Airline Business Daily

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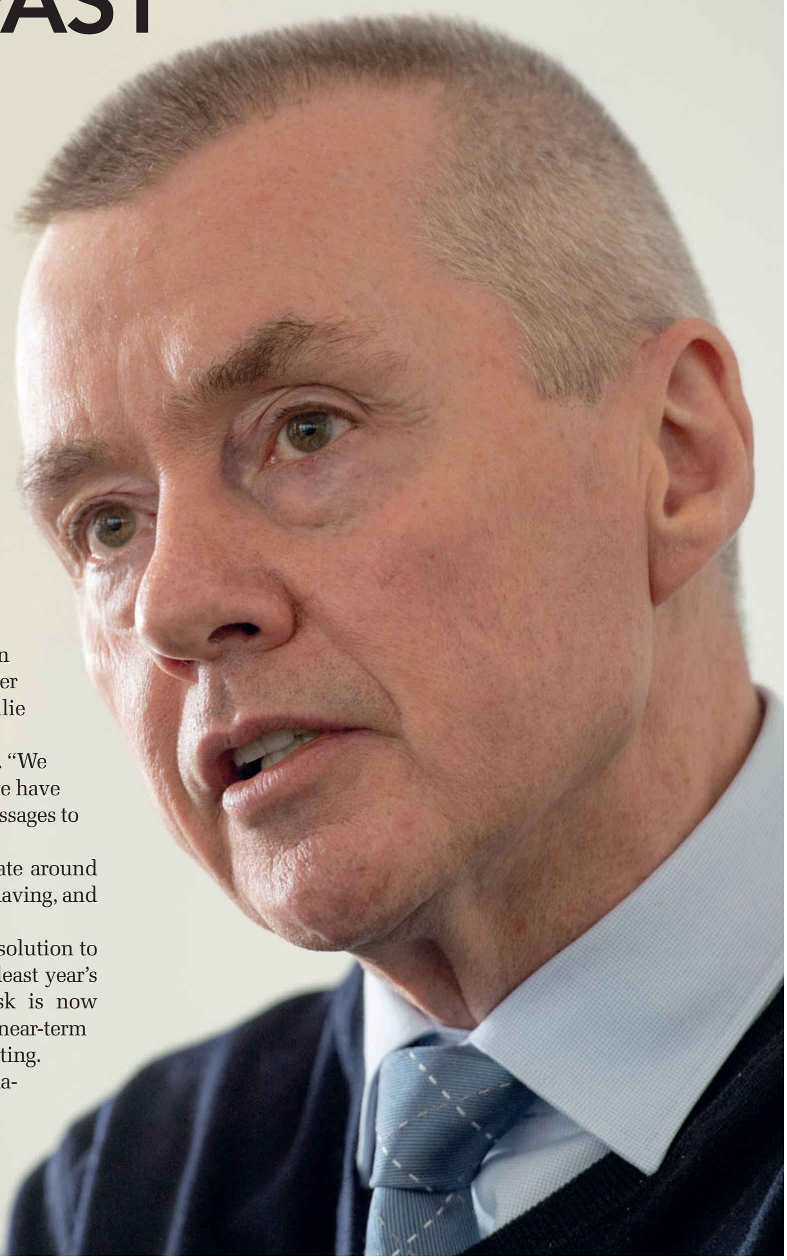

Walsh cites subjects including Ukraine and sustainability

BillyPix

LOOKING PAST COVID-19

Pandemic still a talking point but industry finally has space to consider other topics

For an industry that has spent much of the past two years scrambling for survival, the notion that airline executives arriving in Doha for this year's AGM can look longer-term beyond the Covid crisis might seem wishful thinking.

Operational stretches, continued fallout from Russia's invasion of Ukraine, surging fuel costs and inflation have brought fresh pressure to an industry still facing residual Covid challenges – even if the more draconian restrictions have, at least in most markets, been lifted.

Yet more positively, flying is on the up and pent-up demand has been stronger than many would have dared hope.

"I think this is an AGM that is focused more on looking forward and looking forward with a greater degree of confidence," IATA director general Willie Walsh told FlightGlobal ahead of this year's event.

"I'm hoping [for] less of a focus on Covid," he adds. "We will obviously have to talk about it and make sure we have learnt our lessons as an industry and send strong messages to governments that they need to learn lessons.

"There will clearly be some discussion and debate around what's happening in Ukraine and the impact that is having, and there will be further debate around environment."

Sustainability in particular, after the landmark resolution to reach net-zero carbon emissions by 2050 agreed at least year's AGM, remains high on airline agendas. The task is now implementation, with much of the focus on the near-term levers of sustainable aviation fuel and carbon offsetting. However, there is also an emphasis on wider sustainability issues beyond decarbonisation, such as increased global efforts to reduce single-use plastic.

(See p4-5 for full interview)

Leading the charge – 14

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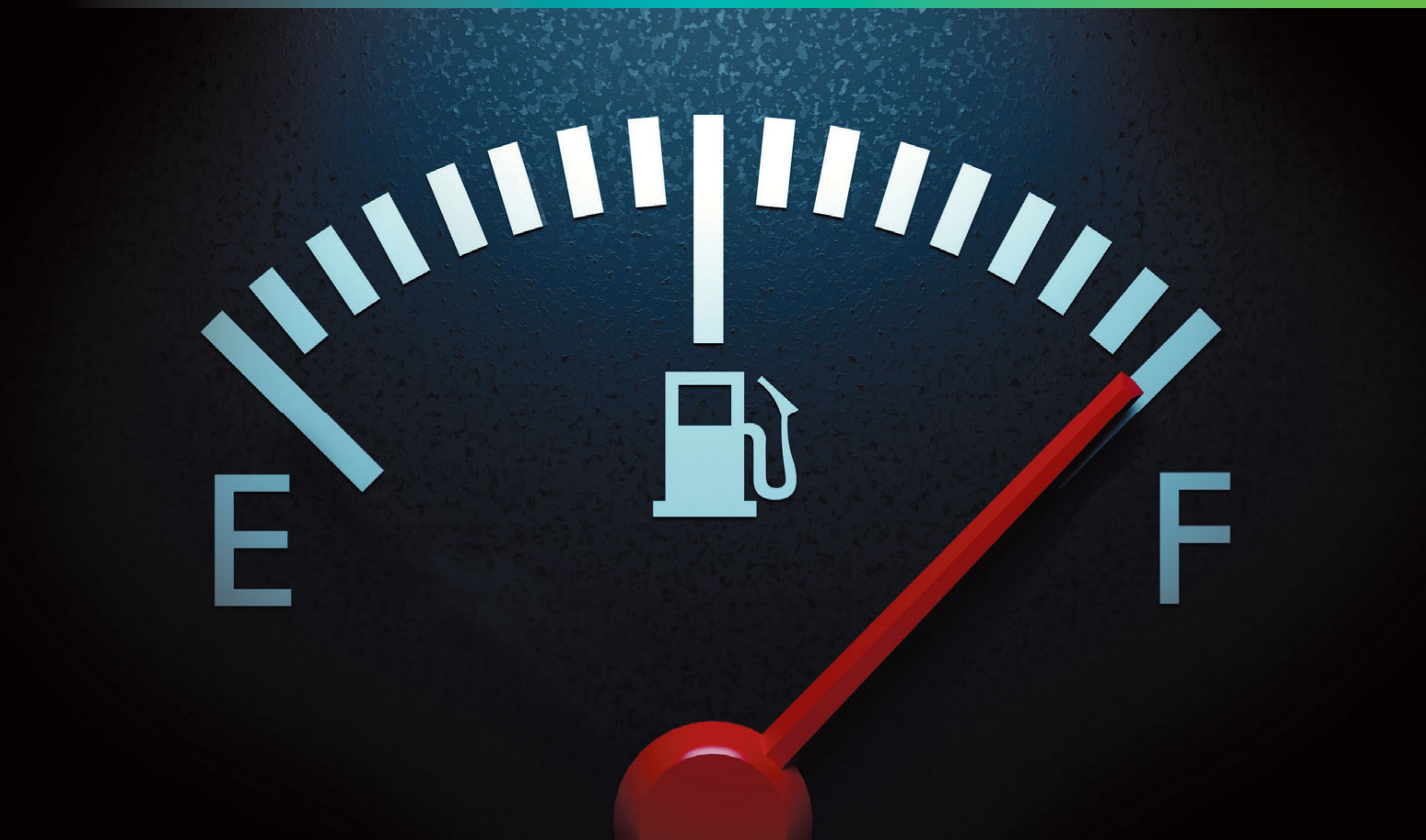
Follow our coverage of the AGM and the wider industry at: flightglobal.com



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Demand returns – but then what?

Predictions that air travel demand would bounce back as restrictions ended proved correct, but headwinds remain

LEWIS HARPER LONDON

As the global airline industry gathers in Doha for this year's IATA AGM, there is plenty to be positive about – alongside continuing "reasons for caution regarding the outlook.

First and foremost, the airline sector seems to have survived its biggest crisis with the loss of surprisingly few carriers along the way. Most airlines still have lots of work to do to repair their balance sheets, but they are able to look forward with more confidence regarding the pandemic than at any point over the past two years.

That is because, as more and more governments drop Covid-related travel restrictions, huge pent-up demand is finally driving a widespread return to the skies.

Indeed, while many industry observers expressed concern during the darkest days of the pandemic that demand might return at below pre-Covid levels, some stakeholders are suggesting the opposite might turn out to be true.

Speaking earlier this month, Delta Air Lines chief executive Ed Bastian told a Bernstein conference that the experience of living through the pandemic is likely to prompt people to travel more than they did previously.

"I think demand is going to settle out at a higher level of activity than we were seeing in 2019," he predicts.

Bastian says people want to make up for lost time

Brainstorm Health

CARPE DIEM

That is because people will "no longer take travel for granted as they did in the past", Bastian says, and will "want to invest" in more travel experiences.

"[People have] lost almost three years of experience during the pandemic and I don't think this is going to be something that is this summer or just this year," he adds in reference to the high demand for travel being seen in Delta's markets today.

The latest global traffic data from IATA reflects that enthusiasm, as the gap to pre-crisis levels continues to close. April passenger demand was down 37.2% on 2019.

Crucially, more countries in the Asia-Pacific region – with the exception of China – are opening their borders, making the recovery a truly global affair.

"April data is cause for optimism in almost all markets, except China, which continues to severely restrict travel," says IATA director general Willie Walsh. "The experience of the rest of the world is demonstrating that increased travel is manageable with high levels of population immunity and the normal systems for disease surveillance."

The removal of remaining travel restrictions – including the recent ending of the requirement for Covid-19 testing among arrivals in the USA – will ensure the recovery keeps its momentum.

But it is impossible to ignore some of the headwinds faced by the industry today.

At some point, government moves to reopen borders will be challenged by a new variant of Covid-19. No one is likely to take anything for granted in that regard.

But even if the epidemiological situation stays on a positive track, a key question is how much of an impact other factors will have once the initial wave of enthusiasm for travel dies down and the northern hemisphere heads into its winter season.

ONGOING ISSUES

Of immediate concern are the operational issues affecting a number of markets, as staffing shortages combine with other factors to cause delays and cancellations.

Sustainability remains a huge focus, with airlines seeking to stay in control of their own destinies

More broadly, there are concerns in many geographies about rampant inflation and the wider economic outlook.

At the same time, Russia's invasion of Ukraine has rocked a number of markets and raised questions about a possible reversal of globalisation trends.

Partially as a result of the security situation in Europe, fuel prices have rocketed, creating fresh cost challenges for an industry that is still burning through cash in many areas.

And the industry's saviour during the Covid-19 crisis – air cargo – is experiencing a setback after a strong performance in 2021.

IATA's latest data shows air freight demand contracting 11.2% year-on-year in April, as the war in Ukraine and China lockdowns take their toll.

"But with China easing lockdown restrictions, there is cause for some optimism and the supply/demand imbalance is keeping yields high," Walsh says.

In terms of longer-term challenges, sustainability remains a huge focus, as airlines seek to stay in control of their own destinies. Only two weeks ago they received a reminder of the bumpy road ahead, as the European Parliament voted to extend the EU Emissions Trading System to cover all flights departing the bloc from 2024, putting it into conflict with the scope of the global CORSIA scheme.

If the industry wants to move on from discussion of Covid-19 in Doha, it cannot complain about a lack of alternative talking points. ■

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GRAHAM DUNN GENEVA

Walsh sees industry making returns

IATA director general expects a more cautious and disciplined approach among airlines as they emerge from the pandemic with balance sheets in need of repair work, but believes sector will ultimately hit profit heights again

While it may remain some way short of a return to "business as usual", the industry is coming together at this year's AGM with a greater sense of purpose, in the view of IATA director general Willie Walsh.

"The mood last year in Boston was really good – somebody described it as a high school reunion – it was just great to meet people again," Walsh told FlightGlobal in a wide-ranging interview in late April.

"This time around I think you will see a much greater focus on let's demonstrate we have learnt some lessons, let's continue to focus on the environment, and not just the CO2 aspect. So let's open the debate to other issues again. Let's talk with confidence about where the industry is going, but let's be realistic about what it is we need to do."

That the industry is meeting here in Doha, rather than Shanghai as originally planned, serves as a clear reminder that Covid uncertainty continues – particular for operators in an increasingly isolated Chinese market sticking to a zero-Covid strategy and still to reopen.

Airlines too are dealing with political fallout from Russia's invasion of Ukraine and, in those markets where restrictions are eased, heightened operational stress as the air transport eco-system struggles to keep pace with the sharp ramp-up in demand. Yet despite these travails, more than two years since Covid first hit, the overall mood is one of cautious optimism.

LESSONS LEARNED

"When I look back at it now and see the damage that was done to the industry – and the economic damage done to countries in the name of protecting the health of the countries – it was complete nonsense and we have to make sure it doesn't happen again," says Walsh. "Because there will be another virus, there will be another variant, and I think the critical issue is we have to learn from what we did right and what we did wrong."

He credits governments for the way they stepped in with employee assistance programmes to keep jobs in place and says financial support was justified given it was government restrictions that prevented airlines from operating. "But I can assure you, every airline CEO I spoke to would have been much happier flying," says Walsh.

It is ironic that unprecedented levels of state support were required after a decade in which

Walsh: keen to discuss other issues again

BillyPix

the airline industry – led by a group of strong-performing operators – finally began providing returns that the sector has seldom seen before.

"All of the passenger airlines have suffered to some degree or another," he states. "Some have been able to access support from governments [but] a lot of that is

"We have to learn from what we did right and what we did wrong"

Willie Walsh
IATA director general

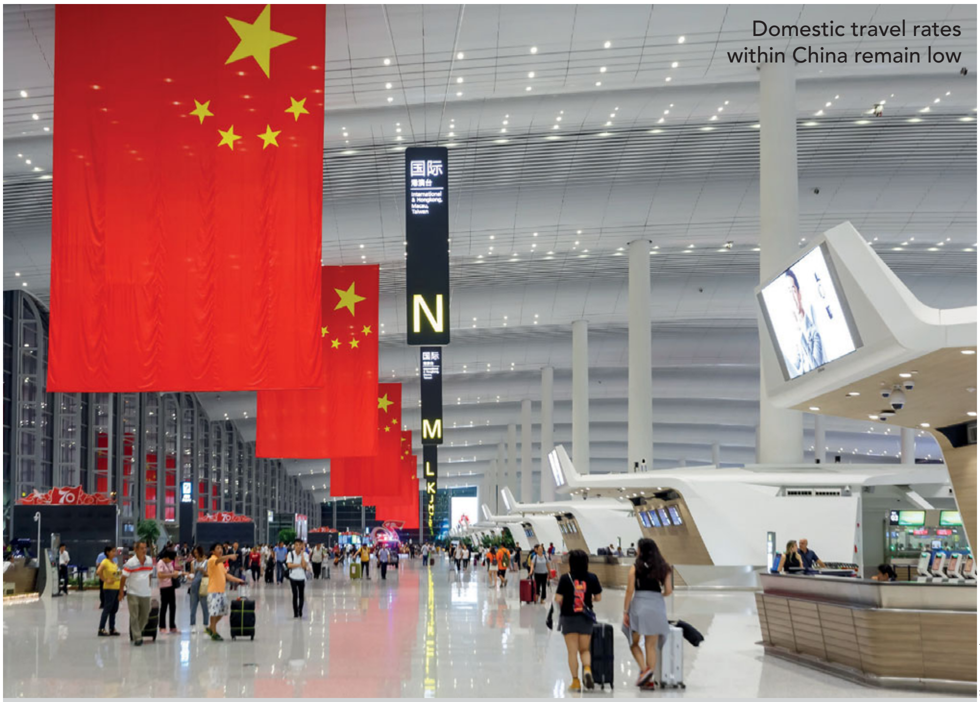
in the form of loan and loan guarantees, that has to be repaid. So balance sheets have definitely been stressed. It will take a bit of time to rebuild."

Interestingly, there have been relatively few airline failures during the pandemic. "That is probably the thing that has surprised most, that more airlines didn't actually fail," Walsh says. "I think that is because people running those airlines took all of the appropriate measures, did everything possible to keep the airline going."

He sees this as an indication of the "quality of management" coming out of the crisis and how they will approach the post-pandemic market. "I am pretty sure that most of those airlines will focus on their balance sheets and repairing the damage that has been done, and will be more cautious and more disciplined in terms of what it is they do going forward. You have to learn lessons," says Walsh.

"We have gone through crises before, nothing on this scale, but a lot of the learnings of the crises we have been through were applied to this one, and as a result the industry is still alive today, having gone through the deepest and most prolonged crisis we have ever faced.

"That to me is a positive that reinforces in my mind that the industry can recover its financial strength, but it will certainly take time," says Walsh. ■



Domestic travel rates within China remain low

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ALFRED CHUA SINGAPORE

Shut Chinese borders and zero-Covid policy will not derail region's recovery

While it is 'clearly disappointing' that China continues to pursue a zero-Covid strategy, Willie Walsh has downplayed notions that the country's closure will pose a significant challenge in the region's recovery.

Speaking at a briefing in Singapore in mid-May, Walsh also took the view that airlines will be "reassessing" the importance of the Chinese travel market to their network strategies, if international borders remain closed for longer.

He says: "[If you] look at where the market was in 2019, it was a very important and strategically important market where a lot of airlines were looking at… growth opportunities. I think airlines will be reassessing that, given the continued closure of the borders in China."

Walsh though sees a limited impact. "[If] I look at the global industry, it's not going to be a major factor during the recovery in 2022 and 2023. Everybody will be looking to see what happens in China… as we go through this year into next year."

Once the region's sole bright spot – particularly in the early days of the pandemic – Chinese domestic traffic has sharply fallen in recent months, as the country's strict zero-infection policy clashes with a fresh wave of coronavirus infections.

Data from China's three largest carriers shows April domestic traffic took a nosedive to its lowest point in more than two years, when the coronavirus was first discovered.

The collapse of domestic travel in China has led to an only tepid recovery in global domestic traffic, notes Walsh, with overall domestic markets in the first quarter of 2022 at 76% of pre-pandemic levels.

This is only a slight improvement on the 72% in 2021, when Chinese carriers enjoyed a robust domestic recovery for most of the year.

While many airlines are eager to return to China if and when borders reopen, Walsh believes carriers will be cautious at the onset.

He notes: "[Airlines] will look at how governments responded to this pandemic, and will be cautious about exposing themselves to decisions that would have a major impact on them... I think you'll have a much more cautious approach to rebuilding in certain markets."

Walsh also points out that airlines will move to markets which are already open, citing Singapore as an example.

"[The] reality of it is, given where traffic in the Asia Pacific region is relative to the rest of the world, there's a lot of recovery available, and that's what we're seeing," he says.

"You know, I think the airlines will recover into the markets that are open," he says, adding that when China's borders do reopen and restrictions there ease, "it will just boost [overall] recovery".

Walsh's comments on China's onerous border policy – the country is the last major economy in the world to still be firmly shut out to international travellers – follows similar comments he made on Hong Kong, which is only starting to ease strict restrictions.

Speaking at an April media briefing, Walsh warned that Hong Kong was "effectively off the map" as a global aviation hub, as the city continues to impose onerous restrictions.

LEWIS HARPER LONDON

Flying through good times and bad

Akbar Al Baker can tell a compelling story about Qatar Airways keeping the world connected over the past two years

Some five years ago, the 2017 IATA AGM in Cancun was a memorable one for Qatar Airways chief executive Akbar Al Baker – but not because of goings on at the event.

As the gathering began on the Sunday, so too did a blockade of Qatar by its near neighbours, prompting Al Baker to make a speedy return home from Mexico.

In 2022, as the airline celebrates its 25th anniversary, Qatar Airways is hosting the latest IATA AGM having seen the back of that regional challenge in early 2021 and proved its mettle during the global turmoil of the past two years.

Indeed, not only did the Oneworld carrier survive the blockade, it is also emerging from the Covid-19 pandemic with its reputation enhanced on the global stage, Al Baker explained during the mid-May Arabian Travel Market event.

"When it came to the pandemic, the blockade experience [was helpful] and we took the challenge of not stopping our airline or shutting our airport," he recalls.

"The important thing we did was take people home," Al Baker says, noting the large number of passengers that were stranded all over the world as other airlines grounded aircraft when the pandemic hit.

"Qatar Airways went to their aid, and we were immensely recognised by many countries for helping their citizens."

Today, the airline is back up to around 140 destinations – from a low of 30 at the height of the pandemic – and believes that its decision to "serve humanity" over the past two years puts it in good stead for the future.

Al Baker remains on guard for the next challenge

Qatar Airways

SEIZING OPPORTUNITY

"Several million people travelled for the first time on Qatar Airways, and this was a huge marketing benefit for us, because they saw the product," Al Baker states.

"Today, we have established our brand as an airline that is there for its passengers… [and] we did a lot of things to let the people know that Qatar Airways is with them in good times and in bad times."

Helping it through the past two years, the airline also doubled-down on cargo, using its dedicated freighters and passenger aircraft to meet rising demand.

"We found a way to use grounded aircraft to transport cargo because there was suddenly a huge demand for medical supplies, transportations of critical medical equipment, food, and so on," Al Baker explains.

Remarkably, given the state of the wider industry, Al Baker says that the year to 31 March 2022 "has been the strongest in the history of Qatar Airways", with "very handsome" financial results expected for the period.

"What is important for us is we showed how resilient the airline is, how flexible the airline is and that we are not going to slow down or shrink the company," he says.

"We will take every single opportunity we get to expand our business," Al Baker adds.

That is not to say he is complacent about the challenges faced by his airline and the wider industry.

OBSTACLES AHEAD

While he expects demand to have rebounded to pre-Covid levels "by 2024, maybe 2025", Al Baker insists that "we always have to keep our guard – we need to keep our fingers crossed".

He observes that even though Covid-19 is on its way to becoming endemic, "it is still there", with uncertainty regarding the impact of the next mutation of the disease.

"We hope that there will not be another mutation similar to Omicron, and that the business will come back," he states.

Inflation is another reason for caution regarding the outlook.

"The inflation that is happening around the world because of commodities, because of supply chain [disruption]… this is all a vicious circle," he Baker says.

"Once the cost of energy rises, then the cost to carry your goods rises, the cost to carry you as the passenger rises, so all this could start a second recession in our industry," Al Baker adds.

"I hope I am wrong, but we need to be prepared, we need to be on our guard to anything that could happen over the next 12-24 months."

The conflict in Ukraine is also a development that needs to be closely watched.

"We also don't know if this conflict will go beyond the borders of Ukraine," Al Baker states.

Citing the loss of "innocent life", he expresses hope that there will be a resolution to the war and that the impact on the airline industry will not be deeper than that already seen.

A further challenge Qatar Airways is facing is the high-profile grounding of more than half of its Airbus A350 fleet because of paint-degradation concerns.

As a related court case continues, the airline is back operating some of the Airbus A380s that had looked destined for the boneyard for much of the past two years.

"We are so desperate for capacity to fuel the huge growth in passenger numbers the airline is facing in this period," Al Baker says.

Amid that recovery, Al Baker is able to look back on his 25 years leading an airline that, by his own admission, is "prone to challenges".

But while he expresses frustration over "the government restrictions and regulations that restrict the right of airlines to serve the public in [some] jurisdictions", Al Baker ultimately has a sense of pride over what he has achieved in Doha – often against the odds.

"My happiest moment in this 25 years is that I have delivered to my country what was expected of me: to have the best airline in world," he states. "And at the same time we have the best airport in the world now." ■

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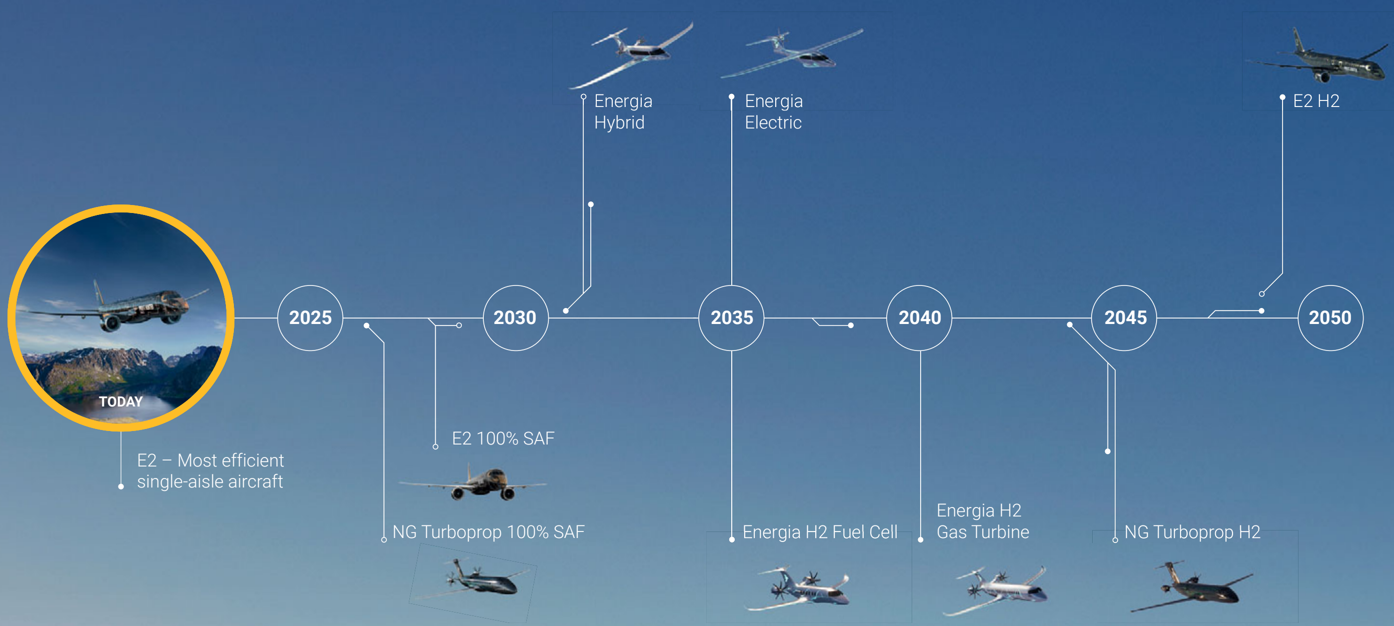

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GRAHAM DUNN LONDON

Demand confounds economic norms

Doha marks the first AGM for new IATA chief economist Marie Owens Thomsen and comes at an unusual time when heightened cost pressures are not yet impacting international travel as much as may normally be expected

Conventional wisdom would suggest that surging fuel costs, combined with a slowing in global GDP growth and the inflationary squeeze on household incomes could only mean one thing for airline fortunes.

Yet after two pandemic years in which international flying, if possible at all, has been cumbersome and at the mercy of changing government rules, this is no normal time. Travel demand remains strong, arguably too strong at times for a recovering air travel industry to keep pace with.

For new IATA chief economist Marie Owens Thomsen, it is a reminder that nothing stays the same. "Very few relationships in economics are constant or linear, everything changes all the time.

"Now it seems people don't really care what the price is, they just want to travel if they can. That is what we see in terms of passenger numbers," she tells FlightGlobal during an interview ahead of this year's AGM.

IATA will today provide an update to its October industry outlook for 2022. Its initial outlook for this year was for net losses to be cut to $11.6 billion, with only North American operators returning to the black.

It says much for the depths of crisis that even this level of loss – deeper than the industry loss in 2009 after the financial crisis – would mark a sharp improvement on the past two years.

DRIVING FORCE

While a string of economic and geopolitical factors complicate the picture, Owens Thomsen is clear on what will have the most significant impact for airlines.

"The main driving force behind activity in the sector is still whether there are travel restrictions or not on the passenger side. That is still the dominant factor. As soon as restrictions are eased or removed, we see this instant pick-up in demand for travel.

"We cannot really know what is going to happen in the future," she adds. "[But] it would be too blissful if we were to think this was always going to be the case, and therefore I wouldn't be surprised if 2022 is some kind of high in terms of growth rates in passenger travel – and 2023 might experience a slightly lower growth rate."

She points to the slowdown in global GDP growth rates, noting there is little reason to believe this will change much in 2023, while she also expects oil and fuel prices to stay high next year. Energy prices are also likely to hit household budgets harder too.

That inflationary impact has at least been softened by relatively low unemployment levels. "When [in 2020] we had over 17% unemployment in the US, I think very few people would have thought we would be back at 3.6% now," she says.

"So inflation is eating up purchasing power on the one hand, but the fact people are employed means they are at least earning, so that is a buffer at the current point of time," she adds.

"So as long as unemployment rates don't start rising again, we should be able to look forward to a decent global economy and therefore a decent aviation market next year."

One of the key inputs to airline financial health is fuel costs, which have spiralled further since Russia's invasion of Ukraine, with the barrel price of Brent crude oil touching $120.

However, Owens Thomsen cites the 2011-14 period, when airlines were reasonably profitable despite high fuel prices and global GDP growth averaging around 3.5%.

"It's obviously not helpful, but we have been there before and survived before and it hasn't necessarily meant disaster for our industry, and I dare to think we are going to experience something similar to that period this year and next."

Owens Thomsen expects fuel prices to remain high

IATA

Owens Thomsen began her new role in January. She joined from Banque Lombard Odier, where she served as head of global trends and sustainability since 2020. Prior to that she was global head of investment intelligence from 2011 at Indosuez Wealth Management, and previously held chief economist and related roles for Merrill Lynch, Dresdner Kleinwort Benson and HSBC.

"What I could see already from the outside was this treasure trove of proprietary data that IATA has thanks to our member airlines, and as an economist we really like having this kind of exclusive raw material as inputs for our research, so that was highly appealing," explains Owens Thomsen about the role.

"And also from the outside it looked like a somewhat under-researched field and lots of misconceptions I believe in terms of what's going on in this industry, and that too felt like very fertile terrain for research."

She observes an industry caught between monopolies and duopolies at one end of the value chain and "this kind of global, instant price discovery" for consumers at the other. "That is a phenomenal benefit to consumers. Most things we don't [have it for] and we find it really difficult to compare. With flights, you have it all," she says.

"So that is an oddity that we are stuck in the middle there with some difficulties producing regular sustained profits as an industry – instead we are caught a bit in the middle and subject to the impact of absolutely everything."

She notes a more fundamental question is how business models will adapt, and cites innovative developments being seen in the market at the moment.

"How should airlines really operate so the industry as a whole can deliver dependable profits on a regular basis and be less thrown about by business cycle vagaries and any other form of crisis that happens in the universe?" she asks. ■

Mikosz cites SAF ramp-up and offsetting as near-term priorities

IATA

Sustaining path to net-zero

After the landmark commitment to decarbonise by 2050 at last year's AGM, IATA's environment and sustainability chief Sebastian Mikosz sees shift to implementation

GRAHAM DUNN LONDON

While securing a resolution that committed airlines globally to achieving carbon neutrality by 2050 at last year's AGM underpins the industry's decarbonisation efforts, it marked only a first step in translating ambition to reality.

"After the political statement, the pathway started," explains Sebastian Mikosz, vice-president of environment and sustainability at IATA, on the eve of this year's gathering in Doha. "This remaining 28 years will be our implementation and in the short-term, at least the next three years, there are two priorities.

"Priority number one is to push the supply of sustainable aviation fuel [SAF]. To some extent we have created the signal of demand, now we need to do everything possible to have companies and states creating the environment so that SAF is produced from various feedstocks in various places. This is the main form of decarbonisation that we are relying on as we speak."

In making a base-case roadmap to net-zero CO2 by 2050 at last year's AGM, IATA estimated SAF would account for almost two-thirds of the industry's total fuel requirement by 2050. That requires a sharp ramp-up from current levels, where work is required even to reach IATA's aspiration of being at 2% in 2025 and 5% by 2030.

"There is a mismatch between demand and supply. So we create a positive thing where there is more demand than supply, therefore the momentum will be there until this market balance reaches an equilibrium – which at the moment is not even starting to be close because we are using less than 1% of SAF in overall fuel usage," say Mikosz.

JOINING FORCES

Part of that push was the bringing together of various players in the market during IATA's Aviation Energy Forum held in Munich last month, which merged its Fuel Forum and Sustainable Aviation Fuel Symposium events.

Mikosz adds that while he is confident there will be a significant technology breakthrough to support reaching net-zero CO2 emissions, the heavy reliance on SAF reflects IATA's desire to build a "credible plan" on what could be achieved today.

"It was not about having a resolution, it was about having a plan on how to deliver this resolution. And from that perspective, we cannot have a public scenario saying 'we have no clue how we are going to do it, but we are going to do it'."

Mikosz notes that even if there is a technological breakthrough, SAF will still be a key component because of the timeframe needed to update the global fleet. "It is about energy transition; how do you transit from conventional energy to completely new types of energy," he says.

The second near-term priority in terms of decarbonisation is offsetting. "Before we have SAF, before we have hydrogen, before we have electric planes, before we implement new propulsion technologies in our planes, offsetting in the short-term is what we have at hand. Offsets is how we are going to start the decarbonisation process."

In that regard, 2022 is a pivotal year given ICAO – under whose auspices the existing Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is in place – holds its triennial general assembly this autumn. Agreement on CORSIA ensured a global approach is in place rather than individual regional offsetting schemes. That in turn hinges on maintaining the political balance between states with widely differing views – particularly between emerging and developed nations – on the pace and fairness of meeting environmental goals.

BASELINE TARGET

"For us this is the ultimate goal, to have CORSIA alive," says Mikosz. "We have a view at IATA on the potential baseline [post-pandemic] and this is what we advocate when we are talking to the ICAO council and the environmental community and those bodies that make the decisions, because CORSIA will be a political decision, and the baseline will be a political decision.

"But the industry and our members have an important say in that, because they are the ones bearing the cost of CORSIA, so it's question of balance. And this is why ICAO is so important to us, because this is the only place we have where every state talks to other states about aviation."

While decarbonisation efforts dominate, momentum is picking up in another notable area in line with global efforts to tackle plastics pollution. In early March the UN Environment Programme (UNEP) committed to reaching a legally binding agreement to tackle plastic pollution by 2024. For IATA this provides a key framework to step up efforts to eliminate single-use plastics onboard – itself tied to the key issue of making catering more sustainable and reducing food waste.

"You have a paradoxical situation when you are an international operator that when you take a plastic bottle and it is legal in one country, but is not legal in another," Mikosz explains. "And in countries like India, you have those regulations changing between provinces and even between the airports.

"The biggest issue we have is harmonisation so we can respect the same rules. We have 250 items onboard the plane that we identified could be more sustainable, but… we need harmonisation.

"Plastics over the next few years is going to be one of our big topics," he adds. "It is an easier shot than decarbonsiation because we know there is a pathway within a visible period of time." ■

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Technology gives fuel for thought

Propulsion opportunities such as electric and hydrogen are likely to drive the development of fresh business cases

Fresh thinking on business models will be key if operators are to capitalise on new zero-emission technologies as they begin to reach the market, panelists highlighted during FlightGlobal's Disruptive Propulsion webinar on 9 June.

During a wide-ranging debate, which looked at the challenges and timeframes for new propulsion solutions, including electric and hydrogen, Nikhil Sachdeva, global lead for sustainable aviation at consultancy Roland Berger, highlighted the potential these will have to open new markets.

"What we are talking about with this revolution is maybe having to push the [airline] point-to-point business model even one step further, not looking at tier A-to-tier A airports, or tier B-to-tier B, but maybe tier C-to-tier C airports. The airports where today you may only be able to fly general aviation hobby flights out of, they could become tomorrow's genuinely commercial airports," he says.

This reflects that new propulsion solutions will emerge and be applicable for small aircraft operating short routes.

"Today, airline business models and the cost structures we are used to are entirely a function of the economies of scale you can get with hundreds of passengers on these [existing] planes," he says.

"If you reduce those numbers down to 40, you need a different business model to make it possible without completely destroying the wallets of your passengers."

Norwegian regional carrier Wideroe has embarked on a series of initiatives with the likes of Embraer and Rolls-Royce aimed at developing new technologies – establishing a clean-sheet company, Wideroe Zero, to pursue these aircraft concepts.

"These new technologies come with plenty of opportunities, but also some constraints, and you cannot really expect them to fit into your existing business model," says Wideroe chief strategy officer Andreas Aks, who heads Wideroe Zero. "It is a question of how can we design the best business model when we look at the new technology out there and we try to understand what the customer really wants."

He also sees development of sustainable flying as being aligned with customer expectations now.

"What we are seeing, particular in our part of the world, is the customer cares more and more about this. And we see customers are looking at this in a very different perspective than we do as an industry normally. More and more people are looking at their personal CO_2 balance sheet if you like, and then they find flying is accountable for a quite a large part of their CO_2 emissions.

"So when they start being concerned about this, I believe we should listen and that is one of the main reasons we have been so focused on this." ■

Scaling up supply chain the biggest test

While there is optimism for further efficiency gains from existing powerplants, and development of electric and hydrogen technology for small aircraft over this decade, the scale and cost of supporting deployment across the wider airline market remains the key challenge ahead.

Speaking during FlightGlobal's Disruptive Propulsion webinar, Roland Berger's Nikhil Sachdeva says: "We talk a lot about new aircraft, awesome. We talk a lot about new technologies, fantastic. But it's the entire depth of the supply chain that needs that innovation to happen.

"When Thomas Edison invented the light bulb, he had to invent the entire electrical grid to sell the light bulb," he adds, likening it to the challenge facing aviation.

He also highlights the cost implication for consumers of creating that infrastructure for aviation.

"We have to recognise in this amazing industry, we have had this democratisation of travel over the past decades, enabled by the technologies we have come to take for granted today. Is it possible for us to make this transition to sustainability without scuppering this achievement? How can we do it in a cost-effective way?"

Michael Winter, senior fellow for advanced technology at engine manufacturer Pratt & Whitney, notes the amount of fuel the commercial fleet burnt in 2019 represents on an electrified basis about 15% of the world's generator capacity.

"If you look at the world production in 2019 of hydrogen, and used 90% of that for aviation, you would power 10% of the commercial fleet," he says.

"Until the infrastructure can catch up, it's really going to be a significant challenge."

Despite the challenges, Winter sees an opportunity for hydrogen to be part of the technology mix as airlines strive to reach net-zero CO_2 by 2050. In February, P&W outlined plans to develop a hydrogen-burning engine that will cut carbon dioxide emissions to zero, slash nitrous oxide emissions by 80% and reduce fuel consumption for next-generation single-aisles by 35%.

GRAHAM DUNN LONDON

Changing shape of partnerships

While traditional-style merger and acquisition activity such as the pursuit of ultra-low-cost carrier Spirit Airlines in the USA continues to dominate, there are signs of operators taking fresh approaches to securing investors and partners

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Avianca sees greater strength from embracing a group structure

A notable pick-up in consolidation and airline investment activity in recent weeks illustrates a variety of approaches to partnerships emerging in the pandemic recovery stage.

One such example is May's announcement of a link-up between French logistics firm CMA CGM and Air France-KLM.

In this instance a new 10-year agreement is focused on driving growth in the revitalised air cargo market. Both companies have already shown ambitions to grow in this sector by signing up for the new Airbus A350 freighter, and operationally that is likely to prove useful as the partners jointly develop air freight operations in the years to come.

Significantly for Air France-KLM, having required state capital injections to overcome the crisis, it will also bring a fresh investor. CMA CGM – which only launched a dedicated airline operation a year ago in response to increased air cargo demand – is cementing its presence in the sector by agreeing to take up to a 9% stake in the group as part of Air France-KLM's capital raise.

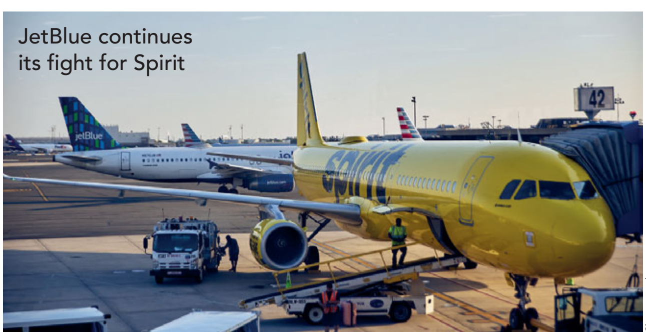
In some ways it echoes Lufthansa in its moves for Italian start-up ITA Airways. The Star Alliance carrier group has teamed with Swiss shipping firm MSC Group to submit a bid for the airline.

Air France-KLM, a partner and former investor in ITA predecessor Alitalia, is itself widely reported to be working with Delta Air Lines in relation to a rival bid from private equity firm Cetares for ITA. Notably, repaying state aid secured during the crisis would lift restrictions limiting to 10% the amount it can acquire in another airline at this stage.

HOLDING STRUCTURE

More fresh thinking has been in evidence in South America, as Avianca – the first of the major Latin carriers to emerge from Chapter 11 bankruptcy protection – has been developing a holding company structure to bring the benefit of greater scale. Avianca and Brazilian operator Gol are to come together under a single holding company, while maintaining their own individual brands. The holding company, ABRA Group, will be UK-based.

The companies say the transaction, which is expected to close in the second half of 2022, will allow them to better compete in long-haul and cargo markets. The group is also set to encompass Viva Group's operations in Colombia and Peru, Avianca having disclosed a similar agreement last month to bring it and Viva under joint ownership.



JetBlue continues its fight for Spirit

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More traditional consolidation continues to play out in the USA, where JetBlue has not given up the fight for ultra-low-cost carrier Spirit Airlines. The board of the latter rejected JetBlue's rival offer citing concerns regarding the likelihood of it securing regulatory approval for a combination, opting to stick with a lower bid from Frontier Airlines. JetBlue subsequently launched a hostile bid and both sides have since attempted to sweeten the deal, prompting Spirit to delay its a shareholder vote on the Frontier offer until the end of June.

Domestic or home market consolidation – of which the US market is the most advanced example – remains where the majority of deal activity is focused. In the case of Korean Air's move for Asiana, the financial fallout from the pandemic was a catalyst for the merger. That, though, has had the opposite effect for IAG in its efforts to bolster its Madrid presence by acquiring Air Europa.

A deal originally struck in 2019 had already been restructured before it fell through at the end of last year amid European Commission competition concerns. IAG remains keen, however, working on a restructured deal under which it will provide a loan which can be converted into a 20% stake in Air Europa, as it continues to eye a majority holding.

"It is true last December that the competition authorities said the remedies we put on the table were not enough to do a deal," IAG chief executive Luis Gallego said in May. But he adds: "We want to have the flexibility to put remedies on the table that can allow us to do this deal."

In this instance, together with JetBlue's interest in Spirit – and the New York-based carrier's efforts to secure approval for a joint business venture in northeast USA with American Airlines – it is clear that regulators will be pivotal in how post-pandemic consolidation plays out.

Likewise, airline financial health will be another significant factor. While the crisis might have hastened the need for some airlines to find new investors, damaged balance sheets mean potential suitors may be reluctant to move.

"I think there would have been further consolidation had we not had this crisis," IATA director general Willie Walsh told FlightGlobal in a recent interview. "There was a path to further consolidation and this has temporarily halted some of that activity.

"I think its going to be difficult for airline CEOs to look at acquisitions given balance sheet strength – and clearly the airlines that are strong from a balance sheet point of view have plenty of opportunities. But I think most of those will see the opportunity to grow organically."

He adds: "I think we'll get back to M&A activity in due course. There are still airlines out there that are sub-optimal in terms of their size and network who would benefit from consolidation. But I think the risk is the focus has got to be on liquidity in the short-term." ■

Lufthansa Group, NS, Pegasus, El Al

Annette Mann, Marjan Rintel, Guliz Ozturk and Dina Ben Tal Ganancia (*left to right*) have all been appointed chief executives this year

LEWIS HARPER LONDON

Women to lead 10% of top airlines

Leadership developments in 2022 dominated by gender diversity progress and big changes among Indian carriers

While 2021 was marked by big announcements regarding chief executive successions at several of the top North American carriers, two fresh themes have emerged in 2022: a surge in the number of women leading airlines and a changing of the guard at several operators in India.

Dutch carrier KLM is at the centre of both developments, with Marjan Rintel set to take control of the SkyTeam carrier in the coming weeks, and the incumbent Pieter Elbers lined up to succeed Ronojoy Dutta at Indian low-cost carrier IndiGo from 1 October.

Notably, when Dutch rail chief Rintel arrives at KLM on 1 July, she will be the fourth woman to take control of a large passenger airline or group in 2022, with 10 of the top 100 operators on course to have female chief executives at that point, according to FlightGlobal data. That will represent a rise of four from the six female chief executives identified at the end of 2021, when FlightGlobal completed its most recent comprehensive survey of gender diversity in the airline C-suite.

That 2021 figure already marked a high point in the five years of data collected by FlightGlobal, which shows four women led top airlines and groups in 2017, two in 2018, four in 2019 and three in 2020.

Indeed, aside from Rintel, the appointments this year of Annette Mann at Austrian Airlines, Guliz Ozturk at Turkish low-cost carrier Pegasus and Dina Ben Tal Ganancia at Israeli carrier El Al are driving positive change at the top of an industry that has often acknowledged a need for greater gender diversity in the C-suite, and is working to achieve that through initiatives such as IATA's 25by2025 programme.

"One of the issues on which we will be most focused will be gender equality," Ozturk said as her appointment was announced in April. "We will make every effort, institutionally and individually, to contribute to the equal participation of women and men in all areas of social life and to enable women to express their full potential."

The airline industry suddenly compares favourably to the wider economy

Ozturk was previously Pegasus' chief commercial officer, while Mann worked as head of product management at Lufthansa Group carrier Swiss, and Ganancia stepped up from the vice-president of commercial and industry affairs role at El Al.

The other women leading the largest airlines and groups today are Lynne Embleton at Aer Lingus, Anne Rigail at Air France, Annick Guerard at Air Transat, Christine Ourmieres-Widener at TAP Air Portugal, Nguyen Thi Phuong Thao at VietJet and Jayne Hrdlicka at Virgin Australia.

Notably, both network carriers in the Air France-KLM Group are now led by women, with Ben Smith heading the group.

STEP CHANGE?

The recent flurry of appointments means the airline industry suddenly compares favourably to the wider economy when it comes to women in top roles – even if the gender mix is still heavily weighted towards men. Among S&P 500 companies, for example, 6% of leaders are women, according to recent data from global non-profit organisation Catalyst.

Away from the chief executive role, JetBlue Airways was a standout performer in FlightGlobal's 2021 survey, becoming the first carrier to employ women in four of the six surveyed C-suite positions.

The survey encompasses airlines featured in FlightGlobal's World Airline Rankings based on pre-Covid traffic, which covers the top 100 airlines and groups. Outside the top 100 airlines, female leaders include RwandAir's Yvonne Makolo, HK Express's Mandy Ng and Atlantic Airways' Johanna a Bergi.

In India, meanwhile, the airline sector has witnessed a series of leadership changes so far in 2022, involving experienced industry executives moving to helm several carriers.

The May announcement that Elbers will take the helm of IndiGo came soon after it was revealed that Scoot chief executive Campbell Wilson will lead Air India from mid-June.

Eyes are on Tata Group as it formulates a long-term strategy for the newly privatised flag carrier – and decides what happens to related carriers including AirAsia India and Vistara. Notably, Wilson's appointment came after a failed attempt to name former Turkish Airlines chairman Ilker Ayci as Air India chef.

The revitalised Jet Airways, meanwhile, announced in April that industry veteran Sanjiv Kapoor is its new chief executive. Kapoor was previously chief strategy and commercial officer at Vistara, as well as SpiceJet's operations head before that.

As it goes through several key changes over a short period of time – new leaders, a reinvigorated flag carrier, potential consolidation and a string of start-ups – the Indian market is set to look very different over the coming months. ■

IATA's five newest airline members

The association has welcomed carriers from Africa, Europe and the Middle East this year as its membership nears 300

Fly Baghdad

Using six Boeing 737s and a single Bombardier CRJ200, the Iraqi carrier operates scheduled passenger services within Iraq and the Middle East region, to destinations including Beirut, Damascus, Istanbul, Karachi and Mashhad.

Fly Baghdad

Petr Leczo/Shutterstock

Smartwings Group

The Prague-based group oversees Czech low-cost carrier Smartwings and its three overseas subsidiaries, which all mainly operate leisure-focused scheduled and chartered services using Boeing 737-family jets. The group also owns flag carrier Czech Airlines.

Creative Commons

Badr Airlines

Using a fleet spearheaded by 10 Boeing 737-family jets, the Sudanese carrier operates passenger and cargo services from its main base in Khartoum to destinations within Africa and the Middle East, including Cairo, Dubai and Jeddah.

Airbus

World2Fly

The Iberostar Group-owned Spanish carrier was founded in 2021, with operations based in Madrid and Lisbon in Portugal. It uses two Airbus A350s and a single A330 to serve destinations in Latin America, including Punta Cana and Cancun.

Duc Huy Nguyen/Shutterstock

FlyOne

The Moldova-based low-cost carrier operates two Airbus A320s and a single A319. The destinations served from its Chisinau International airport base include Amsterdam, Dublin, Istanbul, London Luton, Milan, Paris and Tel Aviv.

LEWIS HARPER LONDON

The latest *Airline Business* Index shows the global airline industry's progress towards its pre-Covid size stalled during the first quarter of 2022, as the Omicron variant of Covid-19 weighed on performance.

The overall score of 79 (2019 = 100) represents no change from the 31 December 2021 index. But it is an increase of seven from the score on 30 September 2021, 13 from the score on 30 June 2021, 19 from the 31 March 2021 result and 20 from the 31 December 2020 index.

Using data from 13 of the largest airline groups that release quarterly results, the index considers four metrics: size of workforce by employee number, size of fleet (in-service and stored), and revenue and passenger numbers at the end of the most recent reporting period – in this case, the first quarter of 2022. It compares those figures with equivalent pre-crisis data from 2019.

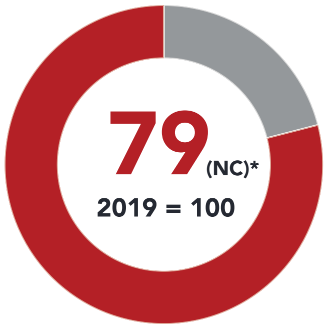
In the latest index, a minor increase in the revenue score was offset by a drop in the passenger number score, amid the return of restrictions in some markets.

Before the latest index, the gap between the business fundamentals (workforce and fleet) and the operating data had been closing as travel restrictions were relaxed. Most commentary suggests that trend has resumed in the second quarter of 2022, with a note of caution around air cargo demand.

On a quarterly basis, FlightGlobal releases an updated index as the industry attempts to recover from the Covid-19 crisis. ■

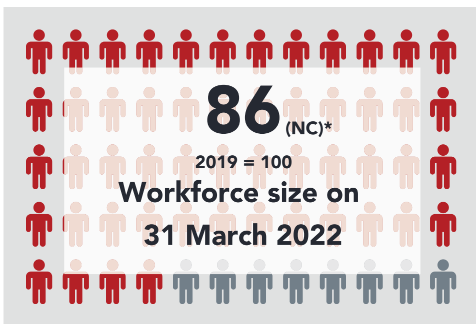
Notes: Data from reporting for the three-month period to 31 March 2022 (or nearest half-year period), taken from publicly available records. Workforce and fleet sizes compared with end-2019 levels. Revenue and passenger number metrics compared with data from the equivalent period in 2019. Basket of 13 airlines based on the largest carriers/groups that report quarterly or half-yearly results from FlightGlobal's World Airline Rankings based on revenues. Overall index score is an average of the scores for the four metrics.

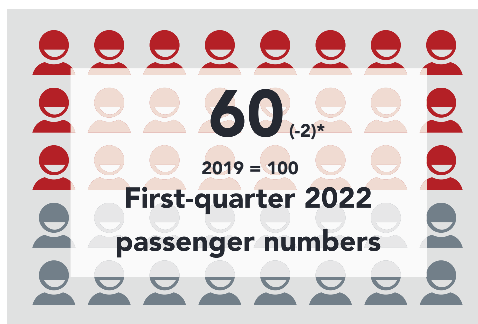
Airline Business INDEX



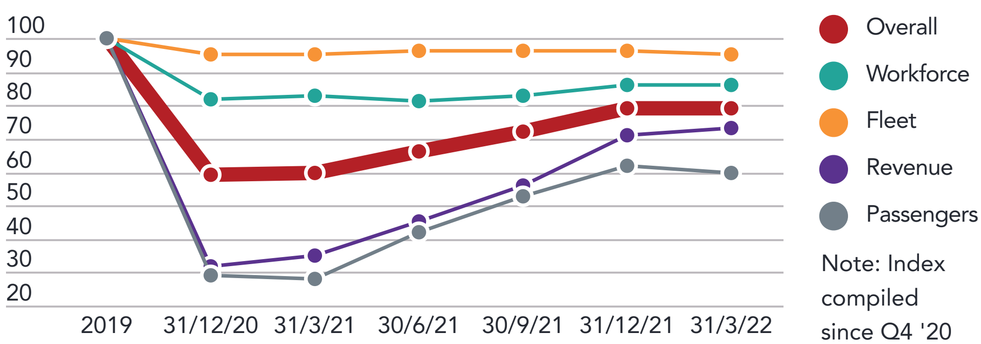
Global airline industry size on 31 March 2022

*Change from 31 December 2021.
NC = no change





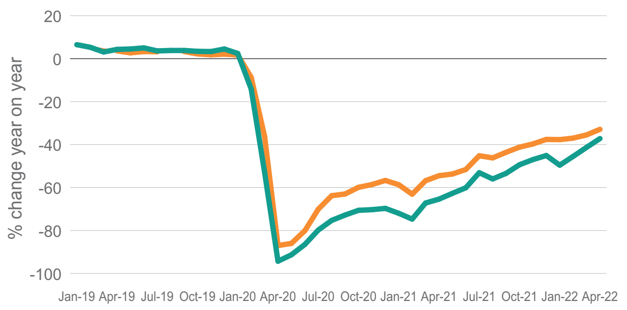
Airline Business Index trend



Coronavirus crisis recovery tracker

The latest global data for several important airline market indicators, including traffic and capacity across passenger and cargo markets, share-price developments, and 12-month fuel-price trends. Subscribers to FlightGlobal Premium can view a monthly version of this data, which includes further metrics such as in-service fleet size and share prices for the world's largest operators. Visit FlightGlobal.com/Subscribe for more information

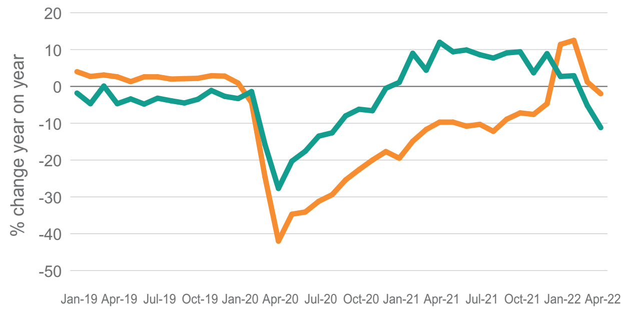
Global air passenger market, year-on-year* demand and capacity trends, to April 2022



Source: IATA
Notes: RPK = revenue passenger kilometres ASK = available seat kilometres
*Data for 2021 and 2022 compared with 2019

RPK ASK

Global air cargo market, year-on-year* demand and capacity trends, to April 2022



Source: IATA
Notes: Notes: CTK = cargo tonne kilometres ACTK = available cargo tonne kilometres
*2021 data compared with 2019. 2022 data back to year-on-year comparison

CTK ACTK

Global passenger market: April 2022 snapshot

	World share	RPK	ASK	Load factor change	Load factor
Africa	1.9%	108.4%	66.4%	13.7pp	68.0%
Asia-Pacific	27.5%	-25.4%	-25.3%	-0.1pp	67.0%
Europe	25.0%	301.6%	172.5%	25.6pp	79.5%
Latin America	6.5%	139.2%	114.4%	8.4pp	80.9%
Middle East	6.5%	238.1%	91.3%	30.9pp	71.3%
North America	32.6%	78.5%	43.8%	16.7pp	85.8%
Total market		**78.7%**	**45.5%**	**14.5pp**	**77.8%**

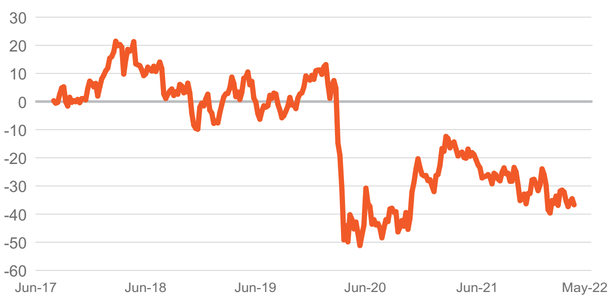
Source: IATA Note: Changes versus April 2021

Global air cargo market: April 2022 snapshot

	World share	CTK	ACTK	Load factor change	Load factor
Africa	1.9%	-6.3%	-1.5%	-2.5pp	49.0%
Asia-Pacific	32.5%	-15.8%	-19.4%	2.7pp	63.1%
Europe	22.9%	-14.4%	-0.2%	-9.6pp	57.8%
Latin America	2.2%	40.9%	67.8%	-8.0pp	41.9%
Middle East	13.4%	-11.9%	6.0%	-10.2pp	50.4%
North America	27.2%	-6.6%	5.2%	-5.3pp	41.9%
Total Market		**-11.2%**	**-2.0%**	**-5.3pp**	**51.6%**

Source: IATA Note: Changes versus April 2021

Indexed five-year share price trend at world's largest airline groups



Source: FlightGlobal analysis of Yahoo Finance data
Notes: Basket of 18 airline groups covering North America, Europe and Asia-Pacific.
Closing share prices w/c 5 June 2017 = 0. Data covers weekly closing prices to w/c 30 May 2022

Five-year weekly jet fuel price

Source: US Energy Information Administration
Notes: US Gulf Coast kerosene jet fuel spot price FOB. Data to w/e 27 May 2022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