China Opens Skies to Privately Owned Airlines

China's aviation regulator has lifted a six-year ban against creating independent airlines, a sign of liberalization in one of the nation's most tightly regulated sectors.

The Civil Aviation Administration of China this month gave the green light to a Shandong-based conglomerate to set up Qingdao Airlines, which plans to operate from the northeastern port city. Two weeks earlier the regulator allowed Yunnan Jing Cheng Group to establish Ruili Airlines in western China, with plans to operate on domestic routes.

The decisions marked a change from the regulator's practice in recent years.

"The recent approvals appear to be a gesture from Chinese leaders to encourage private investments into key sectors," said Boyong Liu, an aviation analyst at the Jefferies brokerage firm.

Premier Li Keqiang in March said China's new leadership was eager to allow private businesses to compete on an equal footing with state-owned enterprises.

To protect and better develop state-owned airlines, the government in 2007 said it would stop accepting applications for new airlines until 2010. But while the deadline had come and gone, the CAAC hadn't moved on a flurry of applications for new privately owned startups, airline executives said.

The CAAC briefly experimented with liberalization in the middle of the last decade. Spring Airlines Co., now the nation's biggest low-cost carrier, began service in 2005. Juneyao Airlines Co.'s maiden flight took off in 2006. But safety concerns and financial troubles for many fledgling carriers prompted the regulator to tighten the reins.

Meanwhile, China's state carriers, notorious for inefficiency and large fleets, floundered during the global financial crisis around 2008, requiring injections of state funds.

The push for new airlines underscores efforts by provincial governments that hoped expanded air service could help bring tourists and encourage trade. Ruili Airlines' fleet of Boeing 737s, based in the city of Ruili near the Myanmar border, will help improve domestic air links in an area underserved by major state carriers. Owner Yunnan Jing Cheng has investments in hospitality, tourism industry and infrastructure.

Qingdao Airlines will operate a fleet of Boeing 737 or Airbus A320 jets. The carrier will be controlled by Nanshan Group, whose businesses include finance, property and aluminum production, with a 55% stake. Qingdao Transportation Development Group will own 25%. Shandong Airlines Co., a unit of Chinese flag carrier Air China Ltd., will hold the remaining 20%.

The recent approvals showcase one of China's main struggles: balancing the central government's interests against those of individual provinces, said Will Horton, senior analyst at consulting firm CAPA-Centre for Aviation. That struggle plays out nationwide in the airline industry, he said. "Each province wants its own airline."

Analysts said they don't expect a dramatic shift in the nation's airline policies, however, expecting that any liberalization would be limited because of increased congestion and a shortage of trained flight crews. Bottlenecks because of congestion and bad weather have caused on-time performance of Chinese carriers to deteriorate. Among all flights operated by Chinese airlines last year, 25.2% didn't take off or land on schedule, up from 22.8% a year earlier, according to the CAAC.

"The top priority at CAAC is to strengthen the three state carriers in competing with their international rivals," said Mr. Liu, of Jefferies.

China's civil-aviation market is dominated by the three state-owned carriers: Air China, China Southern Airlines Co. and China Eastern AirlinesCorp. Hainan Airlines Co., which is backed by Hainan province, also is an important player.

CAPA's Mr. Horton said the solution to resolving problems with inefficiency is for further consolidation among the Chinese carriers. "These newly established airlines will not help the status quo," he said.

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