

DOWN TO EARTH

Turbulent Skies? Not Really...

By **Rapahel Bejar**
CEO, Airsavings SA
email: rbejar@airsavings.net



It seems like a tumultuous time for air travel. If all you read is the American press, it might appear that the airline industry is an intractable, untenable muddle of dying dinosaurs and flash-in-the-pan startups. Merger mania and exorbitant fuel prices combined with FAA inspection debacles and deteriorating US airport infrastructure portray an industry that is indeed in flux.

This is, of course, only one side of the story; there are many bright spots highlighting the industry both in the US and on the Continent. New aircraft construction is entering a renaissance, with both American stalwart Boeing and EU powerhouse Airbus utilizing new materials and global manufacturing processes to develop the cleanest, most efficient planes we have ever seen. Low cost carriers have established a new benchmark for successful operating models, and even as a few have fallen victim to the oil-price crisis, LCCs have continued to proliferate and be profitable. Perhaps most poignantly, the EU and the US have finally established a comprehensive, sensible agreement governing transatlantic routes and city service with the Open Skies Agreement.

Though it has garnered precious little attention in the mainstream press, the Open Skies Agreement is perhaps the single most important industry-government action since American deregulation in the 1970s. By allowing any carrier access to all points within any EU member country and all points within the US, without restriction, the OSA has done more to encourage healthy competition and eliminate the stranglehold legacies have had on the lucrative transatlantic market than any accord preceding it. With the agreement in place, low cost carriers are finally free to apply their effective business model to long-haul, well established routes and compete directly with the major legacy airlines. Since phase one was initiated at the end of March, a handful of high profile LCCs have announced their intention to begin transatlantic service, including Ryanair.

There are shortcomings to the agreement, to be sure. Phase two negotiations, which begin this week ahead of a tentative 2010 rollout, will center on stickier points of contention, including still-restrictive US policy regarding foreign ownership of domestic airlines and unified EU-US emissions standards. There is no guarantee that these points will meet with swift resolution, though phase II's provisions have already demonstrated the potential to spawn a new wave of consolidations (as evidenced by British Airways' courtship of Iberia). Despite these challenges, however, the main objective of the OSA is to first, ease route and

destination regulation and second, through phase II, liberalize investment rules, both of which will serve to expand opportunities for airlines on either side of the Atlantic. Perhaps most importantly, the Open Skies Agreement will allow European low cost carriers unprecedented access to the potentially lucrative US low cost market. Americans have consistently demonstrated their price sensitivity; it can be argued that US consumers' demand for ever-lower fares (facilitated by the rise of internet booking and price comparison websites) has contributed to the deteriorating position of US Legacy carriers. But for LCCs- particularly European LCCs, who have shown a knack for executing their unique business model effectively and profitably- the segment of American transatlantic travelers that would be amenable to unbundled services and reasonable pricing represents an untapped reservoir. The OSA in its first phase has generated a way for LCCs to gain market share against established giants in a real, meaningful way.

Some LCCs, such as Zoom, have had limited transatlantic success flying to Canada and other North American destinations, and Asian LCCs have begun exploring long-haul routes, primarily between Southeast Asia and Australia and India. But with all US destinations now on the table, and with all-economy aircraft becoming available, it is no surprise that the European LCC stars (like Ryanair and easyJet) are quickly announcing their intention to launch no-frills service across the Atlantic.

During the first phase of the OSA, legacies will be in the best position to exploit the newfound competition on transatlantic routes. By operating more flights, they can create new economies of scale particular to the route and pass savings along to passengers. By expanding existing partnerships and alliances, legacies are primed to increase airport presences and favorable schedules almost immediately. Once the LCCs make the necessary infrastructure investments, however, it won't be long before they too become ardent competitors in the transatlantic market.

Rapahel Bejar is CEO of Airsavings, a group purchasing and ancillary services firm based in Paris, France. As founder and chief executive of a company that focuses on critical operational aspects of low cost and mid-sized carriers on three continents, and with his 15 years of experience in airline finance with European giants Credit Foncier and Jet Finance, Mr. Bejar is uniquely positioned to comment on emerging trends affecting the airline industry.