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The Feasibility of Long-Haul
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Report of the Discussion on the Feasibility of Long-Haul Low-Cost Operations

This document summarizes the discussion held during the seminar “The Feasibility of Long-Haul Low-Cost Operations”. It does not necessarily represent the views or opinions of Airneth, the KiM Netherlands Institute for Transport Policy Analysis and the Dutch Ministry of Infrastructure and the Environment. For a good understanding of the discussion, it might be helpful to first familiarize yourself with the various presentations held during the seminar.

Feeder traffic

Necessity

Norwegian is looking for partnerships with network carriers. This shows that the airline is looking for ways to increase feeder traffic. An obstacle for low-cost carriers to partner with a network carrier, is that those carriers generally require an interlining agreement, which adds complexity to the operation of the low-cost carrier. In the Netherlands, Transavia currently codeshares with KLM and is talking to Delta for a codeshare agreement at Schiphol. For Transavia it is convenient to have their parent KLM to handle all the complexities. A similar agreement with another independent (low-cost) airline might be more complex. In addition, the willingness to cooperate between an independent low-cost and a network carrier will be smaller than between two airlines belonging to the same airline group.

Virtual-hub concept

The virtual-hub concept is an interesting development which may increase feeder traffic for low-cost airlines without adding complexity. In this concept, the airports take over the transfer process and identify attractive connecting possibilities between flights (of different carriers) through their airport and market these on their own website. This concept is for instance offered by Gatwick. Through [GatwickConnects](#) the airport offers connections between different (low-cost) airlines that occur more or less incidentally. The different tickets can be booked directly through the website. A service fee of £27.50 is added which also includes an insurance which covers your ticket and accommodation costs in case of a missed connection. Such an insurance is even more relevant on the long-haul than on the short-haul, as the costs of a missed connection are higher on the long-haul due to higher ticket prices and a more limited number of transfer possibilities.

Although it is an interesting concept, there are certain challenges with respect to:

- **Branding and visibility:** Most passengers go to the websites of airlines or travel agents when they want to buy a ticket. Most passengers overlook the airport's websites that may offer an interesting connecting possibility, such as the GatwickConnects website. In the future however, websites such as SkyScanner and Google Flight may also incorporate connecting possibilities marketed by the airports in their search results;
- **Limited number of return connections available:** Sufficient density is required to make sure return connections are also available. This is easier to



achieve for large airports such as Gatwick, than for smaller ones. A study by DLR¹ found that you could often book a flight one-way through an airport's website, but then there were no return options available or only with very unattractive options with long transfer times. However, when the concept is offered by more airports, then the return flight does not necessarily have to go through the same hub as the outbound flight.

Cost savings

Airlines continually try to cut costs, some (low-cost carriers) more aggressively than others. There are some cost elements, that can hardly be reduced (fuel for instance) and therefore are generally the same for everyone. Three cost elements were discussed that can reduce costs in the future: new aircraft types, pilotless aircraft and less favourable labour conditions.

New aircraft types

New aircraft types such as the Boeing's 737MAX and 787 as well as the Airbus' A320neo and A350 lower the costs for all airlines operating them. Airlines which adopt these aircraft early have a first-mover advantage. This advantage last a certain amount of time, but not forever. In addition, these aircraft allow airlines to operate transatlantic markets with a smaller share of transfer traffic.

In the past, the aircraft manufacturers have looked into developing a special low-cost aircraft. The general idea is to make the aircraft as light as possible, by using lighter materials (more titanium and lighter seats) and stripping out items not required by low-cost carriers such as in-flight entertainment systems. Transavia also took out their entertainment system which saved the airline approximately €300,000 per year in fuel, maintenance and subscriptions. Such a low-cost aircraft can also have a variable seat-pitch which would allow the carriers to charge different prices for different seat-pitches.

The ideas for low-cost aircraft have been rejected however, as the aircraft becomes too specific, which has a negative impact on its value. To give an example, during the off-season winter months, Ryanair does not use a large part of its fleet. It is hard for other airlines to lease those aircraft as they are very specific in terms of weight savings and interior design.

Pilotless aircraft

Another option for reducing costs, is to have an aircraft without a co-pilot or even without both pilots. This would increase the cabin space which means more passengers can be carried on each flight and it saves the airlines on labour costs and accommodation costs. NASA is already testing with having the first officer on the ground. The idea is having the first-officer doing multiple flights at the same time. That is one step away from having no pilots on the flight at all. At some point in time that is what will happen. Network carriers however may benefit from this more than low-cost carriers, because pilots at network carriers enjoy more generous labour conditions than those working for low-cost carriers.

Labour conditions

Low-cost carriers in Europe are pushing the boundaries with respect to labour conditions. Norwegian for instance operates on an Irish AOC and plans to use Thai crew on its flights to the US. It is likely that other low-cost carriers will to follow and

1 [DLR \(2011\). The Evolution of the Low Cost Carrier Business Model – Connections, Hubbing and Interlining. Airneth 5th Annual Conference. Den Haag, 14 April 2011.](#)



search for more flexible employment, unless there are regulations at the European level that prevent that from happening. That might certainly be a direction that low-cost carriers are following. For network carriers, with their strong unions, it will be difficult to adopt similar models.

Closing remarks

Long-Haul Low-Cost is clearly not an easy business model to operate. That probably also explains why we don't see much successful applications of it yet. The lack of runway capacity at Schiphol, Eindhoven and Rotterdam will also limit the development of Low-Cost Long-Haul operations from the Netherlands.