IRANIAN AVIATION MARKET ONE TO WATCH THIS YEAR

News / Airlines



The lifting of economic sanctions on Iran this year will put pressure on major Middle East carriers, creating new competition for those who have built a business on connecting regional and international traffic.

Sanctions are expected to be lifted sometime in the first half of this year following June's nuclear accord between Iran and world powers, according to previous comments by western and Iranian diplomats.

The removal of sanctions will mean that limitations on the country's aviation sector dating back to the 1970s will be gone, allowing its carriers to buy new aircraft directly from America's Boeing and Europe's Airbus.

"If sanctions are dropped, Iran is going to going to go on a buying spree for aircraft," US-based Addison Schonland, founder and partner at AirInsight, told Gulf News.

In the lead up to the June nuclear accord, Iranian officials touted the wealth of investment opportunities removing sanctions would spur, including the purchasing of 400 aircraft over a decade.

Under sanctions, Iranian airlines have been unable to buy new aircraft from the western

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manufactures. Instead a complex system of middle-men and shadow buyers were used, but still they could only buy pre-owned aircraft and the Iranian carriers often ran into trouble when it came to spare parts. This is all expected to change when sanctions are lifted and with a population of 80 million that has been economically restricted, Iran represents one of a few important, but isolated markets.

This means new competition for Emirates, Etihad Airways and Qatar Airways who have carved out major intercontinental hubs in the Middle East that are used by passengers from all around the world to get between the east and west.

“Traffic that has been flowing over the big three hubs will reduce as direct services take over. The big three will likely see a dip [in passenger numbers],” Schonland said.

“But the small carriers could see a bigger loss of traffic as Iranian regionals suddenly fly all over,” he said.

Analysts agree that Iran will be a growth market in 2016 but with thousands on backorder at the major manufacturers, the Iranian carriers will likely lease aircraft in the near term.

But how will the Middle East carriers counter the Iranians? Schonland believes there will be “some aircraft buying” and “other carriers will have to refurb cabins” to retain and attract new passengers.

Will Horton, senior analyst at CAPA – Centre for Aviation, told Gulf News the Gulf carriers need to be wary about markets such as Iran, India and Iraq.

“Key source markets for the Gulf carriers are waking up and looking to wrest back the initiative,” he said.

However, he notes that with the exception of Iran, other major markets are “sometime away” from noticeable change.

Extra cash

Efforts to counter Iranian growth will be boosted after a year of low oil prices in 2015 that has left many airlines around the world, including in the Middle East, flush with cash. In November, Emirates, the Middle East’s biggest carrier, posted a Dh3.1 billion half-year profit. Other major carriers like Etihad Airways and Qatar Airways are likely to have seen similar benefits, though didn’t comment substantially on their balance sheet in 2015.

“The big three should see the greatest benefit because they will make huge savings in fuel with their long hauls,” US-based Addison Schonland, founder and partner at AirInsight, told Gulf News by email referring to Emirates, Etihad and Qatar Airways.

Etihad abandoned its fuel hedging strategy as soon as it appeared low oil was here to stay. On December 15, the International Monetary Fund’s Middle East director Masood Ahmad said the fund expects oil prices to stay low over the next five years, gradually heading north to $60 a barrel in 2020. Oil closed 2015 under $40 a barrel, down from $115 in June 2014.

John Strickland, an industry expert and director of London-based JLS Consulting, told Gulf News, the Gulf carriers are likely to use their extra cash to fund product development. Both Emirates and Qatar Airways are working on new first class products with Boeing saying in November Emirates’ will start to roll-out from late 2016.

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