

CAPADAILY

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75th IATA AGM AND WORLD AIR TRANSPORT SUMMIT
ISSUE TWO - 02-JUN-2019

AIRLINE PROFITABILITY

Just a temporary aberration

VUYANI JARANA

On the journey back to profitability

MARTIN GAUSS

Eyes Western Europe in ambitious growth plans



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Seoul, 1-3 June 2019

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Women airline pilots: a tiny percentage of flight crews, and only growing slowly. Does India offer a model?

It was International Women's day on the 8th of March, 2010, and the Indian Ministry of Civil Aviation proudly "acknowledged" flag carrier Air India's historic flight between Mumbai and New York JFK.

It was unique that day in that flight AI-141 operated with an all-female flight crew on the B777-200LR. There was no Air India man in sight.

It was different at head office. There the same profile does not apply, either for the airline's management, or its Board. Despite India's generally favourable attitude to women in high places – notably in politics – on that day the company counted just one woman board member among the ten directors. In management, the balance was rather more generous, with six of the 36 senior executive team women – yet only one of them reports directly to the CEO.

On the same dedicated Women's Day, you could have counted on the fingers of one hand the female CEOs of commercially significant airlines across the world.

There is little immediate prospect of a great shift in this profile – either at Air India, actually one of the more women-receptive employers, or in any other airline.

Those few paragraphs were taken from the first issue of *Airline Leader*, in Oct-2010. Not much has changed since.

CAPA has been active in reviewing the issue of women in airline management over the years, but the trends leave few grounds for encouragement. And things aren't much better on the flight deck. This is a situation that cannot be afforded, by an industry that is desperately short of pilots and running into a major crisis if remedial action isn't taken.

Data for the US and the UK indicate that just over 4% of airline pilots are women. This share is growing, but very slowly. According to the International Society of Women Airline Pilots, the US big three airlines have the highest number of women pilots and the Indian LCC IndiGo has the highest proportion (13.9%).

India has approximately 1200 women pilots, which is about 12% of the total. There's no obvious reason why India should be a standout. It is not a country noted for its liberal attitudes to female autonomy, nor is the airline industry seen as offering a particularly stable career.

There is some glimmer of hope. Women pilots' share of all pilot jobs is growing, but it has increased by less than 1ppt over the past 10 years.

The number of women holding FAA student pilot certificates has doubled over the past decade, indicating

a growing interest among women in qualifying as cockpit crew (but they were still only 12.9% of all FAA student pilots at 31-Dec-2017). In absolute terms, the US big three airlines have the highest number of women pilots.

United Airlines tops the list with 940, followed by Delta Air Lines, with 692, and American, with 626. Lufthansa, the leading non-US employer of women pilots, has 375, followed by India's leading LCC IndiGo, which has 322.

And, following many words on the topic at last year's IATA AGM in Sydney, IATA's website reported: "The aerospace sector has done good work in the area of improving gender parity including OEMs. But airlines have to make a much bigger effort. In a packed room of almost 1000 people (at the AGM), just a handful of women self-identified as being at the C-Suite level. Industry has to accelerate training and find ways to bring more women into the airline workforce."

The AGM attracted plenty of attention in this aspect of the business, largely around a photograph of the 30 person Board of Governors, of which only two were women. In fact, that was an over-representation of the industry overall, as the total number of women airline CEOs globally is perhaps only four times that amount, out of a total of 287 members. IATA too is taking action.

But moving from words to tangible action is the biggest challenge. This is an area where there is no disagreement whatever – the industry needs skills! – but even though millions of words have been spoken and written in support of it, virtually nothing has changed in 20 years.

Perhaps one place to start is India. If that country, with its hierarchical and often paternalistic attitudes, can lead the way, by a large margin, perhaps there are the germs of a solution to be discovered.



A handwritten signature in blue ink that reads "Peter Harbison". The signature is fluid and cursive.

PETER HARBISON
CHAIRMAN EMERITUS
CAPA – CENTRE FOR AVIATION

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CENTRE FOR AVIATION

CAPADAILY

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MEMBERSHIP ENQUIRIES: membership@centreforaviation.com

EDITORIAL ENQUIRIES: info@centreforaviation.com

PRESS ENQUIRIES: press@centreforaviation.com

EVENT ENQUIRIES: events@centreforaviation.com

ONSITE TEAM:

CHAIRMAN EMERITUS: Peter Harbison ph@centreforaviation.com

MANAGING DIRECTOR: Derek Sadubin ds@centreforaviation.com

HEAD OF CONTENT CURATION: Marco Navarria mnavarria@centreforaviation.com

HEAD OF MARKETING: Daniella Baxter dbaxter@centreforaviation.com

HEAD OF SALES AND GLOBAL PARTNERSHIPS: Rowan Lanser rlanser@centreforaviation.com

GLOBAL KEY ACCOUNT MANAGER: Jessica Deng jdeng@centreforaviation.com

CHIEF ANALYST: Brendan Sobie bsobie@centreforaviation.com

EUROPEAN CONTENT EDITOR: Richard Maslen rmaslen@centreforaviation.com

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On the Record



IATA

ON EXPECTATIONS FOR ELECTRIC COMMERCIAL AIRCRAFT IN ANYTHING OTHER THAN A REGIONAL ROLE FOR THE NEXT ONE OR TWO DECADES

“Scientifically and technologically things are not ready” for electric aircraft, and there is a need to ensure safety.” IATA director general and CEO Alexandre de Juniac



IATA

ON HAVING THE RIGHT POLITICAL FRAMEWORKS TO HELP RATHER THAN HAMPER GROWTH

“Regional governments need to stop looking at aviation as “a cash cow” but to “facilitate economic development.” IATA regional vice president for the Americas Peter Cerda



IATA

ON COUNTRY-LEVEL NATIONAL AIRSPACE STRATEGIES

“Europe’s airspace should not have borders.” IATA regional vice president for Europe Rafael Schwartzman



IATA

ON THE IMPORTANCE OF GLOBAL STANDARDS

For Africa “safety has been and will continue to be our biggest priority”. IATA regional vice president for Africa and Middle East Muhammad Ali Albakri



IATA

ON SLOT AUCTIONS

“Slot auctions do not benefit the consumers as they eliminate the certainty airlines need to make investment decisions and expand into new markets, with consumers ending up with reduced choice and connectivity”. IATA senior vice president Paul Steele



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ON NEW EXPERIENCE TRAVEL TECHNOLOGIES (NEXTT) VISION FOR THE PASSENGER JOURNEY

“A seamless, secure and efficient walking pace journey that is highly personalised throughout.” IATA senior vice president airport, passenger, cargo, security Nick Careen



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JUST A TEMPORARY ABERRATION:

Airline profitability

Recently, encouragement has been given to the concept of airlines consistently making returns on investment that parallel other international industries. If history is the judge, the recent profitability results are likely to be an aberration from the norm - not a new dawn. And as long as the regulatory system prevents rationalisation, that will continue to be the case.

The outlook for the world airline industry can only be considered against a backdrop of wider macroeconomic, societal and geopolitical change. Challenges facing airlines today include slowing economic growth, changing consumer spending habits and brand norms, the rise of China and Asia and growing environmental concerns. Above all, the constraints imposed on the industry by archaic ownership and control rules will guarantee that any upturn can only be modest and, most likely short-lived.

After a strong cyclical upswing, rising oil prices have eroded record airline profitability, while non-fuel cost

reduction has lost momentum. On the revenue side, airlines have benefited from an extended period of solid traffic growth, in part thanks to low fares enabled by lower fuel costs; but this may be changing. They have started to generate new revenue streams, but could do (much) more.

The historically high airline profit margins of recent years have not been a universal experience. The global result has been flattered by the profitability of the consolidated US domestic airline sector, while many airlines in other parts of the world have struggled or gone out of business. Peak margins have reached new heights, but the airline industry is still cyclical and a margin downturn is in process.

So long as international regulatory shackles prevent airline mergers, the areas of focus for airlines to make money in the longer run are ancillaries, distribution and partnerships. Innovation will be the key to future profitability.

Summary

- Challenges: slowing economic growth, changing consumer spending habits and brand norms, the rise of China and Asia, the environment, O&C rules.
- Rising oil prices have eroded record airline profitability; for at least another decade or two, oil prices will be a wild card.
- Non-fuel cost reduction has lost momentum. Airlines could do more to grow revenue.
- High airline margins have not been a universal experience. The airline industry is still cyclical and a margin downturn is in process.
- Making money in a downturn: grow ancillaries, disrupt distribution and develop deeper partnerships.

Global economic growth is slowing

The current global context for the world’s airlines is one of slowing economic growth. This has not yet tipped into a hard landing, in other words a recession, where GDP growth is negative or even a severe slowdown, where it slows to 2% or less - but there are gathering clouds.

IMF figures published in Apr-2019 put global GDP growth (at constant prices and at market exchanges rates) at 3.2% in 2017, in line with the long term average. However, this fell to 3.1% in 2018 and is forecast to drop to 2.7% in 2019. The 2019 forecast fell from 3.3% in the IMF’s Jul-2018 forecast.

Key factors pervading in the global economy include very low interest rates, which on the back of stimulatory government spending since the global financial crisis, have spawned historically high debt levels. There are some overhang debt cases like Greece, Italy that really haven’t gone away, except off the front pages

In addition, in the US, President Trump’s tax cuts have injected a further short term sugar high into the economy, helping to drive stock markets skywards, at least until US-China trade talks got awkward again. Prospects for damaging trade wars are increasing.

Party-today-and-forget-about-tomorrow?

Under Trump, the philosophy has become party-today-and-forget-about-tomorrow (not a good sign that he seemingly got away with massive debt/loss levels in his

private life for decades).

Low interest rates have done nothing to inhibit non-government debt, both private household and commercial, in many cases at unprecedented levels.

At some stage this will end in tears; this sort of short term-ism always does. Remember pre-2008, the world was never going to have another recession, Gen Y would never know anything but growth..., or so we thought.

Whether banking reform has occurred to a level that prevents short term banking greed from repeating 2008 is unclear. Certainly, with interest rates still very low in many parts of the world, Central Banks have fewer levers at their disposal if a sharp downturn does come along. Like doctors that over-prescribe antibiotics, they may find that their efficacy in treating any future global contagion is reduced.

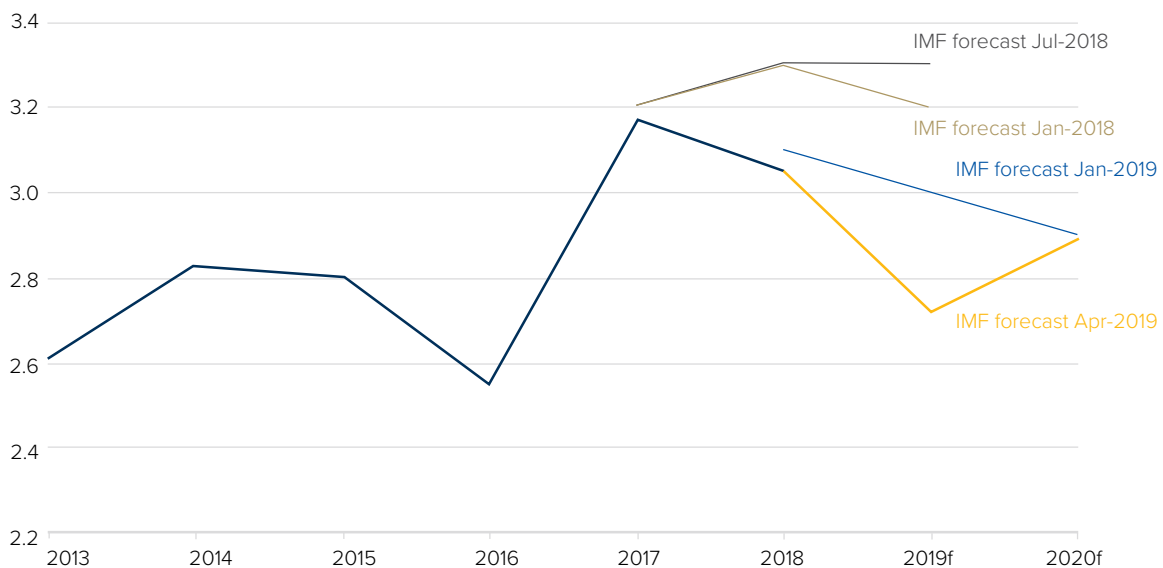
As with all things finance and economics, perception is a vital factor. It may be a truism, but no less true to say, that when people talk about a downturn long enough it happens. If it is delayed by high debt-fuelled spending levels, that just increases the downside potential when it comes.

Other forces are bringing change in aviation: consumer habits, brands, growth of Asia

In addition to this simmering macroeconomic broth, there are some other fundamental forces bringing permanent change to the table in aviation.

WORLD GDP GROWTH (%)*

SOURCE: IMF, CAPA - CENTRE FOR AVIATION

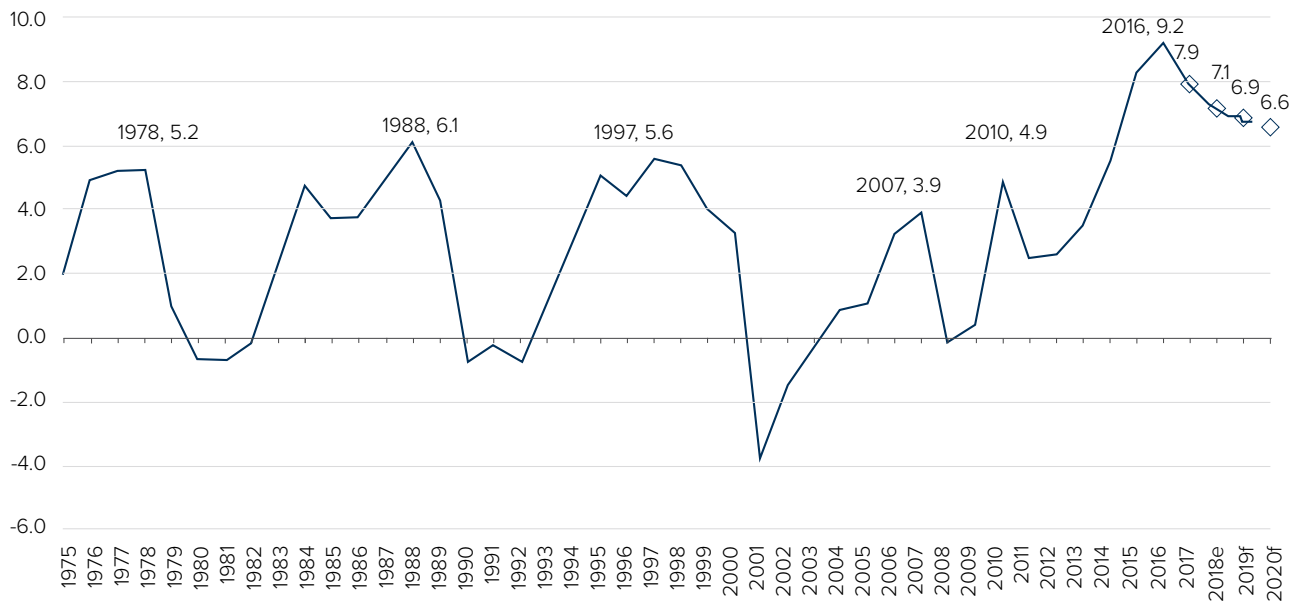


Note: *2013 to 2020f. At constant prices and at market exchanges rates.



WORLD AIRLINE INDUSTRY OPERATING MARGIN (%)*

SOURCE: CAPA - CENTRE FOR AVIATION, IATA, ICAO



Note: *1971 to 2020f. Forecasts are from CAPA model published Jan-2019.

Consumer spending habits are changing, with seemingly a greater propensity for experiences than for mere consumer goods. This is a positive for air travel. At the same time, air travel is still commoditised and even big spenders, especially Asians, will look to save on fares while spending big on other things

Old brand norms are shifting, something that has a lot to do with social media. The aviation world is littered with dead brands that disappeared long ago, but social media can now make or break brands almost instantaneously. This is further eroding the already weakened attachment to national flag carrier brands and facilitating upstart disruptor brands, often across national boundaries.

The recent hint that Amazon may be tiptoeing into the retail market (with a trial operation in the Indian market) could become just another inroad into this process of brand derogation.

China (and Asia more broadly) are the future fonts of long haul growth and they are shifting preferences. Their airlines are also becoming dominant; they have low costs, as well as control of their outbound distribution. Airlines from other regions are jockeying for position to get a piece of the Asian growth.

The environment is coming to get you

There is one massive threat with the potential to cut across everything that airlines do.

Environmental concerns are increasingly to the fore and the pace of change is accelerating. European greens are mobilising, as highlighted by the recent occupancy of central London by the Extinction Rebellion movement. CAPA's daily news service word count is climbing sharply for environment-related ("sustainability", "environment" etc). Investor and public pressure is mounting.

There is gathering momentum behind an economy-wide net zero carbon emissions target in 2050 (as recommended by the UK Committee on Climate Change and discussed at the latest UN climate change in Poland late last year). When the airline industry set a target a decade ago to reduce emissions by 50% by 2050, it was ahead of the game. Now, it risks looking like a laggard.

That said, the industry is undoubtedly taking bigger steps than most others (for example the fashion industry, where discarded clothing accounts for over 10% of global emissions). Although its carbon emissions are relatively low and scarcely growing, aviation continues to be seen by zealots as a frivolous activity for the well-off - regardless of the essential global economic role it plays in job creation and international trade.

There are positive signs that airlines, individually and collectively, are making significant advances to reduce emissions. The common ingredient however is – they all add to costs in the short to medium term.

Rising oil prices have eroded record airline profitability

In a world of fierce competition and a long term downward trend in unit revenues, cost efficiency matters to airlines.

Between 2014 and 2016/17, falling oil prices and the delaying impact of fuel hedging, meant that fuel costs were relatively low. This contributed to a surge in the global airline industry operating margin from 2015 as well as boosting consumer spending. After decades of previous cycles where airline operating margin had peaked at around 6%, it touched 9% in 2016.

However, rising oil prices have now contributed to a downswing in operating margins since 2017, albeit that they remain at historically high levels.

CAPA's Jan-2019 world airline operating margin model forecasts a gentle decline to 6.6% by 2020, but the weaker global GDP outlook since this was published suggests that it has scope for a downgrade in the Jul-2019 update.

Non-fuel cost reduction has lost momentum

Reducing non-fuel costs tends to be a focus when fuel costs jump sharply, but airlines have eased back on the throttle in this area in recent years.

One of the challenges that comes with the upswing in the profit cycle is that labour unions don't like not sharing in profits, so there is a tendency for cost equalisation.

Airlines could do more to grow revenue

As for airline revenues, there has been an unusually long period of steady, albeit not outstanding, traffic growth across many regions (helped along by low interest rates and low oil costs, which help to keep fares down and stimulate demand). Traffic growth has typically offset periods of falling unit revenue to grow overall revenue.

In addition, although much of the fanfare in recent years concerning the growth of ancillary revenue is misplaced (as a large proportion of ancillary revenue comes from unbundling and re-labelling existing revenue), the industry has started to show some aptitude in generating genuinely enhanced revenues. Nevertheless, it has much more to do in this area.

High airline margins have been dominated by US (domestic) profits

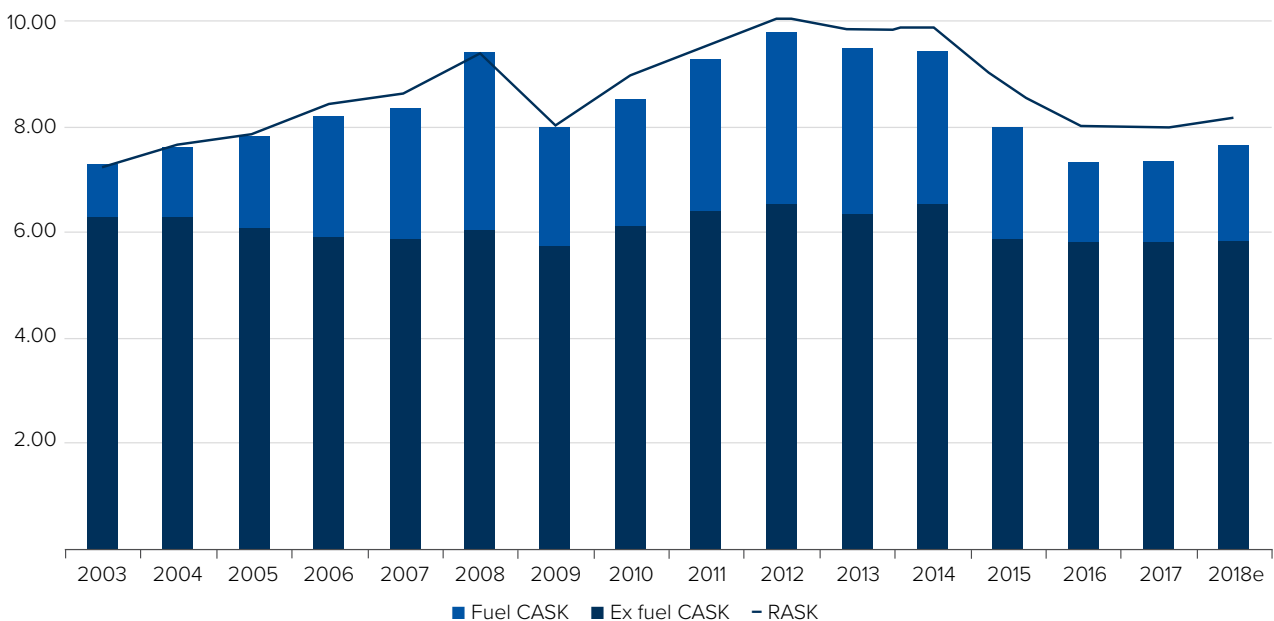
Moreover, the recent period of historically high operating margins has not been equally experienced by all airlines.

The global airline industry profit picture is visually inflated by the US domestic oligopoly windfalls resulting from consolidation. Airlines in other more fragmented regions are less profitable.

Drilling further down into the detail, there is a greater disparity between the 'have' and the 'have not' airlines in other regions. This can be seen, for example, in Europe,

WORLD AIRLINE INDUSTRY UNIT COST (CASK) AND UNIT REVENUE (RASK)*

SOURCE: CAPA - CENTRE FOR AVIATION, IATA, ICAO

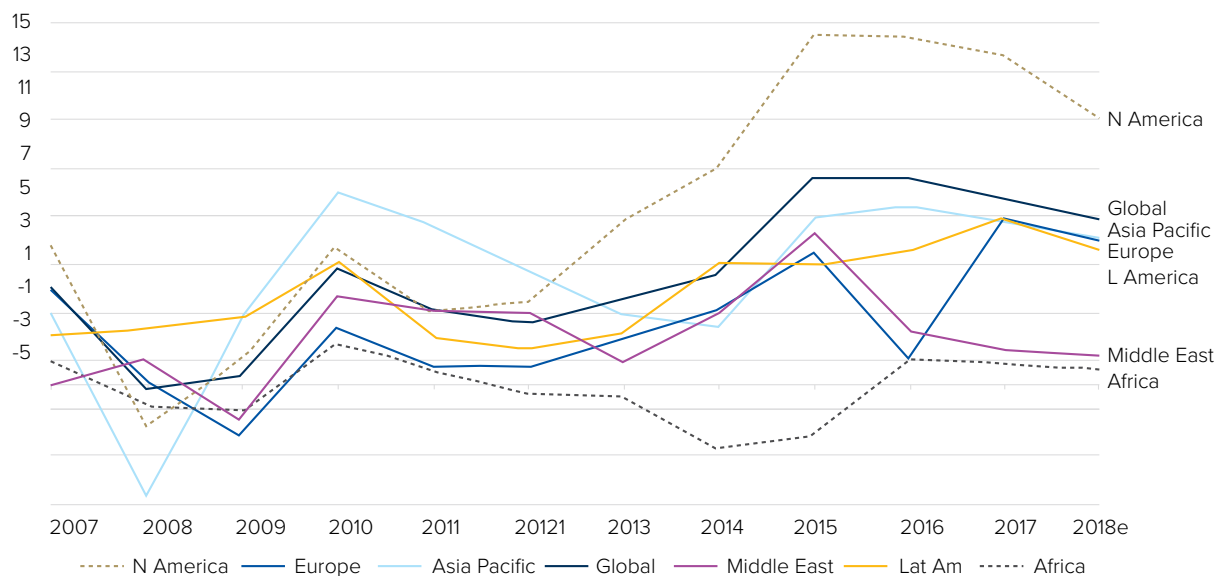


Note: *USc 2003 to 2018e



AIRLINE OPERATING MARGINS (%) BY REGION*

SOURCE: CAPA - CENTRE FOR AVIATION AND IATA



Note: *2007 to 2018e

where a spate of bankruptcies over the past 18 months has occurred when some groups have been making good profits (eg IAG and Ryanair).

Fiat Chrysler and Renault confirm merger talks - using the M word

In May-2019, this headline appeared in international financial media. Two major global car manufacturers looking to combine to become a more significant global force in a highly competitive marketplace...

How is that relevant in a discussion of this nature? The key part of the sentence contains the M word, something that is carefully regulated out of the options of international airlines. And, we would argue, the underlying reason why the airline industry in its present form is unsustainable in the long term.

Ownership and control rules still shackle the airline industry

Undoubtedly the biggest hurdle to long term sustainability of the airline industry are the remarkable shackles of the typical requirements for any international airline flying into another country to be under “the substantial ownership and effective control” of nationals of the originating country. There are some exceptions and for example the UK’s current re-examination of its aviation policy to adopt perhaps the use of a “principal place of business” criterion: “

“The government proposes to: modernise the obsolete restrictions on airline ownership by focusing on a company’s primary place of business when determining an airline’s access to international traffic rights, rather than the nationality of the ownership and control of the company. The government believes that international traffic rights available to the UK should be available to any airline that is a UK registered company, is regulated by the CAA and has its principal place of business in the UK...” (para 2.31, “Aviation 2050. The Future of UK Aviation”

The airline industry has always been global, yet it continues to be both driven by and constrained by this system of limits on foreign ownership and control. True, there has been some (piecemeal) liberalisation, particularly intra-European Union, but the basic framework has not changed in 75 years. It is an archaic system that needs to be broken, but remains very resilient.

Ownership and control limits inevitably lead to overcapacity and too many airlines, although there are those who reject this argument (just as turkeys tend not to vote for Christmas).

Less disputable is the conclusion that ownership and control limits are a constraint on the cost efficiencies that the industry could extract if cross border mergers could be achieved in a more frictionless manner.



Meanwhile, the airline industry is still cyclical and a margin downturn is in process

The recent cyclical peak in the world airline industry operating margin has been just that, another cyclical peak. Airlines have become better at some important things like capacity and cost discipline and are just starting to enhance their revenue skills. Nevertheless, the industry remains cyclical, even if it may now be able to maintain a higher midpoint in its margin cycle.

It will take a full scale economic downturn to reveal whether there has been a true structural change in the industry's profitability or whether recent years have just been a kind of super cycle. If there is another global recession any time, will margins fall to zero (or even less), as in past cycles, or will they bottom out at higher levels?

Either way, an airline margin downturn is already in process and this may turn into something more severe at some point in the coming years.

With this in mind, how should airlines try to ensure that they continue to make money in more challenging times?

Making money in a downturn: grow ancillaries...

Firstly, use your position in the market (ie where you control some elements, like procurement, brand) to grow ancillary revenues, which are typically more intrinsically profitable than the airline product.

The OEMs are doing it with MRO (but this raises the question of why didn't they do it before!).

...disrupt distribution...

Secondly, try to leap the distribution generation. NDC and related changes are legacy driven and evolutionary,

but bigger, more fundamental change is coming. Airlines need to prepare for revolution.

Distribution has to be disrupted. Digital technology presents airlines with the opportunity by to do this for themselves. Otherwise, other players will come in and occupy the space between airlines and their passengers. Failure to seize the opportunity could result in losing that direct customer relationship to third parties forever.

...explore retail opportunities

And distribution is not just about selling seats. The same skills can be applied to the broader retail opportunity. It's the ancillary tail that can wag the dog.

Those with retail and customer relationship skills, particularly when allied to newer transnational brands, can relegate the business of flight operations to a subcontracting arrangement.

Limited attempts have been made by airlines to exploit the potential for selling products to passengers who are held captive at 35,000 feet for 10 hours or more and whose financial credentials are already defined by their very presence on the aircraft. These attempts have typically been half-hearted, management preferring to focus on (the low yielding) business of flying and selling tickets.

But times change. The advent of better and better inflight wifi offers one new opportunity, but perhaps the most important new development is an increasing need to search out new potentials, accompanied by innovative non-airline.



...become virtual?

Excellence in aircraft operation will always be essential, but its centrality to the definition of what it means to be an airline company is fading. We're already seeing some symptoms of virtual airlines, with the rapid spread of ACMI/ wet lease companies. These are often filling temporary roles where for example seasonal aircraft shortages occur, but their ubiquity suggests a model that has multiple practical benefits to traditional airlines; even potentially challenging the archaic underpinnings of the international regulatory system.

...and develop partnerships

Thirdly, and overarching all of the above, partnerships are vital. Here is a simple fact: in other industries, businesses can use mergers to rationalise, gain global coverage and reduce competition. For airlines, ownership and control restrictions are a barrier to cross border mergers so they need to find others ways of partnering. This also applies outside the area of aircraft operation to which O&C rules most explicitly relates. Partnerships are also increasingly crucial, for example, in

developing distribution and ancillary revenue capabilities, in developing global brands (starting with the alliance system, this will grow with the development of virtual airlines) and in achieving cost efficiencies through suppliers.

There are many forms of partnership and, given the examples of other industries, seeking new forms of quasi-merger will become increasingly important.

Focus on ancillaries, distribution and partnerships - with or without a downturn

These ideas on how airlines can make money have been framed by the context of potentially more challenging times that may be lurking around the corner.

Certainly the changing macroeconomic and societal backdrop at means that airlines should be prepared for a period of squeezing margins.

However, the recommended actions around ancillaries, distribution and partnerships seem like good business sense for airlines at any stage of the cycle. In a changed world, creativity and innovation will be the characteristics of the long term survivors. **CAPA**

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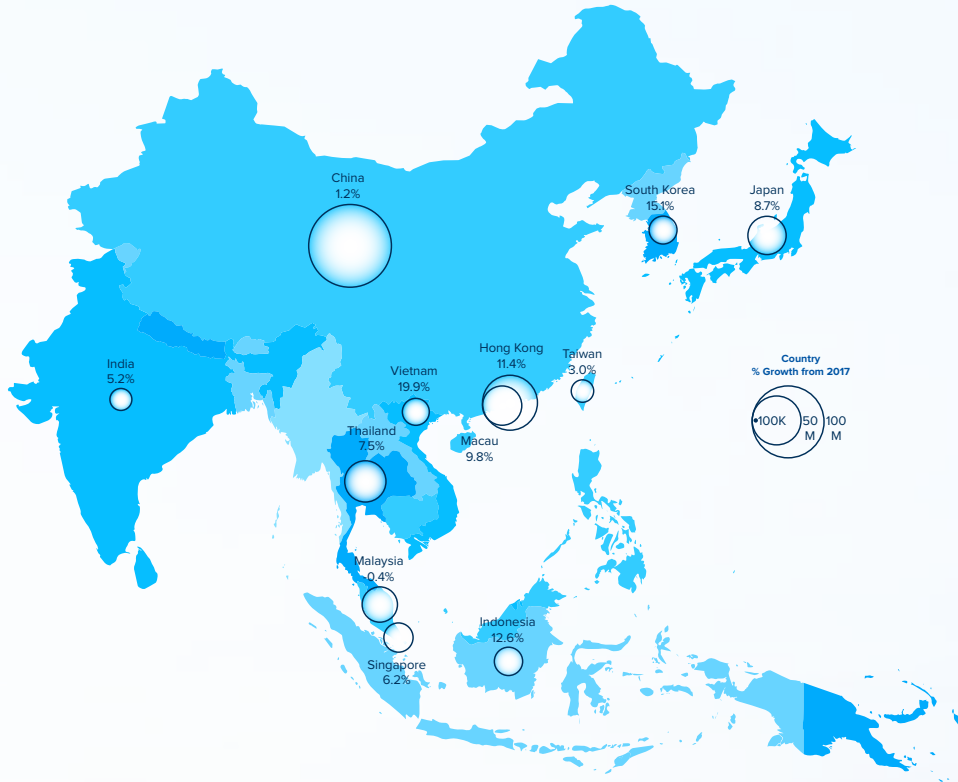
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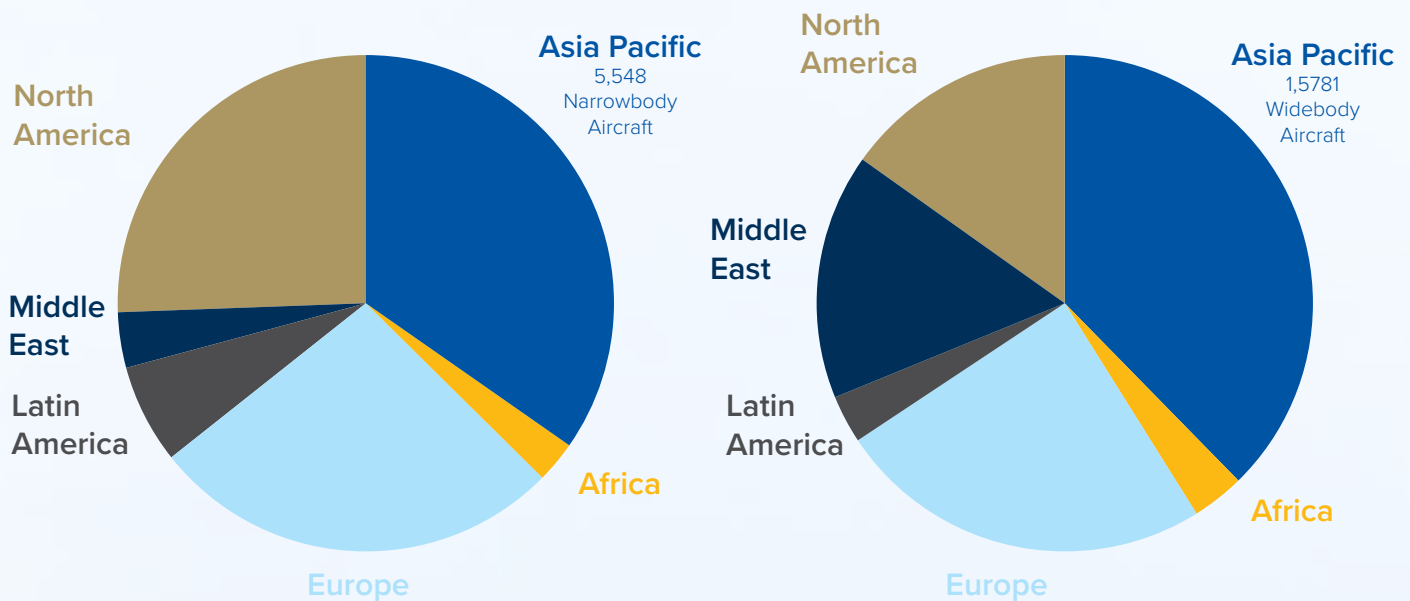
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Jun-20	Navi Mumbai International Airport	2.4	60
Dec-20	Ezhou Airport/Hubei International Logistics	9.3	1.5
Dec-22	Hanthawaddy International Airport	1.5	30
Dec-24	Long Thanh International Airport	16.3	100
Dec-24	New Jakarta Airport	7	70
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Dec-25	Western Sydney International Airport	8.4	82
Dec-26	New Daegu Airport	7.1	38

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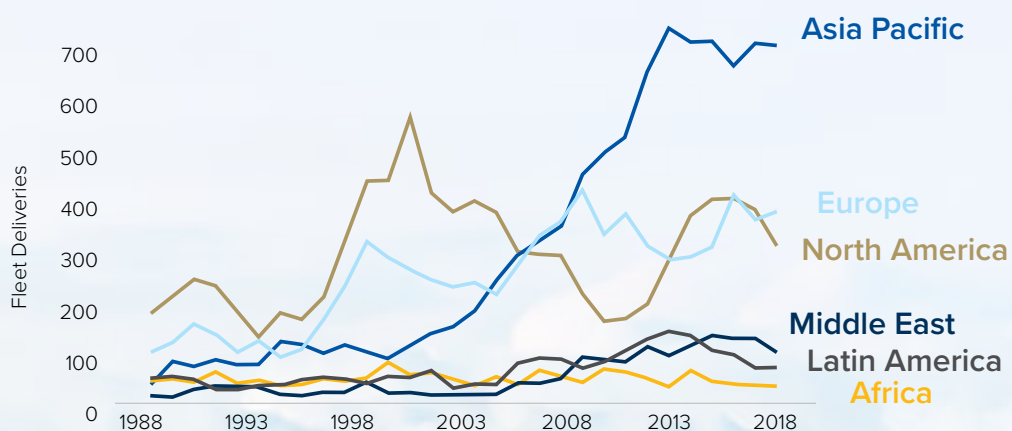
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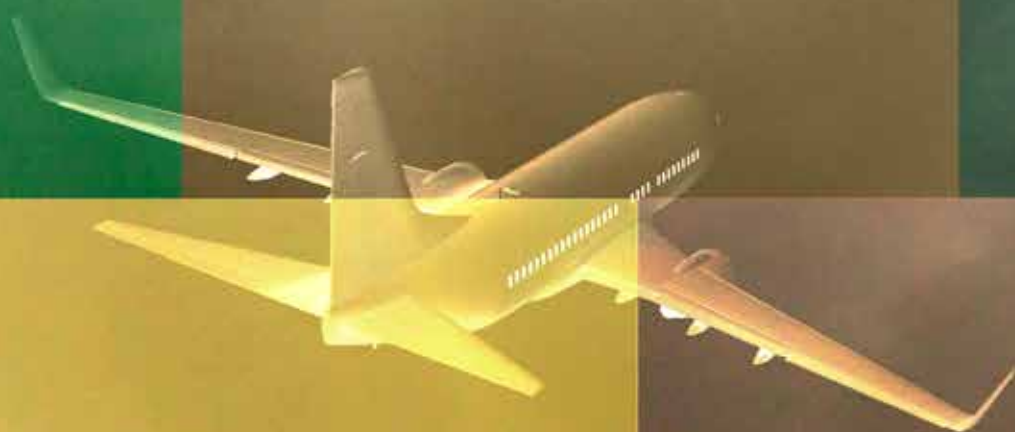
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CAPA 15-point Airline Survival Toolkit for 2019





AIRLINES MAKING MONEY:

Preparing for a gathering storm

OVER RECENT YEARS we've been through a period of relatively benign external inputs, with low fuel prices supporting lower fares and a solid global economy supporting demand. This has propelled the industry into a period of unprecedented profitability (although US airlines, mostly operating domestically, have accounted for around half of this).

The period of high profitability is unlikely to continue as oil prices, currently in the mid-USD60s/barrel for Brent Crude, creep up and as business and consumer confidence – at least, outside the US – slips rapidly.

The IMF recently issued a warning that the global economy is weakening “faster than expected” and downgraded GDP growth forecasts for 2019, and the European Central Bank has “substantially” revised downwards its economic growth projections for 2019, implying a slackening of demand in markets which have become increasingly price sensitive.

At the same time, the entire aviation system is undergoing a technology-led upheaval of volcanic proportions, challenging conventional norms and demanding new solutions to new problems (and opportunities).

Airline management's role is to prepare for and manage the airline prudently through good times and bad; in a downturn this means minimising the impact on profitability while remaining competitive.

Expressed differently, if a downturn is inevitable at some time in the next two years, industry stakeholders will expect management to be properly prepared.

For airlines to address this effectively, a broad range of tactics can be employed, aimed both at containing costs and at generating new revenue streams – as well as making preparation for post-downturn recovery.

In this respect, maintaining a strong customer relationship as cost cuts are made and focussing on the importance of brand integrity throughout will be key to a speedy recovery. It takes only a moment to undermine brand loyalty and a year to recover it.

This short CAPA report sets out some key tactics available to management to deploy in a downturn.

The report will also form the framework for CAPA's agenda and basis of discussion at the annual Airline Leader Summit, to be held at the Powerscourt in Dublin on 2/3-May-2019.

Our thanks to CAPA Senior Advisor, John Thomas for his extensive input to preparing the report.

An intensifying competitive environment and complex operational changes call for a level of corporate agility like never before



I. RESETTING THE CORPORATE MENTALITY TO ENSURE READINESS TO ADAPT ACROSS THE ENTIRE AIRLINE

Faced with turbulence in almost every area of activity, airline managements and boards are racing to try to keep ahead of the game.

Technology advances account for a large part of the new wave, but an intensifying competitive environment and complex operational changes call for a level of corporate agility like never before.

Cultures are changing, customers are becoming more demanding and many legacy operations are finding it difficult to adapt to the extent necessary. Turning the tanker around takes time.

As new airlines and new airline models tilt the balance, managements must strive to achieve a long term sustainable business with an adequate return on capital.

Over the past five years, some airlines - but far from a majority - have been able to achieve, or approach that level. Times have been relatively benign as external inputs, notably fuel costs, moderated and global demand proved relatively strong across the world.

But throw an economic downturn into the mix and an intensified focus becomes necessary.

In some ways this may be a good thing, creating a more acute sense of urgency and overwhelming residual inertia.

To navigate this new territory will require not only a shift in corporate mentality at the top, but also ensuring that the entire organisation is of like mind.

That requires leadership and innovation. And effective communication.

II. COMMERCIAL OPPORTUNITIES

1

Maximise revenues from corporate and business travellers

Given the pressure on (corporate dealt) premium passengers to trade down, maximise revenues from these passengers by:

- **Differentiating premium economy** offerings to trade down to - rather than trading down all the way to regular economy (e.g. selling the distinctive attributes of a Premium Economy cabin)
- **Being aggressive with a paid upgrade programme** (perhaps using supplier software) to maximise premium revenues, even when a percentage of passengers have been forced to trade down.

2

Capture more of the passenger's travel wallet

This not only improves the airline's economics but overall makes it more relevant to its passengers - and hence improves their stickiness/loyalty.

For example, premium passengers are not just looking to reduce their air spend, but their *entire* travel spend, so leveraging buying power with hoteliers and other suppliers and offering good value bundled travel packages to passengers through a holidays brand.

3

Loosen frequent flyer redemption capacity by finessing revenue management options

Ensure that frequent flyer capacity is revenue managed in conjunction with regular fare buckets. If they are currently distinct, then revenue management could be diluting revenues with lower yielding fares than could be achieved through frequent flyer redemption capacity. And ensure that capacity is released early enough for passengers to take advantage of. This not only helps lift revenues but improves customer satisfaction scores! Retaining customer loyalty is elusive but vital, as frugality prevails.

*Retaining customer loyalty
is elusive but vital, as
frugality prevails*

II. COMMERCIAL OPPORTUNITIES (cont)

4

Maximise ancillary revenues

Given they are typically not part of the initial purchase decision, ancillary revenues tend to be more resilient than up front air fares. But ancillaries must be merchandised (“the right offering, to the right person, at the right time, and at the right price”) rather than merely passively offered.

Ancillary revenues tend to be more resilient than up front air fares

Such measures as engaging with airport staff to sell add-ons more aggressively at check in (e.g. neighbour-free seating) are still very much underutilised. Airport operations staff like feeling they are contributing revenue, especially in tough times.

While the right controls must be in place, especially for example to minimise any shrinkage on bag fees, the primary focus should be on up-selling - to give passengers a better experience that they actually value.

5

Use non-price tools to gain share

Depending upon the type of route, cutting fares can simply exacerbate the revenue loss in a recession (e.g. thanks to inelastic demand curves).

Other tools can be deployed to win share in a recession, especially when passengers are less loyal to their preferred carrier – such as downgauging equipment to maintain frequency but still reducing capacity to enhance the share of “frequency sensitive” business travellers.

Maintaining or growing a frequency benefit will be most effective where competitors don’t have the flexibility to downgauge. This in turn means careful analysis of competitor strengths and weaknesses.

Maintaining or growing a frequency benefit will be most effective where competitors don’t have the flexibility to downgauge

6

Improve asset allocation

This involves carefully reviewing points of network strength as a means to gain share/strengthen market position for the inevitable recovery. Willingness to trade off and drop poor performing/non-strategic routes becomes vital, while placing greater emphasis on strengthening key routes.

This will require a broad company consensus on the airline’s network strategies.

III. OPERATIONAL/FINANCIAL OPPORTUNITIES

7

Leverage the flexibility of Group options

The same asset allocation strategy applies to groups. Where an airline operates a group of carriers, ensure resources are deployed effectively across each group member airline, as strength and ability to weather downturn will differ depending upon each airline’s market position.

Where an airline operates a group of carriers, ensure resources are deployed effectively across each group member airline

8

Work closely with partners - (i) airlines and (ii) others

The objective should be to develop a common view on how collectively to respond to a recession to avoid exacerbating a poor situation (i.e. stay connected at the hip – communicate, communicate, communicate!). Airlines operate with myriad partnerships of various kinds.

A comprehensive reassessment of alliance and partnership strategies is needed, including:

1. Getting partnerships in place, especially in critical markets
2. Finessing the way current alliances are working in order to maximise benefits, at the same time as reviewing the mutual benefits
3. Ensuring the structures of current alliances are optimal – e.g. can they be moved to ATI JVs? - and if so, should the structure be adjusted to align incentives between partner airlines better?
4. Where possible, realigning partner relationships with other members of the aviation supply chain, for example:
 - i. Negotiating with lessors, OEMs, airports and others with a view to sharing the (temporary) pain.
 - ii. Developing a common go-to-market strategy with credit card partners, more closely aligning with preferred hotel providers.

A comprehensive reassessment of alliance and partnership strategies is needed

III. OPERATIONAL/FINANCIAL OPPORTUNITIES (cont)

9

Reduce capacity selectively

While daily utilisation is a key value driver for most airlines, load factor trumps utilisation in terms of value creation, especially in a recession. As such, load factor should be managed by taking out capacity. This can be extremely difficult if the fleet is young (due to the high ownership cost) where a drop in utilisation will have a big impact on CASK.

Conversely if the fleet is old, then this “free”, low capital cost, resource can be used to take out capacity (e.g. Northwest was one of the best placed US airlines after 9/11, as it had a fleet of very old, refurbished, DC9-10s that had minimal ownership costs, allowing Northwest to withdraw them from the system temporarily at minimal cost, compared with grounding a brand new fleet).

10

Move to defer fleet orders

Deferral should be done as far out as possible, in order to achieve capacity reduction goals of #9. The worst possible time to be levering up the balance sheet with expensive new aircraft is during a recession (note, however, it is a good time to *place* orders, just not to take deliveries).

The worst possible time to be levering up the balance sheet with expensive new aircraft is during a recession

11

Ensure products selectively offer the greatest relevance with target markets

It is important to ensure that key products continue to be funded - while pulling back service offerings that have little value to customers (NB: this should not be based on the airline’s opinion of these attributes but ascertained through independent, objective and quantified customer research. Airlines are always surprised at how much ‘waste’ there is!).

Airlines are always surprised at how much ‘waste’ there is!

III. OPERATIONAL/FINANCIAL OPPORTUNITIES (cont)

12

Prepare for recovery

In the medium term, preparing for recovery can be almost as important as recession-proofing itself. The ability to bounce back once conditions improve will be rewarded by longer term market strength:

The ability to bounce back once conditions improve will be rewarded by longer term market strength

i. Use reduced flying activity to re-set the business for the recovery

For example, clear up outstanding crew leave entitlement, use excess capacity to bring forward heavy maintenance etc.

ii. Maintain investments that allow speedy response

Focus on investing in areas that enable a quick recovery as the upturn occurs e.g. maintain pilot recruiting and cadetship programmes.

13

Eliminate unnecessary structural overheads

In the case of Group airlines, make a hard assessment as to what can be centralised (for both cost and revenue benefit) vs leaving the roles with the individual airlines.

14

Move towards operating as a “virtual” airline

Review what fixed costs can be turned into variable costs (or at least to flex the cost base in a downturn; for example, staggering aircraft lease dates gives much more flexibility in an airline’s cost base). The growing use of ACMI/wetlease services, while individually expensive, can provide much greater flexibility in resource allocation.

Review what fixed costs can be turned into variable costs

15

Make Labour part of the recession “solution”

Ensure open communication with unions so that (i) there is a common understanding of company goals; (ii) they know and have buy-in to the game plan to weather the storm; and (iii) they accept that any cuts directly related to the recession will be reviewed when certain triggers are tripped on the upturn. CAPA

Ensure open communication with unions

ONCE THE 'PRIDE OF AFRICA':

A restructured and reborn South African Airways is on a journey back to profitability

South African Airways Group CEO Vuyani Jarana



As he outlines the national carrier's own development, South African Airways Group CEO Vuyani Jarana believes the limitations of transport services in Africa are continuing to hold the continent back in terms of trade and connectivity. In a market where the geographic scale of Africa represents a challenge, and effectively can be viewed as a "continent of continents" he suggests new business and commercial models must be developed to suit Africa. He says revolution in air transport will require more than just regulatory change, and governments must appreciate the economics of the aviation sector and the impact of excessive charges and taxes. However, such reform policies are not easy for governments to implement unless they are provided with clear economic models of the benefits of air travel.

South African Airways is continuing its business-wide restructuring

Well, I think we're making great progress in terms of implementing the strategy. We've completed most of the route network optimisation and we are seeing good results coming through. Obviously our big focus now is

around fleet and taking out some of the procurement costs to improve margins. We've also just completed the organisational architecture design. We want to build a truly international business so that we can make sure that there's a greater P&L accountability. We need to continue to work on the implementation, procurement benefits realisation and evolving the IT stack for the organisation so that we can fully embrace digital and provide private pricing and opportunities to build products that would increase revenue. We've made great progress, but there's still a lot of work to be done.

Delivering fresh business insights - the benefits from a career outside of aviation

I think it gives me the ability to question and challenge the process, especially because I come from an industry that's highly retail orientated and very customer centric. It gives me the opportunity to ask why things can't be done differently. I've found that a lot of my colleagues who are aviation experts, are very open to ideas that take a very pro-retail approach to business and evolving the traditional aviation methodologies. So, I'm finding



that good combination of chemistry. My job is to evolve, to push for the customer advocacy, to push for opportunities that build product stacks that can increase revenue and optimise our performance overall. So, I'm finding it quite a good experience and my colleagues are quite open to the challenge that I'm putting on the table.

The Single African Air Transport Market (SAATM) provides a platform for engagement

I think The Single African Transport Market policy framework is a very good policy framework because it creates a unitary platform for business to engage. However, policy alone is not going to move the needle. We need business leaders and commercial models to evolve from policy to strategy to execution. Now, if you look at the US for example, they've built a strong aviation sector through consolidation. Imagine if every state in the US had its own airline and its own policy. You would not be able to achieve that kind of scale. I think The Single African Air Transport Market policy seeks to create an alignment and an aggregate effect. We need to move beyond that, and say what models can we build that are still pro-competition

but at the same time distributing benefits across the geographical footprint, so that we have a much more sustainable aviation sector in the continent [Africa]. As leaders of the industry, that's what we need to strategically be served with.

The roadmap to bring South African Airways back to profitability

We should have gone past breakeven point. We should be able to build a very strong company that is truly international with rich skills in the commercial aircraft maintenance area. Once you've built that, we believe that the challenge of geography and being at the end of hemisphere can be resolved through commercial engagement, such as better metric planning, where you start to push more regional footprint to allow you to better utilise the aircraft. So, those commercial challenges can be resolved, but I think the big thing is to build a capable organisation that is self-sustainable. We think in five years' time we should have gone past breakeven point and built a much stronger airline that's able to challenge the market a lot more aggressively.

airBaltic EYES WESTERN EUROPE BASES: In ambitious growth plan

Produced by

AVIATION WEEK
NETWORK



AirBaltic is one of Europe's fastest-growing carriers, with a goal of reaching 15 million passengers by 2025. CEO Martin Gauss outlined his plans to develop a network which spans from its heartland in the Baltics to new airports and bases across Europe.

In 2018, airBaltic was one of the fastest-growing carriers in Europe, with OAG data showing an 18% increase in capacity for the year to 5.6 million seats.

The carrier is targeting 5 million passengers in 2019 and has growth plans to hit 15 million by 2025. It's a strategy that will see the Latvian carrier open new bases in Western Europe and add a host of new airports to its route network. An amazing turnaround from a few years earlier when, in the words of CEO Martin Gauss, the carrier was in a "very bad position".

In 2015, the airline offered just 3.8 million seats, a 40%

fall from the 2010 peak, which it has only now surpassed.

The carrier undertook an extensive restructuring that has resulted in a revival in fortunes and which included transitioning from Boeing 737s and Bombardier Dash-8 turboprops to an all-Airbus A220 fleet.

airBaltic was the launch customer for the A220-300, a strategic decision that Gauss says was endorsed now the aircraft is seen as "the superstar in its category."

"The A319 and the 737 are heavier, while all aircraft have the same engine technology. So, just from a weight point of view, the A220 is the most efficient aircraft," Gauss said.

The airline has also focused on customer satisfaction and punctuality. As a result, airBaltic has built the platform to become a "profitable airline which is on a positive growth path", reflected in an 18% increase in revenue to €408.7m in 2018, with a €5.4m profit. It aims to reach €1.5bn revenue by 2025.



airBaltic now has 18 A220-300s in service and a further 32 on order. Gauss explained that the Baltics remain a priority for growth.

“Our business plan calls for up to 50 A220s to be based here, expanding from Riga which stays a hub and spoke airport, but also Tallinn and Vilnius; we’re adding aircraft to these two bases,” Gauss said.

However, with another additional 30 aircraft on option, Gauss has flexibility in its growth plans.

“If we exercise these options, we have identified other airports in Europe where we’re going to base the aircraft and fly the same concept, but it would not be in the Baltics,” he said. “It would be a point-to-point operation to other countries outside the Baltics.”

“We are already pretty far in the East, so if we talk about a move it has to be West. The maximum [range] we can reach in Asia is India’s west border and there is no airport

there which would make sense for us to serve.”

airBaltic serves more than 70 destinations direct, but its network of 21 codeshare partnerships means it can access more than 300 cities with one stop.

“The beauty of our codeshare network is that we have strong agreements through all alliances; there is no alliance which is not represented,” Gauss said.

This network also offers a key advantage - airBaltic’s hybrid strategy of ultra-low-cost and high-end business class, giving codeshare partner passengers in the front of cabin the experience they expect.

“These partnerships work very well for us; if we now decided to join an alliance we would maybe have some benefits, but we would have to give up the codeshares,” Gauss said.

- Wesley Charnock/Routes Wesley.chnock@ubm.com





REBOUND SEEN IN U.S. SMALL AIRPORT SCHEDULE CAPACITY

Produced by



Small U.S. airports are seeing significant capacity increases in the first half of 2019, following years of stagnant growth or even declines. Network carriers are pursuing renewed interest in hub growth in smaller markets while ultra low cost carriers are extending their reach into previously-untapped territory.

Based on schedule data sourced from Airline Data Inc., in the first half of 2019 U.S. airports ranked from #201-#500 (based on 2014 domestic O&Ds) experienced an 8% increase in scheduled seats over the same period five years ago. This 8% figure represents the only YOY scheduled seat increase of greater than 1% for this market subset over the last decade. In total, 1H19 seat capacity in this grouping is now +1% over a ten year period, with this year’s increase offsetting previous declines.

Furthermore, 1H19 scheduled departures in this subset were up 5% YOY following seven straight years of departure declines ranging from four to twelve percent.

Slightly larger and more traditional mid-sized airports continue to build on strong recent capacity gains, outpacing their larger airport peers. For the 1H19, airports in market groupings #51-#100 and #101-#200 experienced scheduled seat capacity increases of 8% and 10% respectively – marking a third straight year in which these facilities have outpaced larger airports. 1H19 departure increases were also strong across these groupings (6% and 8% respectively), although each subset still shows double digit percentage declines over the past decade.

- AWIN@aviationweek.com

1H 2019 SCHEDULED SEAT CAPACITY TRENDS BY U.S. AIRPORT SIZE

Market grouping	1 year change	3 year change	5 year change	10 year change
1-25	+5%	+8%	+17%	+20%
26-50	+5%	+11%	+18%	+17%
51-100	+8%	+20%	+23%	+3%
101-200	+10%	+20%	+21%	+17%
201-500	+8%	+9%	+7%	+1%

1H 2019 SCHEDULED DEPARTURE CAPACITY TRENDS BY U.S. AIRPORT SIZE

Market grouping	1 year change	3 year change	5 year change	10 year change
1-25	+3%	+4%	+6%	+4%
26-50	+4%	+6%	+6%	-2%
51-100	+6%	+11%	+8%	-15%
101-200	+8%	+8%	-1%	-11%
201-500	+5%	-13%	-23%	-31%

JETBLUE PROMISES TO MAKE WAVES IN TRANSATLANTIC MARKET

Produced by



If you are looking for the next big splash in airline

competition, look no further than the transatlantic market and New York-based JetBlue Airways.

In April, JetBlue confirmed long-anticipated plans to enter the transatlantic market, beginning with service to London from Boston and its home base, New York JFK, in 2021. Few other details have been released, but services will be operated with Airbus A321LRs. And CEO Robin Hayes has declared JetBlue will “drastically reduce fares” in the transatlantic market, especially in the premium cabin. That’s sufficient bait to get the sharks circling in the Atlantic.

Within days of JetBlue announcing its London plans, Delta Air Lines said it would begin service with its UK joint venture partner, Virgin Atlantic, between Boston and London Gatwick from spring 2020, and add a Virgin-operated morning service from Boston to London Heathrow.

But Hayes, who indicated some three years ago that he was looking at the transatlantic market, is fully prepared for the fight with Delta, American Airlines and United Airlines, which have waged campaigns against the Gulf carriers, Norwegian and Air Italy.

“There is no doubt that the three legacy airlines have the ability to legally collude with their counterparts and to coordinate their schedules. There is no doubt that they want to pull up the drawbridge and stop new competition coming in. We have seen it with Norwegian and Air Italy; we’ve seen it ourselves in Atlanta over the last few years,” Hayes said. “We have created this massive block of

airlines; there are really now only three airlines operating in the transatlantic market.”

Hayes says he knows what to expect. “We have seen it before. Their response is to add capacity and drive you out. We know the legacies’ game-plan and it’s the same one they done before and we feel emboldened because there is such little competition.”

While it was not the driving factor in JetBlue’s decision to expand into the transatlantic market, its failed bid for Virgin America—which Alaska Airlines won—had an influence, Hayes acknowledges.

“When we were unsuccessful [on the bid], we deliberately expanded the Mint [premium cabin] franchise and that was very successful. It gave us the confidence that we could go even bigger and into Europe. We saw we had the ability to disrupt this market,” he said.

JetBlue’s executive team believe they have some core advantages to support that confidence. First, they have taken on the “big three” before—and on their home territory—when they launched US transcontinental services. Skeptics said they would eventually be driven out of that market as the legacies lowered fares and added frequencies. But demand for JetBlue’s JFK and Boston flights to the US west coast has stayed strong.

A powerful tool in the transcontinental launch strategy was Mint, a new premium cabin that JetBlue created for its A321s and which includes lie-flat beds, privacy doors and upscale dining, such as Tapas and boutique-vineyard wines. When JetBlue launched Mint, almost all domestic first-class cabins on other US airlines offered only reclining



seats with maybe a soup and a salad.

“What we have always looked for in a market, and what JetBlue does best, is places where there are very high fares. We lowered US transcontinental fares by 50% and you stimulate the market that way,” Hayes said.

For its London services—and other European cities to follow—Hayes says JetBlue will further “reimagine” the Mint product to make it even more attractive to the international business traveler and make it feel “more like a business jet experience.” In the end, he points out, Boston-London is only about an hour longer than Boston-Los Angeles, so the airline has gained experience through Mint on how to cater to the business traveler on longer flights.

Another tool in JetBlue’s European expansion strategy is the A321LR. “The Airbus A321LR is the first narrowbody that can compete in this market because it has widebody costs. We can make this work,” Hayes said.

Which London airport JetBlue goes to and how frequently will depend on how successful the airline is at getting slots. JetBlue is not saying which London airport or airports it will serve, but if Heathrow is on the menu, the gloves will really come off. The battle will be over how to wrench some slots from the hands of the alliance-joined legacies.

“We can go in with our friendly crews, low fares and good service, as we did with Mint. But we don’t have some of the slots we need at some of the busiest airports in Europe. If [regulators] don’t want to dismantle the joint ventures, we have to set some rules, such as slot divestiture,” Hayes said.

For some time, and especially in the past year, Hayes has been building his case for what he says is an increasingly uncompetitive market created by immunized joint ventures. JetBlue is not against the alliances per se, but is seeking checks and balances like regular reviews and more access to slots and gates for new entrants.

In the transatlantic market, JetBlue has been vocal about its concerns that the US majors’ campaigns against Air Italy—in which Qatar Airways has a 49% stake—and Norwegian, which the majors accused of being a “flag of convenience carrier”, could lead to retaliation from Brussels if it felt the US was not abiding by its Open Skies agreement with the European Union.

And JetBlue is challenging the proposed transatlantic joint ventures of Air France-KLM, Delta and Virgin, and

American with International Airlines Group (IAG) carriers British Airways, Iberia and Aer Lingus, arguing the two applications should be considered within a single, comprehensive review because of their size and impact on transatlantic competition.

JetBlue sees precedent for lawmakers to have stronger oversight on the anti-trust immunized joint venture alliances. The US Department of Transportation, in granting Delta’s joint venture with Aeromexico, included a condition that the airlines had to re-apply for their landing slots, which led to the divestiture of 24 slots at Mexico City, some of which JetBlue obtained.

“We think there’s a roadmap and precedent for lawmakers to provide access to slots. If access is protected, the entrepreneurs will come in,” Hayes said. “The more access we can get to Heathrow or Gatwick, the better.”

He added that the company has been “very encouraged” by US lawmaker response to its viewpoint. “There is definitely an understanding that the industry has reached a very concentrated level of consolidation. The only thing keeping them honest [in the US market] is the LCCs,” he said.

Hayes is not worried about JetBlue’s lack of connecting flights relative to the legacies and their global alliance partners.

“Eighty percent of our traffic is O&D. We have never been very connected, so we look at Europe in the same way. I think we will end up working with some airline partners, but we don’t assume that in the business case. But we do have 50 bilateral partners today.

“In the summer, there is a lot more demand than supply on transatlantic. The issue is winter. I think our flying a narrowbody mitigates the risk significantly.”

JetBlue also sees a boost to its loyalty program by being able to offer Europe as a destination.

“The utility of our program is what you earn; have fully flexible redemptions. The challenge is the number of destinations we can offer. So Europe will make our loyalty program stronger and we that will help us,” Hayes said. “Ultimately, we want to be a great place to work, give our customers a great service while saving them a lot of money, and deliver to our shareholders. And that’s the permission slip we have to continue to grow.”

- Karen Walker/ATW Karen.walker@informa.com



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This is a selection of the news briefs published by CAPA on 01-Jun-2019, from our analysts based onsite in Seoul together with our correspondents in Sydney.

CAPA EXCLUSIVE

Royal Jordanian targeting 3%-4% p/a growth from 2020 to 2025 as it focuses on profit

Royal Jordanian CEO Stefan Pichler told CAPA on the sidelines of the IATA AGM, the airline plans to grow by 18% from 2020 to 2025. This will provide a modest growth rate of 3% to 4% p/a. Royal Jordanian's strategy is to focus on profitability instead of growth or market share. Mr Pichler noted the airline generated a record result for the first quarter in 1Q2019 and he is similarly bullish on the outlook for the remainder of this year.

Royal Jordanian to make narrowbody replacement decision within two months

Royal Jordanian CEO Stefan Pichler told CAPA on the sidelines of the IATA AGM, the airline plans to decide on narrowbody replacement in the next one to two months. Royal Jordanian is looking at acquiring around 22 narrowbody aircraft which would allow a modest amount of growth in fleet replacement. Mr Pichler said the airline is talking to Airbus, Boeing and Embraer. Talks with Airbus included the A220 and A320neo aircraft families. Deliveries are expected from 2020 to 2025. The carrier's narrowbody replacement plan will include a mix of leased aircraft and direct purchases. According to the CAPA Fleet Database, Royal Jordanian operates a mixed narrowbody fleet of 12 A320ceo family aircraft and four Embraer E-Jets. Mr Pichler said a decision has not yet been made on whether to maintain a split fleet or go with a single type, but noted it would be more efficient to have one type given the airline's relatively small size.

Royal Jordanian hoping to resume service to Syria later in 2019

Royal Jordanian CEO Stefan Pichler told CAPA on the sidelines of the IATA AGM, the airline hopes to resume service to Syria later in 2019. Mr Pichler said Royal Jordanian is focusing on regional connectivity within the Levant, as it looks to grow sixth freedom traffic. While instability in the Levant remains a challenge, Royal Jordanian the region has relatively limited competition and high yields. Royal Jordanian cannot rely too heavily on local or point to point traffic due to the intense competition from LCCs in Jordan, according to Mr Pichler.

LATIN AMERICA

IATA: Latin American & Caribbean needs frameworks that help rather than hamper growth

IATA regional vice president for the Americas Peter Cerda stated "We need to make sure we have the right political frameworks that are helping rather than hampering growth of the industry" in the Latin America and Caribbean region. Mr Cerda said regional governments need to stop looking at aviation as "a cash cow" but to "facilitate economic development," he said.

IATA: Latin American & Caribbean region is 'very fragile', influenced by social & political factors

IATA regional vice president for the Americas Peter Cerda stated "Latin America and the Caribbean is a very fragile region that is easily influenced by social and political factors." Mr Cerda said regional governments need to "be smart about regulations".

IATA: Latin America & the Caribbean is an 'expensive region to do business' stifling growth

IATA regional vice president for the Americas Peter Cerda stated Latin America and the Caribbean "continues to be an expensive region to do business". He said: Airlines are "penalised by high taxation and charges" that are "imposing a huge burden on airlines and stifling traffic".

IATA: Airport and airspace improvements are needed in Latin America

IATA regional vice president for the Americas Peter Cerda stated airport and airspace improvements are needed in the Latin America and Caribbean region. These include the combination of air traffic management and airport infrastructure in Sao Paulo and new air traffic management infrastructure for Buenos Aires and Panama City. Mr Cerda also noted that in Lima the new terminal and second runway are "moving too slowly".

IATA: The ‘industry will be penalised’ by airport infrastructure plans for Mexico City

IATA regional vice president for the Americas Peter Cerda, speaking at a media briefing on the sidelines of the 2019 IATA AGM and World Air Transport summit, said (01-Jun-2019) the “industry will be penalised” by the Mexican Government infrastructure study for Mexico City. However, he acknowledged that even the original new airport project was already “coming 15 years too late”. Despite the clear infrastructure issues IATA “see[s] good growth in Mexico City and across other airports in Mexico,” added Mr Cerda.

IATA warns three airport proposal for Mexico City could lead to transit traffic leaving the region

IATA regional vice president for the Americas Peter Cerda highlighted that its current regional forecasts for the Latin America and Caribbean region are related to the “right infrastructure with the right policy”. This could influence projections for Mexico City, with the Mexican Government’s three airport proposal likely to be “very inefficient for passengers to use it for transfers”. Mr Cerda said this could lead to passengers connecting via other points outside of the region.

IATA: Argentina and Chile provide positive examples of deregulation for Latin America

IATA regional vice president for the Americas Peter Cerda highlighted Argentina and Chile as positive examples in Latin America. Mr Cerda said Argentina’s deregulation of domestic airfare pricing and move to end a ground handling monopoly should be praised.

IATA: Evidence shows taxes are higher than fares in Colombia

IATA regional vice president for the Americas Peter Cerda highlighted that in Colombia there is evidence that “taxes are higher than the fares being offered by airlines”.

IATA: Latin American & Caribbean aviation industry needs to make ‘significant progress’

IATA regional vice president for the Americas Peter Cerda stated “significant progress needs to be made” for the Latin American and Caribbean industry to match other global regions. “Profit per passenger is less than the global average,” he acknowledged. Airlines in the region “don’t make enough to buy a coffee at this [IATA AGM] hotel” said Mr Cerda.

IATA: Regional economic outlook is ‘positive’ for Latin America and the Caribbean

IATA regional vice president for the Americas Peter Cerda, speaking at a media briefing on the sidelines of the 2019 IATA AGM and World Air Transport summit, stated: (01-Jun-2019) “The regional economic outlook is positive” for Latin America and the Caribbean. The region generates USD156 billion in GDP, supports 7.2 million jobs, connects with 160 global cities and has 2.6 million flights p/a, according to IATA.

EUROPE

IATA urges European states, ANSPs and labour groups to avoid repeat of 2018 summer ‘debacle’

IATA regional vice president for Europe Rafael Schwartzman said European air traffic delays increased more than 100% year-on-year in 2018, and “we expect that 2019 will be at least as bad”. The increase in delays is “a huge problem for airlines, passengers and it is affecting the reputation of our businesses and industry”. Mr Schwartzman said for the peak summer travel 2019 IATA would like states, ANSPs and staff associations to look at how staff is deployed “to avoid the debacle we had last summer”.

IATA: French idea to push short haul travel to rail shows a bias and is ‘unfair on aviation’

IATA regional vice president for Europe Rafael Schwartzman stated that a French suggestion to push shorter domestic journeys from air to rail may be good for customers if giving a choice option, but focusing on just one mode of transport “is unfair on aviation” and has a “bias focus and we believe that intermodality is the key”. He highlighted passenger flows are more than just point-to-point and air travel offers greater and more efficient connectivity opportunities.

IATA: New European airport capacity should match demand and costs should be reasonable

IATA regional vice president for Europe Rafael Schwartzman stated new European airport infrastructure capacity “should match demand and user costs should be reasonable”.

IATA: Europe’s capacity crunch is an embarrassment for the industry

IATA regional vice president for Europe Rafael Schwartzman stated Europe’s capacity crunch is an embarrassment for the industry. Mr Schwartzman stated “Inconsistent ATM service levels are creating delays,” and “delivering unnecessary increases in CO2 emissions”.



IATA: European airspace should not have borders

IATA regional vice president for Europe Rafael Schwartzman stated that country-level national airspace strategies are delivering a framework for the future. "Europe's airspace should not have borders" he said.

IATA to release more air transport regulatory competitiveness indicators reports in 2H2019

IATA regional vice president for Europe Rafael Schwartzman stated the association will release more of its air transport regulatory competitiveness indicators reports. IATA has already released reports on Sweden, France, Portugal and Romania "with more to come in the second half of this year," he said. Five key elements are defined to determine the ease of doing business and therefore influence the level of air transport regulatory competitiveness of the country: passenger facilitation, cargo facilitation, supply-chain competitiveness, infrastructure and smarter regulations.

IATA: We are now at 35 years of non-implementation of SES and focus should be national level

IATA regional vice president for Europe Rafael Schwartzman stated that the industry needs to work with individual states rather than at an European Commission level to align national strategies. He said we are now marking 35 years of the non-implementation of Single European Skies (SES).

AFRICA-MIDDLE EAST

IATA: Single African Air Transport Market is 'not a myth, it is reality', but results still to come

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri stated the Single African Air Transport Market (SAATM) is "not a myth, it is reality... States believe in the benefits it will bring and have signed up in good faith". Mr Al Albakri acknowledged that it is the implementation of SAATM that remains difficult. "We are hoping that more tangible traction and results will open towards the end of this year, perhaps in 2020," he added.

IATA: ATM causing an average delay of 29 minutes per flight in the GCC

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri highlighted air traffic management in the Middle East is causing an average delay per flight in Gulf Cooperation Council (GCC) states of 29 minutes. Without "urgent improvements" this will cost the industry heavily. "The skies are over congested and mainly controlled by the military" and are "causing huge delays," he explained.

IATA: Blocked funds are a 'never ending issue'

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri highlighted IATA is doing a lot in its attempt to release airline funds blocked by states. "We have special task forces developed to work with the specific states". But, he said: "It is a never ending issue. We put out a fire in one place and another starts elsewhere".

IATA: Africa responsible for two thirds of all funds blocked for airlines globally

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri highlighted that as at 31-Mar-2019 Africa was responsible for two thirds of all global blocked funds. He highlighted Zimbabwe, Sudan, Algeria, Angola and Eritrea as the biggest offenders across the continent.

IATA: Enhanced intra-African connectivity would 'move the Continent to a new level'

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri stated that enhanced intra-African connectivity would "move the Continent to a new level". However, he acknowledged that "we have been talking about connectivity for 20 plus years in Africa". While, he noted "there has been progress," he said "taking tangible steps have remained a challenge in Africa".

IATA: Safety has been and will continue to be our biggest priority for Africa

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri, stated for Africa "safety has been and will continue to be our biggest priority". He said: "global standards are critical" and noted only 26 African states meet 60% of ICAO standards and recommended practices. "This is a very low figure," he added.

IATA: Profitability the clearest challenge for aviation in the Middle East and Africa

IATA regional vice president for Africa and Middle East Muhammad Ali Albakri stated that regional challenges remain across the Africa and Middle East region with profitability the clearest - Africa and Middle East carriers again reported a collective losses in 2018. Oil price influence, the strength of the USD, political unrest and a skills shortage were also highlighted as "main challenges".



INFRASTRUCTURE ISSUES

IATA outlines potential for 'biometric identity' to track a passenger's bags

IATA senior vice president airport, passenger, cargo, security Nick Careen stated that "using tracking technology and linking it to your travel identity" there is the potential to develop a biometric identity for baggage. "We are keeping in mind that solutions developed for passenger identity may be transferable and useful for baggage identity. Your bag could have a kind of 'biometric' identity too."

IATA: Benefits of digital transformation outweigh problems, but we need to watch other industries

IATA senior vice president airport, passenger, cargo, security Nick Careen acknowledged there will always be issues with digital transformation and customer perceptions, but said it is clear "the benefits will far outweigh the problems or issues people may have". On concerns of any potential biometric backlash that has impacted other industries hitting the aviation sector too, he said: "We have to watch what happens with the use of biometrics across all industries. Our latest customer survey shows we are still in the 80% of customers wanting this in the airport environment".

IATA: Slot auctions not a benefit to consumers and eliminate certainty for airlines

IATA senior vice president Paul Steele stated "Slot auctions do not benefit the consumers as they eliminate the certainty airlines need to make investment decisions and expand into new markets, with consumers ending up with reduced choice and connectivity".

IATA: No evidence slot actions are a solution for market entry or access

IATA senior vice president Paul Steele stated "slot auctions are not a solution". While some economists and regulators believe that slots should be auctioned to reflect the scarcity of the slots and need for market intervention thinking it could somehow be fairer, he explained: "to date there has been no hard evidence in support and all the evidence currently available suggests the opposite such as auctions in China failed to deliver entry or access".

IATA outlines NEXTT vision of a personalised, seamless, secure and efficient walking pace journey

IATA senior vice president airport, passenger, cargo, security Nick Careen outlined IATA's New Experience Travel Technologies (NEXTT) visions. For the passenger journey, he said it is to deliver "a seamless, secure and efficient walking pace journey that is highly personalised throughout". For the baggage journey, it is for "convenient and hassle free handling and tracking of baggage for passengers, with greater choice of service offerings". For the cargo journey it is for "efficient operations and modern technologies to support easier, smarter and faster movement of cargo". For the aircraft journey, it is for "predictable, safe and fully coordinated aircraft turnaround processes every time".

IATA NEXTT vision pulls together work from disparate areas into a common direction

IATA senior vice president airport, passenger, cargo, security Nick Careen stated IATA's New Experience Travel Technologies (NEXTT) "pulls together all of the work that's being done in our security, airport operations, passenger and cargo facilitation teams, on biometrics, on autonomous vehicles and on digital transformation." He added: "It ensures that we have a common direction, and all projects benefit to maximise its interoperability with others".

IATA: Airport privatisation comes at a price, which airlines and consumers have to pay

IATA senior vice president airport, passenger, cargo, security Nick Careen said that though airport privatisation may not have reduced charges or boosted efficiency, "profits are significantly higher". He added: "Clearly airport privatisation comes at a price – a price which we and our customers have to pay".

IATA: Seoul Gimpo-Jeju was the busiest domestic route in the world in 2018

IATA reported Seoul Gimpo-Jeju was the busiest domestic route in the world in 2018. According to OAG data, there are five carriers operating on the route: Asiana Airlines, Jin Air, Jeju Air, Korean Air and T'way Air (which codeshares with Eastar Jet).

IATA: Asia Pacific accounts for more than 90% of air travel into South Korea

IATA reported the Asia Pacific is the largest market for passenger traffic flows to and from South Korea, followed by North America and Europe. Passenger arrivals by region for 2018 were:

- Asia Pacific: 61.9 million passengers, 91.1% of total traffic;
- North America: 3.1 million, 4.5% of total;
- Europe: 2.5 million, 3.7% of total;
- Middle East: 237,000, 0.4% of total;
- Africa: 101,000, 0.2% of total;
- Latin America: 69,000, 0.1% of total.



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Summit closes: 15:30



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