Why are Middle East airlines losing money?

April 11, 2017 11:08 am

Changing economic conditions are forcing state-backed Gulf airlines, which have moved into many foreign markets from Asia to South America in recent years, to revise their business models and slow their once rampant growth in capacity.

Emirates

Emirates, the world's largest carrier of international passengers, announced a 75 per cent drop in its 2016 first-half net profit last November. Increased competition and political and economic uncertainty in many parts of the world has dampened prices and travel demand, Emirates Chairman Sheikh Ahmed bin Saeed al-Maktoum said in a statement.

Emirates said profit for the wider group, which includes airline services arm Dnata, fell 64 per cent to AED1.3 billion.

Sheikh Ahmed said: "The bleak global economic outlook appears to be the new norm, with no immediate resolution in sight."

Low-cost long haul

Emirates, the world's largest long-haul airline, is stripping costs from its business as it adapts to weaker markets, a stronger dollar and the rise of low-cost long-haul rivals, the carrier's president said.

President Tim Clark spoke to the media in Berlin on the sidelines of the ITB travel fair in March. He said: "We are subject to market changes like everybody else is. One of the challenges is the rise of lower-cost long-haul travel, which is a gathering storm."

Norwegian Air Shuttle is putting pressure on established transatlantic carriers with its expansion using longer-range single-aisle aircraft to fly between smaller, cheaper local airports. And flag carriers like Lufthansa, Air France and British Airways-owned IAG are all working on low-cost long-haul projects.

Clark said: "The way people travel, their decisions for travelling, the amount of money they're prepared to pay, new entrants coming to market, long-range single aisles, it's all changing."

More carriers are looking at using new, more efficient longer-range single-aisle planes for routes where they can be cheaper to operate while being easier to fill than widebody planes, whereas Emirates has an exclusively wide-body fleet.

Emirates said a thousand members of staff have left the company towards the end of 2016 "largely through natural attrition."

Clark said: "Job cuts are not in our nature. We are attending to the business in terms of examining, streamlining and stripping costs. It's not a revolution, it's an adjustment." He added that Emirates is one of the "lowest cost operators in the international market."

A potential order for Boeing 787 or Airbus A350 jets that Emirates has long been debating, is part of the ongoing reassessment, he said.

Emirates had announced in December that premium economy would be launched within the next 18 months. Clark said a decision has not been taken. "I can't at this moment say premium economy is the right way to go," Clark said, adding that Emirates wanted to be sure it wouldn't lose business class passengers to premium economy.

The Dubai-based carrier has said it's looking for ways to improve ancillary revenue including introducing fees to pre-select economy seats and allowing passengers to buy entry to its lounges.

Clark said that Emirates did not want to speed up deliveries of its final 25 Airbus A380s, due from 2021, because it doesn't have the space to deploy them at Dubai airport.

And then there are directives issued by American and European governments related to visas and electronics. "The first U.S. travel order saw the booking velocity fall by 35 per cent overnight. The effect it had was instantaneous," Tim Clark told journalists at the ITB travel fair.

Etihad

Abu Dhabi-based Etihad Airways took equity stakes in Air Berlin, Alitalia and Air Serbia in a bid to expand its European network but losses mounted with Air Berlin and Alitalia failing to yield a profit. The carrier announced in December that it was cutting jobs. Additionally, Etihad is actively participating in the next phase of Alitalia's restructuring plan as a minority shareholder.

In December, Etihad finalised a deal for Air Berlin [in which it owns a 29 per cent stake] to lease 38 crewed planes to Lufthansa. It is also purchasing Air Berlin's Niki unit and introducing it into a new leisure airline joint venture with tour operator TUI.

The measures will halve Air Berlin's fleet, leaving it with just 75 planes focused on long-haul flying from Berlin and Dusseldorf.

The Etihad Aviation Group has more than 26,000 employees and estimates say it contributed more than $9.6 billion to the Abu Dhabi economy in 2016, a figure that is expected to grow to $18.2 billion by 2024, according to a statement issued by Etihad.

In January, the Jet Airliner Crash Data Evaluation Centre (JACDEC) announced that Etihad Airways was among the safest airlines in the world, ranked 8th overall internationally.

In related developments, James Hogan will step down as President and CEO of the company in the second half of 2017. The Board and Mr. Hogan first initiated the transition process last year.

Electronics ban

Emirates Airline, Qatar Airways and Etihad Airways are among ten airlines which must now prevent passengers flying from the Middle East to the United States from carrying almost all types of electronic devices in the cabin.

Smartphones will still be allowed but any larger items – such as iPads, Kindles and laptops – will have to be checked in before passengers clear security and board their flight. The rules came into force on March 25.

While MENA airlines are coming to terms with the financial repercussions of the sudden gadget ban on US and UK flights, industry experts are expecting big losses.

The ban could see the region's airlines losing their premium class traffic (Transatlantic) by 15-25 per cent, according to US-based aviation analyst Ernest S Arvai, Chief Executive of The Arvai Group. He told UAE daily Gulf News: "The move would effectively result in the region's airlines losing passengers to other airlines, hitting the premium classes hardest, where essential revenue is generated."

US-based analyst Addison Schonland, Partner at AirInsight told the media: "Dubai International (DXB) does not report traffic by market. But we do know that traffic on DXB-LHR [London Heathrow] route in 2015 was worth 2.7 million passengers. Typically, 12 per cent of the traffic is business. And that 12 per cent generates 75 per cent of profits. If Emirates loses 25 per cent of the business traffic to LHR, profits will be hit in a big way. We will be seeing business travel volumes drop off considerably. And the winners will be EU-based airlines and US-based airlines."

The banned Middle East carriers include 9 airlines — Emirates, Etihad Airways, Qatar Airways, Royal Jordanian, Saudi Airlines, Kuwait Airways, EgyptAir, Turkish Airlines, Royal Air Maroc — and 10 airports in the region. The ban does not apply to US airlines because there are no non-stop flights to or from those airports.

According to Peter Morris, chief economist at UK-based aviation consultancy Ascend: "It is not good for international travel and tourism — another inconvenience of air travel, and a greater inconvenience for people choosing certain routes / airlines rather than others. Also, for some of those non-stop journeys, people will look at the time/cost of choosing another route. So if a passenger is currently travelling DXB-JFK, they may well look at the option of DXB-LHR-JFK in order to keep their electronic with them."

Geneva-based Andrew Charlton, managing director of Aviation Advocacy said: "A huge amount of business is going to be lost if the ban stays on for a longer period. In the short term it's a massive inconvenience. But the bigger issue is that of people travelling over the Middle East hubs. Passengers would be better of transferring via Europe. They will seek alternative carriers to fly to the US."

Emirates announced a new service between Dubai and Newark earlier this year, with a stop in Greece, giving the airline its 12th American destination.

Qatar Airways will service 11 destinations in the U.S. once its new Doha-Las Vegas service starts in 2018.

The big three Gulf airlines [Emirates, Etihad and Qatar Airways] said they would comply with the directives but declined to comment publicly on its impact.

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