

**BTNonline**

## **Gulf Carriers Push For Long-Haul Corporate Business**

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By Amon Cohen

Amid an escalating war of words with their more established rivals, fast-growing Gulf carriers Emirates, Qatar Airways and Etihad are starting to pick up corporate business. Their burgeoning success stems from the intensifying strength of their international networks, growing demand to non-Western destinations, lower fares than carriers offering direct services and their role as a source of competition in a fast-consolidating aviation market, according to travel professionals speaking with BTN. However, skeptics said they believe that airlines offering a long-haul, hub-and-spoke model have only limited appeal to corporate travelers.

The acrimony between the Gulf carriers and their competitors representing the three major global airline alliances reached new heights last week when both Emirates and Qatar Airways published ripostes to remarks by Association of European Airlines secretary-general Ulrich Schulte-Strathaus. During a January speech in Washington, D.C., Schulte-Strathaus expressed concerns that the big Gulf carriers „are owned by their respective governments and operated as an instrument of national strategy (if „national“ is the right word within this regional rivalry), and they are integrated vertically across commerce, tourism and foreign policy. ... These three airlines have more widebody seats on order than the entire U.S. industry has in its current fleet: 425 brand new long-haul aircraft in the next five years.“ Emirates, for example, is building a fleet of more than 90 Airbus A380s.

Concluding that the Gulf carriers have „collectively commit[ted] \$100 billion to transforming the aviation map of the world,“ Schulte-Strathaus called for regulation to prevent competitive distortions. „In the short term,“ he said, „the answer could be to ask governments to prevent additional market access.“

Emirates and Qatar responded by accusing airlines on both side of the Atlantic of such anticompetitive behavior as using various forms of state assistance and lobbying governments to deny the Gulf carriers‘ expansion. Key examples during the past year have included Emirates‘ inability to secure flying rights between Dubai and either Berlin or Stuttgart, and denied permission for the carrier to add frequencies to Toronto beyond the three weeklies it currently operates. A public affairs briefing released last week by Emirates alleged that „governments—from Europe to Asia to North America—regularly tell us that lobbying against Emirates and other Gulf carriers by a select number of legacy competitors, often in a regional bloc of carriers and almost always involving Air France and Lufthansa, is more formidable than ever.“

As Schulte-Strathaus pointed out in his Washington speech, Emirates now flies more international passenger kilometers than any other airline. Emirates responded by pointing out that „European (and some U.S.) carriers are merging with and acquiring others to become the largest airlines in the world by a considerable margin.“ Both Qatar Airways vice president for the Americas Tony Hughes and HRG group commercial director Stewart Harvey told BTN that concerns about airline consolidation has led to increased interest in Gulf carriers among corporate clients.

„Clients are beginning to ask, „What do I do if I have less choice?“ Harvey said.

In a separate interview, Hughes said that such concerns are „absolutely“ one reason why „Qatar Airways is being invited to the table now. It is partly the fact that we are more relevant, and it is also that corporates are having issues with the [newly forming airline] conglomerates. Three years ago, although we were getting corporate business, we were an alternate that would be used ad hoc. Now we are getting preferred contracts.“

Emirates currently flies 151 aircraft to 111 destinations. Qatar Airways flies 94 aircraft to 98 destinations and plans by 2013 to serve 120 destinations with 120 aircraft. According to Hughes, 85 percent of Qatar Airways passengers at the carrier’s hub in Doha are connecting passengers. Many use Doha or another hub in the region because they cannot fly directly to their destination. Qatar, for example, serves 12 destinations in India, while Emirates now flies to numerous secondary cities in Europe, such as Newcastle or Hamburg, where there had been limited or no long-haul services.

Similarly, Hughes said the Gulf carriers are flying to expanding markets in the East for which there are few, if any, direct services from the Americas. Qatar’s top destinations for U.S.-based corporate clients are the Middle East, India, eastern and southern Africa, Kuala Lumpur and Bangkok. From South America, leading destinations are the Middle East, China, Japan, South Korea and India. „Geographically, the Middle East is the crossroads between East and West,“ said Hughes. „Where our timing has been superb is in the growth of India and China.“

HRG’s Harvey also noted the emergence of those markets, which is pushing up clients‘ average airfares by significant margins as an increasingly high proportion of their travel becomes long-haul. „We are now talking about some clients doing dozens of flights a day to Asia,“ said Harvey. „They are beginning to think about their deals for next year and about whether to switch to indirect flights. Sometimes, the price difference is no longer \$100 but more often \$600 to \$700.“

## Travel Managers Weigh Service, Convenience

Despite of the increasing cost of flying to Asia, not everyone can see themselves switching to services that rely on a Gulf hub, especially if they are based in a city with sufficient direct services. „I don't think they are a viable competitor for us,“ said Dave Clarke, global employee services manager for London-based global risk management and safety assurance company Lloyd's Register. „Our policy is, we use direct services.“

Jörg Martin, owner of CTC Corporate Travel Consulting in Germany, for similar reasons is skeptical about how attractive Gulf carriers are for European corporations. „The European carriers can fly to most destinations directly,“ he said. „If European travelers do have to connect, they prefer to do it in London, Paris, Frankfurt or Vienna because it is more comfortable than flying six to eight hours and then transferring. If you are talking about saving €300, it isn't worth upsetting your body clock by changing planes in the middle of the night.“

However, the generally excellent reputation for service that Gulf carriers have achieved also can be considered, especially as older rivals struggle to catch up on investment after a decade of financial struggles. The Gulf carriers „are presenting an alternative for sure,“ said Yann Le Goff, sourcing director for indirect material and service operations for beverage packaging company Sidel. „The only problem sometimes is the connection time, but they certainly challenge traditional carriers from a quality point of view. The Gulf airlines' service is perfect.“

Tom Stone, director of the U.K.-based consultancy Sirius Management, agreed. „Travel managers sometimes struggle to get travelers to try the Gulf carriers but their magnificent airport structures certainly make things a lot easier,“ he said. „They are working very hard to persuade clients to fly them instead of point to point. The way they have burst into the marketplace has been a breath of fresh air.“