CRISIS IN THE AIRLINE INDUSTRY

A Dutch view

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TRADITIONAL DEMAND DRIVERS IN AIR TRANSPORT:

- **increasing World GDP**

- **decreasing real yield**

HAVE THE SHOCK WAVES (09/11, IRAQ, SARS) CREATED STRUCTURAL CHANGES IN BEHAVIOUR?

- **Increasing price elasticity of business passengers?**

- **Changing price perception due to LCC ?**

ONE ‘META’ DEMAND DRIVER OFTEN IGNORED:

- **deregulation and restructuring of the air transport markets: the example of TCAA**

WHAT IS THE IMPACT OF A TCAA ON DEMAND VOLUME?

1. THE DIFFERENCE BETWEEN A TCAA AND ‘OPEN SKIES’ BILATERALS:

- **Nationality clause**
- **Limits on foreign ownership and control**
- **No right of establishment**
- **No stand-alone cabotage**
- **No consecutive cabotage**
- **No seventh freedom rights**
- **No wet leasing**
- **Fly America requirements**

- **Output restricting bilaterals US-UK, (Greece, Spain and Ireland)**

2. RESTRICTING CONSEQUENCES OF THIS 'OPEN' SKIES REGIME FOR THE MARKET STRUCTURE:

- **Restricted competition on Transatlantic routes (no 7th freedom)**

- **Barriers to EU consolidation: BA-KLM**

- **No Transatlantic mergers**

- **Fragmented EU market:**
  - **artificial proliferation of hubs**
  - **Impediment to efficient network design**

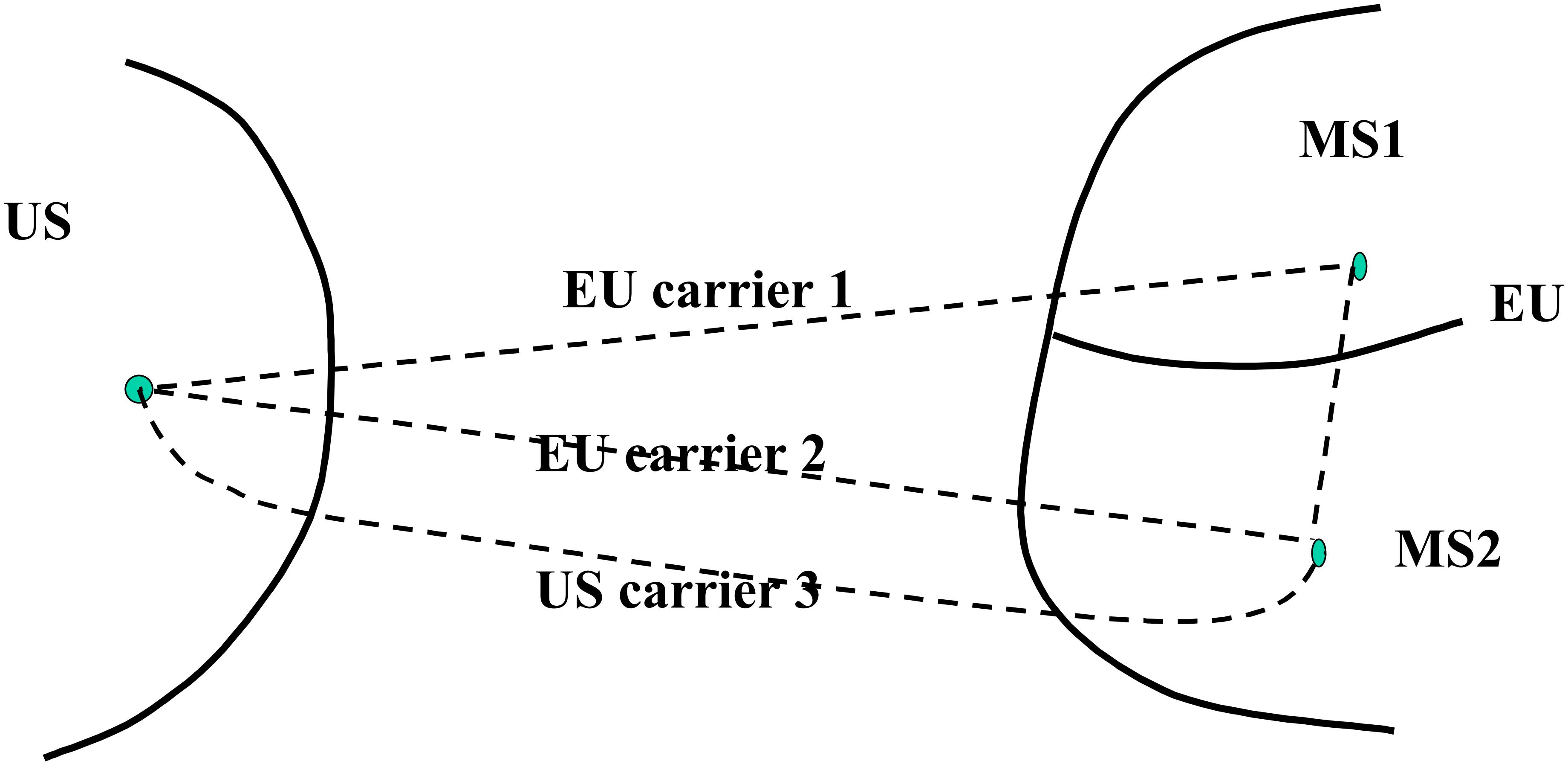
- **Unstable alliances as only a first step to further consolidation**

3. THE BENEFITS OF A TCAA

Brattle Group report:

- **More efficient carriers replace less efficient carriers**
- **Economies of scope and density enabled by consolidation**
- **Price coordination on interline routes**
- **Output expansion**
- **Cross-border flows of capital and labour**

MORE EFFICIENT CARRIERS REPLACE LESS EFFCIENT ONES



THREE POSSIBILITES OF INCREASED EFFICIENCY

a. without a TCAA:
Airline 1 cannot operate service between MS2 and US and organise the EU feed to MS2 hub

b. In a TCAA:

- **airline 1 could merge with or take over airline 2 or 3**

- **Airline 1 could enter the routes served by airline 2 and 3 and out-compete them due its greater efficiency**

- **The threat of acquisition or entry of airline 1 could force the other airlines to increase their own efficiency**

4. TOTAL IMPACT ON DEMAND VOLUMES (Brattle group)

(‘000s pax /year and depending on price elasticity assumptions)

Transatlantic market:		
Cost savings	**968**	**3,169**
Pricing Synergies	**975**	**5,654**
No output restricting bilaterals	**2,188**	**2,188**
Subtotal	*4,131*	*11,011*
Intra-EU market:		
Cost savings	**13,527**	**35,720**
Total	*17,6548*	*46,731*

Note: total AEA volume North Atlantic: 24 mio pax (x 2?)
Europe: 243 mio pax

RECENT STEPS TOWARDS A TCAA

- **US Congress recently discussed relaxation of foreign ownership restrictions**

- **ECJ (November 2002) decided that nationality clauses in bilateral ASAs are in conflict with EU rules: all ASAs of EU-member states have to be adapted**
  (the French follow-up versus the British one)

- **Two Decisions recently taken by the EU Transport Council:**
  - **On external relations**
  - **On the EU-US mandate**

- **Note: EP has to decide on the Commission's Proposal including amendments before it becomes law**

MULTILATERAL NEGOTIATIONS CAN TAKE YEARS:

•US-UK bilateral ASA problem has to be solved (LHR access)

•Cabotage rights within the US domestic market is an extremely sensitive issue (security etc.)

•Distribution of multilaterally acquired traffic rights between EU-member states remains a problem

THE DUTCH PERSPECTIVE:

•**Existing situation:**
-Relatively big air transport industry compared to the size of the country
-Result of an efficient cooperation of aviation authorities, national carrier and national airport in a internationalair transport market based on bilateralism (see for example first alliance NW-KL, first open skies agreement, first liberal bilateral UK-NL)

•This nationally based system is collapsing and will be replaced by an internationally organised industry

•KLM probably chooses AF as its alliance partner
- •NW-CO-DL is the US driver
- •BA-KLM blocked by US government due to US-UK bilateral

THE DUTCH PERSPECTIVE (continued):

- CdG becomes the main hub of the Skyteam alliance

- AMS becomes one of the Skyteam sub hubs

- Airport cooperation will change:
    - Pantares (AMS-FRA) will be broken up
    - Closer cooperation between AMS-BRU-AdP expected based on the backbone of the HST link

NEW INTERNATIONAL STRATEGY OF SCHIPHOL AIRPORT

- **More airline network oriented than privatisation driven**

- **Landside: strengthen the catchment area**
  - **Road and rail accessibility**
  - **Participation in and cooperation with airports in overlapping catchment areas**

Airside:
  - **cooperation with feeder airports**
  - **cooperation with trunk route airports**

Note the difference between cooperation and participation

ON THE LONGER RUN:

- **a limited number (3?) of hierarchical multi-hub systems inside Europe**

- **KLM an anonymous part of a global full service carrier that comprises former national carriers from different continents**

- **Amsterdam airport a secondary hub in an intercontinental Multi-hub system**