Alex McWhirter examines topical business travel issues

A COMBINATION OF THE GLOBAL economic situation and the high cost of fuel is catching up with the world's airlines. Here in Europe, both Hungary's Malev and Spanish carrier Spanair recently failed. In the US, American Airlines trades under Chapter 11 bankruptcy, while over in India we find Kingfisher a shadow of its former self.

The financial situation with Kingfisher and fellow Indian carriers Spicejet and Indigo is so parlous that the government is allowing them to import fuel from overseas (aviation fuel sold in India is heavily taxed). Speaking to Bloomberg in March, Emirates president Tim Clark said: "We can reel off a whole load of airlines that are teetering on the brink or are gone. Roll this forward to Christmas and we're going to see this industry in serious trouble."

Emirates says its fuel bill accounts for 45 per cent of its costs and, notes Clark, it may jump by an "incredibly challenging" US$1.7 billion in the year ending March 31, 2013. He adds: "It's about time somebody sitting there began to look a little bit more seriously at the devastation it's causing, not just to airlines but to the global economy."

After Clark's interview, Emirates announced a 72 per cent fall in profits, while IAG (International Airlines Group) reported a worse-than-expected first quarter loss of €249 million. Both companies blamed fuel prices.

High oil costs are affecting passengers not just in terms of higher ticket prices but also in the loss of time-saving – yet thirsty – nonstop flights. The longer the journey, the more fuel must be carried, which in turn increases weight and results in higher fuel consumption.

The past couple of months have seen Thai ditch its nonstop Bangkok-Los Angeles service (see In Focus, businesstraveller.com/archive/2012/april-2012), while China Airlines has axed London-Taipei. Air Berlin no longer flies from the German capital to Bangkok nonstop, and Malaysian budget carrier Air Asia X has pulled out of Europe and New Zealand.

Now comes news that Cathay Pacific will cut the number of long-range flights it operates out of Hong Kong to LA, New York and Toronto this autumn. At the same time, Singapore Airlines (SIA) will axe services from the city-state to Abu Dhabi and Athens.

The economic situation in Greece risks isolating the country as more long-haul carriers withdraw from Athens. US carrier Delta Air Lines has followed SIA in axing services this autumn, while Air Canada has reduced its link from Montreal. Others are sure to follow unless the Greek economy revives.

High fuel costs affect the budget carriers' long-haul business model because fuel accounts for a larger proportion of their operating costs. Indeed, the cost of fuel prompted Air Asia X to revise its network. Quoted in Malaysia's *New Straits Times*, its chairwoman, Tan Sri Rafidah Aziz, claims that because of rising costs and, in particular, fuel prices, the most effective routes for Air Asia X were now flights of seven or eight hours rather than 11-hour stages to Christchurch or 13-hour trips to London and Paris.

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In Europe, fierce competition from the Gulf carriers means that some airlines will review the viability of what are primarily leisure routes to South East Asia. A few years ago, it would have been unthinkable for any European airline to ignore Bangkok, but the Gulf carriers continue to take market share and this has prompted Air France to retreat. On March 25, the carrier more than halved the number of flights it operated to the Thai capital. It also cut the number of business class seats it placed on the market from 35 a day to 42 a week.

Now, according to a staff letter from Lufthansa board member Carsten Spohr, that airline is also questioning the viability of serving Bangkok. Air Berlin has already ceased serving it nonstop. In a case of "If you can't beat them, join them", it simply takes Bangkok passengers to Abu Dhabi, where they are transferred to local carrier Etihad.

For its part, Etihad claims that Abu Dhabi-Bangkok is its busiest route. It carried 500,000 passengers last year, achieving these numbers with two daily flights. Imagine, then, how many passengers Qatar, with its three daily flights, or Emirates, with four – one of which is operated by an A380 – must be transporting from their respective hubs.

'It's about time someone looked seriously at the devastation the cost of fuel is causing'

The Gulf airlines can do well in times like these because, notes aviation consultant John Strickland, "they take full advantage of their geographical location". He says: "When a Gulf carrier flies between Europe and South East Asia it is operating two profitable long-haul sectors, while Air France and Lufthansa must operate dozens of unprofitable short services to fill their flights out of Paris and Frankfurt. It means they must work twice as hard."

Nobody can predict the future price of oil, but if it stays at its current level or increases, we can expect to see further adjustments. Chances are that economy layouts will become denser to optimise revenue – in last month's In Focus (businesstraveller.com/archive/2012/may-2012), I talked about how airlines were moving to a nine-across seat configuration on their B787 Dreamliners.

As Strickland notes: "Carriers that will do better are those operating the most fuel-efficient aircraft, which will mitigate the effect of high oil prices. Fortunately, the new generation of planes, such as the A380, the B787 and the forthcoming A350 [designed to compete with the B787], are focused on fuel economy." ■