

THE STATE OF EUROPEAN AIRLINE COMPETITION IN THE ERA OF CONSOLIDATION

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*‘Ryanair, easyJet, Air Berlin and Emirates
are now our main competitors – gone are the days when
we could benchmark ourselves against BA or Air France-KLM’*

Christoph Franz,
Executive Board Member Passenger Airline Division,
Lufthansa

Quoted in Aviation Week Oct 12, 2009

LONG-HAUL COMPETITION AT EUROPE'S MAJOR CITIES

Destinations with non-stop service	LON BA	PAR AF	FRA LH	AMS KL	MAD IB
Hub carrier + code-shares only	13	37	49	44	13
Hub carrier + 1	27	33	19	18	10
Hub carrier + 2	16	9	4	4	4
Hub carrier + 3 or more	10	3	1	0	1
Hub carrier non-stop destinations	66	82	73	66	28
Average number of competitors	1.4	0.7	0.4	0.4	0.8
Others only	44	35	41	24	17
Total non-stop destinations	111	117	114	90	45

Source: Compiled from analysis of OAG data, July 2010

SHORT-HAUL COMPETITION AT EUROPE'S MAJOR CITIES

Destinations with non-stop service	LON BA	PAR AF	FRA LH	AMS KL	MAD IB
Hub carrier + code-shares only	3	37	50	37	29
Hub carrier + traditional carriers only	8	9	15	12	17
Hub carrier + 1 LCC (+ others)	36	32	22	20	25
Hub carrier + 2+ LCC (+ others)	27	15	4	2	14
Hub carrier non-stop destinations	74	93	91	71	85
Average number of competitors	2.1	1.0	0.6	0.6	1.3
Others only	145	97	75	77	31
Total non-stop destinations	219	190	166	148	116

Source: Compiled from analysis of OAG data, July 2010

MAIN COMPETITORS ON SHORT-HAUL ROUTES

- BA's main competitor at London is easyJet on short-haul (and Virgin Atlantic on long-haul)

- Of BA's 74 short-haul routes:

easyJet are on 45

Ryanair are on 25

bmi are on 11 in their own right (4 domestic + 6 proxy LH group + Moscow)

All the other traditional airlines put together serve 39

- Other major LCC opponents:

Air France (PAR): easyJet 26, Ryanair 13

Lufthansa (FRA): Ryanair 14, Air Berlin 7

KLM (AMS): easyJet 10, Transavia* 8

Iberia (MAD): Ryanair 24, easyJet 17

- BA and LH benefit from main competitor being at a secondary airport

* Part of AF/KL group

IMPACT ON FARES

- US evidence suggests carriers can extract higher fares at dominated hub cities (hub premiums)
- Similar findings in Europe: e.g. 15% higher than average fares from hubs of Air France, Lufthansa and Swissair (Lijesen et al, 2001)
- On short-haul routes BA has been obliged to abandon the Sunday rule and offer competitive one-way fares (reflecting LCC competition)
- Other carriers are still able to cling to these restrictions:

Amsterdam-Zurich day return, Y class (Wed 4/5/11, booked one month ahead)
KLM Euro 474; Swiss Euro 518

London-Zurich day return, Y class (Wed 4/5/11, booked one month ahead)
BA £116 = Euro 131; Swiss £120 = Euro 136

- BA suffers this dilution on almost all its European routes whereas for KLM, Air France, Lufthansa, Swiss etc it is only a limited problem

LONG-HAUL COMPETITION

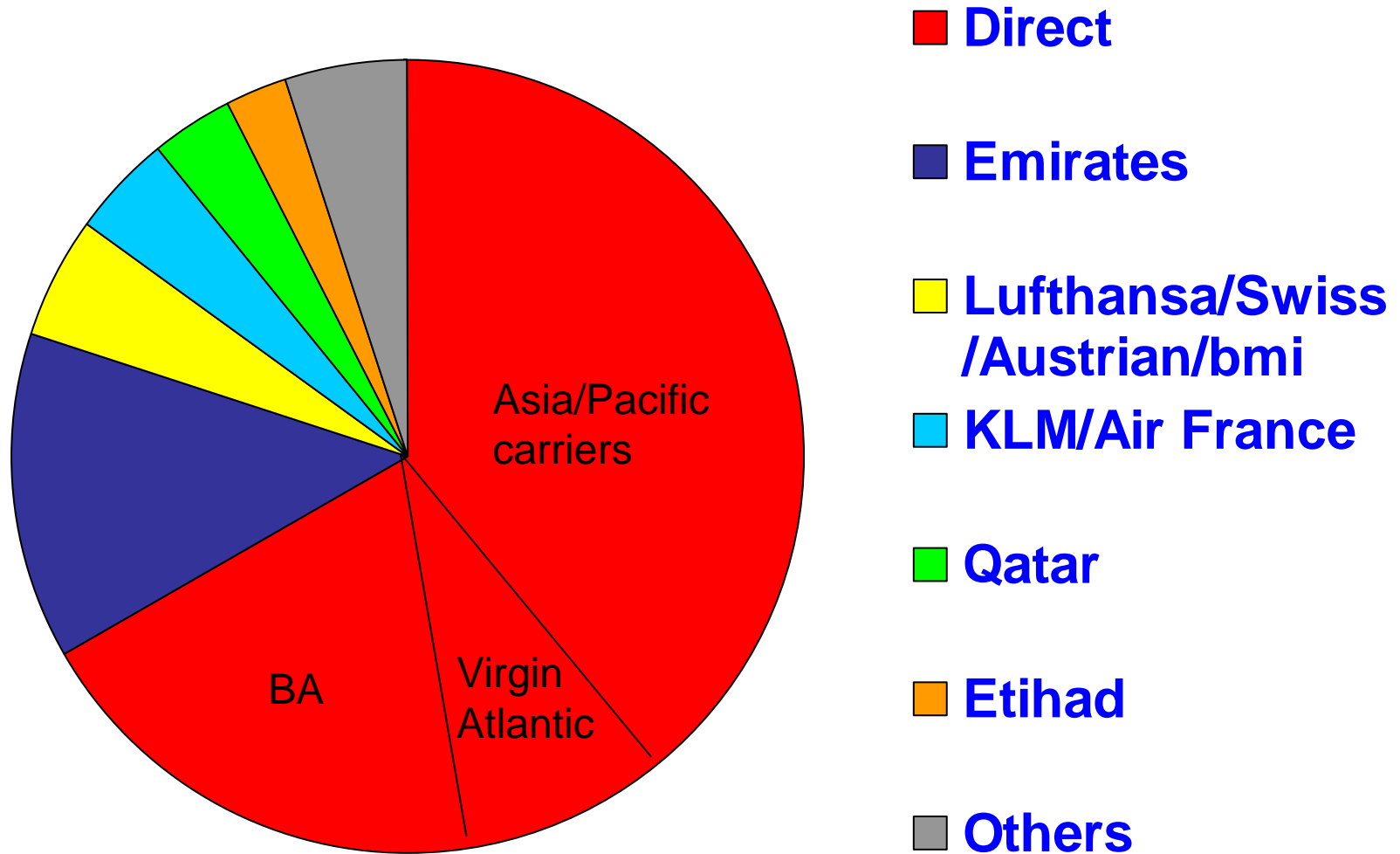
- In long-haul markets an important element of competition comes from indirect services through alternative hubs
- In addition to hubs within Europe, many long-haul passengers can route through hubs in other parts of the world
- The competitors with the widest European coverage from hubs elsewhere in the world are:

Emirates (Dubai)

Continental (New York Newark)

ESTIMATED MARKET SHARES UK-ASIA/PACIFIC

Origin/Destination traffic 2009



Source: Modelled from CAA, IATA, AEA, OAG data
Eastern hemisphere routings only

CONCLUSIONS

- In the short-haul market an assessment of competition needs to consider alternative airports
- In the long-haul market an assessment of competition needs to identify the true origins and destinations of the traffic and consider alternative hubs
- Although BA enjoys a protected position at Heathrow it is much more exposed to LCC competition than its European counterparts
- Alliances appear to have a fairly marginal impact on service patterns - the traffic generation potential of the city is more significant
- There is a trade-off between dominating a small market and having a small share of a large market