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Analysis: Etihad Airways' push into Europe carries risks

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By [Praveen Menon](#)

DUBAI (Reuters) - Etihad Airways may have stolen a march on its Gulf rivals when it took a stake in Germany's second-biggest airline Air Berlin, obtaining access to the German capital. But the Abu Dhabi carrier could find itself hampered by the airline's financial troubles.

The move by eight-year-old Etihad, one of the United Arab Emirates' flag carriers and owned by the Abu Dhabi government, is an attempt to gain scale quickly as it bids to catch up to rivals such as Dubai government-owned Emirates EMIRA.UL and Qatar Airways.

Last month, Etihad raised its stake in Air Berlin to nearly 30 percent from just under 3 percent, paying approximately 73 million euros (\$95 million) and lending the carrier \$255 million. In return, Etihad received a codeshare agreement giving it access to Air Berlin's dense European short-haul route network and to the German capital ahead of Emirates, one of the fastest-growing carriers in the world, which has been lobbying for years to get into Berlin.

Industry analyst Sudeep Ghai noted German ownership limits on the industry, which require at least 50 percent of shares to be held by a European Union carrier, mean Etihad will never gain control of decision-making at Air Berlin.

"But taking a stake in the No. 2 carrier in Germany, Europe's largest economy, throws down the gauntlet to Emirates as an Etihad competitor," said Ghai, partner at London-based airline and airport consulting firm Athena Aviation.

Under the agreement, Air Berlin's existing Dubai services will be shifted to Etihad's homebase of Abu Dhabi.

The deal has other benefits. It could give the Abu Dhabi carrier access to the Oneworld alliance which Air Berlin is slated to join in 2012. Oneworld, which includes British Airways (ICAG.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), American Airlines AMR.N and Hong Kong-based Cathay Pacific (0293.HK: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), serves more than 850 airports in nearly 150 countries.

EMIRATES SHUT OUT

Emirates has been pushing to get landing slots in Berlin and Stuttgart in addition to four other destinations it flies to in Germany, but German officials have rebuffed its requests amid resistance from local carriers.

"This is frustrating for Emirates," said John Strickland, director of UK-based JLS Consulting. "Emirates is already in Germany in a big way but this deal could make negotiations with Berlin more difficult for Emirates."

Emirates is not part of an airline alliance, preferring to forge its own way. It sold its only stake in another airline, Sri Lankan, back to the operator in 2010. Its growth strategy is to push aggressively into new markets and to this end, it has been building up a fleet of 90 Airbus (EAD.PA: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) A380 superjumbos.

"The Air Berlin deal is very much a one-off. I don't think there are other options available in case the Gulf carriers are looking at similar routes for growth," said Peter Morris, chief economist at British aviation consultancy Ascend.

He said the Gulf carriers are still faced with the question of how they can attract sufficient traffic for their growth.

"Emirates would see this move as something containable. But Etihad's growth is more of a threat to Qatar Airways," he added.

Doha-based Qatar Airways is stuck between the well-established Emirates and the new-kid-on-the-block Etihad, in a heated battle for the No. 2 spot in the Gulf.

The Etihad-Air Berlin deal takes to the next level the race between the three major Gulf carriers to grab traffic in Europe. The three are rapidly boosting route networks globally, on the strength of the Gulf's strategic location between East and West and helpful home governments.

By contrast, most European airlines face a bumpy flight path because of the euro zone debt crisis, which has raised fears of a recession in Europe. Shares in European airlines dropped about 12 percent last year and assets have become cheaper, making them more attractive for Gulf carriers inclined to go on the prowl.

Last May, Qatar Airways bought a 35-percent stake in Luxembourg-based freight carrier Cargolux Airlines International

CLUX.UJ. Etihad is the first Gulf airline to have bought a large stake in a European passenger airline, and its chief executive has said it will continue to look at new investment opportunities.

NO FREE RIDE

But Etihad will be challenged by the Air Berlin deal as the German airline struggles with its finances, analysts say.

"It's a useful deal for Etihad...but it won't be a free ride," said Strickland. "Airlines have bought stakes before only to realize the mess they got into later. With Etihad now being a significant shareholder, it may be drawn into the problems of Air Berlin."

Others were not so charitable about Etihad's move on Air Berlin, which last had a full-year profit in 2007 and has been cutting routes and delaying plane orders in an attempt to become profitable in 2012.

"We view this as an irrational move by a very well-funded business, seeking to expand its footprint globally," Royal Bank of Scotland analysts wrote in a December 20 research note.

"Businesses with such outlooks and balance sheets are in need of deep-pocketed backers. They have found one in Etihad, which itself is owned by the government of Abu Dhabi."

Etihad is taking a more sanguine approach. When asked if it was worried about Air Berlin's debt pile, the carrier said in an email that the deal has "has highly attractive prospects."

"Our commercial projections show that the revenue benefits from this deal will have a positive impact very quickly." It did not elaborate.

(Editing by [Amran Abocar](#))

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