

The world watches Norwegian

Airline entrepreneurs have been trying to launch scheduled low-cost long-haul services since the 1970s. All have ended in failure which has led many to question the viability of such services. All eyes are now on Norwegian as they attempt to re-write the history books, prove skeptics wrong, and become the first ever airline to succeed.

Leading the long-haul revolution

Norwegian commenced long-haul operations on 30 May 2013 from Oslo and Stockholm to New York and Bangkok. The airline subsequently launched services to Fort Lauderdale from Copenhagen, Oslo and Stockholm, and plans to add further services to the US from Bergen, Stockholm, Copenhagen, London and possibly Barcelona. It is also possible that the airline will increase its offer from London Gatwick to the US and Asia if the airport gets permission to build a new runway.

Norwegian is not the first airline to offer low-cost long-haul services, and whether they succeed or not, they will not be the last. Laker Airways pioneered the concept with services from London to New York, Los Angeles and Miami in the late 1970s but went bankrupt in 1982. People Express flew from New York to London, Montreal and Brussels from 1983 but ceased operations by 1987. Other notable attempts have been made by Zoom Airlines from Toronto to Glasgow and Manchester (2004-2008), and Oasis Hong Kong from Hong Kong to London and Vancouver (2006-2008).

Crouching tigers and (not so) hidden dragons

Several Asian carriers such as AirAsia X, Cebu Pacific Air, Jetstar Airways, Lion Air and Scoot do in fact operate low-cost services that may be defined as long-haul however; they are all within the Asia-Pacific region (see table 1). Large-scale success at the intercontinental level; the holy grail of scheduled low-cost long-haul air travel, has remained elusive thus far. AirAsia X launched services from Kuala Lumpur to London in 2009, Mumbai and Delhi in 2010 and Paris in 2011 but withdrew the services by 2012. AirAsia X plans to resume European services from Asia in 2015 with more fuel-efficient Airbus 350 aircraft while Jetstar, Scoot and Lion Air are all taking delivery of Boeing 787 aircraft during the next few years and will no doubt be looking to extend beyond the Asia-Pacific region. Scoot has recently entered into a partnership with the Thai low-cost carrier Nok Air to launch a Bangkok-based long-haul airline called NokScoot, but information about possible routes have so far not been published.

Critics remain unconvinced

Critics remain unconvinced that the low-cost concept can succeed in long-haul markets. The key argument is that cost advantages over traditional full-service carriers on short-haul flights are eroded on longer-haul flights: fuel is a much higher proportion of the operating cost; long flight times, time-zone differences and night curfews at airports limit the ability to have a high number of daily rotations of aircraft and crew; passengers are less willing to pay extra for seat reservations, baggage and in-flight comforts on longer flights; competition is stronger from airlines that belong to global alliances because each alliance member tends to have a strong position in its home market and takes advantage of traffic feed from their own network in addition to their alliance partners. Alliance members also have a vast and global fleet of aircraft and maintenance facilities that they can make use of if they experience technical problems with their aircraft. Norwegian's fragilities here were

demonstrated to good effect by the delayed delivery of the Boeing 787 aircraft that they had ordered specifically for their long-haul venture – incurring costs of over NOK 100 million for the lease of replacement aircraft. Finally, full-service carriers rely heavily on high-yield fares from premium and first-class passengers that subsidize the low fares offered to economy passengers. Low-cost carriers tend to operate a single-class cabin for economy passengers that are unlikely to cover the operating cost of a long-haul flight.

Table 1 Planned low-cost long-haul services, May 2014

Airline	Aircraft	Route	Departures	Seats per aircraft	Total seats	Distance (km)	Flight time (hours)
AirAsia X	A330-300	Kuala Lumpur-Jeddah*	18	377	6 786	7 065	9:17
	A330-300	Kuala Lumpur-Sydney	62	377	23 374	6 586	8:41
	A330-300	Kuala Lumpur-Gold Coast	31	377	11 687	6 509	8:35
	A330-300	Kuala Lumpur-Melbourne	62	377	23 374	6 315	8:20
	A330-300	Kuala Lumpur-Adelaide	22	377	8 294	5 683	7:33
A330-300	Kuala Lumpur-Tokyo	31	377	11 687	5 351	7:08	
Cebu Pacific Air	A330-300	Manila-Dubai*	31	436	13 516	6 906	9:06
Jetstar Airways	A330-200	Melbourne-Honolulu*	9	303	2 727	8 875	11:31
	A330-200	Auckland-Singapore	13	303	3 939	8 417	10:57
	A330-200	Sydney-Honolulu*	22	303	6 666	8 171	10:38
	A330-200	Melbourne-Bangkok	13	303	3 939	7 330	9:35
	A330-200	Sydney-Phuket	13	303	3 939	7 267	9:31
	A330-200	Gold Coast-Tokyo	25	303	7 575	7 242	9:28
	A330-200	Gold Coast-Osaka	13	303	3 939	7 221	9:26
	A330-200	Melbourne-Phuket	13	303	3 939	7 012	9:12
	A330-200	Melbourne-Singapore	22	303	6 666	6 038	7:59
	A330-200	Cairns-Tokyo	28	303	8 484	5 881	7:47
A330-200	Cairns-Osaka	18	303	5 454	5 812	7:41	
Lion Air	B747-400	Jakarta-Jeddah*	31	496	15 376	7 971	10:25
Norwegian	B787-8	Copenhagen-Los Angeles*	14	291	4 074	9 028	11:45
	B787-8	Stockholm-Los Angeles*	13	291	3 783	8 863	11:33
	B787-8	Oslo-Bangkok*	13	291	3 783	8 672	11:17
	B787-8	Stockholm-Oakland*	9	291	2 619	8 586	11:12
	B787-8	Oslo-Oakland*	2	291	582	8 323	10:52
	B787-8	Stockholm-Bangkok*	13	291	3 783	8 295	10:49
	B787-8	Stockholm-Fort Lauderdale*	9	291	2 619	7 962	10:25
	B787-8	Copenhagen-Fort Lauderdale*	13	291	3 783	7 811	10:13
	B787-8	Oslo-Fort Lauderdale*	9	291	2 619	7 581	9:56
	B787-8	Oslo-Orlando*	2	291	582	7 422	9:44
	B787-8	Stockholm-New York*	17	291	4 947	6 292	8:20
	B787-8	Copenhagen-New York*	17	291	4 947	6 188	8:13
	B787-8	Oslo-New York*	18	291	5 238	5 916	7:52
Scoot	B777-200	Singapore-Sydney	23	400	6 693	6 301	8:19
	B777-200	Singapore-Gold Coast	18	400	5 238	6 219	8:13

* = intercontinental route. All other routes are within the Asia-Pacific region.

NOTE: Long-haul is often defined as routes that can not be served by unmodified A320 or B737 aircraft. Table 1 uses this definition, but also includes a minimum flight distance of 5,000 kilometers and a flight time of 7 hours or more.

Data Source: The airlines' websites for seats per flight. All other data are taken from Capstats.

Factors for success

A number of key factors distinguish Norwegian from previous failures; Firstly, Norwegian already has a successful short-haul operation and a huge European network for the airline to feed onto their long-haul services. Norwegian could also enter into a global alliance with one or more low-cost carriers such as JetBlue, which operates an extensive domestic network in the US from many of the airports that Norwegian will serve (New York JFK, Fort Lauderdale, Orlando, and Oakland) although

JetBlue and other low-cost carriers such as Ryanair may well enter the market to compete with Norwegian in the future, especially on transatlantic routes.

Secondly, is the availability of 'game-changing' aircraft such as the Boeing 787; a long-range aircraft estimated to be 20 percent more fuel efficient than its predecessor the Boeing 767 that was used by Zoom Airlines. It also offers a mid-sized alternative to the huge Boeing 747 that was used by Oasis Hong Kong. Norwegian Boeing 787 has 291 seats; 259 in economy with a standard 31 inches of legroom, and 32 in premium with a generous 46 inches. The greatest challenge for Norwegian will be to maintain a cost advantage – operating cost is often 30-60 percent lower than their full-service counterparts in short-haul markets but is likely to be much smaller in long-haul – while generating enough revenue from lower fares, and the absence of high-yielding first-class seating.

Thirdly, the Internet allows airlines to reduce marketing costs and avoid relying on travel agents that strangled previous ventures such as Laker Airways. The Internet also allows passengers to search for the cheapest fares online.

Current timing is also good for Norwegian. There is a recovering global economy, relatively stable jet fuel prices, a recently deregulated EU-US market, and an increasingly liberal Asia-Pacific market – with moves to enhance political, technical and industrial cooperation in the aviation sector between the EU and ASEAN regional markets. The Asia-Pacific region is one that has huge growth prospects for leisure travel from its emerging affluent middle class.

Window of opportunity

Norwegian certainly has a window of opportunity to succeed and will benefit from having a few years head start on other low-cost carriers that may also enter the long-haul market although the airline has of course suffered from the delay and subsequent issues relating to the Dreamliner. Norwegian is also experiencing increased pressure, especially from the Air Line Pilots Association (ALPA) regarding its innovative corporate structure – dubbed by many as being a 'flag of convenience'. Nothing is certain in the airline industry as we are reminded by the quote from Freddie Laker just three days before the collapse of his airline Laker Airways in 1982: "I'm flying high and couldn't be more confident about the future". What is certain is that airline CEOs the world over are watching with great interest to see if that window of opportunity remains open for others to follow, or if it crashes down on Norwegian as it has done so to airlines in the past.

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