

# CAPA DAILY

74<sup>th</sup> IATA AGM AND WORLD AIR TRANSPORT SUMMIT

ISSUE TWO - 04-JUN-2018

## ALEXANDRE DE JUNIAC

On the issues confronting the airline industry

## PIETER ELBERS

Reacting to the increasing low cost long haul trend

## RUPERT HOGG

Defying expectations & making no apologies



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

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This CAPA Daily showcases a selection of News Briefs from the 74th IATA AGM and World Air Transport Summit...

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# It's war. A day in the life of an airline CEO

**A**n airline CEO said to me recently that his role was like being in a constant state of war.

Every day is a new battle, perpetually confronted by new forces, many of them beyond the control of the CEO to influence. But his responsibility to overcome.

At the moment for example there are few Europeans unaffected by the impact of a mere handful of French air traffic controllers who are opposed to the French government's employment policies. These have little to do with the vast majority of travellers, or the airlines themselves, left to suffer the heavy financial burden of delays, cancellations and general disruption to their networks. Yet airlines must work around them and continue with business as usual.

Then there's fuel, whose pricing vicissitudes wreak havoc with airline budgeting and planning. The list of external, uncontrollable, threats is seemingly endless: security costs, government charges, infrastructure shortages that curtail market planning, regulatory imposts which add unpredictable cost to flying operations, airport and en route charges; as well as the ever present threat of health scares, economic downturn, volcanic eruptions, currency fluctuations, political instability, engine and airframe delivery issues – pretty much anything you can think of can seriously disturb airline operations. And all that framed within the most absurd economic regulatory framework yet devised by man.

That's even before the internally controllable factors – labour costs are the largest single item, yet often hardly controllable; ask Air France or Alitalia.

Yet this industry is a massive enabler. It is unthinkable today that air services would cease; they are integral to economic and social activity, to trade and to the core of human wellbeing. It's a pity such a fundamental endeavour remains so fragile.

In these circumstances any attempt to look forward more than a few months is always at best extremely challenging. But that's not an optional task; there's a financial debt and equity burden to service, so the beast must be fed daily; there's ferocious competition to address....

What will happen in 2018 really remains anybody's guess in an increasingly unstable world, but coming off the best year ever for the industry (synchronised profit and growth at previously unheard of levels), improvement is unlikely. Brent Crude is nibbling at USD80 a barrel, pretty much twice the level of last year, the Middle East is rumbling ominously and less tangible issues like Brexit and Italy's political future are causing uncertainty. Then on the other hand, the global economy appears to be performing reasonably well overall and recent traffic figures are healthy.

There's little prospect of a similarly profitable year, with fuel prices heading higher, but in general the prospects of at least a reasonable year seem good.

The airline CEO's war continues.



A handwritten signature in blue ink that reads 'Peter Harbison'.

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

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CENTRE FOR AVIATION



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**MEMBERSHIP ENQUIRIES:** [membership@centreforaviation.com](mailto:membership@centreforaviation.com)

**EDITORIAL ENQUIRIES:** [info@centreforaviation.com](mailto:info@centreforaviation.com)

**PRESS ENQUIRIES:** [press@centreforaviation.com](mailto:press@centreforaviation.com)

**EVENT ENQUIRIES:** [events@centreforaviation.com](mailto:events@centreforaviation.com)

**ONSITE TEAM:**

**EXECUTIVE CHAIRMAN:** Peter Harbison [ph@centreforaviation.com](mailto:ph@centreforaviation.com)

**CCO:** Derek Sadubin [ds@centreforaviation.com](mailto:ds@centreforaviation.com)

**COO:** Liz Pinczewski [lp@centreforaviation.com](mailto:lp@centreforaviation.com)

**HEAD OF MARKETING:** Daniella Baxter [dbaxter@centreforaviation.com](mailto:dbaxter@centreforaviation.com)

**SENIOR ANALYSTS:**

**CHIEF ANALYST:** Brendan Sobie [bsobie@centreforaviation.com](mailto:bsobie@centreforaviation.com)

**EUROPEAN CONTENT EDITOR:** Richard Maslen [rmaslen@centreforaviation.com](mailto:rmaslen@centreforaviation.com)

**ASSISTANT EDITOR – BLUE SWAN DAILY:** Marco Navarria [mnavarria@centreforaviation.com](mailto:mnavarria@centreforaviation.com)

**MEMBERSHIP TEAM:**

**PARTNERSHIPS MANAGER:** Rowan Lanser [rlanser@centreforaviation.com](mailto:rlanser@centreforaviation.com)

**SENIOR ACCOUNT MANAGER:** Manon van den Broek [mvdb@centreforaviation.com](mailto:mvdb@centreforaviation.com)

**SENIOR ACCOUNT MANAGER:** Marianne Cummins [mcummins@centreforaviation.com](mailto:mcummins@centreforaviation.com)

**ACCOUNT MANAGER:** Brigit Mahal [bmahal@centreforaviation.com](mailto:bmahal@centreforaviation.com)

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# On the Record



## Qatar Airways

*ON NORWEGIAN'S REJECTION OF TWO BIDS FROM THE IAG GROUP*

"If I am a company that knows somebody wants to buy me, I will of course up the price. But how long can I demand that when the water is rising very hard up to my nose?... It will only be a matter of time before they have no alternative but to accept a bid from somebody; IAG or someone else." Akbar al Baker, CEO



## 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



## Bangkok Airways

*ON LACK OF CORRELATION BETWEEN PROFIT, SHARE PRICE*

"Every year we manage to post profits. But when it comes to the stock price, it really is a complicated mechanism - one that we can never anticipate." Puttipong Prasarttong-Osoth, President



## Ryanair

*ON IMPACT OF RISING FUEL COSTS*

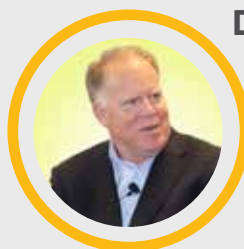
"Spot prices close to \$80 a barrel are going to lead to a significant shakeout in the industry as early as this winter... Some of those loss-making airlines who couldn't make money when oil was at \$40 a barrel certainly can't survive." Michael O'Leary, CEO



## Wizz Air

*ON EXPECTED IMPACT OF INCREASING FUEL PRICES*

"That will put pressure on the weak performing airlines and almost all of central and eastern Europe's incumbent national carriers perform very vulnerably with no profitability and no liquidity so we will see what happens to them." József Váradi, CEO



## Delta Air Lines

*ON HOW 'WE'RE NOT CHASING TECHNOLOGY FOR TECHNOLOGY'S SAKE'*

"For us it's all about enhancing the customer experience, ultimately with an eye towards the next-generation traveller... We really believe that we can leverage technology and innovation as a competitive advantage, not just as a marketing tool, and drive the applications that are core to our customer experience." Gil West, COO

# IATA Director General & CEO Alex de Juniac

CAPA TV this week engaged IATA's head on a wide range of issues confronting the airline industry – from the role of unions, through ownership and control rules, LCCs in IATA and pilot shortages – and the NDC



**In Europe, but in France particularly, air traffic control unions, but also airline unions are creating havoc this Summer. Do you see what the air traffic controllers doing in France as something which will accelerate the process of SESAR, or is it something which actually makes it a more remote possibility?**

The impact of the air traffic controllers' strike, especially the French one in Europe is very high due to the central position of France in the continent, so it creates a major traffic disruption. Many of our members are complaining about that. Many of the surrounding countries are complaining, because it's such a big problem. So, will it have an impact on the evolution of the Single European Sky? I think it's not the main obstacle or the main problem in the evolution, we have to convince governments to move forward to implement the Single European Sky, which is a major programme for Europe to improve the efficiency of the sky, to reduce cost, and even to be more

environmentally friendly. In Europe, it's more political will than any social resistance or movement due to industrial actions.

**But the unions are a major force for inertia in terms of changing the system aren't they?**

For many civil aviation, dealing with the air traffic control system is a big issue. It's a big issue especially if they want to improve the efficiency of the old system by reducing the number of centres, by improving productivity, by reducing costs. But it's not the only industrial sector in which you face this type of resistance and I do not see that as the major obstacle to the implementation of a Single European Sky. We need now a political moving force. And we are trying to convince European governments to build a national airspace strategy that is under the umbrella of the Single European Sky that will converge into a movement forward to implement the SES in Europe, a key issue for Europe.





**Still on the issue of unions and employment generally, your successor with Air France has resigned, largely because of an unwillingness by the work force to go along with the necessary reforms. We're seeing the same thing in Italy with Alitalia. Is this an intractable problem or is there perhaps a solution in terms of consolidation? Is it something that can be solved by perhaps changing the national ownership rules?**

What we have seen in many countries is that when the airlines have been forced to restructure, and it has almost always been painful and quite strong - and almost sometimes violent. In the US, many companies went through Chapter 11. In Australia, I remember that some hard measures were taken by one of the big airlines here. In Japan, one of the main companies went through bankruptcy, so everywhere they're restructuring has triggered a very strong resistance and industrial actions and strong measures.

So it's not only in Europe, and not only in the two countries you have mentioned, Air France and Italy that we see these problems. But governments have to help the companies to take the right measures to be able to face competition. And that's a key issue everywhere, and it's a key issue also in France and Italy.

**Do you think we are reaching a tipping point in that respect?**

It's difficult to say, because the situation is quite different from one country to another, but at some point, due to the intense competition that these two countries are facing, either from European competitors, but also from outside of Europe, competitors, they have to move fast. They have to move fast, otherwise it will be difficult in the coming year for them.

**In general terms, do you see much prospect of consolidation in the industry?**

The main trigger for consolidation, is when you have a

slowdown in the market. Because it's a capital intensive industry with low margins, so normally, when the markets slow down, you should see consolidation between the actors. That's, let's say, the normal economic answer to this type of situation. And in some areas of the world, if the markets slow down, we should see moves to consolidation. The main obstacle to that, is the foreign ownership limitation that is preventing external or foreigners from taking significant shares in the national

new model airline including the LCC as our members, almost 10% of our members are new model airlines. And we have a lot of low cost carriers, small and mid-size. It is true that the five or six biggest low cost have not joined IATA, but we have strong hopes that some of them will be our members and we do whatever we can to convince them to join IATA, because we think that we are able to provide them with good service. AOSA certification being one of those services, our lobbying actions being

## almost 10% of our members are new model airlines

carriers, which are sovereign. Each State has its their own policy, but we have to see these foreign ownership limitations as one of the main obstacles to consolidation. We do not see that obstacle being lifted or modified in the short run. It's a key sovereignty element, and we understand that each state wants to maintain a level of control in its national carrier.

**The full service airlines are the main constituents of IATA but you've increasingly introduced LCCs as members. How is this changing the profile of IATA and do LCCs ask for something different as members?**

You know, historically we have been founded by legacy and full service carriers, but now that the low cost airlines are gaining market share, it's very important that we at IATA are able to attract these newcomers and to provide them with the service they are looking for. Up to now, we have more and more members representing what we call

another. Participating in the BSP could be a third one. For those who are expanding the network outside their own country so that they go through travel agents, we are convinced that there are many good reasons for LCCs, especially the big ones to join IATA. And we're particularly optimistic that we will make it.

**If mean we look for example at A4E, there are common enemies perhaps, in terms of getting the low-cost carriers on the side of the full service airlines. Ryanair and IAG in A4E for example.**

Yes. You know when I was with Air France/KLM I was one of the founders of A4E, grouping the full service carriers and the European big low cost carriers. Apparently, it is working and it's an efficient association to represent the interests of the airlines in Europe. What it shows is that it was our conviction when we founded A4E. And it's my conviction now that I am in IATA and





trying to convince the big low cost airlines to join us and having convinced a lot of mid-size and small-size low-cost to join us, that we share 90% of common interest between us. And so that justifies the fact that we are in a single organisation - because we are stronger together to defend 90% of our common interests.

**Well, going back to your common interests, you've said we're headed for an infrastructure crisis. You've said effectively that governments are not going to be capable or willing to suspend the money to build, therefore you have to have airport privatisation or some sort of private investment. Do you see an appropriate model evolving for airport privatisation? What are the criteria for the successful private investment in new infrastructure?**

Well, what we see is that there is an infrastructure crisis almost everywhere in the world. We need more capacity to be able to cope with the growth of traffic. And because these projects are long run projects, longstanding projects, the decisions have to be made now to be effective in five to ten years from now, first of all.

Secondly, what we think for privatisation of airports is the following: We conducted a survey, a comprehensive

**Is there some common ground in this though?**

**Because if you're going, as you say, to be providing infrastructure for five or ten years from now, you have to be spending more money now, and the airlines are, for obvious reasons, not willing to pay that money today.**

**Where is the common ground there?**

Well everywhere in the economic activity, very often the investors invest first, and then they collect the money by selling the service or whatever the product. So, it's not totally new to even infrastructure to invest first and to collect the money after. What would a driver having to cross a bridge that will be built in 10 years, what would he think to pay the cost of the bridge 10 years in advance? It's unthinkable. We say the same thing for the airports. So we are against pre-financing. And we favour airline consultation, even at the earlier stage, at the design phase. We want to avoid building infrastructure that is bigger than needed, projects that are too big, or unaffordable - that we have seen in many areas and many countries. So: fit for purpose!

**Let's return to industry consolidation. The US carriers are highly profitable under consolidation they've got. In Europe, they're much more fragmented. In those**

## if governments want to privatise, consider first if there are alternative measures

survey in the world and we have been significantly disappointed by the result of the airport privatisation process throughout the world. Basically, airport charges and the what the airlines are paying, have been increasing dramatically, whereas, we do not feel that the level of service has followed the same track.

So, what we say to governments, if you want to privatise, consider first if there are alternative measures, management contracts, concession, whatever, and think twice when you plan to sell the assets. Because the airport's a national asset, and so you should keep an interest in this infrastructure. So, think twice. If you need to attract private capital, and if any other alternative measure is not acceptable for any reasons and you want to privatise, then we have recommendations in the privatisation process, you have things to avoid, rules to follow, to try to avoid the bad practices and adopt the good practices that we have seen around in the world. And then, when the airport is privatised, we urge governments to adopt a solid and strong regulatory framework, served by a strong and solid regulatory body to be able to regulate this new privatised infrastructure. Otherwise, privatisation has very, very, very strong drawbacks and weaknesses. And seen from the airlines, the new system is worse than the previous one. So we have to communicate strongly in that.

**circumstances, two sides to it, one: Do the European airlines have the prospect of being as profitable as the American carriers in the future? And two: Is the American system too heavily consolidated for public interest?**

It's quite a difficult question, because it should imply that we are able to define what is the optimal consolidation. Is it optimal to see three to four operators, five to six operators in Europe or in the US, it's difficult to say. The point is, are the level of service and the prices interesting - because the level of service is good and the prices are cheap enough for the passenger. That's the anti-trust trust point of view, and I think it's a good point of view. So, in the US, what we have seen is now an improvement in the level of service, the companies are investing, and our members are investing in improving the service and the level of prices - still they are reasonable. So, nobody has been prevented from travelling by the level of prices in the US.

In Europe, consolidation happened earlier than in the US, but has not reached the level of the US. Probably there is still some possible consolidation likely, especially in the low cost business, because we have a lot of low cost in Europe. Much less so in the US. So that's all we see, but it's difficult for us to define an optimal number of players. I would be very reluctant and I think it would be a





mistake. Even from a competition point of view to say that three is optimal and four is not, or on the contrary.

**But should there be more consolidation in Europe?**

There is probably some sort of space for consolidation, especially, probably in the low cost part, in which you have a lot of players these days.

**And the incentive of course, is if things get tough.**

For sure. And if the markets slow down, it's a major incentive for consolidation. Of course. When you have growth, you have room for many players, new entrants, it's easier. When the market is slowing down, it's another story.

**You might lose a few prospective members, of course?**

No, I don't think so. I hope not. They will probably be integrated and bigger groups. Which has happened.

**Changing topics, let's talk about pilots and skilled resources generally. It's got to the stage now where pilot shortages are a serious commercial problem for the airlines. Aircraft have been grounded, flights have been cancelled, because they don't have enough pilots. Do you see, first of all, any way out of it? And secondly, any way that IATA can be an active player in providing for the future?**

You know, IATA is not a training organisation for pilots or for engineers. We are representing the airlines, but what we can do is advocate in favour of dimensioning the training system appropriately. So, we should push our members when they have internally no training systems or we should push governments when it's government-owned or government-controlled, or the training schools or universities or organisations that are private, to expand their activities. So we can be a voice, and incentive, and we will do it by the way, but we cannot do it by ourselves.

**Do you see things getting better in the near future, or are they going to get worse before they get better?**

No, I think that the training system will be dimensioned properly. It's not rocket science, to increase the number of trainees in all navigation school on this planet, frankly. I do not see any technical obstacle to that.

**But practically, I mean, we have got to crisis level. So these circumstances haven't changed. Why have we got to crisis level and why is it suddenly going to get better?**

I think that we have not anticipated enough, you know, the needs of the industry and the traffic growth. We have underestimated the growth, especially after the financial crisis of 2008. We projected that the impact on traffic would have stronger, bigger than it has been. And it has not. Even when the level of fuel prices was over USD100 a barrel, you know the medium sized airlines have done quite well - which wasn't a given a few years ago. So, yes, I think we could have anticipated better, the whole industry, the airlines, the training system, the governments, we could have anticipated better. We probably have to be more optimistic in future.

**Finally the NDC. IATA talks about it as becoming the technology standard. Obviously, it's one thing to provide a solution to airlines, but they quite often have legacy systems, legacy data provision, their ability to use APIs to match the output capability is really not there yet. How long is it going to take before NDC really does have major impact on the industry?**

So, NDC is the new technology and protocol we have developed to ensure direct connection between airlines and passengers or airline and travel agent. It's a key technology for our industry to be able to provide the





complete offer we have to everyone. And so it's a key element. It is developing, not as fast as we would like, but now it is developing however. We have almost 50 airlines that are NDC compatible and then others investing in NDC. There are more and more agents that are adopting the NDC protocol, so in three to five years, we should have a significant share of ticket sales that would go through in these technologies, which will take between three to five years to have a significant impact.

**What are the main obstacles to implementation of NDC that you're experiencing at the moment?**

First of all, there are two obstacles. The legacy systems that have to be upgraded in which you have to integrate these new protocols and new technologies, so it's a technological barrier that we see in airlines' distribution systems as well. And secondly, the traditional distribution channels have been reluctant to adopt NDC. Now they are converting into NDC - which it took time, but now it's done - "I think that we'll join it". CAPA

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## if the markets slow down, it's a major incentive for consolidation



# CATHAY PACIFIC CEO RUPERT HOGG

Cathay Pacific defies expectations  
and makes no apologies



**C**athay Pacific has been resolute in not needing the A380 or a low-cost subsidiary, unlike most other full-service Asian airlines. Through geography, Cathay does not have a domestic network but is in the heart of Asia's cargo market. Cathay's business viability has been questioned as finances weaken, even when looking past significant fuel hedging losses.

Recent annual results showed a rebound and suggest Cathay can attain the elusive yield premium. Revenue growth and cost containment are the major goals of Cathay's restructuring under a transformation plan led by chief executive Rupert Hogg. Mr Hogg joined Cathay parent Swire in 1986 and he has held roles including responsibility for cargo and sales & marketing, and he was COO.

Mr Hogg sees Cathay not as a slave to growth but able to opportunistically expand for the local Hong Kong market and to increase unique city-pair combinations in the face of Gulf and Chinese competitors. In its backyard, Cathay contends with higher-than-expected, and often subsidised, expansion out of secondary Chinese cities. At home, Hong Kong Airlines and HK Express have rapidly grown due to their backing from HNA. Cathay, like airlines in neighboring Japan, Korea and Taiwan, has to balance being a de facto flag airline without state ownership but with expectations and requests from the government. Mr Hogg's transformation must improve Cathay's competitiveness but also make the airline relevant again for Hong Kong and new travellers.

**How do Asia's full-service airlines need to change over the next five years? How can an airline brand maintain its historical passenger base while being relevant to new travelling segments?**

Stay true to what your brand represents and have the agility to cater to new needs. Asia is the fastest growing aviation market in the world; it is also the most competitive. The majority of the world's busiest routes are found here, there is lots of competition with more carriers serving the big city pairs and rapid growth and overcapacity have become a significant feature of the landscape. New travellers, changing needs and lots of competition emphasises the need for airlines to adapt to these trends so that we always resonate with, and are relevant to, the up and coming travel segments.

This realisation and ambition was a key driver of our transformation programme that we embarked upon last year. Our loyal passengers tell us our service culture is unique, personal and something that they truly value. We want to build upon those strengths and make sure that we are equally appealing to the new flyers and the changing demographics of our customer base. The only way to do this effectively is to develop a deep understanding of our customers and many of our digital initiatives are designed to give us that insight.

So our transformation programme is making us more agile, more responsive, more decisive and more customer centered. We have maintained that service ethos that is so critical to Cathay Pacific's core values. The programme is also aimed at making our business



more productive and better equipped to translate customer preferences in to an improved customer experience.

**What non-flying opportunities can an airline grow business and revenue in?**

Opportunities abound, but these only exist to the extent that we can offer customers more choice and greater convenience – things that they value and want, not what we want to sell.

Our customer's needs are changing rapidly, people travel more often, and weekend breaks are a part of lifestyles in a way that wasn't true even a decade ago.

Many of these opportunities are travel related. Our customers can now book hotels, arrange car rental, order travel insurance, book extra legroom seats and bid for upgrades before they travel – and we see a broadening of these ancillary revenue streams as people seek optionality and more control.

Another good example is inflight Wi-Fi. Our passengers have told us, verbally and with their fingers through usage on our A350s (all 22 have Wi-Fi) that this is an important feature that they value, so we are pressing ahead and retrofitting our entire long-haul fleet (100 + Boeing 777 and Airbus A330 aircraft) with high-speed broadband.

**Hong Kong local traffic is strengthening with more inbound visitors, etc. How important is local traffic to Cathay Pacific?**

No airline can be successful without a strong home market. Cathay Pacific is blessed with one.

Hong Kong itself is a fabulous city to visit and spend time in and, not surprisingly, one of the world's great and enduring tourist destinations.

People in our city love to travel. Hong Kong's population is actually relatively small at 7 million but over 70m people use the airport every year. It is a super connected city and Hong Kong International Airport (HKIA) is rapidly becoming a multi-modal hub, where people can seamlessly connect on to ferries (and soon the bridge to Macau and the high-speed rail to Shenzhen) and access the Greater Bay Area. So, in addition to being the largest international hub in Asia, HKIA is also a vital gateway point to the thriving economy of the Pearl River Delta and the nine big cities that power that growth.

**Cathay's fleet of 747-8 freighters is still relatively young. Should air freight be planning for a future without the 747? What are the replacement options?**

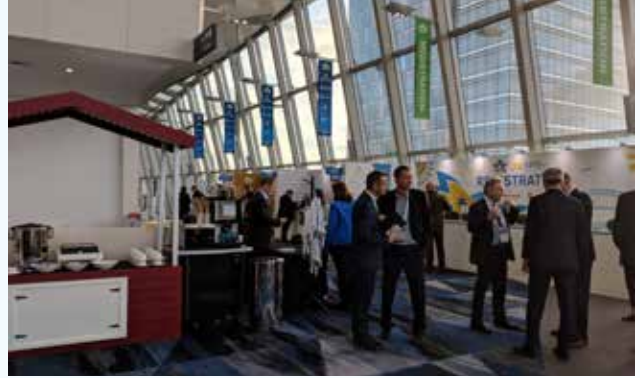
With an average of age of barely five years old, our 747-8 freighters indeed have plenty of life left in them. We operate a freighter fleet of 20 aircraft, but actually we are shipping an increasing volume of cargo in the bellies of our passenger aircraft – and with 79 new aircraft due for delivery between now and 2024, we are very well placed.

There is a real need for both freighters and our wide-bodied passenger fleet and in combination they provide frequency, and high volume lift to 105 destinations. Unsurprisingly Hong Kong is the largest cargo hub in the world and our fleet helps it keep that edge and continuously improve its connectivity. **CAPA**





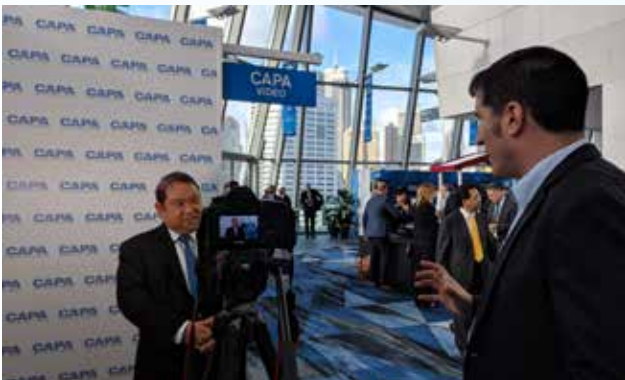
# Photos from 74th IATA AGM and World Air Transport Summit Day 1: 03-Jun-2018







# Photos from 74th IATA AGM and World Air Transport Summit Day 1: 03-Jun-2018



# KLM CEO PIETER ELBERS UPDATE: Innovation, Social Media & Air France



**K**LM president and CEO Pieter Elbers highlights how the airline is using social media as a key tool for conversations with its customers. He talks about how the airline is modernising its fleet and how this will help it overcome increasing fuel costs and the continued evolution of the low cost long haul model. He also discusses the recent operational issues at Air France and how they are impacting the Dutch flag carrier.

#### The paradox of social media: Balancing between opportunities and burden

The relevance of social media at KLM has grown enormously over the years. Where it started sort of out of necessity back in 2010, if you see where we are today, it has been a very much integral part of what we do for our customers.

#### Keeping up with current trends in social media

The social media basically has developed from being, I should say, just conversational to a much broader basis where we have some commercial activities. We use it very much for our brand, for our reputation, and increasingly with new technology, we can use it for even a more personal approach towards our customers.

#### KLM strives to be leader in social media and digital innovation

I guess innovation is part of what makes it thick, it's part of what people like to work with us for. It's part of what makes customers happy. Once you're on that track and you got positive feedback and positive response from our customers, it motivates us and inspires us to continue on that track.





### Update on network and fleet growth

Well 2017 has been a great year for KLM. Clearly with the sort of positive momentum of the world economy and some of the strategic choices we've made in the last few years, we have been able to develop pretty good in 2017. We had a record number of passengers on board of our aircraft, a record load factor, a whole lot of new destinations are being opened. And with that in fact a good customer appreciation as well. So with all the aspects, be it network, be it fleet, be it customers, we have really progressed going forward.

### Fleet strategy and performance of new generation aircraft

We started of course with the influx of the 787-9's, we are very happy with these aircraft, they are wonderful performing in our network. Customer appreciation is good, and also in 2017 we phased out the Fokker aircraft, which being Dutch was a bit of a sentimental moment. But with that we are now the largest operator of Embraer aircraft on the European continent. And our customers just love it, so we continue on that track of renewing the fleet, making sure that we get modern aircraft in. And with that get the efficiency higher and better, and the customer appreciation also better.

### Impact on KLM of recent strike related issues at Air France

Well Air France had a long range of strikes, 15 days of strikes in the last couple of months, which clearly has been very bad for the image of our group. Especially outside our home markets, which is incredibly important for us, we act as one organization, as one team. By our team in Brazil they're selling Air France and KLM as sort of one entity, and I think they do a great job. But with that



there's been a lot of pressure on them with the strikes, it's clearly not helping, also not helping KLM in that respect. So we're working very hard together to make sure that we could continue to move forward and we keep the negative effects on it as much, as limited as much as possible.

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

Well clearly the fleet renewal, which we started already a few years ago is helping us to address also this rise of fuel prices. Having said that we still have some 747s in play, so we're not done yet in all our fleet renewal programmes. We do have a lot of programmes in place where we optimise fuel and clearly with the rising price of fuel, we sort of put more emphasis on these programmes again. I think these are really the two most important factors going forward.

### The rise of the long haul low cost model

Well with the long haul low cost, I think for all of us we're avoiding making the same mistakes as we did 20 years ago on the European continent. So we try in fact to sort of proactively adjust what we're doing. So we have increased our utilisation, we have sort of increased our efforts in some of our partnerships, and with that offering a great network to our customers. We have made our prices and our proposition to the customers more dynamic, more flexible. We start on the Trans Atlantic with prices excluding bags, so we really sort of do things much more in advance than we would have done 20 years ago on the European side. CAPA

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



# European Commission Update: It Is All About Open Skies



**E**uropean Commission director general for mobility and transport Henrik Hololei provides an update on the ongoing discussions over a new aviation agreement between the European Union and the United Kingdom after Brexit and warns of the real threat of no flights operating on day one. He highlights the progress of discussions on the EU-ASEAN open skies agreement and optimism an agreement could emerge before the end of 2018, while also highlighting the conclusion of agreements with Armenia and Tunisia; proposed agreements with Qatar, Turkey and Azerbaijan; and new mandates to negotiate with Mexico and Oman.

## Update on Brexit and the implications for the aviation industry

Well, I don't think that we are actually at this moment much further than we were about a year ago. Unfortunately, the clock continues to tick very fast. In fact, I think it would be fair to say that at this stage we don't know what is going to be the aviation relationship between the EU and the UK on the 30th March 2019.

Whether there will be flights, or whether we will face a situation where at least on the day one we will not see any flights taking off or landing, at least not legally. But of course, what we have built here, the European aviation

single market has been a huge success. And the UK has been an integral part of that, and also so one of those who has been spearheaded forward. It's a great shame that now they're going to exit that market and now have to find a way how to be in the future, part of it.

But as you know, these discussions, these negotiations between the UN/UK, they are first and foremost concerning the big political building blocks. I mean we talk about the Irish border. We talk about the citizens. We talk about the Trade Agreement. Unless we know what's going to be the general framework, what's going to be the future relationship, we cannot really carve out anything specific for the sectors. Like, transport or more specifically, aviation.

Of course, we would like to see people more moving from one side to the other. And that, that it would be as little disruption as possible. But of course, for that, something has to happen. We need to have the green light to move ahead, and we are not there yet.

## Progression of the open skies agreement in the EU

For us, the Open Skies concept has been working very well. Europe has been also a great contributor, but also a great beneficiary from the Open Skies policies. I mean the EU, US, of course is a landmark agreement, and we all benefit significantly. But, we are now also taking steps in creating another very important landmark agreement, namely between the EU and ASEAN. Which, means 1.1 billion people market there.

The 10 very fast growing Southeast Asian states teaming up and negotiating with EU. We are very optimistic that by the end of this year we could see an agreement emerging. Which, would then be, I would say, the second most important agreement that the EU has had. We are also progressing very well in our negotiations with Qatar. Which, is also interesting and important because it will be the first Middle Eastern country with whom we would a predictable legal framework in the form of the comprehensive Air Transport Agreement.

Again, I'm optimistic seeing the progress that has happened during the last weeks. So that we will make significant advancement this year, and maybe even come to an agreement. We are also negotiating currently with Turkey. That might take a little bit longer. We are asking for new mandates to negotiate with Mexico and Oman. We have just concluded the agreements with Tunisia, Armenia. We are very close also with Azerbaijan.

So there is quite a lot of things happening in this front. I think that the best thing really is to create predictable legal frameworks to create the real aviation partnerships between EU and its important third countries.

## Message to governments about open skies

I'll say that protectionism and nationalism is not an option. Open Skies is something which creates the opportunities to connect people and businesses. Create new opportunities and open up the world, so let's keep it like that. CAPA

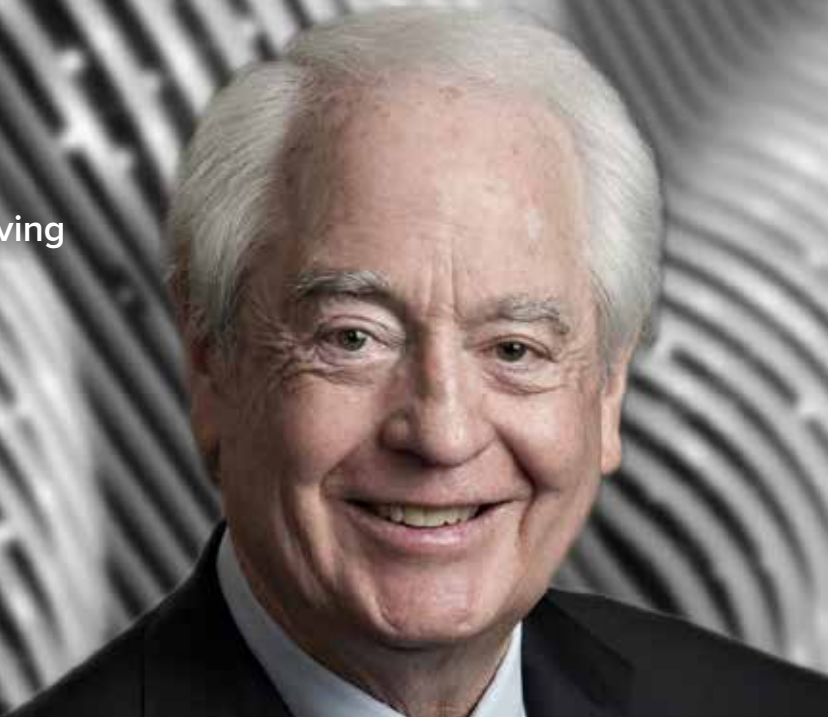
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# Indigo Partners Managing Partner William Franke:

JetSmart a 'terrific success so far', giving  
Argentina a 'hard look'



**Indigo Partners Managing Partner William Franke discusses Chilean ULCC JetSMART as the airline reaches its one-year milestone, Argentina's potential, conditions in the US market and an update on Frontier Airlines, including its planned codeshare with Mexican ULCC Volaris.**

#### **Update on the performance of JetSmart after its first year**

JetSmart is an airline that we started up in Chile, and based in Santiago, Chile, late July of last year. It is currently flying within Chile. Chile's a long thin country and underserved in many aspects, so we've been focused on getting our legs under us, so to speak, while we fly within the country. We recently started flying from Santiago to Lima, Peru, and that's been a terrific success so far.

#### **Argentina rising as new international market to watch**

A lot of people like Argentina right now. You've seen Flybondi, Norwegian, one of the Avianca shareholders just started an airline there. I worry that there may be too much exuberance in advance of the opportunity, but we think Argentina longer term is an important market if you're a Latin American airline. The politics have been difficult for a number of years. You have a new administration, which has been very pro business and focused on foreign directed investments. So we'll talk a hard look at Argentina.

#### **Current supply-demand balance in the US market**

A lot of airlines have orders in front of them and there's been a number of announcements about the increased capacity in certain US major hubs. Certainly, our friends

at United have been aggressive in talking about growth plans. Now that said, the market has so far been able to absorb the growth that's been identified and you're seeing in early days, but some recovery in the revenue by the major airlines, which is an important focus in terms of the rest of us in the marketplace. You have to keep in mind that the low cost, ultra low cost airlines only occupy around 6% or 7% of the domestic market, so we really need to see what the majors are doing in any particular time.

#### **Update on performance of Frontier Airlines**

Frontier is interesting. When we acquired Frontier in December 2013, it was heavily focused on Denver. It was a Denver centric airline and we have worked hard to spread its network to communities that need it the flying and that's worked well for us and you can expect to see the airline continue to branch out. It has a significant order book in front of it over the next five years and we think it's going to be a very successful carrier. So far, the results have been remarkable from our perspective.

#### **Planned codeshare between Frontier and Volaris**

We think you have to look at all sorts of opportunities across the low cost network. We viewed Volaris and Frontier as natural codeshare partners because of geography. Both fly each other's markets to some extent, so this is an opportunity to try the idea of a codeshare between ultra low cost carriers to see whether it works. We like to work with our portfolio airlines to look at opportunities to support one another. The recent Airbus order is a good example of that. CAPA

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

# THE AIRLINE COST EQUATION: STRATEGIES FOR COMPETING WITH LCCS

In spite of all the talk of business model convergence, there are still meaningful unit cost differences between low cost airlines and full service/legacy airlines.



**A**nyone can unbundle and offer seat-only low fares, but this is not the same as having the low costs necessary to be profitable with such fares. Business model choice has implications for cost structure as well as for revenues.

Legacy airline responses to competition from low cost airlines have included cutting costs, adopting low cost features, setting up or buying a low cost subsidiary, and forging partnerships with LCCs. However, LCC market share continues to increase.

*(A panel discussion at the CAPA Airline Leader Summit on 17 & 18-May-2018 addressed the theme 'The Cost Equation: cutting costs and strategies for competing with low cost carriers'. The panel included IAG CEO Willie Walsh, Kenya Airways CEO Sebastian Mikosz, Amedeo CEO Mark Lapidus, AACO Secretary General Abdul Wahab Teffaha and AAPA Director General Andrew Herdman)*

## Summary

- There is still a meaningful unit cost difference between LCCs and FSCs, in spite of some overt convergence of business models.
- Legacy airlines have responded in a number of ways to the growth in competition from LCCs, but LCC penetration continues to increase.
- Legacy responses include cost reduction, adopting low cost features, setting up or buying a low cost subsidiary and forging partnerships with LCCs.
- With fuel costs rising again, a focus on ex fuel cost is a top priority.

## There is still a meaningful unit cost difference between LCCs and FSCs

The CAPA CASK Database records data on unit cost, defined as cost per available seat kilometre, for around 100 airlines globally. A scatter plot of CASK versus average trip length for all these airlines demonstrates that there is still a discernible difference between the unit cost levels of full service carriers compared with low cost carriers.

There are some airlines that straddle the intersection between the two categories in unit cost terms, but that has been the case for years.

In spite of the convergence of business models in a number of ways, most airlines that look and feel like full service or legacy airlines have higher unit costs than most airlines that look and feel like LCCs.

FSCs also typically have higher unit revenues than LCCs, but there is no evidence to suggest that they achieve higher margins (if anything, the opposite may be true).

## The business model chosen has significant implications for cost structure

In fact, a more detailed examination of the scatter plot allows a subdivision of airlines into four broad categories. Their unit cost/average trip length positions on the chart correspond fairly well with their business model.

The four categories are regional airlines, full service/legacy airlines, LCCs and ultra-LCCs. Typically, for a given average trip length, regional airlines have the highest unit cost, followed in descending order by full service/legacy airlines, LCCs and ultra-LCCs.



Decisions about which business model to pursue have significant implications for cost structure. Although it is possible (and desirable) to be more cost efficient than others within the same broad business model grouping, it is very difficult to escape the unit cost boundaries set by the chosen business model.

**LCC penetration continues to grow**

Legacy airlines have responded in a number of ways to the growth in competition from LCCs, but LCC penetration continues to increase.

According to data from CAPA and OAG, LCCs had a 28.8% share of all seats worldwide in 2017, versus 27.6% in 2016 and 18.4% in 2008. In 2018, it is set to grow to 29.0%

This share is higher on short/medium haul routes: in Europe, for example, LCC penetration was 40.4% on routes within the continent in 2017.

However, the rise of low cost operators is not confined to short/medium haul routes. Recent CAPA analysis has shown that the LCC share of seats on routes between Europe and North America rose from virtually zero in 2013 to 8% in 2018.

**Legacy response #1: cost reduction**

The responses of legacy airlines to low cost competition have taken several forms. The overarching response, not only to LCCs, but to the ongoing competitive pressures in the industry, including the volatility in fuel costs and the fluctuations in unit revenue, is to pursue cost reduction.

Almost all legacy airlines are at any given time in the middle of their latest cost reduction programme, although this is more an ongoing feature of doing business than an attempt to convert into a low cost model.

Some legacy airlines have attempted to change themselves wholesale into low cost operators in the past,

for example Aer Lingus in the mid-2000s, but this is quite rare.

**Legacy response #2: adopt low cost features**

Other responses include adopting many of the features of low cost airlines, such as unbundling and charging extra for everything apart from the seat, in addition to offering a traditional bundled product.

This is now common on short/medium haul routes, but is also starting to occur on intercontinental routes. It is a form of price discrimination aimed at segmenting the market according to customers' willingness to pay, thereby maximising the potential revenue – in theory at least.

However, without a fundamental and dramatic reduction in unit costs entry level fares are unlikely to be profitable, and legacy airlines still need to rely on the bundled product, or at least on a large slice of ancillary revenue from selling the extras, in order to cover costs.

At the same time, however, many LCCs have adopted FSC features, such as bundling up product features and offering some premium elements. Very often they have achieved this without significantly adding to their cost base.

**Legacy response #3: low cost subsidiary**

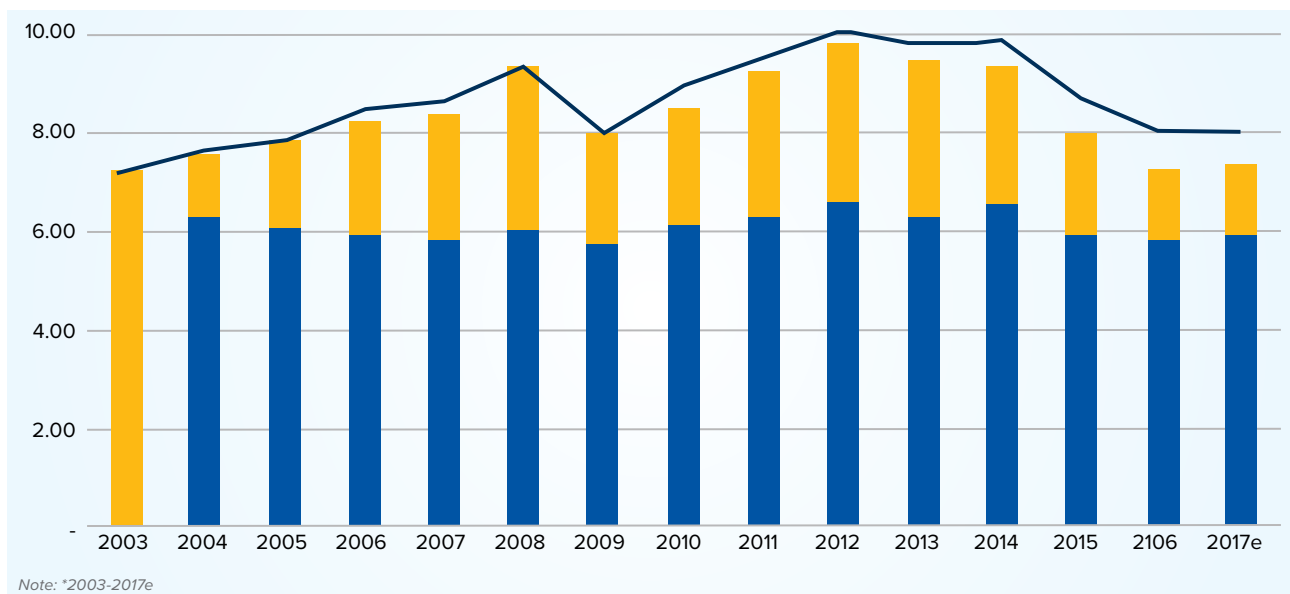
Faced with the dilemma of selling basic unbundled products, but with a high cost base, a common alternative to a full transformation into a low cost operator is for the legacy airline to establish (or buy) an LCC subsidiary.

**To read more go to:**

<https://centreforaviation.com/IATA18/6>

**WORLD AIRLINES: REVENUE PER ASK AND COST PER ASK\***

SOURCE: CAPA - CENTRE FOR AVIATION, IATA, ICAO





# JAPAN'S AIRPORT PRIVATISATION PICKS UP PACE - AND INTEREST

Privatising Japan's airports was not a concept that attracted much attention until 2011 when the government said it would set about the task, and even then progress has been slow until the past couple of years.



**T**he adoption of a foreign partner, France's Vinci (actually one of few so far), together with the Japanese financier Orix, to take on the ailing Kansai Airport at Osaka appears to have prompted a flurry of interest – at least, from the Japanese themselves, with firms from a multitude of sectors putting in bids for the many 'national' level airports that are on offer.

Even as more airports make themselves available to be privatised foreign investors must be sure, though, that the opportunities are realistic, since some of these airports are small. They are not yet well served by what has become the staple in other parts of the world – low cost carriers. Often the need to attract LCCs and to stimulate foreign tourism is part of the contract, and that might not always be easy.

## Summary:

- After a very slow start the privatisation of Japanese airports is proceeding at pace.
- There are many drivers, including airport charges flexibility, non-aeronautical revenue growth and foreign tourism stimulation.
- With several transactions concluded over the past three years, including ones that embrace the three Osaka-area airports, the next include the first 'package deal' on the Hokkaido Islands' airports.
- While the complete programme may take many years, with some pauses, many airports are joining the privatisation queue.

## Tourism and route development are behind the need to privatise

Japan is a country where political pork-barrelling had created vastly more airports than the country needed. At the same time as the current national administration actively moved to stimulate inbound tourism, the usually sleepy and non-commercial local authorities who ran many of the airports had little interest or understanding of the potential economic development impact of growing their local airports. Until recently.

The surge in inbound traffic quickly highlighted the fact that the notion of privatising airports had not advanced nearly as far as it has in some economically comparable countries. As Malaysia Airports Berhad MD Badlisham Ghazali said recently when discussing his company's primary investment targets, "even in Japan there is a plan to look at airports privatisation".

However there has been a spurt of activity during the past two and a half years, since the completion of a tricky concession on the Kansai airports, with several transactions completed and many others under way.

There are many drivers, including the need for more flexible landing fees to attract more airlines; more efficient management; revitalisation of the airports; capturing the growing foreign and particularly Asian demand; and for non-aeronautical revenues to grow to offset the reduction in landing charges.





The big change came about in 2011 when the Ministry of Land, Infrastructure, Transport and Tourism (MLITT) announced that it would privatise all “national” airports by 2020.

Japan’s airports are divided into:

1. National (e.g. Tokyo Haneda, Fukuoka and Shin-Chitose), owned by MLITT and the main privatisation target of the government.
2. Local (e.g. Kobe, Shizuoka, Memanbetsu).
3. Corporate (e.g. Tokyo Narita, and Nagoya Chubu).
4. Defence/civil.

Categories 3 and 4 are not currently targeted for privatisation.

**Orix and Vinci control the Osaka area airports, but beyond there are mainly Japanese players**

Following on from the Kansai transactions of Osaka Kansai and Osaka Itami airports (to a Japanese/French consortium of Orix and Vinci), and the one on Sendai Airport which took place six months later (Tokyu Group consortium), on 01-Apr-2018 the same Orix/Vinci consortium took control of Osaka Kobe Airport on a 42-year concession contract under the name Kansai Airports Kobe, which is a subsidiary of Kansai Airports.

The Kobe process began in late 2016, when Kobe City announced its plan to privatise the airport.

While more than one company participated in the tender, Kansai Airports received the first right of refusal as the government aimed to consolidate the operation of the three airports located in the area.

In 2017 Kobe Airport served 3.1 million passengers on four airlines operating domestic services (only). Kansai Airports Kobe stated that its focus would be on the

efficient operations of the three airports in the region.

In the same month, and in a surprise development, the Shizuoka Prefecture concluded an agreement with a consortium led by Mitsubishi Estate and Tokyu Corporation. This agreement was for the consortium to be priority negotiation rights holder on its tender for the private operation of Mount Fuji Shizuoka Airport under the terms of a 20-year concession contract with privatised operations, to start on 01-Apr-2019. The consortium is expected to form a special purpose vehicle to operate Shizuoka, which will acquire an 80% shareholding in the airport operating corporation while existing shareholders will retain a 20% stake.

Since then, attention has focused on forthcoming deals that involve the national level airports of Fukuoka and the Hokkaido island airports, which have been grouped together.

Most of the potential investors are Japanese, as in the case of the Kansai and Sendai airports, and MLITT is very keen to attract experienced foreign operators into the mix.

**Hokkaido’s bundled airports package attracts widespread interest**

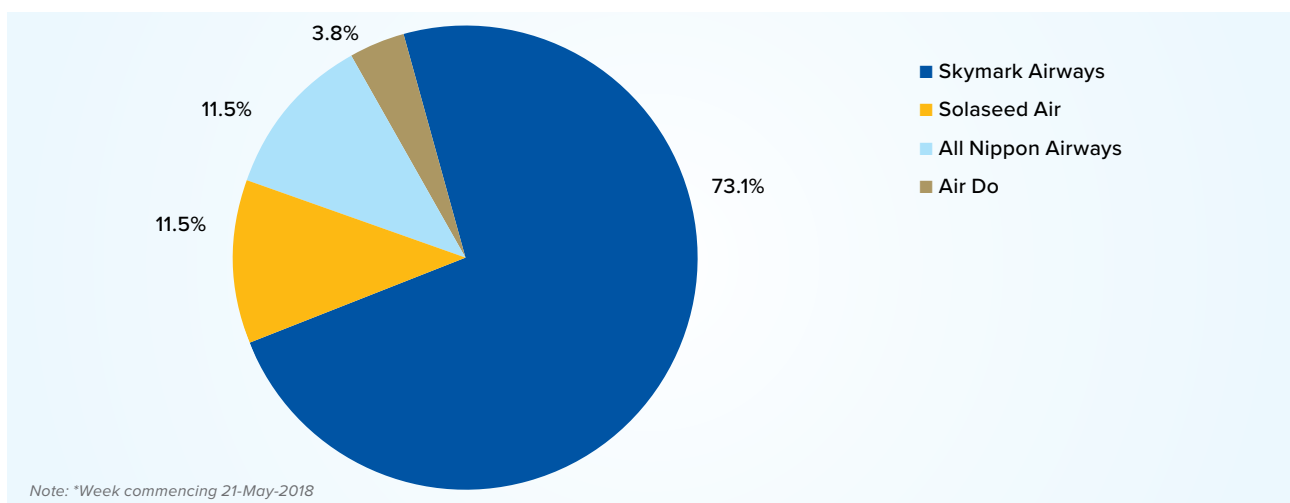
The formal package privatisation tender for ‘One Hokkaido’ (seven airports on a 30-year concession) was issued on 25-Apr-2018, with a minimum bid price at JPY72 billion (USD658.1 million). The deadline for the submission of tender documents is 16-Aug-2018. Shin-Chitose is the largest of these, and each of the airports will be marketed on the basis of their ability to attract individual tourist-based route operators.

**To read more go to:**

<https://centreforaviation.com/IATA18/7>

**OSAKA KOBE AIRPORT, SYSTEM SEATS FOR ALL BUSINESS MODELS\***

SOURCE: CAPA - CENTRE FOR AVIATION & OAG



# IBERIA SWOT:

## LATIN AMERICA IS A KEY STRENGTH, NORTH AMERICA IS LEADING GROWTH

Iberia's capacity growth in 2018 is being led by its long haul network, in particular by its North American operations.



**T**he 25-Apr-2018 launch of Madrid-San Francisco brings its North America network its seventh route (excluding routes operated by Level). Nevertheless, this remains very much the second string to Iberia's long haul bow, after Latin America, where it has 17 routes.

Competition from long haul low cost operator Norwegian to North Atlantic destinations from Barcelona prompted IAG to establish Level as the group's own long haul low cost operator. IAG's interest in considering an acquisition of Norwegian is mainly motivated by the North Atlantic, but it could also help it to avoid any future competitive threat to Iberia from Norwegian on the South Atlantic. Iberia has improved its operating and financial results significantly since its loss-making years of 2008-2013, but it remains focused on further improvement. This report considers Iberia's strengths, weaknesses, opportunities and threats.

### Summary

- **Strengths:** Iberia brand, being part of IAG, Latin America network, improved labour productivity.
- **Weaknesses:** low share in Spain, small long haul network outside LatAm (especially Asia and Africa), less profitable than other IAG airlines.
- **Opportunities:** unit cost reduction, fleet renewal, North America expansion, digital transformation, greater use of Iberia Express.
- **Threats:** overcapacity in Spain, LCC competition, Air Europa gaining share to Latin America, any labour unrest, external events.

### IBERIA STRENGTHS

1. Iberia has a relatively strong brand

Iberia has a relatively strong brand among airlines in Spain, improving its net promoter score by 29ppts from 2013 to 2017 and rated by Skytrax as a four star airline (this is not the highest rating possible, but only one European airline, Lufthansa, has a five star rating).

2. Iberia is part of IAG

Iberia has benefited from being part of IAG since forming the group through a merger with British Airways in Jan-2011.

Iberia's long haul network, with strength to Latin America, largely complements that of British Airways, having strengths to North America and parts of Asia. IAG's 2013 acquisition of the Spanish LCC Vueling, in which Iberia already had a minority shareholding, gave it some relief from the intensity of low cost competition in Spain.

In addition, IAG has increased Iberia's focus on its network, brand, costs, productivity and financial performance. The centralisation of a number of group functions, such as procurement and finance, leads to greater cost efficiency.

3. Iberia is a leader on Europe-Latin America

Iberia is the number two airline by total seats between Europe and Latin America, behind Air France (based on data for summer 2018 from OAG Schedules Analyser). However, Air France's leadership is based on its strength in the Caribbean.

Iberia is the leading airline on Europe to Latin America



excluding the Caribbean, and to each of the sub-regions Central America and Lower South America.

**4. Iberia's employee productivity has improved sharply since 2013**

Iberia has achieved strong improvements in employee productivity since 2013, measured in available seat kilometres per employee.

It can be calculated that this indicator increased by 45% from 2013 to 2017, as Iberia achieved a 25% increase in ASKs but lowered its average number of employees by 14% to 15,738 in 2017 (note that these calculations include Level).

In 2017 Iberia agreed a voluntary redundancy programme with its employees in order to make further productivity improvements.

**5. Iberia's load factor is the highest of IAG's legacy airlines**

With 84.1% load factor in 2017 Iberia had the highest load factor among IAG's three legacy airlines, compared with 81.8% for BA and 81.1% for Aer Lingus. Only IAG's LCC Vueling has a better load factor among the group's airlines, with 84.7%.

Moreover, Iberia's load factor improved by 5.5ppts from 2014 to 2017, in spite of its return to capacity growth.

#### IBERIA WEAKNESSES

**1. Iberia has a fairly low seat share in Spain**

Iberia is only the third largest airline by seats in Spain, with a seat share of 11.0% for the peak week of 16-July-2018, according to data from OAG.

Among the five largest Western European countries, this is the lowest ranking and seat share for the national airline. In the UK, BA is first with 17.3%; in Germany, Lufthansa is first with 30.8%; in France, Air France is first with 26.6%; and in Italy, Alitalia is second with 14.7%.

Even if the seat capacity of Spain's number two airline, IAG's Vueling, is added to Iberia's, the combined share of 24.5% is still lower than Lufthansa's in Germany and Air France's in France.

**2. Iberia's long haul network is weak in Asia and Africa**

Iberia's long haul network is small and is dominated by Latin America, which makes up 64.5% of its long haul seats this summer, and North America, which accounts for 31.4% (data from OAG, based on the week of 16-Jul-2018).

The rest of its long haul seats are to Asia (2.7%) and Southern Africa (1.4%). Note that Iberia also has routes to North Africa, Central/Western Africa and the Middle East, but these are essentially medium haul destinations from Spain.

Its 2016 launches of the Shanghai and Tokyo routes brought Iberia its first Asian destinations for many years, and these remain the only two (although it is increasing Tokyo frequencies from three to five times weekly this winter).

The lack of a significant long haul network to the south (Africa) and to the east (Asia Pacific) means that Iberia passengers need to rely on connections via BA's London hub. This requires something of a detour for those whose final destination is in Africa or Asia (with the possible exception of Japan).

**3. Iberia's profitability is weaker than other IAG airlines**

Iberia has made significant strides in its financial performance since 2013, when it had made its sixth consecutive operating loss. Its operating margin had been as low as -10.6% in 2009 and -7.3% in 2012.

After returning to a (small) positive result in 2014, it has now recorded five years of positive operating results and raised its operating margin to 7.7% in 2017.

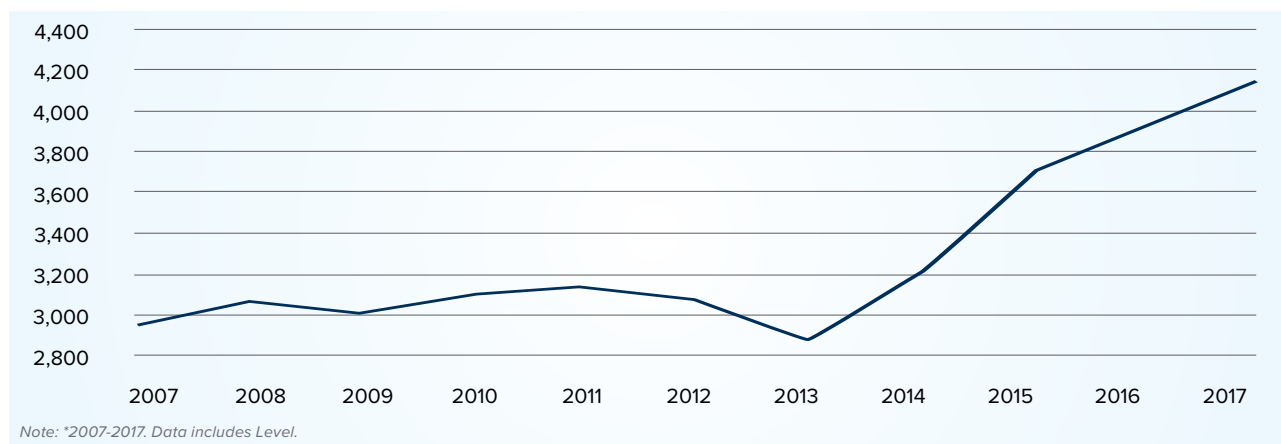
Nevertheless, this margin was the lowest in the group in 2017 (Aer Lingus made 14.5%, BA's margin was 14.3% and Vueling's was 8.9%).

**To read more go to:**

<https://centreforaviation.com/IATA18/8>

## IBERIA: ASK PER EMPLOYEE\*

SOURCE: CAPA - CENTRE FOR AVIATION, CALCULATIONS FROM DATA IN IBERIA ANNUAL REPORTS





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## TECHNOLOGY/DISTRIBUTION

### Sabre continues to look at LCC sector on the operational side

**Sabre Airline Solutions** president Dave Shirk, speaking on CAPA TV, stated (03-Jun-2018) the LCC market is “new” and “growing” and is “different” from the full service market in terms of product consumption, utilisation and capabilities. Mr Shirk noted that Sabre continues to look at the market and has a number of LCC/hybrid carriers using its product suite, with a primary focus on supporting hybrid airlines and LCC subsidiaries of full service airlines, with passenger numbers above three million and a higher level of sophistication and maturity in their model. Sabre also “continues to look at the market” segment, with particular interest from the LCC sector on the operational side, such as scheduling and crew planning.

### Sabre continues investment in Asia Pacific region

**Sabre Airline Solutions** president Dave Shirk, speaking on CAPA TV, stated (03-Jun-2018) the carrier is increasing its investment in people and research and development in the Asia Pacific region as part of a continued focus on the region.

### Sabre enhances relationship with Vietnam Airlines

**Sabre Airline Solutions** president Dave Shirk, speaking on CAPA TV, stated (03-Jun-2018) Sabre's enhanced relationship with Vietnam Airlines following an “exhaustive evaluation” by the carrier and includes a “whole basket of new products”. Mr Shirk said the agreement is about the “next level” or retail and distribution, with a focus on the transformation of the digital experience over the next two years.

### Vietnam Airlines and Sabre Corporation expand partnership agreement

**Vietnam Airlines and Sabre Corporation**, speaking at a media briefing on the sidelines of the IATA AGM and World Air Transport Summit, announced (03-Jun-2018) an expanded partnership agreement, marking a continuation of their “successful business partnership and collaboration”, as noted by Sabre Airline Solutions president Dave Shirk. The carrier will leverage the breadth of SabreSonic, Sabre's passenger service system, that Vietnam Airlines is now operating on, to improve its retailing, distribution and fulfillment capabilities. Mr Shirk noted that Sabre will support Vietnam Airlines as it takes on new industry initiatives, such as NDC, and support the carrier to generate and expand the carrier's ancillary offering and new retailing opportunities. Additional services such as business transformation consulting, to ensure the carrier takes full advantage of some of the best industry packages with new and existing technology, is also included in the partnership. Mr Shirk noted that Sabre continues to make “additional investments” in the Asia Pacific in the region, stressing that Vietnam Airlines is “very important to Sabre”, with the two entities “strategic partners” to increase the carrier's presence domestically and regionally and to enable the carrier to become a “showcase digital airline”.

### Vietnam Airlines targeting NDC compliance by the end of 2018

**Vietnam Airlines**, speaking at a media briefing on the sidelines of the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the carrier is targeting to be NDC compliant by the end of 2018, with the first phase implemented in 2018 with the bulk of newer capability in 2019, according to Sabre Airline Solutions president Dave Shirk.

### Sabre and Vietnam Airlines a ‘healthy partnership’ and ‘strategic collaboration’

**Sabre Airline Solutions** president Dave Shirk speaking at a media briefing on the sidelines of the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) Sabre and **Vietnam Airlines** have “spent a lot of time together” in the past 12 months, to drive Vietnam Airlines to co-innovate and improve its market position. Mr Shirk noted that this is a sign of a “healthy partnership” and “strategic collaboration”. Sabre noted that it is “very interested” in other paths of cooperation, for example with other group airlines such as **Jetstar Pacific**, which is not included in this partnership. Sabre does, however, have a cooperation agreement with **VASCO**. Vietnam Airlines and Sabre have had an agreement in place since 2009



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## IATA marks 10 years since retirement of paper ticket

IATA, via its official Twitter account, noted (01-Jun-2018) the 10th anniversary of the retirement of the paper ticket, posting: "10 years ago today, the paper ticket was officially retired after a four year program led by IATA to convert the airline industry to 100% e-ticketing".

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## 7-19m jobs can be created by investing in biometrics, airport infrastructure in G20 countries: WTTC

World Travel and Tourism Council (WTTC), speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) between seven and 19 million future jobs in the G20 countries can be created by the public and private sector working together on a seamless passenger experience. WTTC estimates that between 12% and 31% of all the future new jobs in travel and tourism across the G20 countries could be created by transitioning to a seamless passenger journey and the use of technology and biometrics solutions, in addition to infrastructure investment.

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## OUTLOOK AND ECONOMICS

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### African Airlines Association aims to develop new means of cooperation between Africa airlines

African Airlines Association (AFRAA) secretary general Abderahmane Berthe, speaking on CAPA TV, stated (03-Jun-2018) there are numerous technical barriers to cooperation between airlines in Africa at present, including the fact that many countries in Africa have no BSP. Mr Berthe said AFRAA is committed to developing new means of cooperation between African airlines.

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### IATA and AFRAA sign agreement to support aviation growth in Africa

IATA signed (03-Jun-2018) an agreement with African Airlines Association (AFRAA) with the following provisions:

- Collaborate with governments in the region to support the implementation of the single African air transport market;
- Assist airlines in the region to enhance safety by implementing IATA's operational safety audit, safety audit for ground operations and ground handling manual;
- Encourage exchange of data amongst aviation stakeholders;
- Enhance security through capacity development;
- Advise governments on best practices to clear backlogs and liberate airline funds;
- Help governments achieve reasonable taxation levels and charges for aviation.

IATA director general and CEO Alexandra de Juniac stated: "Continuous improvement in safety, an effective regulatory framework, and fit for purpose infrastructure" will be required for aviation growth in Africa. AFRAA secretary general Abderahmane Berthe said "we count on IATA to provide the requisite technical support across a number of areas such as improving aviation infrastructure and capacity building with national regulators".

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## AFRAA action plan to focus on capacity building

African Airlines Association (AFRAA) secretary general Abderahmane Berthe, speaking on CAPA TV, stated (03-Jun-2018) the launch of the single African air transport market has been the highlight of the last year for aviation in Africa. Mr Berthe said capacity building will be a major area of focus for his recent action plan, adding: "we will have more aircraft operating and more passengers, so we will need more capacity and more human resources".

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## PASSENGER EXPERIENCE

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### Malaysia Airlines drops A380 reconfiguration project: CEO Izham Ismail to CAPA

Malaysia Airlines CEO Izham Ismail, speaking to CAPA on the sidelines of the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the airline no longer plans to reconfigure its A380 fleet. Capt Izham said the airline will continue to operate all six A380s in the existing three class 486 and 494 seat configuration and has dropped the earlier plan for retrofitting to a high density configuration with up to 700 seats. The new airline being established to operate the A380s on religious charters will try to use the premium capacity by focusing on the high end Umrah market.

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### Bangkok Airways seeking Airbus, Boeing, Bombardier fleet proposals in 'one or two months': CAPA TV

Bangkok Airways president Capt Puttipong Prasarttong-Osoth, speaking on CAPA TV, stated (03-Jun-2018) the carrier is in the process of getting its future fleet requirements, to be sent to manufacturers by mid Jun-2018, noting that the carrier is seeking proposals within "one or two months" from **Airbus**, **Boeing** and **Bombardier**. The carrier is looking for around 20 aircraft on firm order, plus options, as it seeks to expand its fleet to 40 aircraft. The carrier is considering a mix of purchases and leases for the order, depending on its financial requirements. The carrier expects it take around "five or six years" for reflecting, based on slot availability from the manufacturers.

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### Fiji Airways discusses frequency increase plans for the future

Fiji Airways CEO Andre Viljoen, speaking on CAPA TV, confirmed (03-Jun-2018) the airline is planning a variety of frequency changes to its schedule. Mr Viljoen discussed key destinations, stating "for **Hong Kong**, we plan to go from five to daily", on San Francisco, "we would love to see San Fran go to daily", and "in the next five years, we hope Los Angeles to become double daily".

### Kansai Airports co CEO: LCCs account for close to half of market at Osaka Kansai Airport

Kansai Airports co CEO Emmanuel Menanteau, speaking on CAPA TV, stated (03-Jun-2018) LCCs represent almost half the market at **Osaka Kansai International Airport** (KIX) and reported **South Korea** LCCs “continue to bring more capacity” to KIX. Mr Menanteau noted KIX is the hub airport for **Peach** and said Kansai Airports expects KIX to remain Peach’s hub in **Japan** following its reorganisation with **Vanilla Air**, although the LCC will likely base a small number of aircraft at **Tokyo Narita Airport**.

### Aeromexico chief revenue officer sees opportunity to grow 787 fleet in the future

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, suggested (03-Jun-2018) the airline could expand its **Boeing** 787 fleet when the last remaining aircraft on order are delivered. According to the CAPA Fleet Database it currently operates nine 787-8s and eight 787-9s. “It’s easy to imagine there’s more coming”, he said. “We want to continue growth and the 787s have done really well for us... There’s a lot more coming”.

### Aeromexico puts Barcelona route on hold; supports US airlines with viewpoint on Gulf carriers

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) that Aeromexico supports the recent **US** airline campaign against the Gulf carriers. He said: “The big American airlines have been very clear, very vocal in their fight. Our partner has been very vocal in that discussion and it’s time for other countries to say the same thing”. Aeromexico was planning to introduce flights between Mexico City and Barcelona but has now put that on hold after **Emirates** confirmed the launch of flights from Dubai to Mexico City via Barcelona using fifth freedom rights. “We have had no other option but say that is unfair competition. We had already announced the start up of flights. We withdrew the flights just a week ago”.

### Aeromexico says new Seoul route is ‘performing well’

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) the airline’s Mexico City – Monterrey–Seoul–Mexico City route is “performing well” and the airline “is thinking about” the possibility of adding further frequencies. The airline launched the route in May-2017 on a four times weekly basis. He said that compared with its business case it had seen “a bit less on traffic, but a bit higher on yield than expected”. Loads have been “around 80%” for the last 12 months, he added.

### Aeromexico has flexibility to use new 737s to both renew and grow its fleet

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) the airline has a lot of flexibility on how it uses its new **Boeing** 737 MAX airliners. “That’s the beauty of Aeromexico at the moment. We are very flexible and have a built in flexibility within our fleet plan.” He said the airline can either “really grow” or “we can roughly stay where we are and replace”. He highlighted that he expects more growth rather than maintaining the status quo. “Those MAX aircraft are fantastic for us,” he added noting that the aircraft has enabled Aeromexico to overcome the performance penalties that impacted the ‘Next-Generation’ aircraft in some markets.

### Aeromexico set to receive latest 787 in Jun-2018

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) the airline will receive its next **Boeing** 787 during Jun-2018, due to enter service from 01-Jul-2018. The last of its outstanding aircraft will be delivered next year. In terms of aircraft deployment he noted that “there’s still a few markets that we can increase frequencies”, highlighting Seoul and Shanghai as markets that could see additional rotations, while adding that “there’s still stuff we can do in South America and Europe where we want to build more”. He identifies Madrid and Paris as markets that can sustain more capacity. Additionally, in Latin America he said markets such as Buenos Aires and Sao Paulo could support additional widebody capacity.

### ‘Very smooth entry into service’ for Boeing 737 MAX for Aeromexico

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) that the **Boeing** 737 MAX 8 has had a “very smooth entry into service” at Aeromexico. The airline took delivery of its first two of up to 90 aircraft in Feb-2018 and Mar-2018, according to the CAPA Fleet Database. “We flew them immediately in the domestic market from the second-half of March and as of 01-Apr-2018 to Bogota and Lima.” He said that a third aircraft has now arrived, a fourth is “coming soon” and the fifth “before the end of the year”. “It is then around a dozen a year”, he added.

### Aeromexico completes transition to exclusive 787 fleet for long haul

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) that the airline has completed its transition to an all-**Boeing** 787 fleet for long haul. “The 767 went a year and a half ago and we just phased out the last three 777s”, he said. “It has been great,” he said, noting that having an “aligned and homogenous fleet” allows it to better utilise the aircraft.





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## Aeromexico to reveal new short haul routes later this week

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) that the airline will announce new short haul routes within a week, when questioned on the operational capabilities of its new **Boeing 737 MAX** fleet. While remaining tight-lipped on the development, he confirmed that an announcement is imminent. "There's a few [new routes] coming this week", he said. "There's a big event coming up in the particular country where the President is involved. The President is going to announce a new route from Aeromexico".

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## Aeromexico: New 737 MAX likely to be used to open new routes, but not necessarily to expand network

**Aeromexico** chief revenue officer Anko van der Werff, speaking on CAPA TV, stated (03-Jun-2018) that the airline will certainly use its new **Boeing 737 MAX** aircraft to introduce new routes, but not necessarily to expand the range of its Americas network. "The range we have currently is fine. Bogota and Lima in some months we still have weight restrictions. When you look up north beyond Vancouver there is not a lot more so I think the circle as much is pretty much drawn with where you can go with the MAX. You can't really go further beyond", he said. However, the MAX will be used to open new markets, explained Mr van der Werff, but these will "probably be within that existing circle" with new routes to be announced as early as this week.

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## ONEWORLD CONNECT

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### oneworld governing board chairman: 'Global airline alliances have reached maturity'

**oneworld** governing board chairman and **Finnair** CEO Pekka Vauramo, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) global alliances account for 60% of accumulated revenue in the airline industry at present and with most of the largest airlines worldwide signed up to an alliance, "global airline alliances have reached maturity". Mr Vauramo said oneworld "punches well above its weight", with a network of more than 1000 destinations. He added that since the launch of oneworld interline revenue has "grown twice as fast" as overall airline passenger revenue to more than USD5 billion p/a.

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### Qantas 'keen to help Fiji Airways' in key areas such as fleet evaluation, pilot training

**Qantas** CEO Alan Joyce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) Qantas is "keen to help **Fiji Airways**" in a number of areas, such as with fleet evaluation and pilot training. He noted the addition of Fiji Airways as a **oneworld** connect member will "open up the door for other dialogue, for further dialogue", with the model enabling airlines' to "discover further opportunities once part of oneworld connect".

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## Qantas says oneworld connect will enable better connectivity globally

**Fiji Airways** MD and CEO Andre Viljoen, speaking at the IATA AGM and World Air Transport Summit, confirmed (03-Jun-2018) Fiji Airways will be the first airline in its region to operate **Boeing 737 MAX 8** aircraft, commencing in Dec-2018. Mr Viljoen stated Fiji is "looking at our fleet" and plans to seek advice from the airlines that sponsored it to join the **oneworld** connect programme, particularly **Qantas Airways**.

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## Australians have a 'love affair' with Fiji: Qantas CEO

**Qantas** CEO Alan Joyce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) Fiji is experiencing "amazing demand" from **Australia**, adding over 20,000 passengers (+20% year-on-year) on Fiji Airways over the past 12 months, adding that there is "huge demand" in this market. Mr Joyce stated Australians have a "love affair" with Fiji and the addition of **Fiji Airways** as the first **oneworld** connect member will "create love affairs for airlines all over the globe". Mr Joyce also noted the significant investment in tourism infrastructure in Fiji, adding that Fiji has become an "amazing destinations for premium traveller".

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## oneworld connect members required to maintain IATA IOSA safety certification

**oneworld** CEO Rob Gurney, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) oneworld connect platform partners will be required to "make their networks available" via the global explorer round the world fare, noting that inaugural oneworld connect partner **Fiji Airways** "already does so". Mr Gurney said other requirements of the programme include maintaining **IATA IOSA** safety certification and being sponsored by at least three full oneworld member airlines.

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## Qantas 'very very happy' to sponsor Fiji to oneworld connect: Joyce

**Qantas** CEO Alan Joyce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) Qantas and **Fiji Airways** "go back a long time". Mr Joyce noted that an Australian helped set up the airline in the 1950s and Qantas became a shareholder in 1958 and has had a "very strong relationship" with the airline ever since. Qantas has a codeshare partnership with Fiji Airways and is "really excited" about the new **oneworld** partnership, which sees Fiji Airways become the first oneworld connect member. Mr Joyce said Qantas is "very very happy to be a sponsor" of Fiji Airways' addition as a oneworld connect member.

### oneworld connect programme 'designed with a specific set of brand guidelines'

**oneworld** CEO Rob Gurney, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) oneworld "designed with a specific set of brand guidelines" and standards for its oneworld connect programme. Mr Gurney said oneworld connect is a "branded opportunity" for its members, adding that inaugural partner **Fiji Airways** will be able to display oneworld branding.

### oneworld connect programme designed with 'very scalable model'

**oneworld** CEO Rob Gurney, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the oneworld connect platform was designed with "a very scalable model" to simplify processes for member airlines and to "remove impediments" for adding new members. Mr Gurney stated the alliance will focus on adding airlines to the oneworld connect programme "whose networks are highly relevant" for oneworld.

### American Airlines CEO: Fiji Airways oneworld connect partnership to improve access to South Pacific

**American Airlines** chairman and CEO Doug Parker, speaking at the IATA AGM and World Air Transport Summit, noted (03-Jun-2018) American Airlines already has an established codeshare partnership with **Fiji Airways** and said Fiji's inclusion in the **oneworld** connect programme will provide "our customers with better access to the South Pacific". Mr Parker said American Airlines will be able to "efficiently connect people through the oneworld connect system", making the connection process "more seamless for our customers".

### Fiji Airways CEO: 'One of the world's final frontiers for travel is now connected'

**Fiji Airways** MD and CEO Andre Viljoen, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) becoming the first partner of the **oneworld** connect programme will enable **Fiji Airways** to "achieve a greater presence internationally" and capture the inbound tourism that is vital for **Fiji**. Mr Viljoen noted that the partnership will provide additional links in the South Pacific to the oneworld network, adding: "One of the world's final frontiers for travel is now connected".

### Fiji Airways 'thrilled and honoured' to be first oneworld connect partner

**Fiji Airways** MD and CEO Andre Viljoen, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) Fiji Airways is "thrilled and honoured" to be the first partner for the **oneworld** connect programme worldwide. Mr Viljoen said being a oneworld connect member will enable Fiji Airways to "offer more services and benefits to our customers" and strengthen its relationship with sponsors **Qantas Airways**, **Cathay Pacific**, **American Airlines** and **British Airways**.

### Cathay one of four sponsor airlines of Fiji Airways addition as first oneworld connect member

**Cathay Pacific** CEO Rupert Hogg, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the carrier is "very proud about its part in the foundation of **oneworld**", adding that it is "equally proud to be supporting this new membership platform, oneworld connect". Cathay Pacific is one of the four sponsors of **Fiji Airways**' addition as the first member of this platform, while stressing its long partnership with Fiji Airways and its belief that **Fiji** is a "fabulous destination".

### oneworld has shown commitment to play a role in changing industry trends: Willie Walsh

**IAG** CEO Willie Walsh, representing group airline **British Airways** and speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) **oneworld** has shown its commitment to play a role in changing industry trends and is "evolving and revolving to reflect the fast changing nature of the industry". He noted that the long haul low cost model is evolving and "if industry is evolving in this way, oneworld will seek to react to this". He added: "If it makes sense to do it, oneworld is demonstrating that it is flexible enough to be able to respond to these changing opportunities".

### Willie Walsh: Alliances need to 'evolve to remain relevant'

**IAG** CEO Willie Walsh, representing group airline **British Airways** and speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) alliances need to "evolve to remain relevant". Recognising this current reality, Mr Walsh stated he is "delighted" to welcome the addition of **Fiji Airways** as the first **oneworld** connect partner airline. He added that British Airways is "excited about the opportunity to work with Fiji Airways and developing closer links with one another". British Airways was one of the four sponsor airlines for Fiji Airways' entry as the first oneworld connect partner airline.

### oneworld CEO: oneworld connect enables oneworld to expand the pool of potential members

**oneworld** CEO Rob Gurney, speaking at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) oneworld's "entirely new oneworld connect platform and programme" enables oneworld to expand its pool of potential airline members. Mr Gurney said oneworld connect will be available to airlines which either do not meet the requirements for full membership at present, or are not interested in full membership.

### Fiji Airways CEO: New oneworld partnership to put us on the global aviation map

**Fiji Airways** CEO Andre Viljoen, speaking on CAPA TV (03-Jun-2018) discussed the key benefit of joining the **oneworld** group as the first connect member. Mr Viljoen believes the partnership will put the airline on the aviation global map, "we believe we will see a lot more opportunities to bring people to **Fiji**".



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## oneworld connect programme not about 'growth for growths sake'

**oneworld** CEO Rob Gurney, speaking on CAPA TV, stated (03-Jun-2018) oneworld sees its oneworld connect programme as its "main driver" for membership growth going forward, "but, to be clear, this is not about growth for growths sake". Mr Gurney added that the oneworld connect programme is aimed at driving "growth that is relevant, that can create value for the connect members and that delivers value for our existing members and respective customers". He added "It's not about just adding more airlines".

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## Fiji Airways CEO: There's a logic for it to be restricted to this alliance

**Fiji Airways** CEO Andre Viljoen, speaking on CAPA TV (03-Jun-2018) confirmed why oneworld was chosen as the new global alliance partner. Mr Viljoen confirmed: "There's a logic for it to be restricted to this alliance. We already have partnerships with three of the founding members of this alliance. This makes logical sense". As previously reported by CAPA, Fiji Airways was announced as first connect member of oneworld.

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## oneworld CEO: 'Association with the oneworld brand is highly valuable' for connect partners

**oneworld** CEO Rob Gurney, speaking on CAPA TV, stated (03-Jun-2018) for oneworld connect partners "the association with the oneworld brand is highly valuable". Mr Gurney said **Fiji Airways** "really helped us refine and prove" the oneworld connect concept.

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## Fiji Airways confirms it is in bilateral discussions with British Airways

**Fiji Airways** CEO Andre Viljoen, speaking on CAPA TV, confirmed (03-Jun-2018) the airline is currently in bilateral discussions with **British Airways**. The confirmation comes off the back of the announcement that Fiji Airways is the first connect member of the **oneworld** global alliance. Mr Viljoen also confirmed the airline was furthering its partnership with key oneworld members including **American Airlines** and **Cathay Pacific**.

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## AIRPORT PRIVATISATION

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### France seeking input from IATA, others on 'way forward' with AdP: IATA

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) **France** is seeking input, and "reaching out to IATA and others" to get feedback on the way forward with **Aéroports de Paris** (AdP).

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## IATA sees a 'lot of discussion in US about investment in US airport infrastructure'

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) there are some "airspace issues in the US". He noted that there is currently a "lot of discussion in the US about investment in **US** airport infrastructure", adding that a lack of coordination and consultation to now has "prevented investment that is required in the US market", a situation which "needs to be addressed". He also noted that there is a "change afoot to address issues of airport quality" in the US, which will be aided by investment in the US.

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## IATA 'not against' privatisation of airports but seeking 'better approach'

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) IATA is "not against privatisation" of airports but is in "favour of a better approach, strategy, communication, consultation to it, looking at alternatives and regulation". Mr Careen added that IATA believes there are "shortcomings" in the current approach and is engaged with government to provide more guidance in the area. The aim would be to "provide government with options to get what they needs, while protecting the consumer and industry".

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## Canada has put airport privatisation on 'backburner a little bit': IATA

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) while **Canada** has "gone down the road of privatisation" for airport infrastructure, they have "put that on the backburner a little bit".

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## 46% of 100 busiest pax airports globally have 'some form of private sector involvement': IATA

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) airports with private sector involvement already handle a "disproportionate share of traffic". 14% of airports worldwide which handle 40% of the world's traffic already have private sector involvement and 46% of the 100 busiest passenger airports globally have "some form of private sector involvement". The share of airports with scheduled traffic by ownership structure by region (% in 2016) stood at 1% in North America, 13% in the Middle East, 11% in Africa, 45% in the Asia Pacific, 60% in Latin America and 75% in Europe.

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## IATA says aviation industry is facing 'capacity crisis'; major airports facing 'capacity constraints'

**IATA** senior VP airport, passenger, cargo and security Nick Careen, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the industry is facing a "capacity crisis", noting that the "majority of airports are already facing capacity constraints".



### IATA says airline privatisation have been positive, privatised airports 'generally more expensive'

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) governments have been moving businesses out of the government into the private sector for the past 30 to 40 years. Mr Pearce stated: "We share the view that typically, the private sector does a better job at running businesses. The airline sector has shown this" with the privatisation of airlines in recent years. On the airline perspective, Mr Pearce noted that privatisation has been a "really big success and we have seen...huge productivity gains", with airlines doing a "good job at providing a much more efficient service". Mr Pearce however noted that in the case of airports, privatised airports are "generally more expensive for users", based on a recent study concluded in conjunction with McKinsey covering around 90 airports and the majority of the industry's large airports. Mr Pearce explained: "Privatised airports are more expensive than public," and there is "evidence that efficiency of privatised airports is not much better than public airports, but unsurprisingly, profits for privatised airports are much higher". Mr Pearce, using an example, stated the median A320 turnaround charge at airports which have private ownership of above 50% is 12% more than government owned airports, and 4% higher for airports with a private element of 50% or under. Mr Pearce noted that this scenario "goes against what you would expect after private sector involvement".

### IATA 'questioning' the current state and process of airport privatisation globally

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) IATA is "questioning" the current state and process of airport privatisation globally. Mr Pearce stressed that successful airport privatisations should deliver a more efficient, cheaper and better service for passengers and shippers; be cost effective and fit for purpose investment; normal returns on capital for investors; and economic benefits for the local community and the wider economy. He stressed the need for action to ensure a focus on long term economic benefit.

### IATA notes shortcomings in airport privatisation

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) airport privatisations have inevitably failed delivering on expectations because of a range of shortcomings in the process including:

- Governments have focused on short term financial gains;
- Alternatives have not been considered;
- Governments have not developed a robust business case;
- Insufficient meaningful consultation with industry;
- There is a lack of transparency in the transaction process and often the process is driven by unsolicited proposals, interested private parties or financiers;
- There are poor regulatory safeguards;
- There is a lack of bidder selection criteria – and often the highest bidder is simply selected; and/or
- There are vague or provider biased concession contract terms.

### IATA says airport cost efficiencies not being fed to customers

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the small cost efficiencies gain through airport privatisations are "not being fed through to customers", either passengers or airlines.

### IATA says private sector involvement in airlines had positive impact

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) airlines, operating under public ownership, were in many cases "pretty inefficient", and "private sector involvement made them run is a much better way". Mr Pearce, again, stressed that this is "not the case with airports".

### IATA says 'charges are higher for privatised airports – this is not what we should accept'

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the "generally accepted perception of introducing privatisation have not held true for the airport sector". He explained that "charges are higher for privatised airports – this is not what we should accept from privatisation in any sectors – our customers (or governments) would not accept it if airline fares increased during privatisation in our sector". He also said that "operating efficiencies are not much better for privatised airports – contrary to the expectation of introducing private sector practices". Mr Pearce added that "even though efficiency is not better, profits are significantly higher" leading to the conclusion that "clearly airport privatisation comes at the price – a price which we and our customers have to pay". Mr Pearce added: "Our goal is to explain to aviation stakeholders why privatisation in the monopoly airport sector is not working for the bet interest of long-term social-economic benefits and consumers, and thy this is different from the successes **seen in the competitive airline sector**".

### IATA on airport construction: 'You don't want white elephant, trophy projects'

IATA chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) IATA is seeking airport investment that is "cost effective and that is needed". He noted: "You don't want white elephant, trophy projects. You want investment delivered where consumers want it. eg airports built where there are needed". Mr Pearce also stressed that "for airports in particular, there is a local community and wider economic benefit".



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### **IATA says airports are 'platform, the bridge to which the city connects to other markets'**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) governments and communities “need to see airports as a platform to getting tourists, trade and capital”, adding that airports are the “platform, the bridge to which the city connects to other markets”.

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### **IATA notes lack of consultation in airport privatisation processes**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the industry “hasn’t seen governments consider alternative governance options” in airport privatisations. He explained that a “perpetual gripe of the airline industry is that airports typically don’t consult, don’t talk with the airlines sufficiently”, a considerable shortfall as the “airlines do know quite closely what passengers want, as they are dealing with them day to day”. Mr Pearce also noted the airport privatisations are “typically not very transparent processes”.

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### **IATA: lack of competition is a hindrance to the success of airport privatisation**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) a lack of competition is a hindrance to the success of airport privatisation and the key issue for airport performance. Mr Pearce noted competition “drives management to deliver efficiency gains and a better deal for consumers”, which is typically “not the case” in the airport sector, where competitive pressures are “much much less” and it is “difficult for new competitors” to enter the market. Mr Pearce added that economic regulation is also “not producing improved results”.

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### **IATA: 'Airports are quite complex businesses to run'**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, noted (03-Jun-2018) the complexities of airports stating: “Airports are quite complex businesses to run... there is no simple answer to throwing these into the private sector and you will get a better performance”.

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### **IATA says common airport ownership 'restricts competition'**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, noted (03-Jun-2018) the negatives related to having common ownership of airports in the same city or region, noting that this “restricts competition” and there “isn’t the pressure for one to be better than the other, reflecting in higher costs for users (tariffs) or service levels”.

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### **IATA says there are some 'poorly performing public airports'**

**IATA** chief economist Brian Pearce, speaking at a media briefing at the IATA AGM and World Air Transport Summit, acknowledged (03-Jun-2018) that there are some “poorly performing public airports as well” while noting that “you would expect a big improvement going into the private sector, which is not the case in the airport sector”.

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### **IATA: governments should maintain an ownership interest in airport assets**

**IATA** director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) airports are a critical part of a nation’s infrastructure and governments should maintain an ownership interest in these assets as it impacts national connectivity and the nation’s wider economy.

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### **Public airports rank well in Skytrax ratings**

**IATA** director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) five of the top six airports in the Skytrax ratings are public airports, concluding that the “performance of airports shows benefit of public owned airports”. Singapore Changi, Seoul Incheon, Hong Kong, Hamad and Munich airports were among the top six airports, with Tokyo Haneda the sole private airport in the top six.

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### **IATA notes need for consultation in airport privatisation**

**IATA** director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) IATA is “not against privatisation” but wants to ensure the “right process is being followed” while avoiding the mistakes of past airport privatisations. He also noted that if there is a “need for privatisation, consultation is key to make sure the focus will be on broader economic and consumer benefits”. He added: “Airlines are a primary user and funder so airlines need to have a seat at the table”. He also stressed that the transaction process need to be competitive and transparent” and “not just about the highest bid” but ensuring the “selected model and output is going to deliver the best output for consumers and output”. Stakeholder involvement is also “fundamental” and there is a “need to have sufficient regulatory framework”.



### IATA notes lack of transparency in tender process for African airport privatisations

IATA director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) there is a “lack of transparency in terms of the actual tender process” in Africa, adding that “we are finding, nearly in all cases... that there is zero consultation with industry” and “only finding out about transactions when it is too late”. There is a “need change to this situation”, Mr Mistry added.

### Key issues with Indian airport privatisation has been prefunding from pax charges

IATA director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) the main issue with Indian airport privatisations has been the prefunding from passenger charges. Issues with charges is also a concern as “operators have found ... non regulated way to increase charges” and there have been some “huge increases” in charges post privatisation. He stressed the need to ensure regulatory safeguards are in place ahead of privatisation.

### IATA notes risk of market abuse with privatised airport operators

IATA director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) “once you have a privatised operator and privatised airport, there is a great risk of market abuse, as focus will be on shareholder benefit rather than the user and customer”. Mr Mistry stressed that there is a “need to ensure a mechanism is in place to prevent this scenario”.

### IATA notes lack of alignment in airport regulatory framework in Latin America

IATA director global airport infrastructure and fuel Hermant Mistry, speaking at a media briefing at the IATA AGM and World Air Transport Summit, stated (03-Jun-2018) there is often a “lack of alignment with the regulatory framework” among airports in Latin America, adding that it is “very difficult to find a good model in Latin America” for airport privatisation.

### IATA, Deloitte develop airport ownership, regulation guidance

IATA and Deloitte published (03-Jun-2018) guidance materials for governments considering public-private partnerships (PPP) and other forms of privatisation programmes for airport infrastructure. IATA director general and CEO Alexandre de Juniac commented: “Airports provide critical infrastructure. It is important that governments considering privatisation or PPP take a long-term view and focus on solutions that will maximise the economic and social benefits of connectivity. The aim of Airport Ownership and Regulation is to help governments make better-informed decisions using best-practices gleaned from decades of experience with the good, the bad and the ugly of airport privatisations”. Deloitte global airport lead Dorian Reece noted the “pressure” on airport infrastructure amid passenger growth, which is “increasing the need for governments to explore alternative financing solutions and enhance management efficiency”. Airport Ownership and Regulation explores three key areas in detail:

- Assessing the options for models of privatisation: Governments should take a broad view of airport ownership and operating models, matching them to the strategic management, financial and macro-economic objectives of inviting private participation in airport infrastructure provision and management. The spectrum of options is wide, ranging from full government ownership, to forms of corporatisation, hybrid models (eg service/management contracts); and to those with greater private participation (eg equity sales, concessions and full divestiture);
- Best Practices: A competitive and transparent transaction process is a “must have” to assure public value for money. Governments must assure that bids are assessed on balanced criteria and that the key terms of any concession contract ensure improvement in efficiency, quality of service and appropriate investment in the airport for the airlines and the end-consumers;
- Regulation of Privatised Airports: The assessment of an airport’s market power and the development of the appropriate regulatory framework should take place in parallel with an assessment of potential ownership and operating models. Economic regulation is needed to prevent market abuse, secure efficiencies and ensure service quality. When combined with limited or weak economic regulation, all models (private or public) can lead to adverse outcomes; however, there are additional risks with airports that have private ownership.

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## 2018 GLOBAL EVENT CALENDAR



Mumbai, India  
30-31 January 2018

**CAPA India  
Aviation Summit**



**NEW!**

Mumbai, India  
1 February 2018

**CAPA India Airport &  
Airspace Summit**



**NEW!**

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**



**NEW!**

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**



**NEW!**

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**



**NEW!**

Berlin, Germany  
27-28 November 2018

**CAPA World Aviation  
Outlook Summit**

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