	of illustrations nowledgements	ix xi
Int	roduction	1
Bey	ond the crisis: trends and challenges	4
1.1	A cyclical and marginal industry 4	
1.2	Crisis turns to disaster 8	
1.3	Past trends 12	
1.4	Airline challenges in the twenty-first century 17	
Tov	Towards 'open skies'	
2.1	The three pillars of economic regulation 27	
2.2	Bilateralism under pressure 31	
2.3	Liberalisation and 'open markets' 1978–91 32	
2.4	Towards 'open skies' - from 1992 onwards 38	
2.5	The single European market 45	
Bey	ond 'open skies'	51
3.1	Clouds in the 'open skies' 51	
3.2	The nationality rules: an anomaly in the global economy 54	
3.3	Towards clear skies 59	
3.4	The European Court changes the rules 63	
3.5	A Trans-Atlantic Common Aviation Area? 66	

	4 A	lliances: a response to uncertainty or an	
	е	conomic necessity?	73
	4	1 Alliance frenzy 73	73
	4.	2 Diversity of airline alliances 78	
	4.	3 The marketing benefits of large scale and scope 86	
	4.	4 Cost synergies and reductions 91	
	4.	5 Reducing competition 95	
	4.	6 Bypassing regulatory barriers 99	
	4.	7 Cementing alliances 100	
	4.		
	4	Controlling alliances 110	
	4	10 A response to economic forces or to uncertainty? 116	
5	La	bour is the key	118
	5.1	The importance of labour costs 118	110
	5.2	The unit cost of labour 120	
	5.3	Productivity of labour 124	
	5. 4	Growing pressures to reduce the cost of labour 128	
	5.5	Labour as a cost differentiator 132	
	5.6	Strategies for reducing labour costs 136	
	5.7	Sharing the spoils: employees as shareholders 141	
	5.8	The labour challenge 144	
6	Th	e low-cost revolution	147
	6.1	A new phenomenon sweeps the world 147	117
	6.2	The Southwest model 150	
	6.3	The low-cost model catches on in the USA 156	
	6.4	The impact of low-cost airlines in Europe 159	
	6.5	The Europeans follow the Southwest model 164	
	6.6	How great is the cost differential? 170	
	6.7	A sustainable cost advantage 178	
	6.8	Revenue advantages 181	
	6.9	Charters – the other low-cost model 184	
	6.10	A passing phase or a model for the future? 188	
7	e-co	mmerce@airlines.co	196
	7.1	Increasing focus on the customer 196	130
	7.2	IT driving the airline business model 197	
	7.3	The impact of e-commerce on marketing and distribution 201	
	7. 4	Drivers for change 203	

	7.5	Risks and problems of e-commerce 210	
	7.6	The role of global distribution systems 214	
	7.7	Future developments and strategies 217	
	7.8	Playing by the new rules – customer relations management 220	
8	Stat	te-owned airlines: a dying species or a suitable	
		e for treatment?	223
	8.1	Changing attitudes 223	
	8.2	Distressed state airline syndrome 227	
	8.3	Preparing for privatisation 234	
	8.4	Resolving privatisation issues 240	
	8.5	State aid and the single European market 245	
	8.6	The Olympic Airways case 252	
	8.7	Saving the species! 255	
•	Stra	tegies for survival in the twenty-first century	258
	9.1	A period of uncertainty 258	
	9.2	Clarifying the corporate mission 260	
	9.3	Repairing the network model 263	
	9.4	Strategies for the low-cost sector 269	
	9.5	Cost reduction as a long-term necessity 272	
	9.6	Marketing focused on yield improvement 274	
	9.7	Developing an alliance strategy 278	
	9.8	An improved corporate culture 281	
	9.9	Towards the virtual airline? 282	
	9.10	The future shape of the airline industry 287	
p	pendi	ces	
	A Fre	eedoms of the air 292	
	B Gle	ossary of common air transport terms 294	
	Bibliog	zrahlv	297
	Index	y wy ry	302
	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		302

Illustrations

Fi	gures	
1.1	Profit or loss of the world's airlines, 1988 to 2003 (in US \$)	
1.2	Profit or loss as percentage of revenues – world airlines, 1988 to 2003	
1.3	Oil prices, 1970 to 2004, in current prices and at constant 2004 dollar values	14
1.4	Average yield per passenger-km of ICAO member airlines, 1989-2	
4.1	Alliance categories	8
4.2	KLM's alliances in January 2000	83
4.3	Phases in cementing an airline alliance	102
5.1		125
5.2	Available tonne-kms per \$1,000 labour cost, 2002	129
6.1	Penetration of low-cost carriers on intra-European and domestic	14.
	markets, March 2005	162
6.2		702
	selected European airlines, 2003	177
9.1	Alternative airline business models	284 5
Ta	bles	
1.1	Rising fuel prices deepen crisis	12
2.1	Key features of traditional air services agreements	29
2.2	Typical features of post-1978 US-type open market bilaterals	34
2.3	Traditional and post-1985 open market European bilaterals	36
2.4	US open-market and post-1991 open-skies air services agreements	44
4. l	Profile of the major global alliances at the end of 2004	85
4.2	Marketing benefits of large scope and network spread	87
4.3	Impact of US-European alliances on market shares on selected	
	routes, 1994-8 (% of passengers on direct flights)	90
4.4	Air France-KLM merger – potential annual synergies	
	(September 2003)	94
4.5	Impact of the SAS-Lufthansa 1995 alliance on major routes,	
	Germany to Scandinavia	97

x List of illustrations

4	.6 Impact of alliances on SAS's share of scheduled departures from	
	Copenhagen, March 7004	00
4	.7 Comparison of connecting services to New York via European hubs	98
5	1 Wages and associated costs of labour as a percentage of total	108
	operating cost, 2002	119
5.	2 Average annual remuneration for pilots and cabin crew of selected	119
_	jor unifies in 2002	121
5.	Past of cockpit ciew oil total labour costs selected Fundament	121
_	un mes, 2002	122
5.	and impact of social charges on European airlines' labour	144
5	COStS III 2002	123
J.,	of average annual costs per employee European ask al. 1. 1	
5.6	unines, 2002	134
6.1		138
0.	Comparison of Boeing 737–300 operating costs, United States carriers, 2003	
6.2	earrers, 2005	154
6.3		157
	Market shares of low-cost and network airlines on London–Italy,	
6.4	·····	164
6.5	Impact of low-cost carriers on London-Toulouse return fares (US \$) Cost advantage of low-cost carriers on short-haul routes – a	166
	cascade study showing cumulative cost advantage	
6.6	Total operating costs on intra-European services in 2003	171
6.7	Impact of seat factor on unit costs of intra-European services in	177
	2003	
6.8	easyJet's yield management: London (Luton)-Nice route in	178
	January 2005	100
6.9	Cost advantages of charters compared to low-cost scheduled carriers	182
	-10) issues for all files in regard to information technologic	185
7.2	impact of offline sales and e-ticketing in 2004	198 202
7.3	Breakdown of airline distribution costs 1006	202
7.4	Shifting pattern of US airline distribution channels	204
8.1	Government shareholding in international airlines, L.L. 2004	226
8.2 8.3	Symptoms of Distressed State Airline Syndrome	235
0.5	Restructuring a distressed state airline – the Olympic Aircrack	200
8.4	case, 1557 /	237
J.T	State aid and capital injections to airlines of the European Union, 1990–97	
9.1		246
9.2	British Airways results, financial year 2004/5 Aer Lingus cost reductions, 2001 to 2003	264
9.3	The future shape of the girling in L	268
-	The future shape of the airline industry in each major region or continent	
		290