



ABSTRACT

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Airline consolidation: How will it reshape the industry? What does it mean for Europe?

Three factors will ultimately influence the degree and timing of consolidation in the European Airline industry:

The first and most important is the long-term impact of a very substantially liberalized single European market (now greatly expanded in size and economic diversity with the Eastern expansion of the EU), replacing a set of protected nation-based markets. This process is far from complete. A comparable process in the United States, starting from a somewhat more liberalized position, has taken thirty years to approach an equilibrium. The analogous evolution of the transatlantic market similarly has taken thirty years in a more slowly evolving framework and is not nearly complete yet. Other major world markets are much less evolved than these.

The second is the impact of a recession and frozen credit markets, which stress existing airlines without a promising business model and strategic position at the same time that they inhibit the use of private credit to facilitate consolidation transactions. Related to this is the issue of the Commission's treatment of competition issues and state aid, "temporary" or permanent, to failing national carriers.

The third is the developing influence of three global airline alliances, in each of which participants increasingly share some portion of their business results.

Each of these factors creates both pressures for and constraints on consolidation in the European context. None of these impacts is short-term; even the recession and credit crunch will have lasting impact long after they have been resolved.

The questions that must be posed and answered are: what are the likely successful business models to emerge from the liberalized markets? How many firms will be able to successfully occupy each promising niche? How much "lubrication" (which also can function as delay) will the Commission permit member states to provide as transitional aid to carriers that will be drastically diminished or altered as this transformation proceeds? Can a fourth global alliance emerge? What ultimate role, if any, will environmental costs and infrastructure limitations play in this process?