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The Air Transport Industry in the 21st Century: A Synthesis of the Views of Aviation Experts in the UK

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Abstract - The expert interviews carried out in the UK in 2009 show that the concepts of deregulation, liberalization and globalization in air transport are realities that cannot be overlooked. The results of these interviews will also support the contention that SIDS will eventually adopt policies which will, in the long run, be beneficial to these developing countries wishing to stay in operation within a highly competitive environment. Although all interviews were confined to the UK, it would be fair to mention that because of the nature of international transport that literally cut across borders most if not all of the concepts and ideas discussed at the interviews are global issues that would probably be applicable to any part of the world. Moreover, most if not all, of the interviewees have international exposures and have handle projects and consultancy works overseas. Although, the views expressed by the interviewees may not always be coherent, there is a common thread throughout as to the present and sometimes very precarious situation. Most of the interviewees are optimistic for the future and some of the themes that keep recurring are: consolidation, the necessity for alternative sources of energy and the rise in cost of operations. Another issue that got specific attention and focus was the environmental concern and global warming.

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U. K Experts' Views – the Scoping Study

The purpose of the interviews was to determine various opinions and ideas from academics who have had exposure to and experience of the aviation sector. All the interviewees selected are qualified in their respective fields and have many years experience working and/or teaching air transport at tertiary level. Below is a table with their respective academic and professional qualifications and experience.

1. BACKGROUND OF INTERVIEWEES AND THEIR EXPERIENCE IN AVIATION

Interviewees' Names		Academic/ Professional Qualifications	Experience	Current Role
Nigel Dennis	A	1st degree in Maths; MSc in Transport Planning & Engineering; PhD in Transport & Highway Engineering	Attachment with BA and various transport groups in research projects; worked for BAA & DHL at Zaventem hub; Worked on air deregulation & liberalization and airline economics & forecasts.	Head of Air Transport Department, University of Westminster, London
Romano Pagliari	B	1 st degree in Economic History; Masters & PhD in Air Transport	Has been an academic at Cranfield University for past 40 years. Area of specialization is airport management and has knowledge of airline development.	

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Keith Mason	C	Degree in Business Management; PhD in air Transport liberalisation	11 years of lectureship & research at Cranfield University.	Senior lecturer, Department of Air Transport, Cranfield University
Peter Morell	D	Economist by training at Cambridge; Masters in Air Transport at MIT; PhD in Air Transport	Worked for AEA on various research projects for 6 years; Aviation consultancy for small island economies; joined Cranfield in 1991	Researcher and consultant Department of Air Transport, Cranfield University
Brian Graham	E	BA Hons. & PhD in Geography, Queens University, Belfast	Principal Lecturer, Ulster Polytechnic; Reader in Geography and later Professor of Human Geography, Ulster University	Emeritus professor in Human Geography, Ulster University
Lucy Budd	F	BA in Geography; MSc & PhD in Air Transport, Loughborough University	Lectureship in Transport Studies	Lecturer in Transport Studies, Loughborough University
David Gillingwater	G	MSc (Econ); PhD in Transport policy	Lectureship at Loughborough since 1984; Leader of the Transport Studies Group, 1999-2002	Senior lecturer in Transport Studies, Loughborough University
Callum Thomas	H	Doctorate in Biology with specialization in Bird Biology	15 years experience at Manchester Airport where he established its Bird Control and Environment Department. Has experience in the management of aircraft noise.	Professor of Sustainable Aviation, Centre for Air Transport and Environment, Manchester Metropolitan University.
Andy Jefferson	I	BSc, PhD in Air Transport, Cranfield University	Worked for 8 years at KLM, UK and Buzz airlines.	Head of Environment, British Airport Authority, Stansted Airport.

Hugh Sommerville	J	BSc Chemistry, PhD in Microbiology	Taught at the University of California Los Angeles and Berkeley. Head of Environmental Affairs, Shell. He was Chairman of the Environmental Groups of both IATA and AEA.	Visiting Professor
Anne Graham	K	BSc, MSc, PhD	Air transport consultant, researcher in transport and tourism for 20 years; member of the editorial board of Journal of Airport Management and the Air Transport Research Society.	Senior Lecturer, Department of Property and Construction, University of Westminster

Although very varied opinions were expressed during these interviews regarding certain topics around the main issues of deregulation and liberalization, there were also many areas of convergence where the interviewees concur that all the various components that make the future of aviation are the same. In other words the experts' concerns and preoccupations are basically the same. It will be seen in the analysis that many issues such as oil prices, environment and energy keep recurring.

a) The aviation sector currently and in the future

On this question, the interviewees were all in agreement to say that the current situation is not what was expected by the proponents of deregulation and that things are now beyond control of the various stakeholders. In other words, they no longer have full control of the situation as far as future directions of the industry are concerned. For the developed countries and the airline operators of these countries the developments were much below expectations. Most of these airlines have gone through turmoil and have had to either close down, restructure or went in to merger with the mega carriers (Kenya Airways/KLM, Air Senegal/Royal Air Maroc, Air Afrique). As for the future more problems will occur as we move further in to this millennium of major uncertainties coupled with the current economic downturn. Although the future is not easy to predict, most economists tend to agree that things for the international economy will improve but no one knows when. The same could be said of the aviation industry as it is linked to the various sectors of the local economy (micro economy), the major area of the broader economic sector (macro economy) and what will be the outcome of globalisation (international economy).

Those developments have certainly had their effects on several factors. From a global perspective, the various social, economic and environmental indicators have shown that the future of the industry may

be more uncertain than before. The industry and the economies of countries are interdependent. Society still has high expectations from the industry: better and cheaper services. The environment is a big issue and will be a serious concern in the decades to come. Global warming will be for the years to come a serious threat to the future of the planet. Emissions from the industry, every one agrees, have a very big impact on global warming.

II. WIDER CONTEXT: SOCIAL, ECONOMIC AND ENVIRONMENTAL FACTORS

We are in a middle of an economic downturn. For Interviewee H "this time the credit crunch is bigger but it was bound to happen sooner or later. But the critical issues are climate change, peak oil and environmental constraints at airports". Therefore, more funds are now needed to finance aircraft operations. This obviously puts more pressure on governments and airline operators alike. For countries where air transport is still very much a luxury and that rely more on the performance of a single flag carrier, things do not look good now and will be even more difficult in the future. For the developed countries also, the airline industry will have to face serious difficulties especially with the fluctuating prices of jet fuel. This recession is worse than the one of the 1930s says interviewee D who has done some major works on energy and fuel hedging for the AEA (Association of European Airlines).

There is consensus that because of the unpredicted nature of the recession, most of the economic forecasts have been nullified. It is probably more difficult now to make predictions with any level of accuracy. But there is also consensus that the international economy will improve although nobody knows when and how fast this will happen. But it is reasonable to concur with Interviewee A who is of the opinion that "Like for other sectors of the economy,

recessions are always bad for air transport as well. The recession will hopefully take at least two years to clear up and we can foresee some more consolidation among the major carriers. We are in the middle of the worst economic downturn of the century and things will be different but are difficult to predict with more accuracy."

Interviewee D seems to agree while stating that "I am sure that there will be a recovery but it depends when: whether it will be an L shape, a V shape or a W shape..." He went on to say that the good news for the moment is that oil prices have gone down although it "will continue to be volatile. Alternative sources of energy will certainly reduce the demand for crude oil; there will still be heavy reliance on crude oil for electricity supplies."

From the above it is obvious that the economic crisis of the moment is a major concern for the world in general and for the industry in particular. There is a fear that the recession would last more than it should. Most of the forecasts have been proved wrong and we are in the middle of economic uncertainties, the prices of oil and the general economic trends in most countries have given rise to some form of pessimism among major players. From the opinions of the interviewees, although the recession could be worse for the aviation sector than other sectors but the aviation sector always picks up faster. Social, economic and environmental factors will continue to weigh very heavily in the equation of supply and demand. The decrease in demand will certainly have rippling effects on world society at large. Consumer behaviour will change as the crisis continues to bite in.

a) Demand and Usage Trends: Current, Short Term, Long term and Market Niches

For air transport like many other products it is demand that pulls in supply whereas for other category of products the reverse could be true especially in captive or traditional market or some inelastic products, namely necessities. If there is an acute drop in demand, operators will react by reducing supply with a view to increase load factor. This consequence will occur in the short term. In the long term, the situation may stabilize as the world economic situation improves. Finding new market niches will help keep operators in business while waiting for better days. Such niches will hopefully fill in the seats to make up for lost revenue.

Because of the high elasticity of demand for air travel, demand usually drops in times of recession. This is normally the case for luxury products and for many markets air travel is very much a luxury. As interviewee C confirms "people have cut down on holiday travel and those who are still travelling for holidays are concentrating more on short haul travel. Companies are also restricting travel to cut down on their costs. But a significant proportion will continue to travel on

business." Interviewee A however is of the opinion that "people will continue to travel for obvious reasons. In particular those in the higher income groups will continue to travel. The US domestic market will continue to increase. Fare reductions and the new entrants will not make a big difference." He also shares the same view with Interviewee C that the short haul market will expand. The trends in demand will continue in Europe, he says as 55% of the well-off people account for 85% of air trips. According to him, London airports will handle more passengers although the UK market in general is getting saturated.

There is a touch of pessimism for the developing countries especially those of the African continent. Most of the interviewees are quite convinced that again Africa will lag behind for the obvious reasons of political instability and lack of good governance. Interviewee A supports this view when he says that "a few decades ago, Africa accounted for 5% of world travel but now it is down to 2%". According to Interviewee A, South America is now growing rapidly but will have some difficulties to sustain their operations because of increasing costs. "Asia", he says, "will steam ahead, but there will eventually be some failures. Mauritius falls between Africa and Asia and it will attract more inbound tourism. However, air transport will obviously be a serious casualty of this recession."

Interviewee D who says he is an optimist by nature opines that the economy will pick up. The good news according to him is that "normally the airline industry picks up faster than the other sectors. There is still a huge appetite for travel. Now the Chinese will travel more and more like the Japanese used to do. Demand will not disappear. I know a lot of people are talking about video conferencing and WebEx but this will not cause a remarkable reduction in demand. We do have a good future for the industry. People will continue to go on holidays." Interviewee E seems to be more cautious. "We have to be careful with short and long term trends", he says, "we are going through a recession and the industry will suffer. In the long term [though], the industry will see some growth."

Interviewee G has a totally different take on the present situation and demand in the future. He finds the industry to be 'in a mess' and a state of chaos. According to him the current economic crisis is not responsible for this state but rather it only acted as a catalyst to speed up the process. The economic crisis, he says, cannot be used as a justification for the mess they are now in. He quite candidly points out that "the airlines have, for many years, believed naïvely that the good times will continue. They have been living on borrowed times. They thought that things will continue as before." He adds that "the airline business has very high peaks and very low troughs. At the moment", he says, "nobody has the right answer or the right business model. We'll continue to see continuous deaths of major

airlines and we'll also see some exciting births. There will be some big winners and some big losers." However, according to Interviewee I, although we are going through a very difficult phase, the industry will pick up. Historically, he says, the airline industry has a cycle of 'boom to bust' but this time the credit crunch is biting harder. Most interviewees are rather optimistic that things will improve.

The economic forces of supply and demand will be at the centre of future developments. Supply will be determined by demand but in the short run, operators will have to take piece-meal decisions to increase load factor and break even. In the long run there will be positive changes if the world economy improves. Niche markets will be one of the options for operators to neutralize the negative economic impacts of the industry. Air line operators will have to review their *modus operandi* and change their mind set as the situation now is more or less irreversible unless new management principles are adopted.

b) Supply: Airlinef actors - Low cost carriers/consolidation/acquisition

Supply will be determined by several factors: the ability to sustain airline operations with regard to finance and the prices of oil among other things. Most of the interviewers tend to think that the industry is now facing the greatest challenge of its existence: Recession of the world economy, fall in demand, lack of finance for investment and pressure from all sectors – political, social, and environmental. The industry will have to fight many battles on several fronts if it wants to survive. One of these battles will be to regain the faith of bankers.

Finance is an important requirement for the simple reason that the industry is investment-intensive and the credit crunch is imposing serious limitations to credit availability as Interviewee D points out: "Banks are now reluctant to lend and they are also lending at premium rates." Moreover, the industry is very vulnerable to oil price fluctuations. These are most of the points brought up by the interviewees in general. According to Interviewee B, we will see more liberalization over time, but it will come gradually. More consolidation of airlines and the growing presence of low cost airlines will increase supply. He is also of the opinion that the "there will be more open sky agreements and relaxation of rules. Low cost airlines will be more prominent on both the long, short haul and domestic markets. As the economic situation improves, there will be more privatization of the larger airlines. Large alliances will be formed offering more seats, hence better load factors." However, we should here mention an opposite view expressed by Interviewee F who is convinced that "in the UK market for instance, there will be two megacarriers with fragmentation and consolidation. You will continue to have several market segments: the very rich looking for the best products

with all the frills and the bottom edge of the market looking for the cheapest flights."

Interviewee A holds basically the same view when he says that "there will obviously be mergers and acquisitions. Lufthansa is already busy acquiring some small airlines. There will be more of the likes of Air France/KLM/Alitalia. Charles de Gaulle, Orly, Amsterdam and Frankfurt Airports will continue to be the major hubs. Flag carriers will continue to be a major issue especially for the smaller countries with small airlines. But for survival, small flag carriers will be leagued in to larger groups."

Because of the increase in low cost airlines, the flag carriers and other regulated airlines will have to review their methods of operations. Airlines will have to adopt a consolidation approach and pull resources together. Large airlines will have to merge with other smaller airlines and some of the large ones will acquire the small ones with the blessing of their respective governments. The big European airports will continue to develop as hubs and smaller airports will be the spokes.

III. THE DIFFERENCE BETWEEN THE AVIATION SECTOR AND THE OTHER SECTORS OF THE ECONOMY AND BETWEEN THE AVIATION SECTOR AND THE OTHER SECTORS OF THE TRANSPORT INDUSTRY

This question is set because there is in fact a tendency by all stakeholders to treat air transport separately from the other sectors of the transport industry. There is the feeling that it is a class of its own and most interviewees seem to share this view. Within the economy as well, the air transport industry seems at times to be treated as a separate identity compared to other stakeholder. There are obviously several reasons to explain this: Is the air transport a major player within the economy? Is the air transport sector to be treated as a major partner in the economy or be lumped together with all other service providers etc? It is along these lines that we wanted to prompt some reactions from our interviewees. Practically all of them agree that the industry should be perceived as a separate entity within the transport sector in general but should be an integrated part of the economy in general.

a) Competition within the transport sector

One of the important points that came out is that the US, in spite of their free economy, their antitrust laws, still treats air transport differently from the other sectors of the transport industry. On this issue, Interviewee B says that "the US has its own rules. They have a different way of doing things. If jobs are at risk, they will intervene." But he personally does not think that should be treated differently from the other sectors of the industry. Even for the economy in general, "we should leave air transport to the forces of the market.

Airlines should be allowed to fail for others to come in. Too many airlines have been pulled out of bankruptcy by their respective governments. Airlines continue to be symbols of national pride and they need to be assisted in order not to collapse". (Interviewee B). For Interviewee H, air transport is high speed transport over long distance. According to him "aviation has created a global society and the industries created a global economy. Aviation has created patterns of trade which never existed before".

Another point that recurs is that the airline seat is a perishable product but then all transport seats, road or rail or shipping, are as perishable as the airline seat. It is hard to understand why the perishability issue seems to have more attention in the air transport sector than other sectors. Load factor requirement could be part of the explanation for this emphasis on air seats perishability. In the course of these interviews it becomes clearer that most experts, in fact, do treat the sector differently. However, Interviewee C is of the opinion that "there are more similarities than differences. Its mass transportation, subject to the same major constraints of the economy, fuel prices, supply and demand etc. There has been a commoditization of the product like any other." Interviewee D also supports this argument. According to him, "it certainly has a lot in common with surface transport. But it is a little more flexible compared to rail and road which have fixed tracks. Regarding the economy in general, we are at an advantage. If things don't work, we can always take our business elsewhere but if it's a factory, it's not easy to do that". For Interviewee the main similarity is the congestion problems. But he thinks that "changes are easier to make in air transport than in the other sectors of the economy. But we suffer the same problem with the credit crunch... on the recovery side, the low cost airlines are quicker to react and to adjust to new prices."

Most of the interviewees think that the industry should be treated the same as other sectors of the economy and of the transport sector in general. Air transport like any other product should be left to the market forces. Competition will be beneficial for one and all although profitability could be marginal. The perishability of airline seats makes it difficult for airlines to work on high profit mark ups. There are in fact more similarities than differences. Its mass transportation, subject to the same economic conditions; There has been, as Interviewee C puts it, a 'commoditisation of the product'. According to interviewee K, it is the regulation that used to make it different but now it is like any other product. She also went on to say that it is probably the economic recession that still makes the product a luxurious one. Leisure travel, she says, still a luxury for many people.

b) Is air transport still a luxury, only for the elite?

Most of the interviewees also argue that the product is by nature different. For Interviewee J the

major difference is that it is a global industry and cannot be treated as a local industry within the economy. There is consensus that it is still a luxury product designed and destined for the elite. Interviewee B asserts that because of the luxurious nature of the product, "it is still only accessible to the rich. Rail and road transport is subsidized but aviation is not." But this is debatable, because it is no secret that many airlines especially the flag carriers are heavily subsidized. It has been seen that airlines which are forced to fend for themselves in times of crisis, very rarely survive. When this argument was put to him, he conceded that "the US has heavily subsidized some major airlines to keep them flying and save jobs."

For Interviewee H "it was and still is for the elite; politically it is a high profile industry and for a lot of people it is still sexy and highly prized!" However, Interviewee C holds a slightly different view. According to him, "in Europe, air travel is no longer a luxury. In other parts of the world, yes it is still perceived that travel is only for a certain class of people, the elite..." Interviewee A has some clear-cut opinions, that "it is still considered as an elite activity. The service is different with the frills and pampering." However, from a purely economic viewpoint, he argues that "the industry is more prone to political problems and international changes and influences." He also confirms one of the points mentioned earlier in this analysis that "air transport has a higher elasticity of demand than road and rail transport. People use the rail and road transport because it is an essential service to get to work. Whereas VFR could be once a year and whenever there is a recession, demand comes down quicker than for road and rail transport." But it is important here to note that air transport according to him has a more efficient structure than many other sectors of the economy but in other respects it is the same (as any other sector).

Interviewee G has a more radical, albeit interesting position. When asked what makes the difference between the two he was quite outspoken: "People say it's the arrogance. It's refusal to recognize that this capacity growth can be constrained. We accept constraints in other sectors as in road and rail." He also feels that air transport has always had some kind of privileged treatment especially the flag carriers. The similarity, he says, is that both surface and air transport are demand driven. He went on to say that one important issue that makes it even different is its 'volatility' within the economic set-up. He also had some interesting view on the vulnerability of the industry to international economic upheavals. "It has been a lead indicator of economic growth but also of decline and recession", he says. He added that "the product has a different market. It is not what we regard as public transport. It has also evolved from the belief that this was a mode of transport reserved for the elite, the very rich and the very important kind." He had some quite

atypical arguments to support his views. "Look at the [now defunct] Concorde! Who in their right mind would design something like Concorde! The problem that the industry is now facing is that the existing model is bust." Along the same lines he also brought some interesting points to highlight the specificities of the airline industry: "It is a service industry relying on face to face communication. It brings people together, in contact and links them around the globe. It increases globalization." He further mentioned the very crucial role of airfreight which most of the experts tend to overlook. He argues that "freight is much underrepresented in the debate and discussions. Freight will have to be an important part in the future business model." But he is of the opinion that aviation still has a bright future if the proper business model and structure are found. People are deluding themselves, he says, if they say they will see the end of aviation.

For many years, the aviation sector has been treated as a special industry; it was associated with adventure, luxury and glamour. Within the economy it self it is still perceived as an industry of a class of its own. But the reality dictates otherwise because the industry is subject to the same ups and downs of the world economy. It faces the same crises as any other industry. At times it is much more vulnerable than the other sectors of the economy. Within the transport industry as well, it is perceived as a privileged sector for various reasons: Symbolism, nationalism, pride associated with the sector. But again, it should be treated at par with other sectors of the transport industry.

IV. THE CONCEPT OF DEREGULATION AND LIBERALIZATION IN GENERAL AND WITHIN THE AIR TRANSPORT SECTOR

Here also there was some very diverse view regarding the distinction between deregulation and liberalization in both the air transport industry and the economy in general. For most of them, they are one and the same thing although some found that in the transport sector, and in the air transport sector in particular, there could be some nuances. A general view is that as far as trade is concerned they are the same thing. For one or two people interviewed, they are complementary in the sense that liberalization is more of a corollary to deregulation. This is probably due to the fact that historically deregulation started in the US and when the same movement started in Europe, it was called liberalization which basically means the same thing. For many it is just a question of semantics.

Deregulation has been an important phenomenon for world trade. The first half of the last century was marked by pronounced protectionism at all levels of international trade and more so for the air transport industry. The time for airlines to deregulate was right and it started with the Air Deregulation Act of

1978 in the United States. Although this was limited to the domestic market, it soon spread to the international airlines and obviously to other countries where it was called liberalization.

a) Protectionism

More than an attitude, protectionism is a policy whereby an authority, more often a government or a government organ or ministry gives protection to a company or a sector or a product. This is done by imposing a set of laws or regulations in order to protect the company or product against local or overseas competition. This applies also to aviation. It is a truism that most national flag carriers have benefited and are still benefitting from protectionism as a result of government regulations or laws. Hence, Interviewee C is sensible when he quotes Doganis as saying that deregulation is partly a result of too much protectionism. We can also say that liberalization is also a consequence of too much protectionism. As a matter of fact, most airlines in Europe went in to liberalization in order to compete with national carriers which, in spite of government protection were finding it difficult to survive. The case of Panam, Sabena and Swissair are good examples. They were all national airlines that went bust because of competition brought about by deregulation and liberalization.

Admittedly, the term deregulation is more or used only in aviation when it could very well be used for trade in general. This is also partly because in the US, there was the Air Deregulation Act of 1978 that formally and legally set the scene for airline deregulation. But it is obvious that when it comes to trade, national or international, the preferred term is 'liberalization.' Interviewee K explained that basically the only difference in the two concepts was that the "US deregulated overnight whereas in the case of Europe a more cautious approach was preferred."

Interviewee H has a different approach. He is "not convinced that unregulated capitalism is sustainable. What we have seen so far points towards this: Half-full aircraft are flown provided it makes economic sense".

b) Deregulation

There is general agreement that it obviously means the absence of or the removal of regulations or rules governing a business. This entails leaving the sector to the forces of the market, i.e. to the movement of supply and demand without government intervention. This is supported by Interviewee C who thinks "that deregulation is very specific. It means taking these regulations away. Control within and between states were taken away. In the US it was regulated by the Civil Aviation Board and the Department of Transportation. The US called it deregulation because the regulations were taken away, making the market freer. Doganis, however, argues that deregulation came up because of too much protectionism."

This is also in agreement with Interviewee A's approach and for him it is "the removal of all regulations regarding price... competition with free access and exit in to the market and leaving the industry to the forces of supply and demand. In the US it was deregulation and liberalization was in Europe." This is the general understanding that it may just be a question of semantic... But Interviewee J was a more specific in saying that "deregulation is trying to burst open the aviation market and moving away from the regulatory framework. In other words, moving away from the Chicago Convention and the Bermuda Agreement".

c) *Liberalisation*

Liberalisation is more properly applicable to trade in general including aviation. The foundation of GATT [General Agreement on Tariff and Trade] and later World Trade Organisation] is based on the principle of trade liberalization. But in the aviation sector we need to look at the various interpretations. Once more, aviation is being treated as a class of its own. It was noted during the interviews that when talking of liberalization almost all interviewees (except Interviewee A) overlooked the relevance and application of the concept of liberalization to trade in general. The focus was only on aviation.

For interviewee C, "liberalization by contrast (to regulation) means changing the regulations to make it more liberal and competitive. The European liberalization was more concerned with replacing the existing regulations with some other regulation." He was about the only person who held this view. Here Interviewee B seems to have a more relevant explanation when he says that for him "deregulation and liberalization is one and the same thing... except that the US did it kind of overnight whereas in Europe, it was done gradually. This is because the two markets are different. Europe had to have a certain number of 'packages' that is the various stages of deregulation starting first with the domestic market." This is also confirmed by Interviewee A who is of the opinion that "liberalization is almost the same except that in Europe it was called liberalization and it was a slow process in three phases whereas in the US it was more radical and done almost overnight." This is further reinforced by Interviewee D when he says that "deregulation is obviously the removal of all restrictions. Deregulation was overnight whereas liberalization was more of a gradual process. Most Europeans prefer the term 'liberalisation' instead of 'deregulation'". However, for Interviewees E and F the term is used interchangeably. For Interviewee E, "liberalisation" involves "some form of control and it is the degree to which restrictions are removed". He went further to state that he does not find any big difference in the term when it is applied to trade in general. Interviewee F, however, seems to have a more interesting view: "The two terms (deregulation and liberalization) are used interchangeably which can be

very confusing. I can see deregulation as something which originated from the US when President Carter deregulated the airline industry. Liberalization is the European version of it. Removal of barriers to trade in general. In the aviation sector we still do need some form of regulation to protect the consumers because air transport is a public service. Certainly, there was the perception that because the US domestic air industry is so strong that if they [Europe] deregulate radically, the US airline will invade the European market. Liberalisation therefore is deregulation with caveat or guarded regulation if you wish."

It is also interesting to note that once more Interviewee G takes a radical approach. Deregulation for him is "letting the market rip. It is what would call the development of super competition or hyper competition. Nothing should stop me from starting an airline if I have the fund and the knowhow. When we say deregulation, we are assuming that there is a regulatory framework in place and we want to get rid of it. I think what we need is a phase of reregulation. Deregulation has not worked. Liberalization provides the basis and justification for deregulation. If I want to run an airline I do it. Nobody can put any barriers in my way. I know best. If I want to pay poverty wages, that's my right as long as I don't go against the law. It provides a very selfish way to look at the world."

Because of the antitrust laws and because of protectionism, the industry could not be competitive. In order to sustain a certain level of costs on low load factor, it was necessary for airlines to practice very high prices. They were a situation where they could dictate prices. But this was not in line with the U.S policies of trade liberalization. The very base of the US economy has for centuries stood on free trade and the refusal of protectionism. Deregulation was a concept whose time had come and air transport had the same treatment like other sectors of the economy. Because of the proximity and the very close links between the US and Europe, it was obvious that this wave of deregulation would sooner or later reach the European continent. The fear of the unknown and the apprehension against American dominance in the sector, viewed as an invasion, called for a cautious approach on behalf of the Europeans. It is now understandable why the Europeans preferred the term 'liberalisation' rather than 'deregulation.'

V. THE CONTEXTUAL AND HISTORICAL FACTORS THAT LED TO AND ARE LEADING TO THE PROCESS OF DEREGULATION IN THE AIR TRANSPORT INDUSTRY

To understand the context in which the process of deregulation and later and eventually liberalization, it was necessary to go to its history. The historical background is important because it allows us to analyse the process in its proper context and not in a vacuum.

Although there is agreement that the whole process of deregulation was 'overnight' like many of our interviewees, the process of liberalization has been a long and tedious one; it is also a process that keeps progressing and it looks like it will be an ongoing one for many years to come. This process has moved from US to Europe and later to the Middle and Far East, Oceania and now to Africa. This in itself is quite a phenomenon in the history of international air transport. Moreover one should understand that although the whole process dates back from the American Deregulation Act of 1978, the American society had already been influenced by the antitrust laws already existent prior to the process of deregulation.

a) *The Historical Context*

i. *The Pioneers and First Entrants*

There is a lot of coherence and consistency in the historical facts brought up by our interviewees. Most of them were accurate in the dates and periods as far as the history is concerned. Interviewee A gives a good glimpse in to the history of the movement:

"It all started in the US in 1978 when the American government decided to remove regulations on the domestic market. This was a movement from 'control' to 'no control'. New entrants came in, namely Air Florida, South West Airlines, Air New York, People Express. Few years later, this was extended to the international flights whereby US airlines could fly to European destinations: the so called sky liberalization or open sky. Airlines could offset any route as long as they were registered in the US." This then must have been the major step that triggered a whole set of further liberalized airlines between Europe and the US. Interviewee A went on to say that "Countries like the Netherlands were happy to sign such bilateral agreements. KLM could fly anywhere in the US. (In fact KLM was historically the first airline in Europe to take advantage of such agreement and to open its sky to US airlines). These agreements suited the US which can also fly anywhere in the country with which the agreement was signed. But cabotage was an issue as the US could not fly domestically in other European countries." Nevertheless, Interviewee F argues that "in 1993 the European airlines had cabotage right which meant that they could treat the European market as a domestic market."

ii. *The Opponents of Liberalisation*

While academics, tour operators, the then EEC (now EU) were pushing for the process, incumbent airline operators for various reasons of personal and vested interests were against. Some governments were skeptical while the unions were against because they feared for the loss of jobs. Some were also rather cynical in saying this approach was more ideological than anything else and could not be sustainable. Interviewee G goes further when he said that it was not

only an ideology but "a dogma that competition will always bring superior results... and like all ideologies and dogmas, they have their uses and their expiry date."

iii. *Was the Industry a Big Cartel?*

Although historical facts were more or less undisputed during the interviews, interpretations sometimes differ. The circumstances that led to the process are at times given interpretations as per the perception or background of the interviewee. Hence according to Interviewee C, "the industry was a big cartel, working on a cost plus approach. There was no incentive to improve service. There was also the belief that the mere threat of opening to new entrants was in itself enough to pressurize the airlines to offer better service. Deregulation was very positive for the customers in the US." However, here Interviewee C may not be too accurate in his perception when he says that "there was a trickle down to the other regions of the world. Once the process started, it kind of trickled down to other parts of the world where airlines were forced to offer better service." This could only be applied to Europe and this also with certain reservations as we know that there was a lot of reluctance and resistance to follow the US in on this track. But it is proper to say like Interviewee B that "there was a general view that market mechanism had to be introduced and that prices will go down and service will improve."

iv. *Hub and Spoke*

The 'hub and spoke' system is one whereby some busy airports are identified to be the main transit airports that feed airlines with passengers for onward destinations. This is done with a view to consolidate and improve load factor and reduce costs. Interviewee F is explicit in this because the hub and spoke system was a result of the deregulation process: "With the hub and spoke system, long haul flights were being operated by the regulated airlines and the small deregulated airlines would take over for the dispatch to the other destinations."

v. *Cabotage and the Domestic Market within Europe*

In 1993, the European airlines had cabotage right which means they could treat the European market as a large domestic market. This was quite a landmark in the development of air transport industry in Europe.

b) *Outcome*

i. *Are There Risks of Reregulation?*

Interviewee B is quite categorical in saying that reregulation is not on the governments' or airlines agenda. "There is no momentum to reregulate", he said, "If you look at the US air transport industry, they achieved something. What was not achieved is the viability. There were heavy bankruptcies. The antitrust had been too tough and did not allow the industry to consolidate."

ii. *Consolidation of the Industry*

Consolidation or the lack of it has been quite a recurrent issue during these interviewees. Most of them seem to agree that things in the US happened so quickly that there was no real planning and the lack of consolidation caused some kind of damage to the financial health of the various airlines. This is probably one of the reasons why other parts of the world, especially Europe and Asia were hesitant and resistant to these changes. Interviewee B went even further to explain that consolidation is neither reregulation nor a form of protectionism: "Consolidation", he said, "is not protectionism. It is to make the industry more stable financially".

iii. *Consumer Benefits*

While it is usual for this kind of process to bring some casualties, the airline industry was no exception. There were obviously winners and losers. The big winners were the consumers. Flying became more accessible to the lower classes of the social stratum. This is confirmed by Interviewee B: "Generally the benefits have been more for the consumers rather than for the airline operators. Prices have gone down. More and more people have been able to travel and they are still able to travel which before was impossible. There has therefore been some kind of democratization of air services."

The process also gave rise to two important outcomes: the low cost and the charter airlines that really changed the landscape of the international air transport industry.

iv. *Low Cost Airlines*

This type of operations which is still thriving today, is the marginal profitability approach where emphasis is on the core product, i.e. air seats at the cheapest possible prices without the usual 'frills'. Good examples are Ryan Air and Easy Jet. There is a market for this type of consumer who needs to arrive at a destination regardless of the level of service provided the product is safe for the consumer. Interviewee B believes "There is still a future for the low cost airlines. But the idea of low cost will change. The business model will change. Low cost airlines did not come from the charter market."

v. *Charter Flights*

Interview B also makes a good distinction between low cost and charter flights: "Chartered airlines sell in bulk to tour operators and travel agencies but also to individual passengers. Some of these charter airlines are also owned by tour operators, e.g. Thomas Cook, Thompson and TUI. They offer IT (inclusive tours) packages. They sell in block and in bulk."

vi. *Low Costs vs. Charter*

There is still a debate of what really makes the difference between the low cost and the charter.

Interviewee I gives a clear explanation:

"In 1992, we started to see the rise of the low cost with Easy Jet and Ryan Air. The incumbent flag carriers also stated to offer competitive products. There was competition with BA and AF. This resulted in a lack of slots and capacity. Predominantly, Easy Jet decided to use other airports instead of the main airports: Luton, Stansted and Gatwick. British Airways even set up a low cost airline called GO but they could not sustain it and it was taken over by Easy Jet. The same thing happened with BUZZ set up by KLM and taken over by Ryan Air. Interestingly, Lufthansa has been doing very well and was not really affected by the new entrants. The Charter has modified their product. They have a dedicated product. They now offer a seat only product and this is like a low cost product. The other product is what we call premium economy and this is competing with the low cost. I don't think that the charter is a bigger threat to the low cost than the flag carriers."

One can say that now the Charter is more of a hybrid type of operation as Interviewee F said "they are trying to be all things to all people".

vii. *Product Differentiation*

Interviewee B: "There is a need to differentiate the product. Some people are still ready to pay a little bit more for a better service. The industry has become unviable and continues to lose money. Some airlines are still reducing prices because of competition. Before, airlines offered a uniform and standardized product. Now a lot of airlines are offering differentiated products. The history of the international air transport is replete with interesting facts that have shaped the industry and continues to do so".

The historical context is important in determining who really was at the starting point of the process. There were several factors that led to a desire for change: The high prices of air travel made it difficult for anyone to travel; it made travel a luxury for the well-to-do elite. As purchasing power increased and as more and more people started to find holidays abroad accessible there was pressure to review air transport management and operations. The air seat became a product requiring some form of democratization. We saw earlier and most of the interviewees agree that the starting point was the US. This is understandable since the US had always adopted a free market and competitive approach to business. The big question was why airlines should fall out of the parameters of free enterprise. The Air Deregulation Act of 1978 promulgated by the Carter administration kick started the process which would have some very serious bearings on international air transport worldwide. Naturally, there were proponents and opponents of deregulation. Those who opposed went in to mergers and acquisitions in order to survive. Many of these mergers and acquisitions developed in to cartel in order

to keep up fares. In order to cut down on costs the many airlines found in the hub and spoke system of operations a way to maximize resources and increase revenue. The freedoms of the air rights and cabotage were extended to third parties based on bilateral agreements. Many airline operators realized that deregulation was here to stay and they might as well 'bite the bullet' and find ways to consolidate the industry to their own benefits. This is how air travel prices went down and travelling became more accessible to the lower rungs of society and consumers derived sizable benefits as a result of competition. The industry has also witnessed a new strategy to face acute competition in the form of product differentiation. We should also place in this same historical context the rise of the low cost and charter flights.

VI. THE KEY DRIVERS AND MOTIVATIONS BEHIND AIR DEREGULATION & LIBERALIZATION

We discussed above some of the historical facts that brought about the process of deregulation and liberalization. But there are also some interesting facts that gave more impetus to this process; in this section, we will look at the drivers and motivations behind the process. Some of the points mentioned here could be a mere repetition of some of the historical fact. During the interviews it was rather difficult to separate the two sets of ideas, i.e. the historical facts and the drivers behind the process. However, few of the interviewees did make a distinction.

The main motivation for the airlines was to get a bigger share of an almost saturated market; the main driver for the consumers was cheaper flights and more accessibility to certain routes. As Interviewee A puts it, "there was a need for more competition, reduction in fares and better flexibility in routes scheduling. There was also pressure from consumer groups and opinion leaders. New investors thought that there were lots of money in airline business and wanted to get it.

a) *Consumer welfare*

The welfare of the consumer was at the centre of some of the preoccupations of the various governments and pressure groups. There was a need also to democratize travel and make it more accessible to the lower income groups. Interviewee C brings in a new argument in saying that there was a school of thoughts that maintain that "regulation should be limited to safety only" and the main concern of stake holders were consumer benefits and more productivity and that the "industry should be left to the market forces."

b) *The elimination of trade barriers*

The elimination of trade barriers was an inevitable development with the advent of GATT [General Agreement on Tariff and Trade] and later World

Trade Organisation. With the incoming of several regional groups such as OAU [Organisation of African Unity, now African Union], Non-aligned movement, EFTA [European Free Trade Agreement], it became necessary for the world trade community to bring some order at the international level. Interviewee A is also of the same opinion. According to him "the elimination of trade barriers drove the market (of air transport) to deregulation. Countries which had a fair share of the tourism market were also pushing for a more liberal approach to air transport." He also finds the 'rigidity of schedules' as another factor that pushed in the same direction. The European Commission, he said, was trying to 'sell' the concept of deregulation not only for air transport but for the other products as well.

c) *Outcome of the process*

Most of the interviewees held the view that for many years it was the Americans who benefitted the most of the process. There was some resentment. The Europeans were reluctant because they thought that they will be once again the losers because the Americans are economically powerful. This is confirmed by Interviewee E who still felt that the "the benefits were mostly for the US. They had the most powerful airlines. They could serve more countries." Interviewee F also supports this view: "Margaret Thatcher was a real advocate of the process of liberalization. She said she wanted to 'return the family silver back to the family'. But Europe felt that there was no coherence in the process. There was a frustration because people in Europe felt that the Americans were having a better deal than their European counterparts".

It is interesting here to point out that Interviewee G added a third dimension to the process: Privatization. He even said he was surprised that this 3rd dimension was not covered by our list of questions. He is of the opinion that the moment that the World Bank interfered in the whole process, things took a different direction. The process of deregulation, he says, "was led by the US, helped by Europe and then the World Bank discovered it. The World Bank is almost forcing around the world. The new business model will only survive if the customer has a product of quality at a price he can afford. I can give you some examples: South West, Jet Blue and Virgin that are very customer focused."

As we have seen earlier, there were several drivers and motivators behind the changes. There was a need to improve the product and service and at the same time making them more accessible. Consumer benefits and welfare became an important issue. Moreover the elimination of trade barriers in the aftermath of the GATT and the advent of the World Trade Organisation turned air services in to mere commodity products subject to the same rules and regulations of international trade.

VII. THE KEY PLAYERS AND PEOPLE INVOLVED IN THE PROCESS

Various stakeholders played their role in the process: Some had some very direct interests namely the airlines themselves, governments and consumers. Indirectly the economic operators all had an interest especially the tourism and freight industry.

The Role of Government

Governments obviously had a key role as they were the ones to pass and implement laws in order to do away with regulations. One can say that the government had a leading role in both the US and Europe and the rest of the world. This is confirmed by most of the interviewees. Interviewee B for instance holds that "there were a lot of lobbies: local lobbies as well as lobbyists protecting one particular airline."

a) Lobbies

He went on to say that apart from airlines the others who pushed for liberalization were: academics, opinion leaders, government, politicians and some airport operators. Interviewee A went further in adding to the list the following: policy makers, airport authorities, regulators of the air space. Lobbyists for Heathrow and lobbyists for Gatwick.

b) Other Key Players

According to most of our interviewees, the other key players were: the Carter administration, consumer organisations, unions, CAB [Civil Aeronautics Board], ICAO [International Civil Aviation Organisation], IATA [International Air Transport Association], AEA [Association of European Airlines] and the EU.

The key players in fact were the stakeholders in the industry: Government was concerned as the airline industry was more than ever before a powerful economic force. It had become an essential service for the economic development of countries but also for the world. There was need for some form of intervention if not downright protectionism. International organisations, especially those mentioned above, were prominent in their activities to speed up or defer changes.

VIII. THE MECHANISMS USED TO IMPLEMENT DEREGULATION / LIBERALIZATION IN THE AVIATION SECTOR

a) Legislations

The Air Deregulation Act of 1978 in the US was the legal trigger in getting the process started. This law eventually had a rippling effect practically all over Europe. However, the mechanism in Europe was more gradual in the form of the three 'packages' with broad target dates: 1987, 1990 and 1993. Removal of all restrictions was to happen over this period.

b) Bilateral Deregulations and Agreements

These agreements which are still applicable

today set the rules for the exchange of facilities between two countries giving accesses to each other's facilities namely, landing rights based on the various 'freedoms.' But as Interviewee A points out at the initial stage "bilateral agreements were declared illegal by the European Commission. But before the process of deregulation in Europe we had what Interviewee B calls 'bilateral deregulation'. He further emphasized that "before the first package (1987) the UK had already deregulated with US, Ireland and the Netherlands." Interviewee C went even further to say that "liberalization was also taking away previous bilateral agreements. New bilateral agreements were signed by UK, Netherlands and Ireland." The idea, he says was to have free market, free access and free capacity constraints."

c) Allocation of Slots and Grandfather's Rights

Allocation of slots has for many years been a headache for both airlines and airport operators. Slots are authorizations to land and take off at airports at specified times of the year. This is done with a view to satisfy all airlines because of space constraints, infrastructure constraints and congestion at airports. This is normally allocated by airport authorities in consultation with airlines. Most interviewees agree that allocation of slots is an important aspect of airport operations and it is necessary to have a fair distribution of such slots as there is naturally more demand for slots during the high seasons. This is also confirmed by Interviewee C who stated that "slots regulations were to be applied and Grandfather Rights reviewed". The latter are rights of landing and takeoffs inherited by airlines that have been in operation for several years before the application of the deregulation process. Interviewee C is more explicit as there is according to him the "argument as to who owns the slots: the airlines or the airports. Airlines who had slots could sell them. The stronger airlines could buy more slots than the small ones."

Interviewee F also mentioned that Heathrow was the most constrained airport in Europe regarding the allocation of slots. According to her, "there was a need for a Pan European approach because of the chaotic and incoherent way the process was going on. There were the Grandfather Rights and the limited number of slots to be allocated. There was the case of some aircrafts flying in and out empty in order not to lose the slots because of poor load factors".

d) Operators' Expectations

We mentioned earlier that the process in Europe was to be stretched over a certain number of years based on the packages themselves based on the three stages. This probably explains why the results, positive in some cases and negative in others, were not immediate like in the US. All the interviewees agree that there were very high expectations in all quarters: among the consumers, the airline operators, governments and stakeholders in the tourism and freight industry.

According to Interviewee A, "airline operators expected a growth of at least 4% and consumers expected prices to fall by 1/3. But this did not happen as was expected."

e) Outcome

There were obviously a certain number of consequences as a result of the process. There was more accessibility and more freedom for operators to maneuver. As Interviewee D pointed out "airlines no longer had to file their fares with the governments. Airlines had to apply for slots. Inside the EU, Grandfather's Rights disappeared. But there still was a need for some form of control. They had to keep some regulations for the new entrants in the market. There was still the licensing process and some kind of regulatory process". For Interviewee E, "privatization of airlines and airports also became more possible as a result of the process."

The mechanisms were many at various stages of the development process. Legislation in the US and in Europe was probably one of the most important mechanisms. This is now to down play the role of the famous three packages, i.e the various stages of gradual liberalization as the EU was rather apprehensive to make radical change to enforce the liberalization process. The gradual liberalization started with bilateral deregulation and agreements. Since most of the major airlines had kept their grandfather rights, it became necessary for the airline associations to get in to regular negotiations for a fair allocation of slots.

IX. THE PAST, PRESENT AND ACTUAL EXPECTATIONS ACROSS THE SECTOR

a) Consumer's Expectations

As we mentioned earlier, consumer expectations were high: a freer market, lower fares and better service. Consumers felt that more competition will eventually lead to satisfy such expectations. There were more opportunities for airlines to succeed but also to fail so that other entrants can come in. According to Interviewee D, "there was also the hope of more and better consumer benefits and better fare structure".

b) The Operators' Expectations

Expectations among operators were also high: more demand for travel; profitability and viability of the industry; more consolidation of the market and the industry; more routes and better flight schedules; higher load factors; increased of and growth in air traffic; Interviewee F felt "there was a huge amount of trepidation for some carriers. For them it was unknown territory. But there was also a large amount of optimism and excitement." Economic operators also saw in these developments a way to increase productivity which would be a boost for the economy. Interviewee F went on to say that "for the EU, there was hope for cross border trade and making Europe itself as one attractive

destination that will bring more foreign currency to the respective countries of the continent."

c) Market Dominance

Like in other areas of business there were preys and predators. Some tried to dominate the market. Apart from the new entrants trying to make a breakthrough, some of the scheduled airlines also took advantage of these changes namely, BA, KLM, Aer Lingus and Lufthansa. This is confirmed by Interviewee B when he says that these airlines took advantage of franchise agreements to dominate the market. Interviewee F went further in saying that "Charters were trying to market themselves as low cost carriers operating scheduled flights. A good example was Monarch which was trying to fly as scheduled, charter and low costs. They tried to be all things to all people. It was a kind of hybrid type of operation."

Various stakeholders had different expectations to suit their needs. The consumers wanted a better product at a cheaper price. They got a lower quality product at a price they could afford from the low cost and charter operator. This is supported by the desire for 'no frills' flights. For many consumers it was more to 'arrive than to travel'. In other words, the destination became more exciting than the journey as such. The expectations of the operators were diverse: the proponents of deregulation and liberalization expected a drop in fares and a rise in demand for travel. The opponents were hoping to buy time by merging and hoping that the process will not last and that the industry will have to revert to the old system. But this did not happen. The process was an irreversible one.

X. THE REAL FACTS AS A RESULT OF THOSE EXPECTATIONS

From the interviews, one gathers that there were high expectations and forecasts but a lot of the things that actually happened were not among the predictions. For many operators expectations fell much below what were forecasted. Admittedly, many of the things predicted actually happened: Growth of airlines; larger aircraft to carry more passengers; increased air traffic; more competition; cheaper fares;

Some things for which there were high expectations but did not happen: Very high profitability; expansion of airlines; more employment; better services on board all airlines; sustainability of airline business

Some things were never expected but did happen: Failures of airlines to sustain their operations in the long term. Heavy closures and loss of jobs;

a) Successes and Failures

The above is rightly summed up by Interviewee C when he said that "there were lots of failures and lots of start-ups and growth of larger airlines in to mergers. One major merger was KLM/AF [KLM/Air France] and

later with AZ [Alitalia]. The biggest problem in the airline industry is that we don't allow airlines to fail. Air transport will thrive better in a globally free market." He also disagreed that this expectation of failure should be treated as a fatality for the industry. On the contrary, it may be healthy for the industry in general although it does bring some instability in the industry at some time in point.

As Interviewee I pointed out: "In fact the flag carriers thought that they could compete if they adjusted the product and also they had the Grandfather Rights and the advantage of previous bilateral agreement with the various governments. Nevertheless, they found it very difficult." There is an explanation for this on which most people agree: Because of the nature of the product (elite, luxury), because airline operators were a class of their own and so were their products, and very often because of the monopolistic advantage they have in many countries, they had no consideration for cost control. It was a highly investment intensive business providing a highly priced, high margin product, i.e. high costs, high selling price and high profits. Consequently, when the low costs came in offering marginal cost and marginal profit product, the well-established flag carriers went totally off their pedestals. The mistake made by some of them was to think that this was an ephemeral situation and the market will settle down to where it was before.

But the airline operators did not review their cost structure. Yet they still had a competitive edge because they had well-defined contracts and bilateral agreements and the grandfather rights. Admittedly, they also had to bear the costs of handling and maintenance which made it difficult to compete. The low costs subcontracted all such services which made them cost efficient. This is confirmed by Interviewee I who thinks that there will still be the flag carriers around because of the feelings of nationalism. "The survival of the flag carriers is tied to the state of the economy. There is a feeling of nationalism as well: the Dutch for KLM, the British for BA, the French for AF and the Germans for Lufthansa. The British may be the last to do away with this concept."

b) Consolidation

This is an issue that has been recurrent in these interviews. Most of our interlocutors seem to regret that consolidation which should have been a priority did take a back seat. Both interviewees B and C made it clear that the consolidation phase has been and is still taking a long time. According to interviewee C, "essentially there are three large blocks – Asia, US and Europe – more consolidation will bring them together. The fear of having a cartel should not restrict the consolidation. If we have a free market, it will lead to 3 major alliances." But he conceded however, that there is more consolidation in the regional markets.

c) Market Supremacy

Most of the interviewees also agree that because of the chaotic situation in which the process was launched, there was some kind of law of the jungle, survival of the fittest. This gave rise to some predators wanting to take over or eliminate the small ones in order to dominate the market. As Interviewee C put it, "the new bilateral agreements brought about some conflicts after some of the mergers." Interviewee A went even further in saying that "airlines especially the larger ones were trying to dominate the market. There was a feeling that the deregulation packages were not delivering executive competition across the board. There was a lot of competition among airlines but they were much below expectation especially regarding price reduction. There was a lot of mergers and franchising.

d) Low Cost Airlines

Nobody saw the arrival of the low cost airlines and it is now no secret that the low cost airlines were the ones that really made a remarkable change in the air transport industry. One can say that the like Interviewee B "that it was the low cost airlines that brought major changes that started to meet the expectations." It looks like this is now the stage where there is more or less agreement that prices are acceptable and service is also up to the level that one can expect for this type of product. This is further supported by Interviewee B who opines that "we have now reached a situation of maturity. Now there is more rationalization of routes network. The market is now fairly competitive but we (the Europeans) have reached a situation of maturity just like the US." Various people in the field still believe that we have now reached the level of saturation. But there will continue to be more entrants and more exits. For transport economists, this is not necessarily an unhealthy situation as better products and services will emerge.

e) Consequences

Interviewee D takes a more positive approach as he believes that there were some positive developments. He even believes that some of the expectations were exceeded. Although many people may disagree with him when he said that "employment expanded (we know that there were some heavy losses of jobs as well – Italy (Sabena), Switzerland (Swissair), more airlines have come in to the market (but many have also been pushed out – Panam, Continental), the respective governments were happy the way things were going". On a more realistic note, he conceded that "some airlines like Sabena, Swissair, AZ had failed. Government had been pouring money in to these airlines to keep them going." In fact this is also supported by interviewee E who went further to say "that many of the airlines went bankrupt and there was no consistency in the product and service."

The hub and spoke system which we have already mentioned earlier was also an important development which came up as a result of airport congestions. It became necessary for airline operators and airlines to adopt a system of transit and feeders whereby traffic was diverted to larger airports with better infrastructure and with possibilities of transfer to final destinations. In other words, this involves the convergence of heavy traffic in to main airports (hubs) with onward connection to other destinations. This system which is still in use today at big airports (Frankfurt, Zaventem, and Heathrow) is appropriate in easing airport congestions. This system also works hand-in-hand with the slot allocation system already discussed earlier.

The fact that for many years, scheduled airlines have had relatively good time prompts Interviewee G to voice out some different views which is worth mentioning: "Lots of the major airlines really never believed that the these good time will end. They also thought that they will be more profitable by biting in to each other markets." He also brought Michael Levine's theory of the contestability of the market: easy entry and easy exit. He also mentioned Milton Friedman who, he said, had a great influence in these developments. The airlines like other businesses had their booms and slumps.

There is general consensus that the process of liberalization opens the doors for a lot of opportunities for new entrants to come in for a quick buck. But many of the airline operators had more of predator behaviour ready to pounce on small airlines which in this 'jungle' found it difficult to survive. In fact, for many among them it was 'survival of the fittest' and 'might was right'. Consequently, there were some successes but a lot of failures as well. Countries maintained their flag carrier's concept as a matter of national pride but with a cost. They had to heavily subsidize their own national airlines. Some of those operators were wise enough to go in to some form of consolidation especially among the scheduled airlines.

XI. THE REASONS FOR THE MAJOR DIFFERENCES BETWEEN EXPECTATIONS AND REALITY

Early, we discussed the various scenarios where expectations fell much below what was predicted. We also mentioned the many cases where such expectations were in fact realized. But there was obviously a big gap between expectations and reality which has been more of a disappointment for stakeholders who had an interest and probably bigger hopes that things would change in their favour. According to Interviewee A, some operators were overoptimistic. They expected too much from an already saturated and constrained market.

a) *Resistance to Deregulation*

It is widely accepted that some people are naturally resistant to change. This is what Interviewee F calls "historical legacy and historical inertia: It's been like this, we leave it as it is. Some airlines didn't want to change. They were still very protectionist in their approach". Interviewee G mentioned "the political power behind this resistance and the resource behind this political power." For many decision and policy makers the 'status quo' was still preferable to a journey in to the unknown. Interviewee J holds, however, "that there is an attitude in scheduled airlines that people like to fly out of certain airports. The traditional hub and spokes arrangement of scheduled airlines have survived. But all this has contributed to better one-way capacity".

b) *Exogenous factors*

Some factors were beyond the control of the decision makers and other stakeholders namely governments and airline operators. This was rightly mentioned by Interviewee C who found that "there was not enough freedom and still too much protectionism. Oil prices were and still are outside our control." According to him it was not always possible to deregulate at the speed they wanted: "The more you liberalize in one region, the harder it is for other regions to deregulate, especially as some of the deregulated airlines were failing. There is a valid argument to offer some protection for a short time." He thinks that the tendency to preserve the inheritance of the flag carrier concept is hard to change. "Take the example of Singapore, he said, such a small country such a big airline!"

c) *Constraints*

There were some other constraints that made the process difficult. One of the reasons mentioned by various interviewees is the volatility of the industry. This point was raised by both Interviewee C and G but former explained that "what makes the industry volatile is that it is tied to the general economic activity." Obviously there are other explanations to explain this volatility. We already discussed earlier that the elasticity of demand for the product is also an important factor as well as the fact that it is still perceived as a highly luxurious product; seasonality can also explain this volatility as well as political instability and other natural events like outbreak of diseases (H5N1, AH1N1, Chikungunya etc).

Interviewee B feels that "the packages were not delivering as expected. The low cost airlines made things different to what actually happened." As this was also mentioned earlier, no one had foreseen the advent of the low cost airlines; this is also Interviewee A's view. Interviewee B went further to say that "there was some consolidation at the beginning but this trend did not continue. There was instead a lot of merger activity." Interviewee C also shares this view: "there was also an expectation of larger consolidation but this is taking a

longed time than expected"; he also observed that ex-third countries are still tied down to bilateral agreements.

d) Outcome

Interviewee A found that "the end of protectionism left airlines at a loss". This is also an argument that kept coming up as the operators were not prepared for this kind of change and most important of all, they had too high expectations. For Interviewee E, there were adjustment problems all the time. Their teething problems were lasting too long and showed the vulnerability and fragility of the industry. Many of our interviewees insisted that this was due to the lack of consolidation and the refusal that the good times had come to an end and a new paradigm shift had occurred. This is confirmed by Interviewee E who regretted that "the models of deregulation and liberalization were based on the old set up" and "the regulators themselves did not really understand what was actually happening". Interviewee F also confirmed that "there was resistance to these changes. Certain countries were not ready to open their markets to airlines that would compete with their own flag carriers." Interviewee G is rather sterner in his observation when he said that "the expectations were always ridiculously high, ridiculously ambitious and ridiculously optimistic. All nice things have an end. They did not have a strategy for when the good times will end."

According to Interviewee I, "there was a difference between expectations and reality because the airlines 'were on a long learning curve for a longer time that was expected, especially with the teething problems.'" He also holds, like the other interviewees, that no one had foreseen the impact of the low cost airlines. "The low cost", he says, "has stimulated a new kind of passenger and a new type of market." Some of the short haul routes were being serviced by the big airlines at a loss, but when taken over by the low costs became profitable. He also gave the example of the little town of Bergerac which is services only by low cost and had had become very viable.

Events were not up to expectations for several reasons. There was naturally resistance to change in general but specifically there was resistance against deregulation the American way. In spite of the EU competition commission insistence for more competition, there was some fears among the then twelve members of the Union. There were some constraints beyond the control of the operators. Different legislations in different countries delayed the process. Since it was a new phenomenon, there was some kind of wait and see approach. This slowed down the process somehow and this explains also the three packages approach mentioned earlier.

XII. THE FUTURE TRENDS FOR THE AVIATION SECTOR

We have seen earlier the various points mentioned by the interviewees regarding growth. Historically, the airline industry like many businesses have known booms and slumps like Interviewee B said and some peaks and troughs as per Interviewee G. According to most interviewees it is now becoming more and more difficult to speculate on the future. This is so because of the volatility of the industry as Interviewee G said earlier but also because of the unstable exogenous factors such as the prices of jet fuel and the present international economic disorder.

a) Growth in Air Traffic & Volume

Interviewee C holds that in general, there will indeed, be growth but at a much lower level than we have seen so far. Interviewee B is more precise in his approach. He believes that "Brazil, China and India will grow in volume. There will be more stability in Europe and North America."

b) Sustainability, Viability and Profitability

One of the main issues for the airline business has for many years been that of sustainability. Air transport is cost intensive: Equipment, capital and labour intensive. High operational costs in a situation of almost perfect competition do not guarantee viability and profitability especially if airlines have to just work on marginal profitability. For Interviewee B, to achieve an acceptable level of viability and profitability, "the structure should change. No remarkable profitability will be seen unless there are some structural changes". He also went on to say that tourism destinations will be restricted to the number of hotel rooms and more hotel room will obviously mean more flights but not necessarily at a price that will guarantee viability for airlines. But Interviewee A seems slightly more optimistic when he stated that "the business has an innate ability to restructure" but he went on to say that "we really don't know what's in store for the big planes."

For Interviewee D, "there will be some growth and in both passenger and freight traffic." But he was not too specific in what regions or areas of the world such growths will occur. Interviewee H foresees that "the regulation regarding climate change and the rising prices of oil will drive up the cost of travel."

c) Environmental Concern

Almost all interviewees showed a remarkable concern for the environment in the future. For Interviewee E, like all the others, "environment will continue to be a big issue." There is also a consensus that more and more fuel efficient aircrafts will be on the agenda and this is not only for the reduction of fuel expenses but also for the environmental protection. According to Interviewee F, the new US change in

environmental policy will also influence the aviation industry concerned for the environment.

Interviewee H who is an environmentalist and a biologist before developing an interest for aviation is of the opinion that “we are not going to prevent the 2 degree rise as we thought we could. We have lost control and we’ll have to adapt to it. When the Kyoto protocol was signed, international aviation was excluded because it was seen as a special case. Only domestic aviation was included because it was easier to apportion the level of emission within one country. It was difficult to decide which portion of emission was to be accounted for at departure and arrivals. But now international aviation is not a special case any more”. He went on to say that now because of the open sky, you may have 10 aircrafts flying to the same destinations instead of 5. Eco-efficiency is decreasing and emission is increasing. A jumbo jet carries 5 tons of catering. Half a ton of fuel has to be carried for this. We now need different business practice. Duty free items don't have to be carried on onboard. Unsustainable! Unsustainable! You should be able to buy at airports at departure and collect on arrival. One litre of whisky needs one litre of fuel to carry it over 5000 miles. If the industry is sensible and sensitive to the issues of environment, it will look at all this, which is not the case now.” His arguments are sensible and convincing. And he also said that “low cost airlines’ are more eco-efficient because of no frills. But then the cheaper the flights the more people travel.” This looks more like a vicious circle and a no-win situation. Our interlocutors have yet some more suggestions: “Passengers who carry very little or no luggage should be given a rebate on their tickets. We need to give the customer the opportunity to buy an eco-friendly product. We are in an educated democracy and we don't have to always wait for the government to do things for us by for example increasing the future price of oil”. However, he still thinks that government has a crucial role in further educating the people. “Global aviation”, he says, “contributes to 2 to 3% of CO₂ emission. And if you add contrails that contribute to emission and pollution caused by cars coming to the airport, it is around 6 to 7%. Aviation is climate costly.”

d) Technology

While there is a lot of hope that technology could come to the rescue in various aspects of the industry and its management and efficiency, at least one interviewee kind of downplayed this aspect. Interviewee C for instance holds that “technology will have a rather limited input within the next 25 years.” But in general, most interviewees have a lot of faith in technology which hopefully will help the industry in providing better and more efficient equipment. This is more so for aircraft that will be expected to be more fuel efficient and less of a threat for the environment. Interviewee E opines that “if we have more fuel efficient aircrafts, we’ll pay less in terms of environmental taxes.” For Interviewee G, there

will be a remarkable technological advancement but “technology comes with a price. Technology will be used as a competitive weapon. Those who can afford will use this consciously to dominate the market and to drive out competitors; particularly in long haul journeys of over three/four hour flights and longer where you will see the real benefits of technology”. Interviewee F is definite in saying that we will see more fuel efficient aircrafts but she also ventures to say that we may also see ‘pilotless aircrafts’! Interviewee D is also of the opinion that it will be possible to fly planes without pilots but he then asks the question: “How many passengers will agree to travel in an aircraft without pilots?”

e) Oil Prices and Alternative Sources of Energy

Oil prices continue to be a Damocles Sword on the heads of airline operators. This is almost an obsession for most airlines. Most of our interlocutors agree that oil prices will continue to be a weapon in the hands of oil producers, especially those of the OPEC cartel but international economics will dictate some levels of fluctuations but as well as some stability depending on the international economic situation. For Interviewee E, oil prices will continue to rise and those who hedge on fuel prices will continue to lose money. Almost all of the interviewees feel that alternative sources of energy for aircraft will not be found in the next 25 years although they may release pressure on other traditional users of crude oil like the electricity suppliers. This in turn may also bring down the prices of oil as a natural reaction to a decrease in demand for traditional fuels. Interviewee D also supports this view. According to him “the airline industry will probably be one of the last users of kerosene as it is still a more attractive source of energy in terms of price. If other alternative sources of energy become attractive may be then the price of fuel will be more interesting for airlines. Aviation has been looking for alternative sources for a long time, especially hydrogen fuels.” But Interviewee J has some reservations because according to him there are already questions about water vapours emitted and which could also cause some concern for environmentalists. Interviewee C is rather positive in thinking that “within 25 years, there will be more production of energy through alternative sources outside the air transport industry. There will sure be more investment in the development of fuels”. But Interviewee A thinks that “biofuel is not a solution as some people tend to think. There is still a risk that the fuel freezes at very high altitude.” Interviewee H also thinks that bio-fuels and artificial fuels will only prove a short term solution. Because of the quantity required, these will never be a viable solution. Hydrogen fuel will also be costly and you’ll have to have a hydrogen fuel station at each airport. Nuclear energy will be politically unacceptable. People living around the airport will not agree to it. It is a decision for society to use alternative sources of energy for domestic and industrial purpose and leave the carbon fuel to aviation”.

f) *Removal of Barriers to Liberalisation*

There is a agreement that further deregulation and liberalization will obviously be beneficial to the industry in general. Naturally, the opponents of the process may have a different view. For Interviewee C "if there is further deregulation, more barriers will be removed, things may look better. But this will require airlines to fail. The logical way forward to the process of liberalization is multilateral agreements between North America and Europe which will then be exported to Asia".

g) *Some General Predictions*

There is no great optimism for the near future. "May be in the next 10 or 15 years", says Interviewee C on an apathetic note, "but then, we have been saying the same thing for years." According to Interviewee A, there will continue to be chaos as new entrants enter the market. Interviewee E believes that the recession will continue to cause job losses, but "the airline industry normally picks up faster. But it will take some time. There will continue to be a permanent decline". The last comment may sound contradictory but it reflects the dejected moods regarding the future of the industry.

Interviewee F is more specific. She anticipates more consolidation. However, she is of the opinion that more subsidies will have to be given to weak airline to provide for air services as an essential public service. "Airlines will continue to be bailed out by their respective governments to prevent bankruptcies and job losses; some airlines will continue to be dependent on loans to survive." According to her there will be more regional routes and more mergers and takeovers.

As straightforward as ever, Interviewee G makes the following rather glum forecasts: "Continuing turbulences, continuing shake-ups, continuous failures". Airlines will have to change the way they operate, he says. "They can't blame the governments, legislators or the market. They should have a look at themselves and ask the question: Are they fit for the purpose? They can then focus on their strengths".

The future of the aviation sector is not as bleak as some people may think. It is just that it has gone through very long and protracted periods of transition. Growth will occur at a diminishing rate and this is largely due to the prevalent economic crisis. But air transport being an essential service, it is here to stay and develop for many more decades to come. Sustainability will be linked with profitability but constrained by environmental factors. The two major aircraft producers namely Airbus and Boeing have already gone in to the designing of new equipment based on the latest technology in order to decrease noise and emissions especially at take off and landing. Some of the future developments will obviously come with costs to the operators on the basis of polluter pays. This kind of cost however will obviously be passed on to the consumer. Now that most airlines have learnt the lessons of the past they are bound to

tread carefully and find all ways to anticipate problems and go in to a process of consolidation and product differentiation.

XIII. THE KEY ISSUES/CHALLENGES FACING THE INDUSTRY IN THE FUTURE FOR THE NEXT 25 YEARS OR SO

This was a challenging question for the interviewees especially most of the forecasts and predictions had been dealt with in the previous question. Here of course, we are looking at the challenges for the industry in the next 25 years. This makes the question slightly different. Some of the points, however, keep recurring: Environment, fuel prices, recession and competition.

a) *Environment as a Challenge*

It is a recognized fact that with global warming for which the aviation industry is also partly responsible, environment will continue to be a threat to the planet. The aviation sector will be under pressure to review its ways of operation. Most Airlines will be subject to tough laws and the EU has already set the scene with its regulations regarding the level of emission, decibels at airports and the age and conditions of aircrafts. For three interviewees at least notably Interviewee A, B and E environment may be the biggest challenge for the industry. The big questions according to Interviewee B will be: "To what extent the can expand and grow without damaging the environment and increasing global warming and to what extent also the industry will have to pay its way especially regarding the environmental costs". According to Interviewee D, communities living around airports will be a cause for concern because of noise pollution. This is also the concern of Interviewee E who thinks that the industry will be further constrained. He gave the example of "the third runway at Heathrow which will de facto be constraining." For Interviewee H, "water will also be a serious problem, added to this you have peak oil, climate change, environmental and capacity constraints at airports; aircraft noise, local residents, local air quality". He went on to say "that "airports will have smaller capacity than their actual infrastructure. 80% of airports are now working below capacity because of capacity constraints".

b) *Rationalisation of Routes*

By the look of things it would seem that the bigger problems will be on the supply side with serious constraints on the suppliers of air services. While consumers will continue to press for cheaper fares, it will be difficult for airlines to operate within a situation of oligopoly. This is also the view of Interviewee D who holds that the airlines will have to review their modus operandi. He also thinks there will be problems of infrastructure as airlines go on trying to cut down on costs of operations.

c) *Challenges for Governments*

As government is one of the most important stakeholders, the bigger challenge is often for politicians and policy makers. Governments will obviously have to continue to meet the expectations of operators and consumers alike. Because of the essential nature of the service, governments, especially those maintaining the flag carrier concept, will continue to fork out subsidies to keep the services going. This is Interviewee E's view and he went on to say that "the market will become saturated very quickly and the credit crunch will continue be a big challenge because of the shortage of liquidity for further investment.

Interviewee G sees the global aviation shifting to the Gulf, with Dubai or Abu Dhabi becoming the hub and Asia Pacific airports becoming the spokes. This scenario according to him will be due to the powerful OPEC countries who will decide to whom to sell its oil in a situation of scarcity as oil is a finite resource. He also sees an on going important role for Brazil, China and India who will have a bigger control on the world economy which will eventually influence the airline industry worldwide. According to Interviewee I, "the challenges will now be more difficult to meet. Finding new markets and bigger volumes will be more difficult. Unless we see an expansion of the Russian market or the North African market. The traditional markets are quite saturated and stagnant right now. There could be some low cost long hauls on the Malaysian, Indian and Indonesian markets."

d) *Load Factors*

The low costs, according to Interviewee I, will have no load factor problems although this will continue to be a problem for regulated airlines. He supports this view because for him "already in a period of recession, the average load factor for the low cost flying out of Stansted is 75%. They also practice overbooking in order to avoid no shows. Normally all airlines have a 10% over booking because of the high costs of bumping passengers. Low costs will avoid such costs as it will defeat their purpose of cutting down on costs. Usually, only economy class passengers on regulated flights are bumped.

Like many other industries the airline industry will have its share of challenges for the future. According to most of the interviewees one of the biggest issues will certainly be the environment. The industry will have to bear the cost of its 'contribution' to the global warming and climate change. These challenges will also be for respective governments especially those who will try to maintain the scheduled airlines. There will be more rationalization of routes in order to be more cost effective.

XIV. THE POSSIBLE SOLUTIONS TO THESE ISSUES AND WHICH ARE WORTH INVESTIGATING

Our interviewees made some very interesting suggestions and proposals that the industry would be well advised to consider. One of the most important and recurrent points is that of consolidation within the industry. Although this may sound rather abstract, most of our interlocutors support this view with concrete proposals.

a) *Change in Mindset*

In order to change the aviation scenery and landscape in to a viable and profitable endeavour, it is necessary and imperative that operators adopt a new mindset. Most of our interviewees are quite objective on this. They are of the opinion that the liberalization process could have achieved more if only there was a more realistic and rational approach. Earlier, we mentioned the rationalisation of routes and the necessity to treat airline business like any other business, without the aura it has always seemed to have. The words 'structural changes' and 'consolidation' have been like leitmotifs during these interviews. Surely, they cannot all be wrong! Interviewee C even talked about 'better ways of management and more intelligent ways of running airlines'.

b) *Mergers and Acquisitions*

This is not a new idea although Interviewee A still sees this as a solution. More mergers according to many observers will only push the industry in to a cartelization and we will all be back to square one. Mergers have worked when some big airlines have taken the small ones under their wings until the latter can fly independently. The joint venture between KLM and Kenya Airways is a case in point. After a decade of a merger with KLM, Kenya Airways can now fly on its own and is at present one of, if not the, leading airlines in Africa.

c) *Differentiated Product & Services*

There seems to be a paradox in Interviewee A's suggestion of differentiated product and service and standardised product and service. Differentiated product in marketing is precisely a non-standardised product. This was also Interviewee B's contention earlier but he was more consistent. There is a need for a differentiated product at a higher price that is justified by the kind of product for people who can afford. Standardised product and services at standardized prices may not be the answer for the up market traveler who is still looking for the 'frills' in spite of the recession. We have shown earlier and this has been supported by some of our interviewees that in spite of the international economic downturn, people will still travel for business, conferences, VFR and less for holidays.

Interviewee G has a different stand when he says that “the airlines should do their mea culpa. They should have a long and straight look at themselves”. He also suggests that they go in to some type of SWOT [Strengths, Weaknesses, Opportunities and Threats] analysis to answer questions about their strengths and weaknesses. “Ask ourselves what business we are in”, he suggests, “what are our strengths and weaknesses? What kind of business model do we need to actually fit that role?” He also foresees big mergers and star alliances as he calls them. According to him, “the concept of flag carrier is absolutely ridiculous.”

Admittedly in terms of solutions, none of our interviewees came up with impressive ideas that will really make a breakthrough in the industry. However, it is fair to consider the various proposals made. There will be a need for a major change in mindset especially among governments and airline operators alike. Mergers and acquisitions may not have been an ideal solution but it has worked well for some airlines. Differentiated products and services are also new ideas worth considering in facing acute competition.

XV. THE FUTURE THREATS AND OPPORTUNITIES FOR THE AVIATION SECTOR

We mentioned earlier the need for a SWOT approach and this may be a good occasion for airlines to also look at the threats and opportunities to improve the situation for the industry at large. There will indeed be some serious threats as also expressed by our interviewees.

a) *Exogenous Factors*

These are factors beyond the control of the operators in the industry. Interviewee C is quite clear in his opinions. He mentioned terrorism, environment, government intervention, fuel prices and what he calls ‘wholesale changes in consumer behaviour. Interviewee A added SARS, AH1N1, new taxes and globalisation to the list.

Interviewee C does not see globalization as a threat. Instead he sees some interesting opportunities. He again sees an opportunity in differentiated products and services. “We need more distinct airlines and aircrafts. Now all airlines look the same. There is a need for more product differentiation: different product for different people. At the moment there is too much standardization of the product. There is a place for premium and non-premium products on the market. We now have too much homogeneity in the product”

b) *Endogenous Factors*

On this count Interviewee B is more optimistic. He sees “more opportunities as a result of further deregulation; more expansion with airlines flying to more destinations. For example, BA will set up a headquarters

in New York to service Brazil and other South American destinations.” Interviewee F holds that “consolidation and fragmentation of the industry will bring opportunities for new entrants to enter the market.” There is a general agreement that Brazil, China and India will emerge as big players which in turn will change the way Europeans and Americans run their airlines. Interviewee G finds “geopolitics as a threat because we will have power blocks based upon energy generators, water owners and those who can afford clean air. Air transport will have to plug in to that kind of future”.

A SWOT approach done by individual airlines and governments will certainly highlight some of the major threats facing the industry as well as identify the opportunities. The aviation sector while being quite vulnerable to economic changes has also proved to be among the quickest to recover. Like many other enterprises the sector has many weaknesses but much strength as well. One of the strengths is the nature of the product and the faith that consumers still have in the industry in spite of many failures in the past.

XVI. THE FUTURE OF THE AIR TRANSPORT WORLDWIDE AND IN SMALL DEVELOPING COUNTRIES

Here I must say that while most of our interviewees were loquacious about Europe, the US and Asia, only Interviewees A and G really had some ideas about Africa. Even then, one could detect in their attitude what some sociologists and anthropologists would rightly or wrongly call ‘afro-pessimism’. All along the interviewees, in spite of several prompters, Africa took a back seat. This is indeed rather surprising as we know that some countries of Africa namely, Kenya, South Africa, Nigeria still have an important place in the European political agendas at the level of individual countries of Europe and the EU.

a) *Future Developments*

There will obviously be many developments, positive or negative and hopefully more positive than negative ones. The air transport has never been a static industry. The nature of the business and that of international economics and globalization will dictate such developments. Interviewee C spelt out few of these developments that should give faith and hope to the operators again: Global growth and consolidation; development of new niches; he gave the example of Mauritius which he seems to know well where hoteliers and the NTO are looking for more markets. There will be, according to him, a leadership role for Air Mauritius in the region but MK will have to provide a better service comparable in standard to the hotel services in Mauritius which, he says, are excellent.

Interviewee B sees the small developing countries retaining their own airlines and there still continue to be mergers for economies of scale. He

believes that growth will eventually come after the recession but we will not see remarkable growth in the mature markets. Interviewee A also concurs in saying that "there will be no high growth rates. We have reached a certain level of maturity. If you look at the pie chart of air transport, the US will continue to be no.1, Europe no.2 and Asia no.3 and this trend will continue. Globalisation will continue to be a threat to some sectors including aviation". For Interviewee J, there will be "some growth in Europe but more in the emerging markets. The UK market and some other European ones are mature markets. There will be no big growth."

b) Environmental Issues

This will continue to be on top of the agenda for everybody in the industry but also for governments and other stakeholders. Interviewee C contends that since there is not yet a valid substitute for oil, there will be more control on licensing, noise and carbon emission.

c) Global Alliances

For Interviewee E, the tendency worldwide will be that of consolidation and global alliances. But no matter how big the carriers are, he says, they still belong to states.

d) Developing Countries

There is agreement that developing countries will continue to have difficulties in running airlines. As Interviewee E puts it, "it is already difficult for small developing countries to maintain and manage a fleet of aircrafts". Interviewee J also believes that "the developing countries will have to look very hard if it is at all possible to make money from aviation. There is more money to make out of tourism than aviation". An observation is that the poorer the country, the more difficult it is for it to own and manage airlines. Countries like Madagascar, the Comoros and Malawi have had great difficulties to have a stable airline. But Interviewee F takes a slightly different stand. She holds that some stable developing countries will see some growth but some other ones will stagnate. "If you have a viable air service network, it will be important for further economic development", he said. Interviewee G also does not see a great future for Latin America and Africa, Brazil being an exception. "Can't see Africa emerging", he says, "they will be ever dependent on the big two. I could imagine a situation where china decides to invest massively in its civil aviation and doing trade deals with Africa and Latin America in exchange of oil..." But Interviewee I has a more optimistic approach for the developing countries: "The opportunities are there for the developing countries. They can learn from the lessons of Europe and the US and avoid their mistakes. There are opportunities for growth. It's all market dependent. You really have to know and understand your market."

e) Aircrafts Developments and Technology

As far as aircraft manufacturing is concerned the industry will continue to rely on the big two: Airbus

and Boeing who, according to Interviewee G, will continue to dominate the market as a duopoly like they have done for several years. As far as consolidation is concerned, there is the fear that China, India, Brazil and probably South Africa will team up to make a single block. This was expressed by at least two interviewees, namely Interviewee E and G who even see Russia as part of the block. This is expressed as a geopolitical development by Interviewee G who thinks that "if China becomes a big player (which it already is!), then Russia will also lead in the technology". But according to Interviewee B, "India and China are not really a threat as far as aviation is concerned. The real threat will come from the region of the Middle East. The threat will be more from the Middle East airlines. They have the following advantages: location, their position as intermediate markets and rebate on oil prices". In other words they have a far better competitive edge than any other block.

The industry still has a future if certain measures are taken and the mistakes of the past are not repeated. Future developments in technology will also contribute to the progress of the industry. From an international point of view, the industry will continue to develop in a positive way. Unfortunately, because of the disparity among the various countries especially between the north and the south, growth will also be much skewed. African airlines and some of the Caribbean operators will continue to find it difficult to surf the tide. While the EU has tough laws regarding new aircraft technology, developing countries will continue to operate with old equipment leased or purchased from the ones being gradually phased out of Europe.

XVII. THE FUTURE OF DEREGULATION AND LIBERALIZATION FOR THE AVIATION SECTOR

This is a question to wrap up the interview and to have a general view of what the future has in store for the industry as far as deregulation and liberalization are concerned. Admittedly, it is obvious from the expert interviews and the literature that these had been and continue to be very crucial phenomena for the industry. All of our interviewees held that we have now reached a point of no return for the industry and it has no choice but to continue on this path. For Interviewee J, "this is a political area with much debate and slow progress. The flag carrier concept will still be something smaller countries will cling to for survival. But it's vital that the industry be looked at on a global basis".

a) Re-regulation?

According to all interviewees the process is now unstoppable and unpreventable. This is confirmed by Interviewee C who just cannot see a return to other forms of regulation or just reregulation. Actually, most of the interviewees see this as an irreversible situation.

Reregulation according to them will only make matters worse. According to Interviewee C, the American airline industry is now in a better position with the new Obama government: "As you can see Obama is saving the car industry and people are saying that if he is saving the car industry, he must be able to save the airline industry". Interviewee B also confirms that "deregulation will continue. The EU is also taking a stand on this. For Interviewee A "the trend will continue and the industry will not go back to regulation. But airlines always operate cartels in one way or the other". Some people contend that since we are in a mess because of regulation, we should go back to regulation. But practically all our interviewees think this is too simplistic a way to look at the situation which should be looked at globally and not in isolation. But Interviewee A points out that "as the economy improves, people will have to pay more to travel". He also mentioned the case of Alitalia whose resilience has been rather amazing. "Alitalia has been the cat with nine lives" he says, "whatever the EU says, they are not going to do away with Alitalia. But smaller companies will have to make some tough decisions. Sometimes it is better to sell when it is still worth something. SAS employs 20,000 people in the Scandinavian countries. The government will have to subsidise only to save jobs". But the point of interviewee F, however, is worth mentioning when she is the only one to say that "the US has gone to the extent it can go now... Regulation could come back. The whole thing may have come full circle. There could be some form of protectionism coming back. Some Europeans have more of a Pan European outlook." For Interviewee G, "it will continue but in a more cautious way. We'll have smart regulation. It will continue but it will be smarter." But for Interviewee I, "we may see an element of reregulation on certain routes that are less viable. Many airlines will not survive under a totally deregulated regime. Apart from that, it is a process that will continue but will probably have to change its nature. The scenario will not be the same any more. But the excitement this time will be outside the US and Europe."

Deregulation and liberalization are both here stay for many more years to come. As mentioned earlier, this is now an irreversible situation. This is a process which all future development will have to reckon with. It is obvious that this is a situation where the fittest will continue to survive. Operators will venture to change threats in to opportunities and weaknesses in to strengths. The developing countries will continue to lag behind and if they cannot beat the situation, they will continue to pull resources with the mega carriers. Mergers and acquisitions will continue with some airlines moving out to make way for new entrants with new technology and new management methods.

XVIII. CONCLUSION

This interview of the experts in aviation has shown that while air transport used to be glamorous and management was not very concerned about the various issues that may determine the future of civil aviation. It has now become imperative to take stock of the situation. The paradigm has changed and people's mindset also has undergone drastic changes over the decades. The passenger today, apart from being very conscious of their rights to comfortable but cheap travel are also quite touchy about issues of environmental protection, ecology and biodiversity. The increase in the level of carbon emission and global warming has gained conspicuous attention and airline operators and owners will have to rethink their management strategies for the future. This interview also brings up some interesting new ideas for these operators to consider in their future fora.

REFERENCES RÉFÉRENCES REFERENCIAS

The methodology of this paper did not make provisions for references. However all interviews are based on face-to-face contact and are on audiotapes. This is an edited synthesis of the transcripts of these tapes.