

SECTORAL ACTIVITIES PROGRAMME

Working Paper

**The impact of 11 September on the aviation industry:
Traffic, capacity, employment and restructuring**

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Working papers are preliminary documents circulated
to stimulate discussion and obtain comments

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Foreword

In response to the crisis resulting from the 11 September 2001 events, the Director-General of the International Labour Office convened a Think Tank on the Impact of the 11 September Events for Civil Aviation, which was held in Geneva on 29 and 30 October 2001. It brought together Government, Employer and Worker experts, as well as independent and industry experts from the civil aviation industry, for two days of intensive discussions on the impact the crisis was having on the industry. The Think Tank agreed upon a number of recommendations for further work by the ILO in preparation for the meeting on civil aviation scheduled for January 2002.

In November 2001, the Governing Body of the International Labour Office decided to change the purpose and the title of the meeting to “Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis Subsequent to 11 September 2001”. It also asked the Office to prepare an Issues Paper that would serve as the basis for the discussions at that Meeting. For the preparation of this paper, the ILO Sectoral Activities Department commissioned several studies as recommended by the Think Tank.

The present working paper by Peter Morrell and Fariba Alamdari on “The impact of 11 September on the aviation industry: Traffic, capacity, employment and restructuring” is one of the studies that have been taken into consideration for the ILO paper. The paper provides relevant knowledge on the impact of the crisis on the various aviation industry markets and segments, both in developed and developing countries. It also covers suppliers to the industry such as aircraft manufacturers, lessors and airports. It further discusses employment effects and government measures and addresses the impact of the crisis on carrier strategies and the possible restructuring of the industry.

As a sectoral working paper, the study is meant as a preliminary document and circulated to stimulate discussion and to obtain comments. Earlier drafts of the paper were intensively discussed at the ILO; the opinions expressed are nevertheless those of the authors and not necessarily those of the ILO.

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1. Introduction

This study was prepared for the Tripartite Meeting on Civil Aviation: Social and Safety Consequences of the Crisis Subsequent to 11 September 2001, held in Geneva from 21 to 25 January 2002.

It provides relevant up-to-date knowledge on the impact of the crisis on the various aviation industry markets and segments on a regional, subregional and interregional basis:

- scheduled network and regional carriers;
- low-cost carriers; and
- charter carriers.

It includes both developed and developing countries, and attempts to cover suppliers to the industry such as aircraft manufacturers, lessors and airports.

It also assesses the impact on the industry in terms of the strategies of the above carriers, as well as any restructuring that has taken place or might take place as a result of the crisis. Government measures which affect aviation are also discussed.

Section 2 deals with the impact on traffic and capacity of the scheduled airlines both to date, and on near-term forecasts. In Sections 3 and 4, the report reviews the impact on charter and low-cost airlines, before looking at airline cutbacks in terms of fleet reductions in Section 5. The impact on suppliers is addressed in Section 6, followed by Section 7 on government measures and, lastly, a look at strategies and restructuring in Section 8.

2. Scheduled airlines

2.1. Traffic

2.1.1. *Global impact*

Following the 11 September events, the air transport industry, already experiencing declining and even negative growth rates due to an economic slowdown, faced a sharp decline in air travel. It was reported that in the first four days after the event, domestic US bookings fell by 74 per cent, and bookings for the world excluding the United States were down by 19 per cent.¹ Owing to the “fear factor” some passengers have been cancelling holidays and business travellers are postponing business meetings or conducting them by video or teleconferencing.

As a result of the downturn in business, airlines have cut frequencies and routes. *Swissair* stopped operations for two days, stranding thousands of passengers around the world, and there were daily stories in world media regarding the imminent bankruptcy of major airlines. This situation, in addition to the “fear factor”, created a sense of unease and uncertainty among potential passengers. Passenger confidence in air transport is thus

¹ Commerzbank, 28 Sep. 2001.

attacked from two sides, making the current crisis potentially much more damaging than earlier ones.

The total international traffic in terms of passenger-kilometres of the members of the International Air Transport Association (IATA) was unchanged in the period January to September 2001, compared to the same period in 2000. This suggests that the impact of the economic recession was already having an effect on traffic, since there was no growth following an increase in such traffic of almost 10 per cent for the whole of 2000. For just the month of September, however, total international passenger traffic fell by 17 per cent.²

A similar story emerges from the statistics of the Association of European Airlines (AEA). Their members recorded an increase in total international passenger-kilometres of only 0.6 per cent for January to August 2001, which was followed by a decline of 19 per cent between 10 September and 28 October compared to the same period in 2000.³

The most recent forecast for world passenger-kilometre traffic shows a 3.8 per cent decline in 2001 (compared with a 3 per cent drop after the Gulf War in 1991), and a 0.5 per cent fall in 2002, before recovering with a 9.1 per cent advance in 2003.⁴

2.1.2. Regional impact

United States

For the period January to July 2001, US major airline traffic for domestic routes was already marginally down on the same period of 2000 (-0.6 per cent). For international routes, an increase was recorded overall of 3.2 per cent, with the North Atlantic growing more slowly at 2 per cent.

According to the Air Transport Association (ATA) of the United States, which accounts for around 95 per cent of the total US traffic, domestic revenue passenger miles (RPMs) decreased by 32.5 per cent in September 2001 compared to the same month of 2000, while international RPMs decreased 30.1 per cent. The system-wide load factor (percentage of seating that is utilized) was 59 per cent in September, down from 69.9 per cent a year earlier. The domestic load factor was 56.2 per cent and the international load factor 66.1 per cent.

Recent estimates by aviation consulting firm Avitas show a reduction in US traffic of 6.4 per cent for the full year 2001.⁵

One of the most successful US carriers, *Southwest Airlines*, reported that load factors had risen steadily since they resumed flying on 14 September, and in the first two weeks of October they were only 5.4 percentage points below the same period in 2000. However, their yields were well below the previous year, and were 10-12 per cent below break-even. *Continental's* traffic was down by 17 per cent in November 2001 compared to the same month in 2000, while their average revenue per passenger mile was down 19 per cent, with load factor only slightly lower.

² IATA News Release, Geneva, 30 Oct. 2001.

³ AEA Information Sheet (Brussels), 6 Nov. 2001.

⁴ *2002 Global outlook for air transportation*, Special Edition (Avitas), Nov. 2001.

⁵ Avitas, Nov. 2001.

Traffic carried by US regional operators was varied, with some, such as *Air Wisconsin* and *Atlantic Southeast*, experiencing good growth for the July to September 2001 quarter, while others, such as *Horizon* and *Midwest Express*, were already suffering from the economic downturn.

Europe

Avitas has estimated a reduction in European traffic of 2.8 per cent for the full year 2001.⁶

Traffic carried by AEA members within the European region increased by 4.7 per cent from January to August 2001 compared to the same period in 2000. These figures do not include the fast-growing low-cost airlines, which will be discussed in 2.3 below. The impact of the crisis are evident even within Europe with the decline of AEA members' traffic by 10.9 per cent over the period 10 September to 18 November compared to the same period in 2000.

The traffic downturn was significantly worse for business traffic compared to leisure traffic. *British Airways* reported a 22 per cent drop in economy-class passengers in October 2001 over the previous October, while premium-class traffic was down by 36 per cent. Traffic overall declined by 25 per cent. In November, total traffic was down 18 per cent, but premium traffic was still 25 per cent below previous year's levels.⁷ There was evidence of increased use of teleconferencing, with the French company *Genesys* reporting a 50 per cent increase in revenues since 11 September.⁸

The European regional airlines were already suffering from the economic recession, with passengers down by 14 per cent for the period January to June 2001. The collapse of the United Kingdom regional carrier *Gill Air* occurred after 11 September, but the airline's problems stemmed from before that date. Since 11 September, the regionals have the potential to enter new routes shed by the network carriers, but on the other hand they will be affected by reduced feed traffic through the major hub airports.

Rest of the world

Avitas has estimated an increase in Asia/Pacific traffic of 2.0 per cent for the full year 2001.⁹

Traffic figures have just been released by the Association of Asia Pacific Airlines (AAPA). Traffic was significantly down for routes between the United States and both Asia and Latin America. However, it is predicted that the Asian region will not suffer nearly as badly as North America and Europe in the short to medium term.¹⁰ *Singapore Airlines* reported passenger-kilometre traffic down by 5.4 per cent for September 2001, compared with the same month in 2000. The airline said that it could post a full-year loss, which would be the first since its establishment. *Japan Airlines* saw passenger numbers on their routes to the United States fall by 50 per cent, with a decline in total traffic of 23 per

⁶ *ibid.*

⁷ *British Airways News*, 6 Dec. 2001.

⁸ *Bloomberg*, 31 Oct. 2001.

⁹ *Avitas*, Nov. 2001.

¹⁰ *Airline Business*, Nov. 2001.

cent. *Qantas* reported that 11 September has hit bookings and international traffic levels are down by between 10 and 20 per cent, depending on the market.¹¹ *Philippine Airlines*, *Thai Airways* and *Garuda* all reported positive growth rates for September 2001, while *Cathay Pacific*, *China Airlines* and *Korean Air* all suffered a fall in traffic of between 14 and 17 per cent.

In the Middle East, *Gulf Air* reported only a 6 per cent decline in September traffic over the previous year, but during the first two weeks of October traffic was down 20.4 per cent in terms of passengers and 25.6 per cent in terms of passenger-kilometres, implying that long-haul traffic was worst hit. *Saudi Arabian Airlines* experienced a 50 per cent decline in bookings on flights to the United States since 11 September, and European bookings were down 30 per cent compared to the same period in 2000.

2.1.3. Interregional routes

Transatlantic

AEA members' North Atlantic traffic declined by 33.8 per cent in the period 10 September to 18 November compared to the same period in 2000. This period covered the bankruptcy and grounding of *Sabena*, and the significant reduction in operations by *Swissair*.

Europe/Far East and Australasia

AEA members' Asian traffic fell by 17.6 per cent in the period 10 September to 18 November compared to the same period in 2000.

2.1.4. Near-term forecasts

The traffic forecasts for short-term growth are all negative. It is predicted that the 11 September impact will be double the Gulf War effect. It is assumed that the full rebound will take place in 2003, some 18 to 24 months after the disaster impact, compared to six to 12 months after the Gulf War.¹²

Table 1. Short- and medium-term traffic forecasts (percentage change)

	United States		Europe		Asia		Rest of the world	
	Domestic	Inter-national	Domestic	Inter-national	Domestic	Inter-national	Domestic	Inter-national
Initial (Sep.-Dec. 2001)	-30	-40	-10	-20	-5	-10	-5	-15
Short term (Jan.-Aug. 2002)	10	-20	-5	-10	-2	-5	-3	-10
Short term (Sep.-Dec. 2002)	5	10	5	10	5	5	5	5
Rebound (2003)	15	20	7	20	15	20	12	20
Medium term (2004-06)	4	6	5	6	9	9	5	8

Source: *Aviation Strategy*, Oct. 2001.

¹¹ *Flight International*, 20-26 Nov. 2001.

¹² "Global demand outlook" in *Aviation Strategy*, Oct. 2001.

More recent forecasts prepared by Avitas give a 1 per cent drop in 2002 for US traffic (international and domestic), and a bounce-back of 11.8 per cent in 2003. This would mean an overall gain of 3.6 per cent between 2000 and 2003.

For the European region, Avitas forecasts a 2.2 per cent drop in 2002, recovering in 2003 with growth of 6 per cent. This would mean an overall gain of only 0.8 per cent between 2000 and 2003. Thus, Europe appears to have been hit harder than the United States over the three-year period. However, these forecasts cover the majors and do not include the smaller regional airlines. It is also doubtful whether the low-cost carriers have been included.

For the Asia/Pacific region, Avitas forecasts a 3 per cent advance in 2002, and a higher growth of 7 per cent in 2003. Thus, growth rates remain positive throughout the three-year period, although at much reduced levels.

Japan Air Lines are forecasting a 20 per cent drop in international passengers for the six-month period to end March 2002.

IATA has also produced forecasts by region for the whole of 2001 compared with the previous year. At the same time, it has postponed publication of its annual three-year forecast. For the 12 months to the end of December 2001, traffic is expected to decline by between 7 and 13 per cent compared to 2000 for US domestic routes, and by between 1 and 5 per cent for European routes.

The reduction in total international traffic predicted for 2001 of up to 6 per cent compares with a decline following the Gulf War of 3.8 per cent in 1991 compared to 1990. The 1991 decline for the international services of the AEA carriers was 6.3 per cent, but it bounced back in 1992 with an increase of 14 per cent. US carriers' international traffic was less affected by the Gulf War and recession, with a drop of only 2 per cent for 1991 compared to 1990.

Avitas predicts a fall in world passenger-kilometres of 3.7 per cent in 2001, followed by a decline of 0.5 per cent in 2002, and a 9.1 per cent recovery in 2003. Following the Gulf War, traffic fell by 3 per cent in 1991, but recovered more quickly, up by 8.8 per cent in 1992.

Aviation Strategy expects world traffic to decrease by 6 per cent in 2001, followed by a further drop of 5 per cent in 2002, recovering very strongly by 17 per cent in 2003.¹³

The American Automobile Association forecasts a 20 per cent decline in air travel over the Christmas/New Year period in the United States, compared to a 25 per cent fall over Thanksgiving, both compared to the same holiday period in 2000.¹⁴

IATA estimated in October that for the full year 2001, transatlantic traffic would be down by between 6 and 12 per cent, and that transpacific traffic would be down by between 4 and 0 per cent.

¹³ *Aviation Strategy*, Issue No. 50, Dec. 2001.

¹⁴ Reuters, 11 Dec. 2001.

2.2. Capacity

The impact of 11 September in terms of airline capacity is best represented by available seat-kilometres. This measure captures both seats offered and distance travelled, and allows comparisons to be made across routes. The new winter 2001-02 published schedules have been examined and compared with those of the previous winter. This avoids including the situation immediately after 11 September, when airlines stopped flying, but allows for the shorter term impacts to be taken into account. Comparisons with capacity prior to 11 September are distorted by the summer to winter changeover.

Interregional routes most affected were those between Europe and Central Asia. This was because of the fighting in Afghanistan, but the weight of this capacity in the world total was very small.

Both transatlantic and transpacific routes were hardest hit, with around 15 per cent fewer seats in November 2001. On the North Atlantic, airlines with the largest reductions in capacity were the US carriers, with *Continental* down by 22 per cent, *American Airlines* by 20 per cent and *Delta* by 19 per cent. On the other hand, *Northwest* (with close ties to European carrier *KLM*) planned to reduce seat-kilometres by 8 per cent and *Lufthansa* only by 5 per cent.

Table 2. Regional weekly capacity: November 2001 compared to November 2000

	Available seat-kilometres		
	Millions	Share (%)	% Change
Western Europe/Central Asia	87	0.4	-18.8
Transatlantic	7 409	31.7	-15.2
Transpacific	4 331	18.5	-15.0
North America/Central America	939	4.0	-9.6
North America/South America	1 139	4.9	-7.5
North America/Caribbean	928	4.0	-3.9
Western Europe/South Asia	771	3.3	-0.6
Western Europe/North-east Asia	2 477	10.6	1.4
Western Europe/South-East Asia	2 499	10.7	8.2
Western Europe/Latin America	2 813	12.0	9.4
Total	23 393	100	-7.5

Source: *Airline Business*, Nov. 2001, p. 83.

Capacity on the routes from Europe to North-east Asia has changed little, while carriers have switched capacity from transpacific and transatlantic routes to those linking Europe and South-East Asia, on which capacity is up by 9.4 per cent. AEA member airlines, on the other hand, reported that capacity to Asia and Australasia was down by 8 per cent in October 2001 compared to the same month of 2000. AEA carriers also reduced capacity on routes to and from the Middle East and North Africa, with a 13 per cent drop in October 2001 compared to October 2000.

2.3. Employment

Table 3 shows how the larger scheduled airlines in the three regions have reacted over the period since 11 September.

Table 3. Job cuts and capacity reduction announcements since 11 September

	Job cuts	Capacity reduction (%)
Europe		
Aer Lingus	2 500 (38 %)	25
Air France	None announced	10
Alitalia	3 500 (15 %)	13
bmi British Midland	600 (9 %)	20
British Airways	7 000 (13 %)	10
Finnair	None announced	7
Iberia	None announced	11
KLM	2 500 (9 %)	15
Lufthansa	None announced	11
Sabena	1 421 (20 %)	n.a.
SAS	3 600 (17%)	12
Swissair	9 400 (52 %)	Approx. 33
Virgin Atlantic	1 200 (15 %)	20
North America		
Air Canada	9 000 (36 %)	n.a.
American Airlines	20 000 (22 %)	20
Continental	12 000 (25 %)	18
Delta Air Lines	13 000 (18 %)	15
Northwest	10 000 (18 %)	20
Southwest	None	20
United Airlines	20 000 (20 %)	26
US Airways	11 000 (26 %)	23
Other regions		
Cathay Pacific	None announced	Limited
Japan Airlines	1 300 (7 %)	6
Korean Air	500 (3 %)	– ^a
Lan Chile	650 (9 %)	10 per cent
Qantas	3 500 (14 %)	– ^b
Singapore Airlines	None announced	None announced

Notes: ^a International and domestic route suspensions, and frequency reductions. ^b Big expansion in domestic routes following Ansett collapse; some switch of international capacity onto domestic routes.
Source: Commerzbank; Flight International; Air Transport Intelligence.

It should be noted that some of the job cuts listed in Table 3 were already planned before 11 September. For example, 1,800 of the 7,000 *British Airways* staff cuts were already scheduled following the downturn in business traffic, and the slowing of the US economy. It should also be added that related businesses such as *Atraxis*, with a 25 per cent reduction in staff, and suppliers such as *Boeing*, with a 20-30 per cent cut in total staff, were also badly affected.

United States

The situation was clearly worse in North America, with 95,000 job cuts, or 20 per cent of the workforce. *United Airlines* has so far not sought wage reductions or work rule concessions; an announcement by the airline's chief executive that the airline might have to go out of business "sometime next year" may have been a warning to staff that cuts might be necessary, but it was criticized as also warning off potential passengers.¹⁵

Air Canada was also exploring the introduction of a four-day working week, while trying to obtain government approval for staff to draw benefits for the fifth day from the government Employment Insurance Programme. It was argued that since the payments would be directly to employees, this would not amount to state aid.

Varig has announced plans to reduce its workforce by 10 per cent in response to the current crisis.

Europe

In total, almost 30,000 job cuts were announced by European airlines, or around 10 per cent of their total workforce. *Swissair* temporarily stopped flying between 2-4 October 2001, following delays in obtaining a loan from the Swiss banks, *UBS* and *Credit Suisse First Boston*. Just under 10,000 of the *Swissair* workforce will be laid off.

British Airways and representatives of its employees' major trade unions (TGWU, GMB and MSF) are discussing a 5 per cent pay cut for the airline's 3,500 middle managers.¹⁶ This followed a 10 per cent cut agreed by 600 senior managers, and a 15 per cent reduction by directors. Furthermore, no management bonuses would be paid in 2002. *British Airways* is also trying to manage overtime working more efficiently, as an alternative to making even bigger redundancies. Where lay-offs involve paying large severance packages, restricting overtime may be a more cost-effective option.¹⁷ However, more recently the airline announced that it would report in February 2002 on possible further job cuts aimed at dealing with the downturn in passenger traffic following the events of 11 September in the United States. According to reports, *BA* has drawn up plans to cut up to 10,000 jobs to avoid financial disaster.¹⁸

Lufthansa's pilots' union (Vereinigung Cockpit) was reported to be willing to accept a pay cut of 16 per cent in 2002, if *Lufthansa* fails to make a profit in 2001. The airline also reportedly proposed the introduction of a four-day working week, in addition to the freezing and cancellation of all short-term contracts that had so far been introduced. The union representing around 80 per cent of *Lufthansa's* workforce, Ver.di expressed surprise at the four-day week proposal and said it needed to know what conditions would be attached before making any comment.¹⁹

¹⁵ Reuters, 17 Oct. 2001.

¹⁶ *British Airways News*, 18 Oct. 2001.

¹⁷ *The Economist*, 13 Oct. 2001.

¹⁸ www.airwise.com, 9 Dec. 2001.

¹⁹ Bloomberg, 16 Oct. 2001.

Aer Lingus is cutting between 2,000 and 2,500 jobs. One of the problems facing airlines, including *Aer Lingus*, is funding redundancies. In the absence of state aid by the Government, the costs of redundancies will put a strain on cash reserves.

Asia/Pacific

With the exception of a few airlines, Asian carriers were not affected by 11 September to the same extent as their United States or European counterparts. Those most affected by the recent crisis in Asia are Japanese carriers, *Korean Air*, *Singapore Airlines* and *Cathay Pacific*. Total reduction in staff so far announced were only 2,500 or 2.5 per cent of total workforce.

Singapore Airlines employees have tentatively agreed to take pay cuts to help the carrier reduce costs. The cuts are expected to be in the order of 5 to 7 per cent. Management salaries were cut earlier by 7 to 15 per cent.

There have been a number of airline collapses, or near collapses since 11 September. In Australia, *Ansett* was already in trouble prior to 11 September, but was finally declared bankrupt on 14 September, leaving 12,000 employees jobless. *Qantas* plans to cut 2,000 jobs in addition to the 1,500 already lost.

3. Charter airlines

Charter airlines generally operate flights as components of inclusive tours, which in Europe account for the vast majority of European non-scheduled traffic. Charter companies in Europe are very often referred to as the transport department of tour operators. In the United States, charter operations are not as common as in Europe, and there are therefore, only a few charter carriers in North America. The same applies to Asia, where only a small proportion of airline traffic is in the form of charter operations.

The level of charter operations is closely affected by public willingness to take holidays. As a result of the 11 September events, people appear to be nervous about taking holidays abroad, especially to the United States and countries in the Middle East. Tour operators experienced an initial 40 per cent drop in bookings from Europe to the rest of the world. However, this figure is reported to have decreased to 25 per cent towards the end of November.²⁰

In the charter industry, the months of January and February are very important as the booking for summer holidays are usually carried out at the beginning of each calendar year. Therefore all operators are very anxious about the level of bookings in this period. Some have started to offer discount rates to stimulate demand. Others believe that, rather than cutting prices, capacity should be cut and priority given to a campaign to increase passenger confidence in travelling. The latter approach is based on the premise that the drop in holiday bookings is mainly due to fear of flying rather than a slowdown in the economy.

Despite the above, International Air Carrier Association (IACA) reports that tour operators' future bookings are down from the previous year. European airlines operating to traditional winter sun destinations, including the United States, Africa, the Middle East and Turkey, are suffering severely as the reductions in bookings for these areas are in excess of 50 per cent. IACA also reports that bookings to holiday destinations from Europe for the

²⁰ *Travel Trade Gazette*: "Lessons of the Gulf War", 26 Nov. 2001.

2001-02 winter season are down by 20 to 40 per cent.²¹ It is argued that the governments should compensate airlines, and that this should not be limited to the losses incurred during the four-day closure of the US airspace, because the period of flight operation disruption resulting from the obligation to repatriate all stranded passengers continued well beyond the four days.

Table 4. Job cuts in selected European charter airlines

Airlines	Job cuts	
	Percentage	Total
Air 2000	14.4	365
Air Europa	38.1	800
Britannia	15.9	100
Monarch	4.4	80
Transavia	21.7	323

Destinations such as Egypt and Turkey are suffering most: bookings to Turkey are down by 30 per cent compared to last year. The Egyptian Government has offered £20 million to support United Kingdom charter operators. It has also reduced fares on internal flights for those connecting to international routes. The Turkish Ministry of Tourism has announced a plan to spend £2 million on an advertising campaign in the United Kingdom.

In November, bookings for summer 2002 to Spain were also down by 33 per cent compared with the same time the previous year.

Like the scheduled carriers, charter airlines have experienced job cuts and employees have agreed to pay cuts. For example, *Air 2000* pilots have accepted a 5 per cent reduction in pay, saving 45 jobs. However, 32 pilots will still be made redundant and 16 captains will be demoted to first officers. It is planned to reinstate the 5 per cent of pay when business picks up next summer. *Air 2000* has also grounded two Boeing 757s.

Tour operators are also reacting to the recent crisis through capacity, job and pay cuts. Up until early November, 3,000 jobs were lost in this sector of the industry. Tour operator *Thomas Cook* has announced 1,500 job cuts in the United Kingdom and a 10 per cent pay cut for the remaining staff. The company's senior executives have accepted a 15 per cent cut in their salaries. Other companies have likewise announced reductions in their labour force: 500 at *First Choice*, 400 at *Thomson* and 350 at *Airtours*.

The large operators in the United Kingdom have collectively reduced capacity by 15 to 20 per cent. Some operators in Europe are arguing for reductions in capacity rather than in prices and are suffering as a result of the price cuts offered by low-cost carriers on routes where they compete, because potential customers of tour operators can easily switch to a low-cost airline to travel to their holiday destinations, and arrange their accommodations separately.

Charter and tour operators have reduced capacity, but with leisure travellers putting off their holiday plans, it is difficult for the operators to forecast next year's traffic levels.

²¹ International Air Carrier Association: *AirTransport crisis: The position of IACA*, 31 Oct. 2001.

4. Low-cost scheduled airlines

4.1. Europe

Immediately after the 11 September events, low-cost airlines experienced a slight decline in traffic. For example, out of a total schedule of 1,800 flights operated by *Ryanair*, only 16 were cancelled in the first week after the attack. As a result their bookings were down 10 per cent on normal levels. However, it was not long before the low-cost operator reported that not only had traffic returned to normal but it was experiencing an increase in bookings. *easyJet* announced that its passenger traffic for October rose by 33 per cent compared with last year. Clearly, traffic was boosted by the provision of aggressive discounts by low-cost airlines.²² The company managed to increase its load factor to over 80 per cent following the 11 September events by various fare promotions.

Analysts believe that the low-cost mode of operation has helped these carriers to survive in the current crisis. As mentioned before, the airline industry has been hit by both the economic slowdown in major aviation markets, and the 11 September events. There are a number of factors stemming from the simplicity of their operations that make these carriers less vulnerable in the current crisis than the network airlines. These could include the following:

- Low-cost airline operations are mainly focused on point-to-point intraregional routes. They are not exposed to the shock that was experienced by transatlantic markets or hub airports.
- They are less likely to be the target of any attacks, as they are not considered as flag carriers.
- Since they operate mainly from secondary airports, it has been easier for them to implement the additional security measures requested by the various authorities, leading to fewer delays.
- A large proportion of low-cost airline customers are less time-sensitive than network carrier passengers and therefore find the additional time taken for security checks less disruptive.
- It is very common for travellers, especially business travellers, to become more price-sensitive during an economic slowdown as companies ban their employees from travel in business or first class. Owing to the way network airline prices are structured, business passengers, who tend to travel mid-week in economy class, still have to pay higher prices than those offered by low-cost airlines. This has led to an increasing number of business passengers flying with low-cost airlines.
- As network carriers cut routes, capacity and jobs, this creates additional opportunities for low-cost airlines.

²² Michael Cawley, Ryanair's commercial director announced in October 2001 that "following the success of our seat sale in September which kept people flying in Europe after the events of 11 September, we are now selling a further 1 million seats for just £15 one-way". Ryanair launched its "Keep Belgium Flying" campaign – a massive programme of fare reductions across its network from Brussels (Charleroi) airport.

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- Capacity expansion: when *bmi British Midland* announced in November 2001 that it was discontinuing its London-Heathrow to Barcelona route, *easyJet* announced its plan to launch services from London-Gatwick to Barcelona in February 2002. *Ryanair* has offered to replace the passengers and tourists lost to Cork and Shannon airports as a result of the *British Airways* pullout announced in September 2001 by opening new routes. It has recently confirmed that starting in February 2002, it will allocate up to four aircraft to its new base in Frankfurt-Hahn, operating over 30 flights daily on ten international routes. It appears that this new continental base will mean over 200 new jobs in Frankfurt-Hahn, and will result in over 1,500,000 new passengers being carried through the airport by *Ryanair* in the first 12 months of operations.
 - Airport charges: the current environment may enable low-cost airlines to strike more favourable deals with secondary airports. Over the medium term, they may see some further opportunities, with low-cost arrangements being offered by a number of airports which previously would not have considered them.
 - Employment: the expanding low-cost carriers can employ network airline staff who are facing job cuts. For example, *Southwest* announced that although some of its career fairs have been postponed, it continues to accept resumés. *Ryanair* has promised that it will make none of its Belgium-based staff redundant and will continue to add services to its Brussels schedule.
 - Aircraft purchases: *Ryanair* will take delivery of eight new aircraft in December 2001 and January 2002 and is seeking up to 50 additional aircraft to exploit opportunities that will arise as airlines like *Sabena* are eliminating routes and downsizing their operations. Low-cost operators believe that the continuing decline in value of new and second-hand aircraft may enable them to acquire aircraft needed to maintain their growth over the period from 2003 onwards.

In response to the fall in traffic after 11 September, low-cost carriers have reduced ticket prices and offered many promotional fares in order to promote bookings and stimulate travel and growth. As a result, these airlines claim that bookings have been largely unaffected by the recent events. Forward bookings and load factors have remained strong. They appear to be committed to continuing to fly their full summer schedule without cancelling flights, grounding aircraft or making staff redundancies. *Ryanair*, *easyJet* and *Go* are planning to open new bases in Europe as slots become available at airports such as Paris-Orly and London-Gatwick.

As the chief executive of low-cost airline *Go* has stated, “Our strategy remains clear. We will continue to grow by adding new routes and bases where we can open up low-cost flying to new customers.” *Go* took advantage of *British Airways*’ withdrawal from the Belfast market to add flights from London to Belfast. It has also introduced the first low-cost service between London-Stansted and Newcastle. The Stansted-based airline has a fleet of 18 planes, but is seeking to add seven more over the next 12 months.²³

The success of low-cost carriers in weathering the current crises has clearly illustrated the importance of having a low-cost base. For example, *bmi British Midland* has announced that, in response to the threat of competition from low-cost carriers, the airline is going to apply low-cost principles to its business with the reform of labour practices as its main objective. Chief executive Austin Reid has commented that “labour productivity

²³ www. airwise.com, 20 Nov. 2001.

and labour relations are the biggest inhibitor to the mainstream airline industry moving forward”.

4.2. United States

The US low-cost airlines suffered in the immediate aftermath of 11 September in the same way as the majors. However, many have more recently been recovering sharply as they started filling the gaps left by the majors’ cutbacks. Their small size means that they are able to move fast to seize opportunities. Four low-cost airlines, *JetBlue*, *Frontier*, *AirTran* and *Vanguard*, are recalling furloughed employees and adding new flights.

One low-cost carrier, however, has not done so well. *Sun Country*, which was offering a cut-price alternative to *Northwest* from the major’s main hub, is withdrawing from these markets to focus on charter operations.²⁴

5. Impact on the world aircraft fleet

According to Avitas, net orders of jet aircraft peaked at 1,803 in 2000, falling to 816 in 2001.²⁵ Aircraft deliveries have been running at just over 1,100 a year over the past three years. Aircraft retirements are expected to increase from 201 in 2000 to 332 in 2001 and 449 in 2002. The latter figure does not include grounded aircraft that will be brought back into service later, but does take into account the accelerated withdrawal of noisier and older aircraft that were in any case going to be retired over the next few years. In August 2001, around 1,200 aircraft were already stored, and this number is likely to have risen by about 800.

Almost 1,000 aircraft had been contracted for delivery in 2002, as well as some in the last three months of 2001. Most of these would have been firm contracts, which the airlines would need to try to defer or face stiff penalties for cancellation. Around two-thirds of the deliveries would be to the two major aircraft operating lessors, *GECAS* and *ILFC*. In July 2001, *GECAS* had firm takers for all of its 2001 deliveries, and all but one for 2002.

Lufthansa has shelved purchases of 15 A380s and four B747-400s, and will ground some 43 aircraft out of its fleet of 236.²⁶ *Air France* will retire five A310s early, and ground a B747 freighter. Over the next four months, it will retire a further four A310s, and four B747-200s will go at the beginning of summer 2002.

Virgin Atlantic has grounded five B747-200s, and *Aer Lingus* will return two A330s and an A321 to lessors and retire two B737-400s. *British Airways’* B747-200 fleet was already scheduled for withdrawal, and it is now retiring a further six B767s, as well as four unspecified narrow-bodies and ten other long-haul aircraft. *bmi British Midland* has grounded eight aircraft, and *SAS* will retire 16 aircraft.

Lufthansa, which has parked 42 aircraft since September 11, will respond to sluggish demand by sidelining an additional ten short- and mid-range aircraft and five long-haul jets. Airline CEO, Wolfgang Mayrhuber, reportedly told employees via *Lufthansa’s*

²⁴ Chris Woodyard in *USA Today*, 11 Dec. 2001.

²⁵ *2002 Global Outlook for Air Transportation*, Special Edition, Nov. 2001.

²⁶ *Flight International*, 30 Oct.-5 Nov. 2001.

intranet that daily passenger numbers are 30,000 below figures for the corresponding period last year. With the start of the winter timetable on 28 October, the airline will drop its Berlin-Moscow flights along with the Berlin-Washington, DC, service. Altogether, 42 long-haul services have been chopped from the schedule, with another nine to go by mid-January. As of 1 November, more than 200 daily flights will have been scrapped from *Lufthansa's* short- and medium-range network.

It was estimated that of the 6,300 jet aircraft operated by US carriers 1,250 may be placed in storage, returned to lessors or, where possible, sold.²⁷

Delta Air Lines is to ground up to 60 aircraft at any time. Flights from New York to Tokyo, Tel Aviv, Munich, Dublin, Shannon, Cairo, Dubai, Zurich and Brussels will be suspended until March 2002, and flights to Stockholm have been suspended indefinitely.

US Airways has increased to over 100 the number of older aircraft earmarked for retirement. This will include *MetroJet's* entire fleet of 42 Boeing 737-200s and the closing down of its low-cost subsidiary operation. Other aircraft due to be phased out over the next seven months will include 40 Fokker 100s and 20 McDonnell Douglas MD-80s. *Northwest* is grounding 21 aircraft, comprising five McDonnell Douglas DC-10s, three DC-9s, 12 Boeing 727s and one Airbus A320. Its two regionals are also cutting back, with *Express I* laying off 650 staff and reducing services by 20 per cent. *Mesaba* is shedding 30 per cent of its management and cutting services by 20 per cent. *Southwest Airlines* will defer delivery of the 11 remaining 737-700s on order for this year.

In addition to grounding older or less economical aircraft, many airlines have obtained deferral of deliveries of new aircraft. In the United States, *Continental* has been trying to defer up to 47 deliveries, *Delta* 24, *United Airlines* 43, and *American Airlines* 36. In Europe, *Lufthansa* has deferred the delivery of 15 A380s and four B747-400s, while *Malaysian Airlines* delayed the introduction of six aircraft.

Some of these deferred deliveries were placed with other airlines: *South African Airlines* may take 15 aircraft (international traffic to and from South Africa was growing as tourists switched to what they perceived as a safer destination), *Vietnam Airlines* six and *Pakistan International* a further three aircraft.

Aircraft values were already falling before 11 September, but this trend has accelerated since then, as airlines have grounded and parked aircraft. Aircraft market values are estimated to have dropped by between 10 and 50 per cent since 11 September.²⁸ The lower end of this range refers to newer models, and the higher end to older aircraft.

Avitas forecasts that average aircraft values in 2001 as a whole will be 11.7 per cent below trend, with wide-bodied aircraft somewhat worse affected than the average. Its forecasts for the next two years can be compared with the trends in values after the Gulf War (see Table 5).

²⁷ *Aircraft Value News*, 24 Sep. 2001.

²⁸ *Flight International*, 30 Oct.-5 Nov. 2001.

Table 5. Impacts of the Gulf War and 11 September on jet aircraft values (percentage deviation from the trend line)

11 September Impact	%	Gulf War Impact	%
2001	-11.7	1991	-3.1
2002	-17.4	1992	-15.8
2003	-10.7	1993	-18.7
2001-03	-34.9	1991-93	-33.7

Source: Avitas, Nov. 2001.

Table 5 suggests that the present impact will be more severe than that of the post-Gulf War period, but less protracted.

6. Impact on industry suppliers

6.1. Aircraft and equipment manufacturers

Boeing is reducing its expected aircraft deliveries for 2001 from 538 (already revised following the US downturn) to 500, and for 2002 from 510-520 to the low 400s.

Airbus has cut delivery estimates for 2001 from well above 400 aircraft to around 300. It has introduced a freeze on hiring, but no pay cuts or redundancies.

BAE Systems announced that it is making 1,700 staff redundant in its regional jet division, but this is only in part a result of the present crisis. It has been losing market share to competitors over the past few years.

General aviation aircraft manufacturer *Cessna* had already announced cuts in its workforce back in June 2001 as the US economy weakened and orders turned down. *Raytheon*, which is also in the general aviation market, as well as markets for small jets and avionics equipment, likewise laid off employees earlier in the year.

For manufacturers of ground support equipment, such as *ABB* and *Siemens* in Germany, aviation accounts for quite a small part of their total business, which in any case had been hit by the economic downturn.

Inflight entertainment (IFE) and communication suppliers have also suffered from the current crisis, with cancellations of orders by airlines. Spending on IFE is expected to fall this year for the first time in ten years as airlines defer and cancel aircraft deliveries. *American*, *Delta* and *United Airlines* have withdrawn from *Boeing's* connection inflight broadband project as the airlines try to focus on core activities. *Tenzing Communications*, offering email and Internet services to airlines, had to halve its workforce as airline customers cancelled or deferred their programmes.

6.2. Aircraft lessors

The two largest operating lessors, *GECAS* and *ILFC*, together accounted for around 20 per cent of the backlog of firm orders for jet aircraft still to be delivered earlier in 2001. All of the 2001 deliveries and most 2002 deliveries had already been placed prior to 11 September. However, aircraft lessors are having aircraft returned to them (coming off lease or returned without onerous penalties), and in some cases have to try to repossess

aircraft operated by bankrupt airlines. They are also taking a number of deliveries of new aircraft from manufacturers, which could not be deferred. These are clearly very difficult to place, and lessors are therefore substantially reducing lease rates to keep some of the aircraft flying. This brings them into direct competition with the manufacturers, who are also trying to place aircraft with airlines.

6.3. Airports

Airports will also clearly be affected by the crisis, through the impact on passenger traffic and the retail spending of passengers. The most badly hit will be US airports, almost all of which are owned by local authorities, and operated as public utilities on a non-profit basis. Outside the United States, airports generally have a good mix of domestic, short-haul and long-haul traffic, and transatlantic routes only account for a small share of the total traffic.

In the United Kingdom, BAA's interim results for the six months ending 30 September were affected by the US economic slowdown, the foot-and-mouth disease epidemic (that hit tourist arrivals, especially from North America) and 11 September. The traffic levels at their airports were down by 12 per cent in the second half of September, and by a similar percentage for the first 20 days of October 2001. BAA's chief executive reported that:

However, although the aviation industry is currently experiencing significant disruption to passenger volumes, we are confident that, in the future, growth will return to those markets currently depressed. Passenger traffic has initially fallen less sharply in percentage terms than it did in the Gulf War but it is impossible to predict the length and profile of the dip.

Frankfurt Airport reported a 13.9 per cent fall in passengers in October 2001 compared with the same month in 2000. It expects traffic for the year to be down by "a low single-figure rate". Cargo traffic was down by 11.7 per cent and the number of flights down by 2.5 per cent. Airline passenger load factors declined from 72.9 per cent in October 2000 to 63.6 per cent in October 2001.

In Asia, Hong Kong International Airport recorded a fall in passengers of around 10 per cent in October 2001. Incoming tourists were down by only 3.3 per cent, with a 26 per cent increase in visitors from mainland China offsetting the 14 per cent decline in arrivals from other countries.

6.4. Other suppliers

Other major suppliers to the aviation industry include oil companies, airport concessionaires, ground handlers and flight caterers. For the first two, aviation accounts for a relatively small part of the total turnover, although there are some specialist airport retailers selling only duty-free items. Ground handling is performed by the airlines themselves, as well as the airports discussed above, but there are a few specialist service providers such as *Penauille* and *GlobeGround*.

The demand for airline inflight meals has also suffered as a result of the reduction in traffic and the elimination of flights. Suppliers of flight meals are relatively few in number, after considerable consolidation has taken place. Many airlines now outsource this service to international companies such as *Gate Gourmet* and *LSG/Sky Chefs*.

Banks are also suppliers to airlines but, for most of them, lending to the industry does not account for a very significant part of their total loans. Airline unsecured debt securities

have been down-rated across the board, with many of the formerly good credits such as *American*, *United*, *Air Canada* and *British Airways* now falling below investment grade. However, new equity capital has been raised by a privately owned low-cost airline since 11 September.

7. Government measures

It is a general opinion amongst airlines and their representative bodies that the attacks were targeted at government policies rather than at the air transport industry. Therefore, governments must respond appropriately as long as market conditions cannot be restored to normality. Although some carriers require specific government support, others believe that government response should aim to offer solutions to meet the common problems encountered by all different air operators.

The Association of Asia Pacific Airlines (AAPA) has called on the region's national governments to aid the industry in its attempt to recover from the current crises by providing relief from landing fees, terminal charges and taxes. It has also asked governments to help by promoting tourism and facilitating international air travel.

Low-cost airlines such as *Ryanair* believe that the European Commission and European governments should firmly resist any calls for state aid. If either really want to assist the airline industry in the aftermath of 11 September, the focus should be on measures that reduce airline costs (such as the air passenger duty in the United Kingdom, or airport and landing charges at many government-owned airports). Such measures will result in an immediate reduction in costs and air fares, which will in turn stimulate air travel, and help to limit the impact of any economic downturn on the economies of Europe.

Charter operators have also asked to be included in any government compensation to scheduled airlines. The charter airline trade association, the International Air Carrier Association (IACA), has stated that while it is not advocating state subsidy, it believes that governments should provide financial assistance to compensate for additional costs incurred by the industry as a consequence of 11 September. Some governments of tourist destinations are offering support to charter airlines serving their countries.

United States/Canada

The US Congress adopted an emergency package of measures on 21 September:

- Direct and immediate aid of \$5 billion to compensate airlines for losses directly stemming from the closure of airspace and traffic reduction. This will be a cash contribution, distributed to all airlines according to their available seat-miles operated prior to 11 September. So far, 50 per cent of this has been paid.
- A further \$10 billion will be available in the form of government loan guarantees for airlines. Loan requests will be evaluated by an Air Transportation Stabilization Board according to criteria “fixed by the President”. It is thought unlikely that airlines will have to provide collateral in terms of title to aircraft, most of which are in any case already pledged to secure existing loans. Only one airline, *America West*, has so far applied for this support, and is awaiting approval for a \$400 million loan.

The aid is subject to a freeze on salaries above a certain level until 11 September 2003, and obligations to maintain essential air services. An additional \$3 billion was allocated for safety and security measures from the victims' compensation fund.

Government support also included provisions for:

- limits on airline liability for the attacks to the maximum of their insurance cover;
- government-guaranteed war risk cover for 180 days and reimbursement for premium increases;
- airlines receiving loan guarantees have to give the Government purchase options in their companies, the intention being that the Government will have the opportunity to benefit from a restoration in the industry's fortunes; and
- a two-year pay freeze for executives of airlines obtaining loan guarantees, if they are already paid more than \$300,000 per year.

The Government has made it clear that there would be no more congressional handouts to the airlines.

In Canada, the Government intends to introduce a tax on air tickers to cover expenditure on increased air transport security measures. The tax, set at C\$12 per one-way domestic trip, C\$12 for a return United States trip, and C\$24 for any other international return trip, will be in force for at least five years, over which time it is expected to generate C\$2.2 billion.

Europe

The European Commission approved government support for compensating airlines for the extra cost of insurance incurred since 11 September. This was initially limited to one month, while they looked for a more permanent solution.

The Commission did not, however, relax the rules on coordination of schedules and fares, but said it would give favourable consideration to such moves where they were essential to maintain services. It also proposed drawing up a "Code of conduct" with the US authorities to prevent unfair competition.

The European Union (EU) aid package also offered the following:

- looking at airline mergers more favourably, and thus allowing further consolidation to take place more easily;
- government to help fund the increased security measures at airports; and
- airlines will be entitled to compensation for the days that they were grounded following the 11 September attack.

EU governments have extended their aid in underwriting aviation insurance in relation to war risk cover for three more months. The European Commission has approved aid granted in this way by the Governments of Belgium, Sweden, the United Kingdom, Luxembourg and Portugal. There are ongoing discussions between insurers, airlines and governments on establishing an insurance pool in which governments would act as an insurer of last resort. This would mean that governments take on claims if they rise above a certain limit. The European Commission has also relaxed the slot rules – "use it or lose it"

principle – for the 2002 summer season.²⁹ Therefore, EU carriers will receive the same slot allocation in the summer of 2002 as they had in the summer of 2001. The relaxation of slot rules for winter 2001-02 would also appear very likely. The Commission has also emphasized that the 11 September crisis must not undermine Commission policy or be used by governments as a pretext for “exceptional measures” to grant their flag carriers financial support.

The Belgian Government was given approval by the European Commission to lend €125 million to the ailing carrier *Sabena* for restructuring. This decision is likely to be followed by requests from the Irish, Italian, French and German Governments.

Alitalia has asked the Italian Government for 600 to 700 billion lire to cover payments for staff redundancies through the cancellation of the 10 per cent ticket tax.³⁰ This is in addition to the airline’s receipt of the third and final 750 billion lire tranche of aid that was approved by the European Commission in October 2001, on a “one-time, last-time” basis and subject to various conditions.

Carriers are counting on compensation payments to stay in the black this year. *Air France* is to receive \$70 million, although the airline claims it lost approximately \$130 million in ticket sales since 11 September. However, *Lufthansa* failed to secure compensation from the German Government for the losses (around \$150 million) incurred in the four days following 11 September.

Asia

Both *Japan Airlines* and *All Nippon Airways* have asked for financial assistance from their Government, in addition to underwriting increased insurance costs for six months. They specifically asked for government help with increased security costs.

In the Republic of Korea, the Government has asked for parliamentary approval for it to provide “soft” loans of up to 250 billion won (\$192 million) to *Korean Air* and *Asiana*, as well as tax relief on aircraft purchases and jet fuel imports. The total package is thought to come to over 900 billion won.³¹ However, such options are not open to *Singapore Airlines* and *Cathay Pacific Airways*.

In general, governments seem to be more sympathetic towards airlines, in particular with regard to consolidation. *Scandinavian Airlines (SAS)* has received approval from the EU and Norway’s competition authority to acquire 100 per cent of Norwegian carrier *Braathens*. The *Japan Airlines* merger with *JAS* has also been accelerated in Japan.

8. Industry strategy and restructuring

Airlines took the various short-term measures that have been described above, but few changed their longer term strategies. These depend on the type of airline, but the major flag carriers are continuing their strategies of operating as network carriers, assisted by

²⁹ This principle requires airlines to operate services for at least 80 per cent of the time over a season or lose the slot.

³⁰ *Flight International*, 1 Oct. 2001.

³¹ *Air Transport Intelligence*, 17 Oct. 2001.

alliance groupings. Some differences were evident in Europe, for example, in the responses of *British Airways* and *KLM*, which both discounted air fares, as compared with *Air France*, which generally maintained fares, frequencies and services, and took a hit on its load factor.

The first two carriers eliminated some unprofitable routes, and reduced frequencies on others. *British Airways*, for example, discontinued its Belfast/Heathrow service, the crisis subsequent to 11 September providing it with a good reason for a politically difficult decision. The crisis also provided the catalyst for other measures described above (e.g. the grounding of older aircraft and reducing labour costs).

In addition to grounding aircraft, airlines also cut all non-essential capital expenditure. Investment in aircraft already contracted for had in most cases to be paid for, but investing in other airlines was no longer considered as a strategic objective in the short term. Some airlines did consider investing in airlines that became available as a result of bankruptcies. For example, *Virgin Express* evaluated investing in a new “*Sabena*”, and *Virgin Blue* in a new “*Ansett*”. In each case they declined. Few of *Sabena*’s assets have so far been acquired from the liquidator, but *Qantas* has acquired some *Ansett* assets to fill the gap left by the demise of the Australian airline. *Qantas* has, at the same time, significantly increased its share of the Australian domestic market.

British Airways might have had some interest in investing in a new “*Sabena*”. After all, it had been involved in a major project, with *KLM* and *Sabena*, to set up a major hub at Brussels in the early 1990s. However, it did not feel that this was the time to make high-risk investments, especially given the difficulties it might have faced in operating as a Belgian designated airline on routes between Belgium and non-EU countries (especially to the United States, still keen to get a more competitive United Kingdom bilateral open skies agreement).

Thus strategic moves towards consolidation through investment in other airlines were not an option for the network carriers, for the following reasons:

- the bilateral structure of aviation agreements, which requires airlines designated by a given country to be controlled and owned by nationals of that country; and
- the difficulty of justifying non-essential investments, in particular more risky minority stakes, became evident after 11 September. Otherwise, a foreign airline might have acquired *Swissair* and/or *Sabena*. Suggestions by the European Commission to ease progress towards industry consolidation would need to be far-reaching and global in nature, at least in opening up the transatlantic aviation area.

Consolidation within a country is, however, possible, and has effectively happened in Australia. In Japan, *Japan Airlines* has acquired control of *JAS*, the third largest domestic carrier, resulting in a near duopoly on Japanese domestic routes. In Germany, the *British Airways* subsidiary *Deutsche BA* is up for sale. This move is likely to further consolidate *Lufthansa*’s dominant position in this market. The same has happened in France, where *Air Liberté* and *AOM* (now *Air Lib*) are in bankruptcy protection following the withdrawal of first *BA* and then the *SAir* group. But such moves are not new and would have happened in any case, given continuing losses of *Deutsche BA* and the French carriers.

The European charter carriers, too, have not initiated any strategic moves following 11 September. Consolidation in this sector started in the 1990s, through vertical integration both within European countries and across borders. Many of these airlines have also moved into longer haul markets, both in the United States and in the Middle East and Asia.

Similarly, regional airlines have become absorbed either as subsidiaries or as franchises by the airlines which they served as “feeders”. If 11 September changed anything, it allowed them to take advantage of opportunities for route expansion as a result of the withdrawal by the major carriers.

Finally, the low-cost airlines were little affected by 11 September, especially in Europe. In North America, a Canadian airline collapsed, but it was already in some trouble before. *Southwest Airlines* was less affected than the US majors, but still saw load factors and yields fall. On the other hand, in Europe, *Ryanair*, *easyJet* and *Go* all continued with their rapid expansion plans, and some even tried to acquire slots made available by cutbacks by the network carriers. They gained from some trading down by business passengers, and offered more attractive fares to stimulate the leisure market. Again, there was no change in strategy, but 11 September allowed them to move more rapidly in their introduction of new routes and new continental European hubs.

The recent success of the low-cost scheduled airlines might also encourage new entrants in Europe, but this, in turn, may lead to some consolidation in the medium term.

9. Summary and conclusions

Before 11 September, the industry was already some months into a significant downturn. This was most evident in worldwide air cargo traffic, but the passenger markets in North America and regional operators in Europe were also affected.

Similarly, a number of airlines in the United States, Canada, Europe and Australia were in serious difficulties as a result of the fierce competition for a stagnant or declining market. Airlines in Asia, Africa and Latin America were more sheltered from this competition, and would also be less likely to collapse, given their government ownership and support.

The 11 September events caused a much sharper decline in traffic than would have otherwise been the case from a recession, which some experts predict would be moderate and possibly avoidable. Most airlines were also entering their low winter season, when demand is traditionally weak and difficult to stimulate by offering deep discounts. Thus, by the end of November 2001, traffic in the major originating regions of the world was still well below the same month of 2000, albeit less depressed than for September and October.

Forecasts for total world air traffic predict a decline of 3 to 6 per cent for 2001, followed by a fall of between 0.5 and 5 per cent for 2002. The recovery is predicted for 2003, with estimates of growth of between 9 and 17 per cent.

Many of the major airlines reacted by cutting capacity by between 10 and 20 per cent, and similar staff reductions. Aircraft were retired early or grounded. Cost reductions or concessions were sought from suppliers such as aircraft and equipment manufacturers, banks and leasing companies, and third party maintenance and handling companies. Airport charges vary with traffic levels and have thus been reduced automatically with the decline in flights and passenger numbers. Airlines should have benefited to some extent from lower fuel prices, although some might have been locked in higher prices through hedging contracts.

Because many airline costs are fixed in the short term, sharp reductions in revenues inevitably mean large losses for the airlines most badly affected. Industry operating losses of \$11 billion have been forecast for 2001, 2002 and 2003, with net losses after financial charges of \$27 billion for the same three-year period. While cash flow is expected to be

positive overall, the financing of deliveries of over 3,000 aircraft over this period will result in large external financing at higher margins compared to pre-11 September.³²

The attacks did little to change fundamental airline strategies, but it did speed up some of the structural changes that were already under way. Low-cost airlines in Europe could maintain their rapid expansion, whereas they would otherwise have faced a slower increase in their share of the market, and more constraints. Some airlines went into bankruptcy, which at least gave them a chance to re-emerge as viable entities, rather than continue their inevitable decline.

The US carriers, most directly hurt by 11 September and its aftermath, received the most in government support. European governments, on the other hand, resisted strong pressure for compensation and help from reduced taxes. In the rest of the world, the Governments of Japan, the Republic of Korea and New Zealand provided aid in the form of soft loans and equity.

A major result of 11 September has been a much stronger emphasis on safety and security worldwide, with increased investment and training in all related areas. This is already occurring. What is not clear, however, is whether changes will be speeded up towards further liberalization of air transport to enable it to restructure and consolidate like any other industry. The European Commission still does not have the mandate to negotiate with the United States on opening up the transatlantic area, and no open skies agreement has yet been announced between that country and the United Kingdom.

³² *Aviation Strategy*, Issue No. 50, Dec. 2001.

Sectoral working papers

	<i>Year</i>	<i>Reference</i>
New Technology in Banking and Insurance: Relative Provisions and Collective Agreements (Edith Epstein)	1985	SAP 4.1/WP.1
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Social and Economic Effects of El Cerrejon Coal Project in Colombia (James Jonish)	1987	SAP 2.5/WP.8
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¹ Out of print.

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