

China: 19 New Airlines with Uncertain Future

China's heavily state-owned and somewhat inefficient network of airlines was given a shake-up with the government's announcement in November 2013 of a plan to introduce a new framework of low cost carriers and other new types of full service airlines.

There had been a six-year moratorium on new airlines in the past that was lifted as a result of this new drive by the country to bring busier aviation scenes to its Eastern and Western areas. As a result, a number of new passenger airlines (19, according to the CAPA Centre for Aviation's compiled data based on public statements) have been launched or are in the process of formation.



The Chinese central government has also indicated an interest in getting companies like China Eastern to offer low cost airlines just as Southwest Airlines or AirAsia do in the U.S. The state-owned China Eastern has therefore been given the task of converting a subsidiary into a low-cost unit (China United Airlines). Incentives like easier approval processes and airport charge cuts are intended to encourage the growth of this sector, as well as clear the way for other new airlines in the region.

However, the country's policy and infrastructure framework is not yet very conducive to carrying LCCs. Only two new carriers of the 19 on the back burner are planning to operate as LCCs. These are the 9 Air/Jiu Yuan and HNA's West Air which is slowly transforming into an LCC from the industrial city and potential aviation hub Zhengzhou.

So far, only 5 percent of the country's total air travel is carried on budget airlines, which is led by the Shanghai-based Spring Airlines. Others that have managed to survive so far in the difficult LCC environment include Lucky Air and China United.



New Airlines Focusing on the East

The turnout of new airlines approved by Beijing is set to improve aviation in the western parts of the

country, as well as the northeastern corridor that has been ignored so far. But the majority of these start-ups are focusing on eastern China, with passenger services looking to cater to first tier cities like Shanghai, Guangzhou, Shenzhen and Huangzhou.

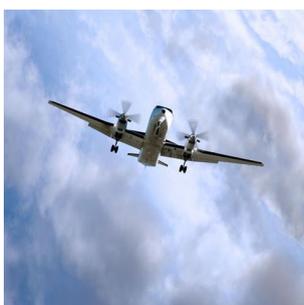
China has lately been focusing on economic growth in the western cities of Chongqing, Chengdu, Xinjiang and Zhengzhou. But so far only Urumqi Airlines (by HNA) has launched in the west not all on its own steam – it's taking over a part of Hainan Airlines' existing branch in the west. In the country's northeast, three start-ups have been proposed, but when they do launch, there is expected to be a struggle for survival among the competition.

The Hurdles in the Path of New Airlines

While there are 19 airlines in the launch phase, not all are likely to launch. There are concerns that the explosive growth in competition could hurt profitability. The vast potential and untapped market in China is giving new start-ups some hope on this front, even though the majority of seat capacity in China falls under the umbrella of 4 major airlines.

The start-ups that aren't backed by HNA or others however will face the biggest challenges, as proved by the recent collapse of Hebei Airlines that caved to poor expertise, lack of scale and the better returns offered by existing LCC Spring Airlines to Hebei's local government owner.

One of the major concerns for LCCs is to see what the regulatory environment will allow LCCs to do. China's passengers want low airfare but also quality, so budget airlines will also need to communicate what they are offering.



Further, there is a preference in the country to own local airlines. On that front, there is some hope among the new independent airlines that the new entrants in the market could efficiently provide the services desired while helping to hold up the risks and costs of local governments owning airlines.

Whatever the concerns in this changing scenario and challenges awaiting new full service airlines and LCCs, the country's regulators are taking a healthy approach to “market exit” when it comes to smaller airlines. There will be new experiments, which may or may not lead to failure. But there is so much potential still untapped in China's aviation industry, and the LCC sector in particular, that there is plenty of room for growth and scope for mistakes.

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