

Airlines to ground 400 more aircraft



By Shweta Jain on Monday, March 02, 2009

The airline industry will see at least 400 additional aircraft being grounded globally this year, as the airline industry parked nearly 1,200 aircraft in 2008, according to Ascend Worldwide, a UK-based aviation consultancy.

It said the slowdown saw the airline industry park 1,167 planes last year, "making it the worst year for cutbacks since 2001".

NO MAJOR IMPACT ON REGION

However, the Middle East is likely to be impacted only in a minor way.

"Today, airlines across the world are grounding aircraft because of the drop in passenger traffic. This year, too, we may see an increase in the number of aircraft being grounded. However, in the Middle East I doubt we are going to see major grounding, at least not to the extent it is happening globally. This is because the region is still seeing positive growth," Kareem Murad, Vice-President – Research at Shuaa Capital, told **Emirates Business**.

He added: "At the end of the day, grounding aircraft may be a temporary phenomenon as airlines re-visit their strategy and readdress the feasible routes and their frequency."

Middle East airlines, however, remain positive about the growth. Gulf Air, though, will retire some of its Airbus A340s this year and replace them with A330s and Boeing B777 aircraft. And it is also due to receive 13 aircraft this year, according to the Bahrain-based airline's spokesperson.

"Out of these, three aircraft will be used for the growth, the rest are replacements and part of our re-fleet and environment programme," he said, adding that Gulf Air retired its Boeing 767s last year.

"However, the purpose was not to cut capacity, rather streamline the fleet to more modern and efficient aircraft."

Etihad Airways, on the other hand, had none of its aircraft grounded last year, according to its spokesperson. "We had no aircraft grounded in 2008 and we don't plan to ground any during 2009," he said.

"In fact, we will take delivery of 11 new aircraft during 2009 – to support route launches which so far include Melbourne, Athens, Istanbul and Chicago. We currently have 42 aircraft, and will have 52 by the year-end. We are retiring one older Airbus A340-300," he said.

According to Ascend, the Middle East has not been affected to the same degree, considering that Emirates recently announced a

planned 14 per cent capacity increase in 2009.

THE LOOMING NUMBERS

The total number of stored planes globally is approaching 2,300, representing more than 11 per cent of the global air transport fleet of 20,293, as per Ascend's estimates.

"The current downturn is approaching in severity similar to the situation at the end of 2001 when 13 per cent of the world jet transport fleet was in storage.

"At that time the fleet comprised 15,950 aircraft, so a similar share in 2009 could mean a total of some 3,000 idle airliners," the UK consultancy pointed out.

It further said that North American airlines have a big head start in grounding aircraft, having announced fleet reductions totalling almost 800 since mid-2008.

"The move from a relatively orderly market to a distressed one can be reasonably rapid. In the last downturn some 12 per cent of the narrow bodied aircraft remained parked for almost five years," said Chris Tarry of aviation consultancy, CTAIRA.

"The nature of the adjustment to deliveries this downturn is most likely to be closer to that seen in the downturn of the 1990s. In other words there is a reasonable basis for expecting that by 2011-12, deliveries of aircraft in the 150-seat segment could be some 60 per cent lower than the peak delivery rate of 697 in 2007, suggesting that deliveries of 150-seat aircraft are close to 280 aircraft by this time," he added.

Pointing to the scale of Gulf aircraft orders, Tarry said: "In the Gulf where growth is predicted on oil in excess of \$40 a barrel, prices are now close to what might be seen as the danger zone in terms of the oil price necessary to act as the catalyst for growth.

"Also, the IMF has just cut the GDP forecast for the UAE for the current year from 6.6 per cent to 3.5 per cent. This compares with an expected outcome for 2008 of 6.8 per cent. This inevitably must raise questions over the reality of all of the aircraft on order in the wider region being delivered."

Airline Capacity Growing Faster Than Passenger Demand

Despite dropping passenger traffic many Middle East airlines are still pushing forward with plans to expand their fleets. However, according to global strategic management consulting firm, AT Kearney, these plans should be reviewed in light of the economic climate.

Emirates, Qatar Airways and Etihad Airways are expected to more than triple their current fleets by 2015 and most of the other airlines in the region also have substantial orders.

According to AT Kearney, the current aircraft order backlogs for Gulf airlines are expected to add considerable capacity to the market during the next seven years and will more than triple the then available seat kilometres (ASK) from an estimated 207 billion ASKs per year in 2007 to 647 billion ASKs per year in 2015.

"The increase in capacity combined with the current crisis means that regional airlines must rethink and adjust the fundamentals of their business," said Bill McKnight, Head of Aviation/Aerospace Practice at AT Kearney, Middle East.

Meanwhile, the International Air Transport Association (Iata) recently announced that Middle East airlines will double their losses in 2009 to \$200 million (Dh735m). "Thus, profitability has become an even more difficult challenge in what has always been a very tough business," A T Kearney said.

Overall 2008 passenger growth decreased to seven per cent from 18.1 per cent in 2007, with December 2008 showing a low 3.9 per cent growth. "While lower fuel prices have reduced costs significantly it is expected to be insufficient to cover the lower demand, A T Kearney warns Gulf airlines "need to react swiftly to avoid following

the same path of European and American competitors".

It added in order for the airlines in this region to deal with the looming overcapacity situation that appears to be nearing, they may eventually need to consider different levels of alliances and integration with other players, to optimise their businesses.

While until now, most GCC airlines have been able to avoid any turbulence, going forward, however, AT Kearney suggests airlines must consider how to best mitigate regional and global challenges facing the aviation industry amid the economic climate. "Truly creative airlines are now generating significant revenues through non-traditional channels, innovative approaches to pricing and through monetising more of their assets," said McKnight.