June 9, 2015

Qatar Airways Wants IATA To Take Position Against ‘Protectionism’

The looming conflict about alleged state subsidies for Gulf carriers reached the International Air Transport Association (IATA) Annual General Meeting (AGM) on here, with Qatar Airways CEO Akbar Al Baker calling for the association to stand up against “protectionism.”

IATA has taken a neutral stance in the ongoing debate because all of the six airlines involved in the current dispute over the U.S. open-skies agreements with Qatar and the United Arab Emirates (UAE) are important members of the global airline association. In his opening speech, IATA Director General and CEO Tony Tyler said it was “no secret” that there were “underlying tensions in our industry,” but “IATA is not the battleground on which a solution can be found. There can be no doubt that we are all flying better together.”

But that did not keep Al Baker from stepping up at the event, saying he sees a “risk” of the open skies and liberalization policies being rolled back as part of the initiative by American, Delta and United airlines. Any changes to U.S. policy and the interpretation of the open-skies deals in question would “reverberate around the world,” and lead to more “protectionism.”

Instead, IATA should reassert the “agenda for freedom” it adopted in 2008, and Akbar said that he does “not agree that we should not comment.”

Tyler later tried to calm the situation by stating that IATA backed liberalization and free and fair competition. European airlines such as Lufthansa or Air France-KLM, which have been highly critical of the conditions under which Gulf carriers can expand, did not react to the Akbar statement.

But the dispute continues not only at the IATA level; it could also affect the composition of the oneworld alliance in the future. According to sources in the alliance, Al Baker said at a meeting of oneworld CEOs on June 7 that he is under pressure from his shareholder, Qatar, to leave the alliance in protest over the U.S. campaign supported by oneworld-member American Airlines, among others. Qatar Airways only joined oneworld in 2013, and it owns a 10% stake in International Airlines Group (IAG), the parent of oneworld members Iberia and British Airways. Air Berlin, another oneworld member, could face similar pressures in the future if the dispute is continued, as it is 29% owned by Etihad Airways, which is creating its own arrangement, Etihad Airways Partners. Air Berlin has said in the past that it will stay in oneworld.

American Chairman and CEO Doug Parker was trying to de-escalate the situation. “I met with Akbar and we had a nice talk,” he said. But he insisted the initiative favored by Delta, American and United “has nothing to do with protectionism,” but was instead about “competing with governments.” Parker also reiterated that he expects the U.S. government “to take some action in the future.”

Calin Rovinescu, Air Canada CEO and chairman of IATA’s Board of Governors, pointed out the board was “respectful that IATA does not get involved in the individual battles between airlines.” Disputes over subsidies should be for governments to resolve, he argued.

U.S. Transportation Department Secretary Anthony Foxx opened the conference with a keynote address, but did not mention the liberalization dispute. Instead, he highlighted the economic benefits that aviation brings and the degree of connectivity “that previous generations could not have imagined.” Foxx conceded that the U.S. airports and infrastructure “need repairs.”

From the Top

“These are the first time in our history, the airline industry as a whole will earn its cost of capital.”

IATA Director General and CEO Tony Tyler

see article, page 6
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INSIGHTS

“The choice of engines is becoming an area of concern. Having less choice is a development we don’t like to see. Competition is important.”

—Willie Walsh, IAG

“This could have been tackled in a more consultative manner. Frankly we had to fight our corner. It is a shame it has been so public.”

—Etihad’s James Hogan on the Gulf carrier dispute

“No one has ever made money out of a niche aircraft. A lot of airlines are paying today for the choice they made 15 years ago.”

—Aengus Kelly, AerCap

“Let’s keep things in perspective. Apple, a single company, earned $13.6 billion in the second quarter of this year. That’s just under half the expected full-year profit of the entire airline industry [for 2015].”

—Tony Tyler, IATA

“It is a David versus Goliath story, and we are enormously cheered that David won.”

Referring to lobbying firepower Delta, United and American have on the open skies issues, versus that of smaller carriers such as Hawaiian.

—Hawaiian Airlines’ Mark Dunkerley

“Joint ventures are not the answer for everything. But for the big traffic flows and carriers of about similar size, they seems the logical way forward. It’s good for the airlines, and it’s good for consumers.”

—Star Alliance’s Mark Schwab

On the crash of Germanwings flight 9525:

“We have 140 different nationalities in our organization and we get our pilots from all over the world. There is a medical and a psychological aspect, but there is also a cultural aspect. You have to know the appropriate whistle-blowing system to have in place and you then manage it and can support the individual.”

—James Hogan, Etihad Airways

“I think the first thing is that this is not a Lufthansa issue, it’s an industry issue. Lufthansa and Germanwings takes full responsibility for the victims and relatives of those on the plane, but we have to ask can we learn something from this accident as an industry?”

—Carsten Spohr, Lufthansa

“We always thought that the threat was coming from the outside of [the] cockpit and not inside. This is an incident that makes us learn from one another. We have to think about redundancies that we need to put in place, such as always making sure there is a second person in the cockpit.”

—Claudia Sender, TAM
Etihad Sees Near-Term Network Growth Through Partnerships

Etihad Airways’ near-term network growth will come through codeshares and the airlines in which it has invested—Etihad Airways Partners—CEO James Hogan told Aviation Daily at the International Air Transport Association Annual General Meeting here.

“People forget we’re a young airline,” he said, referring to Etihad’s network. Equity-partners Air Berlin, Alitalia and Jet Airways could fuel additional growth in Europe and India. Growth in China and South America, on the other hand, is most likely to stem from codeshare partners.

Etihad now serves one city in South America: Sao Paulo, Brazil. Near-term network expansion in that country and in the region is likely to come from codeshare partners, which include Gol and Aerolineas Argentinas. Similarly, near-term network expansion in Africa will come through Etihad’s partnership with South African Airways, and in China with China Eastern, Hogan said.

Although several of the United Arab Emirates’ (UAE) air services agreements allow Etihad fifth-freedom rights, the carrier has no plans to exercise those rights. It now operates a flight from Beijing to Nagoya, Japan, but beyond that, Hogan said more fifth-freedom rights are not on the horizon.

“Air Berlin and Alitalia operate transatlantic flights, so we have no need to use fifth-freedom rights,” Hogan said. The two carriers also are building their route structures to Abu Dhabi, giving Etihad increased connectivity to the transatlantic market, he added.

Referring to the debate raging in the U.S. over open skies and the Gulf carriers’ alleged subsidies, Hogan said the carrier has said its piece for now. “We are a global business that happens to be based in Abu Dhabi. We have put our answer [to the open skies issue] in the U.S. government’s docket. We have the rest of the airline we need to run, and now we’re just getting on with business,” he said.

Etihad has released several reports recently that aim to counter the allegations Delta Air Lines, United Airlines and American Airlines have leveled against it, which argue the carrier receives illegal subsidies from the UAE government. The three U.S. carriers have asked the U.S. government to engage in consultations, provided under the open-skies agreement, with the governments of the UAE and Qatar.

Venezuela Gets Stern Warning On Withheld $3.7 Billion

The International Air Transport Association (IATA) is stepping up its campaign to press Venezuela to release $3.7 billion in funds that belong to airlines.

The blocked money was generated from airline-ticket sales in Venezuela and is being withheld in breach of international treaties. Venezuela has a complex system of currency controls, meaning the government dictates when and how much revenue airlines can remove from the country.

IATA Director General Tony Tyler raised the issue June 8 at the IATA annual general meeting (AGM) in Miami. During a press conference, Tyler said the Venezuelan government was “willfully withholding” the money and called for the issue to be resolved “once and for all.”

During an AGM working session, Tyler laid out the problem. IATA is campaigning in 12 countries, he said, where governments are withholding airline funds. Ninety percent of the funds are in Venezuela. Tyler said IATA’s Caracas office had made some progress this year in getting the government’s attention, but the money was still not released. “Our message is clear—this must stop. This is airline money and it needs to be paid,” Tyler said.

IATA is demanding that Venezuela takes three actions: Establish a single and fair Bolivar (VEF) exchange rate for the sale of tickets and payment of airline fees and charges; work with airlines to establish a realistic and achievable payment schedule to release the blocked funds, and commit to consulting airlines before imposing any new taxes or regulations that affect them.

Currently, airlines are forced to sell tickets using an exchange rate of 12 VEFs to the U.S. dollar, and make payments such as those for airport use at a floating rate that currently stands at 199 VEFs dollar.

“The Venezuelan government must take action to resolve this untenable situation with the airlines. In Latin America, aviation supports over 4.9 million jobs and generates $153 billion in economic activity. Air connectivity in Venezuela has suffered because of the lack of progress over the blocked-funds issue and the deterioration in the operating environment,” Tyler said.

Karen Walker/Air Transport World
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AAPA Chief Sees Better Year For Asian Airlines

Airlines in the Asia-Pacific region will definitely see financial improvements this year, compared with 2014, but it’s still tough going, despite the region’s continued growth.

Speaking with ATW on the eve of the International Air Transport Association Annual General Meeting (IATA AGM) in Miami, Association of Asia Pacific Airlines Director General Andrew Herdman said 2014 was “very tough” for the region, with the majors and low-cost carriers struggling alike.

The majority of the region’s airlines operated at close to break-even in 2014, despite positive traffic figures, posting a net loss across all carriers of $500 million for the year. This compared to a net profit of $2.2 billion in 2013. Chinese and Japanese carriers were among the few to do well financially, while Qantas is seeing a turnaround this year.

Overcapacity continues to dog the region, leading to soft yields, but Herdman said some of the major carriers are slightly reducing capacity and slowing new aircraft deliveries. “There is a definite improvement being seen in 2015,” he said. “A lot of hard work is being done, whether it’s through restructuring, like [Malaysia Airlines], or getting control of costs and adjusting to the marketplace. That work goes on, and there is a high degree of confidence in the passenger side continuing to grow. It’s not so clear on the cargo side, but overall we fully expect to see a restoration of margins this year.”

Airlines are also retiring their older aircraft—Airbus A340s and Boeing 747s—as new, more-efficient aircraft like the Airbus A350 and Boeing 787 replace them.

“Don’t underestimate the fact that every CEO is sitting down with their teams and asking ‘How do we address costs. Which routes do we cut. Which new routes might we try?’” Herdman said.

AAPA also just held its sixth emergency-response conference, an event it stages every other year. This year’s was held in Hong Kong. The region has been shocked by three major losses: the crashes of a Malaysia Airlines Boeing 777 and an AirAsia Indonesia A320 as well as the downing of another Malaysia 777 over war-torn Ukraine. Herdman said the sharing of experiences from those tragedies was valuable. The conference also staged a half-day crisis-management exercise with people required to role-play the different participants in a major event.

“The exercise really captured the three pillars of managing the accident, managing the response and managing the whole communications strategy; those are all tightly interlinked,” Herdman said.

IATA Raises 2015 Airline Profit Forecast

The International Air Transport Association (IATA) has boosted its 2015 collective net profit forecast for the world’s airlines to $29.3 billion, up 47.2% over the the $19.9 billion projected by the organization in December 2014.

“For the first time in our history, the airline industry as a whole will earn its cost of capital,” IATA Director General and CEO Tony Tyler told reporters June 8 at the IATA annual general meeting (AGM) in Miami. Tyler played down the significance of lower fuel prices to the industry’s expected strong performance in 2015, noting that about half of airlines’ 2015 fuel supply is hedged at prices above the global aircraft fuel-price average and that a 20% rise in the value of the U.S. dollar over the last 12 months has “moderated” the fuel-cost benefit.

“The strongest driver of improved profitability is efficiency,” he said. But Tyler cautioned that the global airline industry is still operating at a “hard-earned 4% average net profit margin,” and profitability is “far from uniform” around the world.

North American airlines are expected to account for more than half of the global industry’s 2015 net profit, earning $15.7 billion while making $18.12 per passenger, according to IATA. “The U.S. is our industry’s most-impressive turnaround story,” Tyler said. “Airlines [in the U.S.] are investing more than $1 billion per month in their product and adding service to meet rising demand for connectivity.”

By contrast, Asia-Pacific airlines are expected to earn just $4.24 per passenger and post a net profit of $5.1 billion in 2015. IATA said North American airlines will post an earnings before interest and taxation (EBIT) margin of 12%, more than double the EBIT margin the next-best performing regions—Asia-Pacific and Europe—are forecast to post.

“Many airlines are still facing huge challenges,” Tyler said. “The Asian carriers have a lot of exposure to air cargo, and that’s rather in the doldrums at the moment. The Chinese economy has been weaker and that’s dampened performance.”

Despite the industry’s expected profitability this year, airlines are expected to see a collective 0.7% decline year-over-year in revenue to $727 billion. “Let’s keep things in perspective,” Tyler said. “Apple, a single company, earned $13.6 billion in the second quarter of this year. That’s just under half the expected full-year profit of the entire airline industry.”

Karen Walker/Air Transport World

Andrew Herdman, director general of the Association of Asia Pacific Airlines, says airlines in the region are gradually reducing capacity.

Aaron Karp/Air Transport World
SAA Upbeat On Turnaround

South African Airways (SAA) has looked at a “reset-the-clock” scenario, but at “this point in time there is no such action or need to take such action” to bring the embattled airline to commercial sustainability, acting CEO Nico Bezuidenhout said.

But, Bezuidenhout warned, “If we do not get the necessary agreements with all stakeholders, nothing is excluded.”

SAA—which was in a semi-permanent state of restructuring over the past decades as a loss-making airline despite South Africa being the largest and most-developed aviation market in Africa—received an additional loan guarantee of 6.5 billion rand ($521 million) from the South African government in January to keep it in the air.

Bezuidenhout says the airline is making good progress in its targeted turnaround and is reducing costs. “We’re not yet out of the woods, but we are seeing some positive signs in stabilizing the business,” he says. SAA successfully completed its 90-Day Action Plan in March, and operating results in April were 45% better than the year-ago period, Bezuidenhout says. The 90-Day Action Plan aims to deliver an EBITDA improvement of 1.25 billion rand per year from the start of its current financial year.

As part of the cost-cutting exercise, SAA is renegotiating the leases of its Airbus A340s. “There have been some unfortunate fleet decisions in the past. But don’t forget when we acquired the A340, fuel was at $20 a barrel,” asserts Bezuidenhout, adding that the airline operates the four-engined widebodies profitably on a number of routes, such as Frankfurt and Munich. Leases have been renegotiated for three of SAA’s eight Airbus A340s with a savings result of 112 rand million annually. Renegotiations for the other five A340s are ongoing and expected to yield an additional savings of 150 million rand. Up to 440 million rand in pre-tax earnings improvements will come from network changes.

SAA has already abandoned two of its most money-losing long-haul routes, from Johannesburg to Beijing and Johannesburg to Mumbai. The Beijing route reportedly lost about million rand per month, and the international network accounted for 1.6 billion rand in losses.

The acting CEO says SAA’s services to Perth, Australia, and Munich and Frankfurt in Germany are profitable. The South American routes are “marginal but improving,” while Hong Kong is already benefiting from ending the route to Beijing. The North American operation is expected to improve thanks to planned changes.

Beginning in August, the daily service to Washington Dulles will operate three times via Senegal and four times via Accra after SAA gained fifth-freedom rights from Ghana to the U.S.. The point-to-point market from Ghana is much larger than from Senegal and “we will benefit from feeder and de-feeder traffic. There [is] no feeder airline available to cooperate with in Senegal,” Bezuidenhout notes.

The network reconfigurations do not only include route terminations. There is also positive news, Bezuidenhout points out. “We started a new route to Abu Dhabi to complement our relationship with Etihad Airways.”

SAA is also growing its sub-Saharan African network “due to strong commercial demand” with more flights between Johannesburg and Maputo, Harare and Mauritius. “Africa is our bread and butter,” he says. “We target to increase revenue from Africa [by] 30% in the next 12-18 months.”

Christoph Mueller and Stefan Pichler once worked together at Lufthansa. There they were considered to be at the top in their disciplines—network and sales—and were seen as rising stars headed for the very top. Then they left.

At this year’s International Air Transport Association (IATA) Annual General Meeting (AGM) in Miami, the two executives will meet in new roles. Pichler, 57, began his new job as CEO of Air Berlin in February. And Mueller, 52, took the top position of Malaysia Airlines last month.

The two jobs can easily be viewed as among the most difficult the global airline industry has to offer: Pichler has to achieve where three prior CEOs have failed. He has to bring Air Berlin back to profitability after years of increasing losses against the looming questions about the company’s future viability. Mueller’s job isn’t any easier: Malaysia Airlines (MAS) has long suffered from structural inefficiencies and political interference. Demand vanished after the losses of MH370 and MH17, and Mueller has to rescue an airline that he acknowledges is “technically bankrupt.”

Mueller and Pichler could have taken a much easier way, but both were fascinated by the idea of achieving that one big turnaround. “I have looked at Air Berlin and told myself: It must be possible to operate a second airline profitably in a huge market like Germany,” Pichler says. “And after three months here, I can say I firmly believe this is doable.”

Mueller had a safe job at Aer Lingus. He was highly regarded for changing the business model from a relatively strict, low-cost strategy to a hybrid that focuses on long-haul connectivity and expansion. He also promoted the idea internally that Aer Lingus should ultimately consider consolidation and was fully supportive of the International Airlines Group offer earlier this year.

Many of Pilcher’s acquaintances believe he returned to rebuild his personal image, which was tarnished when he was fired from leisure group Thomas Cook in 2003. “That is nonsense,” Pilcher says. He also had stints at airlines in Australia, Kuwait and Fiji.

In his first few months at Air Berlin, Pilcher has been racing through decisions: The chief financial officer and the chief commercial officer, as well as the head of strategy, have been replaced. The main question, though, is whether Pilcher has enough time for his business-recovery action to show effect, or whether the airline needs a new shareholder structure to help resolve its biggest financial issue: the mountain of debt.

In that sense, Mueller is one step ahead. Even before he joined Malaysia Airlines, the country’s state-investment fund Khazanah privatized the airline and provided funding for what is planned to be a three-year turnaround. A new corporate entity is to be established that will become operational in September: Malaysia Airlines Berhad. Mueller says he does not want to turn MAS into a regional airline.

Jens Flottau/Aviation Week & Space Technology

Executive Report

JUNE 9, 2015
IATA: Latin America, Caribbean Need More Sensible Tax Rules

The International Air Transport Association (IATA) objects to some Latin American and Caribbean governments implementing new taxes and fees and using airlines as a “cash cow,” a senior executive from the trade group said.

Brazil is a particular problem for carriers, both for its tax policy and regulatory framework, said Peter Cerda, IATA’s regional vice president for the Americas. About 75% of the aviation fuel sold in Brazil is produced domestically, Cerda noted, and yet it is priced as if imported. “It’s artificial pricing,” Cerda said during a briefing at the IATA Annual General Meeting.

In Central and South America, airlines must pay 47 different types of taxes and fees, according to IATA, while in the Caribbean, they must pay 34. “Governments need to understand that the real value of aviation is [in] the global connectivity it provides, not the fees and tax receipts that can be extracted from it,” Cerda said.

In Central and South America, IATA says only Panama and Chile have sensible fee and taxing structures. Many other countries also lack transparency, IATA says.

Also in Brazil, IATA is objecting to what it argues are onerous new crew rules the government is considering. They would cover duty and rest time obligations, and IATA says they do not follow International Civil Aviation Organization (ICAO) guidelines. “The changes being proposed in Brazil will not improve safety but will make Brazil less competitive on a global stage,” Cerda said.

Hawaiian CEO Says Chinese Don’t See State As A Destination

Although changes in U.S. visa policy for Chinese citizens have increased tourism and travel from China to the U.S., Hawaiian Airlines CEO Mark Dunkerley says the situation still is far from ideal.

“There is a huge market and demand for travel [from China] to the U.S.” Dunkerley said at the International Air Transport Association Annual General Meeting here. Changes allowing Chinese citizens to apply for five-year visas have increased demand, he said, but need to go further. “These goofy rules and goofy process need to be done only every five years, instead of every year.”

The problem is not restricted to China, although that is where it affects Hawaiian most, Dunkerley said. In general, the U.S. government’s attitude toward travel and tourism is not helpful. Referring to visa fees, Dunkerley said, “the travel and tourism industries are the only ones in which we tax our own exports.”

But a challenge Hawaiian has in China is a lack of awareness among Chinese of the island state as a destination. Hawaii’s tourism authority is working to educate Chinese consumers about the state—including that a Hawaiian vacation is more than just a beach holiday.

IATA estimates the Latin American and Caribbean regions can grow considerably if governments invest in infrastructure. It says only two countries in the region—Panama and Barbados—rank in the top 35 worldwide in terms of quality of air transport infrastructure. Key economies like Brazil (ranked 131), Colombia (105) and Mexico (64) are much lower on the list. IATA estimates that the region—which had 242 million air travelers in 2014—could see 385 million passengers in 10 years, provided the industry lessens regulation and improves facilities. IATA notes that the region is home to more than 8% of the global population, but accounts for only 5% of the world’s air traffic.

Mexico could be an important growth region. On June 7, IATA announced it had reached a Memorandum of Understanding with Mexico’s Ministry of Communications and Transportation, in which the airline group will provide technical and operational assistance during construction of the new Mexico City airport. IATA will also help Mexico City with slot management, both at the new airport and the existing one. Cerda said the new airport should open by 2020 and be capable of operating for the 50 years. He said the airport can serve as a regional and global hub.

In other news, Cerda said the situation in Argentina has stabilized and that airlines are not worried about getting money out of the country. “We had a few issues with repatriations some months ago,” Cerda says. “The airlines now have a process which they can follow to meet and communicate directly with the central bank.”

Venezuela, however, continues to be a problem. Cerda said global airlines still have about $3.7 billion trapped in Venezuela, roughly the same amount as two months ago.
DOT Slaps Delta For Seattle-Haneda Route Treatment

The U.S. Department of Transportation (DOT) has decided not to take away Delta Air Lines’ new Seattle-Tokyo Haneda service. But like a parent upbraiding a teenager who misused the family car, it lectured Delta on the carrier’s “virtual abandonment” of the route and imposed strict conditions upon the airline’s future use of the coveted slot pair. Delta has objected to the conditions, but, like the teenager who wants continued access to the car, will probably live with the terms—even if it pouts about their “draconian” nature.

Meanwhile, American Airlines and Hawaiian Airlines are disappointed they didn’t get Delta’s disputed Haneda route authority; in the end, DOT made no one happy. But DOT did set new standards to which a U.S. airline awarded a route authority must adhere, which will likely head off a rerun of the behavior that started the fracas in the first place.

Haneda, which is popular with business passengers because of its close-in access to Tokyo, started accepting international flights in 2010. U.S. airlines are allowed to operate four daily round-trip flights to and from Haneda. Delta operates Los Angeles-Haneda service, United Airlines operates San Francisco-Haneda service, and Hawaiian operates Honolulu-Haneda flights. The fourth Haneda slot pair belongs to Delta for Seattle-Haneda service, but the carrier flew the route so infrequently this past winter that it was almost stripped of the authority. According to DOT, Delta operated the service “for approximately only one week every 90 days between October 2014 and late March 2015.” This, Delta believed, technically adhered to DOT’s dormancy rule on route authorities.

But American and Hawaiian petitioned DOT to review the slot pair, saying Delta was “squandering” it. American wanted to use the U.S.’s fourth Haneda route authority to operate Los Angeles-Haneda Boeing 777-200 flights, while Hawaiian desired the authority to operate Kona-Haneda Airbus A330-200 service.

During the review, Delta told DOT it had merely made a “seasonal” adjustment to the Seattle-Haneda route and would start operating it daily this spring, which was enough for DOT to allow Delta retain the authority. However, rather than just take Delta’s word for it, the department mandated that the airline operate the route daily year-round and said it was ready to transfer the slot pair to American for LAX-service if Delta misused the authority again.

In a tentative ruling, DOT decided to keep the disputed slot pair with Delta rather than move it to American or Hawaiian. But, DOT added, “Any failure by Delta (absent DOT authorization) to perform Seattle-Haneda service on two days of any seven-day period would mean the immediate loss of Delta’s authority.”

In the tentative ruling, DOT stated, “On too many days this past winter season, Delta provided no Seattle-Haneda service whatsoever. Delta’s virtual abandonment of the route … severely undercut the public interest basis” for awarding Delta the authority in 2013.

DOT selected American’s Los Angeles-Haneda service proposal “as a backup should Delta fail to meet its requirements in serving the Seattle market.” Delta said going forward, it will “operate year-round, nonstop flights” on the route.

DOT said it believes Delta can “be relied upon to provide the service it now promises” despite “past conduct.”

In a filing to DOT following the tentative ruling, Delta said the stern service condition “deviates from past practice because, as far as Delta is aware, the department has never previously imposed such a strict 365-day-a-year service requirement.” Delta accused DOT of making an “exacting threat,” creating “improper incentives to maintain scheduled service at all costs, when flights might otherwise be canceled, delayed, or rescheduled out of safety or other operational concerns.”

DOT has put Delta in a bind. Either the airline operates Seattle-Haneda service daily year-round, even during periods in which the route may not be able to generate a profit, or American will be allowed to start competing with Delta head-to-head on LAX-Haneda—a high-demand route Delta now has to itself. So Delta could be forced to lose money on Seattle-Haneda to avoid competition on LAX-Haneda.

Hawaiian was perhaps the most upset over the DOT ruling. President and CEO Mark Dunkerley said DOT’s decision was “tremendously disappointing,” adding, “Sadly, by dismissing Hawaiian’s proposed Kona route … DOT has once more failed to appreciate the geography of the 50th state.” Hawaiian said DOT had decided the Kona route would merely be “additive” to the existing Honolulu-Haneda route.

“Kona and Honolulu are separate markets, separate communities and indeed are located on separate islands,” Dunkerley said, adding that DOT’s decision also revealed “a long-held institutional bias” in favor of business travelers and against leisure/tourism-oriented travelers.

Aaron Karp/Air Transport World
Emerging Issues Dominate IATA Safety Agenda

Recent crashes are now woven into the “six-point safety strategy” that International Air Transport Association (IATA) Senior Vice President for Safety and Flight Operations Kevin Hiatt oversees. The strategy addresses operational risks, including loss of control, controlled-flight-into-terrain (CFIT) and runway safety, as well as the threat from emerging safety issues highlighted by MH370, MH17 and Germanwings.

“Germanwings is a very big topic at the moment,” Hiatt says. At IATA’s operations conference in Los Angeles in April, the 20 member airlines came together to discuss “major issues” primarily focused on the deadly crash in the French Alps in March, a CFIT that French prosecutor says was purposefully carried out by the Airbus A320’s co-pilot after locking the captain out of the flight deck.

Hiatt says the response to the crash has been concentrated in three areas: additional pilot-fitness studies; global requirements for “four eyes” in the cockpit at all times; and new information and guidance for the protection of safety information. The European Aviation Safety Agency (EASA) is taking an early lead in the pilot mental-health studies, says Hiatt, with the agency launching task committees of airlines and other invited guests to examine how airlines might determine pilot wellness following the initial screening and vetting process. The FAA on May 27 announced it had created a Pilot Fitness Aviation Rulemaking Committee to study the awareness and reporting of pilot emotional- and mental-health issues, methods used to evaluate emotional and mental health, and “barriers to reporting such issues.”

The group, comprising U.S. and international government and industry members, including IATA, is expected to issue recommendations to the FAA within six months.

Operational changes called for by ICAO after MH370 are notionally set for action by IATA member airlines beginning next year, though deliberations continue. During a High Level Safety Conference (HLSC) in February, 130 nations agreed to implement a Global Aeronautical Distress and Safety System in phases, the first of which is mandatory position reporting by an aircraft at least every 15 min. during normal operations, starting next year.

Actions following the shooting down of MH17 in Eastern Ukraine have been more immediate, although perhaps more qualitative than quantitative. Following the HLSC, ICAO agreed to build a portal on its website where member nations could post information that airlines could use to help evaluate the risks of flying in certain conflict zones. “There haven’t been a lot of postings,” Hiatt says, “but we anticipate as some of the bigger players—[the] U.S. and U.K.—come on board with postings, we’ll see more use of that site.”

John Croft/Aviation Week & Space Technology
JAL Leads Airline Rankings, Smaller Carriers Also Shine

While Japan Airlines (JAL) takes the overall title in Aviation Week’s Top-Performing Airlines (TPA) rankings, the standout theme this year is the dominance of narrowbody carriers.

JAL’s score of 75.5, out of a possible 99, is the highest in the large-carrier category, as well as the top score across all three size categories. Alaska Airlines is the leading midsize carrier with a score of 74.6, and Spirit Airlines is first in the small category—and second overall—with its score of 74.7.

Only one of the network giants—JAL—features in the top 10 overall scores this year. The remaining nine are all narrowbody-aircraft operators: Spirit, Alaska, Ryanair, Copa, Aegean Airlines, Allegiant, EasyJet, WestJet and Southwest Airlines.

This is not just a low-cost carrier (LCC) phenomenon, as the nine also include smaller network and full-service airlines. While larger airlines generally have a range of fleet types to accommodate all segments of the market, many narrowbody carriers are succeeding with a simpler business model.

However, LCCs that operate widebody aircraft—such as AirAsia X and Norwegian Air Shuttle—ranked among the lowest this year.

The TPA study uses a range of operational and financial data from the last full calendar year to calculate airline scores. They are ranked in three size categories, and the scores are also used to determine the top airlines overall. Only publicly traded airlines are included, which means the large Persian Gulf carriers, and others, such as Virgin Atlantic, do not appear.

BANKRUPTCY REBOUND

JAL is a good example of an airline that has seen a TPA score bump after a successful bankruptcy reorganization. JAL has made some good business decisions during restructuring, but its success comes with a caveat, as it is partly due to the government help.

American Airlines has seen the biggest score improvement this year and is another carrier enjoying a post-restructuring spike. Some of its increase is due to the way its 2014 results are measured against combined US Airways and American results from the previous year, but even discounting this effect, it would still be the most-improved.

JAL and American show that while bankruptcy protection gives airlines a tailwind, they still need to execute well to gain the full benefit.

North American airlines collectively performed far better than those from other regions in the TPA 2015 study, in terms of rankings, scores and financial measures. The median score for North America has risen steadily for the past three years, and the top four most-improved carriers are all from the U.S.

The ultra-low-cost carriers are standouts in this region. Spirit and Allegiant are in the top three for both North America and the small-airline category. Allegiant’s consistency in the TPA rankings is underlined with the highest average score over five years for any category.

REGIONAL RESULTS

Alaska was only just beaten by Spirit for second place overall, and Southwest is the best of the large airlines in North America.

Asia-Pacific was something of a mixed bag. Air New Zealand and Singapore Airlines ranked second and third, respectively, in the region—after JAL—and are always strong TPA performers. All Nippon Airways (ANA) once again scored well in the large-airline category, and Bangkok Airways was the best Asian carrier in the small-airline section. However, beyond these, there are few highlights. Hainan Airlines and Spring Airlines both scored higher than the big three Chinese-mainland carriers.

In Europe, Ryanair, Aegean and EasyJet are the three top scorers, with Ryanair and EasyJet being second and third, respectively, in the large-airline category. International Airlines Group is the best of Europe’s big three, with Air France-KLM and Lufthansa way behind.

Copa was the leading scorer in Latin America by some margin, and Southwest is the best of the large airlines in North America.
Our vision is taking shape.

The E-Jets E2 program has moved from concept to reality. We’re far beyond the milestone of first-metal being cut, and are now busy assembling the first E2 prototype for first flight next year. The entire E2 family is on schedule, on target, and on the way to affirming its position as the world’s most preferred family of jets up to 130 seats. Our vision remains clear. And it is taking shape today.