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# The Next IATA?

*The European Low Fares Airline Association, launched in January to represent the specific views and interests of its constituent airlines, may evolve along with its members to become increasingly influential within the airline industry.*

■ By Vinay Dube | *Ascend* Contributor

Low-cost carriers, or low-fare airlines, are the fastest growing segment of the airline industry. According to some projections, such airlines will carry up to 50 percent of all air traffic by 2010. Despite their robust business model and extreme popularity with consumers, low-fare airlines have long believed that government and air transport industry policy makers have not acknowledged the central role they have played in the growth of air travel demand during the last five to 10 years. In fact, low-fare airlines in Europe believe that recently proposed legislation is overly punitive to their business model and will be detrimental to the development of a strong and competitive European aviation industry. Initially, European discount carriers tried to individually influence policy makers with little success, and they finally decided to band together to jointly command more clout and visibility.

In January, 10 European low-fare airlines formed the European Low Fares Airline Association to represent the specific views and interests of its constituent airlines. Today, ELFAA has 11 member airlines from nine European countries — Transavia/BasqAir (Netherlands), Air Berlin (Germany), Sverigeflyg (Sweden), Volareweb (Italy), Flybe (United Kingdom), SkyEurope (Slovakia), Sterling (Denmark), Ryanair (Ireland), Hapag-Lloyd Express (Germany) and WIZZ Air (Hungary) — carrying approximately 49 million passengers, or roughly 15 percent of all intra-European traffic.

While the organization is still in its infancy, it already has a clear set of policies and interests that it lobbies for passionately.

## Passenger Compensation Legislation

The European Union has passed legislation, which takes effect in February, that would force all airlines to compensate passengers for

denied boardings, long delays and cancellations. The E.U. Regulation on Air Passenger Compensation requires airlines to pay a fixed amount to passengers — the cost of hotel accommodations, meals, drinks, taxis, phone calls, etc. — for cancellations, denied boardings and long delays, even when the event is out of the airline's control. ELFAA supports legislation that benefits passengers but says the magnitude of the required compensation is disproportionate to the face value of the tickets and further complains about being held accountable for disruptions beyond airlines' control, such as weather or air traffic control delays. Earlier this year, ELFAA filed a case with the London High Court challenging this regulation because it did not have the standing to refer the case directly to the European Court of Justice. In July, the London High Court referred the case to the ECJ, which has not yet issued a ruling.

## Incentives from Publicly Owned Airports

In February, the E.U. commission ruled that no publicly owned airport could provide incentives to attract traffic from other airports in the

larger catchment area. Regional airports all over the world have, for some time, provided incentives to attract airlines in a fairly unbiased manner — they are willing to offer incentives to not just low-fare airlines but to any airline willing to serve the airport with a direct service. Airports offer such incentives based on the idea that non-stop service is extremely instrumental in the economic development of the demographical area they serve. Incentives attract airlines, therefore speeding up this economic development. ELFAA argues that the E.U. ruling is bad for the consumer and will eventually cause a sharp increase in fares to and from such airports.

## Harmonizing Pilot Hours

Earlier this year, an E.U. civil aviation proposal called for, among other things, the harmonization of pilot hours. The proposal limited flight time and detailed requirements for rest and other safety and technical issues. ELFAA supports proposals that make air travel safer, but it argues that these proposed changes do not increase air safety but rather severely impact operational efficiency. It has asked the regulatory authorities to set standards that promote safety and security but yet provide enough flexibility to support multiple business and operational models.

## State Aid and Benefits for Flag Carriers

ELFAA is concerned that the national airlines of Europe will receive state aid in a manner that is inconsistent with the legislation responsible for the liberalization of the European aviation sector. ELFAA is particularly concerned with the flag carriers of the new E.U. member states but does not discount this practice in non-European countries as well. It has raised this issue with both the



European Low Fares Airline Association



Commissioner for Transport and Energy and the Commissioner for Competition at the European Commission.

## Influence Airport and Aircraft Manufacturers

In recent times, Ryanair has stated that its future aircraft might not have window blinds or seats back pockets and that its seats might not recline. It has also suggested that passengers might not be allowed to check in luggage. While some of these statements by Ryanair are made to highlight its low-fare image, others are quite real and could be leading indicators of aircraft to come. Although ELFAA has not stated this explicitly in its charter, it could also work collectively to influence the future design of aircraft and airports to better suit the low-fare operating model.

ELFAA may also work to influence airports. Singapore recently announced that it would build a separate low-fare airline terminal to support the growing popularity of the segment in the Asia/Pacific region. While Singapore is the first to announce this publicly, a number of European airports are seriously contemplating a similar move.

## Treatment of Air Travel

Low-cost carriers are responsible for a massive shift in the way people view air travel. No more is it only for those who can afford to pay more to get somewhere faster; it is simply a way of getting from point A to point B — a mode of transportation that everyone can reasonably expect to take several times during their lives. The ELFAA, therefore, contends

that governments and other regulatory authorities should treat air travel like any other mode of mass transportation — such as buses, ferries or trains. ELFAA cites the recently proposed passenger compensation legislation, which applies only to air transportation, and the fact that governments subsidize a smaller percentage of security costs for air transportation than for other modes of mass transport as two key examples of modal discrimination. ELFAA argues that these and other discriminatory practices put aviation at a competitive disadvantage compared to other modes of transportation.

Certainly, a number of these issues are not unique to low-fare airlines. The International Air Transport Association has filed similar complaints with the European governing bodies; however, ELFAA argues each aspect of a case with a particular focus on low-fare airlines. Some issues such as the passenger compensation legislation, the harmonization of pilot hours and the subsidies provided by publicly owned airports have an exaggerated effect on low-cost carriers. For example, the fixed sum of money payable to passengers in the case of cancellations is significantly higher for low-fare airlines as a percentage of fare than it might be for other types of carriers. In some cases, this might even be several times more than the fare paid by the passenger.

A natural question arising from such issues is why don't low-fare airlines band together with IATA to tackle some of these issues jointly? And, to a certain extent they do. But to a large degree, low-fare airlines do not

want to associate with IATA or any of its member airlines. In fact, forming ELFAA can be seen, in part, as a response to IATA — a way for low-fare airlines to legitimize their existence with regulatory authorities as well as reinforce the idea that the low-fare airlines represent the future of the industry and should have a bigger role in shaping the legislation and mandates that govern the industry.

And therein lies the irony. If the low-fare business model is the way of the future, will all European airlines in five to 10 years be part of ELFAA? And over time, will the "E" in ELFAA be dropped as the association extends around the world? Is this the next IATA? For those who think that notion is absurd, it should be noted that the forerunner of IATA, the International Air Traffic Association, was founded in The Hague in 1919 as a solely European venture. (Pan American was the first non-European airline to join the association in 1939.)

No matter what the future may hold, it is likely that the 11 members of ELFAA will soon be joined by several more and that as the low-fare model proliferates to other regions of the world, ELFAA might evolve into a more international organization. **E**

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## THE HIGH • LEVEL view

News Briefs from Around the Globe

### Who

Sabre Airline Solutions

### What

Launched *SabreSonic™ Inventory*, an advanced inventory management solution that leverages open-systems technology to ensure revenue integrity through real-time application of inventory controls while addressing the dramatic

growth of flight availability requests. The ability to evaluate reservations requests in real time and maximize total revenue of the entire flight network through the *Inventory* component is considered a breakthrough in revenue management.

### Why

"Airlines are faced with increasingly

bargain-minded online shoppers, which is driving down yields and increasing processing costs," said Gianni Marostica, president of Airline Passenger Solutions for Sabre Airline Solutions. "We developed the *Inventory* component to address the challenges airlines face from the impact of these trends." **E**