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Flight Airline Business

ALL THE NEWS FROM
74th IATA ANNUAL GENERAL MEETING
WORLD AIR TRANSPORT SUMMIT
SYDNEY > 3 — 5 JUNE 2018

AUSTRALIAN RETURNS

The IATA AGM returns to Australia at a time of record profits for the sector and a revival in the financial fortunes of host carrier Qantas.

"The mood should be pretty good because the financials are really positive for a fourth year in the row," says IATA director general Alexandre de Juniac. "Even with the last few years [of growth] passenger and cargo [traffic] are still growing.

"Some costs are rising- fuel, labour infrastructure - so there are some areas of concern."

Locally the outlook is bright too. Qantas expects its full-year underlying pre-tax profits to come in between A$1.55 ($1.16 billion) and A$1.6 billion, some turnaround after the record losses it incurred in 2014.

See p7 and p24 for more

INDUSTRY SNAPSHOT

7%

Increase in passenger traffic over the first four months of 2018

5.1%

Increase in air freight traffic over the first four months of 2018

Air India stake sale bid closes with no offers

BOC Aviation orders three Boeing 787-9s for lease to Air Europa

Laudamotion begins flights from its Vienna base

$76.79

Barrel price of Crude Oil as of close on 1 June

Fuelling fears – 18

Inside this issue


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April traffic growth slows

Early Easter hits monthly industry figures, but carriers still expanding at a rapid rate

Asia-Pacific markets led passenger traffic growth in April, a month in which the overall rate of expansion dropped as a result of the earlier falling of the busy Easter period.

IATA data shows collective passenger traffic rose 6.2% in April compared to the same month last year. This, however, is down on the 9.7% growth enjoyed in March. But direct comparison is distorted as the busy Easter holiday period fell in April last year.

Traffic growth in April was still above historic trends and outpaced the collective 5.9% increase in airline capacity during the month. As a result, airline load factors inched up 0.2 percentage point to stand at 82.3%.

Asia-Pacific carriers increased traffic almost 11% in April and collective load factors grew over a point to reach 82.8%. Asian carriers posted an 8.5% traffic rise in international traffic for the month, the strongest among the regions and the first-time since December Asia-Pacific has led the growth.

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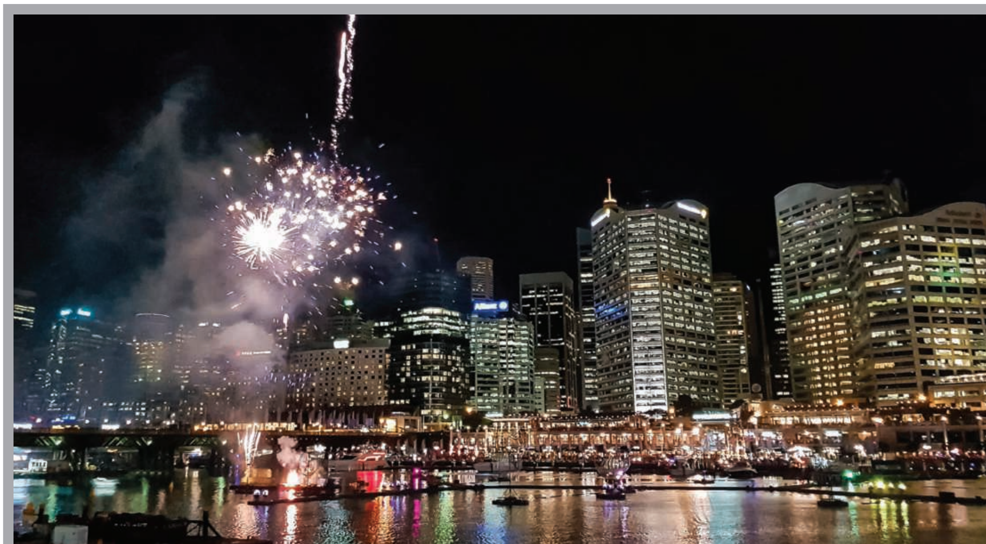
Closing in on CORSIA countdown

With the clock ticking for airlines to comply with the new global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), IATA is reminding members that operators of international flights must start to monitor their emissions from next year.

While offset requirements do not apply before 2021, all operators will need to monitor their emissions from 1 January 2019. Michael Gill (above), director aviation environment at IATA and executive director of ATAG, notes that this applies to all carriers flying international operations regardless of whether their home state has signed up to the global scheme.

At this year's AGM, IATA will outline the requirements to members and offer various support and training initiatives to prepare them for the start of the emissions scheme before the sands of time run out for airlines to comply.



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Vivid visions of Sydney as harbour lights up host city

Delegates to this year's IATA are set to enjoy one of the world's most spectacular urban waterfronts as part of the wide-ranging Vivid Festival here in Sydney.

In Cockle Bay, just outside the conference centre, the Fantastic Oceans Light and Laser experience is displayed nightly. The show, which also incorporates fountains, renders sea creatures and coral from the deeps, in a spectacular testament to the beauty of the sea.

For delegates who will spend a few extra days in Sydney after the conference closes, there is fireworks display at Darling Harbour every Friday and Saturday evening at 8pm.

Now in its 10th year, the festival's music programme also includes an aptly timed interpretation of Brian Eno's ambient Music for Airports, running from 3-5 June. The Alaska Orchestra make their Sydney Opera House debut to combine electronic and acoustic sounds for this eclectic re-imagining of Eno's 1978 experimental classic.

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IN BRIEF

QANTAS SEALS DOMESTIC CODESHARE WITH AIR NZ

Qantas and Air New Zealand will codeshare on each others' domestic networks but exclude any co-operation on the transtasman market. The arrangement will see Qantas place its code on up to 30 Air NZ-operated flights within New Zealand, while the Star Alliance carrier will place its code on up to 85 Qantas-operated flights within Australia from 28 October. The new codeshare will start a day after the long-running joint venture between Air New Zealand and Virgin Australia stops. Qantas will continue to codeshare on Jetstar's flights within New Zealand.

AIR INDIA SALE DEADLINE PASSES WITH NO BIDS

New Delhi has confirmed it has not received any responses from interested parties for the privatisation of Air India. "As informed by the Transaction Adviser, no response has been received for the Expression of Interest floated for the strategic disinvestment of Air India. Further course of action will be decided appropriately," says the ministry of civil aviation. The 31 May deadline had already been extended by two weeks. New Delhi wants to sell a 76% stake in Air India, which includes its Air India Express subsidiary and a 50% stake in ground handler Air India SATS. IndiGo and Jet Airways both ruled out making bids. One major obstacle has been the requirement for the new owners to take on half of the carrier's Rs488 billion ($7.47 billion) debt, plus about Rs88.2 billion in current liabilities. Another unknown relates to how many of the Air India group's 38,000 employees would have to be retained.

Asian demand stays strong

Traffic still growing in region despite higher oil prices, but margins under more pressure

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Herdman: consumer and business confidence remains robust

The recent spike in oil prices to around $80 a barrel is putting pressure on some carriers, but the Association of Asia Pacific Airlines continues to see positives in ongoing strong growth of passenger and cargo demand.

"The global economy is in good shape, and that's reflected in very robust passenger numbers. Cargo growth rates have slowed, but you're still setting new highs on last year's strong performance, so on the demand side things look good," says director general Andrew Herdman.

But he admits that some observers are starting to get nervous about the recent rise in oil prices, which reached $80 per barrel in recent weeks, with some airlines in Asia seeing pressure on their margins. Last year, that was offset by stronger passenger volumes and higher load factors, but there has been a "lag" in ticket prices moving upwards to restore those margins - mostly due to the competitive environment.

"If the fuel prices are up by about a third, you'd have to see fares would have to go up six or seven percent to neutralise that. We haven't seen that yet, so that implies that margins are being squeezed." Nonetheless, he remains upbeat that the strong global economic conditions will continue to push demand up.

"Consumer confidence is still high, business confidence and trade is still solid, and it's very hard to find economies that aren't growing," he adds.

Singapore Airlines set to reclaim longest flight crown

Singapore Airlines will start operating the world's longest commercial flight from 11 October, commencing a near-19 hour nonstop Singapore-Newark service.

Using A350-900ULRs configured with 161 seats, the carrier will initially fly thrice-weekly on the route, before growing to daily frequency on 18 October.

SIA will receive its first A350-900ULR in September, with the remaining six on order scheduled for delivery by the end of the year. All seven aircraft feature 67 business and 94 in premium economy class seats.

Plans to launch nonstop Singapore-Los Angeles services will be announced at a later date. Its Singapore-Frankfurt-New York John F Kennedy service will continue to be in operation.

"Singapore Airlines has always taken pride in pushing the boundaries to provide the best possible travel convenience for our customers, and we are pleased to be leading the way with these new non-stop flights using the latest-technology," says SIA's chief executive Goh Choon Phong.

SIA last operated nonstop Singapore-Newark services in 2013, when it returned the Airbus A340-500s that were used at that time to the manufacturer.

The carrier's first A350-900ULR is in flight-testing

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Sustainable business

Ahead of this year's AGM IATA director general Alexandre de Juniac outlines his confidence that the Association's members are in better shape to withstand rising cost pressures and is working on the challenges the sector faces

IATA director general Alexandre de Juniac arrives for his second AGM in the chair with industry profits at almost unprecedented levels – but with plenty of challenges to be faced in sustaining them.

The headline numbers are strong. Last December IATA projected industry net profits of $38 billion for 2018 – a fourth consecutive year of profitability in excess of $30 billion.

While a sharper-than-expected rise in oil prices over this year's first half may lower these expectations, airlines are largely far better prepared now to deal with $80-per-barrel Brent crude.

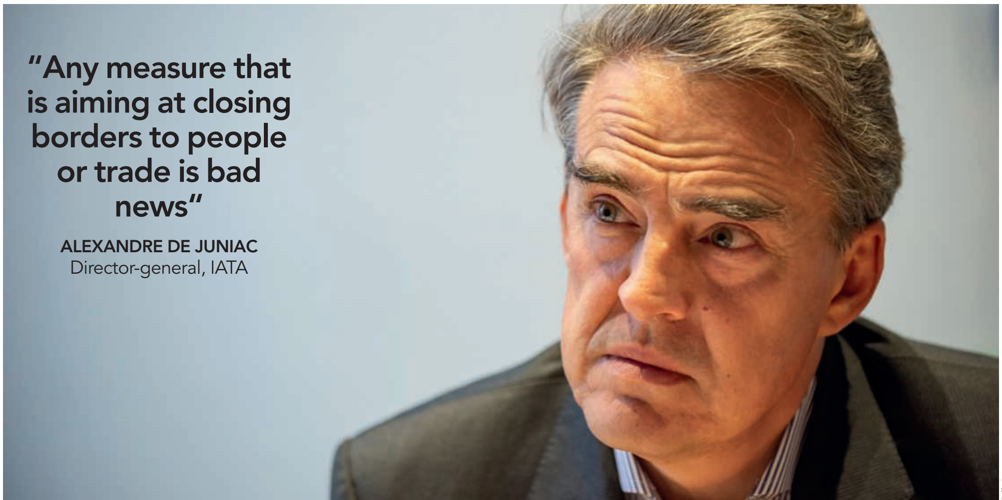
"We are coming back to the [oil price] levels that were problematic a few years ago, but in the meantime the airlines have been very active in trying to clean their balances, restructuring their operations, reducing their costs and being more competitive and resilient," de Juniac told FlightGlobal on the eve of the AGM. "So we think the fuel-price increase shouldn't have the same consequences it did [than in previous years]."

Industry profit levels, while now delivering returns above invested capital, are still below the double-digit margins which other industries enjoy.

"We are making slightly less than $8 a seat, which means something like 4-5%, which is still thin margins," de Juniac says.

Sustaining those profits is not straightforward either: de Juniac highlights rising labour and infrastructure costs alongside fuel as challenges for airlines.

"We have been very vocal and I think influential in giving guidance to governments in terms of managing their infrastructure, of being cautious about privatising. There are a lot of results in that area, which is absolutely crucial.



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"If we want to cope with the potential growth, we desperately need it to be efficient, affordable, and [to have] enough infrastructure to cope with that."

PROGRESS

He believes IATA's progress in this area represents some of the association's most significant action, alongside working with governments on a collaborative approach to security. "We have been very active in terms of advocacy to convince governments to co-operate with the industry when they want to implement new measures, particularly with security," he says. "I think the most significant result we have reached is [that] none of these governments will implement unilaterally any measure."

Since taking over as IATA director general almost two years ago, de Juniac has consistently flagged the sector's role in supporting the "business of freedom". He says: "Any measure that is aiming at closing borders to people or trade is bad news. It's bad news for the economy, even worse for the aviation business. We are the first to be hit."

That was evident during last year's AGM in Cancun, when a diplomatic spat in the Middle East escalated into the closure of airspace to Qatar by four neighbouring states. A year on, the blockade remains in place.

Likewise, president Trump's decision to impose tariffs on steel and aluminium imports to the USA – bringing with it the prospect of retaliatory moves – provided a reminder of ongoing challenges ahead of this year's AGM.

He also highlights work by IATA to support the industry on environmental issues, like the introduction of ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); distribution initiatives; and efforts in data analytics.

"We are investing a lot in data products. Analytics that serve the industry in safety," de Juniac says, noting that this builds on IATA's established role in supporting industry safety, developed through its IOSA audit programme.

"Preparing for the collecting and putting in the right format [of] safety data for the industry is probably among one of our big missions," he says. "The big data and data analytics and all the tools that can used by IT now, it will provide a lot of relevant, accurate information and predictive information to help prevent or limit accidents."

NEW MEMBERS

IATA has added several new members in the last year and represents around 82% of the industry. But several of the biggest low-cost carriers still remain outside the association.

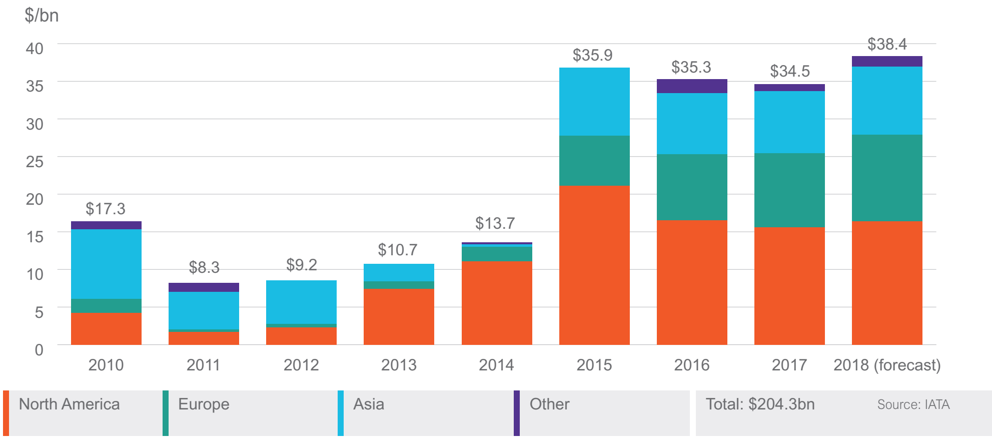
"Ten percent of our members are low-cost or new-model carriers – we have almost all that are medium- or small-size. Yes, we have not succeeded yet to attract the five or six big ones. But we are working on that – we are trying to convince them," he says.

"Already, some are IOSA-certified, some others are considering to be IOSA-certified, so frankly I think they will join. One day it will happen. And I think it will be a good thing for everyone, particularly them," he says. ■

RECORD PROFITS RUN

For a sector that had grown used to slumps and booms, the recent sustained run of industry profits means airlines have enjoyed their best period of financial fortunes yet. Ahead of IATA's unveiling of its latest industry outlook for 2018 tomorrow, we track some of the main dynamics and key metrics that have driven the profit highs in the current cycle, beginning when the sector returned to the black in 2010

Industry net profits by region



$96.3bn

North American carriers' projected cumulative net profit 2010-18

North America

North American operators have been the mainstay of industry profits since 2013, driven by the restructuring and consolidation among US carriers. The region contributed well over half of the industry's profits between 2013 and 2015, and just under half in 2016. IATA's most recent forecast for 2017 was for a slight dip in North American carriers' net profit to $15.6 billion for 2017.

In issuing its first take on the current year last December, IATA projected a small rise in North American net profits to $16.4 billion. Much may hinge on the extent to which higher fuel costs, evidenced in the first quarter, will hit these largely unhedged carriers during 2018.

$57bn

Asia-Pacific carriers' projected cumulative net profit 2010-18

Asia-Pacific

Asia-Pacific carriers were the most profitable going into this current cycle, but fortunes among the region's carriers flagged – especially as the air cargo market struggled. By 2015, profits in the region had returned to previous levels and have remained steady ever since. IATA was projecting a further uptick this year, aided by the welcome recovery of the air cargo market.

$42.3bn

European carriers' projected cumulative net profit 2010-18

Europe

In December IATA projected European carriers recording their most profitable year in 2018, making $11.5 billion. After the challenging rebuilding years during the Eurozone crisis, strong air transport demand and a relatively encouraging economy have helped the continent become the second most profitable region.

-$2.6bn

African carriers projected cumulative net loss 2010-18

Africa

While carriers in Africa posted a collective profit of $100 million in 2010, the region's operators as a whole have not been profitable since, in what has been a challenging few years. A combination of weakness at several key carriers, strong international competition, hits to key tourism markets and struggling energy economies all compounded a continued lack of progress in the liberalisation of African skies. IATA has been forecasting a further loss of $100 million among African airlines this year.

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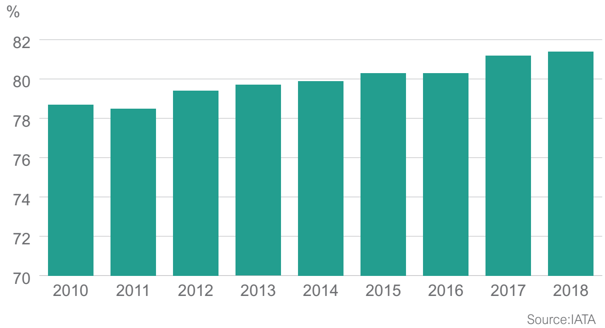
Load factor development



Load factor

2.7pt

Projected rise in collective global airline passenger load factor from 2010 to 2018

Load factor

Rising load factors have been a key part of airlines' improved fortunes during the recent profit run, with levels maintained or increasing every year since 2011. These have averaged more than 80% since 2015 and IATA was most recently projecting a further climb in industry passenger load factor to average 81.4% in 2018.

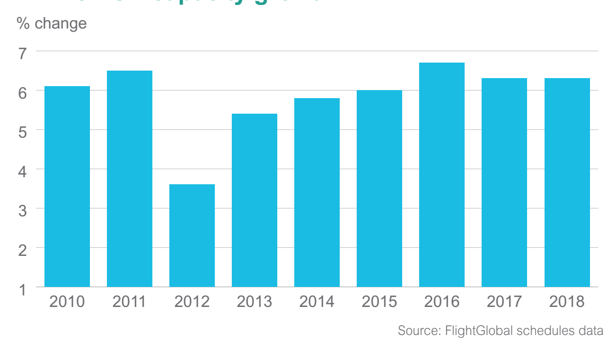
62.7%

Projected rise in ASK capacity this December compared with the same month in 2009

Capacity

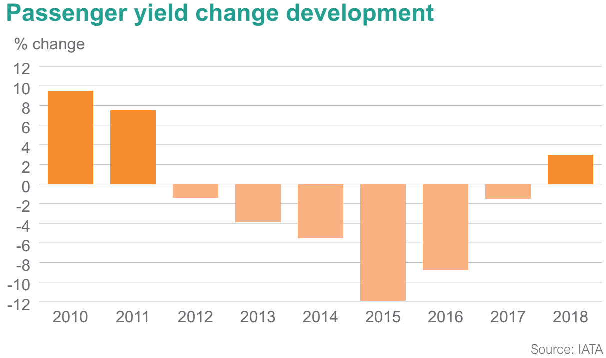
That improvement in load factor has been achieved even with the continued expansion of airline capacity. FlightGlobal schedules data shows airlines lifting global ASK capacity by more than 5% every year except 2012. This year airline caacity is set to expand by more than 6% for a fourth year in succession. IATA projections show global scheduled passenger numbers, which stood at around 2.5 billion at the end of 2009, topping more than 4.3 billion at the end of this year.

Airline ASK capacity growth



ASK capacity

Passenger yield change development



Passenger yield

3%

Projected rise in airline passenger yield for 2018

Yields

Lower fares have helped stimulate strong traffic growth since 2010 during the current cycle, but this has had a significant impact on passenger yields. IATA figures show these have fallen every year since 2012, including a double-digit fall in 2015. But in its most recent forecast, it was projecting an upturn in yields this year.

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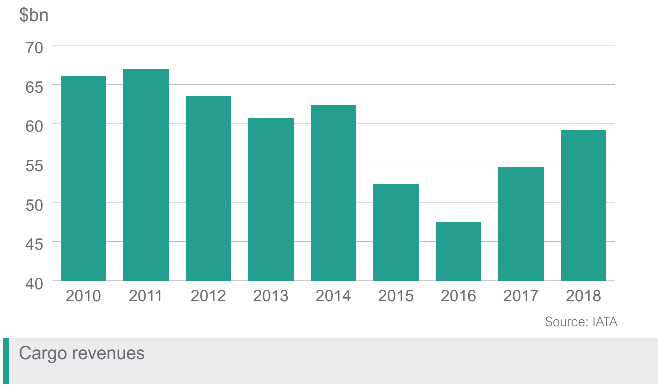
Air cargo revenue development



$59.2bn

Projected air cargo revenues in 2018, marking a rise of nearly $5 billion on 2017

Cargo

Though the current cycle has been strong for the passenger business, the air cargo sector has been in the doldrums for much of this period. This in part has been a product of the success of the passenger business, bringing with it continually increased belly capacity to the market. Air freight revenues stood at $66 billion in 2010, after a sharp recovery from the heavy falls in 2009. But revenues largely fell until the trend was finally reversed in 2017. IATA has been projecting a further boost for 2018, although air cargo revenues would still be below 2010 levels.

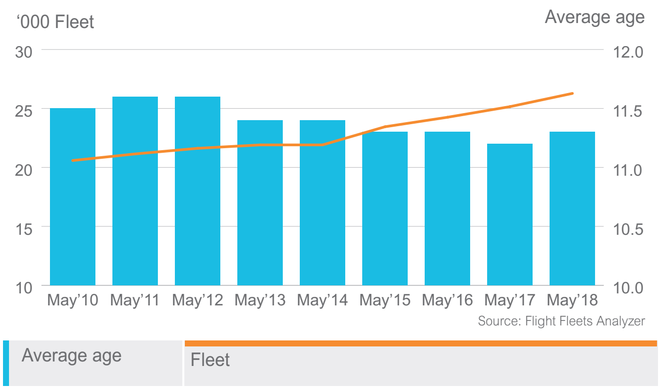
11.3 years

Average fleet age in May 2018, down from 11.5 years in the same month of 2010

Fleet

The in-service global fleet has expanded during the cycle, in support of airline traffic growth. Flight Fleets Analyzer shows the fleet stands at 26,276 as of May 2018, almost 6,000 more aircraft than the same month in 2010. Over the same period, the average age of the fleet has fallen from 11.5 years to 11.3, in part reflecting new aircraft development. Notably, the average age of the widebody fleet has fallen by more than a year and stands at 9.5 years, making it the youngest portion of the global fleet.

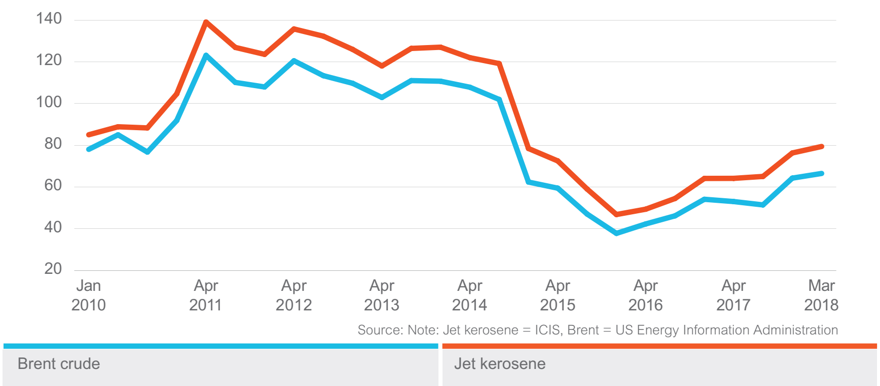
In-service passenger fleet 2010-2018



20%

Projected share fuel expense will comprise of total airline expenditure in 2018 based on IATA forecast

Brent Crude oil and jet kerosene price development



Fuel expenditure

Alongside increased competition, much of the fall in yields is a product of lower fuel costs. It has been a roller-coaster ride for oil prices during this cycle, with a sharp spike in oil prices and then the unexpected sharp fall. After that, they have gradually risen since the turn of 2016. While this is taking the edge off profits, particularly among unhedged carriers, the oil price remains well below the highs seen in 2011 and 2012.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Costs cap profit hopes

Continued momentum in passenger and cargo demand helped airlines strike a largely positive note in the first-quarter reporting season, although higher oil prices and market pressures for some mean there are still clouds on the horizon


Asian carriers are enjoying continued strong growth

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After reaching record highs in 2017, airlines are well set for another year of strong profit, given a positive picture across most key economies and the backdop of robust passenger and airfreight demand.

Carriers across the regions largely reported profitable first quarters, though rising oil prices –- which have continued to climb into the second quarter – have either already clipped or threatened to temper profit levels.

This was most evident in North America, where the region's carriers, while still leading industry profit levels, are among the first to feel oil prices moves, given their relative lack of hedging.

US carriers reported a profitable first quarter – with only Spirit Airlines posting a loss. But profit levels were down on the same quarter last year.

Operating margins largely fell as carriers started to feel cost pressure, not least from jet fuel.

Crude oil prices are up by nearly 50% since last year, prompting questions over whether US airlines will slow capacity growth to buoy fares and cover their rising expenses.

> Operating margins largely fell as carriers started to feel cost pressure

"As we look beyond [the summer peak], we will certainly take a look at – assuming fuel prices stay at this level – what is the right level of capacity," said Doug Parker, chairman and chief executive of American, in April.

Neither American nor Delta revised their 2018 system capacity guidance in April, maintaining growth expectations by roughly 2.5% and 2-3%, respectively.

United, however, is the big elephant in the room. The airline is in the middle of a multi-year plan to recapture what executives call its "natural share" of the US domestic market through elevated capacity growth of 4-6%/year until 2020.

The Chicago-based carrier revised its 2018 capacity outlook down slightly to a 4.5-5.5% year-on-year rise in April, the midpoint of its multi-year annual guide. Executives have not commented on whether it will slow growth in response to higher oil prices.

Alaska, which completed the integration of Virgin America in April, has made the largest downward revision to its 2018 capacity guidance. It plans to grow by about 6.5% this year, one percentage point lower than its initial expectation in January.

Some airlines, notably Southwest, are making a point of not slowing growth.

"We're still better off flying these shoulder flights because they are profitable and… add profits as compared to simply not flying," said Gary Kelly, chief executive of the Dallas-based carrier, in April. "If we were not able to raise fares, would that immediately lead to a decision to stop flying some of our airplanes? Well, not if they're still profitable."

Southwest plans to grow capacity in the low-5% range in 2018.

Airlines and Wall Street analysts still expect the industry to be profitable this year, even with rising oil prices. The question is: how profitable?

OPTIMISTIC NOTE

European carriers largely set an optimistic tone during the first quarter reporting season, though rising fuel costs, labour disruption and expansion expenditure for those seeking to take advantage of new ventures cloud the picture.

Strong passenger and cargo demand among European carriers continued into the first quarter, though the period did benefit from the inclusion of the busy Easter travel period – which fell in April last year.

But rising fuel costs put the prospect of a stronger headwinds than anticipated on the horizon. British Airways and Iberia parent IAG, for example, noted fuel prices rose "significantly" in the three months to 31 March, although this was partly offset by a weaker US dollar. It is, however, still expecting to turn in a higher full-year operating profit.

Lufthansa's profit progress is being capped by expansion costs at its low-cost grouping Eurowings divisions. Its operating losses rose during the quarter, which the carrier attributed in part to the one-off impact of its integration of former Air Berlin assets and its rapid growth. »

» "One-off expenses will continue to burden unit cost trends at Eurowings in the months ahead," Lufthansa notes.

That was offset by the group's network airline division – formed by Lufthansa Airlines, Swiss and Austrian – which transformed a €53 million operating loss in the same quarter last year to a €119 million operating profit.

While higher fuel costs were on the agenda of the third of Europe's major network groups, Air France-KLM, more pressing is the industrial action which has plagued its operations so far this year and ultimately resulted in group chief executive Jean-Marc Janaillac's resignation after less than two years in the role.

Air France-KLM warned that its 2018 result will be "noticeably down" on last year's after its first-quarter operating loss rose to €118 million amid disruption caused by pilots' industrial action.

European low-cost carrier EasyJet presented a bright underlying picture, but was dragged to a £68 million ($92 million) pre-tax loss for the six months ended 31 March by the financial impact of its expansion into the Berlin Tegel market and integration of former Air Berlin assets.

Ryanair and Wizz Air both confirmed improved profits for their financial years ending March. But while Wizz is projecting a further rise for the coming year, Ryanair struck a less positive note. While still projecting a profit range of €1.25-1.35 billion for 2018-19, it opted for an outlook on the "pessimistic side of cautious", because it expects higher oil prices which will add €400 million to its fuel costs.

High Level/REX/Shutterstock

BA parent IAG projects higher profits despite increasing fuel costs

Elsewhere in Europe, Turkish Airlines and Pegasus Airlines underlined improved fortunes for Turkey's operators with improved first-quarter performance, as did SAS Group and Finnair.

One uniting view, however, from European carriers is for more opportunities resulting from higher oil prices, intensifying pressure on the region's struggling carriers.

KEEPING MOMENTUM

Strong passenger and cargo demand momentum among Asia-Pacific carriers has continued into this year, building on improved profitability from 2017.

Preliminary figures released by the Association of Asia-Pacific Airlines (AAPA) show carriers in the region posted a combined net profit of $8.8 billion in the region.

"It's been running at about $7 billion and more of the same was where we were thinking we would be last year, and we've come out slightly ahead of it," says AAPA director general Andrew Herdman.

"The traffic picture has been pretty good, a surprise was the fuel price kept on rising, and that's obviously continued into this year. But you have to say the global economy is in pretty good shape… and that's supporting pretty robust demand.

"What we have is a pretty synchronised momentum in the global economy. We shouldn't go overboard, we are talking about a few percent of a percent of GDP growth over the year before. And that ties into consumer sentiment, which is pretty good."

All this has come despite continued uncertainty on the global stage. "Policy uncertainty is still there, but what we don't have is the sense of imminent crisis. There are always complexities and uncertainties in the political agenda, but to the man in the street things seems pretty stable," says Herdman, noting this has resulted in strong travel demand.

AAPA figures show Asian airlines grew international passenger traffic in terms of RPKs by 8.6%. The air freight market, of which Asia-Pacific carriers have a relatively large share, proved even stronger as international cargo traffic jumped almost 10%. That marked a notable turnaround after years of struggling air freight fortunes.

"There has been very limited growth, yields were under pressure and there was always latent over-capacity and parked freighters, as belly capacity kept growing relentlessly," says Herdman. "[But in 2017] the growth rate was almost double-digit and we saw yields turn and start to recover. So you have a big volume jump and the momentum has continued into this year, though the numbers are off a bigger base."

AAPA reports cargo yields improved 6% in 2017. Passenger yields fell 1%, though this was a lower fall than in recent years.

"Growth and profits are still strong in north Asia, Australasia, and Chinese carriers [are] doing quite well. But you are still seeing that density of competition in southeast Asia," says Herdman.

UNEVEN SPREAD

Latin American airlines mainly grew their operating profits in the first quarter, although higher fuel prices and currency depreciation crimped overall performance and cast further gloom upon the already seasonally weaker second quarter.

The region's seven listed airlines collectively reported a 31% increase in first-quarter operating profit to $619 million, compared with the same period in 2017. However, profitability was uneven across the board, with Mexico's two listed carriers turning in net losses.

Airlines with a substantial presence in Brazil – Azul, Gol and LATAM Airlines Group – continued to ride on the recovery in the country's economy and posted the strongest growth in operating profit.

Mexico's airlines continue to grapple with a tougher macroeconomic climate compared with their peers in South America. Both Aeromexico and Volaris reported net losses in the first quarter. Aeromexico saw its operating profit plummet 95% to Ps24 million ($1.2 million), while Volaris further deepened its operating loss to Ps906 million from Ps729 million. ■

Denver International Airport

Delta has so far kept its 2018 system capacity guidance unchanged

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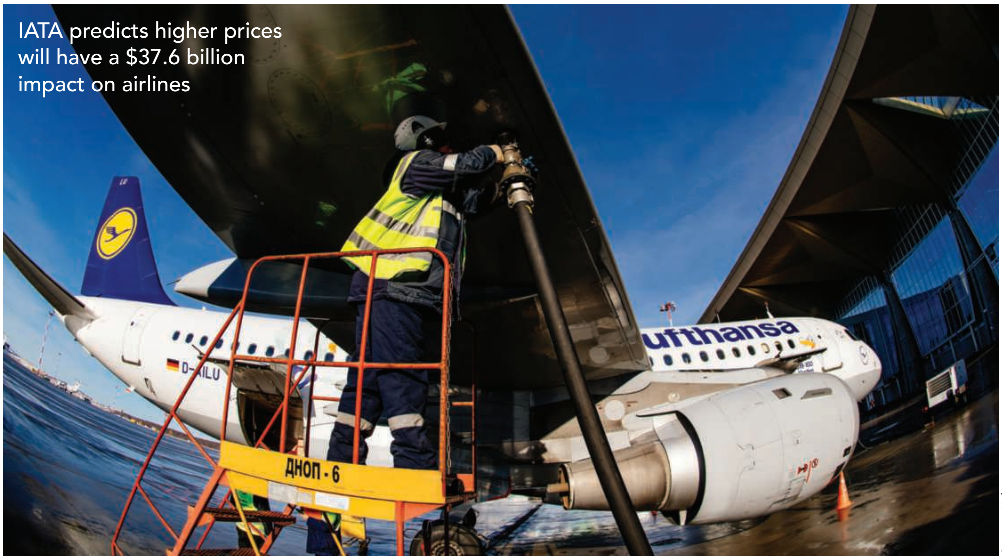


IATA predicts higher prices will have a $37.6 billion impact on airlines

Gazprom Neft

Jitters as jet fuel prices creep up

For several years a helpful factor amid record industry profits, low oil prices appear to be a thing of the past – at least temporarily. This tougher cost environment could be about to test the mettle of airlines across the world

Rising jet fuel costs have been a ubiquitous talking point for airlines as they report their latest earnings and consider the outlook.

Those higher costs may not prove problematic for everyone in the short term – in some instances thanks to hedging, where airlines lock down a proportion of their near-term fuel supply at a fixed price – but the airline industry is at least temporarily losing one of the "free passes" that have combined in recent years to aid record industry profits.

As this plays out, some players are set to discover just how robust their business models are.

"Oil is a significant component of an airline's costs, so its price is always relevant," says Andrew Charlton, managing director of the Aviation Advocacy consultancy. "The relatively lower prices in the last few years – compared with the decade before – have been a very important element of the airlines' recovery. It is not the only part of that recovery, but it was a factor."

In regions such as Europe, those lower fuel prices have arguably been at the centre of recent growth.

IMPORTANT STIMULUS

"Effectively, Europe's growth was fuelled by fuel," says Daniel Roeska, senior research analyst covering European transportation at Bernstein. "The decrease in oil prices since 2013 enabled the industry to stimulate growth through declining yields – while expanding margins. If high fuel prices persist, airlines will have to seriously consider revising their growth aspirations."

The confluence of positive factors enjoyed by airlines in recent years has created a unique environment, meaning there are a lack of historical reference points when considering the potential impact of fuel price rises.

Analysts at KPMG described this conundrum in their *Aviation Leaders Industry Report 2018*, released at the turn of the year: "Generally, fuel prices rise with economic growth, but over the past years, oil prices fell while passenger demand continued to rise, giving airlines the ability to invest in growing capacity and networks, adding destinations and planes," it states.

"The steep rise in competing routes and additional capacity pushed down ticket prices. Now oil is rising, competition remains and fares remain depressed, particularly in the Southeast Asian market."

At the end of the first quarter of 2018, global jet kerosene prices – which tend to track just above crude oil prices – were on average around 28% higher year-on-year, data from energy intelligence provider ICIS, analysed by FlightGlobal, shows. Compared with two years earlier, the increase is around 61%. IATA has predicted that fuel price increases will have a $37.6 billion impact on the industry's bill for 2018.

RELATIVELY LOW

While these extra costs look swingeing, prices are still relatively low. In April 2012, for example, ICIS data shows jet kerosene prices averaged 329 cents/USgal; at the end of the first quarter this year, they averaged 189 cents/USgal, albeit on an upward trend.

The average price crept up to 204 cents/USgal in April and, since that last measure, oil prices have spiked again. Brent crude flirted with $80/barrel (around 222 cents/USgal) by mid-May.

In that context and in typically outspoken style, Ryanair chief executive Michael O'Leary told Bloomberg Television in mid-May that "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".

O'Leary is not alone in holding such a view. Ray Webster – who was chief executive of EasyJet between 1996 and 2006 – said at the Routes Europe event in April that the outlook for low-cost airlines was "quite worrying" because they were unprepared for future economic shocks. Carriers have not been put under pressure and have not experienced the typical peaks and troughs of the market, he says. Webster forecasts that rising oil prices will have a "dramatic" impact on carriers' bottom lines.

But on the other side of the argument, industry body IATA appears relaxed about the price trend beyond the short term, stating in a May report that relief from price rises might not be far off: "Recent gains in oil prices »

» have been driven by a combination of a gradual reduction in global oil inventories on the back of a tightening in supply, as well as heightened geo-political concerns," it states. "That said, the futures curve remains consistent with a modest decline in oil prices from their current levels over the next 12-18 months. Indeed, the current curve points to oil prices falling to around $65/bbl by mid-2020."

While the current set of cost headwinds facing carriers might be without truly meaningful precedent, recent history does offer some reasons for optimism, not least because higher oil prices tend to go hand-in-hand with stronger economic conditions generally.

> Major US carriers have been talking about moderating capacity growth

"The reality is that the global airline business returned to profitability during the period of highest fuel price," states Peter Morris, chief economist at Flight Ascend Consultancy. Morris does, however, acknowledge that fuel prices can have an impact on weaker players: "Arguably, the high fuel price drove marginal players out of the market, so when fuel prices fell this provided a bonus for consolidated industry, especially in North America."

The ability of carriers to absorb rises in fuel price today needs to be judged on a case-by-case basis. Unsurprisingly, much depends on the underlying financial strength of a carrier.

Bernstein's Roeska identifies two European airline groups he believes are more vulnerable to price rises than others: "In Europe, we see especially Air France-KLM and Norwegian with a lower level of fuel hedges than the industry average. This means these airlines will feel any movement in price – up or down – first. Also, their profitability lags behind the sector, meaning they have less room to accommodate higher fuel prices."

Norwegian's potential vulnerability raises inevitable questions about how the low-cost long-haul model – a key part of the European carrier's business – might work amid higher fuel costs.

Morris says: "Low-cost long-haul may be more vulnerable because higher fares can cause tourism to switch to short-haul destinations."

SAME DIFFERENCE

Charlton notes, however, that oil price rises are an industry-wide issue that eventually have to be swallowed by everyone: "The oil price goes up for all the airlines, so many of the advantages the new disruptors such as the low-cost long-haul carriers remain," he states.

Indeed, the established players do not necessarily have any in-built advantage when fuel costs rise. Cathay Pacific, for example, offers an example of hedging gone awry: "Net fuel costs made up 30-41% of Cathay Pacific's total operating costs during the past five financial years, making up the single largest cost item for the carrier, even when fuel prices fell," analysts at DBS stated in an April report. "A large spike in fuel prices would affect its profitability while a quick drop would also lead to hedging losses."

In the Asia region as a whole, however, concerns about the rising costs are being offset by growth in demand, according to Andrew Herdman, director general of the Association of Asia-Pacific Airlines. He told FlightGlobal in mid-May that there is no sign of passenger growth slowing, despite higher oil prices. "It is still robust," he states, citing "good" premium traffic in particular.

Jet kerosene spot prices: world average

Month	Fuel price ¢/US gal	Change over period 1 Month	Change over period 1 Year	Month	Fuel price ¢/Us gal	Change over period 1 Month	Change over period 1 Year
Jun	134.7	-6.7%	-3.4%	Jan	194.9	7.3%	26.1%
Jul	144.2	7.0%	11.4%	Feb	189.6	-2.7%	20.5%
Aug	154.9	7.4%	19.4%	Mar	189.1	-0.3%	28.3%
Sep	171.0	10.4%	29.0%	Apr	203.8	7.8%	33.5%
Oct	166.7	-2.5%	13.9%				
Nov	179.1	7.4%	31.4%				
Dec	181.7	1.5%	19.1%				
Av.17	157.4		24.4%				

Source: ICIS

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

Elsewhere, major US carriers have been talking about moderating growth should jet fuel costs continue to rise – a trend seen in the last period of higher oil prices. As a mature market, where significant consolidation has already played out, the US is likely to feel a moderated impact from rising jet fuel. "These energy price levels themselves pose no structural challenge to the industry," said JP Morgan in an April report.

Looking at the global industry as a whole, however, CTAIRA analyst Chris Tarry suggested in the June 2018 issue of *Flight Airline Business* that "even though the forecast rates of capacity growth are lower than in the recent past and closer to 1.5 times the rate of expected GDP growth, it is unlikely that higher yields and revenues will be able to offset the rise in the price of fuel, and in other costs".

Roeska concurs when it comes to the European market: "In my opinion, the current ability to pass on fuel cost is very limited in Europe," he notes. "Capacity is still growing at 6%-plus in Europe, and in that environment airlines need to rely on yield stimulation to fill the planes.

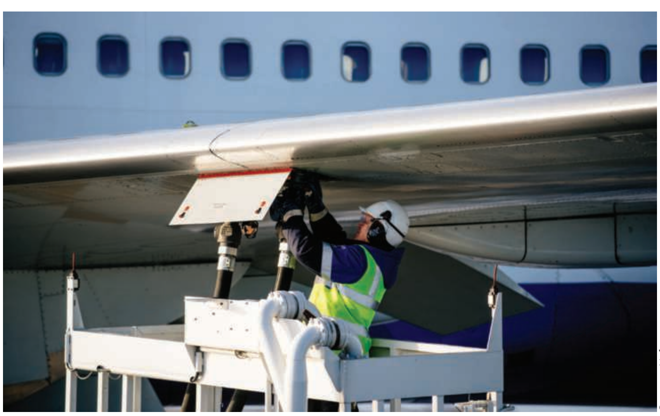
"The market price is the balance of capacity and demand – passing on higher cost will only work if the airlines reduce capacity growth."

LEISURE RESPONSE

Morris meanwhile acknowledges that "there is a price elasticity on fares", which varies by region and type of traffic. He adds that leisure traffic has "the highest price response" so is most vulnerable to customers looking elsewhere should fares increase. That, he says, means low-cost carriers are more likely to feel negative impacts should fuel prices continue to rise.

Charlton, however, notes the industry might be well placed to pass on those higher costs: "As a general comment, airlines have been much better at passing on fuel price rises than many other cost increases," he states.

It remains to be seen, however, whether carriers that have struggled in the recent benign environment globally might find persistently higher fuel costs too much to handle, and whether even the successful airlines might begin to soften growth plans. ■



Gazprom Neft

Recent history shows airlines can be profitable amid high oil prices

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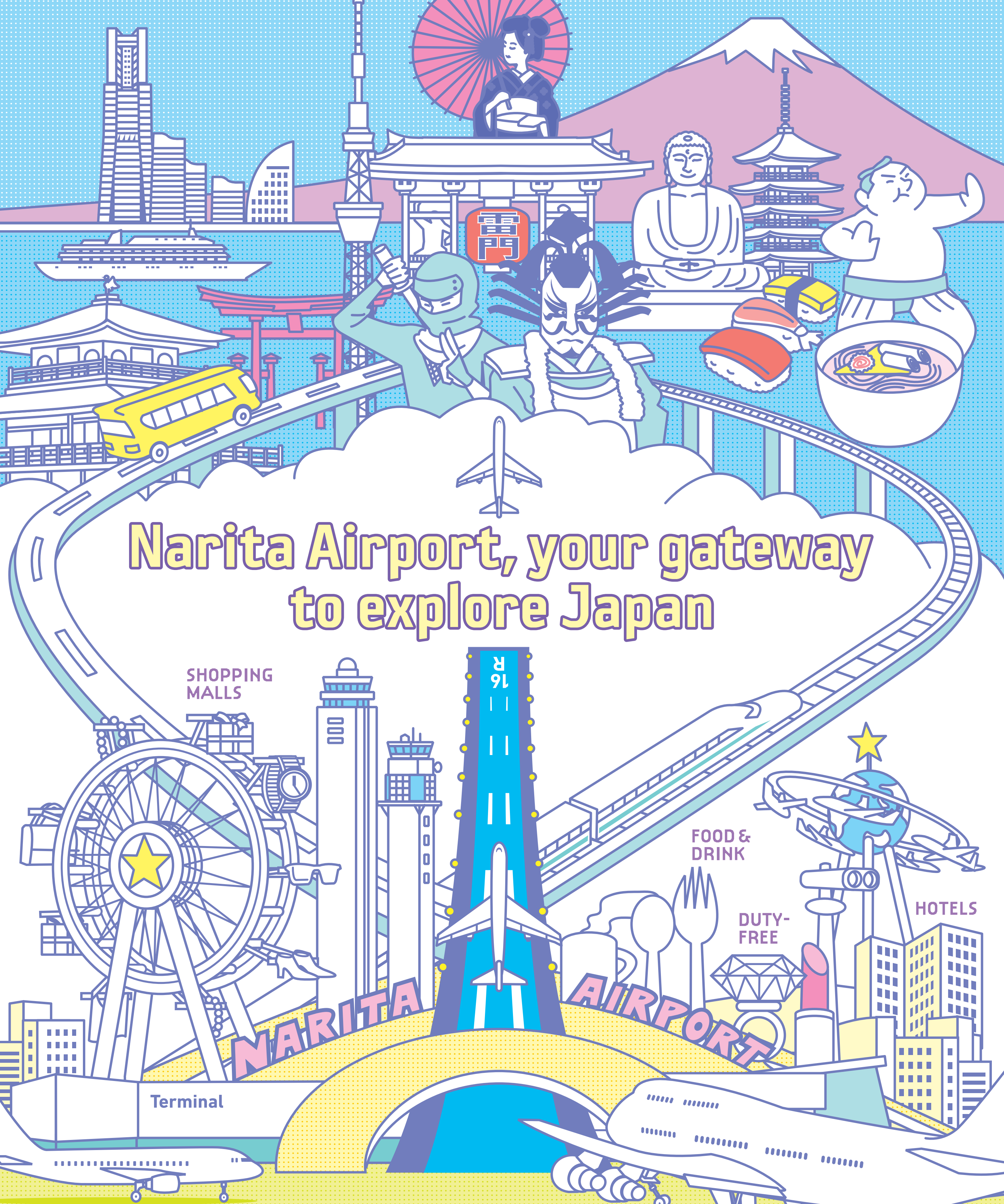

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Leaving strong legacies

The past 12 months have seen a number of high-profile chief executives leave their roles – many of their own accord, some for other reasons. Using FlightGlobal schedules data and Flight Fleets Analyzer, we looks at a selection of data for key leaders' spells at the helm of their respective airlines. In most cases, the statistics reflect wider growth trends in the industry – both in terms of aircraft operated and destinations served – as demand for air travel has boomed since the turn of the century. The data also shows that most airline leaders tend to stick around for a few years before heading to a new challenge


TAP Portugal

Fernando Pinto
TAP Portugal

Started: October 2000
Departed: January 2018
Months in role: 206
Fleet on joining: 34
Fleet on departure: 67
Fleet change: +33
Destinations on joining: 18*
Destinations on departure: 67
Destinations change: +39*
Flight growth: 129%*
Seat growth: 196%*
ASK growth: 524%*


Hawaiian

Mark Dunkerley
Hawaiian Airlines

Started: June 2005
Departed: March 2018
Months in role: 152
Fleet on joining: 25
Fleet on departure: 53
Fleet change: +28
Destinations on joining: 16
Destinations on departure: 27
Destinations change: +11
Flight growth: 79%
Seat growth: 97%
ASK growth: 153%


BillyPix

Aditya Ghosh
IndiGo

Started: August 2008
Departing: July 2018
Months in role: 118
Fleet on joining: 19
Fleet on departure: 165
Fleet change: +146
Destinations on joining: 16
Destinations on departure: 45
Destinations change: +29
Flight growth: 656%
Seat growth: 656%
ASK growth: 671%


Jeju Air

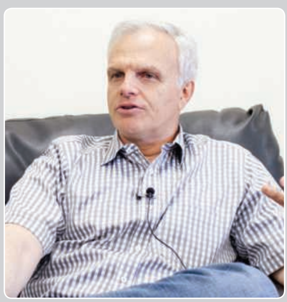
Ken Choi
Jeju Air

Started: September 2012
Departed: March 2018
Months in role: 65
Fleet on joining: 10
Fleet on departure: 32
Fleet change: +22
Destinations on joining: 13
Destinations on departure: 33
Destinations change: +20
Flight growth: 175%
Seat growth: 169%
ASK growth: 226%


Elena Ahmad

Jayne Hrdlicka
Jetstar Group

Started: July 2012
Departed: November 2017
Months in role: 63
Fleet on joining: 86
Fleet on departure: 127
Fleet change: +41
Destinations on joining: 65
Destinations on departure: 109
Destinations change: +44
Flight growth: 55%
Seat growth: 58%
ASK growth: 39%


Jane Shauck

David Neeleman
Azul (still chairs board)

Started: January 2013
Departed: July 2017
Months in role: 53
Fleet on joining: 66
Fleet on departure: 126
Fleet change: +60
Destinations on joining: 33
Destinations on departure: 41
Destinations change: +8
Flight growth: 130%
Seat growth: 130%
ASK growth: 116%


Waldorf Astoria Jerusalem

David Maimon
El Al

Started: March 2014
Departed: February 2018**
Months in role: 46
Fleet on joining: 38
Fleet on departure: 39
Fleet change: +1
Destinations on joining: 37
Destinations on departure: 44
Destinations change: +7
Flight growth: 24%
Seat growth: 27%
ASK growth: 19%

Bursa

Orhan Coskun
Atlasglobal

Started: February 2008
Departed: October 2017
Months in role: 115
Fleet on joining: 6
Fleet on departure: 24
Fleet change: +18
Destinations on joining: 11
Destinations on departure: 34
Destinations change: +23
Flight growth: 91%
Seat growth: 199%
ASK growth: 585%

Westjet

Gregg Saretsky
WestJet

Started: April 2010
Departed: March 2018
Months in role: 94
Fleet on joining: 88
Fleet on departure: 124
Fleet change: +36
Destinations on joining: 60
Destinations on departure: 87
Destinations change: +27
Flight growth: 10%
Seat growth: 16%
ASK growth: 50%

REX/Shutterstock

Carolyn McCall
EasyJet

Started: July 2010
Departed: December 2017
Months in role: 88
Fleet on joining: 191
Fleet on departure: 275
Fleet change: +84
Destinations on joining: 115
Destinations on departure: 130
Destinations change: +15
Flight growth: 57%
Seat growth: 66%
ASK growth: 58%

BillyPix

Bernard Gustin
Brussels Airlines

Started: June 2012
Departed: March 2018
Months in role: 68
Fleet on joining: 48
Fleet on departure: 50
Fleet change: +2
Destinations on joining: 62
Destinations on departure: 93
Destinations change: +31
Flight growth: 5%
Seat growth: 32%
ASK growth: 48%

HK Express

Andrew Cowen
HK Express

Started: April 2015
Departed: October 2017
Months in role: 29
Fleet on joining: 10
Fleet on departure: 21
Fleet change: +11
Destinations on joining: 16
Destinations on departure: 27
Destinations change: +11
Flight growth: 59%
Seat growth: 59%
ASK growth: 66%

Romauld Meigneux/SIPA/REX/Shutterstock

Jean-Marc Janaillac
Air France-KLM

Started: May 2016
Departed: May 2018
Months in role: 23
Fleet on joining: 546
Fleet on departure: 554
Fleet change: +8
Destinations on joining: 418
Destinations on departure: 459
Destinations change: +41
Flight growth: 1%
Seat growth: 5%
ASK growth: 9%

IATA

Peter Bellew
Malaysia Airlines

Started: July 2016
Departed: October 2017
Months in role: 14
Fleet on joining: 79
Fleet on departure: 71
Fleet change: -8
Destinations on joining: 79
Destinations on departure: 83
Destinations change: +4
Flight growth: -5%
Seat growth: -1%
ASK growth: 1%

NOTES: Schedules data comparisons based on month of taking up position versus last instance of same month during chief executive's time in role; fleet measured at beginning of month started and beginning of month of departure; fleet refers to in-service aircraft; "Started" refers to taking up the chief executive position, not necessarily point at which person joined the business; "Months in role" counts whole months only; the selection of chief executives is not intended to be exhaustive and excludes those at airlines with fewer than 20 aircraft in their fleets at time of departure

*** Schedules based on data for January 2004. Fleet data based on full term**

**** Departure date estimated due to unquantified handover period with new chief executive**

Constraint drives revived fortunes

With Qantas on track to deliver record profits and Virgin Australia showing signs of recovery, Australia's two major airline groups have benefitted from the tighter grip on capacity instilled after heavy losses in 2014

As seriously as a monk takes their vows, Australia's two airline groups have been adhering to the mantra of capacity discipline – with strong results to prove it.

Qantas issued profit guidance in early May showing that it expects a new record full-year profit before tax of up to A$1.6 billion ($1.2 billion).

"We're seeing solid results from each of our business units, which is a reflection of broadly positive trading conditions and the work we've done to strengthen the group," commented Qantas group chief executive Alan Joyce.

It is quite a turnaround from 2014 when the carrier reported a net loss of A$2.8 billion, as a capacity war against rival Virgin Australia, a major writedown against the value of international fleet, and tough international conditions saw it report the worst result in its nearly 100-year-long history.

Virgin Australia, meanwhile, is further back on the turnaround curve, but has seen a return to profit for the half-year to 31 December of A$103 million.

"This demonstrates the success of our long-term strategy to reposition the business and strengthen its financial foundation; however, there is more work ahead to ensure we continue to deliver," chief executive John Borghetti said in February.

TRANSFORMATION

The once cheap-and-cheerful carrier has transformed into a more business-focused airline, and one that now competes across all customer segments with the larger Qantas group.

Both carriers have seen demand growth in the key domestic market slow to single-digit rates in recent years, largely due to slowing economic growth, lower business confidence and a downturn in commodity prices, which impacted corporate travel.

That ultimately forced both carriers to cut capacity on some routes, with Qantas and Virgin both redeploying widebodies from the domestic market to international routes. Virgin also cut its Embraer 190s from the fleet, and reduced the number of ATR 72 turboprops it operates, replacing some of those with aircraft wet-leased from independent operator Alliance Airlines.

Conditions are strengthening now, however, with corporate and leisure travel both growing again. The latter includes an uptick in premium leisure demand, which has seen some routes that were previously the domain of the

Qantas has again turned to Singapore and lengthier non-stops for its long-haul growth

Dinendra Haria/REX/Shutterstock

Australian carrier financial snapshot

	Qantas		Virgin Australia	
	Op profit (A$m)	Net profit (A$m)	Op profit (A$m)	Net profit (A$m)
2017	1,590	853	-122	-186
2016	1,751	1,029	-257	-225
2015	1,048	560	-70	-94
2014	-3,772	-2,483	-375	-354
2013	-173	2	-99	-99

Source: FlightGlobal based on airline figures for financial years ending 30 June budget carriers moved back to their mainline ones.

While Virgin has swung into the black, it is still emerging from the damaging competition with Qantas in the 2012-14 period, which savaged its balance sheet.

Its search for cash saw the acquisitive HNA Group inject close to $1 billion of equity into it last year, while long-term partner Air New Zealand sold out its stake to another Chinese conglomerate, Nanshan Group, in 2017.

That leaves it with a complicated, multi-airline ownership structure. Etihad Aviation Group holds the largest stake at 25.1%, followed by Singapore Airlines (20.1%), Nanshan (19.9%) and HNA (19.2%).

Similarly, on the international front, both Qantas and Virgin Australia have been restrained as they work among the realities of being at the end of the line.

Qantas still holds a commanding share of the fragmented international market, with 16.4% of such passengers for the year ended February 2018 taking the Flying Kangaroo. Subsidiary Jetstar was the second largest at 9.1%, followed by Emirates, Singapore Airlines, Air New Zealand and Virgin.

PARTNERING UP

That has seen their networks largely coalesce around major partnerships to serve key markets. Qantas works closely with Emirates, American Airlines and China Eastern; Virgin with shareholders Singapore Airlines, Etihad Airways, HNA Group and Air New Zealand. Virgin also has a joint venture with Delta Air Lines covering North America.

But Virgin is set to lose one of its key partners in October, with Air New Zealand recently calling time on their Transtasman joint venture. The Star Alliance carrier has announced a major increase in capacity, aimed at plugging the effective gap from the end of the codeshare with Virgin.

That change follows some wider changes on the Tasman market, with Emirates ending its A380-operated tag services from Melbourne, Brisbane and Sydney to Auckland in March as it concentrates on its nonstop Dubai-Auckland service. Alliance partner Qantas has back-filled some of that using A330s and 737s.

After years of pulling back, Qantas's international network has started growing again, with the debut of nonstop services to Europe through the Perth-London route in March. At the same time, it operated the last services in its own metal to Dubai and rerouted its Sydney-London services back via Singapore.

The Oneworld carrier has signalled that longer nonstop flights are likely to be a major part of its future strategy, with the airline set to examine an order for aircraft that could fly from Australia's east coast to Europe and the US east coast.

Closer to home, Virgin's limited international network focuses on the USA and Pacific Islands, while last year it launched Melbourne-Hong Kong flights. From July it will begin flights from Sydney to Hong Kong, which, like the Melbourne ones, will be underpinned by its alliance with the HNA Group and its Hong Kong Airlines unit.

BREAKING CHINA

Virgin is also looking to launch a mainland China destination, but as chief executive Borghetti stated in February, is facing difficulty getting slots at key gateway cities there.

"With our expansion into greater China, it's also the art of what's possible. We're talking about airports that are very congested: Hong Kong, Shanghai and others," he said.

Virgin Australia

737 operator Virgin Australia is set to take its first Max 8s in 2019

> Qantas is examining an order for aircraft to fly Australia to Europe and the USA

Qantas has similar benefits from its joint venture on China routes with China Eastern Airlines, which is supplemented by a codeshare agreement with China Southern Airlines.

Those agreements have helped the carriers to gain exposure to the surging Chinese tourist market, which has seen a number of carriers including Hainan Airlines, Tianjin Airlines and Xiamen Airlines launch new services to Australia over the past three years.

Australians have developed a strong penchant for overseas travel, which in part has fuelled a large rise in low-cost carrier capacity to the country.

Asia's long-haul low-costers AirAsia X and Scoot have both deployed large amounts of capacity to Australia. The latter also sees Australia as a key connecting market for its European services, and has offered very attractive fares connecting Australian passengers through Singapore to Athens.

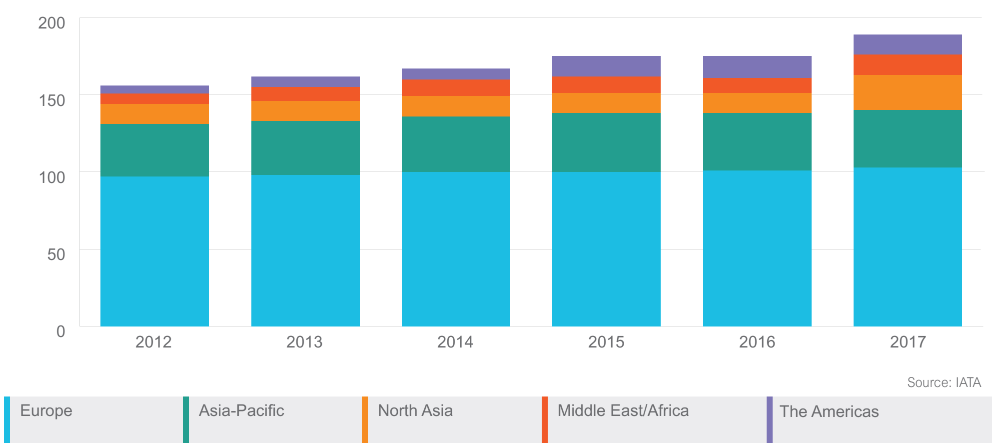
Filipino carrier Cebu Pacific Air has also received a warm welcome in Australia, with its 440-seat, all-economy configured A330s plying the Sydney-Manila route five times a week. In August it will add a thrice-weekly flight to its Melbourne service.

Qantas and Virgin's budget brands have also been strong contenders in the international market. Jetstar plies a number of routes to destinations including Denpasar, Osaka and Honolulu. Tigerair Australia operated a number of services to Denpasar until early 2017 when it ran afoul of Indonesian regulators. It is now expected to start services to New Zealand. ■

Slot control conundrums

Debates have long raged over airport slot assignments and a review is under way of the regulations. But could there be a better way of handling the various allocation issues and should airports have a role in the decision-making process?

Growth in slot co-ordinated airports since 2012



For more than 50 years, the guidelines governing slot allocation at the world's capacity-constrained airports have been overseen by IATA and a set of national co-ordinators. Now, airports are seeking to challenge the status quo by gaining a say in how slots are awarded and – potentially – who benefits from their value.

Allocation of slots at congested – or "slot co-ordinated" – airports has since 1974 been guided by a set of best practices dubbed the Worldwide Slot Guidelines (WSG). The WSG covers everything from how new slots should be awarded to the timeline for the process, airlines' right to keep control of slots based on historic precedence, and the 80:20 rule that allows carriers to retain slots as long as they use them 80% of the time allocated during a particular season.

While the guidelines are voluntary – and the USA, for example, operates to a slightly different system – the WSG is widely accepted as the industry standard. The European Union's slot regulations are a virtual mirror of them.

IATA data shows that there are more than 300 airports worldwide that are subject to the WSG.

A total of 189 airports in 2017 were defined as "co-ordinated" or Level 3, a status in which the scale of congestion is such that a national co-ordinator must impose a schedule on airlines operating at peak times.

Some 120 airports are defined as "facilitated" or Level 2, meaning that congestion does occur at certain times of the day. Slot allocation at these facilities is carried out on a voluntary basis, with the co-ordinator seeking to reach an agreement with airlines on future flight schedules.

As global passenger traffic has increased over time, so have the number of airports that require some form of slot co-ordination. In 2011, there were 142 Level 3 airports; by 2017, this had risen to 189. IATA predicts that this number could grow by 100 airports within the next 10 years.

While slot allocation has a direct impact on the operations at their facilities, airports have no formal involvement in how the guidelines are defined and executed – something that lobby group Airports Council International (ACI) is seeking to change.

STRATEGIC REVIEW

The way slots are divvied out to airlines has long proven to be a controversial process, with critics complaining that the process lacks transparency. The European Commission has committed to a review of the current slot protocols within its aviation strategy, although no conclusion has yet been reached.

During the ICAO general assembly in 2016, ACI set out a critique of the current system and asked the UN body to consider reviewing it.

Subsequently, IATA, ACI and the WWCAG – the trade association that represents national slot co-ordinators – have embarked on a joint strategic review of the WSG. The review will seek to address "any deficiencies in the slot allocation system" and ensure that the guidelines "evolve and remain viable for years to come", say the three organisations in a joint statement.

"Capacity is not used to its optimal ability," ACI director general Angela Gittens told FlightGlobal during the trade body's Airport Economics & Finance Conference in London in April. "So we are working with IATA and the slot co-ordinators group to conduct a strategic review, and we will be reporting to ICAO in 2019."

Gittens says the WSG as it now stands is "outmoded" because it was drawn up under a "completely different set of circumstances" when the majority of airlines and airports were state-owned.

"When it was set up, airlines were national airlines, airports were government-owned, and so you had the national government through the airlines [and] the airports looking out for the interests of the consumer and the travelling public," she says. With the vast majority of airlines, and many airports, now privately owned, Gittens asks: "Who is [now] looking out for the consumer?"

Stefano Baronci, ACI's director of economics and programme development, says that while he hopes the review will be "constructive", there could be "resistance" arising from "a vested interest of some airlines to keep the status quo".

Fraport's head of airport slot management Gunter Heinrich tells FlightGlobal the scope of the review is more limited than he would have wanted, being focused on the "details" of slot allocation, such as whether a new fourth level of co-ordination is required or whether to replace the 80:20 rule with a 70:30 ruling.

The principles underpinning the allocation of slots are not covered, he says.

Heinrich says that for some time airports have been seeking some form of representation on the Joint Slot Advisory Group (JSAG) – a 14-member body split between IATA member airlines and slot co-ordinators, which meets to oversee »

Geoff Robinson Photography/REX/Shutterstock

Air carrier or not?

Administrators for collapsed UK carrier Monarch Airlines generated a net £54 million ($73 million) from the sale of airport slots, comprising £50 million from British Airways parent IAG for slots at London Gatwick, and £4 million from Wizz Air for slots at Luton.

Monarch ceased operations at the beginning of October last year. KPMG secured the right to sell Monarch's airport slots following a UK court ruling last year, after an initial judgement had blocked it from having the right to sell the slots. Its successful appeal hinged on a wrangle over the legal definition of 'air carrier', and whether the UK airline could still be considered as such despite its cessation of operations.

» the guidelines. To date, that request has been "refused" by IATA, he says.

Lara Maughan, head of worldwide airport slots at IATA, tells FlightGlobal that to date there has not been much input from airports in the WSG and it is therefore "quite right" a review of their involvement should take place.

She acknowledges that the current guidelines were put in place to act as "sticky plaster" for the wider problem created by the lack of available airport capacity, but says IATA's starting position is that the rules are "good as you can get".

IATA is "not looking for radical reform of the slot process today, because we do not see it as a problem", she says. The association is keen to see "evolution" of the system, rather than a radical rethink.

More than 80 people, including IATA members and nonmembers, are involved in the strategic review, which is split into four working groups. Maughan sees reasons to be "optimistic" that a good outcome can be achieved.

IATA describes the guidelines as a "living document", which is regularly reviewed and altered.

Richard Cann, head of co-ordination at UK slot co-ordinator ACL, welcomes the review but says the current guidelines, far from being broken, "essentially work". He adds: "Is it perfect? No, it is not perfect, but there is a perception that there needs to be a better balance between the interests of the airlines and the airports, which the strategic review could address."

Cann says he can understand why ACI is now keen to overhaul the process as airports around the world get busier.

BILATERAL TALKS

Heinrich says that while slots ownership is not under discussion as part of the strategic review, separate bilateral talks on this topic are being conducted by the heads of ACI and IATA. Ultimately, ICAO may need to become involved in the issue, he adds. IATA's Maughan contends that ICAO member states do not wish to get directly involved in slot allocation.

An area that is not under discussion as part of the strategic review – but which stirs much of the controversy around the current system – is the ability of an airline to swap, lease or sell their slots for what can be significant money.

The WSG state swaps between airlines are "encouraged" and can be carried out for "compensation or consideration" where local laws do not prohibit the practice.

IATA's Maughan says the UK is the only country that has the "legal mechanisms" in place to allow for such secondary trading.

The sales last year of two Heathrow slot pairs by SAS to American for $75 million and of one by Croatia Airlines to Delta Air Lines for $19 million indicates the potential value of slots.

ACI's Gittens describes this as a "Kafka-esque situation" where "someone is given something for free and can then sell it for hundreds of millions of dollars".

Barconi says that a "sensible option" would be "to allocate some of the proceeds of the secondary trading for infrastructure development". This, he says, could allow airports to reduce airport charges.

An alternative to slot sales on a commercial basis is slot auctions organised by the sovereign states. China conducted one in 2015, and Mexico has passed legislation allowing for the practice.

189

Number of slot co-ordinated airports in 2017

Maughan says auctions "raise a lot of questions" and points out that while Mexico allows airports to legally auction slots, none have so far taken place, while China has conducted only that first auction.

Speaking at the ACI conference in London in April, Stuart Holder – senior regulatory policy adviser at the UK Civil Aviation Authority – said there was scope for a "real improvement" in the transparency of secondary trading in the UK.

He warns that alternatives to the current system could prove "really difficult", noting the logistical "nightmare" involved in organising slot auctions.

Chris Bosworth, former managing director of ACL, says that the case of Monarch Airlines, where the administrators KPMG were able to sell slots after the UK carrier had grounded flights, illustrated that the rules on slot trading may need to be reviewed.

"In light of events following recent failures, including Monarch, Air Berlin and Niki, regulators may also be looking for greater clarity regarding what happens to slots in the event of an airline going into administration," he says.

While it will be more than a year until final recommendations on reforming the slot regime are reached under the review, its scope alone means it is unlikely to satisfy the demands of the airports. ■

Judges choose the winners

Awards recipients are picked as preparations continue for big night in London on 15 July


Lewis Harper/FlightGlobal

The judges considered a range of nominees across six categories

Judging is now complete for this year's Airline Strategy Awards, which takes place on 15 July on the eve of Farnborough air show.

A team of high-profile judges from across the industry gathered in London for a meeting in mid-May, hosted by our event partner Korn Ferry, where they decided on the winners across six categories: Executive Leadership, Sector Leadership, Low-cost Leadership, Network Strategy, Finance and Marketing.

The judges were asked to choose from a list of nominations that was drawn up after several months of deliberation and in-depth research. A special *Flight Airline Business* award – judged separately – will also be handed out on the night.

This year marks the 17th running of the awards and the second time *Flight Airline Business* has partnered with Korn Ferry, a leading human capital management firm, to deliver the event.

July's invitation-only ceremony takes place at a new venue this year: the Honourable Artillery Company's London home. This stunning venue is located in London's financial quarter, just a few minutes from Moorgate, Liverpool Street and Old Street stations.

Aside from recognising the airline industry's biggest talents, the ceremony also offers unrivalled networking opportunities with high-profile executives from across the world.

Last year's winners included Alan Joyce of Qantas, Vitaly Saveliev of Aeroflot and Joszef Varadi of Wizz Air. Other awards went to EasyJet, KLM and Air Canada.

To find out more, including information about attending and sponsorship opportunities, visit: **strategyawards.com**

EVENTS

BIG DATA EVENTS

FlightGlobal's Aerospace Big Data conference series heads for Miami, Florida in September. It will bring together manufacturers, MRO providers, suppliers and airlines from across the North American and LATAM regions to discuss topics including information-sharing challenges and emerging opportunities to unlock the value of aircraft health data. After Miami, events will be held in London on 28-29 November and Singapore in May 2019. FlightGlobal's Aerospace Big Data Conference made its debut in London last year, and featured speakers from some of the world's biggest manufacturers. Discover more about the upcoming series of events here: **flightglobal.com/BigData**

Pick up three World Routes dailies in Guangzhou

A FlightGlobal team will be heading to Guangzhou in September for this year's World Routes event.

Our journalists will be on site in south China, producing three special issues of *Flight Airline Business* and publishing all the latest news on Flight Dashboard and flightglobal.com.

The 15-18 September event takes place at the China Import and Export Fair – one of the largest exhibition venues in the Asia-Pacific region. The venue hosts the famous Canton Fair twice a year.

FlightGlobal will also have a stand at the show, where delegates can find out about our schedules and fleets data, along with our news and analysis products.

As part of a packed schedule – including the usual speed dating-style meetings between airlines and airports, and a conference programme featuring top-level speakers – delegates will be treated to a networking evening at the Canton Tower, the fourth-tallest free-standing structure in the world.

Organisers predict 3,000 delegates will attend from 110 countries. Some 300 airlines, 700 airports and 130 tourism authorities are expected to be represented.


Imaginechina/REX/Shutterstock

Guangzhou's Baiyun airport opened a new terminal in late April

Guangzhou is one of the world's oldest trading hubs. Its contribution to China's economy was reflected in the late-April opening of a new terminal at Baiyun airport.

Last year, Guangzhou Baiyun handled 65.8 million passengers.

In April, *Flight Airline Business* was in Bilbao, covering the Routes Europe event. Two special issues of the magazine were produced on site (*pictured, left*).
flightglobal.com/WorldRoutes

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