Observer business agenda

Airlines hope for fistfuls of dollars as transatlantic flying returns

The reopening of US routes saw improved forecasts and rising shares, but there may still be turbulence to come

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The golden goose is airborne again. The reopening of the US border to leisure travellers from the UK and most of Europe - with the accompanying fattening of transatlantic schedules - has finally given the long-haul airlines something to be cheerful about.

The first flights for non-essential foreign visitors - holidaymakers, friends and family - will take off on Monday. For British Airways owner IAG, not to mention rival Virgin Atlantic and other carriers, it will feel like Christmas, Thanksgiving and all their birthdays rolled into in one.

In the wake of the reopening, IAG predicted a narrower loss - €3bn this year, down from €4.3bn in 2020 - and a possible return to profit by Easter. Transatlantic travel is the bedrock business for long-haul airlines, and location and shared language has traditionally put UK carriers in pole position in the European market. In the pre-pandemic days, when airlines turned a profit, the bulk of IAG's market. In the pre-pandemic days, when airlines turned a profit, the bulk of IAG's returns came from BA, and the fat end of BA's came from the US.

On short-haul routes, BA has been firmly pushed off its perch by the low-cost airlines. Apart from those who have a connecting flight, live next to Heathrow or particularly like smartly dressed stewards and free biscuits, there is little reason to pay the national carrier's fares to Europe.

The US, though, is different. Norwegian, which tried to grab a slice of this market, has retreated, and the full-service airlines have all made partnerships, joint ventures and alliances - Virgin in particular opting for the strong arms of Atlanta-based Delta. Next week, both British carriers expect full planes as passengers also benefit from easier, cheaper testing requirements. BA says Zoom-weary business travellers are booking too.

It's almost enough to make investors forget the billions in losses and an uncertain future: shares in IAG rebounded on Friday after an initial dumping when the group reported third-quarter results and its full-year forecast.

> **The industry was obsessed with high oil prices a decade ago, and they are rising sharply again**

Analysts don't see the returns coming quite so soon. There is still trouble ahead: the industry was obsessed with oil prices a decade ago as the dollars-per-barrel skyrocketed, and they are rising sharply again. The cost of the massive borrowing that pulled carriers through the past 18 months also looks set to rise. And it remains to be seen whether the opening of borders and loosening of travel restrictions is a one-way trend - not least when you consider how the UK's laissez-faire politics and relatively high case rates are being viewed by more cautious governments.

Nonetheless, for now, it's the season of goodwill, and BA and Virgin have come out of their old trenches to stand together and gang up on their common frenemy: Heathrow. The ritual pantomime of circling the regulator every few years and hurling overegged demands for increases or cuts to the airport's landing charges has taken on a particular edge this time around.

Not only does the pandemic mean that all the parties really are skint, but Heathrow has gone the full Ebenezer by attempting to double what it charges. The Civil Aviation Authority, playing the hapless sad sack, has said that "only" a 56% increase in average charges - about £35 per passenger - would be permissible.

The wrangling continues. IAG boss Luis Gallego indicated on Friday that he would consider moving IAG investment abroad if charges meant the airline could make no decent return on capital in the UK. But in another breath, Gallego admitted that BA had only turned a profit at cheap old second-choice Gatwick once in a decade. Virgin had only turned a profit at cheap old second-choice Gatwick once in a decade. Virgin has handed back its slots at the West Sussex alternative. IAG is, however, continuing with plans to start a cunningly disguised BA subsidiary for short haul, allowing it to cut costs and fend off expansion by rivals.

For the big bucks, though, there is clearly only one game in town. One in four flights between Europe to the US goes via Heathrow - albeit 40% fewer now than two years ago. After an 18-month course of survival rations, both IAG and Virgin will be aiming to fill their boots on packed planes heading across the pond from Heathrow.