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

Andre Viljoen flanked by Pekka Vauramo (*left*) and Rob Gurney

FIJI FIRST TO RISE WITH ONEWORLD CONNECT

Fiji Airways has signed as the first partner for Oneworld's new affiliate membership Connect programme.

The programme will see Fiji Airways offer passengers with Oneworld Emerald and Sapphire status priority services, while additional benefits will be available on services its sponsoring partners Qantas, British Airways, American Airlines and Cathay Pacific. It codeshares with three of the operators, while discussions are underway with BA to establish a bilateral relationship.

Fiji Airways chief executive Andre Viljoen says the Connect programme is a better fit for smaller carriers, compared to the costs and complexity that full alliance membership would bring. "The whole idea of the connect programme is that it is a lot cheaper than the normal membership," he says.

Oneworld board chairman and Finnair chief Pekka Vauramo, says the maturity of the alliance means it will focus on niche expansion opportunities. "Oneworld will target as full members large airlines that have a significant presence in the alliance's prime target market, providing connections between the world's leading business centres."

INDUSTRY SNAPSHOT

12.6%
Growth in Chinese domestic passenger traffic over first four months of 2018

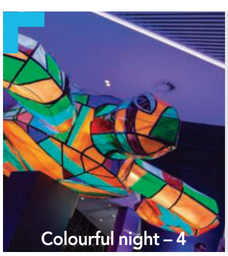
9.6%
Increase in airline seat capacity on Chinese routes this June

Airline capacity between China and North America has more than doubled since 2013

Chinese airlines operate 149 freighters, up from 135 one year ago

3,201
Commercial aircraft in service with Chinese carriers, over 300 more than a year ago

Sources: IATA, Flight Fleets Analyzer, FlightGlobal schedules data



Colourful night – 4

Inside this issue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American watchful on Gulf deals

American Airlines chief Doug Parker believes it is too early to tell if the recent settlements of air services disputes between the USA and Qatar and United Arab Emirates will be positive for US carriers.

He told reporters at the AGM that "we need to see more". But he also expressed support for the US government's efforts. "We're very pleased with the result of the talks between the US government and the UAE and Qatar," he says. "We are grateful for what the US government was able to accomplish there."

American and the other US major carriers had campaigned strongly for the government to limit the growth of Middle East carriers, most of which operate under open skies arrangements, amid a long-running dispute over alleged subsidies.

In particular, they opposed the granting of fifth-freedom rights to Middle East airlines, of which only Emirates operates such routes. All existing rights, including fifth-freedom, remain in place. But Parker notes: "We were pleased with what we saw from the agreements which include, not commitments but statements, from those carriers that they don't have any intention to fly fifth-freedom routes, and that gives us comfort."

Hawaiian new fleet finding its feet

Airline boss sees A321neos performing well despite delays, though replacing 717s may prove more challenging

New Hawaiian Airlines chief Peter Ingram points to the good performance of its Airbus A321neos and still expects to have 11 of the type in its fleet by the end of the year,

"We've had delays that pushed back deliveries in the early part of the year, but we expect to be largely caught up by the end of the summer," he says. Deliveries of Pratt & Whitney PW1000G-powered A320 family jet have suffered delays this year owing to durability issues and other problems with the new engine.

"It is unfortunate from the point of not having the aircraft available for our peak summer period," he says. "But the message we've been telling the team internally is that this is an airplane we'll have for 25 years." He says the type, which will replace its Boeing 767s, has performed as expected, and will allow it to address mainland USA markets that had insufficient demand for widebodies. Ultimately Hawaiian will operate 18 A321s.

All of the carrier's seven 767-300ERs will exit the Hawaiian fleet by the end of 2019.


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Ingram: Delays unfortunate but A321neos will fly for 25 years

A longer-term challenge will be the replacement of Hawaiian's 20 Boeing 717s, which are equipped with 128 seats and used for short island hopping routes of 100-250nm (185km-463km).

Ingram, who took the helm of the carrier in March, has high praise for the twin-engined type. "We fly them high-cycle, with six million passengers annually, up to 15-16 cycles a day over short distances. The 717 is great for that because it has good cycle costs from an engine perspective, a durable airframe, and can withstand the rigours of going up and down all day long for many years."

The challenge is that Boeing and Airbus have tended to focus on longer range in their 737 and A320 products. Turboprops do not work for the airline because they lack sufficient seat capacity and Hawaiian operates too many frequencies. "At some point we'll have to replace them, but it will be a challenge because they're not building airplanes exactly for that mission anymore," he says.

The Bombardier CSeries or Embraer E2 E-Jet could fit the bill, but Ingram wants to learn more about how their geared turbofan engines perform in high cycle operations. Both jets are powered by variants of the PW1000 that powers the carrier's A321neos. ■

Catching up: (*left-right*) Beatrice Lim, Angela Gittens and Janice Antonson

Darlings of the industry

Last night the great and the good of the airline business enjoyed a lively start to this year's AGM overlooking Darling Habour in Sydney, as the Welcome Reception sponsored by Airbus kicked into life. Aptly for an industry continuing to enjoy its most sustained run of profits, spirits were high as the DJ played tunes into the night

Wizards of Oz: Airline and industry leaders alike were enjoying themselves last night at the opening reception, tasting local delights and shooting the breeze with friends and colleagues before the serious business begins

RECEPTION

Fun networking: delegates met against the backdrop of Darling Harbour


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Gebremariam: Embarking on Vision 2030 after outgrowing plan

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Ethiopian widens its vision

Carrier poised to decide on regional aircraft aircraft order as targets fleet growth to 150

Ethiopian Airlines expects to operate more than 150 aircraft across its group fleet under its 'Vision 2030' strategic plan.

As the fast-growing Star Alliance carrier prepares to receive its 100th aircraft this month, chief executive Tewolde Gebremariam says it is in the final stages of selecting either Bombardier CS100s or Embraer E190-E2s for an order of 10-20 aircraft.

Flight Fleets Analyzer shows that, Ethiopian has more than 60 aircraft on order, consisting of 15 Airbus A350-900s, 30 Boeing 737 Max 8s, four 777 Freighters, two 787-9s, and 12 Bombardier Q400s.

In addition to the new aircraft, the plan calls for more hubs and airlines to be added to its stable, transporting more passengers, and adding new destinations.

"Vision 2030 was initiated as we had exceeded the targets for Vision 2025," he says. "So we had to revise our targets upwards, and we'd also wanted to revise some of the strategic direction."

It is supporting several planned airline launches in the region including one in Mozambique during "the summer", while the relaunch of Zambia Airways is set to follow in October. That followed an agreement earlier this year to invest in the relaunched Zambian operation. It, together with partner ASKY, also this year agreed a partnership with Guinea Airlines, which is in the process of obtaining its AOC.

The airlines will start off with up to three aircraft in the initial stage, using both Q400s and 737s.

Initial talks have also been held on esablishing an airline in the Democratic Republic of Congo. ■

Sabre readies the path for NDC move

Global distribution platform Sabre plans to offer more New Distribution Channel (NDC) functionality in 2018.

"Intelligent retailing that leverages Sabre's data, depth and industry leadership will bring value to airlines and agencies, and customers will have the ability to offer personalised shopping experiences similar to world-class retailers in other industries," says Sabre in a statement.

The announcement of new functionality follows Sabre's attainment of NDC Level 3 functionality in February. This recognised Sabre's NDC capabilities, including the ability to perform end-to-end offers and order fulfillment and servicing – through both direct and indirect channels.

At the recent Technology & Innovation in Airline Distribution conference in Bangkok, Yanik Hoyles, director of the New Distribution Channel at IATA, noted NDC allows airlines to provide the same range of offerings through online travel agents and and GDSs as their own websites.

IATA pushes Europe for alternative fuels gains

IATA is urging the European Council and Commission to back incentives for production of alternative fuels for aviation as part of an imminent directive on renewable energy.

The European Parliament has adopted its position on the renewable energy directive, which included specific incentives for developing their use in aviation which essentially give it twice as much credit against national targets as alternative fuels in other sectors. The text, which followed European Commission proposals, now awaits the European Council agreement.

"We think that's a really important development because it would provide the right signal to the market for more production and would provide a clear incentive for national governments to adopt national policies to promote alternative fuels for aviation," explains Michael Gill, director aviation environment at IATA and executive director of ATAG.

"Our concern is it gets caught up in the political negotiations between the Parliament, Council and Commission, and that's where things stand at the moment," he says. "We hope there will be final agreement on the final version of the directive by the middle of this month, and we are urging the Council and Commission to agree to this specific incentive included in the draft version."

He notes incentives have helped develop production of alternative fuels for aviation in the USA. "There's not much happening in Europe and what's being proposed in the new directive is exactly the kind of policy incentive that would encourage more production of the fuels in Europe," he says.

Gill notes that since the first biofuels flight in 2008 there have been over 100,000 commercial flights using some blend of alternative fuel. "We think with the right policy environment and the right drivers from government, we could have by 2025, a billion passengers having flown on an aircraft which has used some form of blended biofuels. So I think we are really at a tipping point.

"We have come a very long way in only 10 years, but its now about bringing it to the next level."

ATR targets China market breakthrough

ATR has enjoyed strong success in the Asia-Pacific, but has yet to make serious inroads into China. The turboprop maker feels this could be about to change.

Wang Qi heads China sales for ATR, and is quick to list numbers and statistics that underlie ATR's view that the China market, where no ATRs and few turboprops now operate, is eminently worth pursuing. This is despite the proliferation of high-speed rail in the country, often the death knell for short-range air transport.

He notes that 84% of flights in China are regional services below 600km, but use jets with over 100 seats. This despite limited traffic and less than impressive load factors. The dynamic is enabled largely through local and central government subsidies, and ignores the reality of aircraft economics.

The company has sales prospects in China, and plans to bring an ATR to the Zhuhai air show in November. Wang is working with Shaanxi Tianju Investment, which signed an LOI for 10 ATR 42s at the Paris air show. Wang says that this potential deal probably will not yield 10 firm orders, however, as the investment climate is "challenging."

Another LOI signed at Paris involved Xuzhou Hantong Aviaton for three ATR 42s. Xuzhou is located in China's prosperous eastern seaboard. Wang suggests this potential deal has more to do with the city's plans to become an aviation hub performing MRO and passenger-to-freighter conversion work. There are also four or five other prospects.

Schulz: Long-range versions of A350-900 and -1000 are options

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Rivals pitching long-range designs for Qantas sunrise

Airbus and Boeing working on capability for Sydney to London and New York non-stop

Airbus and Boeing are continuing to engage with Qantas as the carrier works to set out its requirements for an aircraft that would fly non-stop from Sydney to London and New York.

Dubbed Project Sunrise, the Oneworld carrier has indicated it intends to place an order in 2019 for aircraft that could deliver from 2023 onwards. In March, it launched nonstop services from Perth to London using Boeing 787-9s that are configured with only 236 seats.

Airbus chief commercial officer Eric Schulz says that the Australian carrier is undergoing in an "iterative process" to establish the boundaries for what it will require the jet to do.

"They have a bit of homework to do before they will be able to get to a final RFP, which will really define what they want," he says.

Airbus and Boeing are looking to optimise their A350-900ULR and 777-8 to allow them to meet Qantas's desire of flying nonstop from Australia's east coast to the US east coast and Europe with a full passenger load.

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Tinseth: Boeing in pretty good place to meet requirements

Schulz admits however that it is not locked on the -900ULR as its sole offering for the Project Sunrise requirement.

"All bets are open, we are looking at both airplanes. We know what we can do with the -900, because that is what is done today with Singapore Airlines, and we also look at what we can do with the -1000."

He also hints that there may some "slight modifications" to the Rolls-Royce Trent XWB engines for the ultra-long-haul mission.

On the Boeing side, its vice-president of marketing Randy Tinseth, says it too is "working closely" with Qantas.

"In general, we're in a pretty good place because when you look at the 777, when you look at the 787, we have the longest range, most capable airplanes in the market today," says Tinseth. He , highlighting Qantas' deployment of the 787-9 to open its Perth-London route.

Boeing would address this with the 777-8, an aircraft due to enter service in 2022.

"Our engineering team loves challenges, so they're looking at ways to address [Project Sunrise]," he says. "I like where we are today in terms of our widebody capabilities."

Scrutinise airports: A4ANZ


A4ANZ

The region's airline chiefs gathered to call for greater oversight

Lobby group Airlines for Australia and New Zealand (A4ANZ) has called for airports to face regulatory scrutiny to stop them from using monopoly positions to earn excessive profits.

A4ANZ has released a report that says that Australia's privatised airports have taken advantage of the relatively loose regulatory settings to increase costs to passengers and airlines without a commensurate increase in service quality.

Australia does not regulate airport charges, but the Australian Competition and Consumer Commission each year produces a monitoring report that tracks the profits and service quality of the major federally-leased airports.

Unlike other nations, Australia's major cities are mostly served by only one international airport, all of which were privatised in the 1990s and early 2000s.

While stopping short of calling for price regulation, the lobby group is calling for mechanisms that would "result in genuine commercial negotiations between airlines and airports to effect fair outcomes for airport users, in a negotiate-arbitrate model." ■

China sets clock ticking on classification action

China is giving foreign airlines until 25 July to change how they refer to Hong Kong, Macau and Taiwan on their websites and promotional material.

In a statement, the Civil Aviation Administration of China says it has written to 44 airlines about the violation of the One-China policy. Eighteen airlines have complied and made changes by the original 25 May deadline.

It adds that the remaining 26 carriers have promised to make changes, but have asked for an extension due to technical reasons.

"The CAAC will pay close attention to the rectification to be made by these airlines, so as to ensure the rights of foreign airlines to carry out passenger and cargo business in China," it states.

The White House had earlier this month described China's move as "Orwellian nonsense" and part of a growing trend by the Chinese Communist Party to impose its political views on American citizens and private companies. ■


Tom Campbel

Vauramo exit

Finnair is seeking a new chief executive after Pekka Vauramo, who has led the carrier for five years, opted to step down.

Vauramo is to leave the airline by November this year.

He is set to join Metso, a specialist in equipment and services supply to the mining industry. Vauramo has previous experience in the mining sector.

Finnair board chairman Jouko Karvinen says Vauramo has taken the "personal decision" to pursue "another challenge".

Karvinen credits Vauramo with overseeing a "remarkable transformation" at the carrier, returning it to profitability and introducing a new long-haul fleet as it took delivery of Airbus A350s.

United picks female chair

The board of United Continental has named Jane Garvey its new non-executive chairperson, following the departure of Robert Milton.

Garvey is the first female chair of United Continental's board, and the only female chair among the nine large publicly-listed US airlines.

The move comes on the heels of several high-profile female executive and board appointments at Alaska Airlines and JetBlue Airways, moves that are notable due to the dominance of male executives in the US airline industry.

Former FAA administrator Garvey takes over the board of United Continental, which is the parent of United Airlines, at a time of management upheaval. Chief financial officer Andrew Levy left unexpectedly to pursue what he called "several exciting opportunities" earlier in May, and Milton stepped down as chair after just two years in the role.

United has faced a number of public crises over the past two years, the most prominent being the forced removal of a passenger from a United Express flight in April 2017.


Bipartisan Policy Center

Garvey's appointment comes amid management upheaval at United

"Jane steps into this critical role bringing with her decades of experience as both a leader and pioneer in our industry," says United chief Oscar Munoz. ■

Cathay eyes long game

Chief executive Rupert Hogg is tapping the Hong Kong carrier's new-generation fleet to drive fresh route opportunities as part of wide-ranging measures aimed at restoring its fortunes after heavy losses

Cathay Pacific is targeting a return to profit in 2019, responsibility for which rests on the shoulders of chief executive Rupert Hogg as he navigates the airline through a three-year transformation programme.

That will be achieved by driving up passenger and cargo volumes, gaining new sources of revenue, and raising productivity by tapping data and its new generation of fuel-efficient jets, Hogg tells FlightGlobal in an interview in Singapore.

"A year in, I'm pleased with the progress we've made," he says. "One thing we've accepted early on is that there's no one silver bullet. There are a lot of things we have to do, big and small, and we track them."

Cathay Pacific

Hogg took the helm in April 2017, tasked with carrying out the Oneworld's carrier's restructuring plan

NEXT STEPS

Top of Cathay's transformation agenda, which kicked off in 2017, was its first reorganisation in 20 years, aimed at achieving a leaner, simpler structure. This led to the cutting of around 600 jobs, and the axing of then-chief executive Ivan Chu, who had been at the helm for only three years.

Now the airline is working to drive revenue by launching direct long-haul services to points unserved from Hong Kong. That is fuelled by the delivery of 22 Airbus A350-900s over the past two years, which Cathay has used to start services to Barcelona, Copenhagen, Brussels, Dublin, Zurich and Madrid.

In June, it will also take its first A350-1000, using the jet to launch its longest nonstop flight from Hong Kong to Washington DC. The 334-seat aircraft will also allow Cathay to serve points on the US east coast and on A350-900 routes that are ready for an upgauge to the larger type.

Another priority is to focus on the customer, using surveys and data to understand what they want and need. This will see Cathay roll out a new service design on its long-haul flights from the second half of the year.

"The market is growing but what's happened in the last couple of years is that capacity grew faster than the market. There are some signs that growth rates from Chinese carriers and other carriers are slowing down. But notwithstanding that, customers always have a choice and we have to make sure we are providing what they perceive to be value and an experience that they are prepared to select above their other options, and hopefully pay a premium for it," says Hogg.

"That's why we concentrate first on the network, then on the young fleet as a platform, then we spend a lot of time designing the seats, interior and the cabin ambience. But ultimately, the difference that we try and accentuate is our people."

The Oneworld carrier has been criticised for being slow to respond to the challengers that have been knocking on its door. It has been hit hard by mainland Chinese carriers' push to launch more direct long-haul services, Gulf carriers that have lured customers with attractive prices and products, and the growing number of low-cost carriers that have chipped away at its customer base within Asia.

OPTIMISM PERSISTS

All of these, coupled with missteps in its fuel hedges, drove the group to an operating loss of HK$1.45 billion ($185 million) in 2017, nearly triple the HK$525 million loss in the previous year.

At a net level, the carrier's loss ballooned to HK$1.26 billion, its largest in nine years, and the first back-to-back loss in the airline's 72-year history.

"Obviously there is a series of external factors that have drawn us to the conclusion that now is the time to make the big change in our business, and I guess the biggest of those is that there is a lot more competition, a lot better competition, and the competition is growing very fast," says the airline chief.

Describing himself as an optimist by nature, Hogg believes that the rising competition does not spell disaster for Cathay Pacific, however.

"When people look at the future of aviation and the competitive environment from Asia, they tend to look at it as a zero-sum game, that one person wins and another must lose," he states. "But if you look at the size of the market, it's on a scale that the world has never seen before." ■

Editor's note: *This is an extract from a wider interview with Rupert Hogg that will be published in a future issue of* Flight Airline Business


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IATA'S LEADERS

This year's board of governors gathered yesterday for their annual pre-AGM meeting

Back row (standing): Tewolde Gebremariam, chief executive, Ethiopian Airlines; **Sebastian Mikosz**, chief executive, Kenya Airways; **Pieter Elbers**, chief executive, KLM; **Vitaly Savelyev**, chief executive, Aeroflot; **Enrique Cueto**, chief executive, LATAM; **Oscar Munoz**, chief executive, United Airlines; **Tan Wangeng**, president and chief executive, China Southern;

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Harry Hohmeister, chairman, Austrian Airlines; **Safwat Mosallam**, chairman and chief executive, EgyptAir; **Pedro Heilbron**, chief executive, Copa Airlines; **Mohamad El-Hout**, chairman and director general, Middle East Airlines; **Alexandre de Juniac**, director general, IATA; **Alan Joyce**, chief executive, Qantas; **Doug Parker**, chief executive, American Airlines; **Rupert Hogg**, chief executive, Cathay Pacific; **Robin Hayes**, chief executive, JetBlue; **Rickard Gustafson**, chief executive, SAS

Front row (seated): Liu Shaoyong, chairman, China Eastern; **Calin Rovinescu**, chief executive, Air Canada; **Saleh Bin Nasser Al-Jasser**, director general, Saudia; **Naresh Goyal**, chairman, Jet Airways; **Goh Choon Phong**, chief executive, Singapore Airlines; **Akbar Al Baker**, group chief executive, Qatar Airways; **Carsten Spohr**, chief executive, Lufthansa Group; **Willie Walsh**, chief executive, IAG; **Christine Ourmieres-Widener**, chief executive, Flybe

Chinese chance

Regulator's decision to end "one long-haul route, one airline" policy on international routes this winter signals likely step change in pace of local carriers' global expansion

REX/Shutterstock

China Southern increased international capacity fastest among the three state-owned carriers in 2017

China's aviation regulator in May pledged to ease its policy of allowing only one operator on each long-haul route, a significant change that could further intensify competition among Chinese carriers and foreign rivals.

The Civil Aviation Administration of China (CAAC) says the changes, effective 1 October, are necessary, as China's international air transport market enters a new growth phase, and to enhance the competitiveness of the country's international gateways. The revised policy will also aim to build Beijing into one of the world's largest aviation hubs, with the opening of the city's second airport in Daxing next year.

China first implemented the "one long-haul route, one airline" policy in 2009, largely to prevent Chinese carriers from competing too aggressively on the same sectors and killing profitability in the process.

Since the announcement of a second airport in Beijing, however, anchor operators China Southern Airlines and China Eastern Airlines have been pushing to expand their international network out of the country's capital, thus far dominated by Air China.

EASING RESTRICTIONS

With the changes, airlines will face no restrictions flying to destinations that have at least a partial open skies agreement with China. Otherwise, those seeking to operate to the Americas, Europe (excluding Russia), Oceania and Africa will need to meet some conditions before they are able to compete with another local operator. These include China's market share on the route against foreign airlines, as well as consumer interest on the route, how it helps with hub development, resource allocation and service quality.

It is not clear exactly how much the changes will affect the status quo, but analysts welcome the development. They say it will give Chinese carriers greater route access and flexibility, as well as enhance competition among carriers and hubs alike.

CAAC data shows that Chinese carriers launched 658 international routes over the last three years, 151 of which are long-haul.

FlightGlobal schedules data shows that ASKs from China to North America, Europe and Australasia have increased consistently over the past five years. Those between China and North America showed the largest incline, jumping from 31.7 billion in 2012 to 74.5 billion in 2017.

Annual reports show that the big four Chinese airlines all increased capacity on international routes last year, although this was at the expense of yields, as they sought to capitalise on the country's growing demand for further air travel as disposable incomes rise.

Hainan Airlines was most aggressive, albeit coming from a smaller base, raising international ASKs two-thirds last year to 32.8 billion. Of the three state-owned carriers, China Southern Airlines posted the largest hike of 14%, followed by China Eastern at 11% and Air China at 8%.

China Southern saw the largest yield decline on international routes at 7.5% to CNY0.37 ($0.06), followed by Air China with a 5% slip to CNY0.41 and China Eastern with a 0.2% decline to CNY0.47. Hainan Airlines did not provide a yield figure, but is likely to have been on a similar trajectory to its peers.

"We expect passenger yields to remain under pressure on routes to Australia/New Zealand and North America. However the year-to-year decline is expected to moderate as Chinese carriers are no longer expanding as aggres- »

International expansion widely spread

Analysis of FlightGlobal schedules data shows that Chinese carriers have added 16 routes from China to North America and more than 30 to Europe over the last three years.

Over half the US flights have been new routes to Los Angeles, linking eight more Chinese cities to the US west coast. That adds to the four existing services from Beijing, Guangzhou, Nanjing and Shanghai, which already connected to Los Angeles.

The majority of US routes added in the last year were not from the major Chinese hubs. Only Hainan Airlines, with its Las Vegas service, added US flights from Beijing; Air China and China Eastern added Beijing services to San Jose and Chicago respectively, and there were no additional US flights from Guangzhou.

The large hubs played a bigger part in European expansion. Nine new European routes have been added from Beijing in the last three years, seven from Shanghai and two from Guangzhou.

Destinations have been more mixed as well, with new Chinese connections spanning more than 20 European airports. Six of the services, including Lucky Air's international debut, serve Moscow and five serve London, including Tianjin Airline's Gatwick service.

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» sively as they have been in the past three years," says Corrine Png, chief of transport at equity research firm Crucial Perspective.

Notably, the airlines have also been launching long-haul services from secondary Chinese cities, leaving industry observers to ponder the demand and yields on these routes, which are often subsidised by the municipal governments. Examples include Xiamen Airlines' Qingdao-Los Angeles service and Sichuan Airlines' Shenyang-Vancouver route.

Association of Asia-Pacific Airlines director general Andrew Herdman notes this was in part driven by congestion at China's major hubs.

"Initially it was from the main hubs to the main destinations across the Pacific into the [United] States and strengthening their European networks," Herdman says. "The trouble is the big hubs are so congested in terms of slots you are seeing a lot of secondary cities linking to international destinations and the economics of some of those are questionable."

MORE COMPETITION

With the easing of the "one airline, one long-haul route" policy, it may be that airlines could drop some tier-two routes in favour of more popular city pairings. This could result in a fare war that could exacerbate the yield decline. But the challenge of constraints at China's major tier-one airports remains.

The opening of the new airport in Beijing changes the dynamic in that market. While Beijing-based Air China will no doubt face more competition, not all is lost, says Png. She believes that China Eastern's and China Southern's move to the new airport will also free up room for the flag carrier to expand and raise its efficiency at Beijing Capital, in turn boosting its competitiveness and facilitating connecting traffic feed from its Star Alliance partners.

Joanna Lu, head of advisory Asia at Flight Ascend Consultancy, adds that with the policy change, airport hub competition, particularly at Beijing and Shanghai, will also heat up. These gateways will need to build on their unique advantages to drive improvements in service quality and their overall attractiveness.

"Chinese airlines will also look to serve destinations from multiple Chinese hubs… they will become more competitive with foreign airlines, rather than have Beijing generally only served by Air China, Shanghai by China Eastern and so forth," she adds.

Longer term, Png says: "China's air travel penetration remains low and there are still plenty of opportunities for growth on international routes. As such we believe the traffic pie is big enough to accommodate several Chinese airlines. Air China and China Eastern look well-positioned." ■

Secondary airports play role in linking UK to mainland China

Fresh efforts are under way to widen scheduled connections from the Chinese mainland to the UK as China Southern's new Wuhan-London Heathrow service is followed by Air China's attempt to link the UK with Chengdu.

BA opened Chengdu in 2013 but dropped the route early in 2017

Direct flights between the UK and mainland China have doubled since 2011. At that point only British Airways, Virgin Atlantic, Air China and China Eastern flew between the countries, all linking London Heathrow to either Beijing and Shanghai.

Air China's Chengdu-Gatwick flights will mark the 12th new service introduced since 2011. But three of those services have already been dropped. Hainan Airlines flew briefly from Beijing to Birmingham, Air China dropped its London Stansted service from Beijing, and British Airways was the first to try a connection to Chengdu from the UK.

BA began a Heathrow-Chengdu service in 2013 but dropped it early in 2017 saying it was not commercially viable. Speaking in 2016 about the decision to pull the route, the chief executive of British Airways parent IAG, Willie Walsh, said that while premium demand was expected to be light, it had been exacerbated by IAG struggling to attract Chinese tour groups. Alongside calling for the easing of visa restrictions, Walsh also suggested the lower levels of premium traffic in some emerging markets could warrant differently configured aircraft.

Air China though is now giving the route a go itself, operating to London Gatwick. It will launch the service in July.

"A Chinese operator faces a different challenge/opportunity," notes Association of Asia-Pacific Airlines director general Andrew Herdman. "They can draw traffic from the rest of China and support the route with a variety of revenue sources. What's driving the route is Chinese tourists travelling outbound. So Chinese carriers are maybe able to make a go of some of these secondary routes given the market shifting towards Chinese outbound as a driver."

But he notes the challenge for Chinese carriers on long-haul routes to Europe and North America, even with their investment in product, is to secure business passengers in these countries against strong competitors and brands.

China Southern began serving Wuhan from London Heathrow thrice-weekly at the end of May using Airbus A330-200s. But while the three-class layout includes a premium-economy section, UK commercial manager Nick Newman says the carrier will effectively be selling the seats under economy-class fares. He says the primary reason for this decision relates to the absence of a premium-economy cabin on board onward connections, particularly to Australia.

"The focus is to get into the market," says Newman, and this means the carrier is prepared to sacrifice margins on the premium-economy cabin, and keep fare levels down, in order to attract greater custom.

After launching Wuhan flights, the carrier is looking at opening a Sanya route from Heathrow. The carrier is also considering a Beijing-London service once the new Beijing airport opens next year.

An enhanced UK-China bilateral air services pact reached last year excluded London routes from the 50 extra available frequencies. The revised agreement was intended to support expansion from regional airports.

New UK-China flights since 2011

Airline	UK airport	China airport	Launched
Air China	London Gatwick	Chengdu	2018*
China Southern Airlines	London Heathrow	Guangzhou	2012
China Southern Airlines	London Heathrow	Wuhan	2018
Tianjin Airlines	London Gatwick	Chongqing	2016
Tianjin Airlines	London Heathrow	Xi'an	2018
Hainan Airlines	Edinburgh	Beijing	2018
Hainan Airlines	London Heathrow	Changsha	2018
Hainan Airlines	Manchester	Beijing	2016
Beijing Capital Airlines	London Heathrow	Qingdao	2018

Source: FlightGlobal schedules data; *Launches July 2018

Airbus

Emirates' profits have rebounded but growth is relatively modest as it cites "relentless" competition

Gulf regrouping

After years of eye-catching expansion, the large Gulf carriers have spent much of the last 18 months taking stock, with a resulting impact on their traffic and capacity growth

Gulf carrier expansion over the past decade has left no continent untouched, but challenges from afar and closer to home have forced them into a period of relative introspection.

Slowing economic conditions in the Gulf, driven by the effects on the energy sector of the fall in oil prices, hit demand. In its Gulf Economic Monitor update in March, the World Bank noted fractional economic growth in 2017 among the Gulf Cooperation Council states. That growth is forecast to strengthen this year and next, as energy prices climb and fiscal austerity loosens.

Foreign travel restrictions, notably from the USA in the early months of the Trump administration, took a toll. The associated impact on demand was later compounded by American Airlines withdrawing codeshares with Etihad Airways and Qatar Airways amid the wider clash with Qatar and the United Arab Emirates over alleged subsidies. This resulted in Emirates and Etihad in particular, after years of rapid growth, trimming US capacity

While those travel restrictions have been lifted – and the USA has brokered framework accords on level playing fields with Qatar and now the UAE – capacity from the Gulf to the USA has not been fully restored. Emirates has been adding US capacity back, but its capacity in June nonetheless remains around a fifth down on January 2017, the month of Trump's inauguration.

The closure of airspace to Qatar from four neighbouring states also hit services closer to home. Almost a year on, the restrictions remain – resulting in the loss of the 20 routes from Doha, including high-frequency links to Dubai, Abu Dhabi and Bahrain.

STALLED GROWTH

Hence, the breakneck pace of expansion set over recent years by Emirates, Etihad Airways and Qatar Airways has stalled.

FlightGlobal schedules data shows that Emirates and Etihad increased ASK capacity a little over 1% in the year to June 2018, compared with the previous 12 months. That is by a distance their lowest rate of expansion in the past 10 years.

Qatar Airways still increased its ASK capacity by just over 10% over the year. But even that marks its second slowest annual growth over the same 10-year span.

The focus on and development of long-haul services at these carriers means their ASK growth outpaces other capacity metrics. Notably, in terms of flights and seats, capacity is down slightly at all three in the last year, compared with the previous 12 months.

The most notable difference between ASK and flight capacity trends is seen at Qatar Airways. FlightGlobal schedules data shows that for June, its widebody capacity is up by all metrics compared to June 2017. But narrowbody flight and seat capacity are dow a fifth, although ASKs with the type are slightly increased.

This change is driven by Qatar's sudden diplomatic isolation among Middle Eastern neighbours since a year ago. Bahrain, Egypt, Saudi Arabia and the UAE immediately closed flights to and from Qatar, while they also imposed restrictions on overflights to and from the country. There appears no obvious momentum at present toward breaking the impasse.

In response, Qatar Airways began fast-tracking its network-expansion programme, while it also appeared to intensify its focus on adding to its IAG and LATAM investments. While an "unsolicited" move for a stake in American Airlines was aborted, Qatar Airways did in the second half of 2017 confirm its Meridiana stake and took a stake in Cathay Pacific shares. Qatar chief executive Akbar Al Baker also says it remains "very keen" on investing in Royal Air Maroc.

These partnerships have also provided opportune alternatives to redeploy some of its fleet. The revamped Meridiana operation relaunched as Air Italy in March, leasing aircraft from Qatar to support its expansion in the interim. IAG unit British Airways meanwhile recently sought to wet-lease three Airbus A330s from Qatar Airways in order to overcome schedule disruption caused by Boeing 787 engine maintenance. »

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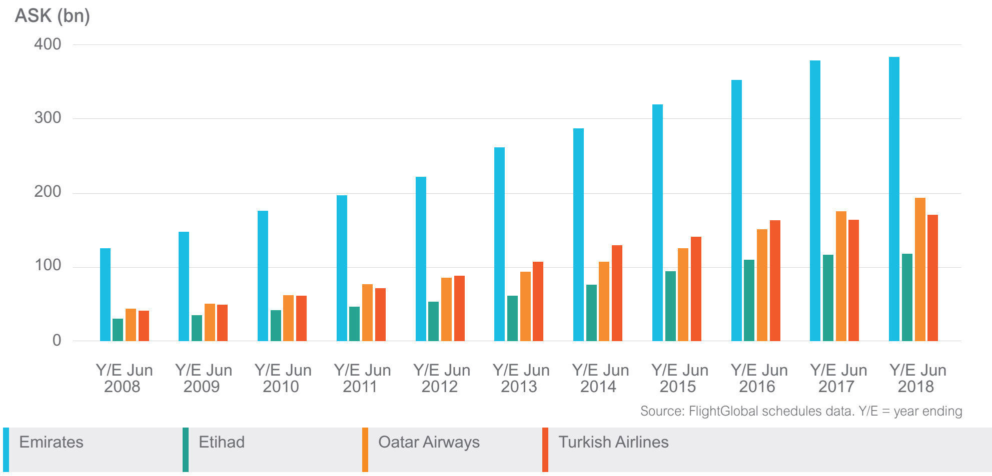
While US aviation relations improved with January's framework deal – which included commitments on clearer financial reporting for Qatar Airways, and pledges not to add US flights from third countries – this has not yet been enough to salvage Qatar's codeshare with American.

The wider disruption has also inevitably taken a toll on the airline's profits. "There will be pressures on our operating costs, pressures on our bottom line, which I have already not shied to speak about," Al Baker said in February. "But at the end of the day, we're a very robust airline."

In April, he indicated the airline made a "substantial" full-year loss. He noted that other parts of the Qatar Airways group business were profitable but not to the degree that they could make up for the airline's deficit.

Emirates, Eithad, Qatar Airways and Turkish Airlines ASK development 2008-18



EMIRATES EVOLUTION

The region's biggest carrier, Emirates Group, however, has just reported a rebound in profits for the year ended 31 March. It turned in a full-year group profit of Dh4.1 billion ($1.1 billion), including a profit of Dh2.8 billion for the Emirates airline division.

The group profit is up two-thirds from the previous annual figure – which had been badly affected by geopolitical events, said the company. Conditions improved over 2017-2018 but rising oil prices have increased costs, and the company has faced "downward pressure" on margins from "relentless" competition, says chairman Sheikh Ahmed bin Saeed Al Maktoum.

He adds that the environment for Emirates "remained tough" with continuing political instability, volatility with currencies, and devaluation in Africa. "On the positive side, we benefited from a healthy recovery in the global air cargo industry," he says.

The sharp fall in profits recorded for the previous year had prompted Emirates to rethink parts of its strategy, including deepening its co-operation with sister carrier Flydubai. The two airlines embarked on codesharing as part of an alignment of their networks, enabling Flydubai to support feed to Emirates' long-haul flights.

Speaking during November's Dubai air show, Emirates Airline president Tim Clark said having the two carriers working together "makes a huge amount of sense". He adds: "As we delaminate the overlap routes, it kicks in enormous commercial power."

Qatar's network rejig includes a recent return to London Gatwick

The airline, by far the largest customer for the Airbus A380, also eventually gave the programme a shot in the arm by placing a major follow-on order for the type in January.

But Emirates' more moderate fleet-renewal pace over the last year, in which it halved the intake of new aircraft to 17 compared with the previous 12 months, serves as a reminder of the slower rate of growth.

The airline introduced eight Airbus A380s and nine Boeing 777-300ERs, while withdrawing eight older jets. This lifted its overall fleet to 268 by the end of March this year, nine more than in operation a year earlier.

Emirates kept its total seat capacity rise at just 2.4% in its financial year to March 2018. Emirates says it has been pursuing a "focus on yield improvement".

ETIHAD REGROUPS

The wider issues impacting the region also took a toll at Etihad Airways, but the group and its strategy of delivering growth through its Abu Dhabi hub has faced its own distractions. Notably, the bulk of its European airline investments collapsed, as Alitalia, Air Berlin and Swiss regional Darwin Airline entered formal restructuring during 2017.

Alitalia's future remains to be decided, but Air Berlin was broken up and its primary assets acquired by rivals, while Darwin was ultimately ceased operations some months after Etihad sold its stake to Adria Airways.

The Abu Dhabi carrier still has equity partners, notably Air Serbia, Jet Airways and Virgin Australia, as well as other commercial partners. But there has been little outward clarity over the extent to which it will continue to embrace the equity-alliance strategy following the departure of group chief James Hogan and since successor Tony Douglas took the helm at the start of 2018.

Closer to home, though, there have been signs of a continued overhaul at its core Etihad Airways operation. In February, it confirmed plans to transfer all of its Airbus A340s to UK-based aviation services company European Aviation Group.

Etihad's withdrawal of the A340s follows its previous reduction in freighter activity. The airline has given few details about its fleet rejig beyond stating that consideration of aircraft requirements and modifications to the fleet are part of normal airline activity.

The airline in April disclosed it was cutting flights to Perth in Australia and Edinburgh in Scotland this October "as part of an ongoing review of network performance".

FlightGlobal schedules for June »

» show the airline no longer serves a number of destinations to which it operated in the same month last year: Dallas/Fort Worth and San Francisco in the USA, Venice in Italy, Entebbe and Kampala in Uganda, Jaipur in India, the Iranian capital Tehran, and Doha. Only Baku in Azerbaijan has been added to its network compared with June 2017

TURKISH RECOVERY

With its rapid growth, its ambitious development plans, and its location linking Europe and Asia, Turkish Airlines has often been described as the fourth Gulf megacarrier. Turkish too has enjoyed a run of double-digit expansion and has welcomed an array of aircraft to its fleet over the same period.

It also recently faced challenges. Political uncertainty in the country, including a failed coup, hit demand. Troubles included the devastating terrorist attack at Istanbul airport in June 2016. Against this backdrop, Turkish Airlines was forced to quickly pull back capacity.

But the situation stabilised, tourism demand began to recover and so too have the airline's fortunes. Its revival continued in the first quarter of 2018 as it made an operating profit – before investment activities – of $41 million, reversing a loss of $172 million in the same period of 2017.

The Star Alliance carrier's full-year result for 2017 had likewise brought a return to profitability, as an operating loss of $291 million in 2016 – a year that brought terror attacks and a coup attempt in Turkey – was transformed into a surplus of $1.02 billion.

It has also signalled no let-up in its growth aspirations, having struck deals in March for 50 new widebodies, split equally between the Boeing 787-9 and Airbus A350-900.

Turkish Airlines will start taking delivery of its new long-haul fleet next year, with the introduction of six 787-9s. Its latest fleet-development plan, detailed in its recent first-quarter financial statement, shows that the A350s will start arriving in 2020 when five aircraft – plus another nine 787s – are scheduled for delivery.

The airline is also set to receive 92 A321neos and 75 737 Max jets over 2018-2023, taking the overall fleet from 329 aircraft at the end of last year to 475 in 2023.

It ensures the Gulf carriers' ambitious neighbour is firmly back in growth mode.

The impact of the issues facing the Gulf carriers – and the wider region – was evident as the Middle East was the only region that had a reduction in traffic growth, according to IATA data during 2017. Carriers in the region still increased traffic by almost 7%, but this was a slower rate than in 2016. It also marked the first time in 20 years that the region's share of global traffic fell.

Similarly, traffic levels fell at fast-growing hubs in the region such as Abu Dhabi and Doha.

But IATA figures for March do show traffic at Middle Eastern carriers jumped 10.7%. While that must be seen in the context of the busy Easter period's timing – last year, it fell a month later, in April – it is still much improved on the 4% rise in February.

Dinendra Haria/REX/Shutterstock

Turkish Airlines made a return to traffic and profit growth in 2017

"This reflects healthy growth in the market between the Middle East and Asia," IATA says. "Demand also shows signs of stabilisation on Middle East-to-North America routes, following the disruption caused in the first half of 2017 by the now-lifted ban on large portable electronic devices, as well as a wider impact stemming from the proposed travel restrictions to the USA."

Notably, as capacity was lifted by only 4.3%, load factor jumped 4.4 percentage points among Middle East carriers to 76.7%. ■

UAE joins Qatar in reaching US open skies commitment

US and United Arab Emirates officials have reached a deal to settle a long-running dispute over alleged subsidies to Emirates Airline and Etihad Airways, mirroring a similar agreement struck earlier this year with Qatar.

The UAE embassy in the USA says that the deal signed between the UAE and USA "reaffirmed their strong support" for the two countries' air transport agreement.

It adds that all rights under the bilateral agreement remain in place, including fifth freedom flights, which had provoked the ire of US carriers in the dispute.

The embassy statement was echoed by the US State Department, which said on 14 May that "all rights and provisions" of the 2002 air transport deal between the USA and UAE "remain in force".

The State Department, which released a statement following a meeting between Secretary of State Mike Pompeo and the UAE's foreign minister Abdullah bin Zayed Al Nahyan, adds that the two governments expressed "their understanding that financial transparency is best served when airlines issue annual financial reports audited in accordance with internationally-recognised accounting standards".

The State Department adds that Emirates and the US airlines that operate under the US-UAE bilateral air services agreement "have issued such reports for years", and notes Etihad will do so on completion of its restructuring.

FIFTH FREEDOMS

But there was confusion around the issue of fifth-freedom flights. A coalition representing the three US airlines that had brought the subsidies allegations against the Gulf carriers appeared to contradict the statements made by the US and UAE governments. The Partnership for Open and Fair Skies coalition says that the deal reached between the two countries will prevent Emirates and Etihad from adding nonstop flights to the USA from Europe and Asia. The coalition comprises American Airlines, Delta Air Lines and United Airlines and their labour groups.

The UAE embassy disputes the coalition's claim, saying that "the information released by three US airlines is not correct". It adds that the talks between the US and UAE governments noted that the "UAE and its designated carriers are and have been at all times in full compliance with the agreement".

While Etihad does not operate any US flights other than from Abu Dhabi, Emirates flies from Athens and Milan to Newark and New York JFK, respectively. These fifth-freedom flights have been a sore point for the US carriers, which accuse the Gulf airlines of receiving more than $42 billion of state subsidies.

In January, a deal between the US and Qatari governments was announced to settle the dispute between the US carriers and Qatar Airways. That also included a commitment for Qatar Airways not to add US flights from third countries.

The US airlines first made public their accusations against the Gulf carriers in March 2015.

Pick up our Routes dailies

If you are enjoying this week's coverage from the IATA AGM, look out for the next set of three special *Flight Airline Business* issues at World Routes

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.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Guangzhou has a strong reputation and history as a trading hub

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.

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, up 10.2% from the year before, and well above its design capacity of 40 million. Throughput is expected to hit 70 million this year.

flightglobal.com/WorldRoutes

Winners chosen for industry's big night

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.


BillyPix

Joyce received the executive leadership award last year

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

DIGITAL

FAB ON YOUR PHONE

Many *Flight Airline Business* subscribers are already enjoying the option to view each issue for free on their smartphones. The digital edition is optimised for iOS and Android mobile devices, in addition to the tablet and desktop options. The design is responsive to each device and screen orientation. Digital users can also enjoy extras such as a video interview with the cover star. For more information, search for *"Flight Airline Business"* in the App Store or Google Play, or visit **flightglobal.com/AirlineBusiness**

EVENTS

BIG DATA SHOWS

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 series here: flightglobal.com/BigData

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MEET THE TEAM

It's show time! Team members from FlightGlobal's Asian and European offices are here producing three *Flight Airline Business* dailies providing analysis of key industry issues and capturing news from the AGM Visit the team in the media room on Level 3 during the event, and catch up with extra insight from Sydney on Flight Dashboard and flightglobal.com

Flight AirlineBusiness

flightglobal.com/airlines

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