ARGS

AIRLINE ROUTES & GROUND SERVICES

Simon Newton-Smith
Chief Commercial Officer, South African Airways
After an extremely challenging few years, South Africa's air transport industry is reviving

Lorie Argus
Chief Executive, Melbourne International Airport
As Australia opens again for business, its airports are diversifying to restore and rebuild revenues

Hassan El-Houry
Chief Executive, National Aviation Services
Kuwaiti services firm is creating a mega-handler with its merger with Menzies Aviation

Hot summer

Traffic is flooding back but bottlenecks remain

Tractor Tales
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Editor's NOTES

Mark Pilling
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When you were a kid did you ever do the windmill run down a steep hill? The one where you ran as fast as you could, your arms flailing in a fast rotation, more out of control than in control. Sometimes a face plant was the inevitable outcome. Then tears. Or a bruised ego.

In some parts of the globe this could be a metaphor for the air transport industry. The dash of travellers back to airports and flights is astonishing. Aircraft are returning to the air as fast as they can. Destinations are popping back up on network maps like mushrooms after a night in the hothouse.

However, the rush to capture this business has brought the 'windmill run' effect. Some cannot cope, and the finger is being pointed at airlines, airports, handlers and security providers. Delays, cancellations and queuing horror stories in many European countries, the UK, USA and Australia, are rife; some airports – such as Amsterdam Schiphol – have imposed capacity caps to try and deal with the chaos. It is a sorry sight, and many who are returning to the air after foregoing travel during the pandemic are having a pitiful experience.

But the pain is not universal and should not be long-lived. IATA director general Willie Walsh told a press conference at the recent 78th IATA Annual General Meeting in Doha that he has taken 58 flights in the past few months and has not encountered a single delay because of airport-related troubles.

His view, also expressed at the IATA Ground Handling Conference in Paris in May, is that "these are temporary problems, and we can overcome them. They are faced every year as we come into the peak season… It is a much nicer challenge than when we were ramping down," he said.

While that is true, there are concerns that recruitment and retention for the aviation services industry will be a systemic problem in the coming years. Several IGHC panels mused on how to attract younger generations to an industry that does not hold the appeal it once did. The answer is not clear.

Another worry is expressed in the title of a webinar held by financial giant HSBC recently: The crisis in ground handling – can aviation's summer boom survive? Admittedly, this event was focused on Europe, but the sentiment applies globally. Nobody wants the recovery, and especially the first summer since 2019 where traffic is bountiful, to be derailed.

After taking flights and trains to Norway, Paris, Geneva, Malaga and Doha in recent weeks, I can report that traffic is flooding back. Some players are not coping very well; others have planned thoroughly. This summer will bring strong revenues in many markets. IATA is predicting that despite the headwinds of fuel price rises, climbing inflation and the war in Ukraine, the industry will reduce its forecast loss in 2022 and a return to profit is "on the horizon" in 2023.

Everybody is hoping that 2022 will be the year when recovery from the pandemic truly establishes itself. The signs are good when it comes to traffic. But can the industry avoid a face plant when it comes to managing this boom successfully? That is an open question.

The ARGS team will review the summer season at the Reunion event organised by EVA Media International. Taking place from 5-7 September in Athens, it will feature the Airline Ground Services Global Networking Summit 2022, held in association with the Airport Services Association. We look forward to seeing you there.

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Photo Courtesy: Felipe Galvez

The fast pace of leisure

With Covid-19 restrictions now steadily disappearing, leisure airlines foresee not only their best year since the start of the pandemic but new, record levels of travel. *Alan Dron* reports.

Over the past two decades, the rise of low-cost carriers (LCCs) has led to airlines that specialise in the leisure sector fading from the public's view.

Part of the reason for that, of course, is that several well-known names have disappeared, such as Thomson, Thomas Cook and Monarch in the UK alone. But elsewhere in Europe, others have also vanished from sight. How many people, for example, now remember Danish carrier Primera Air, which expanded quickly but then collapsed in 2018? And, late last year, Italian leisure carrier Blue Panorama ceased operations – although, at the time of writing, a new backer was waiting in the wings to recapitalise the company.

Despite these losses, there remain companies whose main business activity consists of flying holidaymakers out for their two weeks of baking on a Mediterranean beach, or on longer haul flights to the Caribbean.

Several can be found as members of Airlines International Representation in Europe (AIRE). Formerly known as the International Air Carrier Association, most of its members are involved in charter or leisure services, although scheduled carriers also feature in its membership.

AIRE is now Europe's second-largest airline grouping, after Airlines for Europe (A4E). And AIRE's members seem ready to bounce back as the tourism market re-ignites. "Considering where we were last year, and in the even worse circumstances of the year before, there's a very strong revival, and that's very positive," said AIRE's director general, Michael Harrington.

Cost pressures

"However, there are a number of factors which are hindering that revival. Fuel price is one," said Harrington. This is particularly a problem in mainland Europe because, whereas in the UK holiday packages tend to be sold at a fixed price, in Europe they are subject to fuel supplements. With the price of aviation fuel now above US$100 a barrel, this can lead to potentially significant extra costs for families, who may decide that they would rather not take the risk of expensive supplements and thus refrain from booking holidays altogether.

Allied to this problem, airlines are facing additional financial pressures, which they are passing on to passengers. The costs associated with the European Union's Emissions Trading System (ETS), together with departure taxes (anything up to €30 ($32) per person in Spain and Italy) and other charges, typically add up to an extra €70 ($74) on the price of a ticket.

"The ETS has become unbelievably expensive," noted Harrington, with this cost having quadrupled over the past couple of years. It is now around €10 ($11) per passenger. "It's a crippling cost for some," he commented, noting that, "in our view, it's not benefiting the environment. The money goes to member states. It's not like CORSIA [the ICAO plan to cut emissions] where the money you pay should go into very specific environmental projects. We cannot see why CORSIA cannot be adopted in Europe, so we just have one system."

As well as the direct financial cost of paying into these schemes, airlines also face the administrative costs of having to report their emissions output not only to the EU and ICAO but also to the post-Brexit UK and Switzerland, he said: "It's an administrative nightmare. We have to track every single flight and see where fuel is uploaded."

All these costs threaten to put flying out of the reach of many, making flights available "only for the privileged few. In Europe, it will become too expensive

for people to move within the EU," said Harrington.

Staff pressures

Another factor causing problems for aviation sector organisations struggling to get back onto the path to profitability post-pandemic is the difficulty both airlines and airports are experiencing in re-staffing, after having shed large numbers of personnel during the pandemic.

Many staff have left the industry and others, while keen to return, face lengthy delays to have their security clearances revalidated. Many airports had relied on seasonal staff to cope with the summer rush and were finding it difficult to recruit, particularly from areas such as Eastern Europe and North Africa, traditional sources of personnel. "I could name 20 airports that are really, really struggling," Harrington said.

Lack of financial aid from governments over the past two years has weakened them financially and because of that they have been unable to ramp up services as demand flooded back.

Additionally, high levels of staff sickness in April led to more flight cancellations and there have been problems with air traffic control in some nations, notably Poland. "Planning has been very, very difficult to forecast because it's been stop-start, stop-start," added Harrington.

All these factors mean that he foresees "a very troublesome summer" in 2022.

A good summer

Despite this, the recovery in flight demand is strong, said Harrington, who is also the chief executive of Spanish charter and scheduled carrier AlbaStar. Based in Palma de Mallorca, the airline has seen demand "well over 2019 levels".

Reports of booming demand are echoed by several other carriers. The UK's Jet2.com is adding capacity that will take it to 14% above 2019 levels. "It's looking like it's going to be a very busy season," said the airline's general manager, communications, James Pieslak.

Demand since Covid restrictions started to ease has been strong and continuous, both seat-only and particularly on the package holidays side of the equation, said Pieslak. Package holidays in the UK are enjoying a new lease of life because they are protected under a government compensation scheme, meaning that if an airline goes bust, passengers will not

The pent-up demand for summer holidays from across Europe is leading to a boom in leisure travel to the continent's beach and sun resorts (photo courtesy of TUI).

Left: The high cost of aviation fuel, departure taxes and Europe's Emissions Trading Scheme are all adding costs to Europe's leisure sector, said Michael Harrington, the head of AIRE (photo: AIRE)

Right: SunExpress is using Boeing 737-800s from Avion Express to supplement its summer flying, said Peter Glade, chief commercial officer. (photo: SunExpress).

Bottom: UK low-cost carrier Jet2 is bringing in extra capacity this summer in the shape of a pair of Airbus A330-200s (photo: Jet2).

be stranded at their holiday destination. That peace of mind is attractive to many. Customers also like the simplicity of having all aspects of a holiday bookable through a single, reputable partner, he said.

Jet2.com's most popular destinations are the traditional ones: the Spanish mainland, the Balearics and the Canaries. Additionally, however, the airline is seeing significant growth in holidays to Greece and Turkey, both of which offer particularly good value for money at present. The carrier has significantly increased its capacity to both countries.

The Winter 2022 season is also looking strong, Pieslak added. The company has not suffered the staffing problems of many of its counterparts and this has aided its performance. "We planned hard," he said. "We were very much looking forward to the return of international travel and launched active recruitment from November 2021, which has been very successful."

The strong demand has seen Jet2.com taking on extra capacity in the form of two damp-leased Airbus A330-200s. The widebody aircraft are leased from UK organisation AirTanker, which handles the Royal Air Force's air-to-air refuelling tanker aircraft, and which can use five of the 14-strong fleet for commercial duties when not required by the military.

Both the 327-seat aircraft will operate from Manchester to destinations including Majorca, Faro, Tenerife, Antalya, and Dalaman, and will operate until the end of October this year.

SunExpress rebounds

Also reporting significant growth in passenger demand is SunExpress, a joint venture of Lufthansa and Turkish Airlines. Its bookings for both this summer and next winter are above those of 2019 – which was itself a record year. "We call Turkey a 'rebound country'. After each crisis, it has come back stronger," chief commercial officer Peter Glade told ARGS.

In the latest revival, part of the country's appeal is undoubtedly its low prices, a by-product of the Turkish lira's poor exchange rate against major currencies. Glade said this was not the sole reason for Turkey's popularity this year, but that it does give SunExpress some room to manoeuvre, with low hotel prices to some extent offsetting the higher prices it is having to pay for fuel.

Overall, it means that travellers are receiving good value for money, an important factor when so many European holidaymakers' disposable income is being squeezed by high inflation.

SunExpress is in the early stages of a major re-fleeting exercise, with nine of an order for 42 Boeing 737 Max 8s having been delivered. At present, the fleet is built around the 737-800, but the new arrivals will need to be supplemented by leased-in additional capacity in the form of six damp leases and two operating leases.

The damp-leased aircraft are Airbus A320s from its long-term partner, Lithuanian ACMI specialist Avion Express, over the peak summer period. The operational lease aircraft will be 737-800s.

SunExpress has nurtured its relationship with Avion Express, said Glade, and this has brought benefits in the prices and conditions now available to SunExpress for leasing in the extra aircraft it needs. "We've remained very close to the providers that we've previously used," said Glade. "We've found very good business models that helped them to survive, so we've not been struck by the price rises that have happened to some of our rivals."

Another reason for SunExpress's success, said Glade, has been the extremely high utilisation of its aircraft, which could reach as much as 17.5 hours over the summer period.

In total, SunExpress will operate 67 aircraft this summer. Those aircraft will be needed as the company undergoes what Glade described as the biggest network expansion in its history. Earlier this year, he handed in a budget for 9.1 million passengers in 2022 and "everyone thought I was crazy". In fact, the airline is now looking at a possible 10 million passengers, further proof of the rebound in passenger numbers.

"We call the phenomenon 'revenge travel'," said Glade. "We feel people are saying: 'We've beaten Covid and we can travel wherever we want.'"

However, the pandemic did cause the closure of daughter-company SunExpress Deutschland, which affected some 1,200 jobs.

SunExpress's core market is Western Europe. Flights operated by SunExpress are solely to Turkey, but the carrier markets flights from Germany, for example, to other destinations too, notably Egypt. Those services used to be operated by the now-defunct German operation, but the company has filled the void by marketing Egyptian carrier Air Cairo. "They provide the aircraft and staff, we provide the network management, revenue management, sales etc," said Glade. "We're thinking of growing that concept more widely."

For passengers heading to Turkey, there has also been a change in destinations, with travellers looking further afield than the traditional resorts of Dalaman and Bodrum, where they tended to go for full-board beach holidays in the past.

More holidaymakers are now discovering resorts such as Antalya and Izmir, or heading for hiking and skiing holidays in Erzurum or the ancient city of Diyarbakir, both in the east of Turkey. "What we're making sure people understand now is that Turkey is more than just sun and beaches," said Glade.

Outbound tourism from Turkey has been hurt by the falling value of the lira, but the historic links between Turkey and Germany mean that there remains a considerable level of visiting friends and relatives (VFR) traffic in both directions. Additionally, people outside Turkey tend to forget that

airBaltic compensates for invasion impact

Wolfgang Reuss, senior vice-president network management at airBaltic, update Routes Europe delegates on the carrier's strategy in Bergen (photo: Mark Pilling).

Wolfgang Reuss, senior vice-president network management at airBaltic, was set a target for the Riga-based airline to carry 3.3 million passengers around the Latvian flag carrier's system in 2022. That was before Russia invaded Ukraine.

His board has retained the 3.3 million target despite the loss in traffic as a result of the invasion – and Reuss and his team are scrambling to fill the void. "We have a large network in Ukraine and the Russian Federation," he explains. That network featured four daily flights to Kyiv plus services to Lviv and Odessa, in addition to five routes to Russia cities. The carrier was also examining more potential Russian destinations, work which has stopped, while services to Armenia, Azerbaijan and Kazakhstan were cancelled because airBaltic cannot overfly Russia to reach them.

As a direct result of the situation, airBaltic took two of its 34 Airbus A220s out of the network, while the indirect impact is that fewer inbound passengers are transferring to other destinations in the carrier's network, said Reuss. It all adds up to a major setback for airBaltic.

One of its answers is to send more aircraft out. "In the short term we decided to increase our ACMI (Aircraft, Crew, Maintenance, and insurance) fleet to our long-term ACMI partners," said Reuss. "And we have increased our leisure flying with a focus on beach destinations." The carrier has 99 routes planned for 2022, a 4.3% increase on the number served in 2021, and a revenue target of €400 million (US$426 million) for the year (96% above 2021).

While about 60% of its capacity centres on Riga, airBaltic also has regional hubs in Tallinn (Estonia) and Vilnius (Lithuanian) and in May it opened a new base in Finnish city Tampere with one A220 located there. "This city is completely underserved," said Reuss, of the airline's first base outside the Baltics.

Following the invasion of Ukraine, airBaltic has reworked its Riga hub strategy, which formerly operated with an East-West traffic flow. Now, it is focused on Baltic traffic flows to the west and southern Europe's leisure destinations.

The carrier's ACMI business will see 11 of its A220s operating for Lufthansa Group airlines, with seven flying for Eurowings and its Discover brand, and four flying for SAS, said Reuss. "ACMI is a business we want to develop," he added.

airBaltic hopes this swift redeployment of capacity will keep it on track in 2022 despite the trauma its business model has suffered. By end of the year, it will have a single-type fleet of 40 A220s (out of an order for 50 of the type with another 30 options). It will decide on whether to convert the options in 2023.

Reuss describes the carrier as a hybrid, with a raft of codeshare partners and its regional hub system. Rather than join an alliance, it will pursue its role as a strong independent player.

"We are going to airports that are the lowest cost and offer incentives for recovery," said easyJet's Thomas Haagensen (photo: Mark Pilling).

easyJet's leisurely route

An orange wave of tailfins is descending upon the holiday destinations of Europe as easyJet prepares for a strong summer season. "We have shifted our network very much to leisure [destinations]," Thomas Haagensen, group markets and marketing director at easyJet, told delegates at the Routes Europe conference in May. For example, it is the largest carrier serving the Greek Islands, one of its high-yield leisure markets, he said.

The airline is seeing positive momentum and trading ahead of 2019 levels as pent-up demand for travel is "definitely coming through", he said. In mid-May bookings for its April-June quarter were at 76% of availability while those for July-September were already at 36%.

As the all-important market recovery begins in earnest, easyJet is "extremely focused on profitability and costs", said Haagensen. "We are going to airports that are the lowest cost and offer incentives for recovery." Asked about his top three requests to airports, the number one is cost and help to "re-risk growth and entry into an airport". The second is to run an efficient operation, for example enabling a two-door boarding and deboarding operation for fast turnarounds. Furthermore, the ground operation must be extremely efficient, so the carrier does not pick up delays.

Thirdly, easyJet asks for incentives that recognise the sustainability benefit of bringing its larger and new-generation Airbus A321neo to a destination. Airports should build incentives schemes that recognise lower carbon emitting aircraft. "We are saying to airports: show us your interest [in easyJet operating the A321neo] with lower landing fees," said Haagensen. There is a handful of airports that do so today, but easyJet wants to see more of them.

easyJet is in the process of adding capacity as it takes delivery of more A320neos and A321neos to replace its A319 fleet over time. The A320s (at 186 seats) and the A321s (at 235 seats) offer a significant capacity increase over the 156-seat A319s, and are therefore especially beneficial at slot-constrained airports.

easyJet retains a fleet of 99 A319s as part of an all-Airbus fleet of 322 A320 family aircraft. The carrier has 115 A320neo family aircraft on order.

While growth on leisure routes is a natural move this summer, easyJet is sticking to its core business principles of serving a mix of major bases and non-hub airports. It will defend its position at major bases like London Gatwick, Milan Malpensa, Manchester and Paris. EasyJet deploys about two-thirds of its capacity to key markets where it competes with legacy carriers and where there are still plenty of growth opportunities, said Haagensen.

He acknowledges the issues all carriers have had in Europe while ramping up their operations as demand has returned. The major pinch points and the most tension have occurred in the UK in general and in the London area in particular, while France has also had challenges.

the country has a significant domestic market: 23% of passengers on SunExpress flights are flying internally.

TUI on track

Meanwhile, Europe's largest leisure airline, TUI Group, whose subsidiaries operate in several western European countries, expects its summer 2022 capacity to approach "normalised 2019 summer levels" as demand returns in key markets.

TUI Group chief executive officer Friedrich Joussen said while announcing the Group's Q2 results that summer 2022 bookings across the group – which includes hotels, cruises and resorts as well as airlines – are around 85% of 2019 levels, but prices are around 20% higher.

Surging demand means that TUI can charge higher prices. "Bookings across our key markets [in the] UK, Germany and Benelux have been largely unaffected by the war in Ukraine, with only the Nordics and Poland subdued," TUI said. Some long-haul routes from the Nordic nations have had to be cut because of airspace restrictions resulting from the Ukraine conflict.

TUI said that demand from the UK market was particularly strong; the Group bases around half of its airline capacity there. "[Given] the latest positive booking trends, combined with clear pent-up demand as Omicron-related travel restrictions ease, increasing intention to holiday abroad for a beach holiday and a later booking profile, we are confident in our summer 2022 capacity assumption of close to normalised 2019 summer levels," TUI noted.

The company also said that its more diverse holiday industry structure, which does not rely on airline income, means that it is less exposed to some of the cost increases airlines are experiencing.

The second quarter of TUI's financial year improved steadily. March recorded the highest monthly revenue as operations increased after a more subdued January and February, which had suffered from lingering Covid-related restrictions. The group's liquidity was sufficiently strong for it to be able to hand back €700 million ($738 million) of state support and the Group said it anticipated returning more soon.

All of which shows that leisure sector airlines continue to have a part to play on the European scene, despite the rise of low-cost carriers. ■

A new services powerhouse

The merger of Menzies Aviation and National Aviation Services (NAS), when the deal is finalised later this year, will create a new, powerful, global aviation services entity, reports *Mark Pilling* in this exclusive interview with NAS chief executive Hassan El-Houry

When Hassan El-Houry, the chief executive of National Aviation Services, said last year that his parent firm Agility Logistics was in a post-pandemic mood to buy other aviation service/ground handlers, he was dead serious. And his sights were set high. So high in fact that Agility, with its roots in Kuwait, is now in the process of buying none other than established and global player Menzies Aviation.

After rebuffing Agility's first offer in early February, the Menzies board recommended that shareholders accept an improved offer at the end of March in a cash offer of £6.08 per share, which values Menzies at £560 million ($730 million). It is expected that the transaction will be completed in the third quarter of 2022 "pending fulfilment of certain conditions and approval".

In an interview with ARGS, El-Houry said: "It's a winning transaction for all stakeholders." The combination of NAS and Menzies will, according to briefing information from the pair, create "the world's largest airport services company by number of countries they operate in, second largest by number of airports served, and the third largest by revenue (based on 2019 reported revenue)".

When El-Houry and Agility began searching for an acquisition, the inevitable question for a new player was, who are you exactly? In this regard, El-Houry simply noted: "Actions speak louder than words."

Agility has grown to become one of the world's largest investors in the logistics and supply chain field, including being the second-largest investor in global logistics player DSV. It has a market capitalisation of over $7 billion, employs 16,000 staff and is active in over 40 countries.

It was El-Houry's task to change the fortunes of NAS in 2008 when he took the reins. Back then, the company was small and struggling to expand. "In a few years we turned it around, reaching 70-80% market share in Kuwait, growing in emerging markets like India, and then turning our attention to Africa. Even during Covid we continued to grow, launching operations in countries such as Guinea-Bissau, Zambia and Iraq," said El-Houry.

Despite its growth over the past decade, "very few people knew who NAS was, unless they were in south-east Asia, the Middle East or Africa", said El-Houry. "These emerging markets are very challenging, and we were very successful. Given that success it was time for NAS to look globally, and we began to look at opportunities around the world."

Agility's attention fell on Menzies, which is publicly listed on the London Stock Exchange. "Both companies were emerging from a very challenging pandemic, but both maintained a growth DNA in our cultures," said El-Houry. For its part, NAS had a strong parent, a dynamic and agile business culture and relationships and a strong footprint in emerging markets. Menzies, which was founded in Scotland by bookseller John Menzies as long ago as 1833, has a strong brand and a reputation for operational excellence that is "second to none".

The combined entity will be known as Menzies Aviation. "We're pragmatic," explained El-Houry on the loss of the NAS name. "The Menzies brand is far stronger than ours," he said.

Little overlap

A major attraction of the deal is the complementary geographic footprint of each business. Menzies has a strong

Hassan El-Houry describes the NAS-Menzies merger as "a winning transaction for all stakeholders" (photo courtesy of NAS).

"The financial capability we bring will enable us to better respond to customer requests, and to invest in new equipment, technology and infrastructure."

Hassan El-Houry,
Chief executive officer
National Aviation Services

presence in the USA, Europe, and the Asia-Pacific, including Australasia, while NAS has grown from its original base in Kuwait to locations throughout the Middle East and across Africa. In terms of airport operations, Menzies is present at over 200 stations while NAS works at more than 55.

While both of the two firms provide services in Jordan and India, they do so at different airports, said El-Houry. Both operate at Baghdad International but provide different services there. Only at six airports in South Africa do Menzies and NAS compete directly. El-Houry said there are talks with the authorities, customers, and other stakeholders there to work out how the proposed merger will affect operations. "The lack of overlap is one of the reasons why Menzies is a perfect fit for us. It makes the deal extremely deliverable," he added.

The businesses describe themselves as having a strong presence in six continents. Together, they will rank as the number one handler in terms of countries served, with 56. After that comes Swissport with 45, Dnata with 36, Signature with 24 and WFS with 20. In total, the NAS and Menzies operate at over 250 airports, with 92 warehouses and depots, handling 1.74 tonnes of air cargo annually, and with 35,000 employees.

Capital to grow

Part of the strategic rationale for the acquisition is that aviation services companies will need scale and resources in the coming years to succeed. Such scale is especially important against an industry

NAS and Menzies have little geographic duplication in their operations. For example, Menzies is strong in Europe whereas NAS has no operations on this continent. This shot shows a Menzies de-icing unit in action in Norway.

backdrop that has seen airlines lose $200 billion in the 2020-2022 period and the industry as a whole rack up $110 billion in government support that needs to be repaid.

"The combined business will have the capital to invest in the talent, technology, innovation, infrastructure, equipment and sustainability leadership required to accelerate growth," according to the briefing document. "It has been a very difficult time for everyone. What we have is a parent that is financially strong. We think that strength will give us the momentum to grow around the world," said El-Houry.

The NAS/Menzies combination will seek to grow in countries where they are absent or under-represented, said El-Houry. There will also be growth in business areas where either one has opportunities. For instance, NAS has a strong lounge network, which is not a strength for Menzies, while NAS has no refuelling operations, which is a core part of the Menzies offering.

Growth in cargo services, an area where both companies are active, will "undoubtedly be a key area of focus", said El-Houry.

As part of a due diligence process around an acquisition, customers are asked what they think about a potential link-up. "Our airline customers have been overwhelmingly supportive and delighted to hear the news," said El-Houry. "The financial capability we bring will enable us to better respond to customer requests, and to invest in new equipment, technology and infrastructure."

"The combination will make a stronger company. Customers are looking for aviation services providers that are robust, that can withstand [industry] shocks, and handlers that can service them in more airports," said El-Houry.

Management team

The plan for the management team of the combined business will see El-Houry remaining with the group as chairman of the board while Menzies chief executive Philipp Joeinig, its chief financial officer Alvaro Gomez-Reino, and chief operating officer Mervyn Walker, will stay in their C-suite positions. This will ensure leadership continuity.

Edinburgh, Scotland, will continue as a corporate office with significant head office functions for the combined group. THe new Menzies Aviation will also open a new head office for certain senior management and some head office functions in London.

A key component of the combined business structure will be a comprehensive Environmental, Society and Governance framework ensuring a strong commitment to sustainability, diversity and inclusion, as displayed by the individual businesses today, from day one, said El-Houry.

This is the plan. For now, until the anticipated completion of the transaction in the third quarter of 2022, it is business as usual. ■

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The big vision

From state-sponsored tourism and travel investment with Saudi Arabia to the fore, to the rise of low-cost carriers, and the restoration of air transport networks in the post-Covid environment, the Middle East aviation market has an exciting decade ahead, explains *Mark Clarkson*, associate partner at global consultancy MIDAS Aviation.

The world of aviation has changed like never before in recent years with the global impact of Covid-19 still being felt, the additional 'black swan' event of the ongoing conflict in Ukraine, sky-rocketing global oil prices and economic instability. Like all regions, the Middle East is no stranger to these influences and is arguably the most significantly impacted.

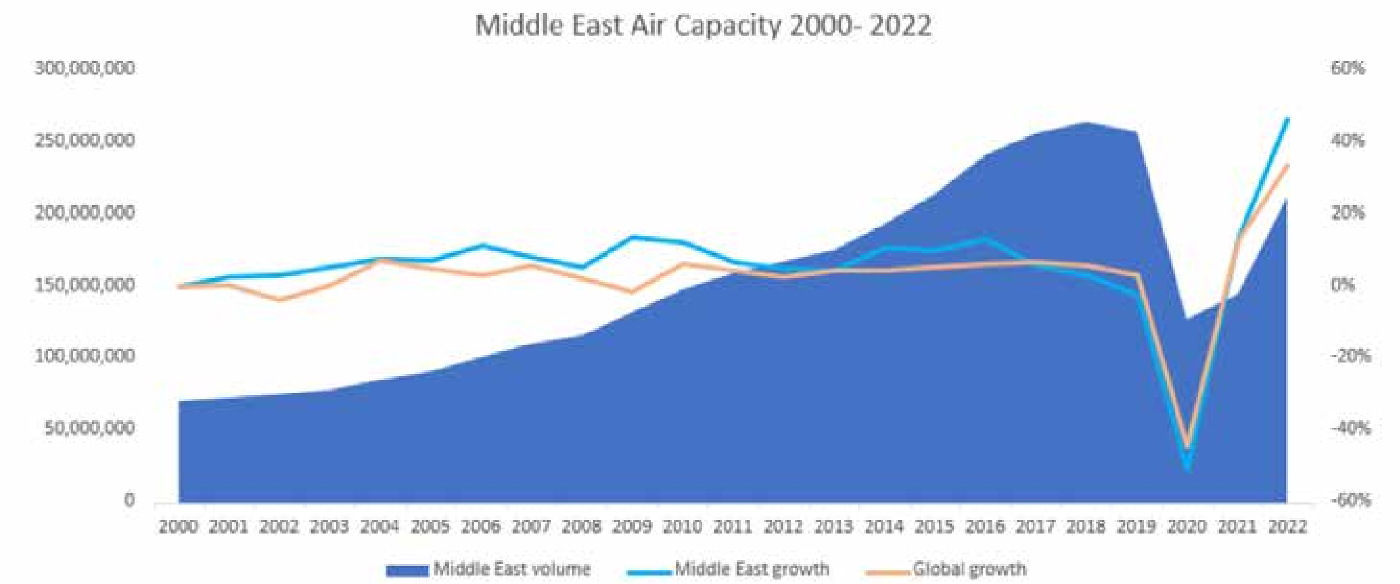
In terms of seat capacity, the Middle East has grown substantially this century. From 2% of the world's capacity in 2000, the Middle East reached 5% at the global peak in 2019 and now is forecast to generate around 7% of capacity in 2022 as the skies continue to re-open, and previously significant regional flows are re-established. The region has also consistently grown at a faster rate than the global average (aside from 2017-2019) and is now rebounding faster post Covid-19.

But much has changed in this time; the past two decades have seen the rise of low-cost carriers (LCC), the evolution of aircraft technology and the impact on route economics and previous restrictions, the merging of airline operating models, and shifting airline relationships. These are to name only a few of the issues that have shaped and will continue to shape the global air network. The Middle East is no different in this regard, although perhaps there are more structural and geographical factors that will impact the region in the years to come.

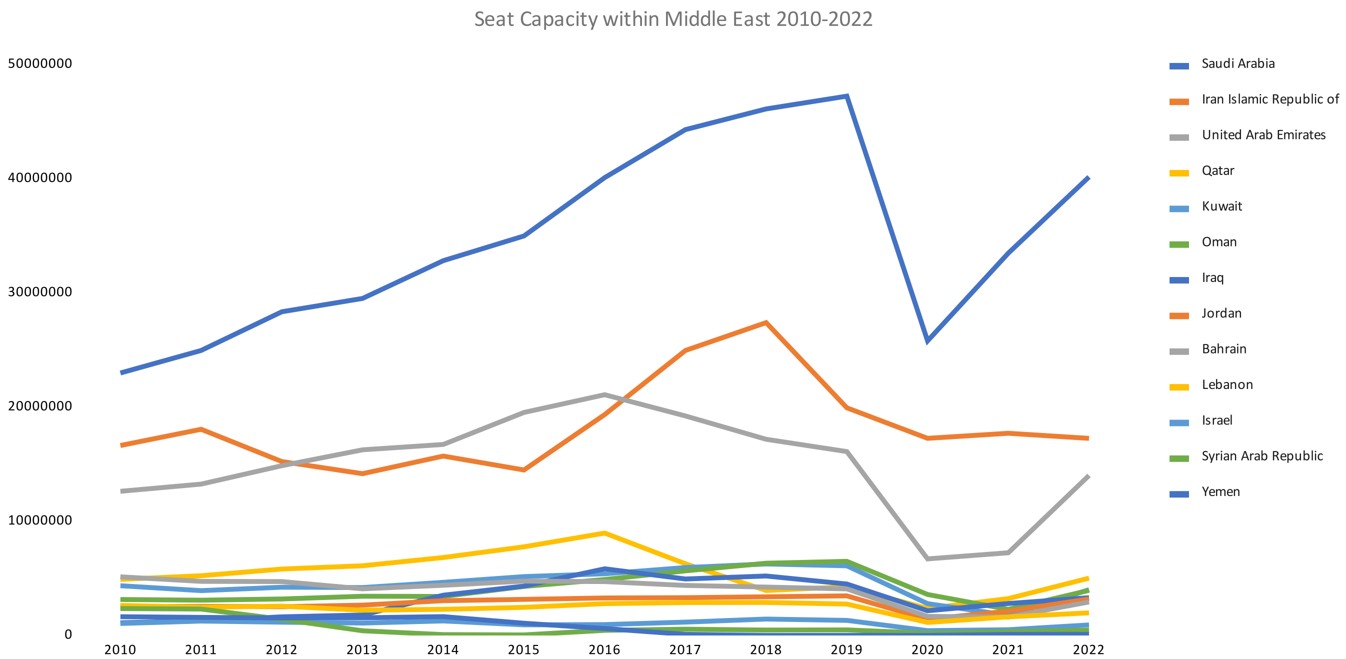
Regional flows

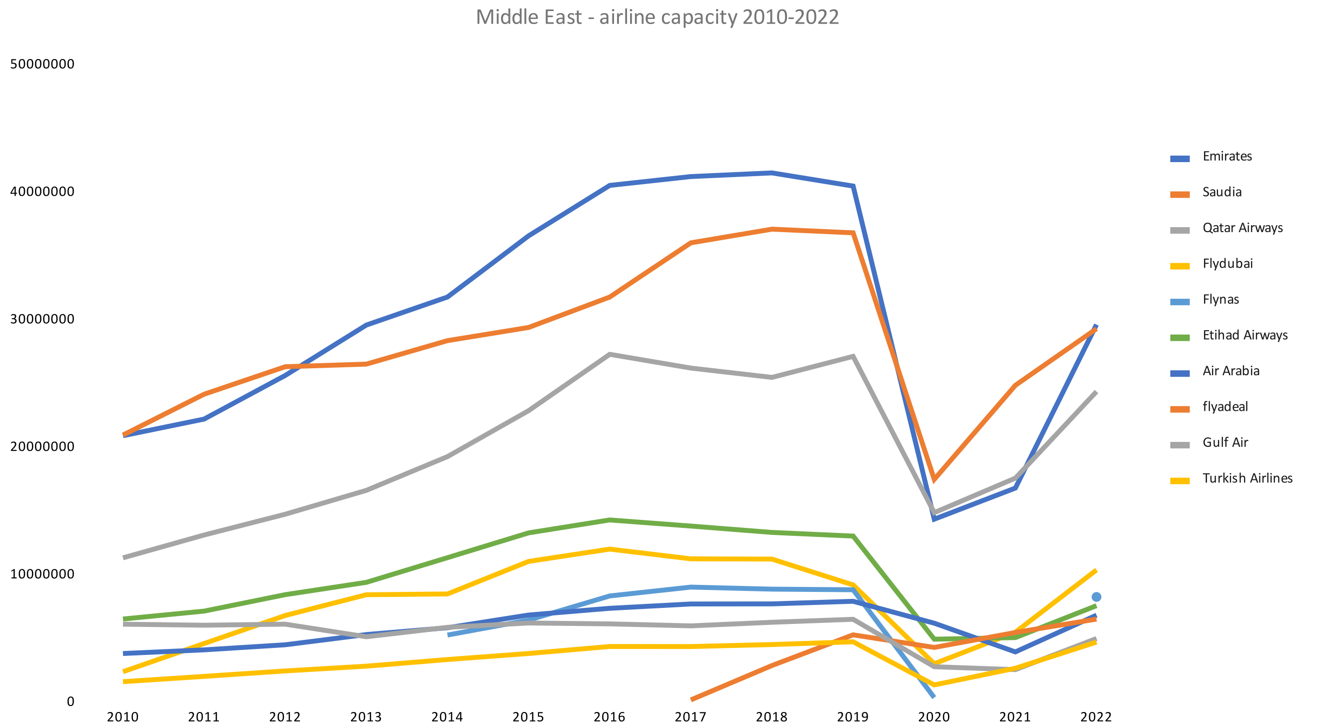
The Middle East market has often been generalised as one that is focussed on services to/from other regions, with point-to-point traffic but also connecting those regions with each other (6th freedom traffic). Whilst that is undoubtedly part of the puzzle, it is not necessarily representative of the overall regional picture. Although the share of capacity on routes to/from/between other regions is forecast to be 46% of the total for 2022 (having declined slowly over the last decade), services within the Middle East region remain by far the dominant share of the overall market.

Of the seat capacity within the region, Saudi Arabia is the dominant market. It is forecast to account for 41% of the market



All graphics source: OAG Schedules Analyzer (Y axis = Number of seats)





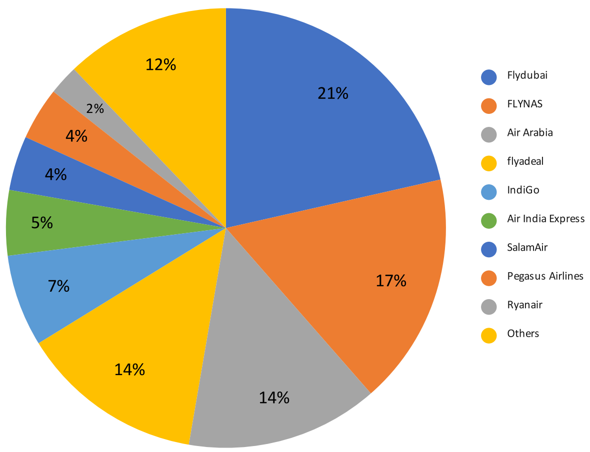
in 2022 – over 40 million departing seats, with Iran the next largest.

Of the top five markets, it is also the fastest growing by some distance – average growth of 8% over the 2010-2019 period. The majority of the Saudi Arabia-originating volume is domestic capacity – forecast to be around 30 million seats (75% of the total capacity) in 2022. This provides a position of significant strength over the country's regional competitors and is a bedrock of capacity and network depth that is unrivalled and impossible to match. By way of comparison, the United Arab Emirates, which has been a focus of international growth, has been declining as a market within the Middle East since 2016.

Airline expansion

At the beginning of the last decade, Saudia was the largest carrier in the region. However, Emirates has grown faster over the following years to become the clear leader in terms of capacity. The picture for 2022 is looking a little less clear. Whilst we would expect Emirates to return decisively to the number 1 position, the dynamics are changing. Emirates' overall share of the market has dropped since 2019 – and of the carriers that have increased market share, it is noteworthy that these tend to be the low-cost carriers, along with Turkish Airlines, operating services to/from the region. Indeed, of the largest carriers, flydubai and Jeddah-based flyadeal are the two whose capacity levels already exceed

Share of LCC Middle East Capacity 2022



> "Saudi Arabia's market is set for startling growth in the coming decade with huge investment in the Kingdom's travel industry planned "

Mark Clarkson,
Associate Partner, MIDAS Aviation

those of 2019. Turkish Airlines will also get there shortly.

The emergence of LCCs

Collectively, low-cost carrier capacity grew faster than any of the larger, network carriers serving the region during the 2010-2019 period. LCC capacity grew at an average rate of 17% per annum, compared to 5% for mainline carriers, and for 2022 is already forecast to surpass 2019 volumes. As with other regions, the mix of airline model is changing, and changing fast.

However, the blurring of the lines between what it means to be a LCC or a network and regional carrier is as true in the Middle East as it is elsewhere. For many reasons it would be hard to look at the two largest carriers, flydubai and Riyadh-based Flynas, and consider them to be LCCs. Both operate with a business- or premium-class product on board, along with associated services, and have a variety of airline partnership agreements to extend their routes and network reach.

This is not exactly true to the foundation of traditional LCCs, but it is very much reflective of how airline models are changing and merging. In the case of flydubai, the relationship with Emirates allows the larger carrier to gain access and feed to/from markets that are too small for its widebody-only fleet, as well as to compete more effectively with (amongst others) Turkish Airlines. Flydubai is owned by the UAE government.

There is also very limited overlap in terms of destinations served, which demonstrates the complementarity of the two carriers. We would expect to see the partnership continue to develop with Emirates focussing on building back the larger markets post-Covid recovery, and flydubai increasing frequency on existing shorter haul routes as well as launching new destinations.

Air Arabia has also been growing aggressively and now has five active subsidiaries or joint ventures going beyond the Middle East into Africa and Central/South Asia. Conversely, Wizz Air has expanded into the region with the establishment of Wizz Air Abu Dhabi, and it has aggressive growth plans.

In an interesting side note, giant European LCC Ryanair now sneaks into the top 10 LCCs serving the region with its services to Israel and Jordan. The LCC competitive landscape in the Middle East is surely set to intensify in the coming years.

Turkish growth

A good illustration of how Turkish Airlines has stepped up in competitive terms is seen in its African network, which has grown dramatically over the last decade. This is a market that has been targeted aggressively by all the Gulf's big three – Emirates, Etihad and Qatar Airways.

A decade ago, Turkish Airlines operated to 13 African destinations on a non-stop basis. In 2019, this had increased to 38 and now in 2022 is forecast to include 40 destinations; Emirates has 20. Over half of Turkish Airlines' seat capacity is operated by narrowbody aircraft.

In addition to its natural growth of point-to-point traffic, Turkish Airlines has also secured a significant market share of Africa–Europe connecting traffic, which is an important source of business for Emirates and other carriers. As of 2019, Turkish Airlines had become the leader in terms of market share of Africa–Europe connecting traffic.

Saudi Arabia's vision

Saudi Arabia's market is set for startling growth in the coming decade with huge investment in the Kingdom's travel industry planned. As part of Saudi Vision 2030, the strategic plan to reduce the country's dependency on oil, there are incredibly bold plans to create air passenger demand to boost domestic and international connectivity.

In terms of air passengers, the target is to triple throughput to 330 million in 2030 (100 million of which will be foreign

visitors). This would require growth of at least 14% per annum and in terms of volume growth, China is the only market to have been able to achieve this (with a population base of 1.3 billion to 1.4 billion people compared with Saudi Arabia's 35 million). Naturally, these markets are very different, so comparisons are limited.

One main challenge is the rapid development of infrastructure. To support the 2030 vision, NEOM, "the world's most ambitious tourism project", is underway and already is gaining serious momentum as foundations are put in place for an incredible array of attractions as well as a new airport and at least one new global airline.

Alongside these plans, Saudi Arabia is planning to spend US$1 trillion over this decade to promote and develop itself as a leisure destination. And more recently still, the minister of tourism stated in an interview that there is a study underway to create an incentive programme to encourage airlines to set up new direct flights to Saudi Arabia. Although no figures were shared, given the ambitions of Saudi Vision 2030, it is safe to say the incentives will be significant, and many carriers will be enticed to commence new services on this basis.

However, Saudi Arabia is not alone. Other countries in the region also have their own vision and plans for growth and diversification away from economic reliance on the oil sector – Abu Dhabi Economic Vision 2030 is one such example, although in terms of overall scale, Saudi Arabia's plans are significantly larger.

Shorter term obstacles

Of the non-regional markets that have service to the Middle East, there remains a notable reduction in capacity. China has the largest capacity deficit compared to 2019, which is no surprise considering the stringent Covid-19 restrictions that remain in place there. There is still little clarity on how or when the situation will change with any degree of significance.

In addition, although the conditions have eased more markedly, Thailand and the UK are the next two markets in terms of capacity deficit to 2019. However, we would expect this capacity to continue to return faster than China over the coming months.

Russia has long been an important market for the UAE – but the ongoing conflict has not impacted capacity too severely; if anything, it has been strengthened given the sanctions elsewhere.

Flydubai has grown to be the Middle East's largest low-cost carrier (photo: flydubai).

What next?

Given the size and scale of the Saudi ambition, it is hard to see past it in terms of how it may shape the Middle East market in the years to come. The underlying growth rate is already very strong, underpinned by the domestic market; however, allied to the vision to grow internationally, it could become much more significant.

The continuing evolution of airline operating models, the establishment of new carriers and the morphing of LCCs, will shape growth in the Middle East in the short term. However, it is also worth noting that the number of active Middle Eastern carriers is currently the lowest it has been for over a decade. With the growth in capacity, the operating carriers are carrying on average over 50% more traffic than in 2010. So despite the growth, there are fewer carriers – and therefore there may be more consolidation to come in the short term.

Airline relationships and partnerships will continue to be redefined as the traditional structures are challenged and circumvented. All these factors will go on shaping the development of the region's aviation market; however, they will be largely evolutionary in terms of their overall impact on air capacity.

Irrespective of the capability of Saudi Arabia to generate 330 million passengers or 100 million foreign visitors over this decade, the 'giga' scale of ambition is very clear and so Saudi Arabia could be set to redefine the Middle East aviation market. ■

About MIDAS Aviation

MIDAS Aviation specialises in working with stakeholders across airport, airline, tourism, government, finance and regulatory sectors to understand future demand for air services via data-based market analysis and traffic forecasting. For more information visit: www.midasaviation.com

People power tops IGHC agenda

The ground handling industry met in Paris in June to contemplate a resurgent travel market, but one faced with immediate operational problems in 2022 and a hatful of strategic challenges on the horizon. ARGS editor *Mark Pilling* and reporter *Olivia Pilling* were at the event

Richard Prince of Aviapartner (left) and Steve Allen of dnata represented the services industry on the IGHC CEO Panel (photo: IATA).

The first word on this year's IATA Ground Handling Conference (IGHC) tagline was 'people'. It would not have raised many eyebrows if the tagline were preceded by 'lack of' as that was the real point: acute people shortages across the aviation services industry are causing major operational strife in many regions.

Opening the Paris IGHC, Monika Meistrikova, IATA's director ground operations, told the audience that states must make bold decisions to remove travel restrictions as the Covid threat wanes. "This summer season passengers are ready to travel, and we cannot disappoint them," she said.

The full IGHC title was 'People, Purpose & Passion – building a sustainable future for ground operations'. The chief executives on the kick-off panel that set the scene for the IGHC listed staff shortages, contracts, seasonality, global handling standards and automation as issues that need addressing.

The most pressing matter is getting to grips with the staff shortages occurring in some regions. Countries such as the USA, UK, various European states and Australia are facing significant challenges as many people laid off or furloughed during the pandemic chose other jobs or migrant workers went home, said Steve Allen, executive vice-president of dnata, the service arm of the Emirates Group. But the picture is not universal. "I feel I have a mountain to climb [in recruitment] in those locations, but in Brazil I could hire 500 people tomorrow," said Allen.

At Aviapartner, the decision was taken – with one eye on recovery – not to undertake a downsizing programme, said Richard Prince, chief executive. This move has been especially critical to the firm's resumption of services in France and Spain, he noted.

Swissport chief executive Warwick Brady said the global giant is on a huge recruitment drive this year with a plan to add 17,000 people by year-end, taking its staff roster to 65,000 in total. His aim is for Swissport to be "the Amazon of recruitment and the Apple of engagement".

But while all acknowledge the need "to add the magic dust back into our industry" in terms of making it attractive once again, IATA director Willie Walsh injected a practical note into the discussion. "These are temporary problems, and we can overcome them. They are faced every year as we come into the peak season... It is a much nicer challenge than when we were ramping down," he said.

Across many sessions at the IGHC it was clear there is no easy answer to the recruitment and retention question, but all CEO panellists were convinced that greater standardisation in handling, whether it is for training, equipment, or technology, will make recruitment and on-boarding faster and cheaper. Prince gave the example that Aviapartner still has 60 to 70 airlines coming to audit its operations annually despite the existence of IATA's Safety Audit for Ground Operations (ISAGO) programme. "The platform is there but no-one takes it," he said.

There is also the question of global ground handling regulations. This is being discussed at ICAO (International Civil Aviation Organization) level with input from all the airline, handling and airport associations. Such regulations are seen as a vital tool in making the ground services market a level playing field. Swissport's Brady advocated a light regulatory structure based on the IATA framework.

Time for change

It is common for leaders to seek opportunity in a time of crisis, a message strongly backed by Prince at Aviapartner. "The reality is that going back to what we did before won't work," he said.

Even back in mid-2019, when his team was looking at the evolution of its organisation and the long-term sustainability of the business and the industry, it considered how to remain relevant while essentially selling a transactional service. "We see airports and ground support equipment manufacturers pooling [equipment] and wanting to provide automated technologies," he said. This could lead to traditional handlers losing 30% of their revenue if they do not react.

Aviapartner is looking at how to be part of the future industry solution and how its business model should evolve. On a small scale the handler is making progress, for example in Rotterdam Airport where it owns and operates eight self-service check-in desks. "We developed the automated bag drop solution with Rotterdam, and also at Lille and La Rochelle," said Prince. "We said let us invest in the technology and in turn we become relevant to the environment and not just an individual airline."

However, while airport automation is on the cards, Prince does not see it coming to the ramp anytime soon. "If it is not in the streets, it's not in the airport," he said, meaning that there are no autonomous cars today so there is no prospect of autonomous airport vehicles just yet.

Finding a partnership approach with airports is important because "they own the environment". In addition, having seen all the delays this summer, he expects more airports to invest in automated check-in desks to avoid future problems.

Similarly, Prince is seeking a move away from a purely procurement-based approach in airline contracting because "it creates no value and no room to invest", he told ARGS. "We flipped that and said [to airlines] we will partner with you and build into that [relationship] the ability and flexibility to adapt as you change." The service could start in one country and grow to others as the airline expands its network.

Aviapartner started such a partnership with one major airline group in 2019. The intention is to get away from the traditional one- to three-year services contract term, which does not encourage investment, and look beyond that cycle, to contracts lasting seven to twelve years, explained Prince. "There is a shift we are seeing today," he added.

The services industry has seen a huge increase in competitors in some airports as new entrants came in seeking to build market share. Demand has risen, prices have dropped, but so has quality. Some airlines have said enough is enough and in the past five to seven years have been willing to pay a little more for guarantees on service and safety, explained Allen of dnata. The company's approach is to be a "solutions provider not a services provider", he added.

"It is a false economy to let margins get so tight that quality isn't there," said Allen. Two of the answers are to introduce regulation so that standards are kept at a certain level and for airlines to turn to the larger handlers that can take the 'solutions' approach, he said. Some of the airline majors are embracing this move, whereas low-cost players focus

Monika Meistrikova, IATA's director ground operations, told the audience that states must make bold decisions to remove travel restrictions as the Covid threat wanes (photo: IATA).

on "absolute simplicity" with single aircraft types, no cargo and no premium passengers.

Consolidation

The past couple of years have naturally seen intense activity among handlers with several acquisitions, mergers and failures. The most significant is the purchase of Menzies Aviation by National Aviation Services parent Agility.

The major players are all tracking expansion opportunities with outsourcing and acquisitions in the mix. "We look at opportunities that are complementary to our geographies," said Brady of Swissport.

"There will be more consolidation at all levels," agreed Allen of dnata.

Aviapartner too is talking to several partners and reviewing several opportunities, said Prince. "Regulation could drive consolidation if this leads to increased costs for smaller players," he observed.

No doubt the 2023 IGHC, to be held in Abu Dhabi, will see some of the same challenges and plenty of fresh ones. The emphasis on people will surely remain at the top of the agenda as the handling industry seeks to bring in younger talent with the same – or greater – passion for a business that is essential to the smooth running of air transport. ■

Brady spies more out-sourcing

Swissport's Warwick Brady speaking at the IGHC (photo: IATA).

"Aviation is an industry that is still a very long way from being out-sourced, so at the macro level there is plenty of long-term growth," Warwick Brady, president & chief executive of Swissport, told ARGS at the recent IATA IGHC in Paris, as he marked his first year of being in post.

"In the short-term we are seeing a spurt of opportunities in airline out-sourcing – more than we can deal with at the moment," added Brady, who was tempted a year ago to nurse Swissport back to health, leaving the Group CEO role at Esken (formerly Stobart Group), by the mission set by the private equity funds that took control of the firm through a debt-for-equity swap from China's troubled HNA Group.

Although the out-sourcing of ground services is hardly a new story for a trend that began in earnest in the late 1990s, it is a story that still has a long way to run. "The outsourcing trend accelerated after COVID," said Brady. "This creates business opportunities for Swissport, which we are very actively pursuing."

Swissport does this by growing its business with existing airline customers, by winning new customers, by expanding in non-core business lines, like airport lounges, and also by establishing operations at new airports. "For aircraft handling we expect annual growth of the accessible market of around 17% per annum until 2025," said Brady. "A part of this is Covid-related rebound and will level off in the medium term. Pre-pandemic annual growth was around 4%. In cargo handling, we have a more stable market, which was less affected by Covid. Here we expect growth of 7% per annum in the medium term. This is still very attractive, especially as it comes with higher margins. We therefore overweight cargo in our medium-term strategy."

"There is definitely a sea change we are seeing at the airlines as they are recovering from the Covid crisis, eager to secure cost efficiencies. Covid has brought a focus on that," said Brady. "And as a global specialist in ground services and cargo handling, we should always be able to provide a better service at a lower cost than airlines and airports could do themselves."

Brady said Swissport is often a deeply integrated partner to the airlines it serves. A partner whose people hold airline brands close to their hearts. "Our passenger service agents often wear airline uniforms. We are working with airlines to implement measures that make our people feel they are part of the eco-system – training of course, but also aspects like staff travel benefits."

Any self-respecting services chief will say that the reality in the services business has been a race to the bottom in recent years with cutthroat pricing to win contracts. Airlines have benefitted from bargain prices, but often at the expense of service quality. And Brady has a clear plan here.

His strategy couples a desire for out-sourcing deals with airlines where it would take over a major hub, while in parallel "finding a contract structure that works for us and the airlines." This means moving away from a flat price model to one where the handling price "rewards a wider flight schedule over a peaky schedule. We want proper, long-term partnerships, so contract structures do need to match the schedule, volumes, and labour," he explains.

"We regularly look at the profitability of each airport, especially when flight volumes increase, or a large chunk

Continued above right

Right: Robert Sanz (left), manager ramp operations, and Marta Gomez Andreo, manager of innovation and operational improvements at QAS, presented Pit Turn at the IGHC (photo: IATA).

Brady spies more out-sourcing continued

of activity is taken out by an airline. Regardless of the reasons, it changes the overall picture," he said.

Swissport's new contract with a large Brazilian carrier is a "great example" of such a deal, said Brady. This multi-year agreement sees the handler providing ramp, cleaning, and cargo services at the airline's hub. There is a "proper collaboration structure that reflects the schedule and the cost of labour," said Brady. "The more flights are off peak the more money the airline gets back. The peakier the schedule gets the more it costs," said Brady. Some airlines are "very receptive" to this approach, especially those who have been suffering pain in their schedule delivery over recent months.

Persuading airlines to out-source a hub operation is not easy, acknowledged Brady, who understands the airline perspective on services from his days at easyJet and Stobart. However, "airlines have got to get their head out of the sand" on the question of out-sourcing. "We are more than happy to provide it for them, fulfilling and exceeding their expectations in terms of service and cost. We are on a mission to turn Swissport into not only the largest but the most trusted partner for safe and reliable airport ground operations."

His belief is that Swissport has unique experience in running complex hub operations, for example for Lufthansa's regional fleet at its Munich hub, for the Swiss hub in Zurich, Qantas in Sydney and Melbourne, and several large base operations for easyJet. "We are the only real operator that does very large bases around the world and does massive hub out-sourcing," he said. "Swissport is a one-stop-shop for airlines."

Hub out-sourcing is Brady's preference because of this expertise and because it delivers "long-term quality revenue" and scale to match Swissport's growth ambitions. It is in talks, for instance, with TAP Air Portugal about a deal for its hub operations in Lisbon and has recently announced its acquisition plans for Alitalia's entire ground handling business at Rome's Fiumicino airport. ■

QAS: The 21st-Century ramp

With a solution dubbed 'Pit Turn', Qatar Aviation Services (QAS) took centre stage at the IGHC presenting a tool that it believes will centralise and modernise a raft of legacy systems and procedures. Pit Turn aims to deliver a 21st-Century ramp operation for its customers, stakeholders around the airport, and its own staff Robert Sanz, manager ramp operations, and Marta Gomez Andreo, manager of innovation and operational improvements at QAS, described how Pit Turn, its name inspired by the world-class racing car turnarounds made in Formula 1, has been several years in the making.

At Doha, QAS handles over 30 airlines and four cargo carriers. It handles 17 million passengers a year, processes 2.6 million tonnes of cargo annually, and has an average connection time of 45 minutes.

"The aim of the [Pit Turn] project was to gather more information and make decisions in real time when dealing with operational or handling delays," said Andreo. As the main services provider at Hamad International Airport, QAS has all the challenges of a big hub operation such as limited visibility of turnaround issues, a variety of systems to manage, flight delays and capacity optimisation.

The standard practice at QAS was previously a mix of co-ordinators using pen and paper or forms filled out on tablets, resulting in multiple decentralised data inputs from a variety of sources, said Sanz. "It was a very reactive approach to handling," he noted.

A wide consultation effort prompted QAS to develop its turnaround digitalisation programme. This led to a large digital and data IT project that automatically sucks in data and information from around the services ecosystem. "Automation is the key, so we can gather transparent and accurate data from turnarounds to make better decisions and make preventative actions," said Andreo.

The application was developed in collaboration with Qatari airport systems specialist MATAR IT to create a dashboard to monitor turnaround activity. Data flows in from baggage, cargo and a host of airport-based systems to feed Pit Turn. Over time, the tool will expand to include more information, such as fuel tracking and cabin cleaning.

The application is in daily use today at Doha, said Sanz. "Our highly trained team is highly synchronised to achieve the collective goal of the aircraft leaving on time and safely," he explained.

By 2023, all ground-related incidents will be recorded in Pit Turn for the first time, said Sanz, explaining: "The idea is to detect the threat before it happens and reduce the number of incidents. ■

South African ambitions

After a tough pandemic that saw air services almost completely closed for extensive periods, South Africa's airlines are steadily reopening, and expanding their route networks, and South African Airways is still alive and kicking. *Alan Dron* talks to the leading players to discover what next for the country's network development

Traditionally, South Africa was Africa's most advanced civil aviation marketplace. With the possible exception of Nigeria, no other nation had as many airlines – and they were considerably more stable than those in the West African nation.

However, South Africa was hit harder than most countries by Covid-19, with its government imposing a ban on all passenger flights from an early stage in the pandemic. This led to one of the country's most important regional carriers, SA Express, collapsing.

Now, as the risks of Covid slowly recede, the country is trying to rebuild its civil aviation network. With what success?

South Africa is an important market not only in its own right; in terms of connectivity, it is also one of sub-Saharan Africa's major aviation hubs. Neighbouring countries, such as Namibia, Swaziland, Zimbabwe and Botswana depend significantly on South Africa's economy, policies and general aviation strategy.

"The past two years have been very challenging for South Africa's aviation industry," admitted Wrenelle Stander, former head of South African regional carrier Comair and now CEO of Wesgro, the tourism, trade and investment promotion agency for Cape Town and the Western Cape.

Certainly, she sees welcome signs that long-haul services to South Africa are rapidly improving, after a false start last year. "The outlook for our past summer season was very promising until the Omicron variant was discovered in this country. This led to many cancellations of routes.

"However, from the 35% recovery of international pax traffic in January, the recovery for Cape Town International Airport was impressive, with 50% in February, 61% in March to almost 80% for the first half of April compared to the same periods in 2019.

"Restarting an airline is tough at the best of times. Doing it after Covid adds an extra layer of complexity."

Simon Newton-Smith,
Chief commercial officer
South African Airways

"We see a promising return of leisure travellers to our destination and we are very upbeat for the coming months.

"Our traditional markets will see an improved network with United Airlines starting to operate a year-round Newark–Cape Town service from June 5, Delta Airlines receiving recent approval to operate a year-round Atlanta–Johannesburg–Cape Town-Atlanta service and both airlines requesting additional direct frequencies to Cape Town.

"The UK market will see (besides British Airways) the return of Virgin Atlantic with four weekly flights at the end of the year and German carriers want to add more frequencies to South Africa, like a direct Frankfurt to Kruger Mpumalanga International Airport route (via Windhoek, Namibia) starting in November 2022.

"A newcomer like Air Belgium also confirmed that it will start operating flights from Brussels to both Johannesburg and Cape Town before year-end, meaning our North America and Europe network will not only return but further expand."

Stander noted that the South African domestic passenger market is very robust and has recovered reasonably quickly after each lockdown period, even with the disappearance of SA Express.

"For the first four months of 2022 the recovery percentage stands at about 70% if compared to the same period in 2019. The gap left by SA Express has been filled quite quickly. Most of the regional routes have been taken over by Airlink, like the Johannesburg–Lumbumbashi [Democratic Republic of Congo] route and the Cape Town–Walvis Bay [Namibia] route.

"On the domestic front the same happened. For example, the Cape Town–Hoedspruit route is now being operated by both Airlink and Cemair. FlySafair and BA Comair now operate flights from Cape Town to East London and Port Elizabeth, routes that were served by SA Express before they ended in provisional liquidation in 2020."

Internationally, flag-carrier South African Airways (SAA) has always been the biggest component in the South African civil aviation scene. It was arguably regarded as the continent's foremost airline. But increasingly, the company was regarded as an economic basket-case and has been through tough times. Even before the virus made its

Leisure traffic into Cape Town International has been encouraging during the first few months of the year (photo: Cape Town International Airport).

presence felt, SAA had become financially weak, kept afloat by a series of government bailouts.

Professional staff were highly rated, but senior management was, to put it politely, problematical. Layers of management were wracked by allegations of political favouritism and corruption, and one ex-chairman is currently facing trial.

An ageing, increasingly uneconomic fleet – especially in its long-haul sector – was one of the reasons behind the losses, but so was a bloated workforce. On top of that, SAA came under growing pressure from the major Gulf carriers Emirates, Etihad and Qatar Airways, together with Turkish Airlines, all of which had marked Africa as a region for expansion. More and more passengers from South Africa and nearby nations – who might once have travelled to Johannesburg for onward long-haul flights – were siphoned off to the huge Gulf hubs.

All this led to SAA entering the country's business rescue procedure – the local equivalent of the US Chapter 11 proceedings, where a company is allowed legal protection from creditors while it attempts to restructure – in December 2019, even before the pandemic struck.

Following its emergence from business rescue, and with a new domestic consortium about to formally become SAA's majority shareholder, the company's chief commercial officer, Simon Newton-Smith, echoed Stander's optimism over the domestic market.

"That's been pretty robust, other than in the major lockdowns. I think the domestic market is around 80% recovered to 2019 levels." He believes that the South African market will be back fully to 2019 levels by this year's southern hemisphere summer, in November/December.

At present, "What the network has traditionally had is international connecting traffic and that's quite sharply down. Beyond South Africa's boundaries, demand hasn't recovered to quite the same extent." Newton-Smith reckons it lies somewhere in the 40%-70% range.

"That's not a huge surprise. If you've got to cross borders you've still got some complexity," he said. It was very noticeable, however, that as soon as Covid restrictions were removed, demand rose sharply.

However, in terms of restoring SAA's route network, "We've got a ways to go," he admitted. "We've got a five-year plan and we're still in the first year. Restarting an airline is tough at the best of times. Doing it after Covid adds an extra layer of complexity.

"As far as the route network right now we're focused on rebuilding the regional African network. Our goal is to restore our original network over the next three to three-and-a-half years. Historically, the regional African network was very much SAA's network sweet spot."

Before it entered business rescue, SAA had a fleet of around 30 aircraft. At the time of writing in late April, that fleet had shrunk to just seven – five Airbus A319/320s, a single A330-300 and a recently acquired A340-300, primarily used for charter work.

The A330 flies medium-haul routes to Accra and Lagos in West Africa. The charter work takes the form of services for tour operators, while the continuing demand for cargo capacity means that its belly hold can be utilised for freight. SAA is also interested in providing charter capacity for other airlines or governments, said Newton-Smith.

While it is probably too early to go into details about how SAA plans to acquire new aircraft, he said the company's plan is to reach a fleet of 25-30 aircraft – mainly narrowbodies – during its five-year plan.

A further two A320-family aircraft plus an additional A330 are expected to be acquired in the second half of this year, to meet growth requirements.

Left: Newton-Smith: The domestic market is around 80% recovered to 2019 levels" (photo: SAA). Right: Stander: "For Cape Town we see great opportunities for regional airlines to expand to other major markets so more African itineraries can start from here." (photo: Wesgro).

The South African domestic market is becoming increasingly competitive, with low-cost carriers FlySafair and Kulula.com being joined by newcomer Lift. At present, Lift operates only a single route but has plans to expand.

Airlink is also an increasingly powerful presence in the market, with a fleet of more than 50 aircraft ranging from Cessna Grand Caravans to Embraer 190s. It operates not only an extensive domestic network but also routes within southern and eastern Africa as far north as Entebbe in Uganda.

British Airways franchise operator Comair is also present, and regional carrier CemAir is increasingly moving from ACMI work for other airlines throughout Africa to scheduled operations.

"Now that the air service licensing council in South Africa [which approves new routes] is operational again after a long absence, the international and regional network can be improved," said Stander.

"FlySafair recently started a Johannesburg-Mauritius service, Cemair wants to expand its fleet and Airlink is connecting Johannesburg, Durban and Cape Town to South Africa and other regional markets.

"For Cape Town we see great opportunities for regional airlines to expand to other major markets so more African itineraries can start from here. As an example, a Cape Town–Kruger Park–Victoria Falls–Cape Town route offers all the major highlights Southern Africa has to offer," she said.

This influx of capacity within South Africa's borders is another reason why regional flights to the countries of southern Africa are SAA's business 'sweet spot'.

One major change to the South African airline landscape is the disappearance of SA Express (SAX), which functioned as a regional feeder carrier for SAA. Like SAA, it underwent business rescue, but failed to emerge from the other end of the tunnel.

However, the loss of SAX should not adversely affect SAA, said Newton-Smith. "We have interline agreements with a number of other carriers in the market, so we're able to replicate or replace some of the connecting feed that we had. We're working with them – and others – to bridge the gap."

SAA also plans to use connections with other airlines to improve its international 'reach' while gradually rebuilding its long-haul fleet. SAA is a member of Star Alliance, and so has links with the

Regional carrier Airlink offers connections around South Africa and to other regional markets (photo: Airlink).

South African Airways has a handful of Airbus A320 family aircraft flying regional and domestic routes (photo: Alan Dron).

alliance's other 25 participants.

Making use of those links in the short term by leveraging codeshares "makes complete sense. Globally, projections are that long-haul traffic demand won't recover to anything close to pre-Covid levels until 2023 at the earliest, more likely not until the 2024-25 timeframe," Newton-Smith said.

For her part, Stander believes that SAA has a decent future, despite the loss of both SAX and feeder services previously provided by Airlink, which have now ended.

She observed: "SAA had the largest market share for international passenger traffic for both Johannesburg as well as Cape Town until 2017. This meant that many travellers transferred at Johannesburg for their onward journey to Cape Town, as SAA has not been operating international flights from Cape Town since 2012.

"Since 2016 we have seen a trend of more international carriers adding capacity or starting to operate direct flights to Cape Town, and the market share of SAA in Cape Town declined dramatically since then. By the end of 2019, SAA was the third-largest international carrier for Cape Town traffic. SAA only operates Johannesburg–Cape Town and Johannesburg–Durban flights in South Africa at the moment, so its national network is limited."

Like Newton-Smith, she sees good prospects for SAA in West Africa: "We see opportunities for SAA to also start operating regional flights from Cape Town as our network to West Africa is currently non-existent. A direct Cape Town route to Lagos or Accra would definitely work, as there is sufficient demand and would lead to further market stimulation between those markets."

The concern remains that non-African carriers are siphoning off long-haul traffic from SAA. In May, for example, Emirates and the South African Tourism Board signed a memorandum of understanding to jointly promote tourism and boost visitor arrivals and inbound traffic to South Africa from key markets across the Emirates network.

One way of mitigating the problem of non-African carriers poaching South African traffic, Newton-Smith said, is for African airlines to team up. With this in mind, SAA in 2021 signed a strategic partnership with Kenya Airways.

"Africa has the largest imbalance of capacity and demand anywhere in the world. We can't [solve that] by ourselves and Kenya Airways can't do it by themselves," he said.

Even linking up the two airlines might not be sufficient, but they hope to bring together like-minded African airlines, whose route networks could be connected through multiple hubs and allow passengers to fly across Africa.

Stander believes that the South African–Kenyan partnership can pay dividends: "There is demand for another strong airline in Africa that can compete with Ethiopian Airlines and offer more flight options."

Intra-African travel is still relatively difficult, due to a combination of difficult visa regimes, low flight frequencies and high costs, factors that have led to the ridiculous situation where passengers wanting to get from one region of Africa to another frequently still have to make a connection outside the continent – either in Europe or the Gulf.

Bringing together African airlines in what Newton-Smith described as "aggressive collaboration" could help eliminate that situation.

Some African governments remain apprehensive about their national airlines being overwhelmed by larger carriers, he admitted, adding: "But if there's one thing I get a sense that airlines are thinking about, it's that we can't continue to do things the way we used to do them." ■

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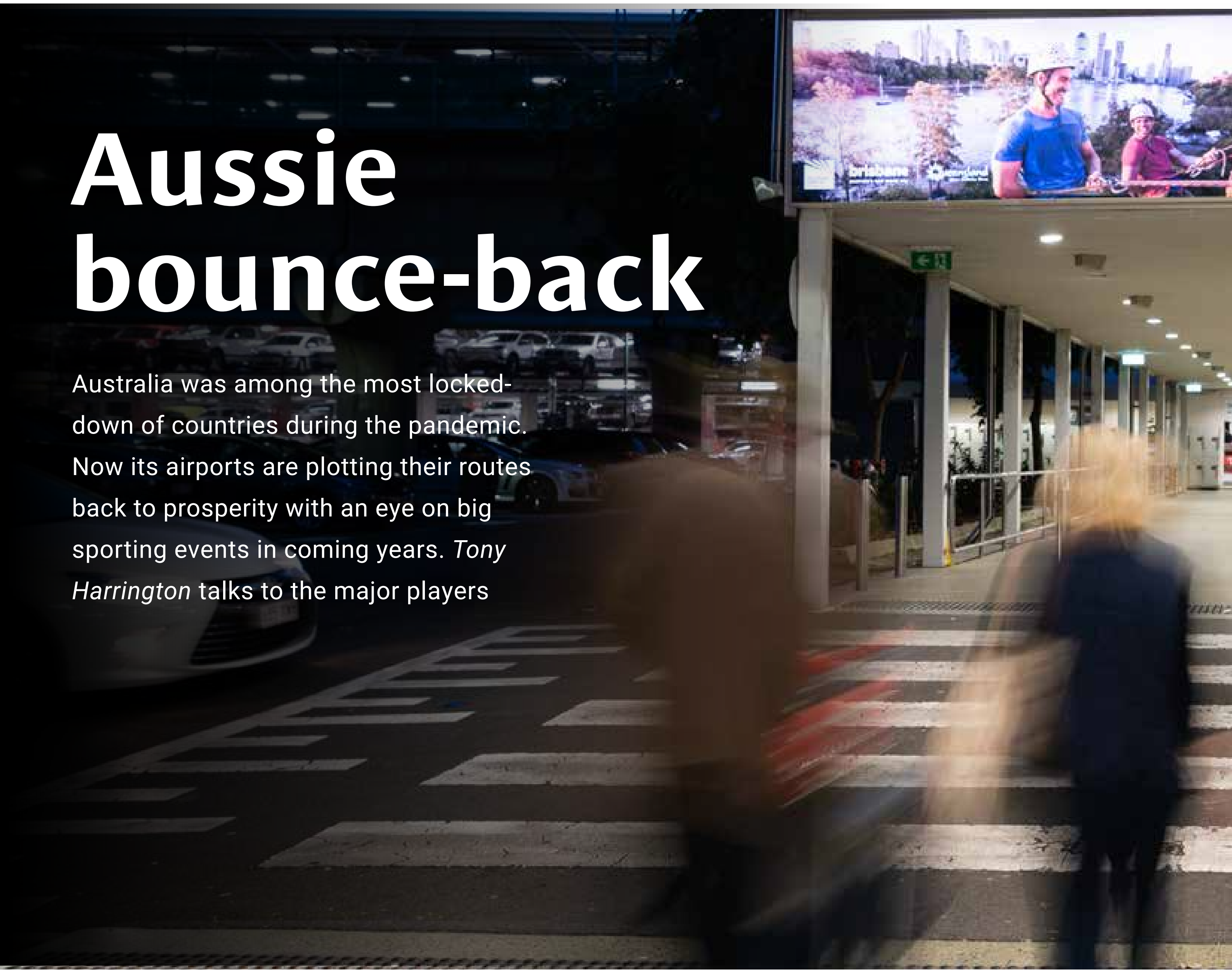

Aussie bounce-back

Australia was among the most locked-down of countries during the pandemic. Now its airports are plotting their routes back to prosperity with an eye on big sporting events in coming years. *Tony Harrington* talks to the major players

Having endured some of the toughest, most unpredictable Covid restrictions in the world, Australia's principal airports are preparing themselves for a new wave of travel growth, as international borders continue to ease or open, domestic networks reawaken, airlines reactivate services and major events drive urgent demand for new air infrastructure.

On top of hoped-for reactivation of previous air services, significant additional growth is expected through Melbourne and Brisbane, the nation's second- and third-largest gateways, which have been named host cities for two iconic international events: the 2026 Commonwealth Games in and around Melbourne, and, even bigger, the 2032 Brisbane Olympic Games.

Sydney Airport, the nation's biggest and busiest air hub, is also preparing for significant growth, following its recent AUD$23.6 billion (US$16.3 billion) sale to the Sydney Aviation Alliance consortium, and is further spurred and challenged by the development of the new Western Sydney Airport that will add domestic and international capacity and competition from late 2026. Elsewhere in Australia, major airports including the South Australian capital, Adelaide; the Western Australian capital, Perth; Queensland's Gold and Sunshine Coast leisure ports; and Newcastle, north of Sydney, are among those that have commissioned, or are promising, major infrastructure upgrades designed to attract new business.

But while airports are ready to move forward, the airlines they will rely upon are not all quite as confident, leaving gateways to engage in price and incentive wars with each other to win what, in many cases, will be discounted business – leading to sub-optimal earnings to help support future growth. That is despite the Australian Government's Aviation Relief Policy, a financial aid programme which many airports believe not only favoured airlines, but largely ignored the damage that airports, too, sustained during the crisis.

Australia was experiencing a travel boom just before the pandemic was declared and the Federal Government

shuttered external borders. Even more damaging than the closure of international borders were the subsequent measures taken by states and territories to help stem the spread of the virus, including successive lockdowns of capital cities, uncoordinated closures of interstate borders, and imposition at little or no notice of a catalogue of travel restrictions.

At one point, the city of Perth was closed down following discovery of barely a handful of positive Covid Delta cases, a decision which led the chief executive of Qantas Airways, Alan Joyce, to frustratedly warn that Australia was on the cusp of becoming "a hermit kingdom", and likening Western Australia to North Korea.

For more than two years, the airports of Australia, like most other markets, have sustained serious losses from the suspension of scheduled flights, and evaporation of commercial incomes as tenants ranging from cafes to car rental companies pared back or closed their operations.

And with no flights to welcome or farewell, airports also lost significant business from visitors, who in unblighted times would spend incremental millions in terminals and car parks.

Additionally, Australia's second-largest airline, Virgin Australia, entered voluntary administration in April 2020, in synch with the pandemic lockdown, exiting seven months later under new ownership, with a far smaller domestic network, fleet, and airport facilities, and without its previous international operations to destinations including Los Angeles, Hong Kong, New Zealand, Pacific Islands, and Bali, Indonesia.

While airlines are rebuilding, they are not all doing so at pre-pandemic scale, and certainly not in a co-ordinated way. Some are roaring back, but many others are returning less frequently, with smaller aircraft, to fewer gateways, or from smaller networks; others might not return at all. And where they have agreed to restart, it is often only with the lure of substantial but temporary subsidies or discounted charges.

"We have consistently said that it will not be as simple as flicking a switch and expecting airlines and passenger numbers to return to normal," said Kevin Brown, chief executive officer of Perth

Melbourne is promoting a third runway to significantly expand capacity (photo: Melbourne Airport).

Airport. "We are in a race with every other Australian state, and with other destinations in the Asia region, who are all working to attract international airline capacity."

This competition is not only occurring between airports that historically have been served by international airlines. Increasingly, smaller airports are gaining international services, or expensively pursuing them. Pre-pandemic, Canberra, the nation's capital, was building a small but high-profile stable of international airlines. Others such as Sunshine Coast Airport in Queensland, Hobart, capital of the island state of Tasmania, and Newcastle, north of Sydney, all operated a handful of international flights, and flagged big plans to become international gateways, to the annoyance of struggling existing hubs.

That effectively would end up as a rate race to the bottom, said one airport executive, with many airlines and commercial tenants seeking cuts in airport charges as a precondition to returning, further delaying restoration of sensible earnings for Australia's air gateways – which have lagged Europe and North America in recovery. "In a lot of cases," the executive said, "airlines are holding back on new agreements with airports because no one can agree on passenger numbers or the basis for new pricing models."

Without reliable or predictable income from the pure aviation segments of their businesses, airports increasingly have seen the need to diversify their income sources and maximise yields, to support not just operating costs, but also future infrastructure requirements.

That has driven increased focus by many airports on non-aeronautical revenue to help future-proof aviation earnings, fund major capital projects, and sandbag against rising costs from factors such as higher global interest rates or further serious shocks to commercial aviation.

Melbourne and Brisbane Airports both announced during the pandemic detailed plans to expand significantly the non-aviation businesses on their land to help build revenue certainty.

Within Melbourne Airport's perimeters, an AUD$800 million (US$555 million), 118,000 square metre pharmaceutical facility is planned for the vaccine producer and exporter, Seqirus, while Brisbane Airport has committed to a massive 51 hectare 'auto mall', which will feature vehicle dealerships, a dedicated track for prospective buyers to test new cars, driver training zones, a 4WD range, and research and development facilities for new vehicle technologies.

"In the past, non-aeronautical business was just cream," said one airport commercial chief. "It just came to you. You didn't go to it. Now, airports are becoming a lot more lateral and proactive. It's no longer just about aeronautical business. It's about how you get the most efficient, high-yield use of your land, and really raises the question, 'How much are airports going to be just airports in the future?' There's now much stronger focus and strategy on other activities. The yields will go up for airports in that space."

While a focus by airports on non-aeronautical revenue has long been commonplace, it was Melbourne Airport which specifically and publicly highlighted the trend to expand this segment as an essential strategy to help mitigate aviation losses from Covid, and protect against the costs of potential future disasters.

"The events of 2020 have made the airport shift focus away from traditional aviation-related revenue streams," said Lyell Strambi, then head of Melbourne Airport, when, late that year, he announced the agreement with Seqirus. "We're firmly focused on expanding and diversifying our property precincts, and look forward to partnering with many more quality tenants as we continue to grow the airport."

Melbourne provided a textbook example of the need to diversify airport revenue channels.

"The pandemic hit Melbourne harder than most other cities, and Melbourne Airport bore the brunt of that," said Lorie Argus, recently appointed chief executive officer of Australia Pacific Airports Corporation, which is the owner of Melbourne Airport, and Launceston Airport in the island state of Tasmania.

Indeed, Melbourne's seven extended Covid closures earned it the unofficial and unwanted title of 'The World's Most Locked-Down City'.

The flight route bridging Sydney and Melbourne, Australia's two largest cities, is the nation's busiest air corridor, and is frequently ranked as one of the world's top five. At its peak, late in 2019, it accommodated more than 800,000 passenger journeys per month.

But at its nadir in Australia, Covid plunged the Melbourne–Sydney sector from its traditional ranking of top spot to an unthinkable 28th, when both cities were simultaneously but separately locked down to help contain local Covid outbreaks.

"We dropped from an average of around 100,000 passenger movements a day to less than a thousand at some points," said Lorie Argus. "That was due to a combination of Australia closing its international border, a ban on outbound international travel, Australian states closing their borders, and a series of successive lockdowns in Melbourne that restricted the movement of people to just a 5km radius."

While its core business will always be its role as Melbourne's air transport gateway, for which it is currently pursuing approval to construct a third runway to boost capacity by 50%, Melbourne Airport has made clear that its earnings from aviation alone can no longer be relied upon to fully fund future requirements, and that a broader strategy is needed.

"We have significant operational costs, and as an essential service we were required to keep all terminals operational and open, even when we were down to less than 1% of normal passenger movements," she said. "But while the domestic market is rebounding relatively quickly, it's obvious that international travel will take far longer to recover.

"Having a diversified business has helped cushion some of the impact of the Covid-19 pandemic. While the aviation side of our business hit record lows, our property portfolio performed strongly."

In Brisbane, capital of the State of Queensland, the pandemic pain was also severe, though not on Melbourne's scale. As Australia's second-largest state geographically, roughly equivalent to the combined areas of France, Spain, Germany, Italy, Netherlands and Belgium, Queensland replaced a significant volume of its foregone overseas and interstate passengers with a surge in intra-state tourist and commuter traffic, bolstered by continued operation of major resources sites across the state, served from Brisbane by 'fly in – fly out' workforces. This is a way of employing people in remote areas by flying them into the place of work rather than relocating them and their families. Each week, up to 8,000 'FIFO' passengers passed through the airport.

The remainder of the shortfall was

compensated by the airport's extensive non-aeronautical activities, including a major retail precinct, commercial offices, warehouses, two hotels and a golf range.

"During the pandemic, our cost levels remained pretty much the same as pre-Covid," said Gert-Jan de Graaff, chief executive of Brisbane Airport Corporation. "But our revenues dried up almost completely. Our saving grace has been our property business. The revenues from property kept us going."

But while Brisbane Airport was more fortunate than many in Australia during the pandemic, it will face bigger challenges than most in the region, even the world, in the coming decade, following the selection of Brisbane as the host city for the 2032 Olympic Games. The event will demand enormous infrastructure growth to meet expected spiking demand not just for the short span of the games, but also for the decade-long build-up beforehand and the hoped-for surge in visitors afterwards.

Not long before the pandemic was declared, curfew-free Brisbane Airport completed construction of a second parallel runway, to accommodate projected and targeted strong growth in both domestic and international traffic. Built on reclaimed coastal land, it was one of Australia's largest and most challenging infrastructure projects.

Now, particularly given Brisbane's selection as Olympic host city in 2032, the airport is already well advanced in initial planning for further infrastructure expansion, potentially including an additional terminal which might accommodate both domestic and international operations. Brisbane's current international and domestic facilities are 2km apart.

"We are approaching capacity limits in the domestic terminal, and will also in the international terminal before the Olympics," said de Graaff. "We also have the ambition for Brisbane to be the gateway into the east coast of Australia."

While a decision on a new terminal is still 18-24 months away, a "preferred position" has already been identified between the two runways, said de Graaff. Non-aeronautical revenues will play a key role in supporting both this development and other substantial capital works required to progress Brisbane Airport post-pandemic.

Above: Having a diversified business has helped cushion some of the impact of the pandemic, said Lorie Argus, chief executive of Melbourne Airport (photo: Melbourne Airport).

Right: Brisbane Airport has the ambition to be the gateway into the east coast of Australia, according to Gert-Jan De Graaff, chief executive of Brisbane Airport Corporation (photo: Brisbane Airport).

The nation's biggest airport, Sydney Kingsford Smith, is also preparing for life after Covid, but in a very different way to Melbourne and Brisbane. With very limited land free to develop on its inner-Sydney site, the gateway has focused on redeveloping the facilities it already has (including a premium brands retail precinct within its international terminal) as it rebuilds under new management, while also trying to win back airlines that withdrew during the pandemic.

But it is not just this airport that will take Sydney forward beyond the pandemic. And nor are its greatest concerns the increased competition from the expanding Melbourne and Brisbane gateways.

Arguably the biggest challenge to Sydney Airport is the region's second major air hub, the new Nancy Bird-Walton Airport now taking shape in Western Sydney. After close to a century of discussion, debate and controversy, it is due to open officially late in 2026.

But unlike other airports in Australia, which are carefully developing their post-Covid funding and growth strategies, the new gateway will not have the same issues.

It will be owned by the Commonwealth of Australia, connected to major transport, industrial and social infrastructure and corridors, and embedded in a region with a potential passenger catchment zone bigger than either Adelaide or Perth. Politically, there is bipartisan support for this airport to succeed.

It will be international, offering not just a new option for passengers but also a fresh 24/7 option for freight airlines.

It will be curfew free, which Kingsford-Smith is not, and will have all-weather capabilities, providing the option of low-visibility operations not available at the main airport.

Presuming air transport recovers by 2024 as expected and remains on track, Western Sydney will represent a huge step forward for Australian aviation after the big step back it has just taken. ■


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Time for charges to change

The trauma dealt to airports by the pandemic has brought forward a long-needed reform of the airport charging system, argues a new report from Airports Council International. *Tony Harrington* reports

Covid's impact on airlines has been well aired. When borders were closed, and seemingly endless travel restrictions frustrated remaining opportunities to fly, planes were parked, capacity was cut, networks were narrowed, and jobs were jettisoned, as carriers were forced to ground themselves amidst the biggest crisis in the century-plus history of commercial aviation.

Airports, too, were suddenly starved of flights and passengers, as well as the vast volumes of visitors who welcomed them or bade travellers farewell and spent incremental millions in terminals and car parks. Also lost were commercial tenancy revenues, when businesses from cafes to car rental companies suspended, scaled back, or even ceased their operations to reflect their loss of custom. Unlike airlines, however, airports' experiences did not attract anywhere near the same level of attention.

Now, a global report by Airports Council International (ACI) documents the damage done to airports by the pandemic, the measures many took to save or lure back air services, and the critical new challenges they face in trying to anticipate the scale and speed of recovery, while meeting the costs of vital capital projects and growing requirements to decarbonise – without any certainty regarding income.

But while the cost of Covid is central to the story, it is not the primary objective of the report. "This report is about airport charges," says ACI, which represents 717 members, operating 1,950 airports in 185 countries.

Titled 'The State of Play – Competition, Regulation and Airport Charges', the 118-page document uses the mega-shock of Covid as a springboard into a deeper discussion it has long pursued about airport fees, pricing regulation and infrastructure financing, as aviation continues to evolve well beyond the staid business models of airlines and airports dating back to the pre-jet era, when global policies on airport charging were established.

The ACI document is likely to provoke red-hot debate between airports, airlines and regulators, with IATA already voicing serious concerns about actual or potential increases in airport charges at a time when many carriers are still on their bellies, and some might never get airborne again. Outrage has been well deployed.

But airports want the debate. They say the time has finally arrived for reform of the rules that govern what they can charge, and how they can fund what is expected of them. ACI argues that current charging and cost recovery structures for airports, based as they are on guidelines drafted in the 1940s by ICAO, are seriously outdated. It says they should move towards market-based arrangements, which better suit the dynamics of air transport today.

"For decades," says the report, "government policy toward airport charges has been based on ICAO's cost-based charges policies, developed in the 1940s and 1950s, and formally stated almost 50 years ago. Airports today operate in a very different environment than was the case then."

ACI says that close inspection of airport charges will show that only a small percentage are reflected in air fares, and that far from misusing their monopoly positions to gouge airlines, as is both feared and alleged, airports actually face countervailing pressure from airlines, which have the ability to swiftly move their assets to where they'll make most money. Indeed, many are not afraid to do just that – particularly the new genre of low-cost carriers, which not only shift capacity regularly and at scale to exploit seasonal peaks, but also to exploit destination-related perks.

Beyond the Covid crisis, says ACI, air traffic will rebound quickly, and by 2040 passenger journeys will number double

ACI's report tackles the question of airport charges reform head on, saying it is long overdue (photo courtesy of London Heathrow Airport).

those recorded in 2019, immediately before the pandemic. The council highlights the impact of Covid-caused losses on the access which airports have to funds for infrastructure maintenance, upgrades, and construction to accommodate the projected regrowth and expansion of air travel as populations continue to increase, middle classes grow in emerging economies, low-cost carriers continue to drive demand for flying and, in the short term, travellers continue to regain the confidence to get back into planes.

ACI warns that without sufficient access to capital for infrastructure development, airports will not be able to handle the significant traffic growth predicted by 2040, citing estimates of up to 5.1 billion "potentially foregone passengers" due to "unmitigated capacity constraints" and highlighting the economic consequences of that reduction in travellers.

It says survey responses from regulated airports indicated that the majority "are not allowed to recover losses incurred during Covid-19, when traffic returns to higher levels", and quantifies traffic declines, region by region.

"The impact on passenger traffic at airports has been severe and unprecedented across all parts of the globe," says the report. "Passenger traffic declined 51% in 2021 relative to 2019 (a loss of 4.7 billion passengers), with the worst-impacted regions being Middle East (62%), Asia-Pacific (59%) and Europe (56%). North America experienced the smallest decline (34%) largely due to recovery in the US domestic market."

Overall, international passenger traffic fell 72%, almost double the 37% drop in global domestic traffic; again, the latter was largely supported by the significant rebound in US internal flying.

"The outlook for 2022 is for some improvement," continues ACI, "with global passenger traffic expected to be reduced by 28% compared to 2019, with the weakest recoveries expected in Asia-Pacific (down 42%), the Middle East (down 33% of 2019), Europe (down 28%) and Africa (down 25%). North American traffic is expected to recover the most (down 9%) due to recovery in the US domestic market."

But while passenger traffic is forecast to increase, airport earnings are not, at least in the short term, for just as airlines have

ACI argues that airports will need access to significant capital to build new infrastructure to handle traffic growth (photo courtesy of Munich International Airport).

discounted their fares to attract passengers back, ACI says most airports have also discounted their charges to attract airlines back.

"Two-thirds of airports (68%) have implemented some form of discount or incentive to their airport charges specifically to address the Covid-19 impacts and recovery," says the report. With the exception of North America, most airports in each region have introduced targeted programmes, with 53% freezing charges in the short term; 25% implementing blanket reductions of their fees; and 14%, mainly in Asia-Pacific and the Middle East, introducing long-term fee freezes until traffic volumes get back to pre-Covid levels.

The ACI research highlights three key concerns among airports as a result of the pandemic – their inability to adjust prices "rapidly and in a flexible manner"; inability to progress necessary future investments due to inadequate revenues; and inability to attract new financing, either through debt or equity.

"Since 2009, across the sample of airports, average capital expenditure at airports has increased as airports transform to become more passenger-centric, adjust to new aircraft and business models, and expand capacity to meet demand. This future CAPEX is generally related to alleviating congestion issues, adjusting to more environmentally conscious operations, and now adapting to future health measures."

The report says consumer expectations of air travel have continued to evolve, not just in the air but also on the ground. "Consumer preferences have increased for easier movement through airport processes, the range and choices of airport amenities (including food, retail, personal/professional service), digital connectivity (e.g., WiFi services, mobile phone-based check in, border/security/health processes) and new ground transportation options. This, in turn, requires more ambitious development efforts to increase efficient infrastructure that is fit for purpose and offers consumers both value for money and a pleasurable travel experience."

ACI forecasts that global capital expenditure by airports between 2021 and 2040 will reach US$2.4 trillion. This will comprise 70% in expansion or upgrading of existing airport facilities and 30% in new airport projects, including costs associated with achieving carbon neutrality – which, based on historic costs, the council estimates will account for 12% of the total.

More than half of the overall projected expenditure (54%) is attributed to airports in the Asia-Pacific region, totalling $1.3 trillion, $578 billion of which will be needed for new projects. It is also forecast that APAC will generate 8.9 billion passenger journeys by 2040.

European airports are expected to spend $427 billion (18% of the global total) on capital projects by 2040, including $77 billion on greenfield projects, to support 4.4 billion passenger journeys; next come US gateways ($400 billion, 17% of the total, $134 million on greenfield projects, 3.1 billion passenger journeys); then the Middle East ($151 billion, 6%, $54 billion greenfield, 1.2 billion journeys); Latin America ($94 billion, 4%, $41 billion greenfield, 1.6 billion journeys); and finally Africa ($32 billion, 1%, $13 billion greenfield, 457 million journeys).

"Attracting US$2.4 trillion in investment will be challenging, especially as the investment needs to be 'lumpy' – large amounts required at a time – and will deliver returns over a long period of time," says the ACI report. "Airports need to be able to set airport charges with a commercial focus, ensuring that they have market-based mechanisms that allow the airport operators to ensure that efficient and needed investments are made. Without this, it will be near-impossible to attract the necessary investment, or the returns will be too prohibitive. It is essential that the return on invested capital in the airport business is commensurate with the cost of its debt and equity instruments, which the evidence clearly indicates have increased post-Covid-19."

The report also warns: "The impact of the Covid-19 pandemic on airport traffic has caused investors to re-evaluate the risk assessment of airports. There remains considerable uncertainty around the short-term and long-term impacts of the pandemic on airport businesses."

Pre-pandemic, airport congestion was already critical, with slot constraints imposed at 353 major airports in summer 2021 (compared to 215 in 2003).

"When the aviation industry recovers from the Covid-19 pandemic, it will return to capacity constraints and bottlenecks at many airports," says the report. "There are serious economic and social implications of capacity shortfalls and associated congestion.

"Based on the relationship between passenger traffic and socio-economic outcomes, for every 1 million foregone passengers due to capacity constraints in 2040, the global air transport industry would support 120,500 fewer jobs and US$346 million less in GDP.

"Estimates of potentially foregone passengers due to unmitigated capacity constraints through airport capital investment suggest that up to 5.1 billion passengers may not be realised by 2040."

The report argues: "The traditional view that airports are natural monopolies that will inevitably exercise market power no longer holds. Most airports compete in multiple dimensions. Such competition can and does constrain the pricing conduct of airports.

"The cost-based approach considers only one side of the market. It ignores the demand side and the need for airport pricing policies to provide the right incentives and signals regarding capacity utilisation, community responsibility regarding noise and environmental impact, traffic growth to support aviation dependent economic sectors and social connectivity, and non-aeronautical revenue development."

ACI concludes: "Exceptional cases aside, commercial agreements between airports and airlines are the best way forward." ■

Routes rocks in Bergen

While Europe's air transport industry prepares for a bumper summer, the risks to a smooth season are multiplying as delegates at Routes Europe in Norway heard. *Mark Pilling* reports from Bergen

The timing of Routes Europe 2022 could not have been better. Most delegates arrived in Bergen, Norway's second-largest city, on 17 May and were met with celebrations marking Norwegian Constitution Day.

The pent-up joy of locals marking the signing of their country's constitution on that day in 1814 was there for all to see. "Two to three years of energy was being released in the streets of Bergen yesterday," joked Abraham Foss, the head of Avinor, Norway's airport and air traffic management provider and event host.

The joyful mood extended to Routes delegates, who flocked to the first post-Covid regional Routes event on the continent. (Visitors from Asia were notably scarce, given the Covid restrictions still in place in that region.)

The network development priorities were obvious as all players seek to restore revenues. For airports, the priority is to re-build destinations and traffic to 2019 levels. For airlines, the urgency is to re-establish and adjust networks to take advantage of a booming summer market.

While the meeting halls hummed to the familiar chatter of pitches and negotiations, the theme from the conference floor reflected the relief that traffic is returning – tempered by several headwinds that are making the recovery a bumpy one. SAS chief executive Anko Van der Werff described managing the ramp-up in operations as a "tremendous challenge".

"You don't underestimate it. Every time you think you're there, something happens," he told delegates. Although SAS had a strong spring and capacity this summer will reach 80% of its 2019 schedule, the stresses in the airline's system mean it has trimmed back its planned capacity growth for the summer. "I would rather take the decision to reduce capacity now so we can fly what we have planned," said Van der Werff. "It is an ecosystem challenge we have to face."

Recovery by 2024

Morgan Foulkes, deputy director general at ACI Europe, put the traffic recovery into perspective. While 2021 did see a rebound compared to the depths of 2020, Europe's airports only returned to 58% of 2019 levels, equivalent to a loss of 3.1 billion passengers across the network.

Still, although the Omicron variant of Covid dulled the recovery in January and February of this year, the nearly blanket lifting of travel restrictions in Europe means a "bullish summer ahead" with many markets offering capacity almost back to 2019 levels, said Foulkes. Intra-European Union travel and visiting friends and relations (VFR) travel is returning fastest and in airline terms it is "Ryanair and Wizz primarily driving the recovery".

Russia's invasion of Ukraine in March meant Europe "entered uncharted territory" in several dimensions, not least with the spike in fuel costs that followed and will make airlines more risk adverse, said Foulkes.

Right: Widerøe and Eve are investigating electric aircraft operational concepts for Norway (photo: Eve Urban Air Mobility Solutions).

Below: Norwegian electronic pop band Datarock performed a rousing set at the gala event (all photos: Routes).

Sustainable aviation at Routes

"To get fossil-free, fast," is the strategic imperative of Norwegian regional carrier Widerøe according to Stein Nilsen, its chief executive, speaking during the Routes Europe conference. His airline is spearheading efforts to bring zero-emission aircraft into service as soon as possible in Norway.

Widerøe looks at industry decarbonisation targets, the imposition of environment charges, public sentiment, and the harsh reality that when it comes to small regional aircraft "it makes no economic sense to invest in traditional kerosene powered aircraft," said Stein.

Sustainability was a constant theme during the Routes conference sessions, evidenced by Avinor's Pipistrel Alpha Electro electric aircraft on display in the reception area. There were visions of the future of sustainable aviation from Rolls-Royce Electrical and Embraer's Eve Urban Air Mobility Solutions, and both are working with Widerøe on electric aircraft concepts.

Interestingly, these players see new business opportunities with small electric aircraft in addition to a straight replacement of current types that burn kerosene. Eve is working with Widerøe on a new concept of operations in Norway where passengers will fly in an eVTOL (electric vertical take-off and landing) aircraft to connect sparsely populated regions and challenging geography.

Juliana Kiraly, head of business development head Europe for Eve, said the opportunities for eVTOLs include air taxi transport in congested city centres, tourism, airport shuttles, and medical services. Eve is working with a range of partners to establish operational concepts in all these areas, she said.

It may take some years before electric aircraft and eVTOLs feature in the route plans of the delegates at these events, but in Bergen a taste of the future was brought to the show for the first time.

Despite the headwinds, ACI Europe's traffic forecast for European airports predicts full recovery to 2019 levels in 2024. The forecast for this year anticipates traffic at 31% below 2019 levels, though.

There is a "systematic financial weakness" across Europe's airports, with a handful of regional ones having gone bust during Covid, and debt having risen by 200% in just three years, explained Foulkes. Such financial pressure will impact the ability of airports to invest in coming years. He also highlighted the increasing dominance of airlines, especially low-cost carriers, which puts more cost pressure on airports as they compete to secure service.

At Airlines For Europe (A4E), the European airline lobby group, a top priority is warding off or influencing European Union regulations, charges and taxes that it believes are unfair for its members, especially in the field of sustainability.

There is a package of measures being discussed around the EU's 'Fit for 55' target of reducing greenhouse gas emissions by at least 55% by 2030. Thomas Reynaert, A4E's managing director, said that while airlines are on board with the mission to reduce emissions, as it stands Fit for 55 "will have a huge impact" on airlines in cost terms, in addition to the burdens of high inflation and high fuel prices.

"The question for politicians is do they want less connectivity, less competition, and higher prices [when it comes to air travel]," said Reynaert.

Charges chatter

The familiar chatter around airport charges has resumed in the past few months. "It is almost natural after a crisis that the system will try to recoup losses... but [airports] need to be smart and careful when raising charges, and consultation is not always happening [between airlines and airports]," stated Reynaert. "This is not the time to raise airport charges by 10-20-30%."

ACI Europe refutes the charge on consultation, and Foulkes pointed out that the "vast majority [of European airports] are offering rebates on their charges to attract carriers. In normal times more than 85% offer formal incentive and rebate schemes, and during Covid (as of September 2021), around two-thirds of all airports offered new incentives or 're-start' support that lowered effective charges and offered free or rebated long-term parking fees. With the start of the IATA summer season, many airports have updated and revised incentive schemes.

"The reality is airlines come and go faster than before. They are more agile and are very good at repositioning assets quickly" to target the most profitable routes, said Foulkes.

This feature of the recovery is common. Another is that traffic patterns have changed in the post-Covid market. Whereas pre-Covid there were five daily peaks in Europe, there are now three daily peaks, and those peaks are higher than in 2019, said Foulkes. "With more people in the peaks it makes it even more difficult to handle this concentration of volume," he said. This exacerbates the issues the service providers are having in coping with the ramp-up.

Restoring an airport's long-haul network is a top priority in addition to restoring overall traffic levels. "A lot of airports market themselves to attract foreign long-haul carriers, which are important for their connectivity," said Foulkes. A service from the likes of Emirates or Qatar Airways does wonders for an airport.

For now, growth opportunities from Asian players are limited so the advance of US players like United, Delta and American into Europe is very welcome.

Scandinavia's play-makers

Scandinavia's flag carrier SAS has suffered from reduced access to Asia. It did have five widebodies dedicated to this market and is looking for other destinations to deploy this capacity, said Van der Werff. "We've got too many widebodies – the

Above: Widerøe chief executive Stein Nilsen wants to bring electric aircraft into its fleet as soon as possible.
Right: ACI Europe's Morgan Foulkes noted that Ryanair and Wizz Air are predominantly driving the traffic recovery in Europe.

world is stuck with finding solutions for them." SAS is looking at routes to the US, Latin America and East Asia.

A more useful tool for SAS is its three-strong fleet of Airbus A321LRs, which can tackle thin routes such as Stockholm and Copenhagen to Toronto, said Van der Werff. "I'd like to have more A321LRs over the years," he added.

Norwegian chief executive Geir Karlsen was in Bergen presenting an airline that is in reset mode, with a strong balance sheet and committed shareholders. Its restructuring in 2019 involved taking out 80 routes and exiting the long-haul market.

The carrier has refocused on a fleet of some 70 narrowbodies for this summer and a "network we know... and one that has been profitable over the years", said Karlsen. Another 15 Boeing 737 Max aircraft will arrive by Spring 2023, and Norwegian announced an order with Boeing after Routes Europe for a further 50 737 Max 8s for delivery between 2025 and 2028.

Asked about over-expanding, which was a criticism of the carrier a few years ago, Karlsen said: "This time we have the luxury of growing with demand... We will do it the proper way this time." Long-haul routes are "not on the agenda", he added.

At Widerøe the growth strategy is that of a "core regional carrier" operating a network with aircraft of 78 to 110 seats on suitable short-haul routes and a publicly subsidised network with De Havilland Dash 8s to smaller communities up and down the length of Norway, explained chief executive Stein Nilsen.

The airline is adding two Dash 8-400s this year with one or two of the type being added a year after that in a cautious expansion strategy that follows market demand, he said.

A more ambitious target at Widerøe is the hope that by 2030, and even as early as 2026/27, the airline will be able to take the first deliveries of zero-emission aircraft from 10 seats up to 70 seats in size.

With some restructuring done and some still to do, Scandinavia's airline fraternity is in reasonable shape to take advantage of the traffic bonanza this summer. The talk at Routes was of extracting maximum advantage from leisure travel over this period – and deal with the worries about an uncertain winter season later.

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United flies to the fjords

It is said that timing is everything. In that case, Norwegian airport operator Avinor, the host of Routes Europe, got it just right with the launch of its first transatlantic service by a US-based carrier literally two days after the event ended.

The US carrier in question is United Airlines. On 22 May the carrier began a three times weekly service with a 169-seat Boeing 757-200 between New York Newark and Bergen for the summer.

Avinor had been talking with United prior to the pandemic about a service to Bergen, said Ulv Elbirk, director traffic development, Asia & Americas at Avinor. The route has never been served by a US carrier, although Norwegian did operate a service from Bergen to Stewart International Airport to the north of the New York metropolis in the mid-2010s.

The attraction for Americans coming to Norway is to use Bergen as a gateway to the beautiful fjords. "In this region the biggest inbound market is American [tourists]. This is a destination with nature and space. It brings something new into their [United's] system," said Elbirk. "Visitors typically do several destinations in Norway and always end up in Bergen to visit this UNESCO listed city and the fjords."

"It is a big scoop for Bergen. It's been on a wish list for a very long time and it's gratifying to see it happen," said Elbirk.

For Elbirk, the focus is on transatlantic service for Avinor and Norway as the Asian market is subdued. Avinor is supporting the launch of start-up Norwegian long-haul player Norse Atlantic with its services from Oslo to New York, Fort Lauderdale, Orlando and Los Angeles to be served with 787-9s.

United Airlines has began operating to Bergen this summer (photo: Avinor).

During the pandemic, the domestic market, which is so important in keeping this large country connected, stayed strong. This summer the traffic outlook is very strong, said Elbirk.

Loganair's return to Norway

Scottish regional carrier Loganair is pleased to be resuming its Norwegian routes bringing a welcome return to a market that has benefitted from historic World War II links between the two countries, in addition to a common focus on oil and gas markets.

There is a new service from Newcastle to Bergen, a resumption of Newcastle to Stavanger and the restart of flights to both Norwegian cities from Edinburgh, said Jonathan Hinkles, chief executive of Loganair told ARGS.

Activity levels are increasing as the industry comes out of the pandemic with growth opportunities for Loganair coming from a combination of routes left unserved after the failure of Flybe and bmi Regional, a return to charter operations and increased cargo flying, he said.

The airline has taken delivery of two ATR72-600 freighters with a fleet of five planned by year-end, said Hinkles. Its ageing Saab 340 freighters will be retired in the coming 12-18 months. The airline will grow to a fleet of 43 aircraft this summer, a significant growth from its pre-Covid level of 22 units.

Although there are business opportunities coming out of the pandemic, it has been a turbulent six months, said Hinkles. "We are still having to move fast and adapt capacity to meet demand. Network planning really has become an art form," he said. There are substantial extra costs to be considered too, he said, with European Trading Scheme (ETS) costs and spiking fuel prices to be dealt with and taken into account when evaluating the profitability of individual routes.

Icelandair serves North Carolina

After a gestation period of five years, Icelandair has finally launched service to Raleigh-Durham International Airport, adding a new US city to its lengthy roster of 14 transatlantic destinations served from Keflavik.

Icelandair has started up new service to Raleigh-Durham International Airport, said the carrier's head of planning Asdis Sveinsdottir (photo: Mark Pilling).

The seasonal flight, which started in mid-May, is remarkable because it marks the return of European service for this North Carolina hub. Connections to London and Paris were suspended soon after the pandemic emerged in early 2020.

"It has been on our list for quite some time. We first went for a visit in 2018," Asdis Sveinsdottir, director network planning & scheduling at Icelandair told ARGS. The airline is attracted by a region that has seen an influx of people during the pandemic, it has a range of good universities, a strong technology business base and a booming city, which are among the market characteristics that Icelandair looks for.

The carrier hopes the four times weekly Boeing 737 Max 8 service will lure travellers keen to sample Icelandair's competitively priced stopover product, said Sveinsdottir. The 737 Max 8 has been a good tool for the airline's North Atlantic operation, with its low fuel consumption making for an economic product. "It has far exceeded our expectations," she added.

The carrier now has 12 Max 8 and 9s, with another two coming later this year. It also has three 767s and 12 757s. It will operate 83% of its pre-Covid capacity this year. Apart from Raleigh-Durham, other new routes have seen Icelandair start up Rome and Nice, while service to Montreal has resumed too.

Sveinsdottir and the Icelandair team are planning the 2023 network, which will focus on the current destinations plus a few additions depending on how much capacity is added.

Athens summer re-boot

With a rueful smile, borne of joy and a little exhaustion, the Athens International Airport (AIA) marketing team have been running hard to keep up with the resumption of service in recent months. "We have been having almost an event a day, sometimes, two. There has been press events, trade events, and inaugurals," said Ioanna Papadopoulou, director communications & marketing at AIA.

But nobody is complaining. Athens is going full tilt to help publicise the re-start of operations by airlines as it looks forward to a bumper summer. In terms of flights, the airport is expecting a 2022 schedule some 95% of 2019's level, said Papadopoulou. Its major markets, such as the USA, UK, Germany, and France, are in fact exceeding 2019 levels.

The US market has roared back because the Greek government declared early on that it was going to be easy to travel to the country with no travel restrictions. "This gave US carriers the confidence to come to Greece," said Papadopoulou. "Our US flights have very high load factors. It is going to be the success story of this summer."

There are also new US destinations for Athens coming on stream. In late May, Delta Air Lines launched the first link between the Greek capital and Boston with a three times weekly Airbus A330-300 service.

The airport introduced an incentive scheme in summer 2021 to support the re-start of service with discounts offered on parking charges and landing fees. This is extended to this summer. "We enriched our incentive programme to help with the resumption of service. The focus is on the growth of existing routes as well as the development of new ones. We understood we needed something different, and it has worked," said Papadopoulou.

The help extends to marketing support which is where Papadopoulou's team comes in.

Cyprus fills the gap

Armed with a revamped airline incentive scheme, a pool of online marketing campaigns to show off its beautiful island attributes, and with a coalition of players including Hermes Airports working in tandem, the Cypriot tourism sector is determined that this summer will be a successful one for the Mediterranean destination.

Its work has been made harder however by the loss of significant Russian traffic following that country's invasion of Ukraine. The UK and Russia have been the two largest inbound markets for Cyprus making up for almost half of traffic to Hermes airports pre-pandemic, Maria Kouroupi, senior manager, aviation development, marketing & communications at Hermes Airports, told ARGS.

The plan for this summer was already pretty much set when the invasion occurred, which has caused 13 Russian carriers to exit the market. Hermes airports together with the Cypriot ministry of tourism reacted quickly bringing together hoteliers and other travel players with a "co-ordinated action plan with everybody contributing" to promote the island and boost demand to help fill the shortfall, she said.

Maria Kouroupi, senior manager, aviation development, marketing & communications at Hermes Airports (photo: Mark Pilling).

"Having such co-ordinated planning was extremely important during Covid and it has been critical during this period too," said Kouroupi. The airports group has been able to attract carriers that had aircraft availability and were seeking to add capacity to a leisure destination that can stimulate demand on a year round basis and has had considerable success.

There will be 50 carriers operating 140 routes from 95 destinations in 38 countries serving Cyprus this summer. Hermes operates Larnaka and Pafos, the two airports on the island. The new destinations added this summer are Pisa, Salzburg, Bern, Nuremberg, and Paris Charles de Gaulle.

Since Hermes began offering incentives to airlines in 2010 the airports saw traffic growth of over 65% up to 2019. "Our schemes have borne fruit and made a difference in the start-up phase," said Kouroupi.

However, in response to a changing market Hermes is planning to re-adjust its strategy and "with a focus on market penetration and year round flying both on new and existing routes," she said.

When ARGS spoke to Kouroupi at Routes Europe in mid-May Hermes estimated that traffic will reach 75% of 2019 levels this summer.

Lodz: Poland's best-kept secret

A draw to win a weekend trip to the city, being announced as the host venue for Routes Europe 2023, and giveaway socks in the colours of Ukraine's flag, Lodz Airport is going all out to get noticed.

Located 90-120 minutes' drive to the south-west of capital Warsaw, Lodz (pronounced "woodz") is underserved for a city with a population of 600,000. It is the third-largest city in Poland after Warsaw and Krakow and yet today only counts Ryanair (serving London Stansted and Dublin) as a scheduled airline customer, in addition to a handful of outbound charter services to Bulgaria, Greece and Turkey.

It is airport president Anna Midera's job to grow Lodz. "We are Europe's last undiscovered city," she said. It has a rich history dating back to the 15th Century with a once-thriving textile industry, which is still active today.

"We are becoming a host [for Routes Europe] because we want people to see the real picture of Lodz. Airlines will see there is real potential here, a good market opportunity," said Midera.

The airport has been on an airline recruitment drive since 2017 and had attracted SkyUp Airlines of Ukraine and Greek carrier Lumiwings with Italian routes, but these have gone for now. "Our aims are London Luton, Paris, Amsterdam, Eindhoven and Stockholm," said Midera. ■