

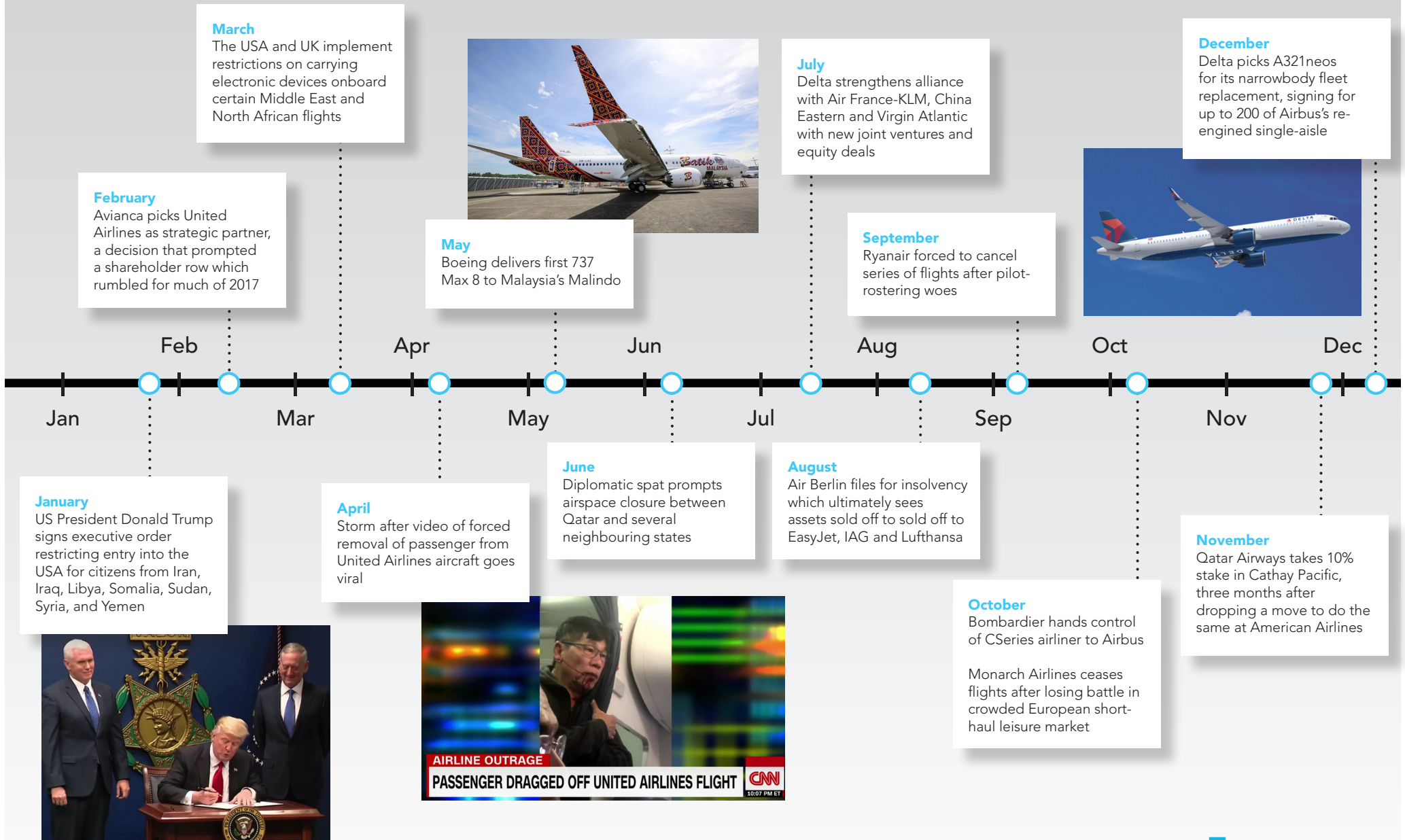


# AIRLINE MARKET REVIEW

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2017

## TIMELINE OF 2017



## REVIEW OF 2017

Airlines largely kept a grip on their improved profitability off the back of continued strong air travel demand in 2017, but the positive mood was punctuated by a series of high-profile challenges and service interruptions that dominated headlines.

In North America, the practice of overbooking came publicly into view when a video of the forced removal of a passenger from a United Airlines flight went viral. While United found itself in the eye of a storm of negative coverage regarding the incident – and its initial response – the focus shifted to the wider overbooking practices across US carriers.

The incident led to a review of the practice – and while United, American Airlines and Delta Air Lines all amended their policies as a result, grillings followed by US lawmakers, and new consumer rules were included in the bill to reauthorise the US Federal Aviation Administration budget.

United was also at the forefront of the other major battleground in the US market this year: the fight for price-conscious travellers. The Star Alliance carrier rapidly rolled out its no-frills basic economy fare, but was forced to take a step back from it amid a fierce competitive response from rivals.

By September the largest US carriers were lowering their third-quarter unit revenue expectations as, nearly universally, they reported a spike in competitive pricing activity. While US carriers continue to lead industry profitability, the competitive pricing – combined with the negative impact from the damaging hurricane season – has taken the gloss off their profit performance.

As US airlines were grappling – in some cases literally – with their overbooked passengers, in Europe the difference between an “IT meltdown” and a “power failure” had to be explained by British Airways. The incident grounded a host of BA flights and served as an illustration of the almost impossible customer service challenges that disruption can cause.

That was to become further apparent when Ryanair, having

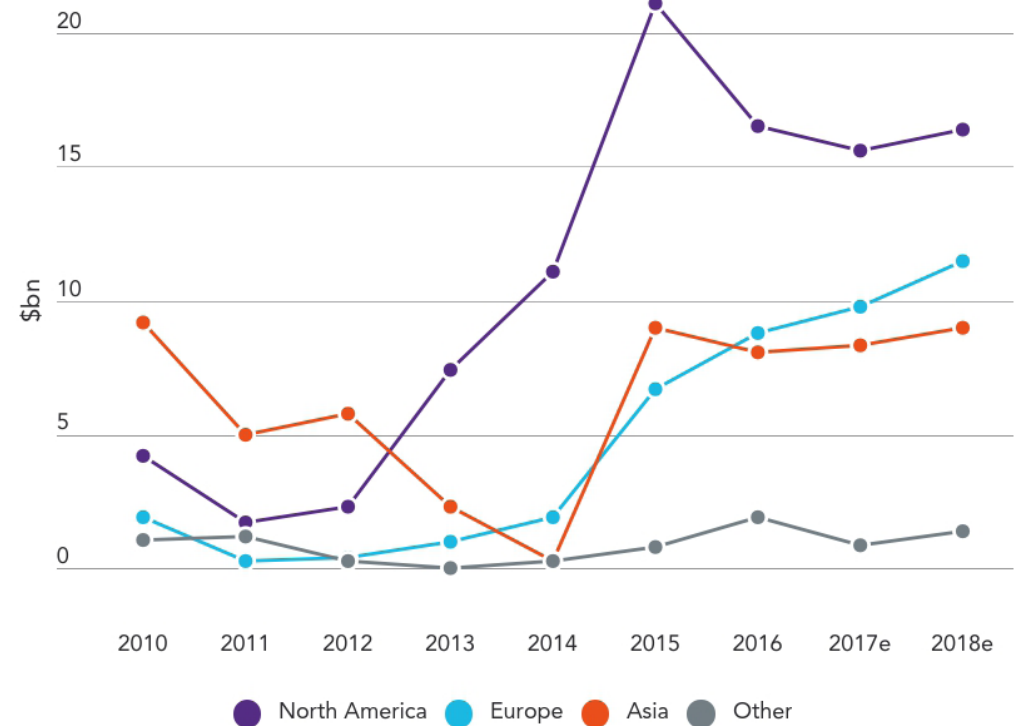
positioned itself as an airline that now cares about its customer service, found itself with plenty of customer care to do following its pilot-rostering process went wrong. After initially hoping to control the crisis with a series of flight cancellations in September and October, it ultimately had to make a second wave of cancellations and temper growth plans in a bid to wrest back control of the situation.

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Munoz and Kirby faced a congressional committee in May

### Industry net profits by region



Source: IATA outlooks; 2017 and 2018 are forecasts, figures for 2014-16 revised since Jun 17  
IATA outlook  
Other includes net total for Africa, Latin America, Middle East

Subsequent pilot disquiet amid the threat of damaging strike action ahead of the Christmas holidays ultimately resulted in Ryanair chief executive Michael O’Leary taking the previously unthinkable step for the carrier of offering to recognise unions.

Yet the underlying strong business environment – and IAG and Ryanair have been among the most robust groups in Europe in recent years – means both are still on course to make record-high profits for the 2017 financial year. Indeed, European airlines as a whole are likely to improve profits.

That comes even with the woes of Monarch Airlines, Air Berlin and Alitalia. None were strangers to the last-chance saloon. But Monarch ceased flights at the start of October, and flights under the Air Berlin brand followed suit by the end of that month. It remains to be seen how Alitalia’s fresh spell in administration will play out.



IAG launched Barcelona-based operation Level in June

Much of the pressure for all three came from the competitive impact from increased capacity. That was compounded by the shift of capacity from still-recovering tourism markets in North Africa and Turkey into popular Mediterranean markets.

But there does not seem much likelihood that cuts to these carriers will have a significant impact in reducing capacity. EasyJet and Lufthansa have moved in to take the prime assets from Air Berlin – and are also among those vying for the same at Alitalia – while carriers have already begun filling the void left by Monarch.

## LONG-HAUL DEVELOPMENT

Europe to the Americas was also at the heart of the burgeoning long-haul low-cost model – both for operators like Norwegian and in the competitive response from network carriers on either side of the Atlantic. That has, for example, involved IAG launching its own Barcelona-based operation Level. The popularity of the model – and contrasting fortunes of the all-premium model – was further evident when IAG announced plans to replace its premium OpenSkies operation out of Paris Orly with Level.

The long-haul low-cost model has been aided by the still relatively low fuel costs and the arrival of next-generation aircraft. Norwegian is, for example, using its first Boeing 737 Max 8s to launch routes from Europe to new points on the US east coast: Hartford, Newburgh Stewart and Providence.

Norwegian had also benefited from the granting of its controversial

authority to operate long-haul flights under its UK subsidiary. Campaigners against the move urged the incoming Trump administration to consider reversing the decision. While there was no movement, it did not take long for the new US president’s policies to have an impact on overseas operators.

In particular, several Middle East and North African operators were hit first by the attempted travel ban on citizens from seven Muslim-majority countries visiting the USA, and then the implementation of restrictions on bringing large personal electronic devices on board flights to the USA from a number of airports in the same region. UK authorities followed suit, albeit with a different list of airports.

Notably, the UK list of restricted airports excluded major hubs like Dubai, Abu Dhabi and Doha, which were all included in the US restrictions. That left the US open to accusations that its actions were related to the ongoing campaign by the big US carriers and unions that are pressing for a review of open-skies deals with Qatar and the UAE over alleged subsidies received by its main carriers – allegations rejected by the Gulf giants.

The UK and USA began lifting the restrictions in the summer, but the simmering row between the big Gulf and US carriers rumbles on. American Airlines hardly welcomed a planned – but ultimately aborted – move by Qatar Airways to take up to 10% of the carrier. The airline also then dropped its codeshare with Qatar and Etihad, prompting the latter to drop its Dallas/Fort Worth service. These factors all contribute to a rare fall in UAE carrier capacity to the USA.

Middle East carriers were also hit by diplomatic tensions closer to home when the severing of ties with Qatar by a number of states in the region resulted in the closing of airspace in several markets. Any hopes that the spat, which took place in June, would be temporary proved unfounded and routes between countries involved remain closed.





Cathay Pacific

Qatar Airways later turned its investment attentions to Cathay Pacific, acquiring around 10% of its Oneworld partner in November. That followed similar investments in two other Oneworld partners: British Airways and Iberia parent IAG, and LATAM Airlines. Qatar also completed its acquisition of a 49% stake in Italian carrier Meridiana, just as its Gulf rival Etihad's own European airline investment strategy was cracking.

Rupert Hogg became chief executive Officer of Cathay Pacific on 1 May 2017

Cathay Pacific was dominating many of the headlines among Asia-Pacific carriers, as it and Singapore Airlines continued restructuring efforts. The latter, which continues to develop its group structure by developing low-cost and regional units Scoot and Silk Air respectively, has made some progress, though yields remain under pressure. Cathay, meanwhile, is embarking on a major restructuring under new chief executive Rupert Hogg. But its worst interim loss for more than two decades illustrates that it remains a work in progress.

African carriers largely struggled to break free of the shackles that have held back their progress. Notably, South African Airways spent much of the year as a political football. The airline will receive a further bailout as it aims to secure a strategic investor. It remains to be seen whether the departure of its controversial chair Dudi Myeni in October and a new permanent chief executive will signal a settling of some of the boardroom issues that have plagued its progress.

Elsewhere, there were signs of some recovery in key travel markets which have suffered the impact of geopolitical and security issues – such as Turkey. But wider security and terrorist issues continue to impact many markets.

Despite all the challenges from a travel demand perspective, however, the picture is strong. While capacity expansion continues to keep yields under pressure, airlines have been able to lift passenger numbers and load factors. And while the oil price has crept up, fuel costs remain relatively low.

The demand environment has remained strong and, given various struggles in recent years, the key BRIC economies have been consistently positive, helping support growth in emerging markets. As a result, despite various negative headlines across the year, 2017 has proved another profitable one for the industry.



Qatar Airways

Qatar Airways completed its acquisition of a 49% stake in Italian carrier Meridiana in September

## NORTH AMERICA

**Net profit:** \$15.6bn

**Performance:** Still the most profitable region in the world, even though levels dropped from recent record highs

**Key issue:** Network carriers began taking the fight to low-cost operators in several domestic battle grounds, prompting fresh price competition and dealing a fresh hit to yields

## EUROPE

**Net profit:** \$9.8bn

**Performance:** Robust summer demand helped drive strongest European carrier profits of the cycle

**Key issue:** The year began with huge uncertainty over the potential impact of Brexit on the UK-EU aviation market, prompting various ownership positioning by several carriers. The year closed with little, if any, of the uncertainty lifted

## ASIA-PACIFIC

**Net profit:** \$8.3bn

**Performance:** Mixed performance with stronger profit in North Asia and Australasia, but stiff competition in south-east Asia

**Key issue:** Many Asian carriers, which carry around 40% of air freight, enjoyed a timely boost from a strong rebound in cargo volumes and yields in the most promising performance for the sector in recent years

## LATIN AMERICA

**Net profit:** \$700m

**Performance:** Recovery in key Brazilian economy helped drive improved fortunes for airlines

**Key issue:** Latin carriers continue to step up partnerships as Avianca picked United Airlines as its JV partner, Delta deepened ties with Aeromexico and LATAM worked on its JVs with Oneworld partners

## MIDDLE EAST

**Net profit:** \$600m

**Performance:** A challenging environment in which the hit for oil economies in the region was compounded by a number of travel restrictions

**Key issue:** Intra-Middle East traffic suffered as air space links to Qatar were severed by several states after a wider diplomatic spat, creating a knock-on impact for carriers in the region – in particular Qatar Airways

## AFRICA

**Net loss:** \$100m

**Performance:** Another year of loss as many of key carriers faced further restructuring or rebuilding

**Key issue:** Struggling South African Airways is seeking a fresh new investor as the government works on its stabilisation, while Air France-KLM's stake in Kenya Airways dwindled after the latter's recapitalisation and Emirates terminated its management contract at TAAG Angola

Source: Profit figures IATA forecast Dec 17

## AIRLINE BIRTHS, DEATHS AND MARRIAGES 2017

### START-UPS

FlightGlobal data shows that 39 new airline operations were established over the first eight months of 2017, roughly matching the 37 airlines that ceased operations or have suspended flights.

The 39 start-ups include some that are subsidiary carriers created to enter new markets – or, in the case of EasyJet Europe, to ensure continuity of operations ahead of the UK's exit from the European Union.

Notable start-ups include Level, IAG's new long-haul, low-cost operation. The airline launched flights out of Barcelona in June – providing a competitive response to Norwegian's launch of long-haul flights from the same Spanish airport.

Level began operations in June using Airbus A330s on flights to Buenos Aires, Los Angeles, Oakland and Punta Cana using aircraft operated by IAG sister carrier Iberia. In December it announced Paris Orly as its second base, in a move which will see it take over the AOC from another IAG unit, premium-operator OpenSkies.

British Airways originally conceived OpenSkies as an all-premium carrier but its aircraft were subsequently reconfigured to include an economy-class section and its route network has remained limited. The OpenSkies division – which serves New York and Newark from Orly using Boeing 757 and 767 aircraft – will “cease to operate” at the end of next summer.

Air France-KLM meanwhile launched services with its new hybrid operation Joon at the start of December. Initially operating from Paris Charles de Gaulle to Barcelona, Berlin, Lisbon and Porto, it will begin long-haul flights Fortaleza in Brazil and Mahe in the Seychelles next summer.

In Russia Azimuth launched flights in September initially from Rostov airport, before becoming one of the initial tenants at the new Rostov-on-Don Platov airport – which opened on 7 December. While Russian regulations required two years of domestic flights before starting international operations, it is already seeking authority to begin routes within the Eurasian Economic Union (EEU). Meanwhile Azerbaijan Airlines' new low-cost unit Buta Airways launched operations in September.

But planned Swiss start-up Powdair, which had planned to begin ski services from Switzerland's Sion airport during earlier this winter, pushed back its launch into 2018 following talks with potential new investors.

### New Latin steps

In Latin America, Chile is the latest country where Indigo Partners – backer of several successful low-cost operators – is looking to deploy its formula again.

Santiago-based JetSmart launched revenue service in late July as it builds up its network to initially eight domestic destinations. JetSmart began operations with a pair of Airbus A320s and aims to build this fleet to at least nine A320s, says chief executive Estuardo Ortiz.

Further ahead, he says, the carrier aims to begin flights to Peru. That is a market in which one low-cost carrier entrant has already emerged this year, with Viva Air launching its second carrier in the region. Viva Air Peru started operations in May, initially deploying a pair of Airbus A320s on seven domestic routes.

In a strong reflection of Argentina's freshly liberalised aviation industry, three new airlines are made progress in launching operations during 2017.

### START-UPS

Airline	Country	Type	Started ops
Air Costa Rica	Costa Rica	Regional	09-Feb-17
Air Juan	Philippines	Regional	15-Jan-17
Air Mediterranean	Greece	Airline ACMI	27-Mar-17
AirAsia Japan	Japan	Low-cost	29-Sep-17
Aushaan Air	Kenya	Airline ACMI	30-Jun-17
Azimuth	Russia	Regional	21-Sep-17
Buta Airways	Azerbaijan	Low-cost	01-Sep-17
Fly Mid Africa	Gambia	Mainline	15-May-17
Flyadeal	Saudi Arabia	Low-cost	23-Sep-17
FlyEst	Argentina	Regional	29-Jun-17
Hong Kong Air Cargo	Hong Kong	Cargo	04-Apr-17
JetSmart	Chile	Low-cost	25-Jul-17
Joon	France	Mainline	04-Dec-17
Lanmei Airlines	Cambodia	Leisure	29-Sep-17
Legacy Airways	United States	Airline ACMI	30-Jun-17
Level	Spain	Low-cost	01-Jun-17
Longhao Airlines	China	Cargo	29-Mar-17
LongJiang Airlines	China	Regional	10-Feb-17
SalamAir	Oman	Low-cost	30-Jan-17
Serene Air	Pakistan	Mainline	29-Jan-17
Talofa Airways	Samoa	Regional	01-Jul-17
Viva Air Peru	Peru	Low-cost	09-May-17
Wataniya Airways	Kuwait	Mainline	11-Jul-17
Zoom Air	India	Regional	15-Feb-17

Avianca Argentina, owned by Colombian carrier Avianca's majority shareholder Synergy, began flights on 21 November with ATR 72-600s. It plans to initially operate to Buenos Aires Aeroparque, Rosario and Mar del Plata.

Low-cost start-up Flybondi took delivery of its first Boeing 737-800 ahead of the launch of services. Meanwhile, Norwegian's new subsidiary in Argentina is set to begin domestic and regional flights next year, connecting with its Buenos Aires to London Gatwick which launches in February.

In the Middle East, Saudia took steps to launch a new low-cost operation. Flyadeal launched domestic flights in September using the first of eight Airbus A320s being leased from Dubai Aerospace Enterprise.

Omani start-up SalamAir launched services in January. It initially began flights on the Muscat-Salalah domestic route, but subsequently added flights to Dubai, the Saudi Arabian cities of Jeddah and Medina, as well as Karachi and Sialkot in Pakistan.

Meanwhile, Kuwaiti carrier Wataniya Airways relaunched operations this summer with a pair of A320s – six years after ceasing flights – having gained an AOC in June. It underlined its growth plans by tentatively signing for 25 Airbus A320neos during November's Dubai air show.



## SUSPENSIONS

Two high-profile European names were lost from the skies in the autumn of 2017 as long-standing financial challenges caught up with Air Berlin and Monarch Airlines.

Air Berlin was forced to open insolvency proceedings in August after key shareholder Etihad Airways pulled the plug on further funding for the German carrier. It came after several restructuring initiatives had failed to stem the losses at Air Berlin, and a wider review of the Gulf carrier's European investments.

The Oneworld carrier, which had grown through a series of acquisitions, was subsequently broken up as administrators secured bids for various assets from EasyJet and Lufthansa, and carried out the last flights under its own brand at the end of October.

EasyJet is using former Air Berlin slots and aircraft to establish an operation from Berlin Tegel, while Lufthansa – which already had a wet-lease deal in place with Air Berlin – is acquiring assets including regional operator LGW.

But it dropped a plan to acquire Austrian leisure carrier Niki after European competition regulators indicated it would not approve the acquisition with Lufthansa's offered remedies. This prompted a fresh attempt in mid-December to secure bidders for Niki and its assets, resulting in IAG securing a deal under which it will establish a new Austrian arm of its Vueling subsidiary.

Another former Etihad European investment, Swiss regional Darwin Airline, also ceased operations in 2017. The Gulf carrier sold its 33% stake in Darwin, which it acquired four years ago and during which period it operated as Etihad Regional, as part of a wider acquisition of the Swiss regional by Adria Airways in July.

The Lugano-based carrier subsequently operated as Adria

SUSPENDED			
Airline	Country	Type	Suspended
Aerpostal	Venezuela	Mainline	25-Sep-17
Air Carnival	India	Regional	06-Apr-17
Air Costa	India	Mainline	28-Feb-17
Air Mandalay	Myanmar	Regional	15-Oct-17
BoraJet	Turkey	Regional	24-Apr-17
Dniproavia	Ukraine	Mainline	04-Oct-17
Kalstar Aviation	Indonesia	Regional	30-Sep-17
Mega Maldives Airlines	Maldives	Mainline	02-May-17
Rainbow Airlines	Zimbabwe	Regional	15-May-17
Royal Falcon Airlines	Jordan	Mainline	15-Aug-17
Safi Airways	UAE	Mainline	28-Jul-17
Starbow	Ghana	Mainline	25-Nov-17
VECA	El Salvador	Low-cost	17-Jan-17
VIM Airlines	Russia	Leisure	15-Oct-17
Zagrosjet	Iraq	Mainline	29-Sep-17

Note: these airlines were suspended as of 3 January 2018, but some may subsequently resume services

Airways Switzerland, but in late November filed to restructure under Swiss insolvency rules citing unfavourable market impacts. Later in December a Swiss court ruled it bankrupt.

Etihad also pulled out of further funding of a third European carrier, Alitalia, after unions rejected proposed cost-savings. Administrators for the Italian carrier are seeking fresh investors for the Italian airline, which has secured a bridging loan to continue operations until the summer whilst it restructures.

Alitalia and Air Berlin, among other contributory factors, struggled in the hugely competitive European short-haul market, which also played a part in the demise of UK leisure carrier Monarch Airlines. The latter found itself squeezed in the UK-Mediterranean resorts market after security implications dropped tourism demand for North African and Turkish markets. Having secured an eleventh-hour reprieve in securing an extension to its ATOL licences in October 2016, it ran out of time to broker a repeat this time around and ceased flights on the morning of 2 October.

## Eastern fails to revive

A six-year effort to revive the Eastern Air Lines brand with a new low-cost carrier serving the Caribbean and Latin American market from Miami, ended in November when US regulators cancelled its economic authority to operate. That came more than two months after the carrier ceased operations following its acquisition by luxury private charter Swift Air.

The Miami-based start-up had already surrendered its air operator's certificate to the US Federal Aviation Administration after ceasing operations on 7 September. Eastern Air Lines' new owners at Phoenix-based Swift Air did not object to the DOT's move, the agency says. It do though say the move did not prejudice to the company's filing for new authority in the future.

Meanwhile, the revived Eastern Air Lines' co-founder Ed Wegel has since moved on to acquire the air operator's certificate of defunct charter and freighter airline World Airways. The new start-up plans to make another attempt at a low-cost airline dedicated to the Latin American and Caribbean markets.

Elsewhere Hawaiian operator Island Air ceased operations in November a month after filing for chapter 11 bankruptcy protection. Hawaiian Airlines has since made an offer to acquire some of the assets of the operator.

But there remain some challenging markets – few more

so than Venezuela. Long-running problems repatriating revenues earned in local currency had already prompted many international carriers to scale back or cut altogether their services into Venezuela. Unrest in the country earlier this year and continued political uncertainty have prompted more carriers to pull the plug.

Venezuela's airlines, meanwhile, have been forced to ground aircraft and cut service due to difficulties in accessing foreign currencies to pay for spare parts and other expenses. Then, in August, Venezuela's oldest airline Aeropostal was forced to cease operations as the ongoing crisis in the country expanded to local carriers.

Challenges in the region have also created problems for InselAir, which resulted in its Aruba-based subsidiary filing for bankruptcy in June. InselAir Aruba had been grounded even before it entered bankruptcy administration in June, but its Curacao-based counterpart continues to operate Fokker 50s connecting Dutch Caribbean territories.

## Indian carrier struggles

In Asia, Indian carrier Air Costa in June had its air operator's permit suspended by India's Directorate General of Civil Aviation following three months of inactivity. The carrier suspended operations on 28 February after hitting financial trouble.

Efforts meanwhile continue to restore the operations of another Indian carrier, Air Pegasus. A deal emerged at the start of the year under which Bengaluru-based Flyeasy would acquire a stake in Air Pegasus and work began on restarting operations in March. But services are still to resume.

Local reports suggest Air Pegasus has secured a new investor and is working towards a resumption of services in 2018. Another Indian carrier, ATR-operator Air Carnival, suspended flights earlier this year.

## CEASED OPERATIONS

Airline	Country	Type	Ceased
Air Labrador	Canada	Regional	01-Jun-17
Air Berlin	Germany	Mainline	27-Oct-17
Eastern Air Lines	United States	Mainline	22-Sep-17
Florida West Int'l Airways	United States	Cargo	27-Mar-17
InselAir Aruba	Aruba	Regional	07-Jun-17
Island Air	United States	Regional	11-Nov-17
Monarch Airlines	UK	Leisure	2-Oct-17
TransAsia Airways	Taiwan	Regional	11-Jan-17
Yunnan Yingan Airline	China	Regional	15-Mar-17

Indian Ocean carrier Mega Maldives Airlines meanwhile suspended services at the start of May, to undergo a restructuring programme. The carrier described the suspension as temporary and says it is focusing on its recapitalisation and restructuring. It is still to resume services

Elsewhere, Turkish regional carrier Borajet – which was acquired by SBK Holdings at the turn of the year – suspended operations in April to carry out restructuring with a view to resuming its scheduled operations in 2018.

One of last year's biggest airline casualties was Taiwanese carrier TransAsia Airways, which ceased flights in November. In January, its shareholders voted for its dissolution, and its route rights were reassigned later that month.



## MERGERS AND DEALS

If Etihad Airways generated headlines during 2017 with the collapse of three of its European airline investments, another Gulf major Qatar Airways showed it still had an appetite to invest, making moves for Cathay Pacific, Meridiana and – most controversially – American Airlines.

Qatar had ended 2016 by completing its acquisition of a 10% stake in its Latin Oneworld partner LATAM Airlines Group, having already increased its holding in IAG, parent of British Airways and Iberia, to 20%.

It remained in acquisitive mood this year. In June, it unveiled plans to acquire a 10% stake in another of its Oneworld partners, American Airlines. The move – an unsolicited one, the target stressed – was particularly intriguing given American's stated position in the wider subsidy spat between the US majors and the big-three Gulf carriers. American subsequently underlined that position in July by giving notice of its planned withdrawal from codeshares with Qatar and Etihad Airways. In early August, Qatar dropped its move.

It later turned its attentions to Cathay, in November agreeing to pay HK\$5.16 billion (\$661 million) to purchase a 9.6% stake in the Hong Kong carrier from conglomerate Kingboard Chemical.

Qatar says it would have liked to purchase a larger stake in Cathay, but stresses that it has no plans to play an active role in the airlines in which it invests. "We see a lot of benefits in Qatar Airways investing in these very, very strong, robust, expanding airlines," says Qatar Airways chief executive Akbar Al Baker.

All of these minority investments followed a pattern of relatively small stakes in existing well-established partners within the Oneworld alliance. But the acquisition of a 49% stake in Meridiana bore more similarities with some of Etihad's investments, not least because the target is a struggling Italian

airline. Ironically, Etihad was embroiled in the ongoing process of exiting its investment in Alitalia when Qatar finalised its Meridian deal in September, more than a year after brokering a tentative agreement.

By mid-December, Meridiana was detailing its new business plan, which involves introduction of a pair of A330-200s for transatlantic services to New York and Miami from Milan Malpensa.

Al Baker ended the year talking up Qatar's interest in investing in Russian flag carrier Aeroflot should an opportunity for foreign investment present itself. It remains unknown whether such an investment would be entertained on the Russian side or how deep Qatar's interest goes. At the very least, it created some headlines in the Russian media as Qatar launched its new St Petersburg service.

Qatar's investment strategy has generally focused on securing smaller stakes in established and, despite Cathay's current challenges, robust businesses. By contrast Etihad's equity-alliance strategy, which was built around rapidly gaining scale, predominantly involved taking larger stakes in distressed carriers.

While these have may delivered in terms of a network and a growth perspective, turnarounds have proved more challenging. And with foreign ownership restrictions in place, Etihad has often found itself with the pain of being required to fund a failing carrier without necessarily the influence to effect a sustainable change in fortunes.

Beyond the Alitalia situation, Etihad also lost patience in Air Berlin, prompting the German carrier's insolvency and leading to EasyJet and Lufthansa securing key assets. The fate of Niki was resolved at the end of the year after IAG successfully bid for its assets. Etihad sold its 33% holding in Darwin Airline after running the Swiss carrier as Etihad Regional. Slovenian carrier Adria Airways acquired the stake as part of a wider deal to take full control of the airline. But within months the Swiss operation was forced to cease operations.

Etihad has indicated it will not give up on its equity-alliance strategy and points to the success of its partnership with India's Jet Airways.

Another carrier to exit its cross-continental European airline investment during 2017 was Korean Air. It sold its 44% holding in Czech Airlines to Travel Service. The deal gave the Czech

### AIRLINE DEALS IN 2017

Qatar Airways	Cathay Pacific	Agreed a deal in November to acquire 9.6% stake of Cathay
Qatar Airways	Meridiana	Finalised acquisition of 49% stake in Italian carrier
Travel Service	Czech Airlines	Purchased Korean Air's 44% stake to give it control of the Czech national carrier
Air France	Virgin Atlantic	Acquired 31% stake in UK carrier as part of wider transatlantic partnership
China Eastern/Delta	Air France	Carriers both took 10% stakes to underscore relationship with SkyTeam partner
American Airlines	China Southern	US carrier acquired 2.7% of Chinese carrier in first step of planned partnership
United Airlines	Avianca	Latin carrier picks United as strategic partner and plans 10-year joint venture
Adria Airways	Darwin Airline	Acquired Swiss carrier, including Etihad's 33% stake, but the unit later ceased flights

travel company, which operates low-cost brand SmartWings, a controlling stake in its compatriot flag carrier. Korean had acquired the stake in its SkyTeam partner in 2013.

## DELTA DEALS

Another carrier at the heart of recent investment and joint-venture activity has been Delta Air Lines, and the US carrier kept its foot on the pedal during 2017 – particularly in cementing relationship with SkyTeam partners.

During the first half, it struck an agreement with Korean Air on establishing a joint-venture business across the Pacific Ocean. The two carriers, long-time alliance and codeshare partners, have had something of a lukewarm relationship. A period of cool relations after Delta's merger with Northwest Airlines in 2009, which included the scaling back of their codeshare in 2013, only began to thaw in 2016 when the carriers reinvigorated the codeshare.

A planned immunised partnership – approved by US regulators in November – would involve co-ordination of the carriers' flights across the Pacific, using Korean Air's Seoul Incheon hub as their primary gateway into Asia and Delta's multiple US hubs as gateways to the Americas. "The backbone of our Pacific franchise is going to be Delta and Korean Air," says Delta chief executive Ed Bastian.

Delta had earlier in 2017 implemented its joint venture with Aeromexico, a move the carriers said would enable them to more tightly mesh their networks and increase US-Mexico capacity. The US carrier also lifted its stake in Aeromexico's parent company Grupo Aeromexico to 49%.

It then turned its attentions to cementing its transatlantic partnerships. In a series of co-ordinated announcements, Delta in July revealed plans to bring its two existing transatlantic agreements – with Virgin Atlantic in the UK market, and with Air France-KLM and Alitalia – into a single agreement. What role Alitalia, which had entered administration earlier in 2017,

will play within that remains unclear, as it is dependent on the outcome of the Italian carrier's search for investors and its related strategic plan.

At the same time, Delta and its partners cemented their relationship through several equity investments. Air France-KLM agreed to acquire a 31% stake in Virgin – Delta already holds a 49% share. Delta and its Chinese partner China Eastern Airlines meanwhile agreed to buy 10% stakes in Air France-KLM for €375 million (\$437 million) each.

The US carrier is also eyeing a role for Aeromexico within the expanded transatlantic joint venture. "We're looking at a way to bring [Aeromexico in], probably not [by] a full aligned ownership structure into the JV, but maybe as a second tier of membership into the JV," says Bastian.

Delta and Air France-KLM also began working more closely with Indian carrier Jet Airways – an airline that continues to be linked with potential investment from its partners. After speculation that Delta was considering a possible investment in Jet earlier this summer, local reports in December suggested that Air France-KLM and Delta were looking at taking small stakes in the Mumbai-based operator.

Also in December, Delta capped a busy year by detailing plans for transborder joint venture with Canadian carrier WestJet.

Other US carriers were also active. American Airlines took a 2.7% stake in China Southern Airlines, an initial step in a planned wider partnership. This was the second US carrier investment in one of the big Chinese carriers, after Delta took a 3.65% stake in China Eastern in 2015.

The teaming of Oneworld carrier American with SkyTeam member China Southern reflects both the lack of a mainland Chinese partner within Oneworld and the increasing willingness of airlines to look beyond their global alliance partners to establish joint ventures in key markets.

Alaska Airlines meanwhile continued to work through its merger with Virgin America. The company expects to receive a single operating certificate from the FAA in January. Also in January, Alaska expects to adopt single payroll, human resources and financial systems as well as a single customer loyalty programme, says chief executive Brad Tilden.

The company has set 25 April 2018 as the day Virgin flights will become Alaska flights. "The next eight months will be very important," Tilden said in October. "By the middle of next year, our most critical integration milestones will be behind us."

## JOINT VENTURES

United Airlines, meanwhile, was chosen by fellow Star Alliance member Avianca as its strategic partner. That decision, disclosed in February, set in motion a shareholder battle at the Latin carrier over its choice of bedfellow – a battle that was to run for most of the year. It was finally cleared at the end of November after Avianca agreed with its minority shareholder to withdraw duelling lawsuits filed in the New York State Supreme Court. The partners were hopeful of completing the joint venture before the year end.

United's was one of a series of joint ventures proposed or implemented during the year.

In October, Singapore Airlines and Lufthansa began a joint-venture pact nearly two years after an initial announcement of the partnership. Lufthansa had in the summer launched its joint venture with Air China.

Unaligned operator Hawaiian Airlines is eyeing an expansion of its codeshare with Oneworld carrier Japan Airlines, which launches in March 2018, into a joint venture. "We would intend for the joint-venture terms proposed to have clear benefits," outgoing Hawaiian chief executive Mark Dunkerley told FlightGlobal in September.

## WORLD AIRLINES

Data from Flight Fleets Analyzer shows there are 833 airlines operating as of the end of December 2017. The figure, which is based on airlines operating with an IATA code and at least one aircraft in active service, marks an overall increase of seven on the same point in 2016.

Almost half of these airlines, 415, are operating fleets of more than 10 aircraft. That is five more airlines than at the same point last year. There are 55 airlines which operate fleets in excess of 100 aircraft. The expanding low-cost carrier segment now accounts for 11 of these, one more than a year ago, as they continue to grow their fleets after placing major aircraft orders.

Asia-Pacific and Europe account for the most airlines, both in excess of 240 carriers. There are 104 operators in North America including just 11 mainline carriers, reflecting the maturity and consolidation in the US market. By contrast Latin America, which has virtually the same number of airlines, has 27 mainline operators. The Middle East and Africa have 94 and 43 airlines respectively.

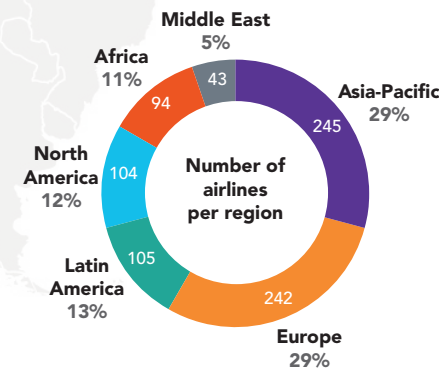
The big US carriers have the largest airline fleets, again reflecting consolidation in the country as well as sizeable regional operations. American Airlines has a total of 950 aircraft currently in service, followed by Delta and United with respective fleets of 863 and 738 units. Six of the top 10 carriers by fleet size are based in the USA.

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### TOP 10 AIRLINES BY IN-SERVICE FLEET SIZE

Airline	In-service fleet
American Airlines	950
DELTA	863
UNITED	738
Southwest	696
中国南方航空 CHINA SOUTHERN	541
SkyWest AIRLINES	420
RYANAIR	413
AIR CHINA 中國國際航空公司	392
中國東方航空 CHINA EASTERN	370
FedEx	365

Source: Flight Fleets Analyzer (Dec 2017)



### WORLD AIRLINES

Airline type	Number of airlines		10 or more aircraft		100 or more aircraft	
	Dec 2017	Change v 2016	Dec 2017	Change v 2016	Dec 2017	Change v 2016
Regional	291	0	123	-3	8	0
Mainline	225	-1	150	+2	34	-1
LCC	111	+3	82	+2	11	+1
Cargo	108	+4	30	+1	2	0
Leisure	78	-1	25	+3		
ACMI	20	+2	5	0		
<b>TOTAL</b>	<b>833</b>	<b>+7</b>	<b>415</b>	<b>+5</b>	<b>55</b>	<b>0</b>

### ASIA-PACIFIC

Airline type	Number of airlines
Regional	82
Mainline	72
LCC	55
Cargo	30
Leisure	5
ACMI	1
<b>TOTAL</b>	<b>245</b>

### EUROPE

Airline type	Number of airlines
Regional	70
Leisure	59
Mainline	55
Cargo	24
LCC	23
ACMI	11
<b>TOTAL</b>	<b>242</b>

### LATIN AMERICA

Airline type	Number of airlines
Regional	45
Mainline	27
Cargo	19
LCC	12
Leisure	1
ACMI	1
<b>TOTAL</b>	<b>105</b>

### NORTH AMERICA

Airline type	Number of airlines
Regional	48
Cargo	28
Mainline	11
LCC	8
Leisure	6
ACMI	3
<b>TOTAL</b>	<b>104</b>

### AFRICA

Airline type	Number of airlines
Regional	37
Mainline	36
LCC	7
Leisure	5
Cargo	5
ACMI	4
<b>TOTAL</b>	<b>94</b>

### MIDDLE EAST

Airline type	Number of airlines
Mainline	24
Regional	9
LCC	6
Cargo	2
Leisure	2
<b>TOTAL</b>	<b>43</b>

Notes: These figures are based on airlines, rather than airline groups, which have an IATA code and at least one aircraft in active service

## CAPACITY SNAPSHOT: REGIONAL MARKETS

Airlines lifted capacity in short-haul and regional markets across 2017 in line with robust air travel demand, FlightGlobal schedules data for the year shows.

Airlines increased capacity at the fastest rate on flights within the Asia-Pacific market. While this comprises many emerging economies, the Asia-Pacific market is already the biggest region in terms of ASK capacity. Airline capacity increased just over 7.5% in 2017.

Perhaps more surprising, especially given the number of uncertainties that surrounded the operating environment in Europe at the start of the year, 2017 proved a year of even higher capacity growth among European operators. Carriers in the region increased their intra-European ASK capacity by 7.2% in 2017. That compared to an increase of just under 7% in 2016.

Airlines in Europe reported a particularly strong performance over the summer, prompting better than initially expected financial outlooks for many carriers. Intense competition on short-haul European markets caused major challenges for the likes of Air Berlin, Alitalia and Monarch Airlines. However, it also illustrated the strength of the European airline market that many operators were able to expand profitably. It also reflected improved fortunes after recent challenges in both the Russian and Turkish markets.

Capacity was increased 4.6% across the intra-North American, including the fast-growing Mexican market. That was slightly below the rate of more than 5% airlines in the region lifted capacity by in 2016.

Intra-Middle East capacity was increased 6% in 2017, less than half the rate of the previous year. Airline capacity on

### Intra-regional capacity

REGION	ASK 2017 (m)	ASK 2016 (m)	CHANGE
<b>AFRICA</b>	<b>93,854</b>	<b>90,083</b>	<b>4.2%</b>
<b>ASIA-PACIFIC</b>	<b>1,747,251</b>	<b>1,623,280</b>	<b>7.6%</b>
<b>EUROPE</b>	<b>1,187,987</b>	<b>1,108,419</b>	<b>7.2%</b>
<b>LATIN AMERICA</b>	<b>261,310</b>	<b>253,899</b>	<b>2.9%</b>
<b>MIDDLE EAST</b>	<b>99,522</b>	<b>93,809</b>	<b>6.1%</b>
<b>NORTH AMERICA</b>	<b>1,597,825</b>	<b>1,527,270</b>	<b>4.6%</b>

Source: FlightGlobal schedules data

flights within the Middle East was hit by the closure in air space by several states in the region to Qatar. This followed the escalation of a diplomatic row in the region in June and remains in force, meaning a string of air services within the region to Doha are not operating. Airlines had lifted ASK capacity over 15% on Qatari routes within the Middle East over the first six months of the year. But capacity to and from

Qatar was down 35% during the second half, compared with the same period in 2016.

While Qatar Airways, by far the biggest operator on routes from Doha, was most heavily impacted, Air Arabia, Emirates, Etihad, Flydubai and Gulf Air are all among those to have cut capacity.



## CAPACITY SNAPSHOT: INTERCONTINENTAL MARKETS

Airlines lifted capacity on intercontinental routes by 6% during 2017, FlightGlobal schedules data for the year shows.

Carriers increased capacity as measured in ASKs by 5.8% on transatlantic services – the biggest intercontinental market – compared with 2016. That included growth from the developing long-haul, low-cost players, notably Norwegian which launched a raft of routes aided by taking delivery of its first Boeing 737 Max aircraft. Icelandic carrier Wow Air also added capacity during 2017, while IAG start-up Level began flights in the summer.

But there was also steady growth from network carriers across the Atlantic, notably another IAG unit Aer Lingus. The latter launched new services to Miami and added capacity on several other routes. The Irish carrier will begin flights to Seattle and Philadelphia in 2018.

While Europe-North America is the largest intercontinental market, it is flights linking Asia-Pacific to North America where capacity was added by the largest amount in absolute terms. Airlines in this market lifted capacity by more than 9% and it stands as the second biggest market by capacity behind Europe-Asia.

Traffic linking Asia-Pacific and the Middle East – where the Gulf players have been very active – is the second biggest growing market by capacity in absolute terms. Airlines lifted ASK capacity between the two regions by 9.2%.

There was steady growth in capacity also reported on European routes to the Middle East, Africa and Latin America.

The biggest rise by percentage in ASK capacity growth, at around 12%, was between Africa and Latin America. However, that was off a very small base and it remains the intercontinental market with the least airline capacity on it in terms of ASKs.

### Intercontinental capacity: largest markets

REGION PAIRING		ASK 2017 (m)	ASK 2016 (m)	CHANGE
NORTH AMERICA	EUROPE	3,589,341	3,391,509	5.8%
EUROPE	NORTH AMERICA	3,581,135	3,383,293	5.8%
EUROPE	ASIA-PACIFIC	3,206,830	3,033,046	5.7%
ASIA-PACIFIC	EUROPE	3,199,700	3,029,897	5.6%
NORTH AMERICA	ASIA-PACIFIC	2,785,345	2,553,558	9.1%
ASIA-PACIFIC	NORTH AMERICA	2,784,339	2,549,664	9.2%
MIDDLE EAST	ASIA-PACIFIC	2,539,450	2,324,395	9.3%
ASIA-PACIFIC	MIDDLE EAST	2,536,962	2,322,651	9.2%
EUROPE	MIDDLE EAST	1,703,233	1,600,085	6.4%

NOTE: figures cover combined capacity between both regions Source: FlightGlobal schedules data

## SHARE PRICE MOVEMENTS

After the jolts and shocks of the previous year, 2017 proved to be a robust year for airline shares, almost across the board.

While differing circumstances and fortunes across the year drove airline share performance at an individual level, stock-price data for leading carriers collated by FlightGlobal shows a clear upward trend across regions and models. That was amid positive trading across global stock markets and relatively strong economic growth.

European airlines enjoyed the sharpest rise in share-price performance. That in part reflected a clawing back of some ground lost in 2016 after the share-price slump that followed the surprise UK referendum vote to leave European Union. But it was also driven by the better-than-expected operating environment which drove a strong summer performance and manifested itself in the raised profit outlooks of a number of European carriers.

Notably, improved fortunes at Air France-KLM and Lufthansa – which was aided by the resolution of long-running labour issues – drove their respective share prices to more than double.

By contrast Ryanair's tough end to the year, first from its wave of flight cancellations amid pilot-rostering woes and then from cost uncertainty after its surprise move to recognise unions in order to counter rumblings of staff discontent, resulted in the wiping-out of most of its gains for the year.

For all its trailblazing activity in long-haul markets, Norwegian's shares lost ground during the year. But the travails of Air Berlin, which resulted in its collapse and break-up, proved the biggest negative among European airline shares.

Asia-Pacific carriers' stocks had endured a difficult 2016 but

were steady in 2017. All eight carrier stocks in the region tracked by FlightGlobal ended the year in positive territory.

Chinese carriers enjoyed a strong share performance across the year. Stocks in both China Southern Airlines and Air China were among those to climb highest during 2017. Strong financial performance at Qantas was matched by a steady climb in the Australian carrier's share price across the year.

Low-cost carrier Air Asia, which had been the only one of the tracked Asian carrier stocks to climb in 2016, also enjoyed another strong year of growth.

North American airline shares performed strongly in 2016 and continued in the same vein, if slightly less spectacularly, in 2017. Southwest Airlines reported the strongest share-price improvement of the majors across the year. There were ups and downs for JetBlue, but a strong end to the year brought its share price almost back to its level at the start of 2017.

Among major North American carriers, United Airlines endured the toughest year on the markets. Following the blip that followed the furore around its forced removal of a passenger

earlier in the year, its share price slid over the second half of the year as a challenged roll-out of its basic economy initiative drew fierce competitive responses from rival carriers.

Improved economic fortunes in Brazil helped drive sharp improvement in the share price at big Latin American carriers Gol and LATAM Airlines across the year.

	Ticker		2017 high	4 Jan 2017 close	28 Dec 2017 close	Period change (%)	Period trend
EUROPE	Air France-KLM Group	AF.PA EUR	14.06	5.24	13.56	▲ 158.8	
	Lufthansa Group	LHA.DE EUR	31.12	12.76	31.12	▲ 143.9	
	SAS	SAS.ST SEK	27.00	14.50	21.50	▲ 48.3	
	IAG	IAG.L GBP	670.00	449.10	648.00	▲ 44.3	
	EasyJet	EZJ.L GBP	1456.00	1009.00	1441.00	▲ 42.8	
	Ryanair	RYA.L EUR	19.35	14.67	14.93	▲ 1.8	
	Norwegian	NAS.OL NOK	296.60	296.60	180.00	▼ 39.3	
	Air Berlin	AB1.DE EUR	1.26	0.62	0.04	▼ 93.9	
AMERICAS	Gol	GOLL4.SA BRL	15.60	5.17	14.60	▲ 182.4	
	Air Canada	AC.TO CAD	27.92	13.72	25.91	▲ 88.8	
	LATAM Airlines Group	LTM USD	14.48	8.42	13.93	▲ 65.4	
	Southwest Airlines	LUV USD	66.09	51.30	65.87	▲ 28.4	
	American Airlines Group	AAL USD	54.22	46.70	52.46	▲ 12.3	
	Delta Air Lines	DAL USD	56.43	50.70	56.35	▲ 11.1	
	JetBlue Airways	JBLU USD	23.75	22.65	22.54	▼ 0.5	
United Continental Holdings	UAL USD	82.03	73.02	67.54	▼ 7.5		
ASIA-PACIFIC	China Southern Airlines	1055.HK HKD	8.18	4.12	7.86	▲ 90.8	
	Air China	0753.HK HKD	9.59	5.04	9.18	▲ 82.1	
	Qantas	QAN.AX AUD	6.45	3.34	5.04	▲ 50.9	
	China Eastern Airlines	0670.HK HKD	5.54	3.57	5.36	▲ 50.1	
	AirAsia	5099.KL MYR	3.56	2.23	3.33	▲ 49.3	
	All Nippon Airways	9202.TYO JPY	4749.00	3200.00	4734.00	▲ 47.9	
	Cathay Pacific Group	0293.HK HKD	13.36	10.52	12.02	▲ 14.3	
Singapore Airlines	C6L.SI SGD	10.83	9.73	10.66	▲ 9.6		

SOURCE: Yahoo Finance, Google Finance

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