# CAPA DAILY

74th IATA AGM AND WORLD AIR TRANSPORT SUMMIT
ISSUE ONE - 03-JUN-2018

## WILLIE WALSH
“VERY IMPRESSED” BY NORWEGIAN

## YUJI HIRAKO
ANA “PIONEERING” IN THE LCC SEGMENT

## SEBASTIAN MIKOSZ
COMPLETING PHASE ONE OF FINANCIAL RESTRUCTURING

CAPA – Centre for Aviation deliver a wealth of insightful commentary on the latest news and trends affecting the commercial aviation industry.

CAPA CENTRE FOR AVIATION

IATA

This CAPA Daily features the topics to be explored at the 74th IATA AGM and World Air Transport Summit.

# They "just didn't get it". It's about culture

**IN RETROSPECT it can be hard to understand** why it took nearly 30 years for the Southwest Airlines LCC model to be replicated.

There are so many elements of it that today it seems obvious: improved utilisation, denser configurations, simple fleet and network structure, and so on.

Certainly, direct selling via the internet provided a tailwind, but then Southwest had pioneered its own style of direct selling, for example using a network of women working the phones from home.

The legacy systems suddenly seemed so lazy and inefficient.

As new entry became easier, when, in the early years after Southwest became recognised as a phenomenon in the US, other airlines would be welcomed to the LCC to understand the model.

Iconic founder (along with lesser known Rollin King) Herb Kelleher once explained to us that many of his staff would question the wisdom of sharing secrets with the opposition – many of them more powerful and intent on using their political influence to prevent the upstart from expanding.

His response was, "don't worry, they just don't get it". The traditional airlines were studying each element of the new system analytically and dissecting it down to its roots. But what they didn't "get" was that it was about more than simply a set of rules. Apart from having the magic Herb ingredient, Southwest was imbued with a culture. A culture of can-do, of efficiency and impatience with bureaucracy. And a fierce passion of cost consciousness.

This was at a time when the prevailing wisdom was that the focus should be on unit revenues; it was much more profitable to raise yield by 1% than to reduce costs by that amount.

The equation still applies generally, but adherence to that credo gave licence to a complacency that did little or nothing to disrupt the underlying cultural deficiency. (And, by corollary, the merits of higher yield seeking can easily lead to the downfall of once-low cost-focussed LCCs; moving up market and introducing complexity is a minefield and can be extremely challenging to the original culture.)

CAPA was involved directly in the movement nearly 30 years ago, when a young Air New Zealand executive returned home from his role as GM for the US, fresh with the new (Southwest) concept he'd seen there. We helped him develop the business plan for a low cost airline that Air New Zealand would use to fly domestically in Australia, a move that was permitted under their respective entry regimes.

Thwarted at the last minute by a protectionist Australian executive government decision, the disillusioned executive left for Europe where he found and convinced a self-professed "Greek rich kid" to invest in his idea. The rich kid was Stelios Haji-Ioannou, the executive, Ray Webster – and so easyJet began. Hence we feel there's a bit of CAPA DNA in Europe's LCC revolution and in the movement overall (we convened the world's first LCC conference in Feb-2004, in Singapore).

Today, as IATA increasingly welcomes LCCs to the membership fold, the shape of the industry has been radically and irreversibly shifted in the direction of greater cost effectiveness and customer awareness.

Some airlines - or more frequently their unions - remain reluctant to allow the transformation towards greater competitiveness in this new world. Perhaps the next stage of the industry's evolution will involve the demise of some of the largest companies who are unable to make the adjustments necessary. One thing is certain. We remain a long way from reaching stable equilibrium in international aviation.

**PETER HARBISON**
EXECUTIVE CHAIRMAN
CAPA – CENTRE FOR AVIATION

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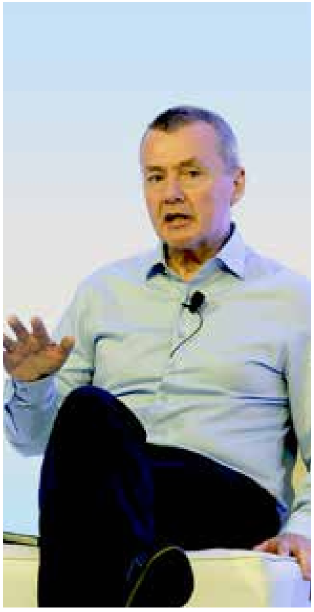
**ISSUE ONE - 03-Jun-2018**

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ISSUE ONE - 03-Jun-2018

## The Flight Deck

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# On the Record

## Qantas Airways

*ON THE BENEFIT OF OPERATING WITH A 'HUMMING' AUSTRALIAN ECONOMY*

"We are dependent on all Australian businesses doing well. We are dependent on the Australian economy doing well. That's the biggest driver of our business... The reason we are doing well today is because the Australian economy is humming on all cylinders... Leisure is doing really well, people are travelling. And the corporate market in all sectors is doing really well. We are now for the first time seeing real good growth in the resources sector." Alan Joyce, CEO

## Spirit Airlines

*ON THE IMPORTANCE OF WIFI IN AVIATION ENVIRONMENT*

"IWiFi has become so ubiquitous that no matter where you go you are looking for the password... It is becoming more a part of our regular experience." Ted Christie, President

## Etihad Airways

*ON HOW IT WILL NOT BE REDUCED TO A 'BOUTIQUE' AIRLINE STATUS*

"That would be the take out, to be very disciplined, very measured.... What we have embraced properly is a way to develop growth in a sustainable way. We will choose wisely; we will make sure that detail is well-attended to." Tony Douglas, CEO

## Eurowings

*ON PLANS TO EXPAND ONLINE PRESENCE IN BID TO DRIVE SALES*

"In five years, Eurowings won't be a traditional airline, but a digital company with a flight operation." Thorsten Dirks, CEO

## KLM

*ON HOW IT IS UNREALISTIC FOR THE DUTCH BUSINESS TO LEAVE AIR FRANCE*

"Just as it's not feasible for KLM to continue independently, it's also not feasible for Air France to go on alone... That's the strength of the combination, we need each other badly." Pieter Elbers, President and CEO

## Airlines Association of Southern Africa (AASA)

*ON THE CHALLENGE OF IMPLEMENTING OPEN SKIES*

"Liberalisation has proved difficult to implement on a continental scale due to varying states' positions on their readiness for implementation, the necessity for competition regulations, dispute resolution mechanisms, implementation provisions and incorporation into domestic legislation... It is important that such liberalisation must be undertaken on a consistent basis with the same rules for all states, ensuring reciprocity and fair competition between the African airlines. There is huge potential for intra-African growth to provide an integrated network of new services and increased frequencies between African destinations... There is huge potential for the growth of air transport in Africa." Chris Zweigenthal, CEO

# IAG CEO Willie Walsh provides insight into the year ahead

**IAG CEO Willie Walsh provides an update on Brexit and the third runway debate at London Heathrow, while revealing the thinking behind its acquisition of a small shareholding in LCC Norwegian and subsequent takeover offers. He looks at the year ahead, highlights the value of the Hangar 51 accelerator programme and talks about the performance of Aer Lingus and its planned network growth with the Airbus A321neoLR.**

**IAG is more optimistic than Ryanair about life after Brexit**

I think Michael clearly expresses a view, which is great. He has extreme views and I think it helps in the overall debate. I don't disagree with him on some issues, he's critical of the whole situation, but I'm much more optimistic that this is an issue that will be resolved in a sensible way between the UK and the EU, and the UK and other jurisdictions that the UK will need to negotiate new agreements with.

It's not impossible to do it in the time frame that we're looking at, because we have already got a lot of these bilateral agreements in place, so I'm comfortable that the whole situation will be resolved.

**Thinking behind intent to buy Norwegian**

We're very impressed by Norwegian and we have expressed that view very openly. I like Bjørn, I think he's done a great job. We believe in long haul low cost, the reason we started Level was we could see a profitable business. Clearly, Norwegian has struggled to translate what is a great customer proposition into a financial success. We believe we can, given our ability to control costs. So, for us it's about participating in a profitable segment of the market, and we can do it organically, and we're going to do it with Level, and we can do it inorganically. So we have options, and that's the reason we believe in consolidation. But for us, consolidation is around the right airline at the right time, and critically, at the right price.

**IAG considers another takeover bid for Norwegian**

I've been very open about this, I said we're going to review all of our options, and we're very calm, it's not something that we have to do today. I've publicly stated that I don't expect to have to say anything in relation to it in the weeks and months ahead, so we're not doing anything. And all of our options include the option of selling the small stake that we have in the airline. So, we've not made any decision as yet, but there's no discussions ongoing, and I'm not expecting to have any discussions with Norwegian. Certainly there's nothing in my diary that suggests I would need to do that, and we're very relaxed about this.

**Update on the expansion of London Heathrow International Airport**

I'd say the chances of a third runway at Heathrow are better today than they were six months ago. I would still rate it at maybe 60:40, I think there are a number of challenges that need to be overcome.

The critical issue for us is cost. I'm supportive of the expansion of Heathrow, I have been since I joined British Airways, and before in fact. But it has to be done at the right price, and the industry is not prepared to accept the ridiculous prices that Heathrow has proposed to expand the airport. There's nobody that I've met that supports expansion at any cost. We support expansion when it's done in an efficient, cost effective way, and in a way that won't translate into higher charges for passengers.

So, if the airport can do that, and we believe they should be able to do that, then we're all for it. But there are other challenges as well, on the environmental front, that will have to be addressed. But I'm more optimistic today than I would've been six months ago.

**IAG benefits from Hangar 51 technology**

It's absolutely critical and it's fascinating as well. The Hanger 51 has given us an insight into a lot of very bright people and bright ideas, and innovation that we think can be adapted to suit our industry and to help our business, and help our customers.

So, it's been really exciting, we've made a small investment in a number of the businesses that we've seen. We're continuing to look for opportunities, and it's just great, when you see a bright idea and you go wow! We could adapt this and it could actually fit to address some of the challenges we have in our industry. So, that's what it's been, it's been a shop window, and it's opened our eyes to a lot of very innovative thinking and innovative ideas that we wouldn't have come across if it wasn't for the Hanger 51 programme.

**Performance of airlines within the Group**

All of the airlines in the group are doing extremely well. Our first quarter results were very, very strong, with all of the airlines improving their financial performance.

Aer Lingus is by a distance the best performing in terms of margins and return on invested capital. Everybody focuses on British Airways, because the scale of it, and obviously it contributes in terms of its scale significant amount of the profits of the business, but they're all doing very well and we're optimistic.

We think that global, macroeconomic environment remains good. Clearly, everybody's going to be challenged by the increase in the oil price, a little bit less for us because we have a reasonable hedging in place, a lot of airlines have no hedging.

So, it's going to be a more challenging 2018 than maybe people thought it would be, but we're still very optimistic about the outlook for 2018 and beyond.

**Response to recent Aer Lingus A321neoLR network RFP**

It's been fantastic actually, and it's surprised us. A number of the airports that we hadn't really thought of ourselves, and actually some of them won't really be suitable for the A321, but we have options with the A330s and as you know, we're looking at further widebody aircraft for Air Lingus as well. So we've had a very, very strong response, and it's been stronger than we had anticipated, and we think there's more opportunity there than we had identified.

All of the airlines in the group are doing extremely well. Our first quarter results were very, very strong

And for us, what it's about is it's not just about the airports that would like to see us sit about, engaging with the business communities around these airports, because it's critical that we have not just support from the airport, but support from the businesses and communities around those airports. And that's been very, very encouraging.

**Timeframe for announcement of Aer Lingus expansion**

Well it would be 2019, so we have a target for new destinations. We will be making those announcements in the months to come. Aer Lingus has started flying Dublin to Seattle, all of the new destinations that we've launched are performing very, very well. Advanced sales on Seattle have been very impressive. So we see a lot of opportunity for further expansion. The A321 gives us options on the East Coast, and gives us options to increase frequency to a number of the destinations that we're already serving. So, this is going to be a game changer for Aer Lingus, it's a perfect aircraft for an airline based in Ireland, with a very strong presence in the US.

**Growth ambitions for Aer Lingus beyond Europe and North America**

We have ambition obviously to expand beyond the traditional Europe-North America market that Aer Lingus has served. Air Lingus did fly to Dubai a number of years ago. There was strong customer demand for it. But it wasn't a financial success, and that was principally because a lot of the people weren't going to Dubai, they were going over Dubai to somewhere else. So having a relationship with a hub carrier there was important.

So, I think the increasing trade between Asia and Ireland will justify Aer Lingus operating to some destinations in Asia, but the opportunity that exists that today is in Europe and in North America.


# ALL NIPPON AIRWAYS

## An Interview with President & CEO Mr. Yuji Hirako*

All Nippon Airways dared to achieve what seemed impossible – and then kept going.

*Note: Compiled from a written interview with Mr Yuji Hirako

**Once Japan's "second airline", ANA had to fight for every traffic right in the days when rival Japan Airlines was akin to being Asia's Pan Am. ANA has long been the largest domestic operator in Japan, and in 2014 ANA overtook JAL for international ASKs.**

**JAL's profit margin remains higher, and financial markets are pressuring ANA to balance operational growth with higher financial returns. ANA's new management plan heeds to this, but ANA is still in the enviable position of retaining a strong balance sheet.**

**In 2022, ANA plans to be 50% larger internationally than in 2017. By that point, ANA will be bigger than JAL's pre-bankruptcy size. The composition of tomorrow's mega Japanese carrier will be different than the past: ANA's strategy is powerful twin-engined 777s and 787s with only a handful of A380s, and an extensive LCC subsidiary that will begin to fly longer flights.**

**ANA has had spectacular international growth and continues to expand. Has it been challenging to balance operational growth with finances and shareholder return?**

During the first half of our Mid-term Corporate Strategy Plan (FY2018-2022), we are prioritizing investments for business growth, while for the second half, we envision enhancing shareholder returns.

In the past few years, we have been expanding our network to/from the two Tokyo metropolitan area airports, which resulted in us successfully managing our financial indexes, and it also enabled us to achieve the target level in financial soundness.

We are now moving towards the next phase to allocate our management resources with a good balance between investment and shareholder return.

We will keep up our endeavour in trying to further enhance our profitability, growth rate, and efficiency to reach an even higher level.

**ANA surprised many people with its A380 configuration that includes first class and generous direct-aisle access business class seats for a very leisure-oriented market. Why is your A380 so premium heavy?**

The Tokyo-Honolulu route has an average load factor of almost 95% and we see continuous very high demand throughout the year.

Since Hawaii is one of the most beloved destinations for the Japanese, we went through some thorough analysis to determine a solution that enables us to become the leader in the Japan-Hawaii market.

No other carrier offers First Class, or aisle access full-flat Business Class seats, despite the fact that there is high demand for premium class travel to Hawaii.

We came to conclude that we should exceed our competitors both in quality and in quantity, introducing the best of what we have within our capability to accommodate this demand and to strategically approach one of the most important markets in the leisure segment.

And at the same time, we wanted to find ways to best treat our 30 million mileage club members and to provide them with the capability to accommodate their needs in redeeming their miles to upgrade themselves when taking their time off with their families and friends.

In order to respond to their expectations, we decided to offer a First Class cabin for our very first time on a resort route (8 seats), a Business Class cabin to allow each and every passenger a full-flat bed seat with 100% aisle access (56 seats), a large number of Premium Economy seats (73 seats), and an Economy Class including Japan's first "Couch" seats (a total of 383 seats including 60 "Couch" seats).

**How should Japan distribute international slots at Tokyo Haneda? Should they be given to ANA and JAL equally? Should Skymark and LCCs receive new slots?**

We do not have much to say on how the slots should be distributed.

One thing we know is, that coming from a Tokyo based airline perspective, it is very natural for us to say that we would like to have as many slots as we can.

Our 2018-2022 mid-term corporate plan indicates our eagerness to grow and to contribute not only to the Japanese customers but also to the growing Japanese economy and welcome visitors from foreign countries. We would love to play our role and to be the wings to connect Japan and the various countries worldwide.

**The 2020 Olympic/Paralympic games in Tokyo are very important to Japan and ANA. How can you maintain post-Olympic interest and excitement in traveling to Japan?**

The global aviation demand will continue to increase after the year 2020; research shows that the Trans-Pacific market is expected to become three times the size of today in 2035.

In addition, the Japanese government has a target to increase the number of visitors to Japan to 40 million in 2020 and to 60 million in 2030 (it was 28.7 million in 2017).

We strongly believe that we will keep on seeing more foreign people visiting Japan even after the 2020 Tokyo Olympic and Paralympic games.

We have launched various campaigns to appeal to foreign travellers to visit Japan, such as "Tastes of Japan" introducing the Japanese local cuisine by region (available in eight different languages), or "Is Japan Cool?"

Introducing the deep insights of the Japanese culture (available in English). We will continue to promote the Japanese culture, food, and mindsets in order to attract more visitors to travel to Japan.

**JAL will launch a long-haul LCC. Should ANA consider a long-haul, low-cost operation?**
**Or is it better for long-haul flights to only be flown by ANA?**

We were the first to introduce the LCC concept in the Japan marketplace in 2012 by launching Peach Aviation, and we have been pioneering this segment since then.

By operating short-haul routes in both international and Japan domestic, we take pride in the successful business model that we have created and are seeking to further expand our business by integrating the two subsidiary LCCs, Peach Aviation and Vanilla Air by 2020.

Our current and the most important focus for us is to concentrate on preparing for our new business strategy which is to launch mid-haul routes under the integrated Peach brand, and to become the "Leading LCC in the Asian region."

# KENYA AIRWAYS CEO SEBASTIAN MIKOSZ

“Really shifting Kenya Airways into a profitable company”

**In a May-2018 CAPA TV interview at CAPA’s Dublin Airline Leaders event, Kenya Airways group managing director Sebastian Mikosz highlighted how, after the airline’s financial restructuring, it is now focussing on its industrial development. He discusses the carrier’s soon-to-launch long haul service linking Nairobi to New York, its push for profitability in a competitive marketplace, the infrastructure challenge across Africa and the volatility in the price of fuel. He outlined a potential long haul fleet expansion that will be driven by the return of leased 777 and 787 equipment, a further growth of its medium haul operations and development opportunities at LCC subsidiary JamboJet.**

**The current state of business at Kenya Airways**

I think we are completing  a very important first phase of a difficult time, which was a very important financial restructuring. Over the last year, we went into some debt issues, cashflow issues. Thanks to the support of the Kenyan government, there is a new balance sheet that was developed within KQ, Kenya Airways. We converted that into equity. We were given a sovereign guarantee from the Kenyan state. KLM remained our industrial shareholder and main partner. So until the end of last year, we were focused on stabilising the financial situation. Now, my job and the job of my team is to focus on the industrial changes and on industrial development, which of course means growing the network, but continuing also working on the cost side. We have some social issues which we need to address, which is changing, increasing productivity.

Basically, I think that we are in the phase of really shifting Kenya Airways into a profitable company. We’re still not yet there. There’s lots to be done. But since seven quarters now our results are consistently improving. So I believe we’re on the good path.

**Expectations for Kenya Airways’ new Nairobi to New York service**

Opening a nonstop connection from Nairobi to New York is of course, a very big event. This is the largest project we have in KQ currently, launching this flight.

We decided to do it for two, three main reasons. First of all, there is already an existing traffic flow. There’s more than 100,000 US tourists coming to Kenya every year. We also have a lot of corporate traffic. There are 50 companies, US companies that elected Nairobi as their hub for Eastern Africa. There is also of course, the potential of working with Delta on all the beyond-New York ports. For us, it’s also a strategic decision of going into the North American continent, which we have the technical capacity, because the 787 can fly nonstop from Nairobi to JFK. It’s going to be a 15 hour flight, so a long flight, but we believe that the convenience of this connection will really attract a lot of passengers.

Of course, from an overall perspective, an airline needs to grow where the biggest markets are, and for sure, New York is just the biggest market on the East Coast of the United States. We're trying to connect to what is the biggest market on the East Coast of Africa. It all makes it for us a really, even I would say a symbolic breakthrough. It's been a long term project. We open the sales in January and we're going to operate first flight on 28th of October this year.

**Kenya Airways encouraged by forward bookings for Nairobi-New York**

The forward bookings are just how we predicted - but knowing that the biggest challenge is still ahead of us. Summer, September are the months where we are focussing the biggest increase, because there is quite a short forward booking behaviour in Africa.

On the US market, we just finished our first promo tour. We're going to do three more. It's shaping well. I'm optimistic, but I don't disregard the challenge that is ahead of us.

**The challenges of running an airline in Africa**

For me as a CEO, the biggest challenge of running an airline is always to run a profitable airline, because we are not sponsored. We are not anyhow supported, so the state has given us a second breath. But the Kenyan state expects us to be profitable.

We are in a market which is highly competitive; Kenya is one of the most open markets in Africa. We have 26 operators flying to Nairobi, most of them daily, some of them even double or triple daily. The market is extremely competitive in an, unfortunately, still pretty small market. Even the African market overall, the whole continent, is still less than a hundred million passengers a year. So the basket to share is not so big.

It is growing, and for sure, Africa has potential. However, it is not growing at the same pace as Asia or the US or Europe, because while GDP per capita is growing on a constant, it is a slower path than other continents. The remaining challenge is of course infrastructure. There's a lot of states in Africa, we're still lacking good international level of infrastructure. So, it's a boiling, booming place. But still running a profitable operation is really, really challenging.

**Return of leased 777 and 787s could drive long haul growth strategy**

For the moment, we already have five wide body aircraft, which will be back within the next 24 months. Two Dreamliners that are coming back which were subleased, and we have three 777s, coming back to our fleet. It's already a pretty big shift because our local fleet will grow by one third. We're just in process of creating a five year plan. The draft plan exists but we're in the process of discussing it with the board of Kenya Airways.

This plan definitely assumes growing our medium range fleet. We are a very happy operator of the Embraers and of the 737s and we're aiming at growing these types. Of course, we also have two regional carriers. One of them which is our full subsidiary, Jambojet, operating Q400s, and here we also see lots of potential. We've already order a few aircraft and there are more to come. We also have our Tanzanian partner called Precision Air, in which we are a shareholder operating ATRs. Here, we also see quite a lot of potential for growth, maybe not within the next few months, but within a year or two, they'll be definitely bear fruit.

**Kenya Airways' business strategy**

The strategy of Kenya Airways will remain as it was for the last year. We are, and we want to be, mainly an intra-African carrier. We are operating more than 40 African destinations, and we're going to grow not only the number of destinations, but also the number of frequencies.

On many markets where we're present, we fly for example three, four times weekly, and our target is to shift to daily flights. Or we fly tag flights, to one city through another. We want to detach them and have direct flights. Within the next four weeks, beginning in June, we're launching a nonstop flight to Cape Town from Nairobi. It's going to be five times weekly. And we're launching a direct flight from Nairobi to Mauritius.

We also have quite a significant number of new African cities we want to open. Of course, we're having a close look in a few cities in Asia, particularly Beijing, which has the potential of being SkyTeam friendly when the new airport opens. We are also looking very carefully at few additional European destinations. All of these decisions should come not later than the last quarter of this year. That will go together with the announcements about the fleet. This is the plan that we have now.

**The price of fuel is changing: staying ahead of the game**

In Kenya Airways, we had a pretty bad experience with fuel hedging. Hedging is generally a complicated and very emotional element. With my management, we started bringing back hedging as our policy. So, like every airline, we will protect ourselves against the volatility of the market through hedging instruments. That's, I would say the basic element. Of course, we're also observing and forecasting. As always in our industry, everybody was forecasting that the fuel price was going to go down; just to prove that it's not the way, the fuel is going up.

This morning, it's USD78/barrel for Brent, and was USD52 only six months ago. This volatility is of course the challenge, because you cannot always fully protect yourself through hedging instruments. We have some buffers, but yes, if the price goes up, we're going to revisit our budgets for the next two years, for sure.

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# airBaltic chairman of the board & CEO Martin Gauss

## Discusses how a record 2017 performance has been a platform for further success over the first four months of 2018.

**Mr Gauss highlights the strong performance of its Bombardier CSeries fleet; how the aircraft has become a natural fuel hedge in a current environment where costs are on the rise; and charts the airline's ongoing transition to becoming an exclusive operator of the type. He also provides an update on the search for a new strategic partner.**

**Latest development at airBaltic**

We had a very successful 2017. We thought that was a record, but now we started into this year with even a better year, so the first four months were very good. airBaltic is doing well. We have the Bombardier CS300 for more than a year in operation. More than a million people have flown on it, helping us a lot right now, because it's the latest technology and it makes us also in the world seen as somebody going for innovation.

**Operation of new generation aircraft assisting with rising fuel prices**

It's a natural fuel hedge as we call it because the fuel burn on that new engine technology is significantly lower, and of course we feel it. I would love to have the fuel price where it was last year. It rise now rapidly and all airlines will have to deal with it if it stays there or if it goes even further up. But better having a brand new aircraft burning less fuel than having an older version. So we are in the transition to an all C-series fleet and it will helping at least to have a lower fuel burn.

**Update on the transition to CSeries fleet**

We have eight aircraft right now in operation. We get another six this year, another six next year. That's from the order which we place, but we are in process of securing an additional order. That would then enable us to transition over the years 2020 to 2023 to be an all C-series operator.

**Potential scale of planned future order for additional CSeries aircraft**

The amount will defined then. I mean it will be firm aircraft depending on the business plan at the time, and then we try to get some options. But we have an idea, but we're not disclosing it yet because we are discussing it.

**Baltic market provides market and scale for additional development**

We have in the Baltics 6 million people living there and we have 12 million passengers in the Baltics. If we just go North, there's Finland. There's 6 million people living in Finland, and there's, I don't know, 20 million passengers just in Finland, but there must be much more passengers in Finland. So I think looking at the potential passenger volumes the Baltic's can give our whole market with the three capitals, there's quite a number of aircraft which can be placed in the Baltics. That is on top of what the competition is doing there. So we see a lot of potential in the Baltics, and then if we are done there, I think then we just discuss where could we go next. But the Baltics have three capitals, three countries, which is our whole market, and we've just started to grow in Vilnius and in Tallinn, and to other markets, very successful. We continue doing that.

**FIFA World cup will deviler short term peak, but routes are about long term sustainability**

We just opened Sochi as a route from Riga, and of course we are connecting a lot. Half of our passengers connecting, so we'll have a lot. We're the only western European carrier serving Sochi at the moment, so yeah there will be a demand on these routes during the championship. But of course, we opened the route not just for the championship. It's a seasonal route at the beginning, and we serve all the championship places in Russia. So we expect some traffic coming from that via Riga. But let's see. I mean we need to see who will be the winning teams. That makes a lot of difference to who's going to book us.

**Update on the search for new investors in airBaltic**

It's still ongoing, so airBaltic will still be one day having a strategic partner. That's all we say, we're not commenting further. We have with this very good year last year, we are able to do things ourselves where we thought two years ago we needed an external investor. But the process is going on and we will inform the public as soon as something happens.

**See more CAPA TV at http://www.centreforaviation.tv**

CAPA
CENTRE FOR AVIATION

# 2018 GLOBAL EVENT CALENDAR

Mumbai, India
30-31 January 2018

**CAPA India Aviation Summit**


Mumbai, India
1 February 2018

**CAPA India Airport & Airspace Summit**


Singapore, Singapore
1-2 March 2018

**CAPA Global LCC Summit**

Houston, United States
16-17 April 2018

**CAPA Americas Aviation Summit**

Dubai, UAE
7 May 2018

**CAPA Global Airport Leaders' Forum**

Dublin, Ireland
17-18 May 2018

**CAPA Airline Leader Summit**


Sydney, Australia
5-6 June 2018

**CAPA Airline CEOs in Sydney**

Seoul, South Korea
11-12 June 2018

**CAPA LCCs in North Asia Summit**

Sydney, Australia
1-2 August 2018

**CAPA Australia Pacific Aviation & Corporate Travel Summit**

Cartagena, Colombia
10-11 September 2018

**CAPA Latin America Aviation & LCCs Summit**


Seville, Spain
4-5 October 2018

**CAPA Low Cost Long Haul Global Summit**

Singapore, Singapore
8-9 November 2018

**CAPA Asia Aviation & Corporate Travel Summit**


Berlin, Germany
27-28 November 2018

**CAPA World Aviation Outlook Summit**

**centreforaviation.com/events**

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# AIRLINE MERGERS:
## why Europe needs blue sky thinking

**IAG's interest in acquiring Norwegian Air Shuttle once again focuses attention on the process of consolidation in the European aviation sector. Although often headline-grabbing, this is a process that has not led to any significant change in market structure in recent years.**

**The wave of mega-mergers in Europe started with Air France and KLM in 2004, included Lufthansa's acquisitions of SWISS and Austrian, and ended with the 2011 combination of British Airways and Iberia to form IAG. Since then, consolidation has ambled along at a slow pace, led by mergers of smaller scale and market exits.**

By comparison with North America, Europe's aviation market remains very fragmented. Europe's top seven airline groups control 55% of seats to/from/within Europe in summer 2018, compared with an 82% share for North America's top seven.

An acquisition of Norwegian would add 3% to IAG's 9% share and take it just ahead of Lufthansa Group as Europe's number one. However, it would leave it well short of American Airlines' market-leading 19% share in North America and still leave Europe in a fragmented state.

Only mergers between Europe's biggest groups could match the seat share of North America's leading players.

**Summary**

- Europe's top seven seat share has gained 2.2ppts since summer 2015, but its 55.5% share is much less than the 81.8% for the top seven in North America.
- An IAG/Norwegian deal would create Europe's leading group, with 12% of seats, but would not take market structure much closer to North America's.
- Only mergers between Europe's biggest groups could match the seat share of leading players in North America, where American Airlines has 19%.
- Matching American's 19% share would require mergers such as Lufthansa Group/Air France-KLM, Ryanair/IAG, or Lufthansa Group/easyJet.

### Airline concentration in Europe has changed little in recent years

There has been very little consolidation in Europe in recent years. In spite of the disappearance of airlines such as Transaero, Monarch, airberlin and Estonian Air, market concentration changed little between summer 2015 and summer 2018.

Transaero and Monarch each had less than 1% of total seats in Europe and Estonian Air only a tenth of this. Air Berlin Group was more significant, with approximately 3% of seats, but much of this capacity is now flying with the Lufthansa Group and easyJet.

As the chart below indicates, the share of seats held by the top 20 airline groups operating to/from/within Europe was 77.6% in summer 2015 and is 78.3% in summer 2018 – an increase of only 0.6ppts.

There are different ways of looking at concentration and there have been slightly greater increases in the seat share held by the top 10, top seven, top five and top three, but only by 2ppts or so in each case.

### Europe's top seven seat share has gained 2.2ppts since summer 2015

The grouping that has experienced the biggest growth in its collective market share is the top seven, with an increase of 2.2 ppts from 53.3% in summer 2015 to 55.5% this summer.

In summer 2015 the SAS and Air Berlin Groups were only just outside the top seven by seat share, each with approximately 3% of seats and just behind seventh ranked Aeroflot Group, which also had 3%.

Since then, a more distinct top seven has emerged. In summer 2018 there is a bigger gap between Aeroflot in seventh place, with close to 4% of seats, and Norwegian, now in eighth place with a 3% share.

Meanwhile, Air Berlin Group has disappeared and SAS has slipped to ninth place.

**Europe's aviation market is much less concentrated than North America's**

It is informative to compare Europe's airline market structure with that of North America, which is the world's most concentrated aviation region.

As in Europe, there is also a distinct top seven in North America, with a gap between number seven JetBlue's 4% seat share and number eight ranked Spirit Airlines' share of just less than 3%.

However, although the seat shares of the seventh and eighth ranked North American groups closely match the equivalent groups in Europe, the North American top seven collectively have an 81.8% share, compared with the European top seven's 55.5%.

The top five in North America have 73.6%, versus 46.1% in Europe, and the North American top three have 54.3%, compared with 31.7% in Europe.

**North America's four biggest airline groups are much larger than their European counterparts**

Within the top seven in each continent, only the number seven airline groups have a similar seat share of approximately 4% in each region.

Above that, the European number five (easyJet) and number six (Turkish Airlines) actually have a higher share than their North American counterparts. EasyJet's 7% share compares with Air Canada's 5%, and Turkish Airlines' 6% compares with Alaska Air Group's 5%.

However, it is among the top four in each region that North American airline groups have a much higher seat share. No European group in the top seven has a seat share as high as any North American top four group.

At number one, American Airlines has 19%, versus Lufthansa Group's 12%. Number two Delta's 18% significantly outweighs Ryanair's 10%, third placed Southwest's 17% compares with IAG's 9%, and number four United's 15% is more than double Air France-KLM's 7% share.

Moreover, each of the North American top four is bigger by seat numbers than its European counterpart. For example, American Airlines has 30% more seats than Lufthansa Group this summer, while United has 65% more seats than Air France-KLM.

**An IAG/Norwegian deal would not take Europe's market structure much closer to North America's**

If IAG were to acquire Norwegian and its 3% share of seats in Europe, this would just take the expanded IAG to the top of the European ranking by seats, with a share of 12% (to be more precise, it would be 12.24% – very slightly ahead of Lufthansa Group's 12.17%).

**This would be one of the biggest mergers/acquisitions in Europe for several years.**

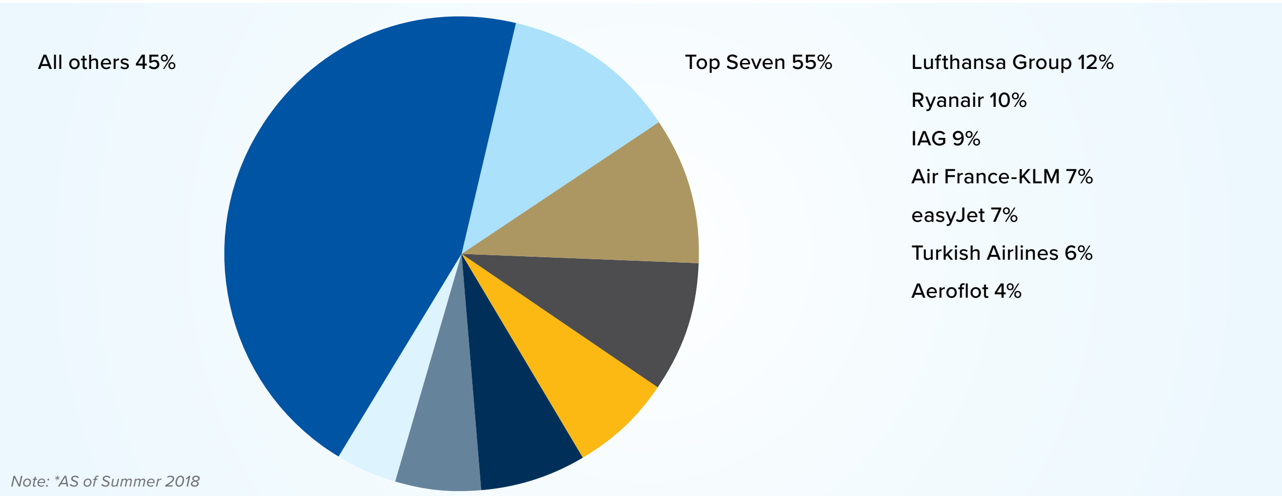
When IAG acquired Vueling in 2013 the Spanish LCC had approximately 2% of seats to/from/within Europe, while its 2015 acquisition of Aer Lingus brought with it a share of 1%. Lufthansa's 2018 full consolidation of Brussels Airlines took on the Belgian airline's share of less than 1%.

IAG has been the most active force in European airline consolidation since the wave of mega-mergers....

**To read more go to:**
*https://centreforaviation.com/IATA18/1*

## EUROPE: TOP SEVEN AIRLINE GROUPS SEAT SHARE*

SOURCE: CAPA - CENTRE FOR AVIATION & COMPANIES




*Note: *AS of Summer 2018*

# US-GULF AIRLINE CONFLICT: peace with (almost) honour

**Qatar's pledge to freeze any plans for operating fifth freedom flights, followed by a similar deal with the UAE, has resulted in the US Big 3 airlines claiming victory in their years-long subsidy campaign while American, Delta and United's opponents in the debate are left scratching their heads over what exactly is being accomplished.**


**American, Delta and United have argued that their grievances were never about the elimination of fifth freedom flying on a broad scale. It was "subsidised" fifth freedom operations and the potential for expansion that raised their ire. A similar agreement with the UAE should allay the concerns of FedEx that its crucial global fifth freedom operations are not in jeopardy.**

Emirates obviously has more skin in the game since it actually operates fifth freedom flights. But given that those operations represent a microscopic proportion of the airline's operations, perhaps agreeing not to pursue further fifth freedom flying is a small price to pay in order to end the years-long subsidy controversy.

However, now that a similar agreement has been reached with the UAE, is it really the end of the debate or merely a temporary truce?

**Summary**

- Delta says the integrity of open skies remains intact as Qatar has agreed to a "pause" in fifth freedom flying.
- Fedex says that the pause is tricky, given that Qatar Airways doesn't engage in fifth freedom operations.
- Now that a similar agreement has been reached with the UAE, is the debate really put to rest?

### Delta claimed victory with the Qatar deal and stresses 'the sky has not fallen'

To recap briefly, as part of a broader agreement reached by the government of Qatar and the US in early 2018, the Qatari government agreed that Qatar Airways would release audited financial statements within a year, would become more transparent regarding transactions with other state-owned enterprises, and would guarantee that the airline had no plans to introduce fifth freedom flights.

Given that was the first movement on the debate since American, Delta and United launched their campaign in 2015 alleging that Emirates, Etihad and Qatar were being illegally subsidised, the Big 3 obviously believe they have scored an important victory.

Speaking at the recent 2018 CAPA Americas Summit in Houston, Texas, Delta managing director of Government Affairs Robert Letteney said that the agreement with Qatar was "great news" that the US government was addressing the issue, clearly leaving open skies intact, and in fact: "The sky has not fallen".

Mr Letteney said he believed the agreement accomplished three key things. Firstly, the government recognised that subsidies absolutely have an impact on a fair and equal opportunity to compete, "which is part of open skies". Secondly, as part of Qatar's pledge for more transparency, the agreement ensures that transactions with state-owned enterprises are supposed to be made on commercial terms. And thirdly, it has accomplished a "pause in fifth freedom flying, which is what we had been asking for until subsidies are addressed", he stated.

### FedEx: you cannot pause something that is not being done

It is true that the agreement reached between Qatar and the US shows that open skies agreements do not appear to be in jeopardy, but as FedEx managing director of regulatory affairs Nancy Sparks stated at the CAPA Summit, there is a problem with use of the word "pause" in fifth freedom operations. "In the Qatar situation there were no fifth freedom flights being operated, so you cannot pause something that is not being done."

Qatar Airways briefly operated a Doha-Geneva-Newark service largely before the airline had suitable long range aircraft. Therefore, the "pause" in fifth freedom operations was a small concession – if a concession at all.

Ms Sparks remarked that "the tricky part" was Emirates' fifth freedom flying. The airline's launch of Dubai-Milan-New York JFK in late 2013 was a major factor in the Big 3 launching their subsidy campaign. Delta has stated that that service was "ground zero" on fifth freedoms, noting "we have to stay vigilant to get fair skies, not open skies". Since that time, Emirates has launched fifth freedom service on a Dubai-Athens-Newark pairing, which has raised concerns by United.

United's Star Alliance partner Air China recently inaugurated fifth freedom service from Houston to Panama City with the flight originating in Beijing. JetBlue, a vocal opponent of the Big 3's subsidy campaign, highlighted United's criticism of Emirates for the launch of Athens-Newark, which United does not serve year-round, while remaining silent on state owned and subsidised Air China's fifth freedom flights.

The Qatar-US agreement, and the latest agreement with the UAE, may quell the fifth freedom debate for now, but the larger issue of what constitutes a subsidy is far from resolved.

*(Note: As recalled at CAPA's Airline Leader Summit in Dublin on 17-May-2018, there is a particular irony in the Big 3's argument over fifth freedom rights. When the original open skies agreements were being negotiated between the US and the UAE and Qatar, neither Gulf country had an independent functioning international airline, although each wished to keep the avenue open for the future. The US insisted however on the two countries accepting fifth freedom operations - leaving the way open for US airlines to occupy the partial vacuum that existed. It was only the insistence of the US government that caused fifth freedom rights to be included.)*

**After initial confusion, the deal with UAE appears to mirror Qatar's agreement**

Following interpretations of the agreement reached with Qatar offered by Delta and FedEx, the US and UAE brokered a deal in early May-2018 that is similar in structure to the pact with Qatar. However, there was initial confusion over the content of US agreement with the UAE.

Assistant to US President Donald Trump and director of the White House Trade Council Peter Navarro initially stated that the UAE had committed to freeze fifth freedom flights for passenger airlines only. Those comments ran counter to a side letter negotiated in the agreement that emphasises no changes to the US-UAE open skies agreement were made, and Emirates and Etihad, similar to Qatar, pledged that they have no current plans to expand fifth freedom operations to the US. Eventually, the White House issued language that mirrored the contents of the agreement.

Emirates and Etihad have committed to more financial transparency, even as it was acknowledged in the latest negotiations that Emirates had been transparent in its reporting for many years. Etihad has committed to publish financial statements once its restructuring its complete.

**Both sides claim victory as Aeromexico axes Barcelona plans, citing subsidies**

Both sides in the Gulf subsidy debate have claimed victory, with American, Delta and United (through their lobbying group the Partnership for Fair and Open Skies) heaping praise on the Trump Administration for reaching an agreement that protects jobs and upholds US trade deals against unfair foreign business practices.

Now that the semantics of a freeze versus a pause in fifth freedom flying have been ironed out, what exactly has changed in the open skies agreements with Qatar and the UAE, and what is the duration of that "pause"?

Etihad is currently not in a position to contemplate fifth freedom flying, and that has never been a real focus for Qatar. Emirates is opting to turn its attention to other regions for fifth freedom operations; the airline recently gained approval for fifth freedom flights to Mexico City from Spain. That prompted Mexico's flag carrier and Delta JV partner Aeromexico to abandon plans to relaunch service from Mexico City to Barcelona. Aeromexico was funding the service to Barcelona by paring down flights to Shanghai due to unfavourable slot times.

Aeromexico explained that it was cancelling planned service to Barcelona due to "said airline" enjoying subsidies and benefits from its government, "which constitute an unfair competition against the rest of the airlines in the industry". Delta, which has been one of the most vocal critics of Gulf airline subsidies, has a 49% stake in Aeromexico, and the two airlines operate a US transborder immunised joint venture...

**The US had to navigate larger issues in negotiations with the UAE and Qatar**

The Big 3's subsidy campaign has always placed the US government in a delicate situation. Indeed, as a summary of the recent US-UAE negotiations stated: "The delegations further recognised that the UAE is the largest importer of US goods in the Arab world, the largest international buyer of US...

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https://centreforaviation.com/IATA18/2

# PHILIPPINES INTERNATIONAL AVIATION MARKET: booming passenger growth

The Philippines international market has more than doubled over the last decade, from only 11.5 million passengers in 2007 to 24.4 million passengers in 2017. Scheduled international passenger traffic to and from the Philippines grew by 12% in 2017, marking the third consecutive year of double digit growth. International passenger traffic grew by 11% in 2015 and 10% in 2016. The slightly faster 12% rate achieved in 2017 marked the fastest rate of growth since 2010, when the market also grew by 12%.

**A surging economy and the Philippines emergence as a popular tourist destination have driven rapid growth over the last three years. Visitor numbers to the Philippines have increased by 11% for three consecutive years.**


**Summary**

- International passenger traffic in the Philippines grew by 12% in 2017 and has grown by 36% over the past three years.
- Visitor numbers to the Philippines increased by 11% in 2017 and have grown by 37% over the past three years.
- Overseas visitors account for slightly more than half of the international passenger traffic.
- The number of Filipinos travelling overseas has also grown rapidly as the economy has expanded.
- Philippine Airlines has been able to maintain a 28% share of a fast growing international market, while Cebu Pacific has maintained a 20% share in the past three years.


### Philippines visitor numbers grow at the same rate as international traffic

Total visitor numbers to the Philippines have increased by 37% over the past three years, from 4.83 million in 2014 to 6.62 million in 2017, according to Philippines Department of Tourism data.

During the same three-year period international passenger traffic has grown by 36%, from 17.92 million in 2014 to 24.43 million in 2017, according to Philippines Civil Aeronautics Board (CAB) data. This indicates that the growth in tourism and the number of Filipinos travelling abroad have grown at nearly identical rates.

Visitors account for slightly more than half of the total international passenger traffic and Filipinos (including overseas workers) account for slightly less than half. There is very little international transit traffic in the Philippines, although Philippine Airlines (PAL) is starting to pursue more sixth freedom passengers, targeting selected markets such as Australia-UK.

### PAL international traffic up 61% over the past four years

The PAL Group's scheduled international traffic increased by 13% in 2017, to 6.9 million passengers, according to Philippines CAB data. This includes the regional subsidiary PAL Express, although PAL Express is predominantly a domestic operator.

The PAL Group's international traffic over the past four years has increased by 61% while the total market has grown by 41%. PAL currently serves 40 international destinations compared to only 24 in late 2012.

PAL's share of the Philippines international market increased by 4ppts in 2014, to 29%, as its international traffic surged by 20%. Its international market share was steady at 28% in 2015, 2016 and 2017. PAL currently has virtually the same share of the international market as it did 10 years ago – an impressive achievement, given the highly competitive market conditions.

PAL also now has approximately a 28% share of the Philippine domestic market. However, its position in the domestic market has weakened significantly: the PAL Group's domestic market share was above 50% until 2008.

LCCs and Gulf airlines have pursued rapid expansion in the Philippines over the past several years. PAL has expanded in the international market at broadly the same pace as its competitors, doubling its international passenger traffic over the past decade at the same time as the overall market has also doubled in size.

Cebu Pacific and Philippines AirAsia grow while foreign airlines lose market share

**Cebu Pacific has grown faster, quadrupling its international traffic over the past decade, but on a much smaller base.**

Philippines AirAsia (PAA) has also entered the market, launching in 2012 and buying a stake in the previously independent LCC Zest Airways in 2013. PAA and Zest AirAsia completed a merger in 2013. However, AirAsia is a relatively small player, capturing only a 6% share of the international market in 2017 (compared to 4% in 2016).

Foreign airlines have expanded at a relatively slower rate, growing traffic by approximately 60% over the past 10 years. Foreign airlines accounted for 47% of total international traffic in the Philippines in 2017; their market share was 66% in 2006, and has since declined steadily. However, these figures are somewhat misleading as foreign airlines have continued to expand, particularly airlines from the Middle East and North Asia, pressuring Philippine carriers.

**PAL's long haul operation has struggled**

Yields have declined in virtually all international markets over the past year. PAL was back in the red in 2017, incurring an operating loss of PHP2.6 billion (USD51 million), following profits in 2014, 2015 and 2016.

PAL's domestic operation remained profitable in 2017 but its international operation was loss-making. Almost all its medium and long haul routes were unprofitable, but regional international operations were generally profitable.

"The challenge is really the Middle East, US and Europe", PAL president Jaime Bautista told CAPA earlier this year. "Last year was a really tough business environment."

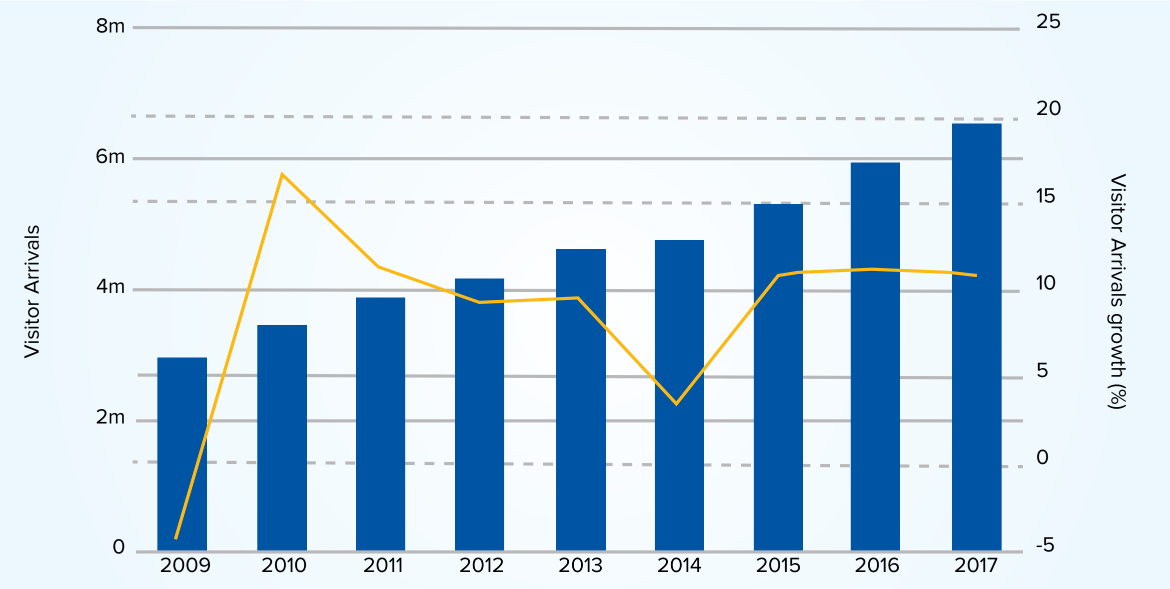
Mr Bautista said PAL's international load factor in 2017 was approximately 70%. The airline's average load factor was dragged down by its Europe and Middle East network, although its load factor in these markets was still above 60%.

PAL has tried to improve its performance in London, its only destination in Europe, by upgrading the daily service in late 2017 from A340-300s to 777-300ERs. While the 777 is more efficient and provides passengers with a better product, it has resulted in a 46% capacity increase in a market that was already experiencing low load factors. PAL is keen to attract more sixth freedom passengers in the London market, particularly from Australia (where it is expanding), but such traffic typically comes at the expense of yields...

**To read more go to:**
https://centreforaviation.com/IATA18/3

## PHILIPPINES ANNUAL VISITOR NUMBERS AND YEAR-OVER-YEAR GROWTH*

SOURCE: CAPA - CENTRE FOR AVIATION & & PHILIPPINES DEPARTMENT OF TOURISM




Note: *2009-2017

# DELTA AIR LINES SWOT:
## challenges after years-long industry leadership

**There's no question that Delta Air Lines betters its large US global network rivals American and United in numerous metrics ranging from its operational performance to customer sentiment.**


**Delta's outperformance is driven by the transformation the company has undertaken since its merger with Northwest Airlines a decade ago.**

The distance between Delta's merger integration and that of its rivals (five years for American and eight for United) has allowed Delta to recognise the growing maturity of the US domestic market and the importance of building a global network to ensure blanket coverage in the future.

Obviously work remains for Delta in building a competitive network, and its US rivals have pledged to move aggressively to close competitive gaps with the airline. Delta also faces numerous challenges and threats, including cost creep, uncertainty over Brexit, and a lack of immunity from investor anxiety driven by decisions taken by its competitors. This report examines Delta's strengths, weaknesses, opportunities and threats.

**Summary**

- Strengths: building a global network fortress, a robust upgauge strategy and an increasing net promoter score.
- Weaknesses: ballooning unit costs, lack of JV partner in South America, and watching its valuation due to actions of other airlines.
- Opportunities: revenue diversification, becoming an influencer in the interiors sector, and using technology to drive customer relationships.
- Threats: China trade disputes and Brexit, rivals pledging to close competitive gaps, and lack of a robust technology infrastructure.

**DELTA STRENGTHS**

**1.** Delta has built a global network fortress with its JVs and equity investments

Delta has adopted a unique strategy in taking stakes in foreign airlines and forging joint ventures with those operators. During the past few years it has invested in Aeromexico and Virgin Atlantic and formed JVs with those airlines, as well as investing in China Eastern and Brazilian airline GOL.

Delta is also in the process of investing in its long-standing SkyTeam joint venture partner Air France, as well as forging a joint venture with Canada's second largest airline WestJet and its fellow SkyTeam partner Korean Air. In late 2017 Delta estimated that the value of its alliances would reach USD550 million in 2019 and USD600 million in 2020. Additionally, Delta calculates its investments represent USD2 billion in balance sheet assets.

**2**. Delta's upgauging strategy produces tangible benefits

Delta is undertaking a years-long upgauging of its fleet in order to drive efficiency and offer a better customer experience. By 2023, Delta estimates small regional jets will represent just 2% of its domestic departures, versus 25% in 2008.

**3.** Delta moves closer to its net promoter score target

Delta's net promoter score jumped from 20% in 2011 to 41.5% in late 2017, reflected in the company's work to improve the relevancy of its brand. In 2017 Delta was the only airline listed in Forbes' top 15 most relevant brands, joining industry leaders such as Amazon, Starbucks, Google and Tesla.

**DELTA WEAKNESSES**

**1.** Delta faces formidable cost hurdles

Delta has faced a solid increase in its unit costs excluding fuel during the past two years, with increases of 3.7% and 4.3% in 2016 and 2017 respectively, following flat year-on-year growth in 2014 and 2015.

At the same time, the US industry has faced pricing pressure, which created significant gaps in Delta's unit cost and unit revenue performance.

**2.** Delta has no immediate plans for a joint venture in South America, particularly in Brazil

Even as Delta has moved to forge a joint venture with Aeromexico in Latin America's second largest aviation market, Mexico, it lacks a plan for an immunised pact as LATAM Airlines Group and American move forward to establish a comprehensive joint venture between the US and several Latin American countries, including the strategic market of Brazil.

Delta upped its stake in Brazil's largest domestic airline GOL (measured by passengers carried) from 3% to 9% in 2015, but GOL is just in the process of restarting its own operations to the US.

Concurrently, United Airlines has opted to up its stake in Brazil's third largest domestic airline Azul, and Azul has repeatedly stated its preference to create a joint venture with United.

Delta will be at a significant disadvantage in Brazil, Latin America's largest aviation market, if its large US global network rivals forge immunised pacts with two of Brazil's largest airlines – LATAM Airlines Brazil and Azul.

**3.** Delta cannot escape investor backlash resulting from decisions taken by its rivals

For many years Delta attempted to stress to the investment community that its performance should be benchmarked against other high value industrial transport companies, rather than the general airline industry at large.

In early 2018 when United stated that its domestic capacity for the year would grow in the four percent range or higher, all airline stocks took a hit. Delta remains on par with American and United in many financial metrics with the exception of market capitalisation, and in early May-2018 its share price was trending below United's.

Delta recently stated that there is something in the durability of its framework "that we need to continue to prove over time, and we're seeking to do that".

But for now it seems that Delta has a high risk of its valuation getting caught up in the industry inertia that causes investor anxiety.

**DELTA OPPORTUNITIES**

1. Further revenue diversification

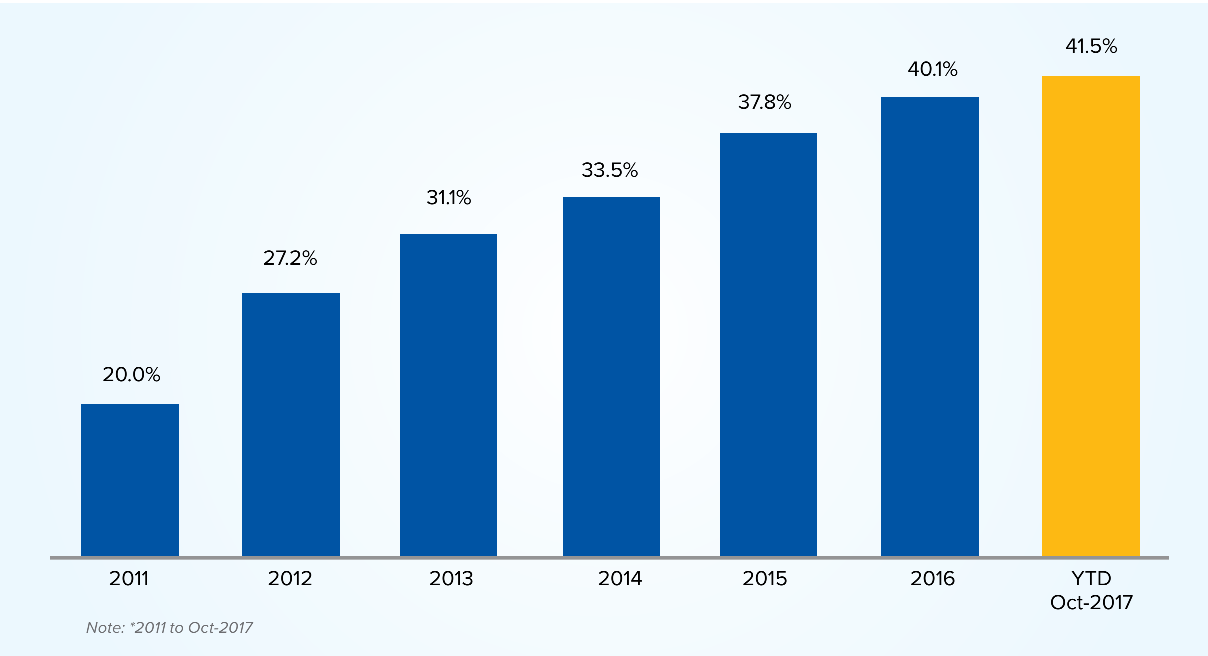
Delta was a front runner in product segmentation, and branded fares and upsales are just one opportunity the airline has to drive revenue diversification. This is key, as its passenger ticket revenue increased just 7% year-on-year in 1Q2018, to USD8.8 billion.

The airline has no target for the non-ticket contribution in the accumulation of its overall revenues, but Delta has remarked that "there's no question [that] our non-ticket based revenues, and it's been for some time now.

**To read more go to:**
https://centreforaviation.com/IATA18/4

## DELTA AIR LINES DOMESTIC NET PROMOTER SCORE*

SOURCE: DELTA AIR LINES



## OUTLOOK & ECONOMICS

### IATA still expects solid industry profit in 2018, despite rapid rise in oil prices

**IATA** director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, said (31-May-2018) "solid" passenger traffic demand growth is one of the reasons why airline CEOs gathering for the upcoming IATA AGM are "in a good mood". Mr de Juniac reported Apr-2018 passenger traffic rose 6.2% year-on-year. However, airline CEOs "will certainly also be worried about the rising cost of fuel". Mr de Juniac noted IATA's Dec-2017 forecast for a 2018 industry profit of over USD38 billion was based on an oil price of USD60 per barrel for Brent crude, and prices are now approaching USD80 per barrel. Mr de Juniac also noted that in the past, such a rapid rise in a key input cost "might have plunged the industry back into losses" but the association is still forecasting solid profits for 2018, as the industry has restructured and re-engineered their businesses.

### IATA: Traffic growth continues above long-term trend, but fuel prices may pull back growth

**IATA** director general and CEO Alexandre de Juniac reported (31-May-2018) air transportation demand "continues to be above the long term trend", with Apr-2018 global traffic growth of 6.2% year-on-year. Mr de Juniac cautioned that increases in airline cost inputs, most notably fuel prices, "means that we are unlikely to see increased stimulation from lower fares in 2018, compared to previous years".

### IATA: Air cargo market is still seeing healthy growth, despite end of restocking related boost

**IATA** director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, said (31-May-2018) air cargo remains a "tough business" and IATA's Apr-2018 global cargo market statistics show growth of 4.1% for the month, less than half the average rate of growth in 2017. Mr de Juniac noted that in 2017 air cargo was given a "big boost" by the need of businesses to quickly restock inventories to meet the demands of a fast-paced uptick in the global economy. According to Mr de Juniac, that urgency has "disappeared" but the industry is "still seeing healthy growth, particularly for cross-border e-commerce and special needs cargo such as pharmaceuticals".

### IATA DG & CEO: Aviation must be a voice for 'borders that are open to people and to trade'

**IATA** director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, said (31-May-2018) the aviation industry "must continue to be a voice for borders that are open to people and to trade" and the upcoming IATA AGM will "examine important challenges that we must overcome to secure our future". These challenges include:

- The commercialisation of sustainable aviation fuels;
- Gender equality;
- Airport privatisation;
- Securing the air transport system;
- Fighting against human or wildlife trafficking.

## AIRPORT REGULATION & CONSTRUCTION

### IATA working with A4ANZ and BARA on submission to review on Australian airport regulation

**IATA** reported (31-May-2018) it is working with **Airlines for Australia and New Zealand** (A4ANZ) and the **Board of Airline Representatives Australia** (BARA) to provide input to the Productivity Review on Economic Regulation of Airport Services taking place during 2018. IATA DG and CEO Alexandre de Juniac stated that airport charges in **Australia** require "a serious look" and highlighted Australian Competition and Consumer Commission concerns about the effectiveness of Australia's price monitoring regulatory regime for airport charges. Mr de Juniac said there is a need to "find an effective regulatory solution to ensure that Australia is well served with competitive infrastructure".

### IATA calls for Kingsford Smith's full capabilities to be utilised until completion of Badgerys Creek

IATA DG and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, welcomed (31-May-2018) progress on Western Sydney Airport (Badgerys Creek) and called for a "solid execution" of the project. Mr de Juniac added: "This includes developing a vision on the roles of Badgerys Creek and Kingsford Smith and the connectivity between the two airports... Until Phase one of Badgerys Creek is ready in 2026, there is an urgent need to find ways to use Kingsford Smith to its full capabilities".

### IATA CEO: Australian Govt must 'constrain the market power' of primary airports

**IATA** director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, called (31-May-2018) on Australia's Government to strengthen economic regulation of airports and examine airport charges in relation to airfares. Mr de Juniac said: "We need to take a serious look at airport charges. Last year the Australian Competition and Consumer Commission raised concerns about the effectiveness of Australia's price monitoring regulatory regime for airport charges. They were not convinced that it does enough to constrain the market power of Australia's main airports".

### IATA calls for strengthened regulation of Australia's airports

**IATA** director general and CEO, speaking at the Australasian Aviation Press Club, called (31-May-2018) for economic regulation of airports in Australia to be strengthened. In his remarks, Mr de Juniac stated that "at a time when we have an infrastructure crisis globally, Australia has a good story to tell", with encouraging plans for the new airport at Badgerys Creek and efforts for civil/military ATM cooperation. However, airport charges require a "serious look" and IATA agrees with the Australian Competition and Consumer Commission's concerns about the effectiveness of Australia's price monitoring regulatory regime for airport charges, said Mr de Juniac. He stated that is it cheaper to travel by air today than it was a decade ago, but airlines and travellers have not seen similar decreases in airport costs.

## DATA

### Global Passenger traffic up 6% in Apr-2018: IATA

**IATA** reported (31-May-2018) the following traffic growth in Apr-2018:

- Passenger traffic (RPKs): +6.2% year-on-year;
- International passenger traffic (RPKs): +4.8%;
  - Asia Pacific: +8.5%;
  - Latin America: +6.4%;
  - Africa: +5.1%;
  - Middle East: +4.1%;
  - Europe: +3.4%;
  - North America: +0.9%;
- Domestic passenger traffic (RPKs): +8.5%
  - **India**: +26.4%;
  - **China**: +15.5%;
  - **Russia Federation**: +6.7%;
  - **Brazil**: +6.7%;
  - **Japan**: +5.3%;
  - **US**: +5.3%;
  - **Australia**: +3.4%;
- Passenger load factor: 82.3%;
- International load factor: 81.4%;
  - Europe: 84.6%;
  - Latin America: 81.4%;
  - Asia Pacific: 81.0%;
  - North America: 80.7%;
  - Middle East: 77.2%;
  - Africa: 72.8%;
- Domestic passenger load factor: 84.0%;
  - India: 90.9%;
  - China: 86.1%;
  - US: 84.8%;
  - Brazil: 80.7%;
  - Russian Federation: 80.7%;
  - Australia: 80.2%;
  - Japan: 67.5%.

### IATA: passenger traffic up 6.2% in Apr-2018, Asia Pacific leads regional growth

**IATA** reported (31-May-2018) the following global passenger traffic highlights for Apr-2018:

- Global passenger traffic: RPKs rose 6.2% year-on-year, down from a 12 month high of 9.7% growth in Mar-2018. The comparison is impacted by the late timing of Easter in 2017, which boosted Apr-2017 traffic. ASKs rose 5.9%, and load factor climbed 0.2ppts to 82.3%. Load factor was a record for April, surpassing the Apr-2017 record of 82.1%;
- International passenger markets: Passenger demand rose 4.8%. All regions recorded year-on-year traffic increases but all were behind the pace of growth reported in March. Total capacity climbed 4.9%, and load factor slipped 0.1 percentage point to 81.4%;
- Asia Pacific: Regional airlines generated 8.5% traffic growth, the strongest of any region and the first time since Dec-2017 the Asia Pacific led growth. IATA noted passenger traffic has continued to trend upwards at an annualised rate in the region of 10%, supported by robust regional economic expansion and ongoing growth in the number of flight options, which translates into time savings for passengers. Capacity rose 7.6% and load factor improved 0.6 percentage point to 81.0%;
- Middle East: Regional demand rose 4.1% while capacity climbed 3.2%, sending load factors up 0.7ppts to 77.2%. The region's seasonally-adjusted upward trend in traffic has strengthened since the start of 2017. This has been supported by healthy growth on key routes to/from Asia and Europe, as well as continuing signs of recovery to/from the North American market. IATA noted that annual growth comparisons are likely to become more favourable in coming months, due to the comparison to the period during the proposed travel bans to the US and the since-lifted ban on large portable electronic devices in 2017;
- Europe: Traffic growth of 3.4%, slowing compared to the 9.8% expansion in Mar-2018. In seasonally-adjusted terms demand still picked up in Apr-2018. Capacity rose 4.0%, sending load factor down 0.5ppts to 84.6%. This was still the highest level among the regions;
- North America: Traffic growth of 0.9%, the slowest of any region and sharply down compared to the 9.5% in Mar-2018. The year-on-year comparison is distorted by the huge pick-up in traffic in Apr-2017. IATA projects a bounce back in May-2018, supported by the relatively strong economic backdrop in the US. Capacity climbed 2.4%, and load factor fell 1.2ppts to 80.7%;
- Latin America: 6.4% rise in traffic while capacity rose 7.5%. Load factor slipped 0.8ppts to 81.4%. The regional bigger picture remains bright, with seasonally-adjusted traffic volumes having grown at double-digit annualised rates over the past six months;
- Africa: 5.1% demand growth, while capacity rose 4.6%. Regional load factor edged up 0.4ppts to 72.8%. The regional upward demand trend remains strong, helped by continuing signs of improvement in economies of Nigeria and South Africa. IATA reported this is only the fourth time in the past 41 months that both economies have been on an upward trajectory at the same time.

### IATA: Australian domestic market growth more than double five year trend in Apr-2018

**IATA** reported (31-May-2018) domestic traffic in **Australia** increased 3.4% year-on-year in Apr-2018. This was a slowdown from Mar-2018, but still well above the five year average pace of 1.6%. Capacity lagged behind at 2% growth, sending load factors up 1.1ppts to 80.2%.

## ATM

### IATA DG and CEO: OneSKY must be delivered 'within an acceptable budget and timeframe'

**IATA** director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, stated (31-May-2018) the joint civil-military ATM project carried out by Airservices Australia and the Australian Department of Defence, referred to as OneSKY, will "manage air traffic congestion by taking a holistic view of civil and military capabilities". Mr de Juniac however stated the expected benefits must be realised "within an acceptable budget and timeframe". He added: "There should not be cross subsidisation by civil aircraft operators for military air traffic management".

### IATA: Aviation infrastructure is 'in crisis' as airports and ATM fail to pace traffic growth

IATA director general and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, said (31-May-2018) aviation infrastructure is "in crisis" and he expects lots of discussion on infrastructure at the upcoming AGM. Mr de Juniac reported air traffic demand is rising globally, but investments in airports and air traffic management "are not keeping pace".

## SECURITY

### IATA warns Australian investment in airport security must not leak back to airlines

IATA DG and CEO Alexandre de Juniac, speaking at the Australasian Aviation Press Club, welcomed (31-May-2018) an allocation of nearly AUD300 million (USD227.2 million) by the Australian Federal Government to further improve security at Australia's airports. Mr de Juniac also said that as these improvements are rolled-out, "we must carefully ensure that associated costs don't leak back to the airlines", noting that security is primarily a government responsibility.