

FLYING HIGH:

ICELANDAIR CUTS THE EDGE

“The word is out; Iceland is the next *best place* and has seen annual tourism growth of about 20 percent. Icelandair has been riding this wave, doubling the number of routes it has served over the past five years.”



A DC-10-30CF leased from Air Florida taking off from Keflavik on June 6, 1979.



The first Boeing 757-200 for Icelandair arriving in the brand-new trim on November 9, 1999. TF-FIH still flies with Icelandair, but now as a freighter.

STORY BY **KEN DONOHUE**
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FOR MORE THAN A THOUSAND years, Icelanders have been leaving their beautiful island to explore the world. First, they took to the sea in search of new lands; now, they take to the sky, preferring a much speedier trip. It's commonly accepted that the Icelandic explorer Leif Eriksson was the first European to reach North America. He did, the story goes, after being blown off course on his way to Greenland. Today, you can be assured that Iceland's international airline, Icelandair, will get you to your destination in comfort. And, as the airline playfully notes with a message on its napkins: *on Eriksson's journey, coffee, tea, and soda were not complimentary.*

Ideally situated in the middle of the North Atlantic, Iceland has long served as a link between Europe and North America. The beginnings of Icelandair date back nearly 80 years when Flugfélag Akureyrar was formed in 1937 in the northern coastal town of Akureyri. Operations began a year later with a single Waco YKS-7 floatplane. At a general meeting in 1940 the name was changed to Flugfélag Íslands, translated literally as Flight Company of Iceland. The headquarters moved to the capital city of Reykjavík. Soon another Waco ZKS-7 was bought and the company then moved into twin engine landplanes. This company name, which was really the third time it had been used, still lives with the present company, now called Air Iceland

in English. It is the Icelandair Group's domestic and regional airline – which serves destinations throughout Iceland, Greenland and the Faroe Islands.

In 1944 another airline, Loftleiðir, was set up by a group of new and unemployed pilots that could not get a job with Flugfélag Íslands. They saw great opportunities in the business and soon bought a Stinson Reliant on floats, just like the Wacos, and started a competition with Flugfélag Íslands.

With World War II over, Flugfélag Íslands began regular international service to Prestwick, Scotland and Copenhagen, Denmark in 1946, first using their own

PBY-5 Catalina flying boat and later using leased B-24 Liberators. The Douglas DC-3 Dakotas joined the domestic fleet that year too. On those routes, the airline was facing stiff competition from Loftleiðir which had similar equipment. The government tried to force a merger of the two companies but, when that failed, the domestic routes were split between the two airlines.

In 1947, Loftleiðir had been the first to bring a four engined Douglas DC-4 Skymaster to the competition. In 1952, Loftleiðir pulled out of the domestic market to focus on international routes. That airline became known for its cheap fares between North America and Europe and thus pioneered the routes that are now the mainstay of the Icelandair network. This gave Flugfélag Íslands a monopoly on domestic routes and a modest international network which assumed the new branding of Icelandair.

The first jet to fly in the traditional blue and white colors of Icelandair was the Boeing 727, which joined the fleet in 1967. But any excitement over that jet aircraft was quickly tempered by the tenuous economic situations in the early 1970s at both Flugfélag and Loftleiðir. After lengthy negotiations a merger was completed.

The 1990s brought enormous change when Icelandair's hub at Luxembourg (previously established by its long-time ancestor, Loftleiðir) was closed in favor of operating a single hub out of the country's Keflavik airport. It was also during this time that the airline began renewing its fleet with the Boeing 757-200. Today, the airline operates an all-Boeing 757 fleet, with 24 of the type, one of which is a -300 variant; nineteen are fitted with Aviation Partners' blended winglets, and three are freighter conversions.

"This is the perfect aircraft for our location," says Icelandair's President and CEO, Birkir Hólm Guðnason, in his office overlooking Reykjavik Airport, located just over a mile (two kilometres) from the city center. "We can operate a single-aisle aircraft to the west coast of North America, which helps to keep our costs down and allows us better utilization."

The airline would like to get its hands on more of the stretched Boeing 757-300 aircraft, but have not been able to secure any, given that only 55 were produced and operators are holding on to them. With 39 additional seats, the larger aircraft would give the airline some

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Waco YKS-7 TF-ÖRN in Reykjavik harbor in 1938.

PHOTO: ICELANDAIR COLLECTION



The first Canadair CL-44D4-8 for Loftleiðir seen arriving at Keflavik on June 4, 1964. These were advertised internationally with the brand name of *Rolls-Royce 400*, as the general public would not know an airliner produced by Canadair. Rolls-Royce was a quality name.



The Boeing 727 aircraft type joined Icelandair in 1967, becoming the first airliner to fly the airline's traditional blue and white colors. Pictured, is the second Boeing 727 for Icelandair, Sólfaxi arriving in Keflavik on May 1, 1977.

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Fokker 50, TF-FIS of Flugfélag Íslands carries the name Sigdís and is shown over Myrdalsjökull, one of the many glaciers in Iceland. It is also a dormant volcano like so many in Iceland.



“Icelanders lost a lot of money, and there was a lot of uncertainty. Would there be any banks? Would there be food on store shelves? We had no idea what was going to happen.”

This Douglas DC-8-63 TF-FLU, named *Vesturfari*, was pictured flying over Reykjavik, the capital city of Iceland on September 23, 1984.

flexibility on high demand routes such as Boston, New York, Toronto and London.

Change is coming to the fleet, however, as the airline has ordered 16 Boeing 737 MAX aircraft, with the first deliveries scheduled for 2018. “There really isn’t a replacement for the 757 and the MAX comes closest to being that replacement,” says Guðnason. “With our current network, we could serve 75 percent of our destinations with the Boeing 737. This aircraft will be perfect for our flights to Europe and also to the east coast of North America.” The airline intends to keep some of its Boeing 757 for longer routes.

The 40-year-old Guðnason has worked for Icelandair in a variety of positions since 2000, and for the past six years has served as chief executive. “I was excited to lead the airline, because the company has a long history, and I saw lots of opportunity,” he says. “I’ve always liked challenges. Since taking on this role, we have survived the collapse of our country’s economy and two volcanic eruptions, all of which had a significant impact on our operations.”

Guðnason’s first task was to streamline operations and become more cost-competitive. This included cutting capacity because of slowing demand, and letting go nearly 400 staff, something

he says he didn’t like doing but felt was necessary. Fortunately, this put Icelandair in a better position to weather a fierce financial storm that blew across Iceland when the country’s three major banks collapsed in late 2008. Instead of receiving government bailouts, the banks were left to fail, in turn pushing Iceland’s economy to the brink. The airline was forced to make additional cost-cutting measures, but the impact wasn’t as severe because of the cost cutting implemented months earlier.

Icelanders endured a massive recession coupled with increased unemployment. “The economic collapse had an impact on all companies in Iceland,” Guðnason tells *Airways*. “Icelanders lost a lot of money, and there was a lot of uncertainty. Would there be any banks? Would there be food on store shelves? We had no idea what was going to happen.”

Although Icelanders had less disposable income to spend on travel, the devaluation of the country’s currency, the *Krona*, was a golden opportunity to promote tourism. The airline deftly moved its marketing budget from domestic promotions to the international market. This helped Icelandair fly through a turbulent time. More than five years on, Iceland is still feeling the effects of the economic meltdown, but two industries that are faring well are tourism and the fisheries,

both sectors that provide revenue to the airline. In just the past five years, passenger traffic has risen more than 40 percent, with Icelandair carrying well over 2.3 million passengers last year.

If the implosion of Iceland’s economy wasn’t enough, the explosive 2010 eruption of the *Eyjafjallajökull* volcano in southern Iceland would wreak havoc on the airline industry, not only in Iceland but also in Europe and North America. A huge ash cloud from the volcano closed airports and forced the rerouting of aircraft across the North Atlantic.

In the first six days of the eruption, Iceland’s main international gateway at Keflavik was open, while many airports in Europe were closed. This enabled Icelandair to continue operating to North America and northern European cities. A crisis committee met four times a day, deciding what flights could operate and which ones would have to be cancelled. After the first week of the eruption, the ash cloud moved toward southwest Iceland, leading to the closure of Keflavik airport.

“Our first plan was to move our operations to Akureyri, in the north of the country, but the way our operations work is that all of our aircraft are landing at the same time, and that airport could only park four aircraft at a time,” says Guðnason. “We needed to find



This Douglas DC-3 (C-47) Dakota, TF-NPK was the first DC-3 to join Flugfélag Íslands in 1945 and was retired from service in 1973.

FAST FACTS: ICELANDAIR

Callsign:	<i>Ice Air</i>	
IATA/ICAO:	FI / ICE	
Website:	www.icelandair.com	
Frequent Flyer Program:	Saga Club	
Parent Company:	Icelandair Group	
CEO:	Birkir Hólm Guðnason	
FLEET		
TYPE	Nº	CONFIGURATION
Boeing 757-200	20	C22 Y167
Boeing 757-300	1	C18 Y210
Boeing 757-200 (PCF/APF)	3	Cargo
DESTINATIONS		
EUROPE	Akureyri, Amsterdam, Barcelona, Birmingham, Brussels, Frankfurt, Geneva, Glasgow, Hamburg, Helsinki, London, Madrid, Manchester, Milan, Munich, Paris, Reykjavik, St. Petersburg, Zurich	
USA/CANADA	Anchorage, Boston, Denver, Halifax, Minneapolis, New York (JFK), Newark, Orlando (Sanford), Seattle, Toronto, Vancouver, Washington DC	
SCANDINAVIA	Bergen, Billund, Copenhagen, Gothenburg, Oslo, Stavanger, Stockholm, Trondheim	

an airport that was close enough that we could still fly a Boeing 757 to North America.” Overnight, 11 of the airline’s aircraft and 150 of its staff, including crew and check-in agents – everything needed to operate the network – moved to Glasgow, Scotland. The next morning, Icelandair was ready to serve 70 percent of its network. A passenger that in the past would have flown from Amsterdam to New York via Keflavik was now flying to New York via Glasgow. “I’m extremely proud of all our staff that we were able

to mobilize so quickly and continue our operations the next morning in another country,” says Guðnason. “It was never a consideration that we would shut down completely. We wanted to operate as many flights as possible.”

The Glasgow operation lasted for six weeks. With much of the international network between Europe and North America still operating, continuing to serve Iceland, especially Reykjavik, was a priority. The airline continued flying into

Akureyri, and bussed passengers 387 km south to Reykjavik, a journey of nearly five hours. “We have a saying, never to waste a good crisis,” says Guðnason. “Iceland was getting a lot of media attention. This turned out to be a good thing because global awareness of Iceland as a tourist destination increased.”

The word is out; Iceland is the next “best place” and has seen annual tourism growth of about 20 percent. Icelandair has been riding this wave, doubling the number of routes it has served over the past five years. In 2008, the airline flew to just five cities in North America; now it serves 13, with its entire network encompassing 39 destinations in 16 countries. To its credit, Icelandair’s growth strategy has been a conservative one, preferring to test the market with limited frequencies and seasonal service rather than overextending itself.

“We see an opportunity to increase our presence in the trans-Atlantic market,” says Guðnason. “Edmonton has only one non-stop flight to London on Air Canada. Denver has just British Airways and Lufthansa. And from Anchorage, one would have to fly three-and-a-half hours south to Seattle before connecting to Europe.” Someone flying from Anchorage to London would save more than 3,300 miles (and countless hours) on the roundtrip by connecting through Icelandair’s Keflavik hub rather than routing through Seattle.

Almost half of the airline’s traffic is connecting between North America and Europe, with many of those taking advantage of a free stopover in Iceland. While Icelandair’s North American strategy has largely been to find underserved secondary markets, the airline is not afraid to step into markets that others have abandoned. This was the case in Seattle when Scandinavian Airlines (SAS) left that city in 2009, after more than 40 years of service. Eyeing the large Scandinavian population in the U.S. Northwest, Icelandair began service to Seattle with four flights a week (daily service began in 2012), offering convenient connections to the eight destinations it serves in Norway, Sweden and Denmark.

The airline is also banking on its new Vancouver service to provide a similar link to northern Europe, given the lack of good connections to that region from Canada's third largest city.

Looking out across the ramp area of Keflavik International Airport and seeing the blue and yellow livery of Icelandair, you'd be inclined to believe that the airline is free from competition. However, there are about 17 airlines now serving Iceland's largest airport, many of these being of the low cost kind. While in some parts of the world low cost carriers have eaten away at traditional carriers, this isn't something Icelandair is worried about. "The low-cost carriers are growing the cake and stimulating markets that are either new, or ones we weren't able to serve," says the affable Guðnason. "We see it as a positive thing. Despite the increased competition, we've added capacity and grown in the last four years, and increased tourism overall is good for our sister companies." The Icelandair Group is comprised of a suite of subsidiary companies including hotels, air cargo, travel, and domestic carrier, Air Iceland.

Icelandair has developed an efficient hub-and-spoke network from its Keflavik base, primarily operating two, well-timed banks each day. With a couple of exceptions, all flights from the U.S. and Canada arrive into Keflavik between 06.00 and 06.45, and quickly turn for services to European destinations. In the afternoon, those European flights return to Iceland and are then reloaded with cargo, catering, and passengers, before departing out to North America, all within a two-hour period in the early evening.

Icelandair bills itself as a hybrid carrier, being neither low cost nor full service. On offer are three cabin classes. *Saga Class* (business) offers four-abreast seating with a 40-inch pitch. On European flights, passengers are offered a choice of two main meals, while those travelling between Iceland and North America have a choice of three meals. Economy Comfort occupies the first few rows of economy, and features six-abreast seating, with the middle seat blocked out. This allows some flexibility to turn these into economy seats if demand warrants.



Icelandair had four Boeing 737-400 aircraft in its fleet. Pictured is TF-FID – the last in service until the 757 fleet arrived as a substitute. The airline's 737-MAX order will give the airline back its 737 status.



Icelandair operated five Boeing 767-300ER aircraft. Pictured is TF-FIB, arriving in Keflavik on May 18, 2005 – the only 767 to carry the full Icelandair markings. This aircraft was mainly deployed on the San Francisco route in the 2005-2006 period.

The seat pitch is only marginally better than economy at 33 inches, compared to 32 inches. Meals and headphones in Comfort Class are complimentary, while there is a nominal fee for such service in economy. "We try to keep our costs down, but we still want our passengers to have a good experience. We're not just offering seats from A to B," says Guðnason. "We can invest in seats and aircraft, but it's worthless if we don't deliver a good experience for our passengers. We can ruin or enhance someone's experience of Iceland." While the airline refused to

share any financial details, Guðnason says Icelandair has been profitable the last four years – a testament to the airline, given the challenges the country has faced in recent years.

Icelandair is a good airline that doesn't pretend to be anything it isn't. While some airlines boast about being the largest or flying the biggest airplane, Icelandair is refreshingly unpretentious. – KD

Special thanks to Baldur Sveinsson for the stunning photography.





This Icelandair Boeing 757-208(WL), registered TF-FIO (MSN 29436 / LN 859) was pictured flying over the rarely green Icelandic countryside.

PHOTO: BALDUR SVEINSSON