

Impacts of the US EU Open Skies Agreement on Future Network Structure

Possible Course of Actions for European Legacy carriers

Florian Juraschek – Student for Aviation Management
International University Bad Honnef

Airneth/G.A.R.S Research Workshop
Friday 18 April 2007

Executive Summary

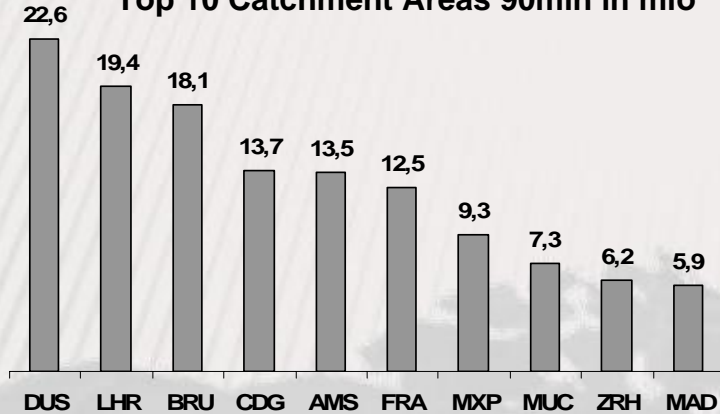
- ***Different carriers have different viewpoints***
- ***Consolidation leading to oligopoly market structures***
- ***Constraints for cabotage, ownership and control must be removed***
- ***5th and 7th freedom rights will only be used to limited scope***
- ***Alliances and Joint ventures will dominate***

Some Figures – Competition vs Concentration

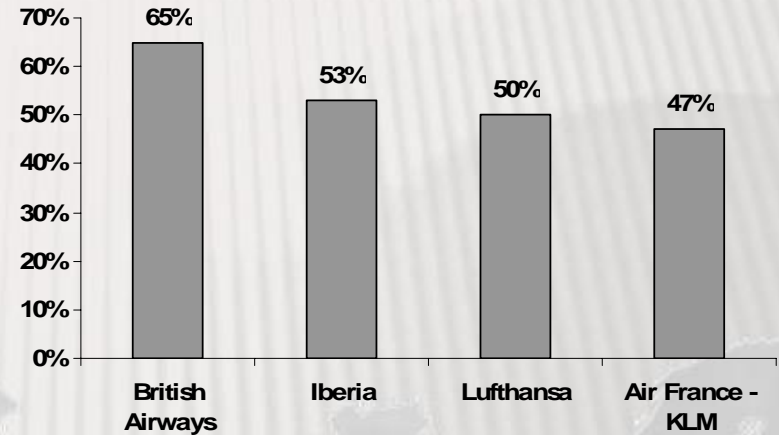
- 45 Airlines and 385 daily flights between EU and US
- Since 2003 capacity grew 40%
- Top 3 EU carriers account for 32% of total capacity
- Alliances amount 81% market share
- Capacity growth Summer 2008 EU – US : 5.6%
- With open skies London – US market grew 8.5%

Initial Positioning of Europe's Legacy carriers

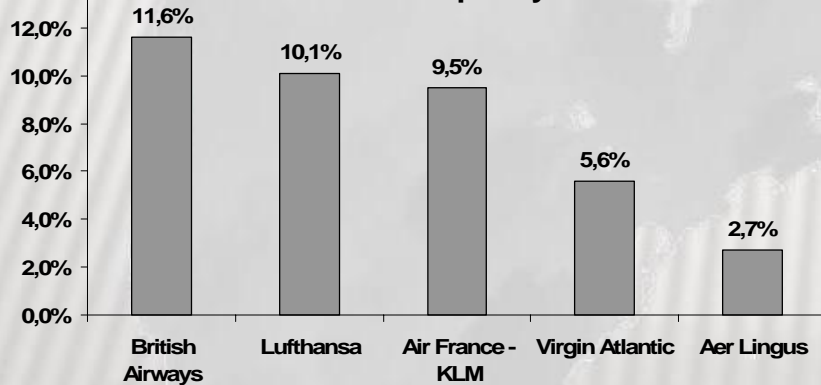
Top 10 Catchment Areas 90min in mio



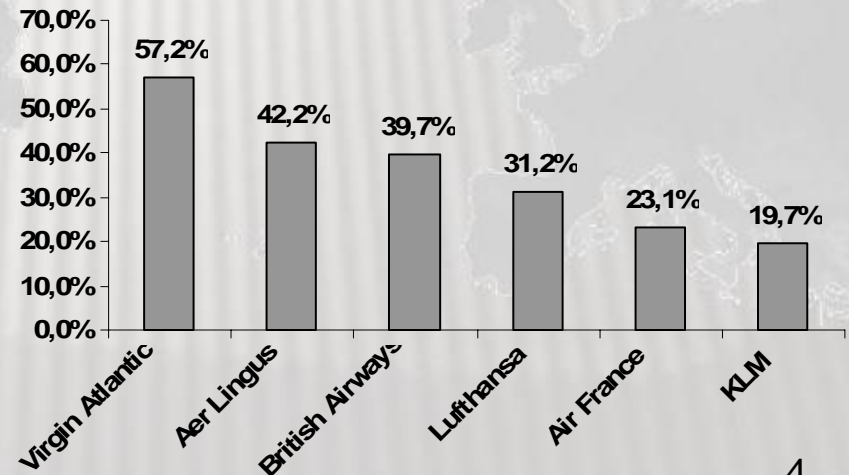
O+D share of total traffic



Transatlantic capacity shares



Transatlantic RTK share



Competition: London Heathrow Gold Rush

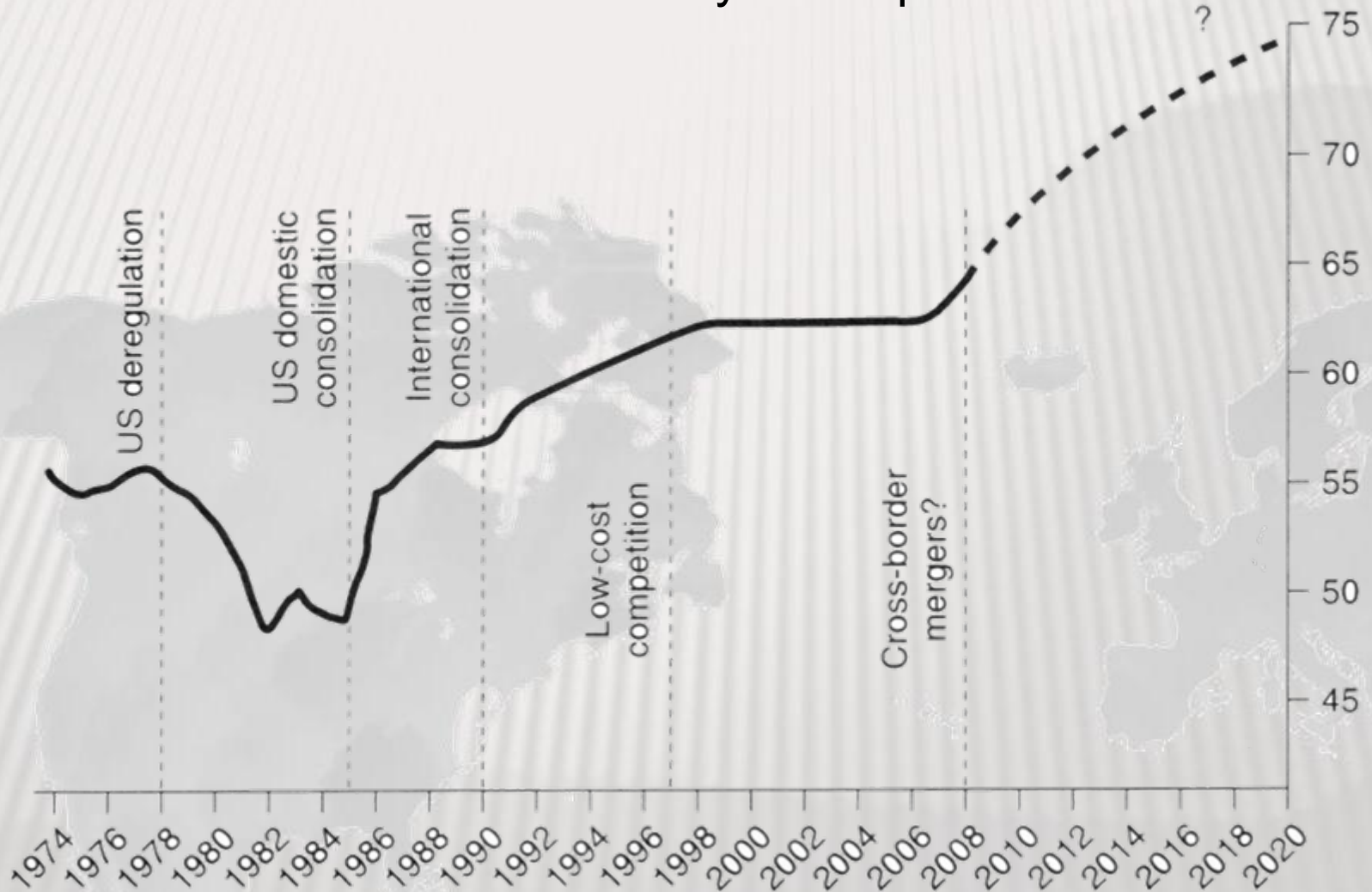
- US carriers increased 7.9%; EU carriers: 3.7%
 - Consumer benefits of €6.4 - 12 billion*
 - Background of developments: US vs EU
 - Competitive disadvantages?
 - Competitive constraints?
 - AF, DL, CO, NW and US rush into LHR
- ***Competition so far is concentrated on LHR***

Consolidation: On the way to oligopolistic Market ?

- Comparability with US and EU deregulation
 - 1st tiers have the active part in the merger
 - 2nd and 3rd tiers under pressure
 - Economies of scale, scope and density – “Size matters“
 - European consolidation: Stuck in the middle of nowhere?
- ***Need for change in ownership and control rights***

Deregulation as the driver for oligopoly markets

Shares of world RPK by the Top 20 Airlines



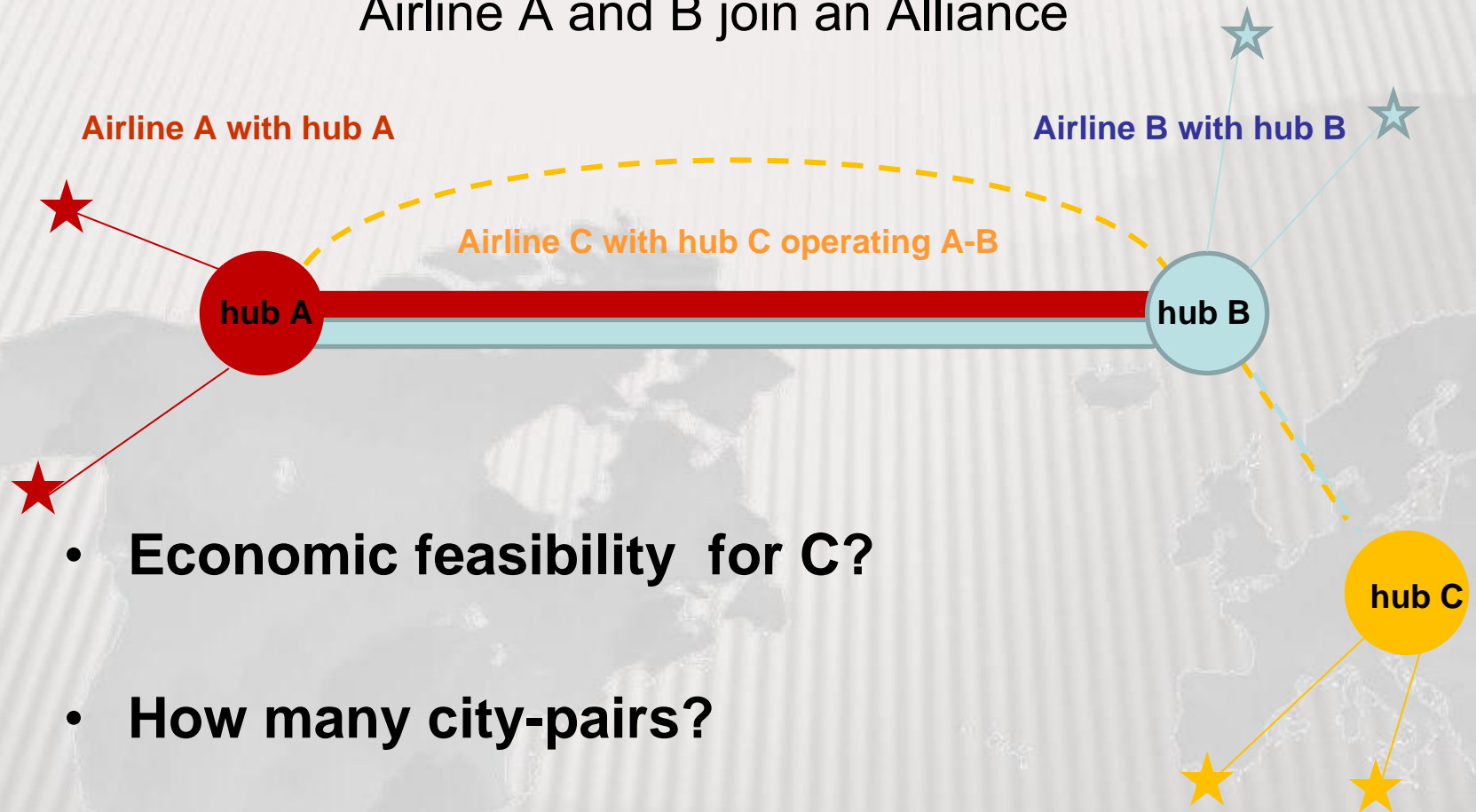
Source: Hanlon P., Global Airlines

Rights granted influencing Network Structure

- Unlimited third and fourth freedom
- Fifth freedom rights beyond the US
- Seventh freedom rights
- Free pricing
- Unlimited code-sharing
- “Open Heathrow“

Network options: Decentralization vs Hubbing

Airline A and B join an Alliance



- **Economic feasibility for C?**
- **How many city-pairs?**
- **How to compete against high frequency hub traffic?**

Network Decentralization: *OpenSkies* Case

- Three class, 82 seats
- Fully depreciated Aircraft
- Seperate cost structure, labor contracts
- Only few city pairs with sustainable demand
- Entry into thick markets
- Low frequency against multiple frequency possible?

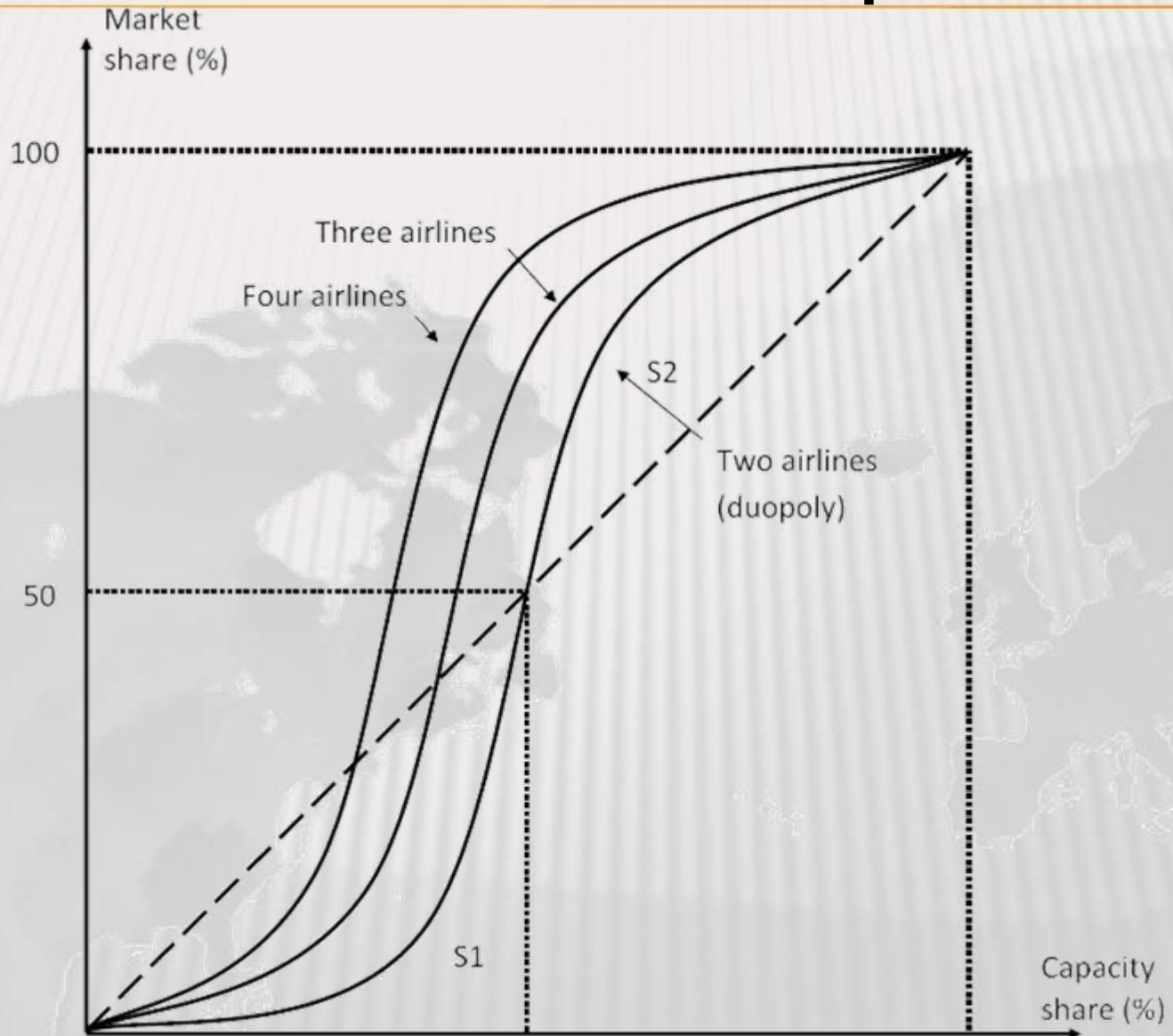


→ ***BA has highest pressure to react***

Hubbing creates scale, scope and density

- hub and spoke networks after deregulation
- higher aircraft utilization, higher frequencies
→ density
- larger aircraft size with higher seat load factors
→ size
- enlarged network structure
→ scope
- monopoly market power in fortress hubs

S-curve Effect: non-Price Competition



Outcome: Alliances and Joint Ventures

- Increased code-share agreements
 - risk free enlargement of capacity, network and market share at low costs
 - “anticompetitive structures” will circumvent emerging competition
 - Mergers and joint ventures within the borders of alliances : AF-DL, KL-NW, Atlantic+ (LH-UA)
- ***Alliances and Joint Ventures will prevail***

Thank you for your attention