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China new Capital Airlines !

Beijing's municipal government is to inject capital into Deer Air, an airline focuses on the business jet service, and rechristen the carrier Capital Airlines, Monday's newspaper China Business News reported.

The local government in Beijing signed a strategic cooperation agreement with Hainan Airlines Group (HNA Group), the parent company of Deer Air, on February 7 pledging to invest on Deer Air and rename the carrier, the report said.

With Beijing Capital International Airport as its main hub, Deer Air mainly engages in business jet service and charter flights for tourists. Its fleet includes 19 Airbus A319 jetliners, according to its official website.

The current registered capital of Deer Air is 776.5 million yuan (\$113.9 million), China Business News said.

A senior executive of Deer Air who did not give his name told the newspaper that Beijing Tourism Group (BTG), a Beijing-based state-owned tourism enterprise, will inject the capital on behalf of Beijing municipal government.

He said the two sides, HNA Group and BTG, are still negotiating the BTG's amount of investment and the new airline's shareholding structure. But he said HNA Group will still be the controlling shareholder.

Analysts said the new Capital Airlines will have a profound impact on Beijing's air transport market.

An expert told Monday's Beijing Business Today that the participation of Beijing municipal government will bring the Capital Airlines great policy support, so the carrier could gain a foothold in Beijing's air transport market while facing fierce competition.

Currently, the Beijing market has become a battlefield of China's three major airlines, China Southern, Air China, and China Eastern and the expert said with the possible extension of the new carrier's business from business jet service to public transportation service, it may challenge the current Beijing market dominator, Air China.

But another industrial analyst Li Lei believed that Capital Airlines will not impact current market shares of the three major carriers and it will be an arduous task for it to challenge Air China.

"The development of Capital Airlines remains to be seen," Li was quoted as speaking to Beijing Business Today.

Seeking cooperation with local government has become a business model for HNA Group to develop its subsidiary airlines.

Two of its subsidiaries, Lucky Air and Grand China Express, gained the capital injections from local governments of Yunnan and Tianjin respectively in 2009 and Grand China Express was renamed as Tianjin Airlines.

It also signed a cooperation agreement with Dalian Free Trade Zone last August to establish a Dalian Airlines.

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