

Gulf bites back



Walter Van West, vice-president, finance and technology, Gulf Air

Gulf Air is fighting back from financial crisis with a clear strategy for the future

MAX KINGSLEY-JONES/BAHRAIN

GULF AIR HAS BEEN through considerable pain over the past four years. Losses mounted to over \$130 million and debts rose to \$1.5 billion during two financially disastrous years in the mid-1990s. Efforts to tackle spiralling costs, fleet size and unprofitable routes have begun to reap rewards, however. The airline is now aiming for sustained profitability as it comes to terms with an increasingly competitive local environment.

The airline moved back into the black in 1997 and has reported a second year of profit because of a cost-cutting campaign and fleet culling which has led to a drop from 42 aircraft in 1997 to 28. More streamlining is planned.

The airline is owned equally by the governments of Bahrain, Oman, Qatar and the emirate of Abu Dhabi, having been created in 1973 from the BOAC-owned Gulf Aviation. By the end of the 1970s, the airline employed 4,500 people and its network spanned the Gulf region, Asia, India, the Mediterranean and Western Europe.

Based on the small island of Bahrain in the Arabian Gulf, the airline established a flight training centre in Qatar's capital, Doha, a maintenance base in Abu Dhabi (the GAMCO joint-venture with the Abu Dhabi Government), and registered its aircraft in Oman to ensure that each state was represented. President and chief executive, Sheikh Ahmed bin Saif Al Nehyan, became the first UAE national to head the carrier when he was appointed in 1996.

With four owners to keep happy, Gulf Air treads a careful path with its strategy. Although Bahrain is its base and most important hub, it aims to maintain a significant presence at the

other capitals. For almost 15 years, the highly charged political environment in which Gulf Air existed had no significant impact, as the carrier effectively had a monopoly on air routes around the region.

Things began to change in 1985, with the Government of Dubai's creation of Emirates. Answering to a single master, Emirates was free of the chains of joint ownership, resulting in a hard-nosed commercial approach to the region's air travel business.

THREATS ON THE HORIZON

The young Emirates quickly established itself as a serious force. It has rapidly expanded its network from Dubai and its fleet, providing direct links to the city and creating what has become an important transit hub between Europe and Asia. In recent years, more threats have appeared on Gulf Air's horizon, including the soon to be nationalised Qatar Airways, and publicly listed Oman Air, in which the country's government holds a 33% stake.

Growing pressure from rivals in the region combined with the airline's rapid over-expansion of its fleet and network hit Gulf Air hard by the mid-1990s as costs spiralled and debts rocketed. Its financial woes became fully apparent in 1995, when the airline recorded operating losses of \$135 million and followed this with a further loss of \$60 million a year later.

It was also forced to raise \$200 million in fresh funding in the form of a "loan" from its four state shareholders. This was agreed in April 1997 after protracted wrangling. Significantly, the agreement was repeatedly delayed as Oman and Qatar, which are both developing national airlines unilaterally, initially declined to join in



a capital injection or to agree to Bahrain or Abu Dhabi increasing their holdings.

The restructuring included a 15% cut in seat capacity for 1997, with fleet size reined in and its network scaled back. The airline serves 49 destinations throughout the Middle East, the Indian subcontinent, Asia-Pacific, Australia, East Africa and Europe, down from a high of 60 in 1995. Despite these reductions, 1997's traffic figures, at 4.7 million passengers, fell only marginally, compared to around 4.8 million in each of the previous two years.

In 1997, the airline posted an operating profit of \$8.3 million (3.12 million Bahrain dinars (BD)) on operating revenues of \$1 billion (BD388.2 million), compared to a loss of \$57.8 million (BD21.76 million) on \$1 billion (BD395 million) revenues in 1996. The overall result transformed a loss of \$87.5 million (BD33 million) in 1996 to a \$48.1 million (BD18.12 million) profit in 1997, with the boost coming from