

2012



Middle East carriers racing for world market share

An analysis of their network expansion
strategies and the impact it is having on EU
carriers

Authors:

Hanna Schaal (PROLOGIS)
schaal@prologis.aero

Thomas Jäger (ch-aviation)
Thomas.jaeger@ch-aviation.ch

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September 6, 2012 – Emirates and Qantas announce a new global aviation partnership.
October 8, 2012 – oneworld officially invites Qatar Airways to become a new member.
October 8, 2012 – Air France-KLM and Etihad Airways make their major new codesharing agreement public.

Within the short period of a month, three of the world's fastest growing airlines are racing for new ways to extend their current networks. But it is not a race that has only just begun. Over the last couple of years, Emirates, Etihad Airways and Qatar Airways, the three big Middle East carriers, have more and more risen to the airline industry's surface and are now about to position themselves at the leading edge: Aviation's global market has reached a point where its focus is shifting from the old network carriers to the new airlines from the Gulf. As a result, the European airline industry's market structure is changing. As the Middle East carriers inexorably spread out their networks, European airlines cannot help but accept the fact that they have to deal with these rapidly growing rivals.

Current developments

So let's have a closer look at what is currently going on in the global aviation market and how things are changing. The Emirates-Qantas partnership agreement is scheduled to take effect on March 31, 2013. However, the 10-year joint venture agreement goes way beyond being a simple codeshare by including coordinated pricing, sales, and scheduling, as well as revenue sharing on the "Kangaroo Route" (now renamed "Falcon Route") linking Australia with Europe. Furthermore, Emirates and Qantas are referring to a "benefits sharing model" with joint promises to treat each other's customers as their own.¹ The Australian carrier will terminate its unprofitable Frankfurt route and only offer two daily A380-800 services from Melbourne and Sydney to London (down from five daily services some years ago). Furthermore, the new partnership with Emirates will replace all Air France-Qantas codeshare flights to Paris, as well as all Cathay Pacific-Qantas codeshare flights to Rome. But most importantly, Qantas is going to quit its joint-service agreement with oneworld partner British Airways after 17 years in March 2013 in favor of the agreement with Emirates.

Just four weeks after the Qantas and Emirates partnership was announced, both Qatar and Etihad, on the one hand, but also Air France-KLM and British Airways on the other had already responded: In New York, oneworld and Qatar unveiled that the Arabic airline is going to join the smallest of the three alliances (#1: Star Alliance, #2: Skyteam) over the next 12-18 months, with Qantas partner British Airways acting as the sponsoring airline. This partnership will extend oneworld's network by fifteen destinations and three countries² and Qatar will be its 14th alliance member. On the very same day, Air France-KLM and Etihad announced a codeshare agreement which allows Etihad to offer its customers a wider network within Europe and gives Air France-KLM access to Etihad's geographically well located hub in Abu Dhabi. Air France-KLM is Etihad's 40th codeshare partner; however, it states that this new

¹ <http://www.qantas.com.au/infodetail/about/investors/qantas-and-emirates-partnership.pdf>

² <http://www.frequentbusinesstraveler.com/2012/10/qatar-airways-to-join-oneworld-air-france-klm-air-berlin-to-codeshare-with-etihad/>

business deal would be “*the first phase of a much larger strategic partnership*”³. Etihad started codesharing with Air France on flights between Paris CDG and Bordeaux, Copenhagen, Madrid, Nice and Toulouse on October 28; and on the same day on KLM flights between Amsterdam and Abu Dhabi, Billund, Cardiff, Newcastle, Oslo and Stavanger. Air France and KLM currently offer connections via Abu Dhabi to Colombo, Islamabad, Lahore, Mahé, Malé, Melbourne and Sydney. On top of this new partnership, Etihad managed to extend its network within Europe even further by pushing oneworld member Air Berlin, in which it holds a 29% minority stake, into a codeshare partnership with Skyteam member Air France-KLM. It is still too soon to say how well this partnership will work out.

In summary, all of the above mentioned strategic initiatives can be interpreted as the Gulf carriers looking at better access to the European market; and with Air France-KLM, British Airways, and Qantas realizing that they themselves should also make use of the advantages of the business models and hub locations of their competitors in the Middle East. However, this is not a phenomenon that came up only recently. According to this joint study by ch-aviation and PROLOGIS, over the last five years, the three Middle East carriers (Emirates, Etihad and Qatar) have together added a total of 95 new routes (a 46.1% increase of their networks) departing from their hubs. All three carriers pursue the same target: They want to give their networks higher reach in order to attract more customers transiting through their homebases. Nevertheless, their expansion strategies seem to be quite different: Whereas Emirates focuses on organic growth and tries to operate as much traffic as possible with its own aircraft, Etihad invests in bilateral partnerships. It holds equity investments in Virgin Australia (10%), Air Berlin (29%), Air Seychelles (40%), and Aer Lingus (3%). Beyond this, it has over 40 codeshare agreements with a few carriers who have recently moved their flights from Dubai to Abu Dhabi to benefit from Etihad’s willingness to partner (i.e. Garuda Indonesia and Hainan Airlines). With the announcement of joining oneworld, Qatar has decided to take a third route as a member of one of the world’s alliances. Though different, all three strategies will help these airlines to achieve their goal.

To highlight the various expansion strategies and network focus of the three carriers analyzed in this study, we have conducted an analysis of the destinations, frequencies, capacities and ASMs (Available Seat Miles) from the hubs at Abu Dhabi (Etihad), Doha (Qatar), and Dubai (Emirates) for the weeks of Monday, December 3, 2007 and Monday, December 3, 2012. It is based on a combination of schedule data from ch-aviation pro/Innovata (2012) and Cedion/Innovata (2007).

All three carriers – Emirates (EK), Etihad (EY), and Qatar (QR) – have extended their networks, frequencies and overall capacity massively during the last five years, despite the global financial crisis and the Arab Spring at their doorsteps:

³ http://www.etihadmediacentre.com/file.php?f_ID=3771

Destinations served:

Continent	2007			2007 Total	2012			2012 Total	+/- in %
	EK	EY	QR		EK	EY	QR		
Africa	16	4	14	34	20	8	19	47	38.2%
Asia	39	26	43	108	46	43	55	144	33.3%
Europe	22	9	17	48	32	15	31	78	62.5%
North America	3	2	2	7	8	3	4	15	114.3%
Oceania	6	2		8	7	3	2	12	50.0%
South America	1			1	3		2	5	400.0%
Grand Total	87	43	76	206	116	72	113	301	46.1%

EK = Emirates, EY = Etihad, QR = Qatar

As expected, Asia and Europe are the two markets with the highest number of routes served by the three carriers, with Africa coming in a distant third. Europe has grown the most in terms of new routes being added (62.5% more routes being served now) among these markets. The Americas are growing much faster but from a much lower base.

Weekly frequencies:

Continent	2007			2007 Total	2012			2012 Total	+/- in %
	EK	EY	QR		EK	EY	QR		
Africa	104	25	62	191	177	55	110	342	79.1%
Asia	430	229	399	1,058	715	395	711	1,821	72.1%
Europe	225	68	118	411	389	136	244	769	87.1%
North America	20	10	7	37	59	17	24	100	170.3%
Oceania	28	7		35	51	18	14	83	137.1%
South America	6			6	14		7	21	250.0%
Grand Total	813	339	586	1,738	1,405	621	1,110	3,136	80.4%

EK = Emirates, EY = Etihad, QR = Qatar

While the three airlines analyzed have increased the number of routes served by 46.1% over the last five years, frequencies have actually increased by 80.4%, showing that the carriers have started concentrating on serving existing routes more frequently than before. The average weekly frequency per destination has increased from 8.44 to 10.41 weekly flights. This is making the Gulf carriers, product more appealing to business travelers who value frequency more than leisure travelers.

Weekly capacity (seats):

Continent	2007			2007 Total	2012			2012 Total	+/- in %
	EK	EY	QR		EK	EY	QR		
Africa	30,419	6,298	12,877	49,594	54,199	10,546	21,346	86,091	73.6%
Asia	126,745	64,816	82,828	274,389	239,073	81,238	143,920	464,231	69.2%
Europe	68,473	18,206	30,881	117,560	144,458	33,362	56,280	234,100	99.1%
North America	6,944	2,556	2,142	11,642	20,920	5,904	7,508	34,332	194.9%
Oceania	8,148	1,680		9,828	19,588	4,944	4,082	28,614	191.1%
South America	1,716			1,716	4,508		1,813	6,321	268.4%
Grand Total	242,445	93,556	128,728	464,729	482,746	135,994	234,949	853,689	83.7%

EK = Emirates, EY = Etihad, QR = Qatar

Weekly capacity has grown even slightly faster at 83.7% due to the deployment of larger aircraft in the airline's fleets. From the hubs at Abu Dhabi, Doha, and Dubai, the three carriers now offer a total of 853,689 seats per week compared to only 464,729 back in 2007. Emirates

has essentially doubled its capacity in only five years, time with Qatar Airways not far behind. Etihad Airways has grown more slowly during the same timeframe, showing it's more conservative and collaboration-driven growth approach.

Weekly capacity (ASM – Available Seat Miles):

Continent	2007			2007 Total	2012			2012 Total	+/- in %
	EK	EY	QR		EK	EY	QR		
Africa	85,418,099	16,264,554	29,528,378	131,211,031	171,706,117	28,036,402	49,418,849	249,161,368	89.9%
Asia	235,839,544	95,303,505	134,776,557	465,919,606	464,143,567	158,089,486	263,244,358	885,477,411	90.0%
Europe	210,452,942	59,359,038	89,123,127	358,935,107	444,417,969	103,834,522	158,106,917	706,359,408	96.8%
North America	47,760,252	17,588,328	14,822,640	80,171,220	157,412,310	41,759,136	53,023,347	252,194,793	214.6%
Oceania	52,121,874	12,605,040		64,726,914	133,109,919	36,638,128	26,656,183	196,404,230	203.4%
South America	13,041,600			13,041,600	33,844,384		13,369,062	47,213,446	262.0%
Grand Total	644,634,311	201,120,465	268,250,702	1,114,005,478	1,404,634,266	368,357,674	563,818,716	2,336,810,656	109.8%

EK = Emirates, EY = Etihad, QR = Qatar

Last, but not least, the weekly number of Available Seat Miles has risen by 109.8% and thus clearly shows that the carriers are starting to serve more destinations located further away from their hubs and have introduced more long-haul routes to their networks.

More detailed statistics on the Middle East airlines, network growth are provided in [appendix I](#).

Fleet Growth and Expected Fleet Plans

The Gulf airline's network extension is also reflected in their fleet development. With regard to fleets, ch-aviation data from 2007 and 2012 reveals that the three carriers have jointly added a total of 177 new passenger aircraft (Emirates: 83, Etihad Airways 38, Qatar Airways 56). Meanwhile the passenger fleets of their European counterparts Air France-KLM⁴ (from 580 to 574 aircraft) and International Airlines Group⁵ (IAG, the holding that owns British Airways and Iberia) (from 391 to 383) have decreased. Only Lufthansa⁶ and its subsidiaries also expanded their fleets (from 591 to 618 aircraft).

Taking publicly available information about planned aircraft retirements into account, Emirates, Etihad, and Qatar Airways combined are still planning to add another 213 new aircraft to their fleets over the course of the next five years (excluding freighters). In contrast, Air France-KLM, IAG and Lufthansa have all announced plans to cut costs and capacity in response to the current competitive situation in Europe (pressure from LCCs, the ongoing financial and economic crisis and the growth of competitors in the Middle East).

In the last five years, Emirates has mainly focused its growth on the B777-300(ER) (increase from 29 to 80 aircraft) and the A380-800 (from 0 to 27). It will continue to concentrate on

⁴ Including subsidiaries Brit Air, Cityjet, KLM cityhopper, Régional, Transavia, Transavia France and VLM.

⁵ Including subsidiaries BA CityFlyer, Iberia Express and Open Skies.

⁶ Including subsidiaries Air Dolomiti, Austrian Airlines, Edelweiss Air, Eurowings, germanwings, Lufthansa CityLine, Swiss, Swiss European Air Lines and Tyrolean Airways.

these two aircraft types for the next five years and plans to triple its A380-800 fleet in that timeframe, while almost doubling its B777-300(ER) fleet. It is instead expected to retire its lower capacity A330-200, A340-300, A340-500, and B777-200 sub-fleets, showing an indication of its strategy to increase capacity and traffic volumes on existing routes as one of its key growth drivers. Looking at the overall capacity of Emirates, fleet, it is expected to grow its passenger volumes even faster within the next five years, presuming it sticks to its current aircraft delivery and disposal plan.

Emirates Fleet:

Aircraft Type	2007	2012	Ø Age	Changes by 2017	2017	Later Delivery Positions
A330-200	29	24	11.8	-24	0	
A340-300	8	8	15.5	-8	0	
A340-500	10	10	8.7	-10	0	
A350-900	0	0		0	0	50
A350-1000	0	0		0	0	20
A380-800	0	27	2.7	54	81	9
B777-200	9	9	15.6	-9	0	
B777-200(LR)	0	10	4.5	0	10	
B777-300	12	12	10.9	0	12	
B777-300(ER)	29	80	3.8	71	151	
Grand Total	97	180	6.7	74	254	79

Etihad has more than doubled its fleet over the last five years, and plans to do so again in the next five years to come. However, unlike Emirates, about half of this growth has come from building up a fleet of currently 18 narrowbody A320 family aircraft, after initially launching operations with a fleet of just widebodies. This has allowed Etihad to increase frequencies and the number of its destinations within its regional network from Abu Dhabi to the Middle East and the Indian subcontinent. Narrowbodies are in fact better suited for this purpose, also given the fact that Abu Dhabi is still a smaller Origin & Destination market than Dubai. Etihad will, however, have to significantly increase its growth rate going forward, if it plans to go ahead with the deliveries of its 10 A380-800s, 7 B777-300s(ER), and 25 B787-9s by 2017. This increase represents a much more significant leap from where the airline stands now, compared to what it has achieved over the past five years.

Etihad Airways Fleet:

Aircraft Type	2007	2012	Ø Age	Changes by 2017	2017	Later Delivery Positions
A319-100	0	2	9.7	0	2	
A320-200	0	16	5.5	4	20	
A321-200	0	0		16	16	
A330-200	13	17	6.0	2	19	
A330-300	0	6	2.1	0	6	
A340-300	1	0		0	0	
A340-500	4	4	6.4	0	4	
A340-600	1	7	4.4	0	7	
A350-1000	0	0		0	0	12
A380-800	0	0		10	10	
B767-300(ER)	1	0		0	0	
B777-300(ER)	5	11	3.9	7	18	
B787-9	0	0		25	25	16
Grand Total	25	63	5.1	64	127	28

Qatar Airways has grown in a comparable fashion to Etihad, with 28 new A320 family narrowbodies joining its fleet in the last five years. These have also been used for its major expansion into Eastern Europe over the same period of time. Qatar has also introduced the B777, taking delivery of a total of 27 aircraft with an additional 7 B777-300s(ER) on order. And it also took delivery of the first B787-8 “Dreamliner” last month. The airline is planning to operate with 30 B787-8s by 2017. Qatar Airways also has outstanding orders for 43 A350-900s, 37 larger A350-1000s, and 50 A320neo family aircraft, which eventually will partially replace its existing fleet beyond 2017. The majority of its growth over the course of the next years will initially come from B787-8 and B777-300(ER) deliveries. This shows the expected capacity increase or the launch of more long-haul routes, temporarily moving up the ladder with less short-haul narrowbody expansion than in recent years.

Qatar Airways Fleet:

Aircraft Type	2007	2012	Ø Age	Changes by 2017	2017	Later Delivery Positions
A300-600R	6	0		0	0	
A319-100	2	2	9.3	0	2	6
A320-200	12	30	4.4	3	33	30
A321-200	2	12	5.2	0	12	14
A330-200	19	16	8.1	0	16	
A330-300	10	13	6.5	0	13	
A340-600	4	4	6.3	0	4	
A350-900	0	0		31	31	12
A350-1000	0	0		0	0	37
A380-800	0	0		5	5	
B777-200(LR)	0	9	2.8	0	9	
B777-300(ER)	0	18	2.8	7	25	
B787-8	0	1	0.4	29	30	
Grand Total	49	105	5.0	75	180	

How did they get this far?

The fact that the Gulf carriers have impressively grown and spread out their networks within the past five years can quite obviously be seen if we look at the results above. But what is their secret of success that has helped them to reach their current positions fairly quickly?

The three largest Gulf carriers essentially capitalize on a set of very favorable geographical conditions, coupled with very aviation friendly policies of their respective governments. Their hubs (Dubai, Abu Dhabi, Doha) are located in a strategically very advantageous position in the world with most of Africa, Europe, the Middle East, the Indian subcontinent and much of South East Asia located only 6-8 hours of flying time away. This gives them access to a large percentage of the world’s population and traffic patterns between these regions. In addition, the three cities offer long-haul flights non-stop to Australia and the Americas. So, essentially, any relevant destination around the world can be reached non-stop from their hubs. This puts the carriers into the position of being able to compete for connecting traffic on many ultra-long-haul city pairs with high demand (i.e. London-Sydney, San Francisco-Mumbai, Tokyo-

Sao Paulo etc.) and one-stop service. And most of their competitors have no competitive advantage because they cannot serve the markets non-stop either.

Based on the ch-aviation and PROLOGIS study, Air France-KLM currently offer flights to 23 destinations in the Asia-Pacific region from Europe, International Airlines Group (British Airways/ Iberia) 15, and Lufthansa together with its subsidiaries Austrian and Swiss 21. Their three Gulf-based counterparts are currently able to offer between 33 (Etihad) and 40 (Qatar) destinations from their hubs and consolidate demand for these services from Africa, the Americas, Europe, and the Middle East (numbers including all destinations in Asia and Oceania minus the Middle East destinations). Thanks to their hub's relative proximity to markets with large populations, they can offer one-stop itineraries on smaller city pairs, i.e. itineraries such as Birmingham-Ahmedabad, Milan-Sydney, Vienna-Kuala Lumpur etc. European carriers cannot compete as easily on many such city pairs. They are often not in a position to offer comparable one-stop service from a European airport other than their hubs.

Besides the geographical advantage, the governments of the Emirates of Dubai and Abu Dhabi as well as Qatar considered aviation one of their key industries early on as part of a general strategy aimed at turning their countries into business, financial and tourism centers. And this obviously cannot be achieved without having significant air links. Emirates publishes its financial reports and has been consistently profitable for the past two decades, according to its audited financial statements. The carrier often publicly states that it has never directly received capital from the government since it originally started operations. In fact, it is now a very profitable airline, typically outperforming its competitors in Europe and Asia.

It is an open secret, however, that both Etihad and Qatar have received a lot of additional capital from their governments to finance initial losses, while building up their large networks. Although, both claim that they are now profitable, they have yet to publish audited financial results that would substantiate these claims. Be that as it may, it is probably too easy for European and North American carriers to point their fingers at their fast-growing competitors in the Middle East, given all of the government bailouts that the carriers have directly or indirectly received over the past decades. Moreover, the legal framework in North America has allowed all carriers to get rid of unwanted obligations through bankruptcy protection. Presumably from an economic perspective, these massive government investments in the aviation sector will eventually pay off as part of their general master plans.

Another advantage of the Gulf carriers to consider is the aviation-friendly legal and business framework in Qatar and the United Arab Emirates: No night bans, new airports and terminals are being built to accommodate capacity, no trade unions, the ability to easily employ foreigners from third world countries at lower wages, no taxes, and so on. These benefits theoretically would also be available to other carriers in the region. But, combined with what has been said above, Emirates, Etihad, and Qatar could establish themselves as the key players in the region.

And last, but not least, a success factor of all three Middle East carriers is comparably higher product quality. Qatar Airways was Skytrax, "Airline of the Year" in both 2011 and 2012 – an

indicator for Passenger Satisfaction levels based on passenger surveys. Etihad and Emirates were among the 10 best airlines both this and last year. According to these surveys, none of the old network carriers like Lufthansa, British Airways, Air France-KLM, American, Delta or United can compete with such high quality and service levels. To quote USA Today⁷: “[...] the Gulf airlines have positioned themselves atop global customer satisfaction rankings by flying new planes and offering luxurious international service to an increasing number of destinations.”

In conclusion, all three carriers certainly benefit from an advantageous geographic position and favorable legal and business frameworks, and on top of that, are able to win customers by offering a high-quality product at a reasonable price.

Impact on European carriers

The ch-aviation and PROLOGIS analysis was able to review the impact of the massive growth of the three large Gulf carriers on European Union scheduled carriers (excluding leisure carriers such as Blue Panorama, Condor, Thomson Airways etc.) to destinations in Asia (excluding the Middle East and Central Asia) between 2007 and 2012.

Carrier	2007	2012	+/- in %
Air Berlin (LTU)	5,814		-100.00%
Air France-KLM (incl. Delta/Northwest)	58,328	59,436	1.90%
Alitalia	7,440	5,847	-21.41%
British Airways	32,203	31,506	-2.16%
Finnair	16,712	19,403	16.10%
LOT Polish Airlines		486	New
Lufthansa (incl. Austrian and Swiss)	63,109	67,269	6.59%
Malev	628		-100.00%
SAS Scandinavian Airlines	6,525	6,786	4.00%
Virgin Atlantic	10,570	10,542	-0.26%
Grand Total	201,329	201,275	-0.03%

All EU carriers combined have barely changed the total non-stop capacity in these markets in five years. Between 2007 and 2012, Air Berlin (long-haul routes were still operated by LTU back in 2007) and Malev have left the non-stop services market: Even prior to its bankruptcy, Malev cancelled all long-haul routes; and after Etihad’s acquisition of a large minority share in Air Berlin, the German carrier’s network was restructured. Asian services are now routed through Abu Dhabi (Phuket is currently still served daily by Air Berlin, but from Abu Dhabi and not non-stop from Germany). LOT has instead entered the market currently only serving Beijing from Warsaw.

In contrast to the development of EU scheduled carriers, Emirates, Etihad Airways, and Qatar Airways have in the meantime been able to almost double their capacity on routes between their hubs and Asia (from 166,446 to 324,585 weekly seats). This shows that the European airlines have not necessarily lost traffic volume, but have simply not been able to participate

⁷ <http://www.usatoday.com/story/travel/flights/2012/11/12/qatar-emirates-airlines/1700609/>

in the growth in these markets. It would be unfair to assume that the entire increase in capacity between the Middle East and these Asia-Pacific markets analyzed would come from European passengers. Anyhow, the proportions show how different capacity developments have been between the two groups of carriers.

Looking at destinations, in particular, the EU carriers have especially sustained losses in markets where they were geographically most exposed to competition by their three rivals from the Gulf (in particular, in India, the Maldives, the Philippines, Thailand, as well as China's South).

How do European carriers react?

In response to these developments over the course of the last five years, European carriers have started to change their competitive strategies. Both Alexandre de Juniac, Chairman and CEO of Air France, and Sir Martin Broughton, Chairman of British Airways, admitted that the old adage *,If you can't beat them, join them,* applies to their current strategic behavior: It was only last year when Jean-Cyril Spinetta, the previous CEO of Air France-KLM Group, said: *"The Gulf companies are killing our industry."*⁸ Now, the former enemy has become a codeshare partner. And instead of any further complaints about unfair competition due to government support, British Airways, through its parent IAG, decided to invite one of the rivals on board its worldwide alliance. According to Sir Martin Broughton, this decision came along with a "strategic shift" of British Airways in order to meet its customers, demands.⁹

With Air-France-KLM and Air Berlin partnering with Etihad, and British Airways itself allying with Qatar through oneworld, Lufthansa is the only one of Europe's three large carriers that does not cooperate with any of the three big Middle East counterparts. Albeit, strictly speaking, the former German flag carrier was first to partner with one of the Gulf carriers: After almost 13 years, Lufthansa ended its cooperation with Qatar Airways on January 1, 2012. The airline justified the decision by saying that the business deal did not provide a win-win situation to it anymore¹⁰. Although Lufthansa does not preclude a new partnership with one of the Middle East carriers, the German airline is currently in talks with its Star partner Turkish Airlines about an even closer partnership combining the strategic advantages of both carriers.

Spotlight on Turkish Airlines

According to data from ch-aviation, Istanbul-based Turkish is Europe's third largest carrier by passenger traffic, and currently operates approximately 850 flights a day to 205 destinations with a fleet of 194 passenger aircraft. It has been capitalizing on its equally well positioned hub to capture a massively growing volume of transfer traffic from Europe to Africa, Central

⁸ <http://www.thenational.ae/business/aviation/revolution-in-the-air-arabian-gulf-carriers-enter-old-boys-club>

⁹ <http://www.thenational.ae/thenationalconversation/industry-insights/aviation/mergers-crucial-to-ba-success-as-80th-year-of-uae-flights-marked>

¹⁰ <http://biztravel.fww.de/lufthansa-mistet-aus/393/97162/4070>

Asia, the Middle East, and the remainder of Asia. Similar to the three major carriers in the Arabian Gulf, Turkish brings together a combination of a lower cost base (thanks to Turkey's relatively cheap labor), its advantageous geographical position, strong inbound tourism demand, and aviation-friendly government policies (the Turkish government still owns a large minority share of approximately 49% in Turkish Airlines). Although the country has also been hit by the recession that followed the beginning of the world's financial crisis, it has reversed its negative GDP growth rate of -4.8% in 2009 by growing by 9.2% in 2010 and 8.5% in 2011, according to the World Bank. Unlike Emirates, Etihad, and Qatar Airways, whose domestic air travel is fairly (UAE) or totally (Qatar) irrelevant, Turkish is able to capitalize on the domestic market in Turkey based on its GDP growth. Solely on its domestic services from Istanbul Atatürk, the airline increased its available capacity by 26.8% between December 2007 and December 2012, offering 801 weekly departures to 32 destinations this month.

To a large extent, Turkish still is a short-haul carrier serving Europe, Central Asia, the Middle East, and Northern Africa. However, with its already delivered and still outstanding long-haul aircraft orders (see fleet analysis below), this is changing. Turkish has made a massive push into Africa during the last 2-3 years, and is quickly establishing itself as a major force in many markets. It is thereby making use of the geographically more advantageous location of Istanbul for connections from Europe to Africa. Between December 2007 and December 2012, weekly flight frequency from Istanbul to Africa increased more than fourfold from 30 to 153.

Turkish Airlines: Network Growth and Focus (excluding routes by-passing Istanbul Atatürk):

Continent	Destinations			Frequencies			Weekly Capacity (Seats)			Weekly Capacity (ASM)		
	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %
Africa	10	29	190.0%	30	153	410.0%	5,358	25,922	383.8%	9,886,749	51,342,465	419.3%
Asia	33	55	66.7%	138	390	182.6%	26,137	78,839	201.6%	66,825,032	196,063,155	193.4%
Europe	91	115	26.4%	1,062	1,815	70.9%	164,733	284,037	72.4%	109,496,881	220,690,968	101.6%
North America	2	5	150.0%	10	40	300.0%	2,560	12,713	396.6%	13,176,730	69,594,753	428.2%
South America		1			4			1,348			8,845,576	
Grand Total	136	205	50.7%	1,240	2,402	93.7%	198,788	402,859	102.7%	199,385,392	546,536,917	174.1%

Over the same period, the airline doubled its fleet from 92 to 194 passenger aircraft (growing its long-haul and short-haul fleets in a similar fashion) including the B737-700s and B737-800s operated under the AnadoluJet brand on domestic low-cost carrier services. It just recently announced that it has given up plans to order A380-800s or B747-8s, instead opting for another 100 narrowbody aircraft to be ordered before the end of 2012 or in early 2013. According to current plans (assuming the retirement of its aging A340-300s), this move underlines its strategy of increasing the short- to medium-haul business in line with its long-haul services. 15 additional A330-300s and B777-300s(ER) will bring its long-haul fleet to 63 aircraft by 2017.

Detailed information about Turkish Airlines, network changes and corresponding graphs can be found in appendix II.

It is obvious that Turkish as “Europe’s Best Airline” (Skytrax Award 2011 & 2012) and with its network and strategy is already a feared rival to the Middle East carriers. Should the contemplated tie-up between Turkish – one of the fastest growing airlines in the world – and Lufthansa – Europe’s largest airline in terms of passengers carried – really become true, it would constitute the second largest airline group after Delta Air Lines based on capacity with roughly 3.8 million weekly seats compared to 3.9 million for Delta.¹¹ According to *airliners.de*¹² Turkish’s CEO Temil Kotil wants to get to a decision regarding the possible close alliance in the first quarter of 2013.

But let’s not forget the Emirates-Qantas joint venture that will start off in April 2013. Although for now the arrangement mainly focuses on European connectivity, future global extensions are likely to follow. So, on the one hand, there are Emirates and Qantas partnering outside any global alliance. On the other, there is Etihad reaching bilateral agreements with both Air Berlin in oneworld and Air France-KLM in Skyteam (with both now also codesharing, following Etihad’s strategic lead).

Will the role of the worldwide alliances change?

With respect to these new partnerships, it is a legitimate question to ask how the role of the three worldwide alliances is affected by the current developments. It does not seem that Emirates is interested in joining any of the “big three” in the near future. The airline labeling Star Alliance, Skyteam, and oneworld as an “anachronism”¹³, better suited to the nineties, where they came up as an answer to the financial difficulties of network carriers describes Emirates, attitude towards these alliances very clearly.

IATA (International Air Transport Association) CEO Tony Tyler recently said: “*Alliances help airlines offer very competitive fares on other airline networks. So consumers can travel around the world at competitive prices.*”¹⁴ Will the three alliances be able to maintain this unique role? Or will new giant partnerships such as Emirates and Qantas, or Etihad, Air Berlin, and Air France-KLM be able to compete with the alliances by offering joint networks with global reach as well based on bilateral agreements? For now, what we know for certain is that, due to the Emirates-Qantas partnership, the Australian carrier is going to end its close cooperation with British Airways in Europe after 17 years (the carriers will still continue to codeshare). And, as mentioned above, Qantas will also cut its already very loose links with Cathay Pacific by dropping the codeshare agreement for the only route that the carriers have cooperated on most recently (Hong Kong-Rome). As British Airways and Cathay Pacific are

¹¹ <http://centreforaviation.com/analysis/turkish-airlines-tie-up-could-give-lufthansa-the-solution-it-needs-as-profits-continue-to-fall-87372>

¹² <http://www.airliners.de/management/strategie/turkish-macht-druck-bei-lufthansa-allianz/28592>

¹³ <http://washpost.bloomberg.com/Story?docId=1376-M9X4HJ6S972O01-7LONMEU5G3SHDDJU0Q95MAFPAJ>

¹⁴ <http://www.airaviationnews.com/war/emirates-qatar-air-merger-impossible-clark/>

both members of oneworld, this means that the alliance will lose traffic to Emirates. And Skyteam's network will also be affected by the new match due to Qantas ending the Air France codeshare on the route to Paris. To sum things up, the new Qantas-Emirates partnership has an effect on the alliances, and it does not look as if it will be a positive one.

The Etihad - Air Berlin - Air France-KLM cooperation will most certainly have some impact on both oneworld and Skyteam. The critical airline to look at is Air Berlin - on the one hand, oneworld member since March 2012, on the other, now cooperating with Skyteam member Air France-KLM as a by-product of its Etihad partnership. So, Air Berlin is somehow caught in the middle. And Etihad does not care – which is not surprising given its successful strategy of entering into bilateral agreements as opportunities arise, regardless of alliance boundaries. Does the German carrier's split position reflect the Gulf carriers, emerging power towards the worldwide alliances? The airlines themselves are talking about an increasing flexibility towards global alliance membership. Both the developments and consequences of this flexibility remain to be seen. But there seems to be an early indication that bilateral agreements and joint ventures, globally or for specific markets, might just as well be more important than alliance membership going forward.

Nothing is constant, except change ...

... and this also applies to the development of the three major Middle East carriers. This article outlined how Emirates, Etihad, and Qatar were able to reach their top positions in the global airline industry. Based on the ch-aviation and PROLOGIS analysis, we have been able to demonstrate how the three airlines have managed to pass their European rivals in certain markets and positioned themselves at the leading edge in only a few years. The airline industry is in the midst of yet another revolution, and a new era in global aviation lead by the three largest Middle East airlines is about to start. But again – nothing is constant, except for change. So, even though it looks like Emirates, Etihad, and Qatar are currently looking toward a bright future, nobody really knows if this envisioned future will come true or is subject to change...

Appendix I:

Emirates, growth:

Continent	Destinations			Frequencies			Weekly Capacity (Seats)			Weekly Capacity (ASM)		
	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %
Africa	16	20	25.0%	104	177	70.2%	30,419	54,199	78.2%	85,418,099	171,706,117	101.0%
Asia	39	46	17.9%	430	715	66.3%	126,745	239,073	88.6%	235,839,544	464,143,567	96.8%
Europe	22	32	45.5%	225	389	72.9%	68,473	144,458	111.0%	210,452,942	444,417,969	111.2%
North America	3	8	166.7%	20	59	195.0%	6,944	20,920	201.3%	47,760,252	157,412,310	229.6%
Oceania	6	7	16.7%	28	51	82.1%	8,148	19,588	140.4%	52,121,874	133,109,919	155.4%
South America	1	3	200.0%	6	14	133.3%	1,716	4,508	162.7%	13,041,600	33,844,384	159.5%
Grand Total	87	116	33.3%	813	1,405	72.8%	242,445	482,746	99.1%	644,634,311	1,404,634,266	117.9%

Emirates network changes by continent:

Maps generated by Great Circle Mapper.

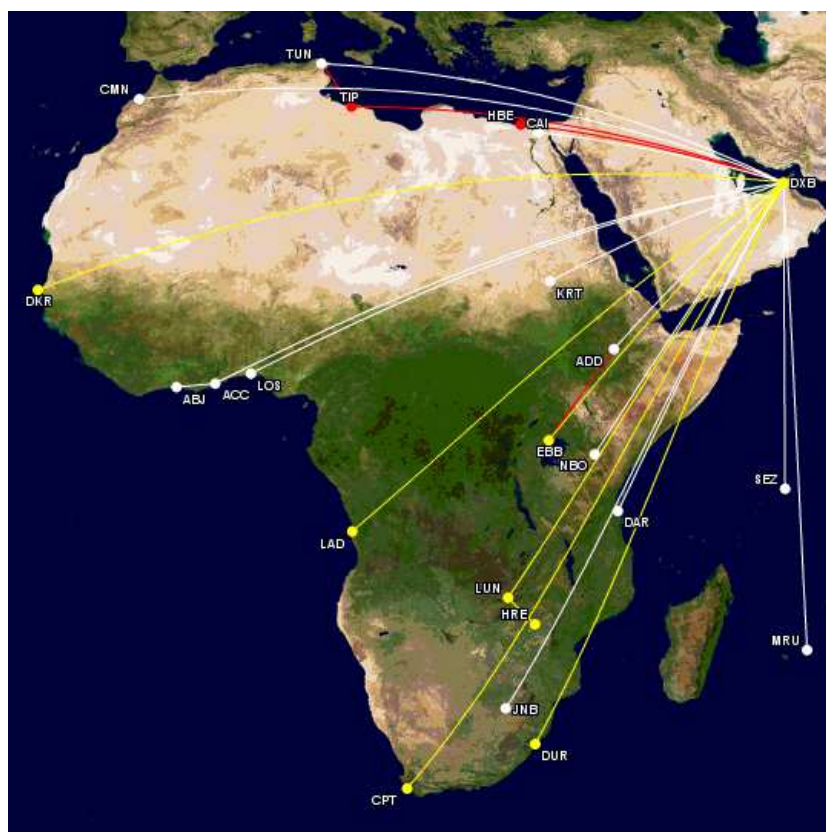
- 2007 routes in white
- Added routes in yellow (added between 2007 and 2012)
- Dropped routes in red (since 2007)
- “Future additions”: Already scheduled and bookable flights of which operations will start in 2013 (not shown in map).

Africa (4+1):

Added (6): Cape Town, Dakar, Durban, Harare, Luanda, Lusaka

Dropped (2): Alexandria, Tripoli

Future additions (1): Algiers



Asia (7+1):

Added (7): Baghdad, Basra, Erbil, Guangzhou, Ho Chi Minh City, Kozhikode, Madinah, Tokyo

Dropped (1): Nagoya

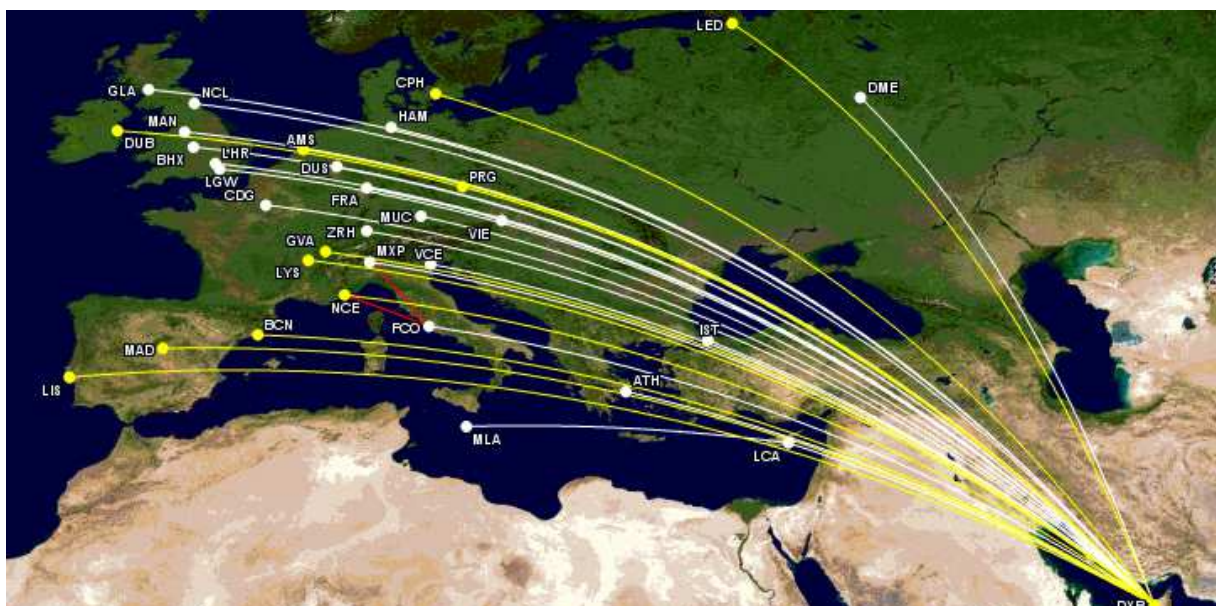
Future additions (1): Phuket



Europe (10+1):

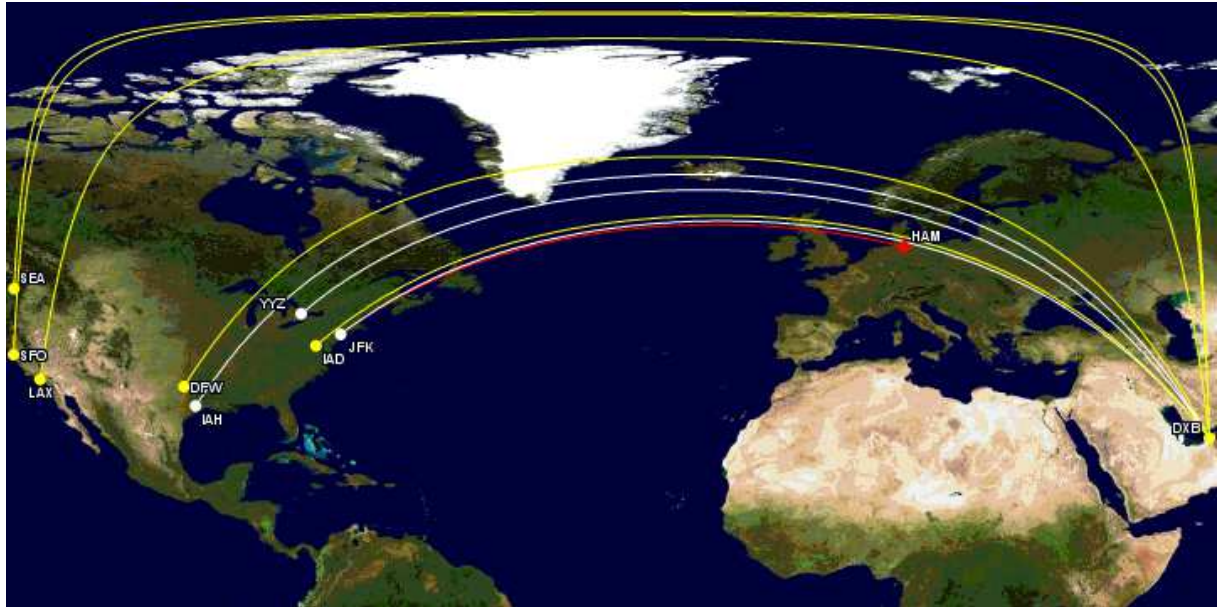
Added (10): Amsterdam, Barcelona, Copenhagen, Dublin, Geneva, Lisbon, Lyon, Madrid, Prague, St. Petersburg

Future additions (1): Warsaw



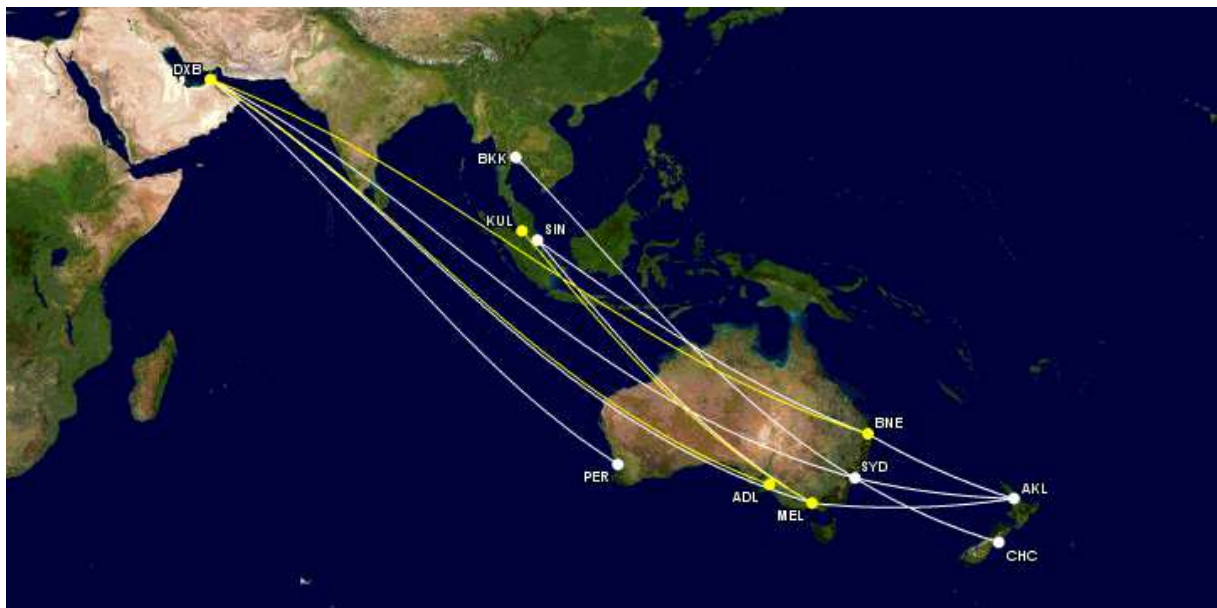
North America (5):

Added (5): Dallas/Fort Worth, Los Angeles, San Francisco, Seattle/Tacoma, Washington D.C.



Oceania (1):

Added (1): Adelaide



South America (2):

Added (2): Buenos Aires, Rio de Janeiro



Etihad Airways, growth:

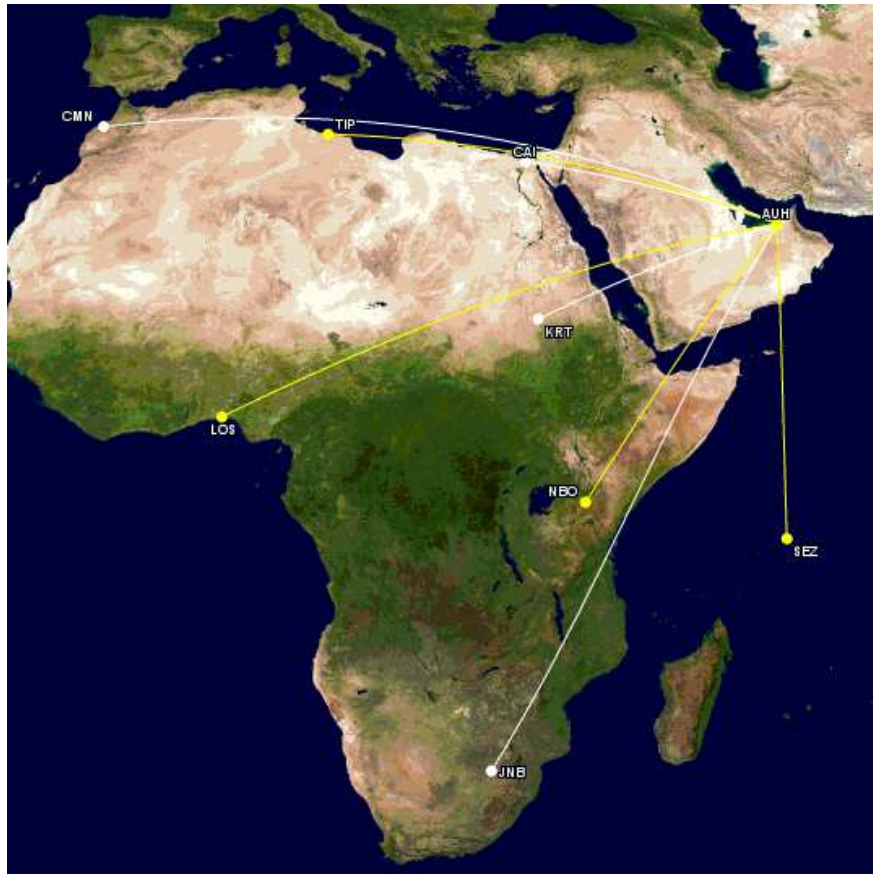
Continent	Destinations			Frequencies			Weekly Capacity (Seats)			Weekly Capacity (ASM)		
	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %
Africa	4	8	100.0%	25	55	120.0%	6,298	10,546	67.4%	16,264,554	28,036,402	72.4%
Asia	26	43	65.4%	229	395	72.5%	64,816	81,238	25.3%	95,303,505	158,089,486	65.9%
Europe	9	15	66.7%	68	136	100.0%	18,206	33,362	83.2%	59,359,038	103,834,522	74.9%
North America	2	3	50.0%	10	17	70.0%	2,556	5,904	131.0%	17,588,328	41,759,136	137.4%
Oceania	2	3	50.0%	7	18	157.1%	1,680	4,944	194.3%	12,605,040	36,638,128	190.7%
South America												
Grand Total	43	72	67.4%	339	621	83.2%	93,556	135,994	45.4%	201,120,465	368,357,674	83.2%

Etihad Airways network changes by continent:

Africa (4+1):

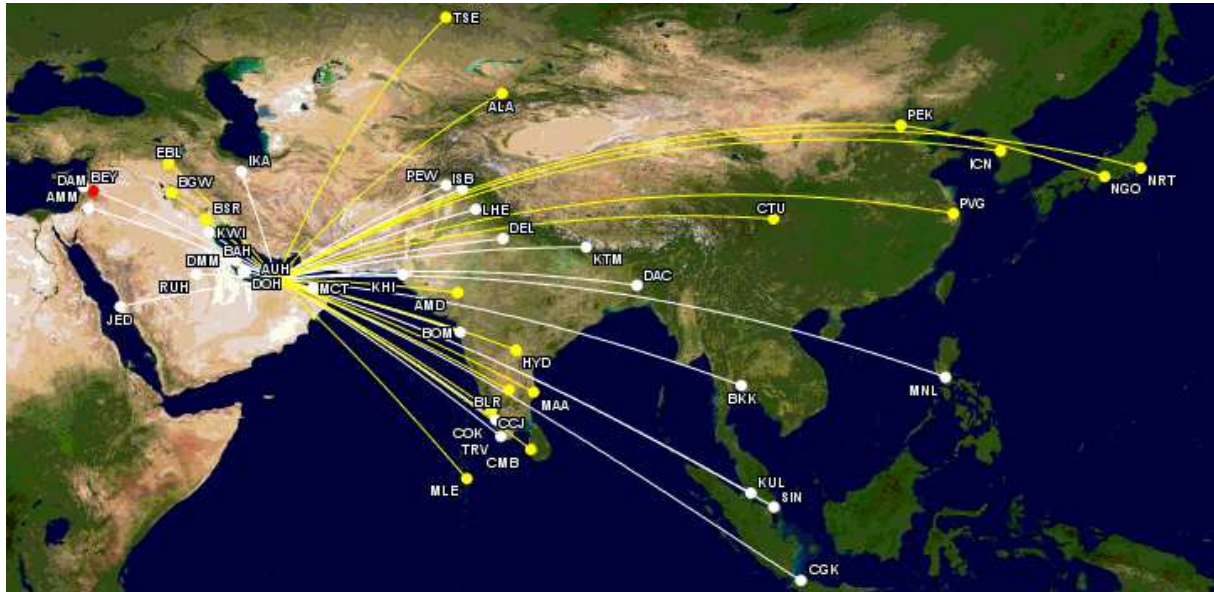
Added (4): Lagos, Nairobi, Mahé, Tripoli

Future additions (1): Addis Ababa



Asia (18):

Added (18): Ahmedabad, Almaty, Astana, Baghdad, Bangalore, Basra, Beijing, Chengdu, Chennai, Colombo, Erbil, Hyderabad, Kozhikode, Malé, Nagoya, Seoul, Shanghai, Tokyo



Europe (6):

Added (6) Athens, Dusseldorf, Istanbul, Larnaca, Minsk, Moscow



North America (1+1):

Added (1): Chicago
Future additions (1): Washington D.C.



Oceania (1):

Added (1): Melbourne



South America (0+1)

Future additions (1): Sao Paulo

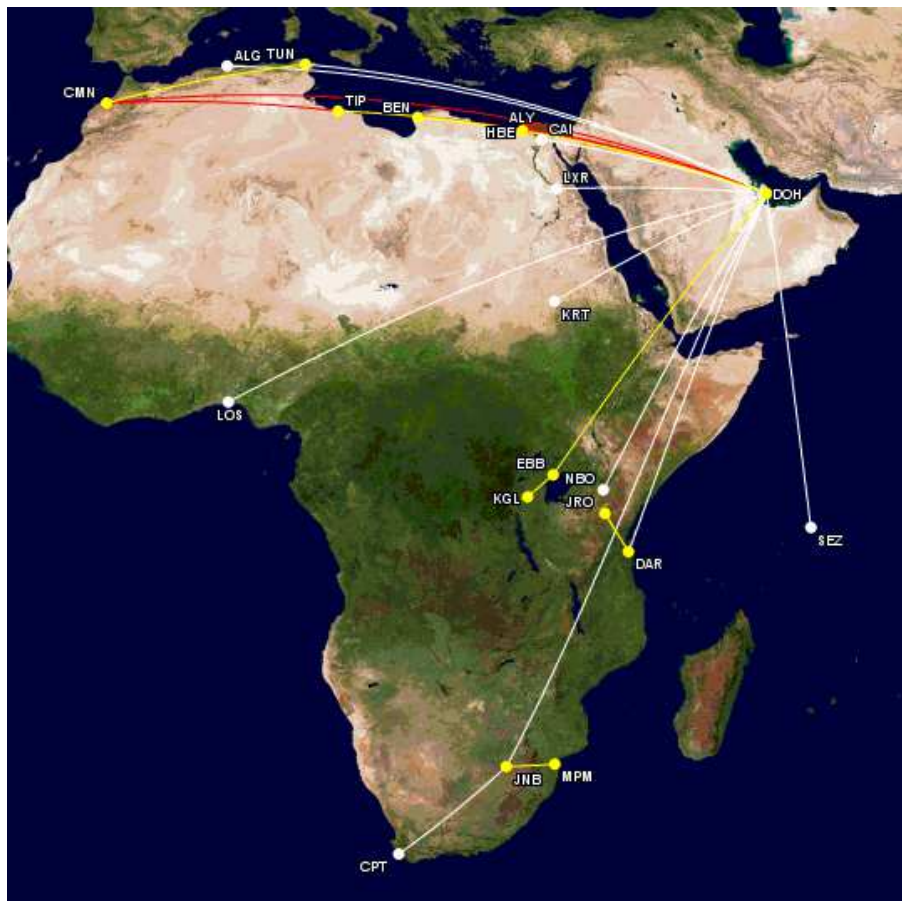
Qatar Airways, growth:

Continent	Destinations			Frequencies			Weekly Capacity (Seats)			Weekly Capacity (ASM)		
	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %	2007	2012	+/- in %
Africa	14	19	35.7%	62	110	77.4%	12,877	21,346	65.8%	29,528,378	49,418,849	67.4%
Asia	43	55	27.9%	399	711	78.2%	82,828	143,920	73.8%	134,776,557	263,244,358	95.3%
Europe	17	31	82.4%	118	244	106.8%	30,881	56,280	82.2%	89,123,127	158,106,917	77.4%
North America	2	4	100.0%	7	24	242.9%	2,142	7,508	250.5%	14,822,640	53,023,347	257.7%
Oceania		2			14			4,082			26,656,183	
South America		2			7			1,813			13,369,062	
Grand Total	76	113	48.7%	586	1,110	89.4%	128,728	234,949	82.5%	268,250,702	563,818,716	110.2%

Qatar Airways network changes by continent:

Africa (5):

Added (5): Benghazi, Entebbe, Kigali, Kilimanjaro, Maputo

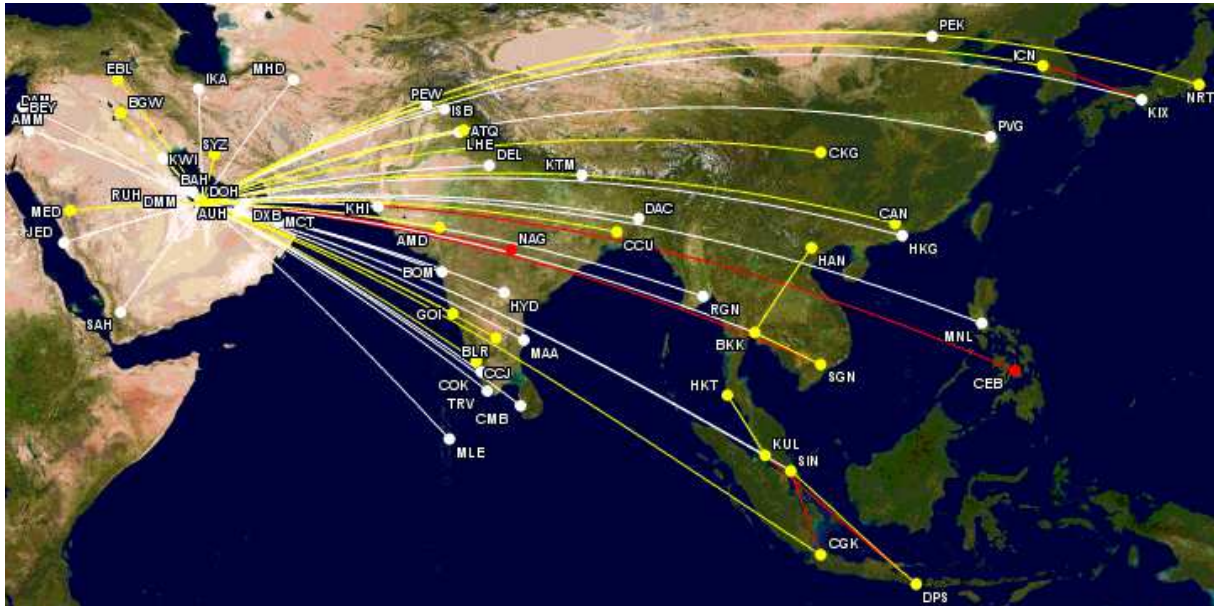


Asia (12+5):

Added (15): Ahmedabad, Amritsar, Baghdad, Bangalore, Chongqing, Erbil, Goa, Guangzhou, Hanoi, Kolkata, Kozhikode, Madinah, Phuket, Shiraz, Tokyo

Dropped (3): Cebu, Damascus, Nagpur

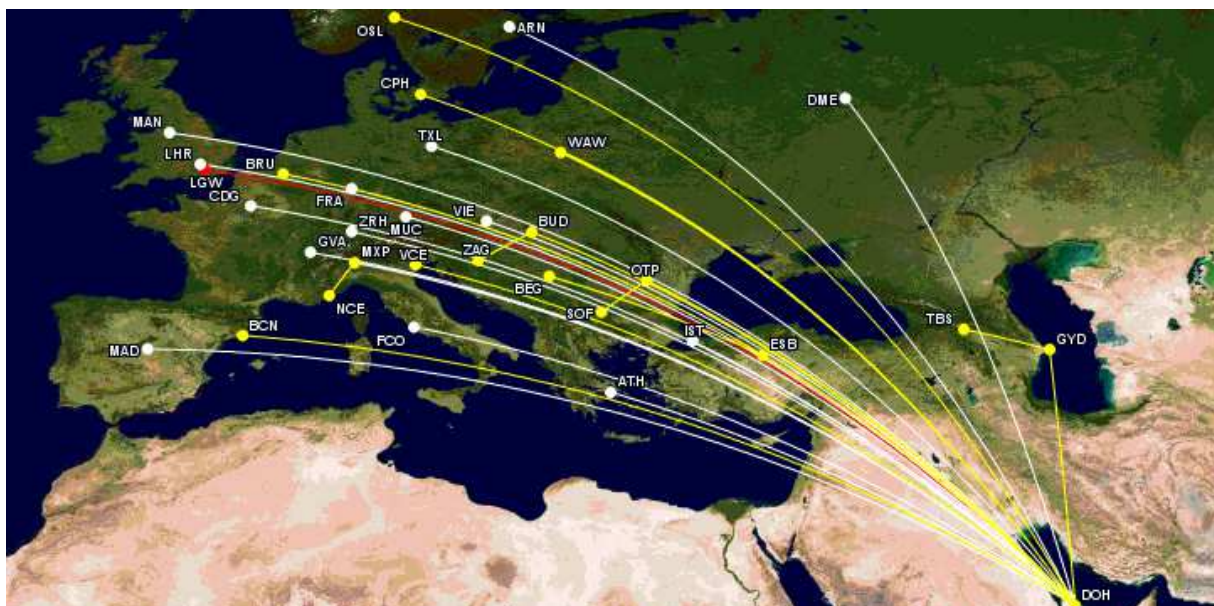
Future additions (5): Chengdu, Gassim, Najaf, Phnom Penh, Salalah



Europe (14):

Added (15): Ankara, Baku, Barcelona, Belgrade, Brussels, Bucharest, Budapest, Copenhagen, Nice, Oslo, Sofia, Tbilisi, Venice, Warsaw, Zagreb

Dropped (1): London Gatwick



North America (2+1):

Added (2): Houston, Montreal

Future additions (1): Chicago



Oceania (2):

Added (2): Melbourne, Perth



South America (2):

Added (2): Buenos Aires, Sao Paulo



Appendix II:

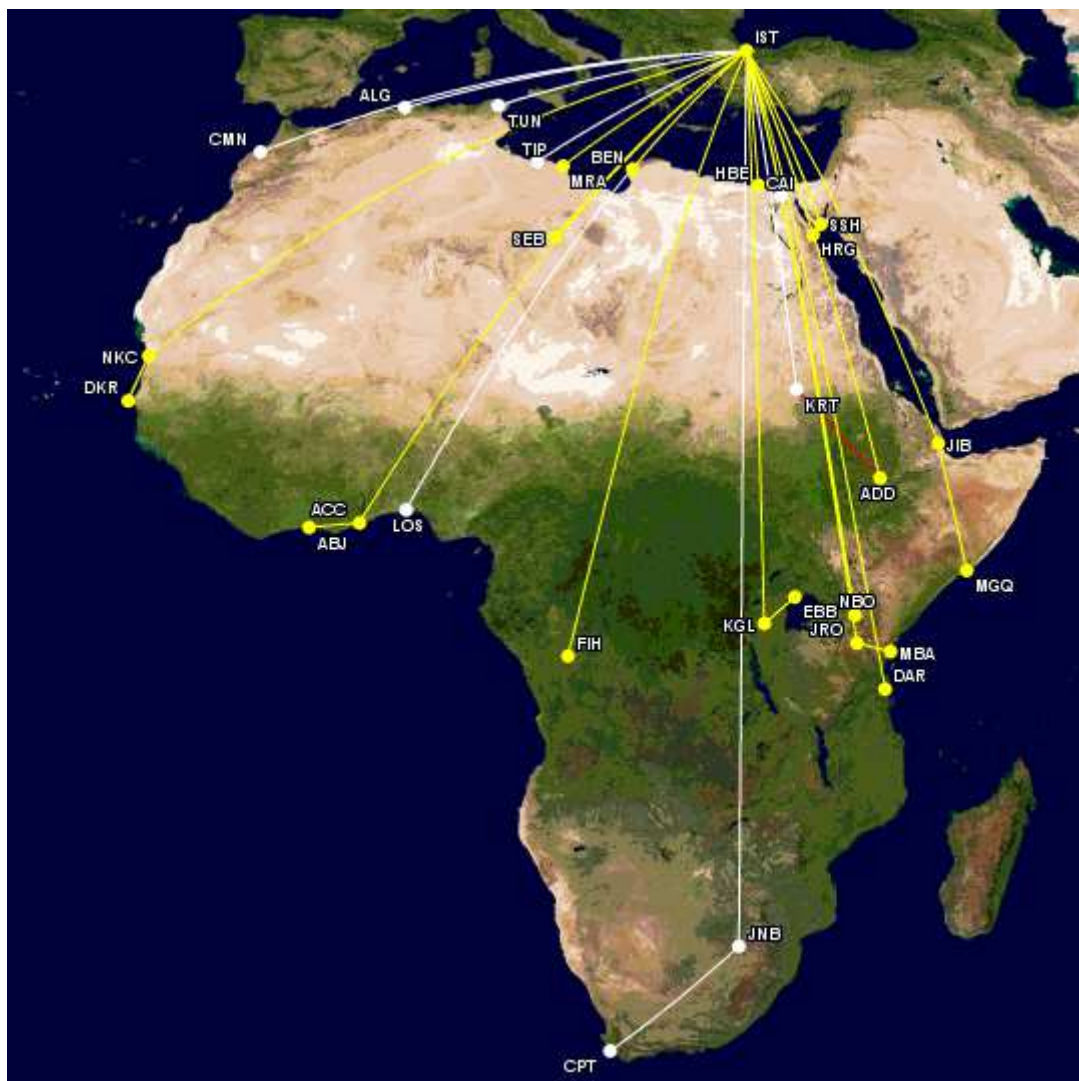
Maps generated by Great Circle Mapper.

- 2007 routes in white
- Added routes in yellow (added between 2007 and 2012)
- Dropped routes in red (since 2007)
- “Future additions”: Already scheduled and bookable flights of which operations will start in 2013 (not shown in map).

Africa (19+4):

Added (19): Abidjan, Accra, Alexandria, Benghazi, Dakar, Dar es Salaam, Djibouti, Entebbe, Hurghada, Kigali, Kilimanjaro, Kinshasa, Misurata, Mombasa, Mogadishu, Nairobi, Nouakchott, Sebha, Sharm el Sheikh

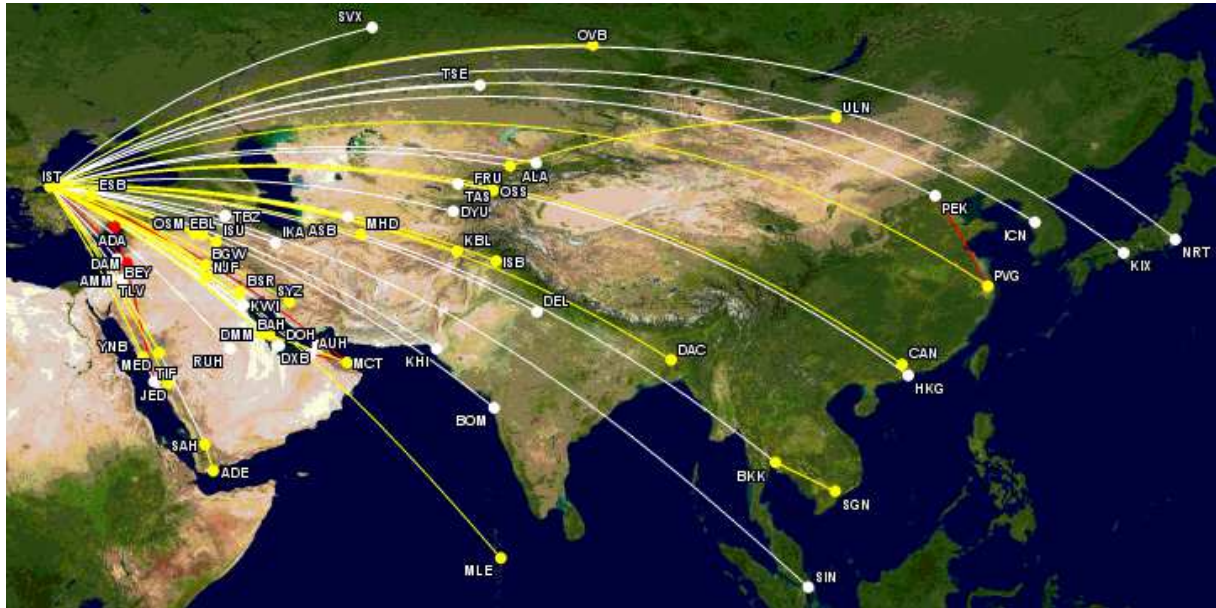
Future additions (4): Douala, Niamey, Ouagadougou, Yaoundé



Asia (24+2):

Added (10): Aden, Aleppo, Baghdad, Basra, Dammam, Dhaka, Erbil, Guangzhou, Ho Chi Minh City, Islamabad, Jakarta*, Kabul, Madinah, Mashad, Malé, Mosul, Najaf, Novosibirsk, Osh, Shiraz, Sulaymaniyah, Taif, Ulaanbaatar, Yanbu

Future additions (2): Isfahan, Kermanshah



* Turkish Airlines has launched Singapore-Jakarta as an extension to its Singapore route from Istanbul Atatürk. This route has been intentionally removed from the map above to make its size fit this format.

Europe (21+1):

Added (23): Aalborg, Adler/Sochi, Bilbao, Billund, Birmingham, Bologna, Bremen, Edinburgh, Genoa, Gothenburg, Gyandzha, Leipzig/Halle, London Gatwick, Lviv, Malaga, Nakhichevan, Naples, Podgorica, Thessaloniki, Toulouse, Turin, Ufa, Valencia

Dropped (2): London Stansted, Strasbourg

Future additions (1): Santiago de Compostela

Turkey (4):

Added (4): Amasya, Hatay, Igdir, Küthaya, Sinop

Dropped (1): Eskişehir



North America (3+1):

Added (3): Los Angeles, Toronto, Washington D.C.

Future additions (1): Houston



South America (1+1):

Added (1): Sao Paulo
Future additions (1): Buenos Aires

