitably offer that will determine the apparent GDP multiplier.

Recently, fuel has fallen back to levels last seen at the start of the year, and this (depending on the speed at which the benefit flows through) enables fares to be more competitive if that is necessary.

However, now is perhaps the time for airlines to retain as much of the benefit from lower fuel as they can and, given how economics work, adjust capacity rather than adapting prices to a weaker underlying demand environment.

**It is inevitable that economic forecasts for 2016 will also be reduced**
Senior executives joined Airline Business at Middle Temple in London on 12 July, to recognise the industry’s top leaders at this year’s Airline Strategy Awards.

This year marked the 14th running of this annual event, which is organised by Airline Business and executive search firm Spencer Stuart.

Following the welcome reception, guests took their seats in the exquisite surroundings for dinner and the awards ceremony, where IAG chief executive Willie Walsh was presented with the Executive Leadership award. This was in recognition of leading IAG to a string of successes, including the restructuring and turnaround at Iberia.

Other executives recognised for their leadership included Aditya Ghosh of Indian low-cost carrier IndiGo, along with Christoph Mueller for steering the turnaround at Aer Lingus. Mueller, who has moved on to head Malaysia Airlines, was joined by his successor, Stephen Kavanagh, who was part of the Aer Lingus leadership team during the restructuring and is now chief executive at the carrier.

The Airline Business Award recognised Alex Cruz for his advances in the European low-cost arena at the helm of IAG unit Vueling.

Other 2015 winners include American Airlines, Virgin America and Gol, who were recognised for leadership in finance, marketing and the environment, respectively.

More about the winners, along with pictures and a video from the event, at strategyawards.com
(Clockwise from top right): Willie Walsh of IAG accepts Executive Leadership Award from SITA’s Dave Bakker; Spencer Stuart’s Thierry Lindenau presents Regional Leadership Award to Christoph Mueller in recognition of turning around Aer Lingus; IndiGo’s Aditya Ghosh picks up Low-Cost Leadership Award from Neil Siddons of CFM; Spencer Stuart’s Michael Bell collects Technology, Environment and Operations Award on behalf of Gol from Sabre’s Jeremy Sykes; Tampa International Airport’s Joe Lopano hands award for Marketing to Stuart Dinnis of Virgin America; Flightglobal’s Terry Dawson presents Finance Award to Tom Weir of American Airlines; Aer Lingus past and present: former CEO Christoph Mueller celebrates with successor Stephen Kavanagh; Vueling’s Alex Cruz receives Airline Business Award from DFW airport’s John Ackerman
NEW GENERATION OF AIRLINE PASSENGER SYSTEMS

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United Airlines loses a trusted leader with the departure of its chief financial officer John Rainey to PayPal.

Well liked on Wall Street, analysts considered him frank and as he emphasised a balanced approach to the Chicago-based carrier’s post-merger balance sheet, reducing debt, returning value to shareholders and making much-needed investments in the company.

“We’ve been an industry, and a company, that has been way too heavily levered for way too long,” said Rainey in an interview in his Chicago office with Airline Business in June, two months before his departure to PayPal. “We need to improve our balance sheet; we also need to invest in our business, which means buying airplanes; and I need to return cash to shareholders as well.”

Under his tutelage, United reduced its long-term debt and capital lease obligations by 7.1% to $10.5 billion at the end of June compared with March 2012 before he took over the chief financial role. Its underfunded pension obligations also fell during his tenure.

Repaying Debt
Rainey focused on repaying high interest rate debt, while continuing to raise low coupon secured debt, for example in the enhanced equipment trust certificate (EETC) market, for new aircraft.

“In this business, it makes sense, given how capital intensive we are, to borrow money to buy airplanes,” he says. “We can go out and borrow money at a 3% interest rate, for example, at investment grade ratings to borrow money for aircraft. That’s a prudent use of capital.”

Rainey leaves United with little of the high-coupon debt he targeted, giving his successor fewer levers to pull in further deleveraging the carrier’s balance sheet.

“If you want to continue to de-lever, you can effectively do that by borrowing less money on the incremental aircraft that you’re purchasing,” says Rainey. The airline can also pay cash for new deliveries, as it did for some of the 25 aircraft it took during the second quarter.

He also leaves United with ample liquidity. It had $6.34 billion in liquidity at the end of June, including $4.99 billion in cash, cash equivalents and short-term investments and $1.35 billion available under its revolving credit facility.

“Our target liquidity balance is between $5 and $6 billion,” he says. “[Since the merger] the composition has changed so that we’ve got a lower cash balance, which is actually a good thing because we’ve still got an adequate level to run the business, but we’re utilising that cash where we can get a return.”

After debt reduction, United is using that cash for share repurchases and capital expenditures. It will wrap up a $1 billion share repurchase programme in the third quarter and has already embarked on a new $3 billion programme that will run through to the end of 2017.

The carrier’s share price increased more than three-fold to $58.32 at closing on 3 August, the day before Rainey’s departure was announced, from the same day in 2012. This jump increased its market capitalisation by more than $15 billion to $22 billion.

New Investments
United invested more than $6.2 billion in its business, including in new aircraft, updated interiors and technology upgrades, during his tenure. In June, it announced plans for a $100 million investment in Brazilian carrier Azul and a $30 million investment in biofuel producer Fulcrum BioEnergy – some of its first outside the company.

Gerry Laderman, previously senior vice-president of finance and treasurer, has stepped into the interim chief financial officer role at United as it considers both internal and external candidates for the role. An airline veteran, he is well known in the finance community for managing the carrier’s debt raising activity in recent years, including many of its EETC issues.

While Laderman considered a very capable financial leader, some on Wall Street see Rainey’s departure as an opportunity for new blood at United.

“UAL has an opportunity to bring in a true airline outsider with a solid reputation and no cultural baggage who can bring fresh, out-of-the-box ideas to UAL as UAL searches for innovative ways to close the margin gap relative to peers,” writes Hunter Keay, an analyst at Wolfe Research, in a report.

Keay highlights United’s “methodical" approach to share repurchases as an opportunity for the new finance chief to make some investor-friendly improvements.

Rainey, who joined Continental Airlines in 1998 and came to United through the merger of the two carriers in 2010, leaves the company in undeniably better financial shape than when he joined the c-suite.

“There are a lot of investors, I believe, that are still skeptical because of our checkered past, and deservedly so,” he says.

“If we can demonstrate through an economic cycle that we can still earn our cost of capital and not have to go out and borrow a bunch of money at high interest rates because we’re distressed, I believe that’s when we’ll see the earnings multiples really begin to expand.”

United’s market capitalisation has grown by $15bn over last three years

Rainey (left) is succeeded by Laderman on an interim basis
In the age of social media, perceptions can spread like wildfire – whether they are right or wrong. Airline executives today have the responsibility to bring reality to the fore, often taking to the same mediums that are being used by passengers.

Three recent incidents highlight the vulnerability of airlines, as well as how the situations can be turned in their favour.

Jason Taylor was at the gate at Nashville airport on 7 August when, suddenly, a bright flash caught his eye. A Delta Air Lines flight being operated by Skywest, on pushback, was on fire! Jason tweeted a photo with his smartphone, clearly stating that “the fire is out and the airplane looked ok”.

He also copied Nashville ABC’s Twitter handle. Within minutes, he was being bombarded with requests from news channels and journalists from all over the world for the rights to the photos he took of the event on his phone, clearly stating that “the fire is out and the airplane looked ok”.

The reality was a little different. Phil Cobucci was comfortably seated inside the affected aircraft, and all he felt was a sudden stop. The Captain then came on the loudspeaker and said there had been a misfire and everything was under control. That was the reality. Yet perception on the outside was completely different.

Some news outlets sensationalised the fire to boost ratings, while others stated that things were under control within seconds. Throughout the day though, both Delta and Skywest were quiet on Twitter about the incident – a missed opportunity for quick brand recovery by sharing the reality from a credible source, like the Captain or the airline’s safety chief.

Across the Atlantic, a couple of months earlier, Adam Wood had just taken a seat on his EasyJet flight. He saw a maintenance worker applying tape around the edges of an engine and tweeted a photo saying: “Always worrying when Easyjet is duct-taping the plane together.”

RESPONSE MATTERS
This time though, the airline was on the ball and immediately replied to Adam that this was just “paintwork and nothing structural”. Despite the clarification, Adam was re-tweeted over 1,200 times!

While it is common for incidents to be captured and shared when the plane is on the ground, it is increasingly becoming a cool thing to take a selfie with an oxygen mask on! But a recent video, taken during a diversion, shows the extent to which this phenomenon has evolved.

Cathay Pacific flight 884 from Hong Kong to Los Angeles on 29 July was diverting to a remote island off the coast of Alaska. Ethan Williams was following the crew’s instructions diligently, by putting on the life jacket for a potential water landing, practicing the brace position and reading the evacuation guide.

At the same time, he had his iPhone video camera turned on and he later posted a video on YouTube, which was professionally edited and clipped to focus on the most important parts of the emergency landing. The video had over half a million views in the days that followed, and was featured on news outlets around the world.

Many viewers noted how professional the crew were and Cathay was praised for taking good care of the passengers while they waited to be transferred to Los Angeles.

The airline was also active on its social media channels; clarifying facts with journalists and calming concerned relatives.

Perceptions spread. Reality Matters. And information spreads instantly through social media. Often, it is the first person to post the incident online who becomes an accidental spokesperson for the airline. Contingency management and crisis planning departments at airlines need to learn how perceptions spread.

Every airline operation centre should have a live Flightradar24 and a Twitter feed display. Communications staff should be trained in the new ways on how to leverage the accidental spokesperson, as well as straighten out the facts.

Airlines must take lessons from events like these, rather than wait for something to happen to them. It’s no use digging a well when you are thirsty, is it?

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The dynamics in play across the world of alliances and partnerships are testing allegiances, with the revolving-door strategies resulting from new tie-ups, aeropolitical rows, and mergers and acquisitions

COMMENT

should Aer Lingus join British Airways and Iberia in Oneworld as expected following its acquisition by IAG, it will become the first airline to walk in, walk out and then rejoin the same alliance.

It is the latest in a series of partnership moves across the industry that underlines the schizophrenic nature of airline relationships, as competition and economic realities push carriers to take a more brutal approach to their partnerships. As has never been so evident before, airline partners can be friend and foe, and increasingly it seems, are seldom one or the other.

So, within the Oneworld camp Qantas ditched its long-standing partnership with British Airways on the Kangaroo route to team up with Emirates, but is deepening its partnership with BA partner American Airlines. The Texas airline, of course, is part of the triumvirate of US majors challenging the expansion of the Gulf mega-carriers. And one of them – Qatar Airways – has recently taken a stake in the parent of American’s vital transatlantic partner, BA. All of them sit together in Oneworld.

The dynamics of these relationships mean that American Airlines boss Doug Parker – who was left as the frontman for the US position during IATA’s AGM in Miami – finds himself hitting out at Gulf-carrier US expansion one day, then discussing further co-operation with Oneworld partners including Qatar Airways the next.

And Parker’s is a far from isolated situation. Delta Air Lines’ SkyTeam co-founder, Air France, voices concerns around the subsidy issue while discussing further co-operation with codeshare partner Etihad. And Lufthansa vocally backs the view from the US majors while counting what many describe as “the fourth Gulf carrier”, Turkish Airlines, as a partner.

The ripples keep coming. Few could have anticipated the sight of five rival rock stars from across the European airline spectrum on the same podium showing each other a whole lotta love

Few could have anticipated the sight of five rival rock stars from across the European airline spectrum on the same podium showing each other a whole lotta love

when he described what IATA chief Tony Tyler had called “underlying tensions” at the AGM as “measuring 7.3 on the Richter scale”.

Through their own action or the response of rivals, the big Gulf players are shifting dynamics. Who would have thought Alitalia, seemingly back on its knees 18 months ago, would be bold enough to seek to rebalance a partnership agreement on Franco-Italian routes struck at a time when its SkyTeam partner Air France-KLM held all the cards?

All of this applies further strains to relationships within the three big global alliances, where joint ventures have taken centre stage.

The global alliances, by their very nature a surrogate for consolidation, have always been seen as a stepping stone, rather than an endgame in itself. But the blocks to global consolidation – which necessitated the creation of alliances in the first place – largely remain. For this reason, the global groupings will stay central for some time, but will not be a constraint to airline partnerships. Restrictions around co-operation with non- or competing alliance members are easing, and affiliate membership to account for different types of partner is in the works.

As the attempted joint venture between Oneworld’s Qantas and SkyTeam’s China Eastern further underlines, competitive realities mean airline strategies will go where they need to. To this end, the current structure of alliances may help shape future airline partnerships, but it will not dictate them.

DESTINATION DUBAI
Flightglobal will have this year’s Dubai air show covered online and in print. The show takes place on 8-12 November where Flightglobal will be producing four issues of Flight Daily News and reporting developments from the event online at: flightglobal.com/Dubai
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