

COMING TO AMERICA  
– INDIAN AND GULF  
CARRIERS TARGET  
THE US



PREPARED BY

CENTRE FOR ASIA PACIFIC AVIATION

AUGUST 2007

## PERSPECTIVE

# COMING TO AMERICA – INDIAN & GULF CARRIERS TARGET THE US

**India's emerging "big three" carriers – Air India, Jet Airways and Kingfisher – are turning their attention to North America. US-bound traffic from the subcontinent is also fuelling the ultra-long-haul expansion efforts of the fast-growing Gulf region carriers, as we review in this Perspective.**

**North America is a market that offers strong potential, particularly as India's economic boom fuels more bi-directional travel. The US is an increasingly important market for Air India, as the Indian Government liberalises international aviation access in other key shorter haul markets, including the expected granting of rights from 2008 for new Indian carriers to operate to the heavily travelled routes to the Gulf.**

### **Open skies agreement in Apr-05 shakes off the cobwebs**

The flurry of India-US activity originates in the Apr-05 signing of a bilateral open skies agreement, which replaced the previous, highly restrictive, agreement, which had been ratified in 1954. With the new agreement, India became the 67th bilateral US open skies partner.

Under the old agreement, India did not allow US-based carriers to increase services to the country unless the then-cash-strapped flag carrier, Air India, was able to match the increase. But the Indian Government has since dropped that provision from its bilateral policy. Concurrently, it endowed Air India with the means (in the form of a new fleet of widebody aircraft) to truly compete on the international stage.

In Jan-05, the Indian Government also scrapped its policy of not allowing local private airlines to operate internationally as a way to diversify away from the rampant competition that engulfed the Indian domestic market. The move catalysed Jet Airways' rapid overseas services expansion, first to Europe and now, via Brussels, to North America.

India has traditionally been a difficult market for North American carriers, with both United Airlines and Air Canada finding their previous attempts to serve the market unprofitable. However, recent efforts have been more successful, driven in large part by the surging Indian economy. This has led to greatly renewed interest by US carriers, with several announcing imminent new service additions.

**US airline service to India**

Carrier	Origin	Destination	Frequency	Seats
American	Chicago	Delhi	7	1,652
Continental	New York	Delhi	7	1,981
Delta	New York	Mumbai	7	1,876
Northwest	Amsterdam	Mumbai	7	1,701

Source: Centre for Asia Pacific Aviation & OAG (week 06-Aug-07)

**Non-stop services launched to the US**

Following suit, Air India, in a long-awaited move launched daily non-stop service to the US on 01-Aug-07, deploying its new B777-200LR equipment on the Mumbai-New York route. The launch represents the first move in a major US expansion plan by the Indian flag carrier. When up and running, it will offer more non-stop services, as well as the creation of a European “hub” to feed more routes to North America from Chennai, Bangalore and Hyderabad. As well as Mumbai and Delhi.

The Indian flag carrier, which recently merged with domestic state-owned airline Indian, plans to eventually operate 40 non-stop services per week to Chicago and Newark (from various points in India), as well as daily services to Boston and Dallas/Fort Worth. The carrier has also expressed interest in launching Delhi-Washington DC service, although service to the capital may not be non-stop.

To implement this ambitious programme, Air India has orders for 68 Boeing aircraft (including 27 B787 Dreamliners, for delivery from Sep-08). Two B777-200LRs were delivered in Jul-07 for the US non-stop launch, while its three B777-300ERs will arrive in Aug-07, Sep-07 and Oct-07.

Air India also took redelivery of its first of six refurbished B747-400s on 15-Jun-07, as part of a USD74-million upgrade programme. The aircraft will operate to US

destinations New York JFK, Newark and Chicago.

But the new aircraft may not be enough. Chairman and Managing Director, V Thulasidas, recently stated that Air India may need to order an additional 60 widebody aircraft and that it is considering A380 equipment.

**Air India fleet (excluding Air India Express)**

Aircraft	Current fleet	Leased
A310-300	8	-
A310-300	11	-
A310-300	-	1
B747-300	2	-
B747-400B	6	-
B747-400	6	-
B777-200ER	3	-
B777-200A	1	-
B767-300ER	-	1
B767-300	-	1
B757-200ER	-	1
<b>Total</b>	<b>37</b>	<b>4</b>

Source: Centre for Asia Pacific Aviation and Directorate General of Civil Aviation (10-May-07)

In the past, Air India consolidated traffic in Mumbai and Delhi before flying via London, Paris and Frankfurt to the US. The new strategy will see the carrier operate directly from various points across India to a new European hub for connecting services to an array of US destinations. Codeshare partnerships in the US to connect even more points are planned, particularly if Air India is successful in joining the Star Alliance.

The carrier recently allowed that it is looking at Munich, Frankfurt and two other unnamed airports as possibilities for its European hub, while the Indian Government is encouraging Air India to consider Vienna as a potential hub.

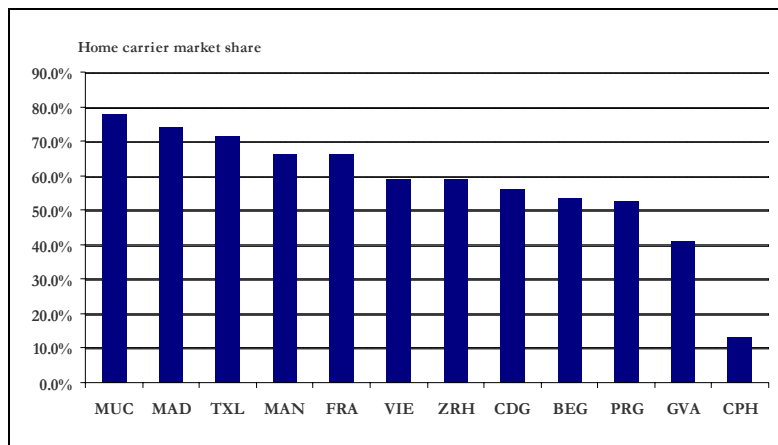
Air India confirmed on 16-Jun-07 that it is considering various forms of cooperation with Serbian national carrier, JAT, including a possible equity investment. (20 JAT pilots recently joined Air India's low cost subsidiary, Air India Express, on secondment, with an additional ten expected to join shortly, furthering the cooperation between the carriers.)

Air India is considering possibly using the partnership to support the hubbing of services to the US via Belgrade. While a unconventional choice, Belgrade offers some

advantages relative to other European gateways, including a relatively low home carrier share of total traffic. Other European airports in this category include Copenhagen, Geneva and Prague, while Munich, Madrid, Manchester and Frankfurt are “fortress hubs” with the home carrier dominating the market.

However, there are down sides as well. Air India would face competition from Aeroflot and private equity firms in securing a stake in the privatised JAT. Belgrade also is handicapped by its small local market and even smaller ethnic Indian populace. Both factors would represent an obstacle to achieving good loads on flights to both India and the US.

**Home carrier market share: Selected European airports: Jul-07**



BEG=Belgrade, CDG=Paris Charles De Gaulle, CPH=Copenhagen, FRA=Frankfurt, GVA=Geneva, MAD=Madrid Barajas, MAN=Manchester, MUC=Munich, PRG=Prague, TXL=Berlin Tegel, VIE=Vienna, ZRH=Zurich

Source: Centre for Asia Pacific Aviation & OAG (week 06-Aug-07)

### **Jet Airways also heads to New York (via Brussels)**

Air India's US expansion comes just four days prior to the planned launch of Jet Airways' first US route. Jet plans to launch Mumbai-New York (Newark) via Brussels on 05-Aug-07 using B777-200 equipment. The 238-seat aircraft will have a three-class configuration with eight seats in first class, 35 in business class and 195 in economy.

The carrier additionally confirmed plans to launch services to Toronto on 05-Sep-07, via Brussels and services to New York JFK by the end of 2007. Jet stated that forward bookings on planned services to the US are "in line with expectations".

The carrier additionally plans to launch Chicago via Brussels service from "several" additional cities in India in 2008, as well as a potential one-stop service to Washington DC, subject to government approval.

Air India's European hub strategy partly mirrors Jet Airways' US service plans, which involves the development of a European hub, at Brussels. The Belgian city offers several advantages that the traditional gateways do not. It is less congested than other major European cities, and the city's European Commission headquarters generates some high-yielding traffic to both the US and India. Jet has also signed an MoU with Brussels Airlines which will result in frequent flyer programme tie-up, shared check-in and other airport facilities and, most importantly, codesharing on European feeder services.

Interestingly, Jet also plans eastbound services to the US via China, with Chennai-Los Angeles and Mumbai-San Francisco services via China (possibly Shanghai) expected to commence within 12 months.

Jet's expansion is likely to take a short-term financial toll on the carrier. In its latest quarterly results, Jet stated the next two quarters will "remain challenging, because of a very rapid and huge fleet expansion especially on the international operations".

However, even if the move will play havoc with the carrier's finances in the short-term, not pursuing an aggressive international tack was not viewed as an option, especially in the context of rising competition and falling fares in the domestic market.

Responding to the deteriorating yields generated within India's borders, Jet has steadily built up its overseas services portfolio.

Its USD107.1 million in international sales accounted for close to one-fourth of total operating revenue in 1Q07,

almost double the 13% they comprised in 1Q06. And this figure will only grow with the new services to the US and China, with likely alliance membership a catalyst for even more international revenues. While Air India looks set to join the Star Alliance, oneworld and SkyTeam remain as potential suitors for Jet, which is renowned for its world-class service levels.

### **Kingfisher targets US with non-stops**

Kingfisher Airlines is also in the sights of the global alliances and last month signed a comprehensive partnership agreement with SkyTeam Alliance member, Continental Airlines, covering reciprocal frequent flyer links and airport lounge access, effective 01-Oct-07.

The agreement covers codesharing on US-India routes, “by the end of the year”.

Kingfisher hopes to introduce non-stop service to the US with its own aircraft in 2008, but will require special approvals by the government, as policy currently states that an Indian carrier must have five years domestic operating experience before it will be granted international rights.

For Kingfisher, that would mean May-10. But the Indian Government is reportedly likely to grant international rights to private carriers on a case-by-case basis.

Kingfisher cannot wait until 2010. Chairman, Vijay Mallya, signed an MoU at the Paris Air Show for 50 more Airbus aircraft, including 20 A350XWBs (including the conversion of an order for five original A350s to XWBs), five A340-500s (for a total of ten) and 10 A330-200s.

The carrier aims to launch non-stop frequencies to the US in 2008 with the A340-500 equipment, including Bangalore-San Francisco service – a potentially lucrative route linking Silicon Valley with India’s IT hub.

### **Kingfisher Airlines:**

“Our strategy at Kingfisher is to open new long haul routes and expand existing ones. With the A340-500 and then the A350 XWB we will be able to offer direct routes between India and the US for example. The A330 will allow us to expand services to Europe and the A320s will help us to meet demand in our home region”, Dr Vijay Mallya, Chairman & CEO, 20-Jun-07.

**Kingfisher Airlines fleet: Jul-07**

Aircraft	Current fleet	Orders
ATR 72-500	8	27
A319	3	-
A321	5	-
A320	12	50
A330-200s	-	10
A340-500s	-	10
A350XWBs	-	20
A380	-	5
<b>Total</b>	<b>28</b>	<b>103</b>

Source: Centre for Asia Pacific Aviation and airline reports

**Middle East carriers also throw hats in the ring**

The major Middle East carriers, Emirates, Etihad and Qatar Airways are also boosting their Indian networks to feed their hubs in Dubai, Abu Dhabi and Doha, respectively.

India is viewed as a key source market and Indian operations are being coordinated to connect with services to the US. Emirates announced plans to increase frequencies to Mumbai (including an upgauge in aircraft size to B777), Chennai, Kochi and Hyderabad. These increases, plus the launch of services to Ahmedabad, will bring its Indian portfolio to 91 weekly passenger services to nine destinations.

**Emirates Network Expansion – Summer 2007**

Destination	Weekly Frequency (New/total)	Launch	Aircraft
Kochi	2/9	03-Jul-07	
Chennai	3/11	01-Aug-07	
Kochi	1/10	01-Aug-07	
Mumbai	2/21	28-Oct-07	B777
Chennai	3/14	28-Oct-07	

Hyderabad	3/11	28-Oct-07	
Ahmedabad	6/6	28-Oct-07	A330-200/B777-200
Toronto	3/3	29-Oct-07	B777-300ER
Houston	n/a	Dec-07	

Source: Centre for Asia Pacific Aviation & airline reports

Emirates is taking delivery of 24 new B777-300ERs and B777-200LRs over the next 18 months, starting from Jun-07 and Aug-07, respectively. The long-range aircraft will be used to open up new destinations in the US.

Houston (a 17-hour non-stop journey) will be added to its route map in Dec-07, followed progressively by Los Angeles, San Francisco, Atlanta, Boston, Chicago, Philadelphia, Washington DC and Seattle - all non-stop.

Emirates is meanwhile preparing to order up to 100 aircraft in the 300-seat capacity category, saying it will acquire either B787s or A350s in a "winner takes all" order. The carrier is also considering ordering 20 B747-8s. It would use the aircraft for non-stop services to the US West Coast if Boeing could guarantee improvements in the aircraft's range performance.

Emirates recently ordered eight more A380s from Airbus at the Paris Air Show, taking its total orders to 55, more than double the amount of any other carrier and one-third of total orders for the type. Emirates has three different configurations planned for the A380 tailored to different routes and requirements, including a massive 644 seat high-density layout, destined for the Indian market.

#### **Qatar Airways US expansion given leg-up from United**

Qatar Airways launched its first US route in Jun-06 (Doha-Geneva-New York), with daily non-stop Doha-Washington DC services initiated on 20-Jul-07. The US routes bring Qatar Airways' network to 78 destinations, with its 58 Airbus aircraft serving cities in Europe, the Middle East, Africa, the Subcontinent, Far East and America.

The carrier's US ambitions have been supported by a breakthrough codeshare agreement signed with Star Alliance founding member, United Airlines, covering the following routes:

- Qatar Airways services: From Doha to Colombo, Kuala Lumpur, Male and Peshawar;
- United Airlines services: Over 50 domestic services

from Washington DC, as well as services from London Heathrow, Paris, Frankfurt, Zurich, Rome and Munich to one or all of Los Angeles, San Francisco, Washington DC and Chicago O'Hare.

For United, the new deal provides access to five new countries on Qatar Airways' expanding network (with India expected to be added at a later date).

CEO, Akbar Al Baker, stated that the airline looks forward to growing its international network further in the US, but did not disclose specific route opportunities.

During 2007, Qatar Airways has added Chennai to its burgeoning Indian network and plans to launch Nagpur service with A320 equipment in Sep-07. The carrier currently operates 30 services per week between Qatar and five cities across India – Delhi, Mumbai and Thiruvananthapuram daily, with Hyderabad four times a week and Kochi five times weekly. Capacity swells each winter under the Indian Government's limited open skies policy.

The airline is exploring the other Indian destinations that it anticipates would open up under future bilateral arrangements between Qatar and India. In the meantime, its Indian services are being retimed to connect with the new US operation.

#### **Etihad Airways' Subcontinent network increasing**

Etihad is also expanding its Indian Subcontinent network. By Oct-07, its portfolio will include Kathmandu, Dhaka, Delhi, Kochi, Thiruvananthapuram, Mumbai, Karachi, Islamabad, Peshawar and Lahore.

The Abu Dhabi carrier plans to further increase frequency to Kochi and Thiruvananthapuram to daily from Sep-07 after a strong initial response, with load factors averaging above 90 percent. The carrier also plans to launch services to Bangalore, Chennai and Hyderabad, subject to government approval.

**Etihad Airways Network Expansion – Summer 2007**

Destination	Weekly Frequency (New/total)	Launch	Aircraft
Thiruvananthapuram	3/3	31-May-07	A340-500
Toronto	3/3	01-Jun-07	A340-500
Delhi	4/7	01-Jun-07	
Kochi	4/4	03-Jun-07	A340-500
Kathmandu	4/4	28-Oct-07	A330-200

Source: Centre for Asia Pacific Aviation & airline reports

Etihad currently operates to 44 destinations in the Middle East, Europe, North America (including New York and Toronto), Africa and Asia and aims to operate to 70 cities from Abu Dhabi by 2010, with several cities in the US likely to be included.

The first of four A340-600s (high gross weight model) that are scheduled to join the fleet this year was delivered on 05-Jul-07. CEO, James Hogan, stated that the introduction of the aircraft would make a “significant impact” on revenues for long-haul destinations like New York and Toronto, as it can carry 46 more passengers than the A340-500 currently used on these routes.

Etihad expects to operate 31 widebodies by the end of 2007, with two additional A330-200s joining the fleet by the end of 2007. It ordered four more A340-600s and five A330-200s at the Paris Air Show in Jun-07, as it continues its ambitious growth plans.

However, the carrier has deferred deliveries of its four A380s from 2009 to 2013, by which time it expects “more suitable commercial opportunities” for the aircraft to have emerged – most likely India. The new aircraft come on top of the carrier’s 2004 order for 24 Airbus widebodies – four A340-500s, four A340-600s, 12 A330-200s and the A380s.

The new aircraft are scheduled for delivery between 2008 and 2011, alongside the eleven remaining deliveries from the previous order.

### **Conclusion – Many passages to India**

Capacity in the US-India market is set to soar in coming years, fulfilling one of the core aims of the 2005 open skies agreement. That agreement has provided Indian carriers a key focus market to develop new revenue streams, as they respond to rising competition both at home and in other international markets.

The big Gulf region carriers are also capitalising on the India-US market potential, bolstering their networks to the Subcontinent while at the same time launching new connecting non-stop services to the US with new ultra-long-haul equipment.

Some Indian carriers are following the ultra-long-haul model, while others are using connecting complexes in Europe (with others planned for Asia) to funnel US-bound passengers from several different Indian cities.

It all adds up to some exciting times for the market, as the potential passages to India from the US multiply in the months ahead.