



2016 Q4 Report

Perceptions from the Middle Kingdom

2016 Year-End Status of Taiwanese Scheduled Carriers

(The information for this report was provided by Mr. Steve Huang, former Director of Fleet Planning for EVA Airlines and long-time senior executive in the Taiwanese commercial aviation industry.)

For the Long-Haul International Market:

The primary long-haul competitors are China Airlines (CI) and EVA Airlines (BR). At the close of 2016, the China Airlines long-haul fleet consisted of four (4) 747-400s, ten (10) 777-300ERs, three (3) A340-300s, and four (4) A350-900s, while EVA's comparable fleet comprised three (3) 747-400s and twenty-nine (29) 777-300ERs.

This rather distinct difference in fleet composition, despite the mission similarity, is due primarily to the excellent performance that EVA has experienced from its high-MTOW 777-300ERs, thereby enabling it to gradually replace its 747-400s on North American routes over the course of the past decade. Also contributing was its enhanced cabin service on those routes, including the introduction of full-flat business class sleeper seats both in new aircraft and through cabin retrofits of existing aircraft, as well as the code sharing and other marketing advantages resulting from joining the Star Alliance international airline consortium. Following this strategy, EVA successfully expanded its North American service by an impressive 45% from its Taipei Taoyuan Airport hub. The airline plans to increase its 777-300ER fleet to 34 aircraft, together with respective totals of 24 A321s and 12 A330s, over the course of the coming year, thereby providing even more capacity on both North American and Asian routes.

Meanwhile, China Airlines, for its part, plans to increase its A350-900 fleet over the coming years while continuing to phase out its 747-400s in the process, notwithstanding the difficulty of disposing of both 747-400s and A340s under current and foreseen used aircraft market conditions. When the airline has taken delivery of its fourteen (14) firm and six

(6) option A350-900s currently on order, we can expect to see a lively competition between EVA 777-300ERs and China Airlines A350-900s throughout the Pacific long-haul marketplace.

For the Regional and Domestic Market:

Taiwanese regional carrier Trans Asia (GE) ceased operations in late November in the face of large and increasing losses. There were several contributing factors, including (a) two (2) ATR72 accidents in late 2014; (b) economic concerns relating to introducing A330s into their fleet in an attempt to enter the long range market, and; (c) a reduction in regional travel between Taiwan and the mainland due to changing geopolitical considerations.

However, even in their absence, and in addition to China Airlines and EVA, there remain four other regional carriers (Mandarin Airlines, Tigerair, Uni Air, and Far Eastern) serving that market. It's a tough environment for those airlines that lack long-range international service to merge regional connecting flights into, especially with the increasing competition from emerging Low Cost Carriers (LCCs). That was a likely factor in Trans Asia's attempt to expand into the long haul market with A330s despite the safety issues experienced on its short haul routes as demonstrated by the two ATR accidents attributed to pilot error. Although their departure from the competition may help the remaining regional carriers to some extent by reducing the total number of competitors, it can be expected to remain a difficult market for such airlines.

In Summary:

Although Taiwan is a small island, it is strategically well positioned geographically to serve as a world hub for the trans-Pacific and South Asian long-haul markets, which greatly favors the established local entrants China Airlines and EVA with their combined long-haul and regional fleets. However, the competitive environment for the various regional carriers is much more problematic, especially in view of the growing pressure from the proliferating LCCs.