

1 The Air Transport Industry in the 21st Century: A Synthesis of 2 the Views of Aviation Experts in the UK

3 Dr. N. P. Mootien

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5

6 **Abstract**

7 The expert interviews carried out in the UK in 2009 show that the concepts of deregulation,
8 liberalization and globalization in air transport are realities that cannot be overlooked. The
9 results of these interviews will also support the contention that SIDS will eventually adopt
10 policies which will, in the long run, be beneficial to these developing countries wishing to stay
11 in operation within a highly competitive environment. Although all interviews were confined
12 to the UK, it would be fair to mention that because of the nature of international transport
13 that literally cut across borders most if not all of the concepts and ideas discussed at the
14 interviews are global issues that would probably be applicable to any part of the world.
15 Moreover, most if not all, of the interviewees have international exposures and have handle
16 projects and consultancy works overseas. Although, the views expressed by the interviewees
17 may not always be coherent, there is a common thread throughout as to the present and
18 sometimes very precarious situation. Most of the interviewees are optimistic for the future and
19 some of the themes that keep recurring are: consolidation, the necessity for alternative sources
20 of energy and the rise in cost of operations. Another issue that got specific attention and focus
21 was the environmental concern and global warming.

22

23 **Index terms**— Consolidation, Mergers and Take-Overs, Cost Control, Oil Peaks, Environment and
24 Sustainability

25 The purpose of the interviews was to determine various opinions and ideas from academics who have had
26 exposure to and experience of the aviation sector. All the interviewees selected are qualified in their respective
27 fields and have many years experience working and/or teaching air transport at tertiary level. Below is a
28 table with their respective academic and professional qualifications and experience. Although very varied
29 opinions were expressed during these interviews regarding certain topics around the main issues of deregulation
30 and liberalization, there were also many areas of convergence where the interviewees concur that all the
31 various components that make the future of aviation are the same. In other words the experts' concerns and
32 preoccupations are basically the same. It will be seen in the analysis that many issues such as oil prices,
33 environment and energy keep recurring.

34 **1 I.**

35 **2 BACKGROUND OF INTERVIEWEES AND THEIR EX- 36 PERIENCE IN AVIATION**

37 a) The aviation sector currently and in the future On this question, the interviewees were all in agreement to say
38 that the current situation is not what was expected by the proponents of deregulation and that things are now
39 beyond control of the various stake holders. In other words, they no longer have full control of the situation as far
40 as future directions of the industry are concerned. For the developed countries and the airline operators of these
41 counties the developments were much below expectations. Most of these airlines have gone through turmoil and
42 have had to either close down, restructure or went in to merger with the mega carriers (Kenya Airways/KLM,

3 II. WIDER CONTEXT: SOCIAL, ECONOMIC AND ENVIRONMENTAL FACTORS

43 Air Senegal/Royal Air Maroc, Air Afrique). As for the future more problems will occur as we move further in
44 to this millennium of major uncertainties coupled with the current economic downturn. Although the future is
45 not easy to predict, most economists tend to agree that things for the international economy will improve but
46 no one knows when. The same could be said of the aviation industry as it is linked to the various sectors of the
47 local economy (micro economy), the major area of the broader economic sector (macro economy) and what will
48 be the outcome of globalisation (international economy).

49 Those developments have certainly had their effects on several factors. From a global perspective, the various
50 social, economic and environmental indicators have shown that the future of the industry may be more uncertain
51 than before. The industry and the economies of countries are interdependent. Society still has high expectations
52 from the industry: better and cheaper services. The environment is a big issue and will be a serious concern in
53 the decades to come. Global warming will be for the years to come a serious threat to the future of the planet.
54 Emissions from the industry, every one agrees, have a very big impact on global warming.

55 3 II. Wider Context: Social, Economic And Environmental 56 Factors

57 We are in a middle of an economic downturn. For Interviewee H "this time the credit crunch is bigger but it
58 was bound to happen sooner or later. But the critical issues are climate change, peak oil and environmental
59 constraints at airports". Therefore, more funds are now needed to finance aircraft operations. This obviously
60 puts more pressure on governments and airline operators alike. For countries where air transport is still very
61 much a luxury and that rely more on the performance of a single flag carrier, things do not look good now and
62 will be even more difficult in the future. For the developed countries also, the airline industry will have to face
63 serious difficulties especially with the fluctuating prices of jet fuel. This recession is worse than the one of the
64 1930s says interviewee D who has done some major works on energy and fuel hedging for the AEA (Association
65 of European Airlines).

66 There is consensus that because of the unpredicted nature of the recession, most of the economic forecasts
67 have been nullified. It is probably more difficult now to make predictions with any level of accuracy. But there is
68 also consensus that the international economy will improve although nobody knows when and how fast this will
69 happen. But it is reasonable to concur with Interviewee A who is of the opinion that "Like for other sectors of
70 the economy, recessions are always bad for air transport as well. The recession will hopefully take at least two
71 years to clear up and we can foresee some more consolidation among the major carriers. We are in the middle
72 of the worst economic downturn of the century and things will be different but are difficult to predict with more
73 accuracy."

74 Interviewee D seems to agree while stating that "I am sure that there will be a recovery but it depends when:
75 whether it will be an L shape, a V shape or a W shape?" He went on to say that the good news for the moment
76 is that oil prices have gone down although it "will continue to be volatile. Alternative sources of energy will
77 certainly reduce the demand for crude oil; there will still be heavy reliance on crude oil for electricity supplies."

78 From the above it is obvious that the economic crisis of the moment is a major concern for the world in general
79 and for the industry in particular. There is a fear that the recession would last more than it should. Most of
80 the forecasts have been proved wrong and we are in the middle of economic uncertainties, the prices of oil and
81 the general economic trends in most countries have given rise to some form of pessimism among major players.
82 From the opinions of the interviewees, although the recession could be worse for the aviation sector than other
83 sectors but the aviation sector always picks up faster. Social, economic and environmental factors will continue
84 to weigh very heavily in the equation of supply and demand. The decrease in demand will certainly have rippling
85 effects on world society at large. Consumer behaviour will change as the crisis continues to bite in. a) Demand
86 and Usage Trends: Current, Short Term, Long term and Market Niches

87 For air transport like many other products it is demand that pulls in supply whereas for other category of
88 products the reverse could be true especially in captive or traditional market or some inelastic products, namely
89 necessities. If there is an acute drop in demand, operators will react by reducing supply with a view to increase
90 load factor. This consequence will occur in the short term. In The long term, the situation may stabilize as the
91 world economic situation improves. Finding new market niches will help keep operators in business while waiting
92 for better days. Such niches will hopefully fill in the seats to make up for lost revenue.

93 Because of the high elasticity of demand for air travel, demand usually drops in times of recession. This is
94 normally the case for luxury products and for many markets air travel is very much a luxury. As interviewee C
95 confirms "people have cut down on holiday travel and those who are still travelling for holidays are concentrating
96 more on short haul travel. Companies are also restricting travel to cut down on their costs. But a significant
97 proportion will continue to travel on business." Interviewee A however is of the opinion that "people will continue
98 to travel for obvious reasons. In particular those in the higher income groups will continue to travel. The US
99 domestic market will continue to increase. Fare reductions and the new entrants will not make a big difference."
100 He also shares the same view with Interviewee C that the short haul market will expand. The trends in demand
101 will continue in Europe, he says as 55% of the well-off people account for 85% of air trips. According to him,
102 London airports will handle more passengers although the UK market in general is getting saturated.

103 There is a touch of pessimism for the developing countries especially those of the African continent. Most of the

104 interviewees are quite convinced that again Africa will lag behind for the obvious reasons of political instability
105 and lack of good governance. Interviewee A supports this view when he says that "a few decades ago, Africa
106 accounted for 5% of world travel but now it is down to 2%". According to Interviewee A, South America is now
107 growing rapidly but will have some difficulties to sustain their operations because of increasing costs. "Asia", he
108 says, "will steam ahead, but there will eventually be some failures. Mauritius falls between Africa and Asia and it
109 will attract more inbound tourism. However, air transport will obviously be a serious casualty of this recession."

110 Interviewee D who says he is an optimist by nature opines that the economy will pick up. The good news
111 according to him is that "normally the airline industry picks up faster than the other sectors. There is still a
112 huge appetite for travel. Now the Chinese will travel more and more like the Japanese used to do. Demand will
113 not disappear. I know a lot of people are talking about video conferencing and WebEx but this will not cause
114 a remarkable reduction in demand. We do have a good future for the industry. People will continue to go on
115 holidays." Interviewee E seems to be more cautious. "We have to be careful with short and long term trends",
116 he says, "we are going through a recession and the industry will suffer. In the long term [though], the industry
117 will see some growth."

118 Interviewee G has a totally different take on the present situation and demand in the future. He finds the
119 industry to be 'in a mess' and a state of chaos. According to him the current economic crisis is not responsible
120 for this state but rather it only acted as a catalyst to speed up the process. The economic crisis, he says, cannot
121 be used as a justification for the mess they are now in. He quite candidly points out that "the airlines have, for
122 many years, believed naïvely that the good times will continue. They have been living on borrowed times. They
123 thought that things will continue as before." He adds that "the airline business has very high peaks and very low
124 troughs. At the moment", he says, "nobody has the right answer or the right business model. We'll continue to
125 see continuous deaths of major airlines and we'll also see some exciting births. There will be some big winners
126 and some big losers." However, according to Interviewee I, although we are going through a very difficult phase,
127 the industry will pick up. Historically, he says, the airline industry has a cycle of 'boom to bust' but this time
128 the credit crunch is biting harder. Most interviewees are rather optimistic that things will improve.

129 The economic forces of supply and demand will at the centre of future developments. Supply will be determined
130 by demand but in the short run, operators will have to take piece-meal decisions to increase load factor and break
131 even. In the long run there will be positive changes if the world economy improves. Niche markets will be one
132 of the options for operators to neutralize the negative economic impacts of the industry. Air line operators will
133 have to review their modus operandi and change their mind set as the situation now is more or less irreversible
134 unless new management principles are adopted.

135 4 b) Supply:

136 Airlinef actors -Low cost carriers/consolidation/acquisition Supply will be determined by several factors: the
137 ability to sustain airline operations with regard to finance and the prices of oil among other things. Most of the
138 interviewers tend to think that the industry is now facing the greatest challenge of its existence: Recession of the
139 world economy, fall in demand, lack of finance for investment and pressure form all sectors -political, social, and
140 environmental. The industry will have to fight many battles on several fronts if it wants to survive. One of these
141 battles will be to regain the faith of bankers.

142 Finance is an important requirement for the simple reason that the industry is investment-intensive and the
143 credit crunch is imposing serious limitations to credit availability as Interviewee D points out: "Banks are now
144 reluctant to lend and they are also lending at premium rates." Moreover, the industry is very vulnerable to
145 oil price fluctuations. These are most of the points brought up by the interviewees in general. According to
146 Interviewee B, we will see more liberalization over time, but it will come gradually. More consolidation of airlines
147 and the growing presence of low cost airlines will increase supply. He is also of the opinion that the "there will
148 be more open sky agreements and relaxation of rules. Low cost airlines will be more prominent on both the long,
149 short haul and domestic markets. As the economic situation improves, there will be more privatization of the
150 larger airlines. Large alliances will be formed offering more seats, hence better load factors." However, we should
151 here mention an opposite view expressed by Interviewee F who is convinced that "in the UK market for instance,
152 there will be two megacarriers with fragmentation and consolidation. You will continue to have several market
153 segments: the very rich looking for the best products with all the frills and the bottom edge of the market looking
154 for the cheapest flights."

155 Interviewee A holds basically the same view when he says that "there will obviously be mergers and
156 acquisitions. Lufthansa is already busy acquiring some small airlines. There will be more of the likes of Air
157 France/KLM/Alitalia. Charles de Gaulle, Orly, Amsterdam and Frankfurt Airports will continue to be the
158 major hubs. Flag carriers will continue to be a major issue especially for the smaller countries with small airlines.
159 But for survival, small flag carriers will be leagued in to larger groups."

160 Because of the increase in low cost airlines, the flag carriers and other regulated airlines will have to review
161 their methods of operations. Airlines will have to adopt a consolidation approach and pull resources together.
162 Large airlines will have to merge with other smaller airlines and some of the large ones will acquire the small
163 ones with the blessing of their respective governments. The big European airports will continue to develop as
164 hubs and smaller airports will be the spokes.

5 III. THE DIFFERENCE BETWEEN THE AVIATION

165 5 III. The Difference Between The Aviation

166 Sector And The Other Sectors Of The Economy And Between The Aviation Sector And The Other Sectors Of
167 The Transport Industry

168 This question is set because there is in fact a tendency by all stakeholders to treat air transport separately from
169 the other sectors of the transport industry. There is the feeling that it is a class of its own and most interviewees
170 seem to share this view. Within the economy as well, the air transport industry seems at times to be treated as
171 a separate identity compared to other stakeholder. There are obviously several reasons to explain this: Is the air
172 transport a major player within the economy? Is the air transport sector to be treated as a major partner in the
173 economy or be lumped together with all other service providers etc? It is along these lines that we wanted to
174 prompt some reactions from our interviewees. Practically all of them agree that the industry should be perceived
175 as a separate entity within the transport sector in general but should be an integrated part of the economy in
176 general. a) Competition within the transport sector One of the important points that came out is that the US,
177 in spite of their free economy, their antitrust laws, still treats air transport differently from the other sectors of
178 the transport industry. On this issue, Interviewee B says that "the US has its own rules. They have a different
179 way of doing things. If jobs are at risk, they will intervene." But he personally does not think that should be
180 treated differently from the other sectors of the industry. Even for the economy in general, "we should leave air
181 transport to the forces of the market.

182 Airlines should be allowed to fail for others to come in. Too many airlines have been pulled out of bankruptcy
183 by their respective governments. Airlines continue to be symbols of national pride and they need to be assisted
184 in order not to collapse". (Interviewee B). For Interviewee H, air transport is high speed transport over long
185 distance. According to him "aviation has created a global society and the industries created a global economy.
186 Aviation has created patterns of trade which never existed before".

187 Another point that recurs is that the airline seat is a perishable product but then all transport seats, road
188 or rail or shipping, are as perishable as the airline seat. It is hard to understand why the perishability issue
189 seems to have more attention in the air transport sector than other sectors. Load factor requirement could be
190 part of the explanation for this emphasis on air seats perishability. In the course of these interviews it becomes
191 clearer that most experts, in fact, do treat the sector differently. However, Interviewee C is of the opinion that
192 "there are more similarities than differences. Its mass transportation, subject to the same major constraints of
193 the economy, fuel prices, supply and demand etc. There has been a commoditization of the product like any
194 other." Interviewee D also supports this argument. According to him, "it certainly has a lot in common with
195 surface transport. But it is a little more flexible compared to rail and road which have fixed tracks. Regarding
196 the economy in general, we are at an advantage. If things don't work, we can always take our business elsewhere
197 but if it's a factory, it's not easy to do that". For Interviewee the main similarity is the congestion problems.
198 But he thinks that "changes are easier to make in air transport than in the other sectors of the economy. But we
199 suffer the same problem with the credit crunch? on the recovery side, the low cost airlines are quicker to react
200 and to adjust to new prices."

201 Most of the interviewees think that the industry should be treated the same as other sectors of the economy
202 and of the transport sector in general. Air transport like any other product should be left to the market forces.
203 Competition will be beneficial for one and all although profitability could be marginal. The perishability of
204 airline seats makes it difficult for airlines to work on high profit mark ups. There are in fact more similarities
205 than differences. Its mass transportation, subject to the same economic conditions; There has been, as Interviewee
206 C puts it, a 'commoditisation of the product'. According to interviewee K, it is the regulation that used to make
207 it different but now it is like any other product. She also went on to say that it is probably the economic recession
208 that still makes the product a luxurious one. Leisure travel, she says, still a luxury for many people. b) Is air
209 transport still a luxury, only for the elite? Most of the interviewees also argue that the product is by nature
210 different. For Interviewee J the major difference is that it is a global industry and cannot be treated as a local
211 industry within the economy. There is consensus that it is still a luxury product designed and destined for the
212 elite. Interviewee B asserts that because of the luxurious nature of the product, "it is still only accessible to the
213 rich. Rail and road transport is subsidized but aviation is not." But this is debatable, because it is no secret that
214 many airlines especially the flag carriers are heavily subsidized. It has been seen that airlines which are forced
215 to fend for themselves in times of crisis, very rarely survive. When this argument was put to him, he conceded
216 that "the US has heavily subsidized some major airlines to keep them flying and save jobs."

217 For Interviewee H "it was and still is for the elite; politically it is a high profile industry and for a lot of people
218 it is still sexy and highly prized!" However, Interviewee C holds a slightly different view. According to him, "in
219 Europe, air travel is no longer a luxury. In other parts of the world, yes it is still perceived that travel is only for a
220 certain class of people, the elite?" Interviewee A has some clear-cut opinions, that "it is still considered as an elite
221 activity. The service is different with the frills and pampering." However, from a purely economic viewpoint, he
222 argues that "the industry is more prone to political problems and international changes and influences." He also
223 confirms one of the points mentioned earlier in this analysis that "air transport has a higher elasticity of demand
224 than road and rail transport. People use the rail and road transport because it is an essential service to get to
225 work. Whereas VFR could be once a year and whenever there is a recession, demand comes down quicker than
226 for road and rail transport." But it is important here to note that air transport according to him has a more

227 efficient structure than many other sectors of the economy but in other respects it is the same (as any other
228 sector).

229 Interviewee G has a more radical, albeit interesting position. When asked what makes the difference between
230 the two he was quite outspoken: "People say it's the arrogance. It's refusal to recognize that this capacity growth
231 can be constrained. We accept constraints in other sectors as in road and rail." He also feels that air transport has
232 always had some kind of privileged treatment especially the flag carriers. The similarity, he says, is that both
233 surface and air transport are demand driven. He went on to say that one important issue that makes it even
234 different is its 'volatility' within the economic set-up. He also had some interesting view on the vulnerability of
235 the industry to international economic upheavals. "It has been a lead indicator of economic growth but also of
236 decline and recession", he says. He added that "the product has a different market. It is not what we regard
237 as public transport. It has also evolved from the belief that this Global atypical arguments to support his
238 views. "Look at the [now defunct] Concorde! Who in their right mind would design something like Concorde!
239 The problem that the industry is now facing is that the existing model is bust." Along the same lines he also
240 brought some interesting points to highlight the specificities of the airline industry: "It is a service industry
241 relying on face to face communication. It brings people together, in contact and links them around the globe. It
242 increases globalization." He further mentioned the very crucial role of airfreight which most of the experts tend
243 to overlook. He argues that "freight is much underrepresented in the debate and discussions. Freight will have
244 to be an important part in the future business model." But he is of the opinion that aviation still has a bright
245 future if the proper business model and structure are found. People are deluding themselves, he says, if they say
246 they will see the end of aviation.

247 For many years, the aviation sector has been treated as a special industry; it was associated with adventure,
248 luxury and glamour. Within the economy it self it is still perceived as an industry of a class of its own. But
249 the reality dictates otherwise because the industry is subject to the same ups and downs of the world economy.
250 It faces the same crises as any other industry. At times it is much more vulnerable than the other sectors of
251 the economy. Within the transport industry as well, it is perceived as a privileged sector for various reasons:
252 Symbolism, nationalism, pride associated with the sector. But again, it should be treated at par with other
253 sectors of the transport industry.

254 IV.

255 6 The Concept Of Deregulation And Liberalization In General 256 And Within

257 The Air Transport Sector

258 Here also there was some very diverse view regarding the distinction between deregulation and liberalization in
259 both the air transport industry and the economy in general. For most of them, they are one and the same thing
260 although some found that in the transport sector, and in the air transport sector in particular, there could be
261 some nuances. A general view is that as far as trade is concerned they are the same thing. For one or two people
262 interviewed, they are complementary in the sense that liberalization is more of a corollary to deregulation. This
263 is probably due to the fact that historically deregulation started in the US and when the same movement started
264 in Europe, it was called liberalization which basically means the same thing. For many it is just a question of
265 semantics.

266 Deregulation has been an important phenomenon for world trade. The first half of the last century was marked
267 by pronounced protectionism at all levels of international trade and more so for the air transport industry. The
268 time for airlines to deregulate was right and it started with the Air Deregulation Act of 1978 in the United States.
269 Although this was limited to the domestic market, it soon spread to the international airlines and obviously to
270 other countries where it was called liberalization.

271 7 a) Protectionism

272 More than an attitude, protectionism is a policy whereby an authority, more often a government or a government
273 organ or ministry gives protection to a company or a sector or a product. This is done by imposing a set of laws or
274 regulations in order to protect the company or product against local or overseas competition. This applies also to
275 aviation. It is a truism that most national flag carriers have benefited and are still benefitting from protectionism
276 as a result of government regulations or laws. Hence, Interviewee C is sensible when he quotes Doganis as saying
277 that deregulation is partly a result of too much protectionism. We can also say that liberalization is also a
278 consequence of too much protectionism. As a matter of fact, most airlines in Europe went in to liberalization
279 in order to compete with national carriers which, in spite of government protection were finding it difficult to
280 survive. The case of Panam, Sabena and Swissair are good examples. They were all national airlines that went
281 bust because of competition brought about by deregulation and liberalization.

282 Admittedly, the term deregulation is more or used only in aviation when it could very well be used for trade
283 in general. This is also partly because in the US, there was the Air Deregulation Act of 1978 that formally
284 and legally set the scene for airline deregulation. But it is obvious that when it comes to trade, national or
285 international, the preferred term is 'liberalization.' Interviewee K explained that basically the only difference in

9 C) LIBERALISATION

286 the two concepts was that the "US deregulated overnight whereas in the case of Europe a more cautious approach
287 was preferred."

288 Interviewee H has a different approach. He is "not convinced that unregulated capitalism is sustainable. What
289 we have seen so far points towards this: Half-full aircraft are flown provided it makes economic sense".

290 8 b) Deregulation

291 There is general agreement that it obviously means the absence of or the removal of regulations or rules governing a
292 business. This entails leaving the sector to the forces of the market, i.e. to the movement of supply and demand
293 without government intervention. This is supported by Interviewee C who thinks "that deregulation is very
294 specific. It means taking these regulations away. Control within and between states were taken away. In the US
295 it was regulated by the Civil Aviation Board and the Department of Transportation.

296 The US called it deregulation because the regulations were taken away, making the market freer. Doganis,
297 however, argues that deregulation came up because of too much protectionism." This is also in agreement with
298 Interviewee A's approach and for him it is "the removal of all regulations regarding price? competition with
299 free access and exit in to the market and leaving the industry to the forces of supply and demand. In the US
300 it was deregulation and liberalization was in Europe." This is the general understanding that it may just be a
301 question of semantic? But Interviewee J was a more specific in saying that "deregulation is trying to burst open
302 the aviation market and moving away from the regulatory framework. In other words, moving away from the
303 Chicago Convention and the Bermuda Agreement".

304 9 c) Liberalisation

305 Liberalisation is more properly applicable to trade in general including aviation. The foundation of GATT
306 [General Agreement on Tariff and Trade] and later World Trade Organisation] is based on the principle of trade
307 liberalization. But in the aviation sector we need to look at the various interpretations. Once more, aviation is
308 being treated as a class of its own. It was noted during the interviews that when talking of liberalization almost
309 all interviewees (except Interviewee A) overlooked the relevance and application of the concept of liberalization
310 to trade in general. The focus was only on aviation.

311 For interviewee C, "liberalization by contrast (to regulation) means changing the regulations to make it more
312 liberal and competitive. The European liberalization was more concerned with replacing the existing regulations
313 with some other regulation." He was about the only person who held this view. Here Interviewee B seems to
314 have a more relevant explanation when he says that for him "deregulation and liberalization is one and the same
315 thing? except that the US did it kind of overnight whereas in Europe, it was done gradually. This is because
316 the two markets are different. Europe had to have a certain number of 'packages' that is the various stages of
317 deregulation starting first with the domestic market." This is also confirmed by Interviewee A who is of the opinion
318 that "liberalization is almost the same except that in Europe it was called liberalization and it was a slow process
319 in three phases whereas in the US it was more radical and done almost overnight." This is further reinforced
320 by Interviewee D when he says that "deregulation is obviously the removal of all restrictions. Deregulation was
321 overnight whereas liberalization was more of a gradual process. Most Europeans prefer the term 'liberalisation'
322 instead of 'deregulation'". However, for Interviewees E and F the term is used interchangeably. For Interviewee
323 E, "liberalisation' involves "some form of control and it is the degree to which restrictions are removed". He
324 went further to state that he does not find any big difference in the term when it is applied to trade in general.
325 Interviewee F, however, seems to have a more interesting view: "The two terms (deregulation and liberalization)
326 are used interchangeably which can be very confusing. I can see deregulation as something which originated
327 from the US when President Carter deregulated the airline industry. Liberalization is the European version of
328 it. Removal of barriers to trade in general. In the aviation sector we still do need some form of regulation to
329 protect the consumers because air transport is a public service. Certainly, there was the perception that because
330 the US domestic air industry is so strong that if they [Europe] deregulate radically, the US airline will invade the
331 European market. Liberalisation therefore is deregulation with caveat or guarded regulation if you wish."

332 It is also interesting to note that once more Interviewee G takes a radical approach. Deregulation for him
333 is "letting the market rip. It is what would call the development of super competition or hyper competition.
334 Nothing should stop me from starting an airline if I have the fund and the knowhow. When we say deregulation,
335 we are assuming that there is a regulatory framework in place and we want to get rid of it. I think what we need
336 is a phase of reregulation. Deregulation has not worked. Liberalization provides the basis and justification for
337 deregulation. If I want to run an airline I do it. Nobody can put any barriers in my way. I know best. If I want
338 to pay poverty wages, that's my right as long as I don't go against the law. It provides a very selfish way to look
339 at the world."

340 Because of the antitrust laws and because of protectionism, the industry could not be competitive. In order to
341 sustain a certain level of costs on low load factor, it was necessary for airlines to practice very high prices.
342 They were a situation where they could dictate prices. But this was not in line with the U.S policies of
343 trade liberalization. The very base of the US economy has for centuries stood on free trade and the refusal
344 of protectionism. Deregulation was a concept whose time had come and air transport had the same treatment
345 like other sectors of the economy. Because of the proximity and the very close links between the US and Europe,

346 it was obvious that this wave of deregulation would sooner or later reach the European continent. The fear of
347 the unknown and the apprehension against American dominance in the sector, viewed as an invasion, called for a
348 cautious approach on behalf of the Europeans. It is now understandable why the Europeans preferred the term
349 'liberalisation' rather than 'deregulation.'

350 **10 The Contextual And Historical Factors That Led To And 351 Are Leading To The Process Of Deregulation In The Air 352 Transport Industry**

353 To understand the context in which the process of deregulation and later and eventually liberalization, it was
354 necessary to go to its history. The historical background is important because it allows us to analyse the process
355 in its proper context and not in a vacuum.

356 Although there is agreement that the whole process of deregulation was 'overnight' like many of our
357 interviewees, the process of liberalization has been a long and tedious one; it is also a process that keeps progressing
358 and it looks like it will be an ongoing one for many years to come. This process has moved from US to Europe
359 and later to the Middle and Far East, Oceania and now to Africa. This in itself is quite a phenomenon in the
360 history of international air transport. Moreover one should understand that although the whole process dates
361 back from the American Deregulation Act of 1978, the American society had already been influenced by the
362 antitrust laws already existent prior to the process of deregulation.

363 **11 a) The Historical Context i. The Pioneers and First Entrants**

364 There is a lot of coherence and consistency in the historical facts brought up by our interviewees. Most of them
365 were accurate in the dates and periods as far as the history is concerned. Interviewee A gives a good glimpse in
366 to the history of the movement:

367 "It all started in the US in 1978 when the American government decided to remove regulations on the domestic
368 market. This was a movement from 'control' to 'no control'. New entrants came in, namely Air Florida, South
369 West Airlines, Air New York, People Express. Few years later, this was extended to the international flights
370 whereby US airlines could fly to European destinations: the so called sky liberalization or open sky. Airlines
371 could offset any route as long as they were registered in the US." This then must have been the major step that
372 triggered a whole set of further liberalized airlines between Europe and the US. Interviewee A went on to say
373 that "Countries like the Netherlands were happy to sign such bilateral agreements. KLM could fly anywhere
374 in the US. (In fact KLM was historically the first airline in Europe to take advantage of such agreement and
375 to open its sky to US airlines). These agreements suited the US which can also fly anywhere in the country
376 with which the agreement was signed. But cabotage was an issue as the US could not fly domestically in other
377 European countries." Nevertheless, Interviewee F argues that "in 1993 the European airlines had cabotage right
378 which meant that they could treat the European market as a domestic market."

379 ii. The Opponents of Liberalisation While academics, tour operators, the then EEC (now EU) were pushing for
380 the process, incumbent airline operators for various reasons of personal and vested interests were against. Some
381 governments were skeptical while the unions were against because they feared for the loss of jobs. Some were
382 also rather cynical in saying this approach was more ideological than anything else and could not be sustainable.
383 Interviewee G goes further when he said that it was not only an ideology but "a dogma that competition will
384 always bring superior results? and like all ideologies and dogmas, they have their uses and their expiry date."

385 iii. Was the Industry a Big Cartel?

386 Although historical facts were more or less undisputed during the interviews, interpretations sometimes differ.
387 The circumstances that led to the process are at times given interpretations as per the perception or background
388 of the interviewee. Hence according to Interviewee C, "the industry was a big cartel, working on a cost plus
389 approach. There was no incentive to improve service. There was also the belief that the mere threat of opening
390 to new entrants was in itself enough to pressurize the airlines to offer better service. Deregulation was very
391 positive for the customers in the US." However, here Interviewee C may not be too accurate in his perception
392 when he says that "there was a trickle down to the other regions of the world. Once the process started, it kind
393 of trickled down to other parts of the world where airlines were forced to offer better service." This could only
394 be applied to Europe and this also with certain reservations as we know that there was a lot of reluctance and
395 resistance to follow the US in on this track. But it is proper to say like Interviewee B that "there was a general
396 view that market mechanism had to be introduced and that prices will go down and service will improve."

397 **12 iv. Hub and Spoke**

398 The 'hub and spoke' system is one whereby some busy airports are identified to be the main transit airports that
399 feed airlines with passengers for onward destinations. This is done with a view to consolidate and improve load
400 factor and reduce costs. Interviewee F is explicit in this because the hub and spoke system was a result of the
401 deregulation process: "With the hub and spoke system, long haul flights were being operated by the regulated
402 airlines and the small deregulated airlines would take over for the dispatch to the other destinations."

403 **13 v. Cabotage and the Domestic Market within Europe**

404 In 1993, the European airlines had cabotage right which means they could treat the European market as a large
405 domestic market. This was quite a landmark in the development of air transport industry in Europe.

406 **14 b) Outcome**

407 **15 March**

408 The Air Transport Industry in the 21st Century: A Synthesis of the Views of Aviation Experts in the UK i. Are
409 There Risks of Reregulation?

410 Interviewee B is quite categorical in saying that reregulation is not on the governments' or airlines agenda.
411 "There is no momentum to reregulate", he said, "If you look at the US air transport industry, they achieved
412 something. What was not achieved is the viability. There were heavy bankruptcies. The antitrust had been too
413 tough and did not allow the industry to consolidate."

414 ii. Consolidation of the Industry Consolidation or the lack of it has been quite a recurrent issue during these
415 interviewees. Most of them seem to agree that things in the US happened so quickly that there was no real
416 planning and the lack of consolidation caused some kind of damage to the financial health of the various airlines.
417 This is probably one of the reasons why other parts of the world, especially Europe and Asia were hesitant and
418 resistant to these changes. Interviewee B went even further to explain that consolidation is neither reregulation
419 nor a form of protectionism: "Consolidation", he said, "is not protectionism. It is to make the industry more
420 stable financially".

421 iii. Consumer Benefits While it is usual for this kind of process to bring some casualties, the airline industry
422 was no exception. There were obviously winners and losers. The big winners were the consumers. Flying became
423 more accessible to the lower classes of the social stratum. This is confirmed by Interviewee B: "Generally the
424 benefits have been more for the consumers rather than for the airline operators. Prices have gone down. More
425 and more people have been able to travel and they are still able to travel which before was impossible. There
426 has therefore been some kind of democratization of air services."

427 The process also gave rise to two important outcomes: the low cost and the charter airlines that really changed
428 the landscape of the international air transport industry.

429 **16 iv. Low Cost Airlines**

430 This type of operations which is still thriving today, is the marginal profitability approach where emphasis is on
431 the core product, i.e. air seats at the cheapest possible prices without the usual 'frills'. Good examples are Ryan
432 Air and Easy Jet. There is a market for this type of consumer who needs to arrive at a destination regardless
433 of the level of service provided the product is safe for the consumer. Interviewee B believes "There is still a
434 future for the low cost airlines. But the idea of low cost will change. The business model will change. Low cost
435 airlines did not come from the charter market." v. Charter Flights Interview B also makes a good distinction
436 between low cost and charter flights: "Chartered airlines sell in bulk to tour operators and travel agencies but
437 also to individual passengers. Some of these charter airlines are also owned by tour operators, e.g. Thomas Cook,
438 Thompson and TUI. They offer IT (inclusive tours) packages. They sell in block and in bulk.

439 **17 vi. Low Costs vs. Charter**

440 There is still a debate of what really makes the difference between the low cost and the charter.

441 Interviewee I gives a clear explanation:

442 "In 1992, we started to see the rise of the low cost with Easy Jet and Ryan Air. The incumbent flag carriers
443 also started to offer competitive products. There was competition with BA and AF. This resulted in a lack of
444 slots and capacity. Predominantly, Easy Jet decided to use other airports instead of the main airports: Luton,
445 Stansted and Gatwick. British Airways even set up a low cost airline called GO but they could not sustain it
446 and it was taken over by Easy Jet. The same thing happened with BUZZ set up by KLM and taken over by
447 Ryan Air. Interestingly, Lufthansa has been doing very well and was not really affected by the new entrants.
448 The Charter has modified their product. They have a dedicated product. They now offer a seat only product
449 and this is like a low cost product. The other product is what we call premium economy and this is competing
450 with the low cost. I don't think that the charter is a bigger threat to the low cost than the flag carriers."

451 One can say that now the Charter is more of a hybrid type of operation as Interviewee F said "they are trying
452 to be all things to all people". vii. Product Differentiation Interviewee B: "There is a need to differentiate the
453 product. Some people are still ready to pay a little bit more for a better service. The industry has become
454 unviable and continues to lose money. Some airlines are still reducing prices because of competition. Before,
455 airlines offered a uniform and standardized product. Now a lot of airlines are offering differentiated products.
456 The history of the international air transport is replete with interesting facts that have shaped the industry and
457 continues to do so".

458 The historical context is important in determining who really was at the starting point of the process. There
459 were several factors that led to a desire for change: The high prices of air travel made it difficult for anyone
460 to travel; it made travel a luxury for the well-to-do elite. As purchasing power increased and as more and more

461 people started to find holidays abroad accessible there was pressure to review air transport management and
462 operations. The air seat became a product requiring some form of democratization. We saw earlier and most
463 of the interviewees agree that the starting point was the US. This is understandable since the US had always
464 adopted a free market and competitive approach to business. The big question was why airlines should fall out
465 of the parameters of free enterprise. The Air Deregulation Act of 1978 promulgated by the Carter administration
466 kick started the process which would have some very serious bearings on international air transport worldwide.
467 Naturally, there were proponents and opponents of deregulation. Those who opposed went in to mergers and
468 acquisitions in order to survive. Many of these mergers and acquisitions developed in to cartel in order to keep
469 up fares. In order to cut down on costs the many airlines found in the hub and spoke system of operations a way
470 to maximize resources and increase revenue. The freedoms of the air rights and cabotage were extended to third
471 parties based on bilateral agreements. Many airline operators realized that deregulation was here to stay and
472 they might as well 'bite the bullet' and find ways to consolidate the industry to their own benefits. This is how
473 air travel prices went down and travelling became more accessible to the lower rungs of society and consumers
474 derived sizable benefits as a result of competition. The industry has also witnessed a new strategy to face acute
475 competition in the form of product differentiation. We should also place in this same historical context the rise
476 of the low cost and charter flights.

477 **18 VI.**

478 **19 The Key Drivers And Motivations Behind Air Deregulation 479 & Liberalization**

480 We discussed above some of the historical facts that brought about the process of deregulation and liberalization.
481 But there are also some interesting facts that gave more impetus to this process; in this section, we will look at
482 the drivers and motivations behind the process. Some of the points mentioned here could be a mere repetition
483 of some of the historical fact. During the interviews it was rather difficult to separate the two sets of ideas, i.e.
484 the historical facts and the drivers behind the process. However, few of the interviewees did make a distinction.

485 The main motivation for the airlines was to get a bigger share of an almost saturated market; the main driver
486 for the consumers was cheaper flights and more accessibility to certain routes. As Interviewee A puts it, "there
487 was a need for more competition, reduction in fares and better flexibility in routes scheduling. There was also
488 pressure from consumer groups and opinion leaders. New investors thought that there were lots of money in
489 airline business and wanted to get it.

490 **20 a) Consumer welfare**

491 The welfare of the consumer was at the centre of some of the preoccupations of the various governments and
492 pressure groups. There was a need also to democratize travel and make it more accessible to the lower income
493 groups. Interviewee C brings in a new argument in saying that there was a school of thoughts that maintain that
494 "regulation should be limited to safety only" and the main concern of stakeholders were consumer benefits and
495 more productivity and that the "industry should be left to the market forces."

496 **21 b) The elimination of trade barriers**

497 The elimination of trade barriers was an inevitable development with the advent of GATT [General Agreement
498 on Tariff and Trade] and later World Trade Organisation. With the incoming of several regional groups such as
499 OAU [Organisation of African Unity, now African Union], Non-aligned movement, EFTA [European Free Trade
500 Agreement], it became necessary for the world trade community to bring some order at the international level.
501 Interviewee A is also of the same opinion. According to him "the elimination of trade barriers drove the market
502 (of air transport) to deregulation. Countries which had a fair share of the tourism market were also pushing for
503 a more liberal approach to air transport." He also finds the 'rigidity of schedules' as another factor that pushed
504 in the same direction. The European Commission, he said, was trying to 'sell' the concept of deregulation not
505 only for air transport but for the other products as well. c) Outcome of the process Most of the interviewees
506 held the view that for many years it was the Americans who benefitted the most of the process. There was some
507 resentment. The Europeans were reluctant because they thought that they will be once again the losers because
508 the Americans are economically powerful. This is confirmed by Interviewee E who still felt that the "the benefits
509 were mostly for the US. They had the most powerful airlines. They could serve more countries." Interviewee
510 F also supports this view: "Margaret Thatcher was a real advocate of the process of liberalization. She said
511 she wanted to 'return the family silver back to the family'. But Europe felt that there was no coherence in the
512 process. There was a frustration because people in Europe felt that the Americans were having a better deal
513 than their European counterparts".

514 It is interesting here to point out that Interviewee G added a third dimension to the process: Privatization.
515 He even said he was surprised that this 3rd dimension was not covered by our list of questions. He is of the
516 opinion that the moment that the World Bank interfered in the whole process, things took a different direction.
517 The process of deregulation, he says, "was led by the US, helped by Europe and then the World Bank discovered
518 it. The World Bank is almost forcing around the world. The new business model will only survive if the customer

519 has a product of quality at a price he can afford. I can give you some examples: South West, Jet Blue and Virgin
520 that are very customer focused."

521 As we have seen earlier, there were several drivers and motivators behind the changes. There was a need to
522 improve the product and service and at the same time making them more accessible. Consumer benefits and
523 welfare became an important issue. Moreover the elimination of trade barriers in the aftermath of the GATT
524 and the advent of the World Trade Organisation turned air services in to mere commodity products subject to
525 the same rules and regulations of international trade.

526 22 VII. The Key Players And People Involved

527 In The Process

528 Various stakeholders played their role in the process: Some had some very direct interests namely the airlines
529 themselves, governments and consumers. Indirectly the economic operators all had an interest especially the
530 tourism and freight industry. The Role of Government Governments obviously had a key role as they were the
531 ones to pass and implement laws in order to do away with regulations. One can say that the government had a
532 leading role in both the US and Europe and the rest of the world. This is confirmed by most of the interviewees.
533 Interviewee B for instance holds that "there were a lot of lobbies: local lobbies as well as lobbyists protecting one
534 particular airline." a) Lobbies He went on to say that apart from airlines the others who pushed for liberalization
535 were: academics, opinion leaders, government, politicians and some airport operators. Interviewee A went further
536 in adding to the list the following: policy makers, airport authorities, regulators of the air space. Lobbyists for
537 Heathrow and lobbyists for Gatwick. The key players in fact were the stakeholders in the industry: Government
538 was concerned as the airline industry was more than ever before a powerful economic force. It had become an
539 essential service for the economic development of countries but also for the world. There was need for some form
540 of intervention if not downright protectionism. International organisations, especially those mentioned above,
541 were prominent in their activities to speed up or defer changes.

542 23 VIII. The Mechanisms Used To Implement

543 Deregulation / Liberalization In The Aviation Sector

544 24 a) Legislations

545 The Air Deregulation Act of 1978 in the US was the legal trigger in getting the process started. This law
546 eventually had a rippling effect practically all over Europe. However, the mechanism in Europe was more gradual
547 in the form of the three 'packages' with broad target dates ?? 1987, 1990 and 1993. Removal of all restrictions
548 was to happen over this period.

549 25 b) Bilateral Deregulations and Agreements

550 These agreements which are still applicable today set the rules for the exchange of facilities between two countries
551 giving access to each other's facilities namely, landing rights based on the various 'freedoms.' But as Interviewee
552 A points out at the initial stage "bilateral agreements were declared illegal by the European Commission. But
553 before the process of deregulation in Europe we had what Interviewee B calls 'bilateral deregulation'. He further
554 emphasized that "before the first package (1987) the UK had already deregulated with US, Ireland and the
555 Netherlands." Interviewee C went even further to say that "liberalization was also taking away previous bilateral
556 agreements. New bilateral agreements were signed by UK, Netherlands and Ireland." The idea, he says was to have
557 free market, free access and free capacity constraints." c) Allocation of Slots and Grandfather's Rights Allocation
558 of slots has for many years been a headache for both airlines and airport operators. Slots are authorizations to
559 land and take off at airports at specified times of the year. This is done with a view to satisfy all airlines because
560 of space constraints, infrastructure constraints and congestion at airports. This is normally allocated by airport
561 authorities in consultation with airlines. Most interviewees agree that allocation of slots is an important aspect
562 of airport operations and it is necessary to have a fair distribution of such slots as there is naturally more demand
563 for slots during the high seasons. This is also confirmed by Interviewee C who stated that "slots regulations were
564 to be applied and Grandfather Rights reviewed". The latter are rights of landing and takeoffs inherited by airlines
565 that have been in operation for several years before the application of the deregulation process. Interviewee C is
566 more explicit as there is according to him the "argument as to who owns the slots: the airlines or the airports.
567 Airlines who had slots could sell them. The stronger airlines could buy more slots than the small ones."

568 Interviewee F also mentioned that Heathrow was the most constrained airport in Europe regarding the
569 allocation of slots. According to her, "there was a need for a Pan European approach because of the chaotic and
570 incoherent way the process was going on. There were the Grandfather Rights and the limited number of slots to
571 be allocated. There was the case of some aircrafts flying in and out empty in order not to lose the slots because
572 of poor load factors".

573 26 e) Outcome

574 There were obviously a certain number of consequences as a result of the process. There was more accessibility
575 and more freedom for operators to maneuver. As Interviewee D pointed out "airlines no longer had to file their
576 fares with the governments. Airlines had to apply for slots. Inside the EU, Grandfather's Rights disappeared.
577 But there still was a need for some form of control. They had to keep some regulations for the new entrants
578 in the market. There was still the licensing process and some kind of regulatory process". For Interviewee E,
579 "privatization of airlines and airports also became more possible as a result of the process."

580 The mechanisms were many at various stages of the development process. Legislation in the US and in Europe
581 was probably one of the most important mechanisms. This is now to down play the role of the famous three
582 packages, i.e the various stages of gradual liberalization as the EU was rather apprehensive to make radical
583 change to enforce the liberalization process. The gradual liberalization started with bilateral deregulation and
584 agreements. Since most of the major airlines had kept their grandfather rights, it became necessary for the airline
585 associations to get in to regular negotiations for a fair allocation of slots.

586 27 IX.

587 The Past, Present And Actual Expectations Across The Sector a) Consumer's Expectations As we mentioned
588 earlier, consumer expectations were high: a freer market, lower fares and better service. Consumers felt that
589 more competition will eventually lead to satisfy such expectations. There were more opportunities for airlines
590 to succeed but also to fail so that other entrants can come in. According to Interviewee D, "there was also the
591 hope of more and better consumer benefits and better fare structure".

592 28 b) The Operators' Expectations

593 Expectations among operators were also high: more demand for travel; profitability and viability of the industry;
594 more consolidation of the market and the industry; more routes and better flight schedules; higher load factors;
595 increased of and growth in air traffic; Interviewee F felt "there was a huge amount of trepidation for some carriers.
596 For them it was unknown territory. But there was also a large amount of optimism and excitement." Economic
597 operators also saw in these developments a way to increase productivity which would be a boost for the economy.
598 Interviewee F went on to say that "for the EU, there was hope for cross border trade and making Europe itself
599 as one attractive destination that will bring more foreign currency to the respective countries of the continent."
600 c) Market Dominance Like in other areas of business there were preys and predators. Some tried to dominate the
601 market. Apart from the new entrants trying to make a breakthrough, some of the scheduled airlines also took
602 advantage of these changes namely, BA, KLM, Aer Lingus and Lufthansa. This is confirmed by Interviewee B
603 when he says that these airlines took advantage of franchise agreements to dominate the market. Interviewee F
604 went further in saying that "Charters were trying to market themselves as low cost carriers operating scheduled
605 flights. A good example was Monarch which was trying to fly as scheduled, charter and low costs. They tried to
606 be all things to all people. It was a kind of hybrid type of operation."

607 Various stakeholders had different expectations to suit their needs. The consumers wanted a better product
608 at a cheaper price. They got a lower quality product at a price they could afford from the low cost and charter
609 operator. This is supported by the desire for 'no frills' flights. For many consumers it was more to 'arrive than
610 to travel'. In other words, the destination became more exciting than the journey as such. The expectations of
611 the operators were diverse: the proponents of deregulation and liberalization expected a drop in fares and a rise
612 in demand for travel. The opponents were hoping to buy time by merging and hoping that the process will not
613 last and that the industry will have to revert to the old system. But this did not happen. The process was an
614 irreversible one.

615 29 X. The Real Facts As A Result Of Those Expectations

616 From the interviews, one gathers that there were high expectations and forecasts but a lot of the things that
617 actually happened were not among the predictions. For many operators expectations fell much below what were
618 forecasted. Admittedly, many of the things predicted actually happened: Growth of airlines; larger aircraft to
619 carry more passengers; increased air traffic; more competition; cheaper fares; Some things for which there were
620 high expectations but did not happen: According to Interviewee A, "airline operators expected a growth of at
621 least 4% and consumers expected prices to fall by 1/3. But this did not happen as was expected." Very high
622 profitability; expansion of airlines; more employment; better services on board all airlines; sustainability of airline
623 business Some things were never expected but did happen: Failures of airlines to sustain their operations in the
624 long term. Heavy closures and loss of jobs; a) Successes and Failures

625 The above is rightly summed up by Interviewee C when he said that "there were lots of failures and lots of
626 start-ups and growth of larger airlines in to mergers. One major merger was KLM/AF [KLM/Air France] and
627 later with AZ ??Alitalia]. The biggest problem in the airline industry is that we don't allow airlines to fail. Air
628 transport will thrive better in a globally free market." He also disagreed that this expectation of failure should
629 be treated as a fatality for the industry. On the contrary, it may be healthy for the industry in general although
630 it does bring some instability in the industry at some time in point.

33 E) CONSEQUENCES

631 As Interviewee I pointed out: "In fact the flag carriers thought that they could compete if they adjusted
632 the product and also they had the Grandfather Rights and the advantage of previous bilateral agreement with
633 the various governments. Nevertheless, they found it very difficult." There is an explanation for this on which
634 most people agree: Because of the nature of the product (elite, luxury), because airline operators were a class of
635 their own and so were their products, and very often because of the monopolistic advantage they have in many
636 counties, they had no consideration for cost control. It was a highly investment intensive business providing
637 a highly priced, high margin product, i.e. high costs, high selling price and high profits. Consequently, when
638 the low costs came in offering marginal cost and marginal profit product, the well-established flag carriers went
639 totally off their pedestals. The mistake made by some of them was to think that this was an ephemeral situation
640 and the market will settle down to where it was before.

641 But the airline operators did not review their cost structure. Yet they still had a competitive edge because
642 they had well-defined contracts and bilateral agreements and the grandfather rights. Admittedly, they also had
643 to bear the costs of handling and maintenance which made it difficult to compete. The low costs subcontracted
644 all such services which made them cost efficient. This is confirmed by Interviewee I who thinks that there will
645 still be the flag carriers around because of the feelings of nationalism. "The survival of the flag carriers is tied to
646 the state of the economy. There is a feeling of nationalism as well: the Dutch for KLM, the British for BA, the
647 French for AF and the Germans for Lufthansa. The British may be the last to do away with this concept."

648 30 b) Consolidation

649 This is an issue that has been recurrent in these interviews. Most of our interlocutors seem to regret that
650 consolidation which should have been a priority did take a back seat. Both interviewees B and C made it clear
651 that the consolidation phase has been and is still taking a long time. According to interviewee C, "essentially
652 there are three large blocks -Asia, US and Europemore consolidation will bring them together. The fear of having
653 a cartel should not restrict the consolidation. If we have a free market, it will lead to 3 major alliances." But he
654 conceded however, that there is more consolidation in the regional markets.

655 31 c) Market Supremacy

656 Most of the interviewees also agree that because of the chaotic situation in which the process was launched,
657 there was some kind of law of the jungle, survival of the fittest. This gave rise to some predators wanting
658 to take over or eliminate the small ones in order to dominate the market. As Interviewee C put it, "the new
659 bilateral agreements brought about some conflicts after some of the mergers." Interviewee A went even further in
660 saying that "airlines especially the larger ones were trying to dominate the market. There was a feeling that the
661 deregulation packages were not delivering executive competition across the board. There was a lot of competition
662 among airlines but they were much below expectation especially regarding price reduction. There was a lot of
663 mergers and franchising.

664 32 d) Low Cost Airlines

665 Nobody saw the arrival of the low cost airlines and it is now no secret that the low cost airlines were the ones
666 that really made a remarkable change in the air transport industry. One can say that the like Interviewee B
667 "that it was the low cost airlines that brought major changes that started to meet the expectations." It looks
668 like this is now the stage where there is more or less agreement that prices are acceptable and service is also up
669 to the level that one can expect for this type of product. This is further supported by Interviewee B who opines
670 that "we have now reached a situation of maturity. Now there is more rationalization of routes network. The
671 market is now fairly competitive but we (the Europeans) have reached a situation of maturity just like the US."
672 Various people in the field still believe that we have now reached the level of saturation. But there will continue
673 to be more entrants and more exits. For transport economists, this is not necessarily an unhealthy situation as
674 better products and services will emerge.

675 33 e) Consequences

676 Interviewee D takes a more positive approach as he believes that there were some positive developments. He
677 even believes that some of the expectations were exceeded. Although many people may disagree with him when
678 he said that "employment expanded (we know that there were some heavy losses of jobs as well -Italy (Sabena),
679 Switzerland (Swissair), more airlines have come in to the market (but many have also been pushed out -Panam,
680 Continental), the respective governments were happy the way things were going". On a more realistic note, he
681 conceded that "some airlines like Sabena, Swissair, AZ had failed. Government had been pouring money in to
682 these airlines to keep them going." In fact this is also supported by interviewee E who went further to say "that
683 many of the airlines went bankrupt and there was no consistency in the product and service."

684 The hub and spoke system which we have already mentioned earlier was also an important development which
685 came up as a result of airport congestions. It became necessary for airline operators and airlines to adopt a
686 system of transit and feeders whereby traffic was diverted to larger airports with better infrastructure and with
687 possibilities of transfer to final destinations. In other words, this involves the convergence of heavy traffic in to
688 main airports (hubs) with onward connection to other destinations. This system which is still in use today at

689 big airports (Frankfurt, Zaventem, and Heathrow) is appropriate in easing airport congestions. This system also
690 works hand-in-hand with the slot allocation system already discussed earlier.

691 The fact that for many years, scheduled airlines have had relatively good time prompts Interviewee G to voice
692 out some different views which is worth mentioning: "Lots of the major airlines really never believed that the
693 these good time will end. They also thought that they will be more profitable by biting in to each other markets."
694 He also brought Michael Levine's theory of the contestability of the market: easy entry and easy exit. He also
695 mentioned Milton Friedman who, he said, had a great influence in these developments. The airlines like other
696 businesses had their booms and slumps.

697 There is general consensus that the process of liberalization opens the doors for a lot of opportunities for new
698 entrants to come in for a quick buck. But many of the airline operators had more of predator behaviour ready
699 to pounce on small airlines which in this 'jungle' found it difficult to survive. In fact, for many among them it
700 was 'survival of the fittest' and 'might was right'. Consequently, there were some successes but a lot of failures as
701 well. Countries maintained their flag carrier's concept as a matter of national pride but with a cost. They had
702 to heavily subsidize their own national airlines. Some of those operators were wise enough to go in to some form
703 of consolidation especially among the scheduled airlines.

704 **34 a) Resistance to Deregulation**

705 It is widely accepted that some people are naturally resistant to change. This is what Interviewee F calls
706 "historical legacy and historical inertia: It's been like this, we leave it as it is. Some airlines didn't want to
707 change. They were still very protectionist in their approach". Interviewee G mentioned "the political power
708 behind this resistance and the resource behind this political power." For many decision and policy makers the
709 'status quo' was still preferable to a journey in to the unknown. Interviewee J holds, however, "that there is
710 an attitude in scheduled airlines that people like to fly out of certain airports. The traditional hub and spokes
711 arrangement of scheduled airlines have survived. But all this has contributed to better one-way capacity". b)
712 Exogenous factors Some factors were beyond the control of the decision makers and other stakeholders namely
713 governments and airline operators. This was rightly mentioned by Interviewee C who found that "there was not
714 enough freedom and still too much protectionism. Oil prices were and still are outside our control." According
715 to him it was not always possible to deregulate at the speed they wanted: "The more you liberalize in one
716 region, the harder it is for other regions to deregulate, especially as some of the deregulated airlines were failing.
717 There is a valid argument to offer some protection for a short time." He thinks that the tendency to preserve the
718 inheritance of the flag carrier concept is hard to change. "Take the example of Singapore, he said, such a small
719 country such a big airline!" c) Constraints There were some other constraints that made the process difficult.
720 One of the reasons mentioned by various interviewees is the volatility of the industry. This point was raised by
721 both Interviewee C and G but former explained that "what makes the industry volatile is that it is tied to the
722 general economic activity." Obviously there are other explanations to explain this volatility. We

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725 **36 The Reasons For The Major Differences Between Expectations**

726 And Reality

727 Early, we discussed the various scenarios where expectations fell much below what was predicted. We also
728 mentioned the many cases where such expectations were in fact realized. But there was obviously a big gap
729 between expectations and reality which has been more of a disappointment for stakeholders who had an interest
730 and probably bigger hopes that things would change in their favour. According to Interviewee A, some operators
731 were overoptimistic. They expected too much from an already saturated and constrained market. already
732 discussed earlier that the elasticity of demand for the product is also an important factor as well as the fact that
733 it is still perceived as a highly luxurious product; seasonality can also explain this volatility as well as political
734 instability and other natural events like outbreak of diseases (H5N1, AH1N1, Chikungunya etc).

735 Interviewee B feels that "the packages were not delivering as expected. The low cost airlines made things
736 different to what actually happened." As this was also mentioned earlier, no one had foreseen the advent of the
737 low cost airlines; this is also Interviewee A's view. Interviewee B went further to say that "there was some
738 consolidation at the beginning but this trend did not continue. There was instead a lot of merger activity."
739 Interviewee C also shares this view: "there was also an expectation of larger consolidation but this is taking a
740 longed time than expected"; he also observed that exthird countries are still tied down to bilateral agreements.

741 **37 d) Outcome**

742 Interviewee A found that "the end of protectionism left airlines at a loss". This is also an argument that kept
743 coming up as the operators were not prepared for this kind of change and most important of all, they had too
744 high expectations. For Interviewee E, there were adjustment problems all the time. Their teething problems

746 were lasting too long and showed the vulnerability and fragility of the industry. Many of our interviewees insisted
747 that this was due to the lack of consolidation and the refusal that the good times had come to an end and a new
748 paradigm shift had occurred. This is confirmed by Interviewee E who regretted that "the models of deregulation
749 and liberalization were based on the old set up" and "the regulators themselves did not really understand what
750 was actually happening". Interviewee F also confirmed that "there was resistance to these changes. Certain
751 countries were not ready to open their markets to airlines that would compete with their own flag carriers."
752 Interviewee G is rather sterner in his observation when he said that "the expectations were always ridiculously
753 high, ridiculously ambitious and ridiculously optimistic. All nice things have an end. They did not have a strategy
754 for when the good times will end."

755 According to Interviewee I, "there was a difference between expectations and reality because the airlines 'were
756 on a long learning curve for a longer time than was expected, especially with the teething problems.' He also
757 holds, like the other interviewees, that no one had foreseen the impact of the low cost airlines. "The low cost",
758 he says, "has stimulated a new kind of passenger and a new type of market." Some of the short haul routes were
759 being serviced by the big airlines at a loss, but when taken over by the low cost became profitable. He also gave
760 the example of the little town of Bergerac which is serviced only by low cost and had become very viable.

761 Events were not up to expectations for several reasons. There was naturally resistance to change in general
762 but specifically there was resistance against deregulation the American way. In spite of the EU competition
763 commission insistence for more competition, there was some fears among the then twelve members of the Union.
764 There were some constraints beyond the control of the operators. Different legislations in different countries
765 delayed the process. Since it was a new phenomenon, there was some kind of wait and see approach. This slowed
766 down the process somehow and this explains also the three packages approach mentioned earlier.

767 38 XII. The Future Trends For The Aviation Sector

768 We have seen earlier the various points mentioned by the interviewees regarding growth. Historically, the airline
769 industry like many businesses have known booms and slumps like Interviewee B said and some peaks and troughs
770 as per Interviewee G. According to most interviewees it is now becoming more and more difficult to speculate on
771 the future. This is so because of the volatility of the industry as Interviewee G said earlier but also because of
772 the unstable exogenous factors such as the prices of jet fuel and the present international economic disorder. a)
773 Growth in Air Traffic & Volume Interviewee C holds that in general, there will indeed, be growth but at a much
774 lower level than we have seen so far. Interviewee B is more precise in his approach. He believes that "Brazil, China
775 and India will grow in volume. There will be more stability in Europe and North America.". b) Sustainability,
776 Viability and Profitability One of the main issues for the airline business has for many years been that of
777 sustainability. Air transport is cost intensive: Equipment, capital and labour intensive. High operational costs in
778 a situation of almost perfect competition do not guarantee viability and profitability especially if airlines have to
779 just work on marginal profitability. For Interviewee B, to achieve an acceptable level of viability and profitability,
780 "the structure should change. No remarkable profitability will be seen unless there are some structural changes".
781 He also went on to say that tourism destinations will be restricted to the number of hotel rooms and more hotel
782 room will obviously mean more flights but not necessarily at a price that will guarantee viability for airlines.
783 But Interviewee A seems slightly more optimistic when he stated that "the business has an innate ability to
784 restructure" but he went on to say that "we really don't know what's in store for the big planes."

785 For Interviewee D, "there will be some growth and in both passenger and freight traffic." But he was not
786 too specific in what regions or areas of the world such growths will occur. Interviewee H foresees that "the
787 regulation regarding climate change and the rising prices of oil will drive up the cost of travel." c) Environmental
788 Concern Almost all interviewees showed a remarkable concern for the environment in the future. For Interviewee
789 E, like all the others, "environment will continue to be a big issue." There is also a consensus that more and
790 more fuel efficient aircrafts will be on the agenda and this is not only for the reduction of fuel expenses but also
791 for the environmental protection. According to Interviewee F, the new US change in Interviewee H who is an
792 environmentalist and a biologist before developing an interest for aviation is of the opinion that "we are not going
793 to prevent the 2 degree rise as we thought we could. We have lost control and we'll have to adapt to it. When
794 the Kyoto protocol was signed, international aviation was excluded because it was seen as a special case. Only
795 domestic aviation was included because it was easier to apportion the level of emission within one country. It
796 was difficult to decide which portion of emission was to be accounted for at departure and arrivals. But now
797 international aviation is not a special case any more". He went on to say that now because of the open sky, you
798 may have 10 aircrafts flying to the same destinations instead of 5. Eco-efficiency is decreasing and emission is
799 increasing. A jumbo jet carries 5 tons of catering. Half a ton of fuel has to be carried for this. We now need
800 different business practice. Duty free items don't have to be carried on onboard. Unsustainable! Unsustainable!
801 You should be able to buy at airports at departure and collect on arrival. One litre of whisky needs one litre of
802 fuel to carry it over 5000 miles. If the industry is sensible and sensitive to the issues of environment, it will look
803 at all this, which is not the case now." His arguments are sensible and convincing. And he also said that "low
804 cost airlines" are more eco-efficient because of no frills. But then the cheaper the flights the more people travel."
805 This looks more like a vicious circle and a no-win situation. Our interlocutors have yet some more suggestions:
806 "Passengers who carry very little or no luggage should be given a rebate on their tickets. We need to give the
807 customer the opportunity to buy an eco-friendly product. We are in an educated democracy and we don't have

808 to always wait for the government to do things for us by for example increasing the future price of oil". However,
809 he still thinks that government has a crucial role in further educating the people. "Global aviation", he says,
810 "contributes to 2 to 3% of CO2 emission. And if you add contrails that contribute to emission and pollution
811 caused by cars coming to the airport, it is around 6 to 7%. Aviation is climate costly."

812 **39 d) Technology**

813 While there is a lot of hope that technology could come to the rescue in various aspects of the industry and its
814 management and efficiency, at least one interviewee kind of downplayed this aspect. Interviewee C for instance
815 holds that "technology will have a rather limited input within the next 25 years." But in general, most interviewees
816 have a lot of faith in technology which hopefully will help the industry in providing better and more efficient
817 equipment. This is more so for aircraft that will be expected to be more fuel efficient and less of a threat for
818 the environment. Interviewee E opines that "if we have more fuel efficient aircrafts, we'll pay less in terms of
819 environmental taxes." For Interviewee G, there will be a remarkable technological advancement but "technology
820 comes with a price. Technology will be used as a competitive weapon. Those who can afford will use this
821 consciously to dominate the market and to drive out competitors; particularly in long haul journeys of over
822 three/four hour flights and longer where you will see the real benefits of technology". Interviewee F is definite
823 in saying that we will see more fuel efficient aircrafts but she also ventures to say that we may also see 'pilotless
824 aircrafts'! Interviewee D is also of the opinion that it will be possible to fly planes without pilots but he then
825 asks the question: "How many passengers will agree to travel in an aircraft without pilots?" e) Oil Prices and
826 Alternative Sources of Energy Oil prices continue to be a Damocles Sword on the heads of airline operators.
827 This is almost an obsession for most airlines. Most of our interlocutors agree that oil prices will continue to be a
828 weapon in the hands of oil producers, especially those of the OPEC cartel but international economics will dictate
829 some levels of fluctuations but as well as some stability depending on the international economic situation. For
830 Interviewee E, oil prices will continue to rise and those who hedge on fuel prices will continue to lose money.
831 Almost all of the interviewees feel that alternative sources of energy for aircraft will not be found in the next
832 25 years although they may release pressure on other traditional users of crude oil like the electricity suppliers.
833 This in turn may also bring down the prices of oil as a natural reaction to a decrease in demand for traditional
834 fuels. Interviewee D also supports this view. According to him "the airline industry will probably be one of
835 the last users of kerosene as it is still a more attractive source of energy in terms of price. If other alternative
836 sources of energy become attractive may be then the price of fuel will be more interesting for airlines. Aviation
837 has been looking for alternative sources for a long time, especially hydrogen fuels." But Interviewee J has some
838 reservations because according to him there are already questions about water vapours emitted and which could

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841 environmental policy will also influence the aviation industry concerned for the environment. also cause some
842 concern for environmentalists. Interviewee C is rather positive in thinking that "within 25 years, there will be
843 more production of energy through alternative sources outside the air transport industry. There will sure be
844 more investment in the development of fuels". But Interviewee A thinks that "biofuel is not a solution as some
845 people tend to think. There is still a risk that the fuel freezes at very high altitude." Interviewee H also thinks
846 that bio-fuels and artificial fuels will only prove a short term solution. Because of the quantity required, these
847 will never be a viable solution. Hydrogen fuel will also be costly and you'll have to have a hydrogen fuel station
848 at each airport. Nuclear energy will be politically unacceptable. People living around the airport will not agree
849 to it. It is a decision for society to use alternative sources of energy for domestic and industrial purpose and leave
850 the carbon fuel to aviation".

851 **41 f) Removal of Barriers to Liberalisation**

852 There is an agreement that further deregulation and liberalization will obviously be beneficial to the industry in
853 general. Naturally, the opponents of the process may have a different view. For Interviewee C "if there is further
854 deregulation, more barriers will be removed, things may look better. But this will require airlines to fail. The
855 logical way forward to the process of liberalization is multilateral agreements between North America and Europe
856 which will then be exported to Asia".

857 **42 g) Some General Predictions**

858 There is no great optimism for the near future. "May be in the next 10 or 15 years", says Interviewee C on an
859 apathetic note, "but then, we have been saying the same thing for years." According to Interviewee A, there will
860 continue to be chaos as new entrants enter the market. Interviewee E believes that the recession will continue
861 to cause job losses, but "the airline industry normally picks up faster. But it will take some time. There will
862 continue to be a permanent decline". The last comment may sound contradictory but it reflects the dejected
863 moods regarding the future of the industry.

864 Interviewee F is more specific. She anticipates more consolidation. However, she is of the opinion that more
865 subsidies will have to be given to weak airline to provide for air services as an essential public service. "Airlines

46 C) CHALLENGES FOR GOVERNMENTS

866 will continue to be bailed out by their respective governments to prevent bankruptcies and job losses; some
867 airlines will continue to be dependent on loans to survive." According to her there will be more regional routes
868 and more mergers and takeovers.

869 As straightforward as ever, Interviewee G makes the following rather glum forecasts: "Continuing turbulences,
870 continuing shake-ups, continuous failures". Airlines will have to change the way they operate, he says. "They
871 can't blame the governments, legislators or the market. They should have a look at themselves and ask the
872 question: Are they fit for the purpose? They can then focus on their strengths".

873 The future of the aviation sector is not as bleak as some people may think. It is just that it has gone through
874 very long and protracted periods of transition. Growth will occur at a diminishing rate and this is largely due
875 to the prevalent economic crisis. But air transport being an essential service, it is here to stay and develop for
876 many more decades to come. Sustainability will be linked with profitability but constrained by environmental
877 factors. The two major aircraft producers namely Airbus and Boeing have already gone in to the designing of
878 new equipment based on the latest technology in order to decrease noise and emissions especially at take off and
879 landing. Some of the future developments will obviously come with costs to the operators on the basis of polluter
880 pays. This kind of cost however will obviously be passed on to the consumer. Now that most airlines have learnt
881 the lessons of the past they are bound to tread carefully and find all ways to anticipate problems and go in to a
882 process of consolidation and product differentiation.

883 43 XIII. The Key Issues/Challenges Facing

884 The Industry In The Future For The Next 25 Years Or So

885 This was a challenging question for the interviewees especially most of the forecasts and predictions had been
886 dealt with in the previous question.

887 Here of course, we are looking at the challenges for the industry in the next 25 years. This makes the
888 question slightly different. Some of the points, however, keep recurring: Environment, fuel prices, recession and
889 competition.

890 44 a) Environment as a Challenge

891 It is a recognized fact that with global warming for which the aviation industry is also partly responsible,
892 environment will continue to be a threat to the planet. The aviation sector will be under pressure to review
893 its ways of operation. Most Airlines will be subject to tough laws and the EU has already set the scene with
894 its regulations regarding the level of emission, decibels at airports and the age and conditions of aircrafts. For
895 three interviewees at least notably Interviewee A, B and E environment may be the biggest challenge for the
896 industry. The big questions according to Interviewee B will be: "To what extent the can expand and grow without
897 damaging the environment and increasing global warming and to what extent also the industry will have to pay
898 its way especially regarding the environmental costs". According to Interviewee D, communities living around
899 airports will be a cause for concern because of noise pollution. This is also the concern of Interviewee E who
900 thinks that the industry will be further constrained. He gave the example of "the third runway at Heathrow
901 which will de facto be constraining." For Interviewee H, "water will also be a serious problem, added to this you
902 have peak oil, climate change, environmental and capacity constraints at airports; aircraft noise, local residents,
903 local air quality". He went on to say "that "airports will have smaller capacity than their actual infrastructure.
904 80% of airports are now working below capacity because of capacity constraints".

905 45 b) Rationalisation of Routes

906 By the look of things it would seem that the bigger problems will be on the supply side with serious constraints
907 on the suppliers of air services. While consumers will continue to press for cheaper fares, it will be difficult for
908 airlines to operate within a situation of oligopoly. This is also the view of Interviewee D who holds that the
909 airlines will have to review their modus operandi. He also thinks there will be problems of infrastructure as
910 airlines go on trying to cut down on costs of operations.

911 46 c) Challenges for Governments

912 As government is one of the most important stakeholders, the bigger challenge is often for politicians and policy
913 makers. Governments will obviously have to continue to meet the expectations of operators and consumers alike.
914 Because of the essential nature of the service, governments, especially those maintaining the flag carrier concept,
915 will continue to fork out subsidies to keep the services going. This is Interviewee E's view and he went on to
916 say that "the market will become saturated very quickly and the credit crunch will continue be a big challenge
917 because of the shortage of liquidity for further investment.

918 Interviewee G sees the global aviation shifting to the Gulf, with Dubai or Abu Dhabi becoming the hub and
919 Asia pacific airports becoming the spokes. This scenario according to him will be due to the powerful OPEC
920 countries who will decide to whom to sell its oil in a situation of scarcity as oil is a finite resource. He also sees
921 an on going important role for Brazil, China and India who will have a bigger control on the world economy
922 which will eventually influence the airline industry worldwide. According to Interviewee I, "the challenges will
923 now be more difficult to meet. Finding new markets and bigger volumes will be more difficult. Unless we see an

924 expansion of the Russian market or the North African market. The traditional markets are quite saturated and
925 stagnant right now. There could be some low cost long hauls on the Malaysian, Indian and Indonesian markets."

926 **47 d) Load Factors**

927 The low costs, according to Interviewee I, will have no load factor problems although this will continue to be
928 a problem for regulated airlines. He supports this view because for him "already in a period of recession, the
929 average load factor for the low cost flying out of Stansted is 75%. They also practice overbooking in order to
930 avoid no shows. Normally all airlines have a 10% over booking because of the high costs of bumping passengers.
931 Low costs will avoid such costs as it will defeat their purpose of cutting down on costs. Usually, only economy
932 class passengers on regulated flights are bumped.

933 Like many other industries the airline industry will have its share of challenges for the future. According
934 to most of the interviewees one of the biggest issues will certainly be the environment. The industry will have
935 to bear the cost of its 'contribution' to the global warming and climate change. These challenges will also be
936 for respective governments especially those who will try to maintain the scheduled airlines. There will be more
937 rationalization of routes in order to be more cost effective.

938 **48 XIV.**

939 The Possible Solutions To These Issues And Which Are Worth Investigating

940 Our interviewees made some very interesting suggestions and proposals that the industry would be well advised
941 to consider. One of the most important and recurrent points is that of consolidation within the industry. Although
942 this may sound rather abstract, most of our interlocutors support this view with concrete proposals.

943 **49 a) Change in Mindset**

944 In order to change the aviation scenery and landscape in to a viable and profitable endeavour, it is necessary
945 and imperative that operators adopt a new mindset. Most of our interviewees are quite objective on this. They
946 are of the opinion that the liberalization process could have achieved more if only there was a more realistic and
947 rational approach. Earlier, we mentioned the rationalisation of routes and the necessity to treat airline business
948 like any other business, without the aura it has always seemed to have. The words 'structural changes' and
949 'consolidation' have been like leitmotivs during these interviews. Surely, they cannot all be wrong! Interviewee
950 C even talked about 'better ways of management and more intelligent ways of running airlines'.

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953 **51 c) Differentiated Product & Services**

954 There seems to be a paradox in Interviewee A's suggestion of differentiated product and service and standardised
955 product and service. Differentiated product in marketing is precisely a non-standardised product. This was also
956 Interviewee B's contention earlier but he was more consistent. There is a need for a differentiated product at a
957 higher price that is justified by the kind of product for people who can afford. Standardised product and services
958 at standardized prices may not be the answer for the up market traveler who is still looking for the 'frills' in spite
959 of the recession. We have shown earlier and this has been supported by some of our interviewees that in spite of
960 the international economic downturn, people will still travel for business, conferences, VFR and less for holidays.

961 **52 b) Mergers and Acquisitions**

962 This is not a new idea although Interviewee A still sees this as a solution. More mergers according to many
963 observers will only push the industry in to a cartelization and we will all be back to square one. Mergers have
964 worked when some big airlines have taken the small ones under their wings until the latter can fly independently.
965 The joint venture between KLM and Kenya Airways is a case in point. After a decade of a merger with KLM,
966 Kenya Airways can now fly on its own and is at present one of, if not the, leading airlines in Africa.

967 Interviewee G has a different stand when he says that "the airlines should do their mea culpa. They should
968 have a long and straight look at themselves". He also suggests that they go in to some type of SWOT [Strengths,
969 Weaknesses, Opportunities and Threats] analysis to answer questions about their strengths and weaknesses. "Ask
970 ourselves what business we are in", he suggests, "what are our strengths and weaknesses? What kind of business
971 model do we need to actually fit that role?" He also foresees big mergers and star alliances as he calls them.
972 According to him, "the concept of flag carrier is absolutely ridiculous."

973 Admittedly in terms of solutions, none of our interviewees came up with impressive ideas that will really make
974 a breakthrough in the industry. However, it is fair to consider the various proposals made. There will be a need
975 for a major change in mindset especially among governments and airline operators alike. Mergers and acquisitions
976 may not have been an ideal solution but it has worked well for some airlines. Differentiated products and services
977 are also new ideas worth considering in facing acute competition.

978 **53 XV.**

979 The Future Threats And Opportunities For The Aviation Sector

980 We mentioned earlier the need for a SWOT approach and this may be a good occasion for airlines to also look
981 at the threats and opportunities to improve the situation for the industry at large. There will indeed be some
982 serious threats as also expressed by our interviewees.

983 **54 a) Exogenous Factors**

984 These are factors beyond the control of the operators in the industry. Interviewee C is quite clear in his opinions.
985 He mentioned terrorism, environment, government intervention, fuel prices and what he calls 'wholesale changes
986 in consumer behaviour. Interviewee A added SARS, AH1N1, new taxes and globalisation to the list.

987 Interviewee C does not see globalization as a threat. Instead he sees some interesting opportunities. He again
988 sees an opportunity in differentiated products and services. "We need more distinct airlines and aircrafts. Now
989 all airlines look the same. There is a need for more product differentiation: different product for different people.
990 At the moment there is too much standardization of the product. There is a place for premium and non-premium
991 products on the market. We now have too much homogeneity in the product" b) Endogenous Factors On this
992 count Interviewee B is more optimistic. He sees "more opportunities as a result of further deregulation; more
993 expansion with airlines flying to more destinations. For example, BA will set up a headquarters in New York to
994 service Brazil and other South American destinations." Interviewee F holds that "consolidation and fragmentation
995 of the industry will bring opportunities for new entrants to enter the market." There is a general agreement that
996 Brazil, China and India will emerge as big players which in turn will change the way Europeans and Americans
997 run their airlines. Interviewee G finds "geopolitics as a threat because we will have power blocks based upon
998 energy generators, water owners and those who can afford clean air. Air transport will have to plug in to that
999 kind of future".

1000 A SWOT approach done by individual airlines and governments will certainly highlight some of the major
1001 threats facing the industry as well as identify the opportunities. The aviation sector while being quite vulnerable
1002 to economic changes has also proved to be among the quickest to recover. Like many other enterprises the sector
1003 has many weaknesses but much strength as well. One of the strengths is the nature of the product and the faith
1004 that consumers still have in the industry in spite of many failures in the past.

1005 XVI. The Future Of The Air Transport Worldwide And In Small Developing Countries a) Future Developments
1006 There will obviously be many developments, positive or negative and hopefully more positive than negative ones.
1007 The air transport has never been a static industry. The nature of the business and that of international economics
1008 and globalization will dictate such developments. Interviewee C spelt out few of these developments that should
1009 give faith and hope to the operators again: Global growth and consolidation; development of new niches; he
1010 gave the example of Mauritius which he seems to know well where hoteliers and the NTO are looking for more
1011 markets. There will be, according to him, a leadership role for Air Mauritius in the region but MK will have to
1012 provide a better service comparable in standard to the hotel services in Mauritius which, he says, are excellent.

1013 Interviewee B sees the small developing countries retaining their own airlines and there sill continue to be
1014 mergers for economies of scale. He Here I must say that while most of our interviewees were loquacious about
1015 Europe, the US and Asia, only Interviewees A and G really had some ideas about Africa. Even then, one could
1016 detect in their attitude what some sociologists and anthropologists would rightly or wrongly call 'afro-pessimism'.
1017 All along the interviewees, in spite of several prompters, Africa took a back seat. This is indeed rather surprising
1018 as we know that some countries of Africa namely, Kenya, South Africa, Nigeria still have an important place in
1019 the European political agendas at the level of individual counties of Europe and the EU.

1020 believes that growth will eventually come after the recession but we will not see remarkable growth in the
1021 mature markets. Interviewee A also concurs in saying that "there will be no high grown rates. We have reached a
1022 certain level of maturity. If you look at the pie chart of air transport, the US will continue to be no.1, Europe no.2
1023 and Asia no.3 and this trend will continue. Globalisation will continue to be a threat to some sectors including
1024 aviation". For Interviewee J, there will be "some growth in Europe but more in the emerging markets. The UK
1025 market and some other European ones are mature markets. There will be no big growth."

1026 **55 b) Environmental Issues**

1027 This will continue to be on top of the agenda for everybody in the industry but also for governments and other
1028 stakeholders. Interviewee C contends that since there is not yet a valid substitute for oil, there will be more
1029 control on licensing, noise and carbon emission.

1030 **56 c) Global Alliances**

1031 For Interviewee E, the tendency worldwide will be that of consolidation and global alliances. But no matter how
1032 big the carriers are, he says, they still belong to states.

1033 **57 d) Developing Countries**

1034 There is agreement that developing countries will continue to have difficulties in running airlines. As Interviewee
1035 E puts it, "it is already difficult for small developing countries to maintain and manage a fleet of aircrafts".

1036 Interviewee J also believes that "the developing countries will have to look very hard if it is at all possible to
1037 make money from aviation. There is more money to make out of tourism than aviation". An observation is that
1038 the poorer the country, the more difficult it is for it to own and manage airlines. Countries like Madagascar, the
1039 Comoros and Malawi have had great difficulties to have a stable airline. But Interviewee F takes a slightly different
1040 stand. She holds that some stable developing countries will see some growth but some other ones will stagnate. "If
1041 you have a viable air service network, it will be important for further economic development", he said. Interviewee
1042 G also does not see a great future for Latin America and Africa, Brazil being an exception. "Can't see Africa
1043 emerging", he says, "they will be ever dependent on the big two. I could imagine a situation where China decides
1044 to invest massively in its civil aviation and doing trade deals with Africa and Latin America in exchange of oil?"
1045 But Interviewee I has a more optimistic approach for the developing countries: "The opportunities are there for
1046 the developing countries. They can learn from the lessons of Europe and the US and avoid their mistakes. There
1047 are opportunities for growth. It's all market dependent. You really have to know and understand your market."

1048 58 e) Aircrafts Developments and Technology

1049 As far as aircraft manufacturing is concerned the industry will continue to rely on the big two: Airbus and
1050 Boeing who, according to Interviewee G, will continue to dominate the market as a duopoly like they have done
1051 for several years. As far as consolidation is concerned, there is the fear that China, India, Brazil and probably
1052 South Africa will team up to make a single block. This was expressed by at least two interviewees, namely
1053 Interviewee E and G who even see Russia as part of the block. This is expressed as a geopolitical development
1054 by Interviewee G who thinks that "if China becomes a big player (which it already is!), then Russia will also lead
1055 in the technology". But according to Interviewee B, "India and China are not really a threat as far as aviation
1056 is concerned. The real threat will come from the region of the Middle East. The threat will be more from the
1057 Middle East airlines. They have the following advantages: location, their position as intermediate markets and
1058 rebate on oil prices". In other words they have a far better competitive edge than any other block.

1059 The industry still has a future if certain measures are taken and the mistakes of the past are not repeated.
1060 Future developments in technology will also contribute to the progress of the industry. From an international
1061 point of view, the industry will continue to develop in a positive way. Unfortunately, because of the disparity
1062 among the various countries especially between the north and the south, growth will also be much skewed.
1063 African airlines and some of the Caribbean operators will continue to find it difficult to surf the tide. While
1064 the EU has tough laws regarding new aircraft technology, developing countries will continue to operate with old
1065 equipment leased or purchased from the ones being gradually phased out of Europe. This is a question to wrap
1066 up the interview and to have a general view of what the future has in store for the industry as far as deregulation
1067 and liberalization are concerned. Admittedly, it is obvious from the expert interviews and the literature that
1068 these had been and continue to be very crucial phenomena for the industry. All of our interviewees held that we
1069 have now reached a point of no return for the industry and it has no choice but to continue on this path. For
1070 Interviewee J, "this is a political area with much debate and slow progress. The flag carrier concept will still be
1071 something smaller countries will cling to for survival. But it's vital that the industry be looked at on a global
1072 basis". a) Re-regulation?

1073 According to all interviewees the process is now unstoppable and unpreventable. This is confirmed by
1074 Interviewee C who just cannot see a return to other forms of regulation or just reregulation. Actually, most
1075 of the interviewees see this as an irreversible situation.

1076 Reregulation according to them will only make matters worse. According to Interviewee C, the American
1077 airline industry is now in a better position with the new Obama government: "As you can see Obama is saving
1078 the car industry and people are saying that if he is saving the car industry, he must be able to save the airline
1079 industry". Interviewee B also confirms that "deregulation will continue. The EU is also taking a stand on this.
1080 For Interviewee A "the trend will continue and the industry will not go back to regulation. But airlines always
1081 operate cartels in one way or the other". Some people contend that since we are in a mess because of regulation,
1082 we should go back to regulation. But practically all our interviewees think this is too simplistic a way to look
1083 at the situation which should be looked at globally and not in isolation. But Interviewee A points out that "as
1084 the economy improves, people will have to pay more to travel". He also mentioned the case of Alitalia whose
1085 resilience has been rather amazing. "Alitalia has been the cat with nine lives" he says, "whatever the EU says,
1086 they are not going to do away with Alitalia. But smaller companies will have to make some tough decisions.
1087 Sometimes it is better to sell when it is still worth something. SAS employs 20,000 people in the Scandinavian
1088 countries. The government will have to subsidise only to save jobs". But the point of interviewee F, however, is
1089 worth mentioning when she is the only one to say that "the US has gone to the extent it can go now? Regulation
1090 could come back. The whole thing may have come full circle. There could be some form of protectionism coming
1091 back. Some Europeans have more of a Pan European outlook." For Interviewee G, "it will continue but in a more
1092 cautious way. We'll have smart regulation. It will continue but it will be smarter." But for Interviewee I, "we
1093 may see an element of reregulation on certain routes that are less viable. Many airlines will not survive under a
1094 totally deregulated regime. Apart from that, it is a process that will continue but will probably have to change
1095 its nature. The scenario will not be the same any more. But the excitement this time will be outside the US and
1096 Europe."

1097 Deregulation and liberalization are both here to stay for many more years to come. As mentioned earlier, this

1098 is now an irreversible situation. This is a process which all future development will have to reckon with. It
1099 is obvious that this is a situation where the fittest will continue to survive. Operators will venture to change
1100 threats in to opportunities and weaknesses in to strengths. The developing countries will continue to lag behind
1101 and if they cannot beat the situation, they will continue to pull resources with the mega carriers. Mergers and
1102 acquisitions will continue with some airlines moving out to make way for new entrants with new technology and
1103 new management methods.

1104 59 XVIII.

1105 60 Conclusion

1106 This interview of the experts in aviation has shown that while air transport used to be glamorous and management
1107 was not very concerned about the various issues that may determine the future of civil aviation. It has now
1108 become imperative to take stock of the situation. The paradigm has changed and people's mindset also has
1109 undergone drastic changes over the decades. The passenger today, apart from being very conscious of their rights
1110 to comfortable but cheap travel are also quite touchy about issues of environmental protection, ecology and
1111 biodiversity. The increase in the level of carbon emission and global warming has gained conspicuous attention
1112 and airline operators and owners will have to rethink their management strategies for the future. This interview
1113 also brings up some interesting new ideas for these operators to consider in their future fora.

1114 61 References Références Referencias

1115 The methodology of this paper did not make provisions for references. However all interviews are based on
face-to-face contact and are on audiotapes. This is an edited synthesis of the transcripts of these tapes. ^{1 2}



Figure 1:

1116

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²MarchThe Air Transport Industry in the 21st Century: A Synthesis of the Views of Aviation Experts in the Uk