ISSUE 1, VOLUME 7: FEBRUARY 2015 – APRIL 2015

ARABIAN AEROSPACE

THE MAGAZINE FOR AEROSPACE PROFESSIONALS IN THE MIDDLE EAST, NORTH AFRICA AND TURKEY
www.arabianaerospace.aero

NEW DAWN FOR KUWAIT

SEE PAGE 17

FOCUS

Turkey's boost to Somalia's evolution

PAGE 88

DEFENCE

Terror changes focus at IDEX

PAGE 51

BUSINESS AVIATION

MEBA breaks new ground

PAGE 77

It's been a long time coming but things are finally looking up for Kuwait Airways. Chairwoman Rasha Al Roumi shows **Martin Rivers** *how she is transforming the flag-carrier into a bigger and better company.*

WORTH THE WAIT...

Rasha Al Roumi: "We will have to again grow the workforce. As you add aircraft, scientifically this number of employees has to rise."

People would have been forgiven for voicing scepticism in May 2013, when Kuwait Airways unveiled a comprehensive fleet renewal programme involving 25 aircraft purchases and 12 interim leases.

That the loss-making flag-carrier sorely needed modernisation was questioned by no-one – most of its existing 18 aircraft dated back to the early 1990s – but Kuwaiti politicians have a long history of meddling with, and ultimately derailing, its plans.

In 2007, most controversially, the government scrapped a newly placed order for 12 Boeing 787 Dreamliners and seven Airbus A320s. Then, in 2013, incumbent chairman Sami Al Nesf was fired for defying parliament's wishes and trying to acquire five aircraft from India's Jet Airways.

With the latest Airbus contract immediately being described as "suspicious" by some MPs, fears of yet more political interference were rife. So it was with no small relief that, in December 2014, Kuwait Airways took delivery of its first new aircraft in 16 years.

The reception of two 2014-build A320s (MSNs 6350 and 6375) kick-started a leasing and acquisition deal that will initially see five more A320s plus five A330s join the fleet this year. These 12 leased units will then be replaced by 10 owned A350-900s and 15 owned A320neos between 2020 and 2023.

With the parallel acquisition of 10 Boeing 777-300ERs due to be fulfilled in 2016 and 2017, chairwoman Rasha Al Roumi is not exaggerating when she says the airline is on the cusp of a "new chapter" in its history.

"We will have the leased [A320 and A330] aircraft for eight years," Al Roumi said during the annual

Continued on Page 18

CONTINUED FROM PAGE 17

general meeting of the Arab Air Carriers Organisation in Dubai. "We urgently need these new aircraft. When we discussed the deal with Airbus, they told us the earliest delivery slots [for purchased aircraft] would be 2020. So we asked for a bridging solution, and they said they could provide us with these leased aircraft until we get the new fleet [of A350s and A320neos]."

Kuwait Airways will execute a "phase-in, phase out" policy as the leased jets come on stream, gradually retiring its existing three older A320s, three A310s and five A300s.

With all of the ageing Airbuses scheduled to leave the fleet this year, the flag-carrier will then begin replacing its two 777-200ERs and four A340s with the Boeing acquisitions. Six brand new 777-300ERs will arrive in 2016, Al Roumi confirmed, followed by four in 2017. By that stage the fleet will have grown to 22 or possibly 23 aircraft, with the fate of Kuwait Airways' single 747-400 yet to be determined.

Although the 20-year-old jumbo jet is painted in the airline's livery, it is also used by Emir Sabah Al Ahmad Al Jaber Al Sabah on official state visits. He will be likely to have the final say on any possible replacement.

Size of the fleet

Longer-term projections about the eventual size of the fleet are still being finalised. By the time the leased Airbuses are replaced by purchased units next decade, the fully owned fleet should stand at 35 aircraft (25 Airbuses and 10 Boeings). But Kuwait Airways has options for another five A350s and five A320neos, and Al Roumi dropped hints they could be firmed up.

Either way, the flag-carrier is confident of notching up significant cost savings with its new metal over the coming years. As well as benefiting from greater fuel efficiency, the aircraft will require less costly and time-consuming maintenance checks than their creaking forbearers.

"Operating old equipment is very expensive," Al Roumi affirmed. "The A310 is almost obsolete, so there are issues with sourcing spare parts."

Fleet renewal, however, though undoubtedly a critical component of the turnaround plan, will not lift Kuwait Airways out of its financial quagmire. The flag-carrier has recorded near-consistent losses since 1990, haemorrhaging an estimated $1.5 billion during just the past five years.

Boosting aircraft utilisation rates and upgrading IT infrastructure must also play a part in making the state-owned company more efficient, the chairwoman insisted.

As for the political hot potato of headcount, it is not yet clear whether the government and management see eye-to-eye on the need for lay-offs.

Al Roumi stressed that progress has already been made in streamlining the workforce, with most Kuwaiti employees agreeing in 2011 to retire or be moved to other government jobs under the flag-carrier's now-stalled privatisation process.

> **"We do need to invest in locals. Don't forget the state of Kuwait owns this airline, so we want to invest in locals. We want to get more Kuwaitis from university, and to give them the best training."**
> **RASHA AL ROUMI**

Plans to retrench 1,000 expatriate workers and 400 Kuwaitis should bring the overall headcount down to about 4,500, she continued, though pinning down a timeframe is difficult. "There was a law passed by parliament and government – a law which was not in Kuwait Airways' hands – and we are implementing the law," Al Roumi said opaquely. "That's why people are leaving."

Without giving specific figures, the chairwoman emphasised that management needed to raise capacity under the turnaround plan as Kuwait Airways transitions into a larger, hopefully profitable, carrier.

Grow the workforce

Given its long-term aim of deploying up to 45 aircraft, she therefore noted: "We will have to again grow the workforce. As you add aircraft, scientifically this number [of employees] has to rise."

Asked whether the Government is urging the company to lay off expatriates rather than Kuwaitis – two-thirds of the emirate's roughly 3.5 million residents are foreigners, and some MPs have called for demographic rebalancing – Al Roumi dodged the question as deftly as any politician. "It's not an issue of nationality. It's an issue of quality," she insisted. "But we do need to invest in locals. Don't forget the state of Kuwait owns this airline, so we want to invest in locals. We want to get more Kuwaitis from university, and to give them the best training."

While unanswered questions about the headcount will unsettle some observers, concessions must be made in a country that employs 94% of its citizens in the public sector. The proven willingness of Kuwait Airways staff to mount industrial action underscores the need for a softly-softly approach to job-cuts. Moreover, while human resourcing issues are addressed behind closed doors, the company is pressing on with an ambitious and now-public expansion programme.

Kuwait's aviation sector has, in the past, been criticised for not living up to its full potential, with the flag-carrier typically cited as the worst offender.

At first glance, the stars seem perfectly aligned in favour of Kuwaiti aviation. The emirate enjoys the third highest GDP per capita in the world, according to the World Bank, placing air travel well within the reach of most citizens. Its sizable expatriate workforce creates additional demand for visiting-friends-and-relatives (VFR) traffic. And the Gulf's geographical location is known to fuel sixth-freedom passenger flows, as evidenced by on-going double-digit growth in Dubai, Abu Dhabi and Doha.

Yet Kuwait Airways has historically failed to exploit this good fortune. While Kuwait International Airport processed a respectable 9.4 million passengers in 2013, its flag-carrier accounted for less than 25% of flights. By the end of 2014 that figure had dropped to just 21%.

Modest market share

This modest market share inevitably creates opportunities for other carriers. Thus, Jazeera Airways, the hugely successful private carrier headed by Marwan Boodai, now operates 11% of flights to and from Kuwait.

Emirates Airline and its short-haul affiliate, Flydubai, collectively account for another 15%; Qatar Airways 7%; Gulf Air 5%; and Etihad Airways 4%. Dozens more carriers have a presence at the hub.

It must be stressed that Kuwait deserves praise for promoting such competition. The emirate's 'open skies' policy has set an enviable standard that most Middle Eastern countries are failing to emulate.

But liberalisation comes at a price, especially in neighbourhoods dominated by deep-pocketed rivals and protectionist regulators. Kuwait Airways clearly took its eye off the ball when it came to defending market share, and Al Roumi is now righting that wrong with a wide-ranging network review to complement the fleet programme.

Though evaluations are on-going, new routes in North America, Europe, Asia and the Middle East are all expected. "We have to study this internally to discuss their feasibility," she cautioned. "But we know we have demand for Toronto, for Los Angeles, for Vienna; according to our business plan, there should be demand for Guangzhou [in China] and Kathmandu [in Nepal]."

Closer to home, network planners are also looking at Sharm El Sheikh in Egypt, Medina in Saudi Arabia, Esfahan in Iran, and potentially

Erbil in Iraq if the political situation stabilises. "Of course we would like to concentrate on the [Middle East] region," Al Roumi said. "We will have seven A320s, which will give us a good opportunity to expand in this area."

The global network already comprises five points in Europe (London, Paris, Frankfurt, Geneva and Rome), 13 in Asia, 15 in the Middle East and North Africa, plus a single North American route to New York.

In tandem with the launch of new destinations, frequency hikes on existing services will, therefore, help Kuwait Airways reach its targeted scale. "All our flights should be daily," the chairwoman insisted, singling out the Lebanese capital Beirut – currently served four-times weekly – for an upgrade. She even suggested that the existing daily service to London could become twice daily, though not until the flag-carrier takes delivery of its upcoming 777-300ERs.⊠

As the network matures, New York, Manila in the Philippines, and Jakarta in Indonesia will also transition to non-stop services. At present, four of Kuwait Airways' seven weekly flights to New York are operated with a fifth-freedom stopover in London; while Manila is connected via the Thai capital Bangkok, and Jakarta via Malaysia's capital Kuala Lumpur. Fifth-freedom services are also operated from Rome to Paris and from Geneva to Frankfurt.

"We will change our policy," Al Roumi confirmed, announcing a fundamental shift in the long-haul strategy. "We want point-to-point flights, no more transit. They will all be direct services."

With so much talk of expansion, one would be forgiven for thinking that Kuwait dreams of rivalling the mega-hubs in the UAE and Qatar. Asked whether this is the ultimate goal, the chairwoman said that, although she wants to exploit "the same model" as those sixth-freedom operators, it would be on a "smaller scale".

"At the first stage, yes, we want to expand, but not that significantly," she clarified, asserting that origin-and-destination traffic would remain the backbone of passenger flows to Kuwait.

If all goes according to plan, a more streamlined, financially viable Kuwait Airways should be well placed to re-ignite its privatisation process.

Strategic investors

The framework of the privatisation is well known, having been widely publicised during two earlier, failed attempts at getting off the ground. It dates back to 2008, when parliament passed a bill calling for 35% of the state-owned flag-carrier to be auctioned off to strategic investors.

Another 40% was earmarked for Kuwaiti citizens through a stock market flotation, while 5% would go to the airline's employees. Sovereign wealth fund the Kuwait Investment Authority (KIA) would retain a 20% holding.

But the project was put on ice in October 2011 amid reports of muted interest among bidders. A second attempt faltered in June 2012 – when Kuwait's parliament was dissolved – and although parliament passed amendments to the bill in June 2013, little has been heard since.

Al Roumi would not be drawn on a timeframe for the on-again, off-again privatisation, insisting it is the Government's decision and that management have their hands full with the fleet renewal. Asked if the process should have advanced by next year, she simply said: "We need time."

When it does resume, however, there will be at least two prospective bidders waiting in the wings. Jazeera's Boodai said in 2013 that he was "definitely interested" in evaluating a stake, and he reserved some harsh words for the KIA, which he accused of "messing up" the initial privatisation attempt.

Late last year, Kuwaiti logistics firm Agility also threw its hat in the ring. "The door is open," Al Roumi smiled. "It's not only them. Many companies are interested."

Although Kuwait has lost ground to regional hubs in recent years, the emirate's economic fundamentals remain hugely attractive. Jazeera has proven that there are profits to be made in Kuwaiti aviation, and the Government is acting wisely by restructuring its flag-carrier before going to market again.

"This will be a very difficult year because we will have 12 aircraft out and 12 new aircraft in," Al Roumi concluded. "It's a lot of work and you need to manage everything. But, in my view, it will have a positive outcome. It will be worth it."