IS EMIRATES AIRLINE RUNNING OUT OF SKY?

News / Airlines

In their fifth week of training, women hired as flight attendants at Emirates Airline spend a day in Dubai with Pamela Mizzi. A makeup artist from Malta who spent 12 years in the sky herself, Mizzi greets the students in a windowless instruction space about 20 feet across, lined on three sides by mirrors divided into vanities by bright roundels of light, like an old-timey dressing room. Her job is to teach the trainees how Emirates expects them to look.

Female cabin crew, referred to invariably as “girls,” are to tie their hair back in tight buns, preferably secured by a scrunchie in Emirates-brand red. For makeup, a seven-step process is recommended, starting with foundation and concealer, then moving on to lipstick, also in preauthorized shades of crimson. At the back of Mizzi’s classroom are two display racks of Emirates-approved emollients for “body shaping,” “firming,” “wrinkle control,” and “luminosity.”

“We have standards in regards to nail care,” Mizzi says. The same is true for weight. If a crew member looks too heavy, his or her superiors are to report their suspicions to a central fitness and nutrition department. “And they follow up,” she says. Little escapes scrutiny. By the time crew members reach Mizzi’s classroom, they have moved into Emirates-managed apartments with Emirates-imposed curfews, travel to work in Emirates-branded minibuses, and see Emirates-employed doctors at in-house Emirates clinics.

The airline, which is based in Dubai and owned by its government, has become the world’s largest long-haul carrier by never relaxing its grip—on employees, on airplane manufacturers, or on its own ambitions. Emirates recently configured a plane to seat 615 passengers, a record, and flies the world’s most epic nonstop route, an 8,824-mile arc from Dubai to Auckland. Emirates is essentially the only buyer of the largest commercial airliner, the Airbus A380, which it gilds with stand-up cocktail bars and in-flight showers. For every flight departing Dubai, as cabin crew head to their airplanes, the last room they traverse is a hall with mirrors on one side and windows to the tarmac on the other. The space allows workers to inspect themselves for perfection against a backdrop of government-owned taxiways thick with Emirates jets. That’s the airline, in one image: glamour and ambition in a framework of absolute control.

Since 1985, Emirates has grown from a two-plane operation at a desert airstrip into a force whose every movement rumbles through global aviation. The airline’s growth is inseparable from that of Dubai, with both straining the laws of financial and physical gravity. The company’s chairman is Sheikh Ahmed bin Saeed Al Maktoum, the uncle of Dubai’s absolute monarch. He also runs the airport authority, the aviation regulator, and the city’s largest bank, should Emirates ever need a loan. Out in the desert, a half-hour drive from the coast’s skyscrapers and malls, the government is building a $32 billion, five-runway megahub precisely to Emirates’ specifications. Its ambitions are consonant with its name: Dubai World Central. The project will have a capacity of 220 million passengers per year, four times the number that New York’s John F. Kennedy International Airport serves today. Two-thirds of humanity lives within the radius of an eight-hour flight. Among industry veterans, the airline’s rise inspires a respectful awe. “Emirates is unprecedented,” says Tony Tyler, a former chief executive officer of Hong Kong’s Cathay Pacific. “There’s never been anything as huge.”

Flight attendant trainees are shown how to get the Emirates-compliant look.

Photographer: Greg White for Bloomberg Businessweek

Yet as Emirates dictates new standards of technology, luxury, and range, it's finding that more and more is beyond its mastery. Conceived as a titanic bet on the growth of what development economists call the Global South—the Middle East, Africa, South Asia, and Latin America—the airline is at risk if those emerging markets don't, in fact, emerge. Emirates in May reported its first-ever annual revenue decline and is cutting some of its plans for growth amid slackening demand from sub-Saharan Africa, Turkey, and Brazil. The slump has industry analysts wondering how Emirates will fill the staggering number of planes it has on order. The company has agreed to buy 50 A380s and 174 Boeing 777s, adding to the 92 and 148, respectively, it currently flies. By comparison, British Airways operates 12 A380s, and American Airlines, Delta, and United have zero.

The bigger threat may lie in the U.S., the world's most lucrative travel market, where Emirates has been expanding aggressively. It flies to 11 cities, including Orlando, Boston, Seattle, and Dallas. Led by Delta, the U.S. Big Three are intensifying a lobbying campaign against Emirates and its smaller Persian Gulf rivals, Etihad Airways and Qatar Airways, collectively the ME3, seeking to curtail their access to American airports unless "unfair subsidies" are eliminated. Their argument, that deep-pocketed foreigners are threatening American jobs by flooding the market with subsidized capacity, was once seen in business circles as a long shot—but it happens to resonate precisely with President-elect Donald Trump's stated view of the world. Similar efforts are afoot in Europe.

Those challenges may make the world less hospitable than ever to a company whose marketing projects a sunny globalism. With Trump and his ilk ascendant, one Emirates ad sums up a corporate ethos that feels increasingly at odds with the times: “Tomorrow thinks borders are so yesterday.”

In 1984, Dubai was a backwater, one of the seven city-states that made up the fledgling United Arab Emirates, when its ruler, Sheikh Rashid bin Saeed al-Maktoum, and his son Mohammed decided to start an airline. With $10 million in seed capital and a couple of jets leased from Pakistan, Emirates was created a year later under the leadership of a pair of British expats, Maurice Flanagan and Tim Clark, initially serving regional destinations before making its first flights to London in 1987.

Born in 1912, Rashid was fond of saying that while his father rode a camel, he drove a luxury Mercedes and his son drove a playboy’s Land Rover—but his great-grandson would be back on a camel unless Dubai, never as oil-rich as neighboring Abu Dhabi, found other sources of income. His vision was to turn the city into an entrepôt for the Middle East, an orderly hub for business and tourism—like Singapore, but drier (in every sense). Emerging from a rural society with a tiny native population, the face of this city would by necessity be foreign: Bangladeshis to build the skyscrapers, Filipinos to staff the restaurants, and Brits to run the management consulting firms. Wealthy Iranians, Egyptians, Saudis, and Indians would fill the condominiums and buy the yachts, using Dubai as neutral ground on which to play, work, and cut deals. The sheikhdom pioneered a model of the state as highly leveraged private equity firm, developing and owning ports, shopping malls, hotels, and, most important, a top-notch airline to bring the world to its door.

While Emirates is adamant that it never received subsidies after its startup grant, there’s no question it’s operated in an environment that drives Western airlines mad with envy. For starters, Dubai won the geographic lottery. From a fuel and flight-time perspective, the Persian Gulf is the most efficient place on the planet to connect Europe with Southeast Asia and Australia, and the U.S. with India. Strikes and protests aren't an issue—unions are banned, and rights to free speech and assembly are severely limited. Corporate and income taxes are nil. And then there are the advantages of being the favored corporation of an absolute ruler whose word is literally law. Unlike Heathrow Airport and Los Angeles International, where the rights of nearby citizens to sleep without jet noise must be respected, Dubai International Airport runs at full speed 24 hours a day, allowing Emirates to optimize connection times for a network that spans from Buenos Aires to Christchurch, New Zealand. Keeping passengers coming back, not short-term cost containment, is the highest value.

“We have never equated our investment into a dollar return,” Chief Operations Officer Adel Ahmad al-Redha, one of the airline’s most senior Emiratis, says over tiny glasses of sweet tea in his office at company headquarters, adjacent to the airport. “His Highness has always told us, ‘Build the right product.’ That’s the priority.” Sheikh Mohammed, who became Dubai’s ruler in 2006, is sometimes referred to by Emirates executives as simply “the shareholder,” emphasized with a brief upward glance. The ruling sheikhs are never far away. Partway through an interview with al-Redha, an assistant silently enters to place a yellow Post-it in his field of vision: “HH meeting at 10 a.m.” A few minutes later, al-Redha excuses himself.

Such proximity to the levers of power has allowed Emirates to play hardball with opponents. In 2010, Canada rebuffed requests from the U.A.E. to allow Emirates and Abu Dhabi-based Etihad more landing rights in Toronto. The U.A.E. raged, abruptly closing its airspace to Canada’s defense minister while he was in midflight, which forced a diversion, and evicting Canadian troops from a Dubai base they were using to support combat in Afghanistan. Canadian visitors to the U.A.E. were slapped with visa requirements, including fees of as much as C$1,000 ($754), though the gambit backfired. Then-Prime Minister Stephen Harper told his ministers he wouldn’t allow soldiers to be used as a bargaining chip. Emirates’ landing rights still haven’t been increased.

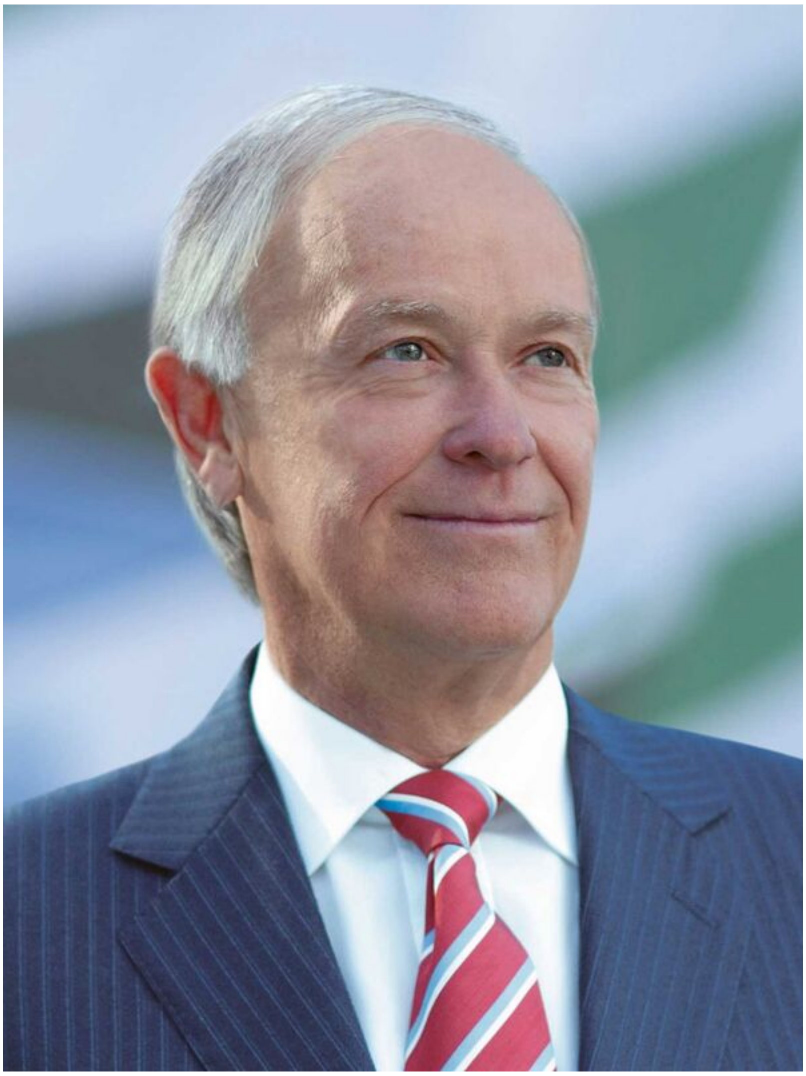
In a replica cabin, crews train to serve in first class.

Photographer: Greg White for Bloomberg Businessweek

But almost everywhere else, the airline is flying at astonishing capacity. Nine Emirates A380s land in London every day, along with five in Bangkok and four at JFK. In South Africa, Johannesburg gets four daily 777s, Cape Town three, and Durban one. Daily flights to those three cities by U.S. carriers number one, zero, and zero.

At Emirates headquarters, the wall to the left of Clark's desk is covered by a world map about 8 feet high, its projection shifted a couple of turns from the orientation most Americans are used to. The result is to put the Persian Gulf in the center. "Lloyd Blankfein has sat in that chair and said, 'I want that map on my wall,'?" Clark says. (The Goldman Sachs CEO declined to comment.) To the right of Clark's desk is a window with a commanding ninth-floor view of Emirates Terminal 3, a trio of silver, sausage-shaped concourses that collectively make up the world's largest airport terminal.

Clark, 67, has spent more than 30 years at Emirates, taking on the role of president (the company's equivalent of CEO) in 2003. After a peripatetic childhood, he got his start in the airline industry as a check-in agent for long-forgotten British Caledonian Airways. As one of Emirates' first employees, he never experienced the cycles of contraction and retrenchment that have defined the careers of his contemporaries at Western carriers. He's Emirates' intellectual godfather, spokesman-in-chief, and enforcer, prone to gazing out over the airfield with binoculars and upbraiding subordinates for lapses. One executive tells of an occasion, years ago, when he was excitedly demonstrating a new procedure for washing airplanes. After listening politely, Clark licked his index finger and rubbed it, hard, on what appeared to be a gleaming fuselage. The digit came away covered in grime. The procedure was duly overhauled. Even the model airplanes that crowd Clark's office are subject to his inspection. At one point during an interview, he stops to fret that the landing gear has fallen off a football-size plastic A380.



Emirates President Clark

Courtesy Emirates

Clark's tenure has been defined by bold gestures, and he relishes recounting occasions when a seemingly doomed gamble went his way. He's claimed credit for silencing naysayers who told him that reviving the Jet Age concept of an onboard bar, in Emirates' case on the upper deck of the A380, would be an expensive folly that no passenger would bother using. (They very much do.) The same goes for the airborne showers in first class, requiring planes to take off with 2.2 metric tons of water, which Clark has said he had to "work conspiratorially" behind the backs of skeptical Airbus executives to develop. Since Clark took over, Emirates has several times set aircraft order records, culminating in a 2013 deal worth $99 billion at list prices.

But apart from picking up two jets destined for a Japanese budget carrier that went bust, Emirates hasn't bought a single plane since. With most viable routes already heavily served, the company has been forced to go farther afield to keep growing, pushing into ultralong-haul flights to the likes of Panama. Clark's current mood is cautious, verging on somber: 2016 was "not a good year," he says, and "I think '17 could be even flatter, slightly worse." Oil executives and bankers aren't buying premium tickets like they used to; demand is plunging in sub-Saharan Africa; Syria, Libya, Tunisia, and, to a certain extent, even Turkey have fallen off the tourist map. These days, Emirates is as likely to reduce luxury as ramp it up. Some A380s are being flown without first class, in favor of more economy seats, and in September, Clark mused about introducing budget-carrier-style bag fees. In the airline's last earnings announcement, in which fiscal first-half profit fell almost two-thirds, Sheikh Ahmed warned that “the bleak global economic outlook appears to be the new norm.”

More broadly, Clark concedes that Emirates’ emergence as a boundary-pushing titan of global aviation was an outcome of an era that may now be at an end. “It is true that we are a product of the multilateralism, the liberalization of trade,” he says in his office, the lazy ballet of taxiing aircraft visible on the tarmac just over his left shoulder. On his desk, he’s kept a collection of British newspapers from June 24, the day after U.K. voters rejected the liberal order by voting to leave the European Union. “But are we going back to the ’30s? No, no, no. The man, the woman in the street has been exposed to the good things, irrespective of faith, creed, gender, nationality, sexuality, it doesn’t make any difference. Everybody’s out there,” he says. “They can see the world is open to them. And I’m hoping that kind of sense will prevail. Maybe I’m just being a little bit naive, overoptimistic.” He spoke on Oct. 26, 13 days before Trump’s election.

An Emirates A380 in for maintenance in Dubai.

Photographer: Greg White for Bloomberg Businessweek

If there’s anywhere that will test Clark’s brand of optimism, it will be President Trump’s Washington. Generalized distrust of foreigners, particularly Muslim ones, and a determination to reopen long-settled trade deals were among the only common threads in his erratic campaign. The so-called Open Skies agreements that allow unlimited flights between the U.S. and the Persian Gulf present a rare confluence of Trump targets, giving new energy to a lobbying group formed in 2015 by Delta, American, and United, along with several industry unions, called the Partnership for Open & Fair Skies.

The group claims the ME3 carriers have collectively received at least $42 billion in direct and indirect subsidies since 2004 and are twisting Open Skies deals to dump into the American market excessive capacity that wouldn't be possible without government help. It argues that the trio's growth is out of all proportion to the size of their home markets—a population smaller than Ohio's, in the case of the U.A.E.—and can only be the result of unfair advantages. In Emirates' case, the partnership pegs the 2004-14 subsidy figure at $6.8 billion, including $2.4 billion in fuel-hedging losses assumed by the Dubai government and $2.3 billion in subsidized airport charges. An additional $1.9 billion is the result, it says, of a "union ban resulting in below-market labor costs" and further unquantifiable benefits accrued from "exemption from competition laws" and the "absence of independent regulatory oversight." Emirates disputes all of these figures and says U.S. airlines have received ample advantages of their own, notably via Chapter 11 bankruptcy protection that shielded them from creditors during restructuring efforts. As it also points out, U.S. carriers barely fly to India, Africa, or the Middle East, the main destinations to which it's ferrying American passengers.

The partnership's stated goal is to persuade Washington to force the governments of the U.A.E. and Qatar to end the purported subsidies as the price for continued unrestricted access to the U.S. The debate has had some nasty moments. In a 2015 CNN interview, Delta's then-CEO, Richard Anderson, noted that "terrorists from the Arabian Peninsula" were responsible for the U.S. airline industry's post-Sept. 11 meltdown, which he called "a great irony." (Anderson later apologized.) Delta also pulled its sponsorship of Atlanta's historic Fox Theatre after Qatar Airways held an event there.

"When you look at the fact that no U.S. carrier flies to the Gulf region and the ME3 have 30 flights a day to the U.S., how is that possible if not at the expense of U.S. jobs?" asks Ed Bastian, Delta's current CEO. Gulf carrier flights that operate directly from Europe to the U.S., allowed under so-called fifth freedom rights, are a particular concern. While Emirates does so on just one route (Milan-New York), a significant expansion would threaten U.S. airlines' trans-Atlantic cash cow.

An A380 simulator beside a life-raft training pool.

Photographer: Greg White for Bloomberg Businessweek

The partnership's lobbying of the Obama administration was inconclusive, in part because not all U.S. players are on board. JetBlue Airways and Alaska Airlines, both of which code-share with Emirates, have said they prefer the status quo. Boeing has stayed neutral; Emirates is its largest customer, and Qatar and Etihad aren't far behind. Bastian and other allies of the group, though, believe the new president will have their back. Trump "has expressed great care for American jobs and the impact of foreign subsidies on U.S. workers," he says. "He has been very clear that free trade shouldn't be at the expense of American jobs." Adds Tim Canoll, the head of the Air Line Pilots Association, a partnership-supporting union: "The political stars are aligning." The group has already begun discussions with Trump's transition team, and it plans to increase its direct lobbying efforts as soon as cabinet and policy adviser positions are filled. If they're successful, Emirates' critics in Europe, particularly Lufthansa and Air France-KLM, are likely to revive their own attempts to throttle its expansion on that continent.

For now access remains open, and Emirates is pushing deeper into the U.S. In December it began daily flights to, of all places, Fort Lauderdale. Clark says U.S. airports are eager to bring Emirates to their terminals despite any controversy; Denver, whose mayor recently led a delegation to meet with Emirates in Dubai, may be next. The partnership claims most ME3 flights to the U.S. lose money and are intended to crush competition by thronging the market with cheap seats. The experience of Australia's Qantas Airways provides a cautionary tale. After trying and failing to compete with Gulf airlines on routes to Europe, losing hundreds of millions of dollars, Qantas in 2012 gave up and entered a comprehensive alliance with Clark. Most of its Europe-bound passengers are now booked on Emirates flights via Dubai.

Still, airline watchers aren't so sure about the U.S. partnership's claims. Demand for flights to markets like India and Africa has grown significantly in the U.S., even in second-rung cities. "They're not eating someone's lunch," John Strickland, a U.K. aviation consultant, says of Emirates. "They've created new lunch."

Emirates and its U.S. antagonists agree on one thing: The vast majority of Emirates' passengers aren't going to Dubai. Three in five fliers are connecting to somewhere else, and Dubai's airport has been designed as a massive machine to facilitate their movements, a polished-stone fulcrum between Dar es Salaam and Guangzhou, Dallas and Dhaka. The bulk of flights arrive and depart in three "waves": one from 2 to 4:30 a.m., another from 7 to 11 a.m., and a third from 1:30 to 4 p.m. Between those rushes the airport is eerily quiet, even in the operations center, the size of a hockey rink, where Emirates manages the flights. A giant central screen shows the location of every Emirates plane in the air. A thick, curved line of blue avatars is headed to and from Western Europe; a smaller cluster moves between Dubai and Africa; another inches toward East Asia. Far to the north, flights to Los Angeles and San Francisco are headed straight over the top of the world.

To spend time on Planet Emirates is to be bombarded with reminders of the awesome scale of its operations, often proffered by staff who've worked there since the early days and remain mildly bewildered by what the company has become. The airline operates an industrial-size wine cellar in Burgundy, with 3.75 million bottles aging at any given time. Its flight kitchens are the largest in the world and make almost everything from scratch, from hummus to hamburgers, as well as 25,000 muffins a day. They incorporate what Emirates says is the world's largest dishwashing operation, using 17 colossal machines to clean 3.5 million items daily. In case of a breakdown, 200,000 sets of cutlery are kept in reserve.

Still, the strains of growth are apparent. The airport, which has only two runways and is hemmed in by development, can become severely congested at peak times, and the move to Dubai World Central is probably a decade away. On Skytrax, which aggregates customer reviews of airlines, Emirates gets an average of 6 out of 10 as fliers complain about inconsistent service across its sprawling network, a score lower than that of budget carrier EasyJet. (Skytrax nonetheless named Emirates its top airline of 2016, an award that draws on separate data.)

Meanwhile, online forums for pilots and cabin crew are crowded with complaints from Emirates staff about what they say are excessive hours and inflexible policies. For example, female cabin crew who've been employed less than three years must leave their jobs if they become pregnant. Because virtually none are locals and Emirates issues their visas, that generally means leaving Dubai. After three years of employee service, maternity leave is available but largely unpaid, and it depends on the mother being married; giving birth out of wedlock is a crime in the U.A.E. Staff also complain about curfews and visitor restrictions in Emirates-administered housing, which human resources chief Abdulaziz al-Ali says are necessary because "we know a little more about this country than foreigners who come." He insists that employees are happy—so much so, in fact, that "there is no reason for them to become unionized."

Cold starters are prepared for first-class flights.

Photographer: Greg White for Bloomberg Businessweek

Staff and passengers alike do have other options. Etihad and Qatar Airways are using the same geographic advantages to expand, cloning the “superconnector” model pioneered in Dubai. In Istanbul, an airport that may be as large as Dubai World Central is under construction and could eventually allow Turkish Airlines to become a global challenger. Then again, the superconnector model itself might fall apart. The proliferation of lighter, fuel-efficient jets such as the Boeing 787 are making long-haul routes between smaller cities economical, reducing the role for megahubs of all stripes.

In the 70-odd years of large-scale commercial aviation, no airline has managed to stay on top for long. Pan Am was the last word in intercontinental glamour in its day, and its day came to an end. It’s a problem that Clark is clearly wrestling with as he contemplates his own retreat from the stage. He hasn’t yet set a date for his retirement but acknowledges it isn’t far off. No successor has been chosen yet.

“If I was in my 40s, I’d make bloody sure that in 20 years Emirates was right there and never came down a notch. I’d*keep. Up. The pressure*,” Clark says, pausing for emphasis. “Adapting and changing to do everything we need to do to align ourselves not with what the establishment requires us to do, but what the man in the street requires us to do … that’ll keep us there. If that doesn’t happen, they’ll be running around with lots of empty airplanes.”

As Clark speaks, in the middle distance a crew of workmen moves gingerly across the roof of Terminal 3, washing away its accumulated coating of blown sand to reveal a skin of shining chrome. The procedure has to be repeated constantly. If it weren’t, the airport would eventually sink back beneath the dunes.

05 JANUARY 2017

SOURCE: BLOOMBERG
ARTICLE LINK:
https://50skyshades.com/news/airlines/is-emirates-airline-running-out-of-sky