FIFTY SKY SHADES

GULF AIRLINES REMAIN AT CLOSE QUARTERS OVER OPEN SKIES

News / Airlines

Aviation policies or “open skies” was the main theme in the airlines business last year.

First, American carriers got tangled with their Arabian Gulf rivals in a long, dismal tale with both sides portraying the other as a beneficiary of protectionism.

In March, three American airlines – Delta, United, and American – disclosed what they called a detailed piece of investigative work. The report alleged that their three Gulf rivals – Emirates, Etihad Airways, and Qatar Airways – were receiving handouts from their governments to the sum of US$42 billion.

The Gulf carriers said the report was baseless.

Regardless, the US carriers asked their government to intervene, a process that, after a lot of noise, has led to nothing.

About the same time, European airlines – namely Lufthansa, Air France, and KLM – were also picking up momentum in their battle against Gulf carriers. By March, they had asked their transport ministers to urge the European Commission (EC) to look into alleged government subsidies for Gulf airlines, signalling more alarm than their American counterparts.

Fast-forward to last month, and the EC raised concerns over the way Gulf carriers operate in Europe and published a new aviation strategy. It called for comprehensive agreements between the European Union (EU) and GCC states based on common rules and transparency. In a memo, the EC revealed that the UAE had more direct traffic with the EU than China, India and Japan combined. It also said that the total number of seats available on scheduled flights between the EU and the six GCC states had increased to 39 million this year from 12 million in 2005.

The commission added that it would issue interpretative guidelines on the application of a key 2008 regulation covering the ownership and control of EU airlines. This could have implications for Etihad Airways, which has taken stakes in several financially troubled European carriers including Alitalia and airberlin.

But aside from the subsidies debate, a question that emerges is, why is there a big fuss about Gulf carriers?

One answer is that ever since their inception, their business strategy was to act as super-connectors between the East and the West. Their extensive route maps in Africa, Asia, and their steady growth in America supported their growth. Some western carriers view this as a threat to their long-haul routes and their airport hub model.

But there are also other reasons for the success of the newer carriers. These include the super advantageous locations of their bases, their modern, efficient fleets that save fuel costs, their high-quality service, and their glossy marketing that adds to their popularity.

Moving to the aircraft manufacturing side of the industry, there was a warning last year that the future of Airbus’ A380, the world’s largest passenger aircraft, was in limbo.

It has been just 10 years since the European plane maker launched its first commercial A380 flight in 2005. At the time, it was viewed as the future of air travel. The double-decker allowed airlines to carry more people without having to buy extra landing slots at increasingly congested airports.

The Gulf’s three biggest airlines all operate the superjumbo. Emirates, in particular, has made the A380 the backbone of its fleet, with about 65 in operation and more than 70 on order. Qatar and Etihad have together bought 20. But there have been no new orders since 2012.

When Airbus designed the A380, it predicted that more people would want to travel between large airport hubs. Its rival Boeing instead bet that fuel efficiency was key as people would want to fly to new destinations direct. So while Airbus concentrated on the superjumbo, Boeing developed the 787 – a smaller plane that can still fly long distances. Airlines consider the double-decker A380 expensive – it needs special gates at airports and burns a relatively larger amount of fuel, which is the largest component of a carrier’s costs.

With that in mind, the Emirates president, Tim Clark, has said he is ready to buy up to 200 more A380s – if a more fuel-efficient model is introduced.

Airbus has instead hinted at the possibility of discontinuing the A380 programme, although in November Fabrice Brégier, the company’s chief executive, said that he still expected to meet a target of selling 25 of the jets.

Last year also saw the latest biennial Dubai Airshow with Gulf airlines taking a pause in aircraft orders, following a buying extravaganza two years ago, when together they purchased planes and engines worth in excess of $200bn.

Military activity took centre stage at the air show, especially as the UAE and Saudi Arabia were leading a fight in Yemen against Houthi rebels. The two countries are also participating in the coalition against ISIL in Syria and Iraq. Among the deals struck at the November show was one between the UAE Armed Forces and the Swedish aerospace company Saab to buy two new Global 6000 surveillance jets and upgrade two Saab 340 aircraft owned by the UAE. The deal was worth $1.27bn.

Lockheed Martin also won a deal worth $262.8 million to provide Saudi Arabia's F-15 sniper targeting system, which allows day and night low-level navigation.

Airport security was another important issue last year, after a suspected bomb led to the crash of a Russian plane over Egypt's Sinai Peninsula, killing all 224 passengers and crew on board.

The Egyptian Civil Aviation authorities denied that the crash was an "act of terrorism", but hired a security and risk-advisory company to audit aviation security at airports across the country.

Responsibility for the incident was claimed by ISIL, raising security concerns in the industry as it entered the new year.

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