

THE RISE OF SUPER AIRLINES LEAVES CONSUMERS OUT OF POCKET

RECENT BANCRUPTCIES AMONG LOW-COST EUROPEAN CARRIERS HIGHLIGHT A GLOBAL PROBLEM

by Philipp Goedeking

The demise of Monarch Airlines is the third time a European carrier has had to file for bankruptcy in the past six months. Before the UK operator came Germany's Air Berlin and Italy's Alitalia. Europe's carriers are in crisis, you might think. Think again.

Over the same period, the market capitalisation of other European airlines — notably, Lufthansa, Air France-KLM, British Airways' parent International Airlines Group, Ryanair and EasyJet — has risen, in some cases in the order of 50 per cent. This illuminates a global trend. Smaller carriers find it increasingly difficult to compete against big carriers, and the latter are getting bigger. Bankruptcies are bad news for passengers and possibly disastrous for governments.

As different as their business models are, hub-carriers such as BA and low-cost carriers like Ryanair live off cost advantages brought by scale-driven standardisation. The more planes, engines and procedures of the same kind, the cheaper it is to keep planes aloft. These rules of industrial competition suggest that there is nothing wrong with big airlines getting bigger, and smaller, less efficient ones disappearing from an over-supplied market.

The problem is that Air Berlin and Alitalia showed that "market exits" are anything but: aircraft and crew of failed airlines are mopped up by big rivals, increasing dominant positions, or even (near) monopolies, on key routes.

Just as Lufthansa looks set to get the lion's share of Air Berlin, and Ryanair — at least until its staffing crisis — wanted to buy Alitalia, so EasyJet and IAG are reportedly eyeing Monarch. This is proof that market exits by one brand do not reduce over-capacity. Instead, they increase market dominance and the monopolisation of routes — in this case, exclusively by Europe's big five.

These European examples are case studies in the structural counter-competitive-ness of the global airline industry. The creation of more "super carriers" is replacing competitive strategy with monopolies:

Air Berlin and Alitalia finally bowed to market forces only after their common anchor investor, state-owned airline Etihad from the United Arab Emirates, pulled the plug on the investments.

LANDING AND TAKE OFF SLOTS ARE PRECIOUS — AND WHAT THE BIG AIRLINES ARE AFTER WHEN THEY ABSORB FAILED RIVALS

In this era of super carriers, air travellers will have fewer, costlier options, and governments could end up with distressed airlines that they have to declare "too big to fail", at vast expense to taxpayers. In these conditions, governments and citizens, as travellers and taxpayers, should be natural allies. Sadly, any alignment of interest between government and consumers is trounced by the mutual dependency of a region or country with the carrier serving it.

No economic centre can exist without airline services, and hardly any airline can stay in business without backing from "home" nations or regions. The best example of this is the increasing readiness of governments to grant carriers monopolies in certain markets. These antitrust immunisations allow carriers — one from each country, say — to agree fares and schedules on specific routes. These airlines no longer compete on the route, making it all but impossible for rivals to nose in. Key to countering the erosion of competition is the humble slot, an airline's right to land and take off from a specific airport at a specific time.

Slots are precious — and what the big airlines are after when they absorb failed rivals. But what if slots reverted to the public upon insolvency? This would allow independent slot co-ordinators — who are woefully underused today — to award them to new entrants or smaller players. For the emerging super carriers, monopoly is the easy way to create scale and avoid the strains and stresses of open competition. For the travellers of the world, monopoly is a sure path to higher fares and poorer service. It is time for them to wise up.