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Alerts	
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Heading	Potential for airline consolidation in Middle East driven by surge in passenger demand
Heading Notes (not visible to subscribers)	
Main article	• Middle East airlines could face overcapacity • Etihad’s equity alliance model could be risky • Sudan’s domestic airlines look for investors

Middle East airlines are not only the leading the world’s aviation sector in terms of growth but they are also acting as a catalyst for further consolidation in the sector worldwide, industry sources and analysts told this news service.

Carriers in the region had the strongest year-over-year demand growth of all regions surveyed by the International Air Transport Association (IATA) – Asia-Pacific, Europe, North America, Latin America and Africa – with a growth rate of 9.7% according to its latest figures.

The thrust of growth in the Middle East is to drive customer traffic through the hubs of Doha, Abu Dhabi and Dubai, said Brendan McHenry, an analyst at Ascend, a Flightglobal Advisory Service. **Qatar Airways**, Abu Dhabi's **Etihad** and Dubai's **Emirates Airline** are all trying to find ways to access international markets, he said.

But in a high growth region like the Middle East where carriers are constantly buying new aircraft and adding new routes, there is real potential for overcapacity, which, in turn, could be a catalyst to consolidation, the sources said.

"Sometime along the road Middle East airlines may look to consolidate," said McHenry. But it may be a while before we see consolidation in the region to the extent that the US market has consolidated. "It took the US airlines some time before they addressed the issue of overcapacity", he said.

American Airlines and **US Airways** have recently formalized their USD 11bn merger, making the merged behemoth the largest carrier in the world. Previously **LAN Airlines of Chile** and **TAM Airlines** of Brazil have merged to form the **Latam Group** in South America.

The equity alliance model: Etihad

While Emirates and Qatar Airways have opted for organic growth and have entered into numerous partnerships and alliances worldwide, it is Etihad that has embraced the acquisition route with alacrity. Known as the equity alliance model, it purchases stakes in various airlines to give it better access to a wider number of markets, an Asian-based airline analyst explained.

But focusing on taking minority stakes in airlines can be a risky strategy. “This model is highly suspect but given Etihad’s deep pockets, it remains to be seen how this strategy works,” the analyst said. Etihad’s strategy of pursuing a number of acquisitions could dilute the principal brand “because you're using other airlines' staff and operations", an industry source said.

For example, Etihad is in the process of examining the books of **Alitalia** and is expected to make a decision as to whether to go ahead with the purchase very shortly, according to a report.

However, Etihad might be paying too much for the airline, since it is underperforming and requires cash investment as well as access to a large number of international passengers, a second analyst said. “The investment may also end up distracting [Etihad’s] management team from running its own airline,” he added.

Alitalia, which offers access to Europe's fourth-largest travel market and flies 25m passengers a year, loses EUR 700,000 a day and has net debt of more than EUR 800m, the report said. Another report cites net debt as EUR 1.2bn

In November Etihad also acquired a 33.3% stake in the Swiss **Darwin Airline** which, along with launching new routes, will be rebranded as Etihad Regional.

Etihad’s other minority holdings include a 24% stake in India’s largest full-service carrier, **Jet Airways**, for USD 325m; a 29% holding in **Air Berlin**; a 40% stake in **Air Seychelles**; a 19.9% stake in **Virgin Australia**; a 3% holding in **Aer Lingus** and a 49% stake in Serbia’s national carrier, **JatAirways.**

In 2012, Etihad earned USD 42m on revenues of USD 4.8bn, a margin of only 0.87%, according to reports.

Middle East and African airlines seek investors

Sudan’s five domestic airlines will have to consider merging to survive current market conditions, an industry source in Sudan said. Rising landing fees, on-going currency depreciation and increasing fuel prices have negatively impacted airlines, the source said.

The government in Sudan’s capital, Khartoum, recently decided to terminate the fuel subsidy, resulting in a 60% increase in fuel costs, as reported. **MarsLand Aviation**, the private Sudanese low-cost carrier, is one such company that has been negatively impacted by the hike and has suspended operations. MarsLand started operations in 2011 and employs around 200 staff. It flies to Cairo in Egypt, Juba in South Sudan and Jeddah in Saudi Arabia.

Germany's **Lufthansa** will end its services on the Frankfurt to Khartoum route on 19 January 2014 because it is no longer economically viable, according to press reports.

In April 2013, Saudi private carrier **National Air Services** (**NAS Holding**) appointed **Saudi Fransi Capital** as a financial advisor for its planned IPO, the date of which is now uncertain, but which was originally due to take place in the first quarter of this year, according to reports.

Meanwhile, Lebanon's state-owned **Middle East Airlines** has decided to delay its planned IPO due to "unfavourable market conditions", according to press reports

by Lucia Dore and Peter Donnelly in Dubai and Atef Hassan in Cairo, Egypt.