Aviation Strategy

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Brussels: business as usual?

The resignation en masse of the European Commission has been taken phlegmatically at DG4 and DG7. Neil Kinnock and Karel van Miert, officially ex-commissioners despite not being blamed by the European parliament's report, are observed to be going about their daily business.

Nevertheless, this dramatic development has come at a difficult time for European aviation policy (but when isn't it?). The DGs now lack proper leadership, maybe for the rest of the year, and at the end of 1999 van Miert is likely to disappear completely from the EC while Kinnock hopes to be reinstated in something grander than Transport. Two major issues are dangling.

The first issue is that no final decisions have been made on any of the transatlantic alliances. And, the UK High Court has just arrived at a decision which would appear to contradict the EC's alliance competition policy: in a judgement in a case concerning an exchange of slots plus a compensatory payment between British Airways and KLM uk, the court in effect ruled that the sale and purchase of slots was a perfectly legal activity. The BA/AA alliance, of course, foundered on the EC's insistence that British Airways could not sell the 267 slots it had been asked to dispose of.

BA and AA cannot immediately resume their full alliance negotiations as bilateral talks between the two countries are bogged down. The US continues to reiterate the principles associated with its model open skies agreement and complain about slot constraints at both Heathrow and Gatwick. The UK continues to push discussion of Fly America, cabotage, and foreign ownership - items which are, according to the US, beyond discussion because they will require legislative mandate.

The question now becomes: will the new EC use the European Court to overrule the British decision, or will it accept the commercial reality of the situation and consider the possibility that slot trading might lead to more efficient allocation of scarce resources at congested airports?

The second issue concerns the deterioration of EU/US relations following the proposed European regulation that will ban the importation of hushkitted Chapter 2 aircraft into the EU, even though they comply with Chapter 3 noise standards. This removes a major market for hushed and cargo-converted 727s from the US. It appears that the Council of Ministers has no choice but to pass the regulation for the technical reason that the European parliament made no amendments to the EC's proposal.

The US house of representatives is retaliating by writing a bill that would remove Concorde's waiver to operate at noise levels higher than US maximum standards - in effect banning the aircraft from US operations. Needless to say, this would be a serious blow for British Airways and Air France.

The hushkitting argument threatens to develop into another banana war between the US and the EU - one that a fully active EC would be expected to defuse.

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Aviation Economics
James House, LG,
22/24 Corsham Street
London N1 6DR
Tel: +44 (0) 171 490 5215
Fax: +44 (0) 171 490 5218
e-mail: info@aviationeconomics.com

Startling capacity statistics

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Editors:
Keith McMullan
Nick Moreno

Subscription enquiries:
Nick Moreno
Tel: +44 (0) 171 490 5215

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Aviation Economics
Registered No: 2967706 (England)

Registered Office:
James House, LG
22/24 Corsham St
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VAT No: 701780947

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Overcapacity is rearing its ugly head again. In the February issue of *Aviation Strategy* (pages 3-5), we started to puzzle over where all the scheduled deliveries in 1999 could be going. Now an original analysis by James Halstead, the highly-rated airline analyst at Credit Indosuez Cheuvreux, reveals some disturbingly high capacity growth rates, well above the most optimistic demand predictions.

The analysis is based on manipulation of the major airlines' published schedules from the Official Airline Guide, crunched by Back Data (however, the interpretation of the results in this article is essentially that of *Aviation Strategy*).

This is the first time that it has been possible to look in detail at capacity a year ahead, as opposed to just a couple of months. Care was taken to exclude double counting caused by codeshare and block booking agreements.

Of course, there is absolutely no guarantee that the services being advertised for the summer season and beyond will actually materialise. In fact, it is likely that the airlines will have to moderate their plans. Otherwise, the uneasy state of price discipline that now prevails will disintegrate.

In summary, its appears that overall capacity growth in 1999 will be around 9% - but with wide variation between the various route regions, as detailed in the following pages.

North Atlantic

This is the critical region for the profitability of the Euro-majors. ASKs are forecast to increase by 11.4%. This is not too far out of line with last year's traffic growth rates - 8% for AEA carriers and around 12% for the US Majors - but nobody should expect 1998 increases to be repeated this year as economies on both sides of the Atlantic weaken.

There is a huge contrast in the strategies of the Euro-majors. British Airways has emphasised its restrained strategy (capacity growth of 4.5%) based on downsizing from 747s to 777s, although its US

TOTAL FORECAST LONG-HAUL CAPACITY GROWTH IN 1999

	RANKED BY MARKET SHARE			RANKED BY CAPACITY GROWTH	
	Forecast change in ASKs 1999/98	Approx. market share 1999		Forecast change in ASKs 1999/98	Approx. market share 1999
British Airways	2.7	8.5%	**American**	42.5	4.2%
United	4.5	7.1%	**Continental**	37.3	2.7%
JAL	6.7	5.9%	**Iberia**	27.7	2.1%
Lufthansa	18.8	5.9%	**ANA**	21.1	2.2%
Air France	11.2	5.0%	**Alitalia**	19.5	2.0%
Northwest	-2.6	4.6%	**Lufthansa**	18.8	5.9%
Delta	18.8	4.3%	**Delta**	18.8	4.3%
American	42.5	4.2%	**Thai Int.**	17.1	1.6%
KLM	0.0	3.7%	**Swissair**	15.9	2.0%
SIA	8.0	3.0%	**Aeroflot**	12.6	1.2%
Continental	37.3	2.7%	**Air France**	11.2	5.0%
Virgin	7.2	2.3%	**Qantas**	9.8	2.0%
Korean	6.2	2.2%	**Cathay Pacific**	8.2	2.1%
ANA	21.1	2.2%	**SIA**	8.0	3.0%
Cathay Pacific	8.2	2.1%	**Virgin**	7.2	2.3%
Iberia	27.7	2.1%	**JAL**	6.7	5.9%
Qantas	9.8	2.0%	**Korean**	6.2	2.2%
Swissair	15.9	2.0%	**United**	4.5	7.1%
Alitalia	19.5	2.0%	**British Airways**	2.7	8.5%
Thai Int.	17.1	1.6%	**China Airlines**	1.4	1.2%
Air Canada	-4.4	1.5%	**KLM**	0.0	3.7%
Canadian	-1.1	1.4%	**Canadian**	-1.1	1.4%
China Airlines	1.4	1.2%	**Northwest**	-2.6	4.6%
Aeroflot	12.6	1.2%	**Air Canada**	-4.4	1.5%
TOTAL	**8.9**			**8.9**	

partner American is still growing at well into double digits and now equal third in terms of size on the Atlantic. British Airways is obviously frustrated by the failure to consummate its full alliance with American, but as a result it still enjoys the regulatory protection of Bermuda 2; it can afford to cut capacity growth with minimum risk to market share.

Lufthansa by contrast, now operating in an open skies environment, is going for a higher risk expansion policy (capacity growth of 20%), adding destinations and frequencies as well as converting 747-400 Combis to full passenger configuration. Its strategy is officially described as "catching-up" after years of expanding at about half the rate of British Airways. Its partner United is growing at a similar rate.

Air France in conjunction with its code-sharing partners Delta and Continental is also being fairly aggressive on the Atlantic, increasing capacity by about 15%. It claims that this summer it will be able to offer daily service to 89 points in the US as opposed to 36 at present.

It is a recurrent pattern that the former state-aided Euro-majors, now freed from the shackles of their EC-ordered turnaround strategies and injected with private capital, are going for fast growth on the Atlantic, Alitalia is adding 34% to its capacity, Sabena 28% and Iberia 41%.

Europe-Asia

By contrast, most airline are being very cautious on Asia-Pacific routes, with British Airways, Swissair and Virgin actually cutting capacity, so that overall capacity growth is estimated at about 3%. Traffic growth on this route region was about 4% last year for the AEA carriers.

Again though Lufthansa is being expansionist, pushing up capacity by nearly 14% (and bringing its share of this market up to equal that of BA), while its regional partner SIA is adding 13%. Thai apparently is increasing capacity by 21%, a move which we simply don't understand.

Pacific

In the Pacific market a shift in the balance of power is taking place. The two US giants in this region, United and Northwest, are retrenching, Northwest in particular is reacting to the decline in traffic (estimated at -7%

FORECAST 1999 CAPACITY CHANGES ON LONG-HAUL ROUTES

NORTH ATLANTIC			EUROPE-ASIA			PACIFIC			MID/SOUTH ATLANTIC		
	Forecast change in ASKs 1999/98	Approx. market share 1999		Forecast change in ASKs 1999/98	Approx. market share 1999		Forecast change in ASKs 1999/98	Approx. market share 1999		Forecast change in ASKs 1999/98	Approx. market share 1999
British Airways	4.5	15%	**British Airways**	-5.7	9%	**United**	-2.0	16%	**Air France**	13.6	14%
Delta	12.2	9%	**Lufthansa**	13.9	9%	**JAL**	8.9	15%	**Iberia**	31.8	13%
American	13.6	7%	**JAL**	2.2	7%	**Northwest**	-10.6	11%	**Varig**	7.8	9%
Lufthansa	20.0	7%	**SIA**	13.2	7%	**Korean**	8.0	6%	**British Airways**	18.2	9%
United	18.8	7%	**Air France**	4.8	6%	**ANA**	31.2	5%	**KLM**	-3.4	7%
Virgin	5.5	5%	**KLM**	2.8	5%	**American**	183.9	5%	**Lufthansa**	30.1	7%
Continental	21.1	5%	**Thai Int.**	20.6	5%	**Qantas**	8.9	4%	**Alitalia**	5.2	4%
Air France	14.9	5%	**Cathay Pacific**	4.4	4%	**China Airlines**	2.5	4%	**Aerolineas**	23.0	4%
KLM	-0.7	4%	**MAS**	9.2	4%	**Canadian**	-5.6	4%	**Condor**	-10.1	3%
Northwest	17.4	4%	**Qantas**	11.0	4%	**EVA**	1.0	4%	**AOM**	-13.6	3%
Air Canada	-4.0	3%	**ANA**	8.6	3%	**Cathay Pacific**	12.7	4%	**LTU**	-1.7	3%
Swissair	18.8	2%	**Aeroflot**	7.7	3%	**SIA**	-3.7	3%	**Cubana**	4.9	3%
Alitalia	33.6	2%	**Swissair**	7.5	3%	**Air NZ**	14.3	3%	**Vasp**	-4.7	2%
US Airways	17.8	2%	**Alitalia**	12.0	2%	**Delta**	55.3	3%	**TAP**	21.6	2%
TWA	-12.8	2%	**Korean**	0.7	2%	**Continental**	122.3	3%	**Aeromexico**	13.3	2%
Sabena	27.6	2%	**Domodedovo**	-0.1	2%	**Asiana**	-11.3	1%	**Air Liberte**	26.8	2%
SAS	14.9	1%	**Air China**	6.3	2%	**PAL**	28.6	1%	**Avianca**	5.3	1%
Aer Lingus	18.3	1%	**SAS**	-15.1	1%	**Air Canada**	-4.8	1%	**Air Europa**	-6.5	1%
Iberia	40.9	1%	**Air India**	18.6	1%	**China Eastern**	-16.9	1%	**Swissair**	39.6	1%
Canadian	9.4	1%	**Virgin**	-9.4	1%	**Thai Int.**	-1.1	1%	**Martinair**	-32.7	1%
TOTAL	**11.4**			**2.8**			**9.2**			**14.8**	

for the US Majors last year) by cutting capacity by nearly 11%.

By contrast, American, Continental and Delta are seizing the opportunities offered by the new US-Japan bilateral. American has more than doubled its shares of this market with a planned 184% capacity expansion this year; Continental and Delta are increasing capacity by 122% and 55% respectively.

Cathay Pacific is making a brave attempt to grow out of its problems with a significant increase in frequencies to the US west coast and New York. But SIA is cutting capacity by 4%, an almost inconceivable move just 18 months ago.

Because of the huge expansion of some of the US carriers on this route and the continuing growth of the Japanese airlines (also see *Aviation Strategy,* March 1999) total capacity increase is theoretically going to be more than 9% this year. There is no evidence that conditions on the Pacific have changed sufficiently to support anything like this level of capacity increase.

Mid/South Atlantic

Just as the US Majors have come to completely dominate North-South American routes, so European carriers are taking over South and Mid Atlantic routes. Last year the AEA airlines increased capacity by 14% on these routes although traffic growth was just under 12%.

All the Euro-majors have ambitious plans for this region, despite the warning of various economic crises. Especially notable is Iberia's planned growth of 32% now that it has linked up with British Airways and American and is freed from the constraints of the EC-approved recapitalisation.

Well-laid alliance plans

Finally, the analysis provides an opportunity to review the relative positions of the global alliance groupings (see table, below). Under the ASK measurement oneworld comes out slightly ahead of Star both globally and on each of the route regions. And oneworld is expanding marginally faster than Star.

In comparison Wings and Atlantic Excellence are significant smaller entities (indeed as the name indicates Atlantic Excellence is not really a global alliance at all). This is where unaligned Air France now assumes strategic importance: integrating it into either of the two smaller alliances would create a grouping that - on size at least - would be close to Star and oneworld.

Overall, what is emerging is a very delicate balance between planned capacity and demand. On the demand side there is the obvious worry that that the industry is moving into a downcycle, but the question also needs to be asked whether airlines have become a bit too complacent about the possible repercussions of the very nasty little wars that are now taking place in Europe.

Certainly, it is worth noting the title to Halstead's analysis: the quotation from Robbie Burns, "The best-laid schemes o'mice and men gang aft a-gley". Indeed, thay dae.

James Halstead
JamesH@cdv.se

FORECAST LONG-HAUL CAPACITY GROWTH BY ALLIANCES

	Forecast change in ASKs 1999/98	Approx. market share 1999
NORTH ATLANTIC		
oneworld	9.4	25%
Star	14.5	22%
Wings	15.1	16%
Atlantic Excellence	16.4	15%
EUROPE-ASIA		
oneworld	-1.2	27%
Star	10.9	25%
Wings	5.3	13%
PACIFIC		
oneworld	19.7	32%
Star	3.8	29%
Wings	0.8	15%
SOUTH/MID ATLANTIC		
oneworld	25.7	25%
Star	16.8	15%
Wings	-0.2	12%
TOTAL LONG-HAUL		
oneworld	12.8	28%
Star	11.0	23%
Wings	9.8	13%
Atlantic Excellence	17.9	7%
Air France	*11.2*	*5%*

New Air: the mega new entrant

In its February 1999 application to start service from officially congested New York JFK airport, New Air Corporation described itself as a "mega new entrant". Can this oxymoron be justified?

New Air (the name is a bit like NewCo, and will end up as something else) plans to offer scheduled service between New York JFK and major and secondary cities, mostly along the east coast. It will offer non-stop, high quality, low fare service from a high-density rule (HDR) airport, the first time this has been attempted by a new entrant. (Slots should be available to new entrants under the 1994 FAA Authorization Act, which modified the restrictions on operations at the four HDR airports between 15.00 and 20.00.) New Air's fleet will comprise new generation 737-700s or possibly A320s.

The New Air proposal highlights an apparent anomaly in the US market. Some 20 years after deregulation, the New York metropolitan area (with a population of more than 18m people and three major airports) does not have access to a true low cost carrier. New Air points out that between 1980 and 1997, fares (inflation-adjusted) in US short markets with low-fare competition fell by 41%, but in New York markets fares have risen slightly.

New York air traffic has also diverged from the national trend: domestic O&D passengers to/from New York remained completely static during 1986-97 while the total number of US domestic passengers increased by 56%.

Memories of People Express

Back in the mid-1980s New York was served by the pioneer of low-fare travel in the deregulated market - People Express, which at its peak was one of the largest domestic airlines in the US.

Unfortunately, People Express expanded too rapidly, could not combat the incumbents' new yield management techniques, made some foolish purchases and finally disappeared into the Continental conglomerate.

Amazingly, traffic volumes on the routes that used to be served by People Express (from Newark airport) have never recovered from the carrier's demise. Indeed, as the table below shows, 1997 daily passengers had declined by more than 30% on average compared with 1985 or 1986, when People Express was at its peak. Even on the city-pairs where traffic has increased - such as Orlando and Atlanta - New Air argues that demographic trends have far outstripped the actual growth in air travel.

Moreover, some of the yields look extremely high - 68 cents per RPM on New York-Boston and 59 cents per RPM on New York-Washington, for example. For comparison, US domestic yields average about 14 cents; US Airways, the highest cost Major, reported average yields of 18.5 cents per RPM last year.

By looking at the yields, the historical traffic pattern and the state of the competition, New Air has come up with its own estimates

NEW AIR'S PROPOSED MAIN MARKETS FROM JFK

	People Express traffic (daily pax. 1985 or 1986)	1997 traffic	Change	1997 yield (Cents/ RPM)	Estimated stimulation factor after New Air entry
Boston	5,300	3,400	-36%	68	1.4
Chicago	4,100	3,300	-20%	30	1.6
Orlando	2,000	3,080	54%	13	1.2
Washington DC	4,400	3,050	-31%	59	1.4
Atlanta	1,860	2,770	49%	23	1.7
Ft. Lauderdale	2,720	2,350	-14%	13	1.3
Dallas	1,780	1,610	-10%	19	1.5
Tampa	1,550	1,400	-10%	15	1.3
Denver	1,650	1,130	-32%	13	1.2
Houston	1,630	1,000	-39%	20	1.7
Columbus	1,300	570	-56%	40	2.3

PROXIMITY OF 10 LARGEST US METROPOLITAN AREAS TO AIRPORTS WITH LOW FARE AIRLINES

	Area	Population (millions)	Major low-fare operation within 50 miles
1.	**New York City**	18.0	None
2.	**Los Angeles**	15.6	Los Angeles, Burbank, Ontario
3.	**Chicago**	8.0	Midway
4.	**Washington DC**	7.2	Baltimore
5.	**San Francisco**	6.7	Oakland
6.	**Philadelphia**	5.9	Trenton-Mercer
7.	**Boston**	5.8	Providence, Manchester
8.	**Detroit**	5.4	Detroit
9.	**Dallas Fort Worth**	4.7	Love Field
10.	**Houston**	4.3	Houston

Source: *New Air Corp's application to US DoT for services from New York JFK, February 1999.*

of how much the various markets would be stimulated following its entry.

On the main routes the stimulation factor is forecast to range from 1.2 to 2.3 - i.e. the traffic would grow by between 20% and 130% as a direct result of New Air's low fares. In total New Air proposes to enter 44 routes over the next three years - some of which currently have no direct air service.

Chances for success

So how realistic is New Air's assessment? The People Express evidence suggests that there should be demand for a new New York-based Southwest-type service. But JFK is an unpopular airport, with difficult ground access and a reputation for long delays.

There is also the likelihood of competitive response from the major domestic operators there - American and Delta. It might make sense for TWA to sell its (unprofitable) slots and gates to New Air and retrench at St. Louis, but so far the airline shows no sign of being interesting in this type of deal.

Then, Southwest itself is starting up operations at Islip, about 40 miles to the north of JFK. But New Air claims that that Southwest is going for a different catchment zone - Long Island as opposed to New York City.

Impressive backing for New Air

What is really impressive about the New Air project is its funding and its management. According to its filing with the DoT, New Air has start-up capital of $128m. While earlier reports suggested that the airline was looking for up to $200m in funds, this amount is still ten times the typical capitalisation of a start-up.

The backers include George Soros, who has previously dabbled in airline through investing in Hainan Airlines in China - and for whom the sums involved are presumably peanuts - and Chase Manhattan Bank.

The chief executive of New Air is David Neeleman, who has a very interesting track record. He was president of Morris Air, a successful west coast start-up, which was bought out by Southwest in the early 1990s - partly for its innovative low-cost reservations system.

Neeleman was also involved with WestJet, which is causing a major disruption to the Canadian domestic market, and has been advising Go, British Airways' subsidiary, on reservation systems.

Significantly, former Southwest executives have been recruited for this venture. And there is also an interesting link to Virgin. Richard Branson has been in discussions with the founders of New Air (which could become Virgin America) but nothing is likely to materialise until there is a relaxation in the US's ownership laws.

Good ideas do not always evolve into good operations in the airline business. But New Air should be closely observed by aviation analysts and strategists. As the industry moves into a down cycle - albeit a shallow one - the emergence of New Air in the high yield/high cost US east coast market potentially poses a real and severe threat to high cost carriers such as US Airways.

Consolidation pace increases for Europe's charter airlines

The announcement of a planned $2.4bn merger of Swiss-based Kuoni and UK tour operator First Choice is just the latest round of consolidation in the European holiday industry - and one that has important implications for Europe's charter airlines.

The Kuoni/First Choice merger was the culmination of months of speculation about the future of the UK tour operator, with rumours of interest from virtually every major European operator. But it was Kuoni that beat off the supposed competition from others, to secure a major position in the UK package holiday market - one of the two key European markets, along with Germany. If the deal goes through as planned by June (and there are rumours of a last-ditch Airtours bid), the new Kuoni Holdings, listed in Zurich and London, will be owned 53% by Kuoni shareholders and 47% by First Choice.

Charter fleet mergers

The deal further confirms what most charter airlines have known for a long time - that industry consolidation is inevitable (see *Aviation Strategy,* August 1998). And with tour operator consolidation comes charter fleet consolidation.

A prime example of this merger mania is provided by Thomas Cook's purchase of the UK operations of US-based Carlson, for which Carlson is taking 22% of Thomas Cook in lieu of cash. Carlson's UK operations include the 412-strong travel agency chain Carlson WorldChoice (previously AT Mays) and Caledonian Airways, which has valuable peak season slots at London Gatwick.

Thomas Cook says that Flying Colours (its existing airline, which incorporates the Airworld charter carrier) and Caledonian will be operated separately in 1999. However, a merger of the two airlines is the logical next step for Thomas Cook, and amalgamation is likely once this summer season has passed. Most analysts tip the Flying Colours name to be the survivor, but the combined carrier could well be called Caledonian as its brand recognition may be stronger among UK holidaymakers than Flying Colours is. The final decision is likely to depend on marketing surveys.

There may also be charter fleet implications from Thomas Cook's other announcement - that German industrial group Preussag, which also owns tour operator TUI and the Hapag-Lloyd airline, will be taking a 25% stake in Cook for £400m ($640m), rising to 50.1% in late-1999. While Hapag-Lloyd and Flying colours/Caledonian are unlikely to merge in the short- to medium-term, there are obvious fleet synergies to be gained by utilising spare capacity in German or UK markets, joint purchasing, joint maintenance etc.

But it is *within* individual markets - particularly the UK and Germany - that effects of industry consolidation on charter airlines are most apparent. In the UK the Big Four - Thomson, Airtours, first Choice and Thomas Cook - went on a acquisition spree in 1998, sweeping up a dozen independent UK operators. This will result in their share of the UK outgoing package holiday market increasing from 60% in 1998 to an estimated 75% (at least) this year. (And the overall UK package holiday market rose by 12% in 1998 compared with 1997, with a similar increase forecast in 1999.)

This now means that approximately three-quarters of UK charter capacity this summer will be supplied by the respective airlines of the four UK travel giants - Britannia Airways, Airtours International, Air 2000 and Flying Colours/Caledonian. Monarch Airlines, controlled by UK operator Cosmos, accounts for another 15% of charter seats, which leaves just an estimated 10% of UK charter capacity to be supplied by independent carriers.

One source has estimated the number of non-aligned charter aircraft operating out of the UK this summer to be no larger than six aircraft. Much will depend on whether Thomas Cook allows Caledonian to continue to sell spare capacity to the independent UK tour operators. If Caledonian adopts the strategy of charter carriers owned by large rival operators

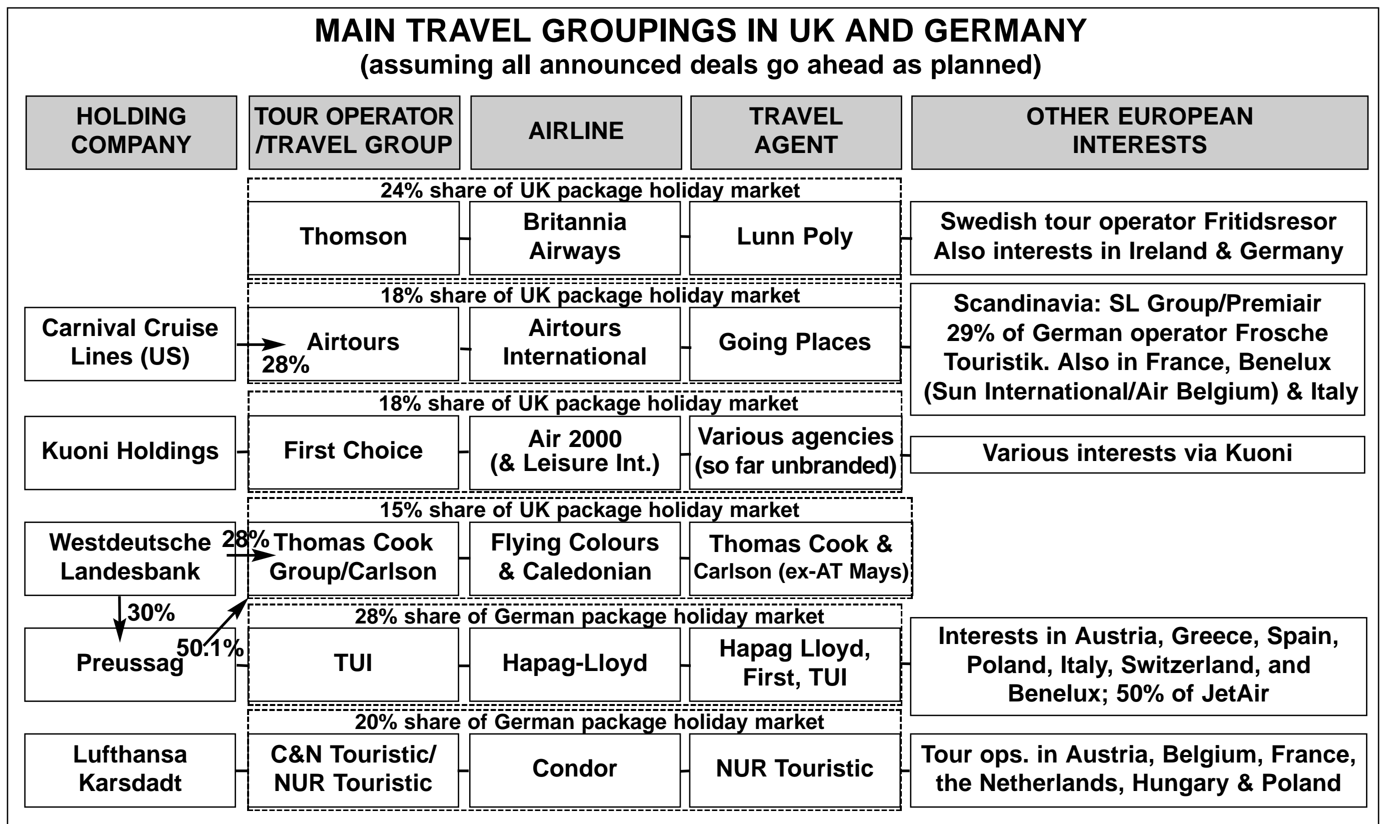
(e.g. Airtours and Britannia) - which do not make capacity available to rival operators - then the independent tour operators will have great problems finding enough airlift this year, and they will have to charter their own aircraft. This is good news for airlines that provide ad-hoc spare capacity as part (but not all) of their core strategy, such as British World Airlines (where inclusive tour charters account for approximately 14% of annual revenue).

The independents' last gasp

For independent charter airlines, the trend to consolidation may prove disastrous. Being non-aligned with a holiday giant means no certainty of contract. The large holiday groups are also squeezing margins on the marginal capacity the independents can offer, and competition between the independents is becoming even more cut-throat.

Since the last time (August 1998) *Aviation Strategy* published the diagram, below, of the UK and Germany's main travel groupings much has changed. As well as the deals mentioned earlier, in October 1998 First Choice plugged its travel agency gap by signing a series of deals for regional agencies (which have yet to be amalgamated as a single brand). Thomson also floated in 1998 for £2bn ($3.2bn), although the share price rapidly declined until a steady recovery at the end of 1998 and the beginning of 1999. Airtours has raised £250m via bonds to find European acquisitions, while German operator Frosche Touristik (29% owned by Airtours) is planning its own charter airline for this summer season, using three A320s.

However, the recent flurry of deals has left one major continental European player without a UK interest - C&N Touristic, Germany's so-called "Yellow alliance". There are now just two major UK groups without a continental equity-linked partner - Thomson and Airtours. Until major shareholder David Crossland decides otherwise, Airtours is not in play, leaving Thomson as the most likely candidate for a Yellow alliance bid (particularly given Thomson's erratic share price since flotation). If this deal ever came off, the current Big Six, soon to be the Big Five when Preussag takes control of Thomas Cook, would become the



Big Four. And that would mean even less opportunity for Europe's non-aligned charter airlines to survive.

And it's not just in the UK and Germany where independent charter airlines are feeling the pressure. In Switzerland, for example consolidation has cut the number of tour operators from more than 20 to less than five - and this has put a corresponding pressure on charter airlines to merge as well (particularly as Kuoni now has its own airline - Edelweiss). TEA Switzerland is the latest to withdraw from the charter market, preferring to adopt the identity of easyJet Switzerland from April 1st 1999.

Late in 1998 SAirGroup paid an undisclosed sum for 49.9% of LTU, the German charter airline and tour operator, as part of its attempts to diversify and create a new European travel giant. (SAirLines also bought a 34% stake in Volare, a new Italian charter airline, in September 1998). But whether SAirGroup, an a non-EU company, can itself revitalise LTU Touristik (the loss-making tour operator) enough to join Europe's Big Six travel concerns (and with the Preussag/Thomas Cook deal, this will soon be the Big Five) remains to be seen. What is much more feasible is a pan-European network of SAirGroup charter airlines (Balair/CTA out of Zurich, LTU - Germany's third-largest airline - out of Munich and Dusseldorf, Sobelair out of Brussels) that can serve the established European travel giants.

Apart from SAirGroup, the only other European scheduled Major to be entering the charter market appears to be Alitalia, which is expanding the operations of Eurofly, its charter subsidiary. Eurofly is now operating long-haul charter with two new 767s - a move that puts it in direct competition with Italy's largest charter carrier - Air Europe (now part-owned by Swissair.)

Going the other way is Iberia, which in October 1998 announced it was closing its charter airline, Viva Air, which had been making a loss for several years.

And the future?

It is important for strategists to look beyond the current holiday group/charter airline merger mania, and consider the long-term future of the industry.

Could there be fundamental trouble ahead for Europe's charter industry? In December 1998 easyJet's Stelios Haji-Ioannou forecast that charter airlines would no longer exist in the UK within 10 years. While many of Mr Haji-Ioannou's speeches may be thinly-disguised marketing for his airline, in this case the arguments he has put forward bear closer analysis. He says that the European leisure market is slowly starting to resemble the market in the US, where there are few charter carriers and instead schedule airlines operate flights for tour operators on an ad-hoc basis. He cites two reasons for this change:

- Sophistication. Haji-Ioannou claims that European holidaymakers are moving away from the mentality of "turning up at Gatwick at four in the morning, going to the same hotel and eating the same food for exactly a week". People want more and more choice, he says, and do not want to be told when and where they can go. And as more low-cost point-to-point airlines come into existence, it will become much easier for people to arrange their own holidays.
- The demise of the travel agent. Haji-Ioannou says that the strength of the tour operator has been the travel agent, but that travel agents will continue to exist "only if they can add value". He claims that this value is reducing all the time, particularly as Internet seat booking becomes more commonplace (see *Aviation Strategy,* March 1999, and pages 18-19 this issue).

These two factors will undoubtedly have an impact upon the European charter industry, but Haji-Ioannou is overstating his case when he says there will be no charter airlines in 10 years' time. The demise of the European charter industry has been forecast many times before, but it has always managed to survive and expand. By consolidating into four or five pan-European giants, the leisure industry has signalled the death of the independent charter airline, but the carriers aligned with the mega-groups are stronger now than they have ever been. Internet distribution and low-costs airlines will chip business away from the charters, but their parent tour operators have such a grip on key European holiday markets that the future of these charter airlines seems assured in the medium-term.

Canadian Airlines: a new beginning?

Intense price competition in a small domestic market has meant chronic losses, extensive restructuring and a constant battle for survival for Canadian Airlines over the past decade. But can the Calgary-based carrier now build on its extremely low cost structure, close relationship with American and great alliance network to restore profitability? Will American help its partner capitalise and renew an ageing fleet?

Canadian's financial troubles began in 1989, when its predecessor - Pacific Western Airlines - overstretched itself by acquiring Wardair, an international operator, when PWA was still consolidating its earlier merger with five carriers. During the recession both Canadian and Air Canada accumulated massive losses as they fought out desperate market share battles.

As heavy cutbacks did not help, the two carriers were soon in serious merger talks. But these never came to fruition and in April 1994 AMR came to the rescue with a C$246m investment in Canadian (US$192m in 1994 exchange rates). This secured a 33% equity stake, 25% of voting rights and two board seats. The remaining equity and voting rights continue to be held by Canadian Airlines Corporation (CAC), a publicly traded and broadly held holding company.

The alliance offered network synergies: Canadian's Asian routes complemented American's Latin American and European operations. Canadian had also wanted to secure its future in an open skies US-Canada regime, while American got a lucrative service contract thrown in.

Canadian had limped through 1993 and early 1994 with the help of capacity cuts, executive pay reductions, loan guarantees from federal and several provincial governments and some debt-to-equity conversions. But its finances continued to deteriorate as the Canadian economy showed no sign of recovery and price wars continued with Air Canada. The struggles were exacerbated by the entry of new low-fare carriers such as Nationair to key business markets like Toronto-Montreal.

By the summer of 1995, when Canadian's cash reserves had dwindled to less than C$20m (US$13m), plans were formulated to cut costs by another C$325m through job losses, closing a pilot base, cutting marginal domestic routes and labour concessions. The airline also returned some 737s, consolidated heavy maintenance at Vancouver and terminated service to Shanghai.

The earlier financial restructuring rescheduled C$700m (US$464m) of debt, but too much of it had been "front-loaded", which meant a sudden surge in payments in 1995/96. To raise cash, Canadian sold its Canadian Holidays tour wholesaling arm and started undertaking aircraft sale-leasebacks. By the end of 1996 it had raised C$177m (US$117m) from sale-leasebacks on 36 aircraft.

Between November 1995 and July 1996 Canadian secured new contracts with five of its six unions (excluding flight attendants) for a total of about C$125m in concessions. The deal with the pilots gave the union a board seat, no-furlough protection and profit-sharing when "significant" profitability is restored.

However, in contrast to the strong profit growth experienced by the US carriers in 1996, the situation in Canada continued to deteriorate. By the end of that year, Canadian had only C$68m (US$45m) cash, which would not last through the winter. It reported a C$187m (US$124m) net loss for 1996, which was only marginally lower than the previous year's C$195m loss.

In late 1996 Canadian's new CEO Kevin Benson and CFO Doug Carty (American CEO Don Carty's brother) unveiled a new four-year restructuring plan that addressed four areas: cost control, revenue growth, capitalisation and fleet renewal.

The most urgent part of the plan sought C$200m (US$132m) annual cost savings over

CANADIAN AIRLINES' FLEET PLANS

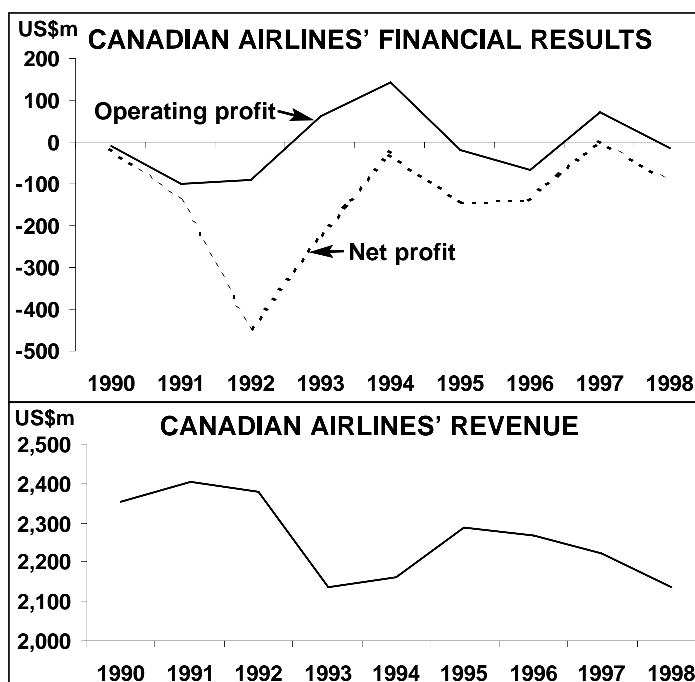
	Current fleet	Orders (options)	Delivery/retirement schedule/notes
737-200	38	0	
737-200C	6	0	
747-400	4	0	
767-300EREM	10	4	Four to be leased in 1999
DC10-30	10	0	Four to be replaced by leased 767s
A320	12	11	One to be leased in 1999; 5 new aircraft in 2000; 5 in 2001
TOTAL	**80**	**10**	

four years, the bulk of which were secured. Canadian's workers agreed to an additional 10% pay cut for four years over and above the concessions they had made. The workers, whose pay was already among the lowest of major North American carriers, obliged apparently because the management used Carty/Crandall-style threats to shut down the airline if they refused. AMR contributed about C$70m (US$47m) over four years by reducing its annual service fee, while the federal and two provincial governments granted fuel excise tax rebates or reductions totalling C$38m (US$25m).

In early 1997 Canadian also obtained payment deferrals from enough lenders and lessors to survive through the leanest winter period. By the summer it had deferred C$170m (US$113m) in debt and lease payments due in first-half 1997 and secured a multi-year repayment schedule.

A major network realignment exercise using American's advanced route planning models improved annual earnings by an estimated C$40m. This was achieved by matching aircraft size more closely to demand, while maintaining frequency in key business markets. F28s were redeployed in non-peak flying in shuttle markets, which freed 737s for more profitable transborder routes. As a result, domestic capacity fell by 11% and the average stage length rose by 22%.

All these efforts were at long last reflected in the bottom line in 1997, when the domestic economy also strengthened. Canadian reported a marginal net profit of C$5.4m (US$3.6m) for 1997 - its first positive annual result since 1988 - and improved its performance through much of last year. But the favourable trend was reversed in the fourth quarter of 1998 when a sharply higher C$149.7m (US$99m) net loss was incurred. This meant a return to heavy annual losses: C$137.6m (US$91m) for 1998. Like other major North American carriers, Canadian found that market conditions worsened on several fronts. Japan's deeper recession hit the carrier hard because those routes account for 10% of its total revenues. Increased competition in western Canada and California contributed to a 10% decline in yield in the fourth quarter. The situation was aggravated by Air Canada's deep discounting as it tried to regain traffic after its 11-day strike in September. In the second half of last year Canadian's revenues were also adversely affected by the temporary loss of the AA- designator



code on transborder flights due to American's dispute with its pilots.

On the cost side, Canadian was hit by two new developments. First, the weakening of the Canadian dollar against the US dollar meant increases in payments for leases, aircraft parts, fuel and other items that are paid for in US dollars, effectively eliminating the benefits from the decline in fuel prices. Second, major changes in the way air navigation services are paid for in Canada led to a 45% hike in the airport user and navigation fees paid by Canadian last year.

Successful cash raising

Canadian must be congratulated for the perfect timing of its two recent cash-raising exercises. First, it completed a US$175m US high-yield debt issue in April 1998, soon after reporting its first annual net profit in 10 years. Next, it raised US$100m in an unsecured debt offering in July, just before it became evident that the Canadian domestic economy (particularly in the West) and industry conditions were deteriorating.

The two issues brought Canadian's cash reserves more in line with industry norms: C$345m at the end of September, compared with just C$54m six months earlier. At year-end the company still had C$302.4m (US$200m) in cash, which provided an adequate cushion for the win-

ter and made it possible to focus fully on building up revenues and implementing other key aspects of the business strategy.

But the money raised does not facilitate aircraft purchases as credit ratings remain junky (the latest issue was rated triple-C- minus by S&P and Caa2 by Moody's). Analysts remain concerned about Canadian's high leverage. Its long-term debt and capital lease obligations were a substantial C$923m at the end of 1998 and the bulk of the fleet is on operating leases.

In November the carrier announced that it will add four (two new, two late-model) 767-300ERs and one A320 to its fleet in 1999. The 767s will be the first new aircraft added since 1995 and they will replace four DC-10-30s. However, these deals reflected exceptional leasing opportunities in the marketplace rather than the start of a fleet renewal programme.

Low cost structure, rock-bottom yields

Canadian's persistent financial losses are unfortunate in the light of its successful cost-cutting. The past few years' efforts have placed it among the lowest-cost major North American carriers. At 11.34 Canadian cents (7.5 US cents) per ASM in 1998, Canadian's unit costs are now as low as Southwest's.

Projects such as a planned joint-venture engine maintenance facility in Vancouver appear to offer some further cost-cutting potential, while expansion will help keep unit costs low. In late 1996 all collective bargaining agreements were extended till year-end 2000, so there is no immediate need to face the unions again.

The focus has shifted to the revenue side, because Canadian's yields have remained extremely low due to intense competitive pressure from new entrants like WestJet, which began operations in 1996 and is showing staying power. Late last year its performance also eroded in the California markets following Alaska's aggressive capacity expansion and price-cutting in Vancouver. In 1998 Canadian's average passenger yield was just 13.54 Canadian cents (8.97 US cents) per ASM, when the range for the major US carriers was 11-17 US cents.

The obvious solution is to try to attract more high-yield traffic - now a priority for Canadian. The past year's improvements to the premium-class service have included new seats on aircraft, refurbished cabin interiors, French-style meals, FFP enhancements and new domestic lounges at Vancouver and Toronto. All of that is encompassed in a new image, launched in January, which features a new "Proud Wings" logo - a stylised blue Canadian goose.

The cost of the total image-boosting programme is estimated at C$38m (US$25m) over two years, which the carrier says will be recouped from market share gains - a two-point rise in Canadian's share of the C$2bn annual domestic business travel market would do the trick. The process will be helped by improved scheduling and increased service in key business markets. But experience south of the border has shown that improving the overall yield can be very tough.

Network and alliance strengths

Canadian's biggest potential advantages are its valuable international route rights, close relationship with American and an alliance network that could turn out to be the strongest in the world. But can it build on those advantages enough to temper the many negatives?

The alliance with American, which enjoys antitrust immunity in the US, was both necessitated and made possible by the liberalised US-Canada ASA, signed in February 1995, which introduced an open skies regime in stages. In contrast to Air Canada's aggressive own-account transborder expansion, Canadian's efforts have focused on co-operation with American.

The two now have an extensive codeshare arrangement, involving 1,400-plus daily transborder flights. Its value to Canadian became very clear last year, when American's dispute with its pilots in June led to the temporary removal of the AA-code from some 40 daily Canadian-operated flights for much of the remainder of 1998 (by January 1 the code was back on all flights).

Canadian's international route franchise includes virtually exclusive rights to most of Asia and Latin America, as well as some European route licences. The government's latest major policy announcements in June 1998 reinforced the traditional east/west division, giving Air Canada expanded rights from Toronto and Canadian from Vancouver.

The policy continued to protect Canadian's strongholds, as Air Canada's access to South

America and Asia was limited to Brazil, Thailand and New Zealand in the short-term. However, as the markets grow and bilateral restrictions disappear, Canadian will increasingly have to contemplate operating in double-designated markets - the latest such route is Taipei, which Air Canada will be allowed to serve once the ASA has been revised.

Asia may be a more of a handicap than a help at present, but Canadian is tackling the challenge aggressively. This month (April) it is substantially expanding its hub operation at Vancouver, which it has been building into a gateway to Asia from North America. Last year US-Asia traffic there doubled (helped by robust Taiwan and China markets), while Canadian was the largest carrier by a wide margin. By rescheduling its own and codeshare partners' flights, Canadian is now creating five new banks of flights that will effectively triple, from 525 to 1,500 daily, the number of city-pair connections available through that hub.

Alliances are a critical part of Canadian's future. It was fortunate in securing codeshare relationships early on with all of the airlines (except Cathay) that later became the founders of oneworld. The 1994 deal with American was followed by one with BA in 1996, which has enabled daily flights to be offered in the five largest London-Canada business markets. Longstanding co-operation with JAL (a prospective oneworld member) is being expanded this summer, when Vancouver will be linked with Tokyo and Nagoya via 42 weekly codeshare flights.

With American to the south, BA to Europe and JAL to Japan, Canadian has forged links with three of the world's most formidable airlines. The South Pacific has been taken care of by alliances with that region's leading carrier, Qantas (also a oneworld founder), and Air Pacific, which is 46% owned by Qantas. Although Canadian does not really need a Latin American partner, it has begun codesharing with America's partner LanChile on US-Chile routes via Miami and Los Angeles.

The delays experienced by American-BA will probably not affect Canadian a great deal, now that oneworld has taken off. Significantly, oneworld envisages Vancouver playing the role of the alliance's principal gateway between North America and Asia - after all, American has extremely limited transpacific operations. To further enhance Vancouver's potential and counter competitive threats in the West (sharply increased competition from Alaska, Air Canada's talks with WestJet, etc.), Canadian has forged codeshare deals with Alaska and Horizon and expanded co-operation with several feeder carriers.

Will AMR increase its stake?

The problem is that all the revenue boosting, hub strengthening and alliance building efforts will take time, and it is difficult to foresee significant improvement to financial results for some years. There is a need to improve liquidity to withstand a possible economic downturn and to upgrade the fleet. So when will Canadian get started with the capitalisation and fleet renewal parts of its four-year restructuring programme?

There has been much speculation that AMR might provide additional capital to increase its voting stake in Canadian. The US carrier wrote off its original investment two years ago and it is not easy to see what new benefits it would gain, but it is believed to be prepared to help out its partner. Also, the weak Canadian dollar has made the airline attractive to US investors.

But there are two potential hurdles. First, foreign ownership in Canadian is already at the 25% voting stock limit specified by the Canada Transportation Act, so the law would have to be changed. This may not prove insurmountable - or even difficult - but as of the end of March Canadian has not specifically asked the government to raise the limit because it does not yet have a deal.

The second problem is much harder to solve: vehement opposition from American's pilots. The Allied Pilots Association (APA) is concerned about American's plans to outsource flying to its oneworld partners. The union is already unhappy about what it regards as an imbalance in flying favouring Canadian, which it claims violates the scope clause in its contract. In response to the rumours that Canada might relax the foreign ownership limit, APA issued a statement saying that it was never in favour of the original investment and that it takes a "similarly dim view of a larger ownership stake".

The union made an ominous reference to the recent dispute over American's acquisition of Reno, which it said "takes on an added importance as a precedent-setting event in light of the news regarding Canadian".

Since APA job action over the Reno deal cost it US$200-250m in lost pre-tax earnings in the first quarter, American will be treading carefully with any future deals. Canadian's best hope may be to try to secure US financing from non-airline sources.

By Heini Nuutinen

Greek new entrants - well capitalised, but too many?

Until the middle of last year there was one corner of the EU that remained unaffected by the Euro-liberalisation process - the Greek island market. In negotiations prior to the implementation of the Third Package in January 1993, the Greek authorities managed to secure an exemption for this region from the market access provisions of the EC's regulation. Now, the situation is changing dramatically as numerous serious challengers enter the market.

This EC exemption meant that Olympic Airways and its turboprop subsidiary Olympic Aviation were able to maintain a near-monopoly on services within the country both on island and mainland routes. There was a minor modification to the Greek regulatory regime in 1991 whereby Greek charter airlines were permitted to offer some domestic scheduled-type services.

GREEK AIRLINES' FLEET PLANS

	Current fleet	Orders (options)	Delivery/retirement schedule/notes
Air Greece			
ATR 72	3	0	
F.100	0	2	To be leased
Air Manos			
BAC 1-11	0	2	To be leased in 1999
Shorts 360	0	2	To be leased in 1999
Aegean Aviation			
Avro RJ100	0	2 (2)	For delivery in 1999
Cosmos Airlines			
717-200	0	2	
737-700	0	3	To be leased in 1999
Cronus Airlines			
737-300	2	1	Delivery in 1999
737-400	1	0	
737-800	0	1 (1)	Delivery in 2001
Olympic Airways			
727-200	4	0	
737-200	11	0	
737-300	1	0	
737-400	13	0	
737-800	0	8	Delivery in 2000
747-200	4	0	To be sold in 1999
A300	4	0	
A340	2	2	Delivery in 1999
TOTAL	**39**	**10**	
Olympic Aviation			
ATR 42	4	0	
ATR 72	7	0	
Do-228	6	0	

The logic behind the exemption was that Olympic had to play a social role in connecting far-flung island communities to the capital in order to assure basic services and communications. The archipelagic structure of the country and the mountainous terrain make air transport the preferred mode for most trips to/from Athens or the second city Thessaloniki (or Salonika).

The Onassis legacy

There was also a legalistic basis for the domestic monopoly, dating back to the set-up of Olympic back in 1956. The airline was founded by Aristotle Onassis, who merged several small carriers and entered into a detailed contractual relationship with the state. This contract stated that Olympic would have a monopoly on services to, from and within Greece in return for operating in the public interest, in particular through providing essential service to remote communities (many of which are only a few kilometres from the Turkish coast).

This perception of the domestic role of the national carrier was reinforced after Onassis sold Olympic to the state in 1974 following the death of his son and heir Alexandros (who had just been appointed president of Olympic Aviation) in an airplane accident. While this may all appear anachronistic in a deregulated aviation environment, Greece is a legalistic society (more lawyers per capita than in the US), and there are also the political considerations. While Olympic undoubtedly does play some social role, it is also very useful for flying politicians to their home bases and transporting voters around the country at election times.

Moreover, it is simply not true that Olympic needed protection in order to maintain its social obligations. From an objective perspective, its domestic network would appear to have been its most profitable division in recent years, while losses were piled up on prestigious long-hauls to Australia and the US. In addition the monopoly the airline held on domestic ground handling operations reinforced even further its dominance, and was a major profit contributor.

The Greek domestic market comprises about 4m passengers a year (compared with the total Greek population of 11m). Of this total just under 3m passengers are carried by Olympic's 737s on the trunk routes while just over 1m are flown by Olympic Aviation's turboprops on the thinner routes to the islands (almost 10m passengers a year are flown to the main island destinations - Rhodes, Heraklion and Corfu by northern European charters, a market in which Olympic does not compete). As well as tourism and VFR there is a business and governmental element in the domestic market. Although the routes are seasonal, year-round load factors are typically in the high 70s or low 80s.

The first and second waves

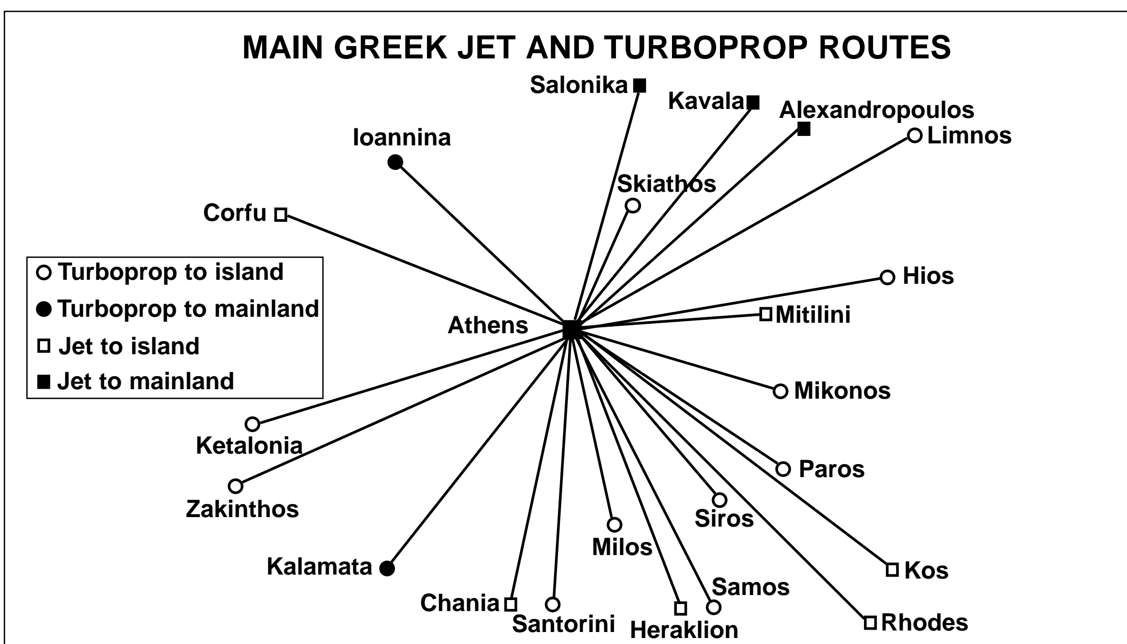
Following the part liberalisation of the Greek airline industry in 1991 a number of carriers appeared - but most subsequently disappeared during 1994-1996.

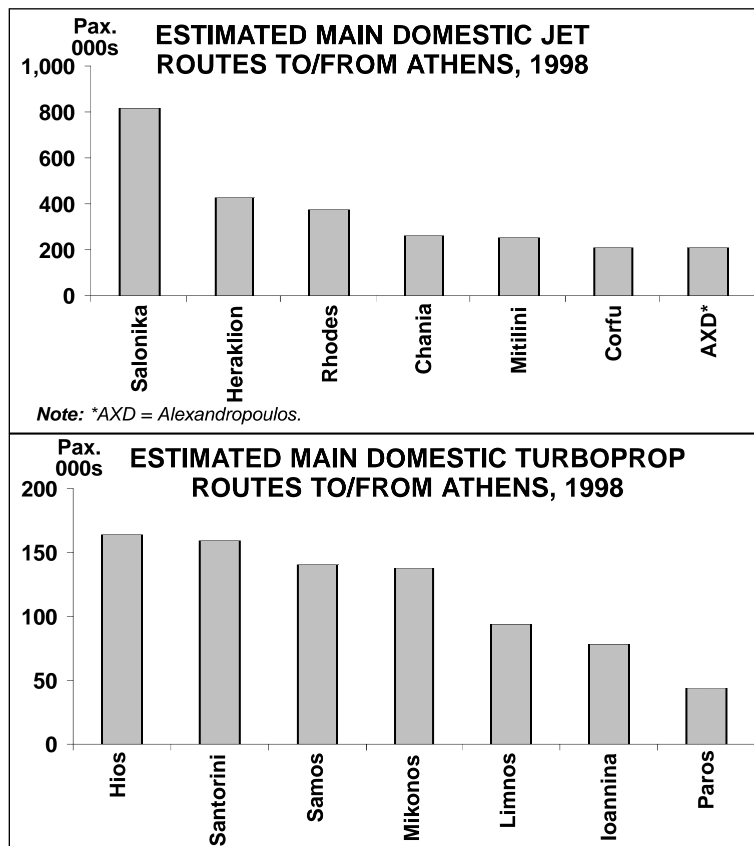
Southeast European Airlines operated one A320 as a Virgin franchisee on London-Athens, but eventually Virgin itself took over the operation of the route. Venus Airlines (which at its peak had a fleet of two 757s, two 727s and three MD83) flirted with bankruptcy, but re-emerged in 1998 as Princess Airlines, backed by French tour operator Vacances Heliades, the primary user of a single 737-300. Cretan Airlines (two A320s) and Apollo Airlines (three A300s) had brief commercial existences, but there were two survivors - Cronus and Air Greece. In addition, a number of older established operators continued to grow in the specialised areas of regional charter services, air taxi and express freight (e.g. Avionic, KAL Aviation, Interjet and Aviator).

As for Olympic, the protection afforded by the domestic monopoly has not helped solve its fundamental problems. It has had to return to the EC with new restructuring plans in order to get the final portions of its 1994 state aid package. Several management changes, inadequate yield management, labour unrest, a deteriorating product and an ageing fleet consisting of no less than eight different aircraft types has led to declining market share and serious losses in 1997 and 1998.

The strain of moving to the new Athens airport at Spata in early 2001 and the abolition of the lucrative ground handling monopoly this year has left the government with no other alternative than to appoint Salomon Smith Barney to select a strategic manager for the airline, with a turnaround mandate leading to partial privatisation within a two year horizon. Nobody in Athens is betting on who accepts this chalice, though BA's Speedwing, AMR, Lufthansa Consult, KLM, Air France and United are rumoured to be the leading candidates.

The ending of official domestic protection, in conjunction with favourable developments in the performance of the Greek economy (now set to





qualify for EMU entry at the end of 1999), and the boost in tourism projected for the years leading to the 2004 Olympic Games in Athens, have led powerful players to enter the market, either by investing in the surviving operators or by starting up.

Macedonian Airlines

Macedonian was the tiny charter subsidiary of Olympic. Now it has another role as a sort of virtual airline supplying cockpit crews for Olympic's domestic service at about half the normal cost of Olympic's pilots. Reports suggest that up to 65% of Olympic's domestic operations in the 1999 summer season will be flown with Macedonian crews.

Cronus Airlines

Cronus was launched in 1995 as a single aircraft (737-300) charter carrier targeting the Greek immigrant traffic between Germany and Northern Greece. Financed by construction entrepreneur Manetas, it expanded into scheduled operations and built up a network centred on the German routes but also including London, Paris and domestic destinations (Thessaloniki, Heraklion and Rhodes).

Though the airline achieved 1998 loads of 550,000 passengers, its low yield policy was not matched with the cost structure required. It also made various financial errors, and quickly produced accumulated losses in the Dr3-5bn range ($10-17m) against projected 1998 revenues of Dr15bn. In December 1998, majority control was secured by the Laskaridis family (with interests ranging from a holding in the Thessaloniki Hyatt Casino to operating the largest owned and managed refrigerator ship fleet in the world). Expansion plans were announced, including two more aircraft (one 737-300 for delivery in May 1999 and one 737-800 for spring 2001) plus new routes to Rome, Milan, and Alexandroupolis and Mytilini, domestically.

Air Greece

Founded by a group of businessmen in the Cretan tourism business, Air Greece links Heraklion, Athens, Thessaloniki, Chania and Rhodes with a fleet of three ATR-72s on operating leases from Air Liberte. The airline has secured a leading position in the Heraklion market, enjoying strong loyalty from its passengers despite competing against Olympic's jet equipment on higher frequencies.

Tentative 1998 results project 350,000 passengers carried and profits of Dr500m ($2m) on revenues of Dr6.5bn. Heraklion-based Minoan Shipping Lines - a Dr30bn a year company traded on the Athens Stock Exchange - has recently invested Dr1.1bn ($4m) and, through a share capital increase, secured 51% of Air Greece. Minoan controls the Piraeus-Heraklion shipping market and is quietly expanding in the lucrative Greece-Italy market (aided by the elimination of land transport alternatives because of the conflicts in the former Yugoslavian republics), and has recognised the marketing synergies of operating in both transportation modes to and from Heraklion. Immediate plans call for the lease of two Fokker 100s, again from Air Liberte and expansion of the network to Mytilini, Corfu, Stuttgart, Dusseldorf and Bari (in Italy).

Aegean Aviation

Aegean started as banner-towing company in the early 1980s. Owned by the Simigdalas family, this small operation emerged as the first company to secure an AOC after the 1991 liberalisation. It started air taxi flights with small piston equip-

ment as Aegean Aviation. Three years later, Aegean was purchased by the Vasilakis Group (Hertz franchise, Saab and Seat dealerships), and the fleet was upgraded to two Learjets.

In January 1999, Aegean announced a Dr7bn ($23m) share capital increase and the participation of new minority shareholders. These include D. Ioannou of J&P, a major construction company, the Leventis Group of 3E (the Coca Cola bottling company for Greece and several Balkan countries), shipowner Konstantakopoulos, and Piraeus Ventures, a venture capital firm jointly owned by Zilkha Inc. and Piraeus Bank. The airline has purchased two Avro RJ100s for delivery in April and May 1999, plus two options for delivery next year.

The plan for the summer 1999 season calls for 168 "business class" standard flights per week between Athens, Thessaloniki, Heraklion, Chania and Rhodes. Interestingly, Aegean is - together with Lufthansa and KLM subsidiaries - participating in Goldair Handling, a strong contender in the liberalised ground handling tenders taking place later this spring for the Athens, Thessaloniki, Heraklion and Rhodes Airports.

Cosmos Airlines

Capitalised at Dr9bn ($30m), this start-up belongs to T. Liakounakos, whose activities include the representation of international defence and aerospace companies in Greece (including Boeing Defense Systems), the Axxon financial services company and the “Kerthos” daily financial newspaper.

Cosmos is taking delivery in May of two new 149-seat 737-700s through operating leases from Bavaria Leasing, to be followed by a third aircraft in October, together with two 717-200s. The marketing plan calls for scheduled flights to destinations in France, Holland, Belgium, Italy and Germany. As Cosmos has not applied for an AOC yet, it will probably have to attach its aircraft to an existing European AOC holder or buy out one of the smaller licensed Greek operators.

Air Manos

Controlled by Manos, Greece’s oldest and largest tour operator, Air Manos has been widely advertising an April 5th 1999 launch date for its domestic services. Manos is an integrated travel organisation, with outbound traffic, inbound traffic (Manos UK is the tenth largest British tour operator to Greece, with about 180,000 tourists annually), and a franchised distribution system (Manos Centers) with 40 sales points in Greece. It has also expanded into hotels.

Industry sources report that a strong minority position in Air Manos is to be acquired by ANEK Shipping Lines, a Dr20bn ($67m) a year publicly traded, Crete-based commercial shipping company that controls the Piraeus-Chania market, has secured a significant slice of the Greece-Italy shipping traffic and has recently expanded into the northeast Aegean maritime market through the purchase of 20% of the Maritime Company of Lesvos.

During its first phase, Air Manos will start operations with wet leased aircraft, a 106-seat BAC 1-11 from European Air Charter and a 39-seat Shorts 360 from Greek niche carrier Avionic Air Services. A second 1-11 and a second 360 are scheduled for the peak summer months. Air Manos intents to operate a network from the start, with the jets concentrating on trunk routes between Athens, Thessaloniki and (surprise) Chania, and the turboprops connecting both Athens and Thessaloniki with the regional destinations of Mykonos, Santorini, Samos, Hios, Syros and Agrinion.

Outlook

In the approaching summer season, overcapacity will certainly be the main characteristic in the Greek domestic air transport market. The new competitors will discover in the lean winter months which of them have found winning formulas.

Meanwhile, it is interesting to note how different this second wave of airlines is from the first. Almost all of the first wave of Greek airlines were charter carriers, mainly carrying tourists to Greece on IT holidays operated by major European tour operators, whereas now almost all competitors are targeting pretty much the same domestic scheduled routes. Most of the first wave airlines selected less expensive Chapter 2 equipment, whereas the current new entrants are opting for high capital cost new aircraft.

The first wave airlines were generally undercapitalised but today’s newcomers are backed by powerful local industrial and financial concerns. There is also clear evidence that the calibre of management is greatly improved, and that lessons have been learnt from previous mistakes.

Airline web sites - still fairly primitive

Last month (March issue) *Aviation Strategy* examined the advantages airlines could gain by Internet distribution. In this article we take a closer look at what this means in practice, by making a detailed analysis of the existing web sites at a sample of eight major airlines in North America, Europe and the Asia/Pacific region.

The sites have been rated by *Aviation Strategy* according to three user criteria: availability of schedule/timetable information; availability of fare information; and ability to booking online. These user criteria are applied with an international perspective - i.e. *Aviation Strategy's* ratings are based on what information/service was provided to customers based *outside* the domestic market of the airline considered.

We have also added a business-to-business assessment, based on the amount of corporate information available (such as traffic figures, news releases, annual/quarterly financial reports etc); and, lastly, we have added a fifth criterion based on ease of use and how well the overall site is designed.

Each of the five criteria is scored out of 20, and each criterion is given equal weighting, with a total maximum score for each site of 100. The one criterion we have ignored is speed, as access to any web site depends largely on the capabilities of the PC/laptop each person uses, local telecoms infrastructure, and time of day a site is accessed (in Europe, for example, web access slows down considerably when local time is equivalent to 7.00-9.00am in North America - i.e. when US users first go online each day in order to read their e-mail).

Aviation Strategy's survey does not claim to the definitive guide to these sampled web sites. Rather, it is a snapshot of just what airlines are offering on the web today. Airlines sites should be improving all the time - they are not a one-off marketing effort - so this survey is an assessment of how far developed these eight specific sites are today, at the end of the first quarter of 1999.

US sites: advanced, but insular

American's web site (www.aa.com) has recently been redesigned, and now attracts one million visits per week. According to the airline, web revenue has tripled in a year - although it will not say just how much that revenue was. It's an attractively designed site and relatively easy to use. Schedule information is readily obtainable, but its major disadvantage is that fare information (and hence online booking) for flights originating outside of the US is not obtainable. Instead the site just tells you to telephone your local reservations office.

Delta's site (www.delta-air.com) is also designed primarily for US residents. Like American, Delta's site does not allow for online booking for European- or Asian-based travellers. Delta's site is also not as easy to use as American's, although Delta does provide excellent corporate information, from stock charts to quarterly financial results.

United's site (www.ual.com) is the best of the three US sites *Aviation Strategy* has looked at. It is very well designed, allows online schedule and fare information (although yet again, there is no online booking facility for non-US resident travellers), and has very good corporate information.

European sites - teething problems!

In theory, British Airways' site (www.british-airways.com) offers relatively simple but effective online booking, but each and every time *Aviation Strategy* tried British Airways' online booking process - and we tried on numerous occasions over a period of three weeks - it was either “unable to proceed” once a request for fare information was sent (the site then advised the user to contact the local British Airways office) or else there

was "no availability" for any flight we enquired about. Not surprisingly, this was immensely frustrating - particularly as one of our staff genuinely wanted to book a flight (eventually he booked with a different airline instead).

Air France (www.airfrance.fr) does not offer fare information and online booking, but does have schedule information. Corporate information is patchy, although it is improving as the airline becomes more commercial in its outlook.

Lufthansa's site (www.lufthansa.com) offers a wealth of corporate information and is well designed. Online booking was "temporarily unavailable" the first time we tried, but when we did get through the service worked very well. Users have to complete a brief registration process, but online booking is made as painless as possible.

Asian sites - lagging the field

The JAL site is pretty basic (www.jal.co.jp). Despite a series of "local" versions depending on where in the world you live, the site offers no online booking facility or fare information. Schedule information is good, but corporate information is basic.

Cathay Pacific (www.cathaypacific.com) is slightly better designed than JAL's. It has reasonable corporate information available (although fleets, for example, are five months' out-of-date) and good schedule information, but again there is no online booking facility.

A slow start

Our survey shows a predictable gap between the US airlines and the rest of the world. If you live in North America, then booking online is extremely simple and painless. Unfortunately US airlines do not yet see a need to offer online booking facilities to anybody resident outside of the US - but this will change.

In Europe, British Airways and in particular Lufthansa are making strenuous efforts to offer effective online booking facilities, but in our experience over the sample period of three weeks the booking systems tended to be offline more often than they were online.

The two Asian airlines we sampled - Cathay Pacific and Japan Airlines - did not attempt to offer online booking whatsoever. Furthermore, they also scored the least (along with Air France) in terms of online corporate information. The US airlines, BA and Lufthansa offer excellent access to news, whether traffic data or quarterly financial reports, but the rest of our sample appear to regard corporate information as a low priority.

Overall, therefore, the reality of airline web sites (particularly outside the US) lags well behind the theoretical advantages the web can offer. But this is only partly due to sluggish strategic foresight by managements. Also to blame is the historical baggage than many airlines have - for a long time they have relied on travel agents for the majority of their bookings, so whether they want to or not they have to be wary of being a pioneer in Internet bookings.

The start-up airlines don't have this burden and, for example, easyJet's site (www.easyJet.com) focuses solely on providing simple online booking (with prices quoted in the local currency of the outbound flight). As a result, easyJet.com is much better than any of the Majors' sites we sampled.

AIRLINE WEB SITE RATINGS

	Lufthansa	**United**	**Delta**	**American**	**British Airways**	**Cathay Pacific**	**Air France**	**JAL**
Web address:	lufthansa.com	ual.com	delta-air.com	aa.com	britishairways .com	cathaypacific .com	airfrance.fr	jal.co.jp
Score (each out of 20):								
Schedule information	20	20	18	20	20	20	18	20
Fare information	15	10	5	5	0	0	0	0
Online booking facility	15	5	5	5	0	0	0	0
Corporate information	20	18	16	14	19	12	12	8
Functionality/design	16	16	10	15	5	10	10	5
Total (out of 100):	**86**	**69**	**54**	**49**	**44**	**42**	**40**	**33**

Note: *Based on the experience of Aviation Strategy editorial staff when visiting above web sites during March 1999. Each site was visited on at least five occasions, at different times of the day.*

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1991	114.8	65.2	56.8	120.9	84.3	69.7	80.0	53.1	66.4	267.6	182.0	68.0	397.8	257.9	64.7
1992	129.6	73.5	56.7	134.5	95.0	70.6	89.4	61.6	68.9	296.8	207.1	69.8	445.8	293.4	65.8
1993	137.8	79.8	57.9	145.1	102.0	70.3	96.3	68.1	70.7	319.1	223.7	70.1	479.7	318.0	66.3
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72.0
Jan 99	15.5	8.2	53.1	16.0	10.4	65.1	11.4	8.5	74.1	39.1	27.5	70.5	57.4	37.5	65.3
Ann. chng	5.5%	6.4%	0.5	14.7%	11.4%	-2.0	-0.4%	2.1%	1.8	9.1%	7.3%	-1.2	8.4%	7.7%	-0.4
Jan-Jan 99	15.5	8.2	53.1	16.0	10.4	65.1	11.4	8.5	74.1	39.1	27.5	70.5	57.4	37.5	65.3
Ann. chng	5.5%	6.4%	0.5	14.7%	11.4%	-2.0	-0.4%	2.1%	1.8	9.1%	7.3%	-1.2	8.4%	7.7%	-0.4

Source: AEA.

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1991	835.1	512.7	61.4	108.0	75.2	69.6	117.0	78.5	67.1	44.3	27.4	61.8	269.2	181.0	67.2
1992	857.8	536.9	62.6	134.4	92.4	68.7	123.1	85.0	69.0	48.0	27.4	57.0	305.4	204.7	67.0
1993	867.7	538.5	62.1	140.3	97.0	69.2	112.5	79.7	70.8	55.8	32.5	58.2	308.7	209.2	67.8
1994	886.9	575.6	64.9	136.1	99.5	73.0	107.3	78.2	72.9	56.8	35.2	62.0	300.3	212.9	70.9
1995	900.4	591.4	65.7	130.4	98.5	75.6	114.3	83.7	73.2	62.1	39.1	63.0	306.7	221.3	72.1
1996	925.7	634.4	68.5	132.6	101.9	76.8	118.0	89.2	75.6	66.1	42.3	64.0	316.7	233.3	73.7
1997	953.3	663.7	69.6	138.1	108.9	78.9	122.0	91.2	74.7	71.3	46.4	65.1	331.2	246.5	74.4
1998	961.0	679.1	70.7										346.4	252.4	72.9
Jan 99															
Ann. chng															
Jan-Jan 99															
Ann. chng															

Note: US Majors = American, Alaska, Am. West, Continental, Delta, NWA, Southwest, TWA, United, USAir. **Source:** Airlines, ESG.

ICAO WORLD TRAFFIC AND ESG FORECAST

	Domestic			International			Total			Domestic growth rate		International growth rate		Total growth rate	
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK %	RPK %	ASK %	RPK %	ASK %	RPK %
1992	1,300	840	64.6	1,711	1,149	67.2	3,011	1,989	66.1	2.7	5.0	15.0	15.2	9.4	10.7
1993	1,347	856	63.6	1,790	1,209	67.5	3,137	2,065	65.8	3.6	1.9	4.6	5.2	4.2	3.8
1994	1,403	924	65.8	1,930	1,326	68.7	3,333	2,250	67.5	4.2	7.9	7.8	9.7	6.3	9.0
1995	1,477	980	66.3	2,044	1,424	69.7	3,521	2,404	68.3	5.3	6.1	5.9	7.4	5.6	6.9
1996	1,526	1,046	68.6	2,163	1,537	71.1	3,689	2,583	70.0	3.3	6.7	5.8	7.9	4.8	7.4
1997	1,617	1,102	68.2	2,387	1,704	71.4	4,004	2,807	70.1	4.6	5.5	7.6	9.1	6.4	7.7
***1998**	1,624	1,122	69.1	2,470	1,751	70.9	4,094	2,873	70.2	0.4	1.8	3.5	2.7	2.3	2.4
***1999**	1,675	1,155	69.0	2,586	1,833	70.9	4,261	2,988	70.1	3.2	3.0	4.7	4.7	4.1	4.0
***2000**	1,738	1,194	68.7	2,729	1,930	70.7	4,467	3,124	69.9	3.7	3.3	5.5	5.3	4.8	4.5
***2001**	1,791	1,218	68.0	2,857	2,004	70.1	4,648	3,222	69.3	3.1	2.0	4.7	3.8	4.0	3.1
***2002**	1,806	1,210	67.0	2,916	2,015	69.1	4,722	3,225	68.3	0.8	-0.7	2.1	0.6	1.6	0.1
***2003**	1,857	1,273	68.5	3,066	2,165	70.6	4,923	3,437	69.8	2.9	5.2	5.1	7.4	4.3	6.6

Note: * = Forecast; ICAO traffic includes charters. **Source:** Airline Monitor, January/February 1999.

DEMAND TRENDS (1990=100)

	Real GDP					Real exports					Real imports				
	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan
1991	99	98	101	101	104	106	99	112	104	105	99	95	113	103	97
1992	102	98	102	102	105	113	103	112	109	110	107	101	115	104	96
1993	105	100	100	101	105	117	107	106	109	112	117	104	108	101	96
1994	109	103	103	104	106	126	117	115	115	117	131	110	117	107	104
1995	111	106	105	106	107	137	126	122	123	123	141	115	124	113	119
1996	114	108	107	107	111	152	135	128	128	126	155	124	127	116	132
1997	118	112	110	109	112	172	146	142	142	138	177	135	136	123	132
***1998**	121	113	113	113	112	180	154	155	154	145	200	148	146	133	130
***1999**	124	115	116	116	113	189	160	166	163	155	219	156	156	141	133

Note: * = Forecast; Real = inflation adjusted. **Source:** OECD Economic Outlook, June 1998.

COST INDICES (1990=100)

	Europe Unit revenue	Europe Unit op. cost	Europe Unit lab. cost	Europe Efficiency	Europe Av. lab. cost	Europe Unit fuel cost	US Unit revenue	US Unit op. cost	US Unit lab. cost	US Efficiency	US Av. lab. cost	US Unit fuel cost
1991	106	109	103	105	108	88	100	102	102	101	103	84
1992	99	103	96	119	114	80	98	100	101	107	108	75
1993	100	100	90	133	118	82	101	98	99	116	115	67
1994	100	98	87	142	123	71	98	94	101	124	125	62
1995	99	97	86	151	128	67	99	93	98	129	127	61
1996	100	101	88	155	135	80	102	94	98	129	126	72
1997	102	105	85	148	131	81	104	94	100	129	129	69
***1998**	107	105	84	151	127	71	108	96	106	127	134	61

Note: * = First-half year. European indices = weighted average of BA, Lufthansa and KLM. US indices = American, Delta, United and Southwest. Unit revenue = airline revenue per ATK. Unit operating cost = cost per ATK. Unit labour cost = salary, social charges and pension costs per ATK. Efficiency = ATKs per employee. Average labour cost = salary, social costs and pension cost per employee. Unit fuel cost = fuel expenditure and taxes per ATK.

FINANCIAL TRENDS (1990=100)

	Inflation (1990=100) US	UK	Germany	France	Japan
1990	100	100	100	100	100
1991	104	106	104	103	103
1992	107	107	109	106	105
1993	111	109	114	108	106
1994	113	109	117	110	107
1995	117	112	119	112	107
1996	120	114	121	113	107
1997	122	117	123	114	108
***1998**	123	119	125	116	109
***1999**	126	122	127	117	109

	Exchange rates (against US$) UK	Germ.	France	Switz.	Euro**	Japan	LIBOR 6 month Euro-$
1990	0.563	1.616	5.446	1.389	0.788	144.8	8.27%
1991	0.567	1.659	5.641	1.434	0.809	134.5	5.91%
1992	0.570	1.562	5.294	1.406	0.773	126.7	3.84%
1993	0.666	1.653	5.662	1.477	0.854	111.2	3.36%
1994	0.653	1.623	5.552	1.367	0.843	102.2	5.06%
1995	0.634	1.433	4.991	1.182	0.765	94.1	6.12%
1996	0.641	1.505	5.116	1.236	0.788	108.8	4.48%
1997	0.611	1.734	5.836	1.451	0.884	121.1	5.85%
1998	0.603	1.759	5.898	1.450	0.896	130.8	5.51%***
Mar 1999	0.617	1.822	6.111	1.485	0.932	120.1	5.06%***

Note: * = Forecast. **Source:** OECD Economic Outlook, June 1998. **Euro rate quoted from January 1999 onwards. 1990-1998 historical rates quote ECU. *** = $ LIBOR BBA London interbank fixing six month rate.

1999 BOEING LIST PRICES

Model	Price ($m)
717-200	31.5-35.5
737-300	40.0-46.5
737-400	44.0-51.5
737-500	34.5-41.0
737-600	36.0-44.0
737-700	41.5-49.0
737-800	51.0-57.5
737-900	53.5-61.0
747-400	167.5-187.0
747-400 Combi	177.5-197.0
757-200	65.5-73.0
757-300	73.5-81.0
767-200ER	89.0-100.0
767-300ER	105.0-117.0
767-400ER	115.0-127.0
777-200	137.0-154.0
777-200ER	144.0-164.0
777-300	160.5-184.5
MD-80	42.0-49.0
MD-90	49.0-56.5
MD-11	132.0-147.5
MD-11 Combi	144.5-162.0

Source: Boeing.

JET AND TURBOPROP ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
ATR	Mar 9	Alitalia Express	3 ATR-72 500s	$50m	3Q99-4Q99	
Airbus	Feb 25	Iberworld	2 A320s		4Q01	+ 2 options
BAe	-					
Boeing	Mar 1	KLM	5 737-800s, 4 747-400s			
Bombardier	Mar 26	Piedmont Airlines	9 Dash 8-Q200s			
	Mar 17	Jersey European	3 Dash 8-Q200s			
			4 Dash 8-Q300s			
			4 Dash 8-Q400s			
			4 CRJ-200s	$250m	4Q99-4Q01	
	Mar 8	Augsburg Airways	3 Dash 8-Q400s	$65m		+ 2 options
Embraer	-					
Fairchild Dornier	-					

Note: Prices in US$. Only firm orders from identifiable airlines/lessors are included. MoUs/LoIs are excluded. **Source:** Manufacturers.

Micro-trends

	Group revenue US$m	Group costs US$m	Group operating profit US$m	Group net profit US$m	Total ASK m	Total RPK m	Load factor %	Group rev. per total ASK Cents	Group costs per total ASK Cents	Total pax. 000s	Total ATK m	Total RTK m	Load factor %	Group employees
American*														
Apr-Jun 97	4,292	3,812	480	302	64,026.0	45,012.1	70.3	6.70	5.95	20,697	9,482.2	5,241.2	55.3	87,248
Jul-Sep 97	4,377	3,868	509	323	65,093.0	46,943.3	72.1	6.72	5.94	21,343	9,637.3	5,406.0	56.1	87,793
Oct-Dec 97	4,228	3,871	357	208	63,308.3	42,715.7	67.5	6.68	6.11	19,681	9,366.9	5,025.2	53.6	88,302
Jan-Mar 98	4,223	3,798	425	290	62,405.4	41,846.6	67.1	6.77	6.09	19,267	9,207.0	4,889.4	53.1	87,569
Apr-Jun 98	4,491	3,885	606	409	64,471.8	46,075.9	71.5	6.97	6.03	20,901	9,512.3	5,317.6	55.9	87,076
Jul-Sep 98	4,583	3,958	625	433	65,920.1	48,093.9	73.0	6.95	6.00					88,300
Oct-Dec 98	4,152	3,857	295	182	64,317.3	43,811.6	68.1	6.46	6.00					
America West														
Apr-Jun 97	478	427	51	23	9,410.5	6,668.9	70.9	5.08	4.54	4,674	1,180.1	712.8	60.4	11,690
Jul-Sep 97	462	425	37	18	9,623.6	6,779.9	70.5	4.80	4.42	4,692	1,205.8	724.3	60.1	11,506
Oct-Dec 97	473	432	41	20	9,573.7	6,219.9	65.0	4.94	4.51	4,375	1,200.4	670.1	55.8	11,232
Jan-Mar 98	483	434	49	25	9,408.0	5,851.4	62.2	5.13	4.61	4,149	1,180.7	630.2	53.4	11,329
Apr-Jun 98	534	457	77	41	9,787.8	6,899.1	70.5	5.46	4.67	4,643	1,228.9	733.0	59.7	11,645
Jul-Sep 98	499	453	46	22	9,884.3	7,108.3	71.9	5.05	4.58	4,665				11,560
Oct-Dec 98	507	470	37	20	10,037.2	6,491.9	64.7	5.05	4.68	4,335				
Continental														
Apr-Jun 97	1,786	1,555	231	128	26,530.9	19,186.1	72.3	6.73	5.86	10,462	3,032.6	1,996.8	65.8	34,672
Jul-Sep 97	1,890	1,683	207	110	28,462.1	20,982.1	73.7	6.64	5.91	10,822	3,331.3	2,206.5	66.2	35,630
Oct-Dec 97	1,839	1,707	132	73	28,278.6	19,400.1	68.6	6.50	6.04	10,188	3,381.1	2,140.0	63.3	37,021
Jan-Mar 98	1,854	1,704	150	81	28,199.8	19,427.5	68.9	6.57	6.04	10,072	3,372.4	2,134.4	63.3	37,998
Apr-Jun 98	2,036	1,756	280	163	29,891.1	22,007.2	73.6	6.81	5.87	11,261	3,629.6	2,399.3	66.1	39,170
Jul-Sep 98	2,116	1,973	143	73	31,609.9	24,049.4	76.1	6.69	6.24	11,655				40,300
Oct-Dec 98	1,945	1,817	128	66	30,557.4	21,273.3	69.6	6.37	5.95	10,637				
Delta														
Apr-Jun 97	3,541	3,022	519	301	55,604.5	41,457.2	74.6	6.37	5.43	26,617	7,777.3	4,798.9	61.7	69,118
Jul-Sep 97	3,552	3,121	431	254	57,424.7	42,783.2	74.5	6.19	5.43	26,478	8,112.8	4,946.2	61.0	69,502
Oct-Dec 97	3,433	3,101	332	190	56,177.4	38,854.9	69.2	6.11	5.52	25,464	7,941.4	4,639.6	58.4	69,982
Jan-Mar 98	3,389	3,053	336	195	54,782.3	39,602.7	68.7	6.19	5.57	24,572	7,766.6	4,448.9	57.3	71,962
Apr-Jun 98	3,760	3,165	595	362	57,175.5	43,502.6	76.1	6.58	5.54	27,536	8,189.9	5,049.5	61.7	74,116
Jul-Sep 98	3,802	3,250	552	327	59,017.9	45,242.3	76.7	6.44	5.51					75,000
Oct-Dec 98	3,448	3,128	320	194	57,810.9	39,947.7	69.1	5.96	5.41					
Northwest														
Apr-Jun 97	2,558	2,267	291	136	38,985.3	29,195.9	74.9	6.56	5.82	13,780	6,175.7	3,817.3	61.8	48,025
Jul-Sep 97	2,801	2,298	504	290	41,491.3	32,231.1	77.7	6.75	5.54	14,743	6,587.3	4,189.3	63.6	47,843
Oct-Dec 97	2,491	2,264	227	105	38,465.5	27,791.0	72.2	6.48	5.89	13,383	6,247.0	3,820.5	61.2	48,852
Jan-Mar 98	2,429	2,272	156	71	38,260.1	27,038.2	70.7	6.35	5.94	12,704	6,052.7	3,513.4	58.0	49,776
Apr-Jun 98	2,476	2,356	120	49	38,332.7	29,533.7	77.0	6.46	6.15	13,676	6,102.8	3,745.5	61.4	51,264
Jul-Sep 98	1,928	2,204	-276	-224	32,406.3	24,295.8	75.0	5.95	6.80					50,669
Oct-Dec 98	2,212	2,404	-192	-181	37,947.0	26,534.3	69.9	5.83	6.34					
Southwest														
Apr-Jun 97	957	800	156	94	17,672.1	11,288.4	63.9	5.42	4.53	12,722	2,264.0	1,180.6	52.1	24,226
Jul-Sep 97	997	845	152	93	18,494.3	12,176.9	65.8	5.39	4.57	13,019	2,362.1	1,274.1	53.9	24,273
Oct-Dec 97	975	847	128	81	18,501.4	11,654.2	63.0	5.27	4.58	12,612	2,361.5	1,222.6	51.8	24,454
Jan-Mar 98	943	831	112	70	18,137.1	11,102.3	61.2	5.20	4.58	11,849	2,304.2	1,161.6	50.4	24,573
Apr-Jun 98	1,079	870	209	133	18,849.6	13,236.7	70.2	5.72	4.62	13,766	2,394.0	1,378.0	57.6	24,807
Jul-Sep 98	1,095	891	204	130	19,762.1	13,620.3	68.9	5.54	4.51	13,681				25,460
Oct-Dec 98	1,047	888	159	100	19,763.0	12,603.4	63.8	5.30	4.49	13,291				
TWA														
Apr-Jun 97	844	839	6	-14	14,705.8	10,273.7	69.9	5.74	5.71	5,958	2,051.9	1,169.5	57.0	23,490
Jul-Sep 97	908	845	64	6	15,922.4	11,447.0	71.9	5.70	5.31	6,324	2,209.2	1,284.2	58.1	22,539
Oct-Dec 97	813	812	1	-31	14,348.8	9,570.2	66.7	5.67	5.66	5,743	1,966.4	1,098.0	55.8	22,322
Jan-Mar 98	765	834	-69	-56	13,626.4	9,276.3	68.1	5.61	6.12	5,629	1,879.7	1,046.5	55.7	22,198
Apr-Jun 98	884	838	46	19	14,142.2	10,787.3	76.3	6.25	5.93	6,417	1,979.0	1,186.2	59.9	22,147
Jul-Sep 98	863	839	24	-5	14,293.8	10,531.3	73.7	6.04	5.87					22,200
Oct-Dec 98	747	813	-66	-79	13,452.4	8,731.6	64.9	5.55	6.04					
United														
Apr-Jun 97	4,382	3,970	412	242	67,458.0	48,894.2	72.5	6.50	5.89	21,271	9,917.6	6,032.1	60.8	88,939
Jul-Sep 97	4,640	4,077	563	579	71,375.4	53,721.0	75.3	6.50	5.71	22,641	10,566.8	6,561.1	62.1	90,324
Oct-Dec 97	4,235	4,144	91	23	68,364.7	47,419.6	69.4	6.19	6.06	20,608	10,269.1	6,023.6	58.7	91,721
Jan-Mar 98	4,055	3,932	123	61	66,393.3	44,613.0	67.2	6.11	5.92	19,316	9,987.5	5,589.7	56.0	92,581
Apr-Jun 98	4,442	3,972	470	282	69,101.7	50,152.2	72.6	6.43	5.75	21,935	10,453.0	6,202.6	59.3	94,064
Jul-Sep 98	4,783	4,088	695	425	73,913.5	56,283.7	76.1	6.47	5.53					93,575
Oct-Dec 98	4,281	4,090	191	54	70.620.9	49,484.4	70.1	6.06	5.79					
US Airways														
Apr-Jun 97	2,213	1,957	256	206	24,014.0	17,707.1	73.7	9.22	8.15	15,533	3,234.0	1,911.0	59.1	42,320
Jul-Sep 97	2,115	2,032	83	187	24,070.3	17,668.5	73.4	8.19	7.83	15,080	3,245.5	1,918.0	59.1	42,159
Oct-Dec 97	2,085	2,015	70	479	22,662.2	15,800.1	69.7	9.20	8.89	14,178	3,066.2	1,733.2	56.5	40,865
Jan-Mar 98	2,063	1,871	192	98	22,102.1	15,257.8	69.0	9.33	8.47	13,308	2,993.8	1,669.2	55.8	40,974
Apr-Jun 98	2,297	1,923	374	194	22,818.3	17,567.1	77.0	10.07	8.43	15,302	3,107.6	1,895.9	61.0	40,846
Jul-Sep 98	2,208	1,938	270	142	23,267.3	17,639.5	75.8	9.49	8.33					40,390
Oct-Dec 98	2,121	1,943	178	104	23,318.8	16,112.3	69.1	9.10	8.33					
ANA														
Apr-Jun 97	SIX MONTH FIGURES													
Jul-Sep 97	3,928	3,829	99	50	39,702.7	25,742.0	64.8	9.89	9.65	20,730				
Oct-Dec 97	SIX MONTH FIGURES													
Jan-Mar 98	3,459	3,545	-86	-68	40,446.9	26,187.7	64.7	8.55	8.76	20,102				
Apr-Jun 98	SIX MONTH FIGURES													
Jul-Sep 98	3,399	3,355	44	73	42,415.9	27,404.4	64.6	8.01	7.91	21,449				
Oct-Dec 98														
Cathay Pacific														
Apr-Jun 97	2,037	1,858	179	138	28,172.0	20,044.0	71.2	7.23	6.60	5,208	5,074.0	3,613.0	71.2	
Jul-Sep 97	SIX MONTH FIGURES													
Oct-Dec 97	1,921	1,784	137	117	28,932.0	18,917.0	64.4	6.64	6.17	4,810	5,325.0	3,718.0	69.8	
Jan-Mar 98	SIX MONTH FIGURES													
Apr-Jun 98	1,677	1,682	-5	-20	28,928.0	19,237.0	66.5	5.80	5.81		5,208.0	3,481.0	66.8	
Jul-Sep 98														
Oct-Dec 98														
JAL														
Apr-Jun 97	SIX MONTH FIGURES													
Jul-Sep 97	5,325	5,016	309	169	56,060.9	39,748.3	70.9	9.50	8.95	16,020	8,555.0	5,705.2	66.7	
Oct-Dec 97	SIX MONTH FIGURES													
Jan-Mar 98	4,279	4,344	-65	-911	56,514.7	39,012.2	69.0	7.57	7.69	15,344	8,570.8	5,628.5	65.7	
Apr-Jun 98	SIX MONTH FIGURES													
Jul-Sep 98	4,463	4,262	201	133	58,439.5	40,413.9	69.2	7.64	7.29	16,008	8,959.7	5,725.4	63.9	
Oct-Dec 98														

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Airline group only.

Micro-trends

	Group revenue	Group costs	Group operating profit	Group net profit	Total ASK	Total RPK	Load factor	Group rev. per total ASK	Group costs per total ASK	Total pax.	Total ATK	Total RTK	Load factor	Group employees
	US$m	US$m	US$m	US$m	m	m	%	Cents	Cents	000s	m	m	%	
Korean Air														
Apr-Jun 97														
Jul-Sep 97	TWELVE MONTH FIGURES													
Oct-Dec 97	3,029	2,774	255	-234	58,246.9	40,190.3	69.0	5.20	4.76	25,580		9,737.7		17,139
Jan-Mar 98														
Apr-Jun 98														
Jul-Sep 98														
Oct-Dec 98														
Malaysian														
Apr-Jun 97														
Jul-Sep 97														
Oct-Dec 97	TWELVE MONTH FIGURES													
Jan-Mar 98	2,208	2,289	-81	-81	42,294.0	28,698.0	67.9	5.22	5.41	15,117	6,411.0			
Apr-Jun 98	SIX MONTH FIGURES													
Jul-Sep 98	860	958	-98	-11			57.2							
Oct-Dec 98														
Singapore														
Apr-Jun 97	SIX MONTH FIGURES													
Jul-Sep 97	2,549	2,171	379	402	38,125.4	28,216.7	74.0	6.69	5.69	6,135	7,231.9	5,091.5	70.4	27,777
Oct-Dec 97	SIX MONTH FIGURES													
Jan-Mar 98	2,336	2,080	256	258	39,093.6	26,224.3	67.1	5.98	5.32	5,822	7,303.0	4,951.5	67.8	
Apr-Jun 98	SIX MONTH FIGURES													
Jul-Sep 98	2,232	2,013	219	278	41,466.2	29,456.2	71.0	5.38	4.86	6,240	7,693.4	5,225.2	67.9	
Oct-Dec 98														
Thai Airways														
Apr-Jun 97	773	775	-2	11	11,352.0	7,583.0	66.8	6.81	6.83	3,700	1,620.0			
Jul-Sep 97	697	672	25	-1,050	11,462.0	7,668.0	66.9	6.08	5.86	3,500	1,639.0			
Oct-Dec 97	656	649	7	-661	12,144.0	7,715.0	63.5	5.40	5.34	3,800	1,712.0			
Jan-Mar 98	631	558	73	610	12,211.0	8,522.0	69.8	5.17	4.57	4,000	1,715.0			
Apr-Jun 98	586	583	3	-179	12,084.0	7,963.0	65.9	4.84	4.82		1,700.0			
Jul-Sep 98					12,118.0	8,769.0	72.4							
Oct-Dec 98					12,599.0	9,195.0	73.0							
Air France														
Apr-Jun 97	SIX MONTH FIGURES													
Jul-Sep 97	5,224	4,850	374	297			76.1							
Oct-Dec 97	SIX MONTH FIGURES													
Jan-Mar 98	5,126	5,079	47	18										
Apr-Jun 98	SIX MONTH FIGURES													
Jul-Sep 98	4,982			224			76.5							
Oct-Dec 98														
Alitalia														
Apr-Jun 97														
Jul-Sep 97	TWELVE MONTH FIGURES													
Oct-Dec 97	5,083	4,878	205	161	50,171.4	35,992.3	71.7	10.13	9.72	24,552				18,676
Jan-Mar 98														
Apr-Jun 98														
Jul-Sep 98														
Oct-Dec 98														
BA														
Apr-Jun 97	3,624	3,395	229	260	39,697.0	28,756.0	72.4	9.13	8.55	10,613	5,589.0	3,875.0	69.3	60,083
Jul-Sep 97	3,646	3,319	327	244	40,909.0	30,884.0	75.5	8.91	8.11	11,194	5,711.0	4,098.0	71.8	61,321
Oct-Dec 97	3,580	3,436	144	110	40,059.0	26,929.0	67.2	8.94	8.58	9,837	5,618.0	3,791.0	67.5	61,144
Jan-Mar 98	3,335	3,210	125	119	39,256.0	26,476.0	67.4	8.50	8.18	9,311	5,485.0	3,642.0	66.4	60,770
Apr-Jun 98	3,783	3,497	286	217	44,030.0	31,135.0	70.7	8.59	7.94	11,409	6,174.0	4,157.0	67.3	62,938
Jul-Sep 98	4,034	3,601	433	357	46,792.0	35,543.0	76.0	8.62	7.70	12,608	6,533.0	4,630.0	70.9	64,106
Oct-Dec 98	3,585	3,431	154	-114	44,454.0	29,736.0	66.9	8.06	7.72	10,747	6,277.0	4,111.0	65.5	64,608
Iberia														
Apr-Jun 97														
Jul-Sep 97	TWELVE MONTH FIGURES													
Oct-Dec 97	4,168	3,900	268	126*	37,797.6	27,679.2	73.2	11.03	10.32	15,432				
Jan-Mar 98														
Apr-Jun 98														
Jul-Sep 98	TWELVE MONTH FIGURES													
Oct-Dec 98					45,515.2	32,520.9	71.5			21,753				
KLM														
Apr-Jun 97	1,692	1,566	126	99	17,310.0	13,640.0	78.8	9.77	9.05		2,996.0	2,335.0	77.9	34,804
Jul-Sep 97	1,842	1,592	250	438	18,798.0	15,736.0	83.7	9.80	8.47		3,231.0	2,587.0	80.1	34,928
Oct-Dec 97	1,630	1,570	60	23	18,096.0	13,555.0	74.9	9.01	8.68		3,114.0	2,414.0	77.5	35,092
Jan-Mar 98	1,538	1,568	-30	528	17,598.0	13,240.0	75.2	8.74	8.91		2,981.0	2,250.0	75.5	34,953
Apr-Jun 98	1,702	1,572	130	105	18,600.0	14,290.0	76.8	9.15	8.45		3,177.0	2,365.0	74.4	35,666
Jul-Sep 98	1,865	1,675	190	121	19,363.0	15,984.0	82.6	9.63	8.65		3,359.0	2,583.0	76.9	33,586
Oct-Dec 98	1,673	1,661	12	-15	18,476.0	13,767.0	74.5	9.05	8.99		3,214.0	2,415.0	75.1	33,761
Lufthansa* **														
Apr-Jun 97	3,654	3,463	192	220*	32,109.0	23,465.0	73.1	11.38	10.79	11,618	5,505.0	3,893.0	70.7	57,901
Jul-Sep 97	3,721	3,418	303	321*	33,739.0	26,410.0	78.3	11.03	10.13	12,807	5,787.0	4,298.0	74.3	58,178
Oct-Dec 97	3,989	3,566	423	384*	30,209.0	21,691.0	71.8	13.20	11.80	10,839	5,457.0	3,919.0	71.8	59,630
Jan-Mar 98	2,902	2,860	42	223	23,763.0	16,239.0	68.3	12.21	12.04	8,808	4,621.0	3,171.0	68.6	54,849
Apr-Jun 98	3,507	3,081	426	289	26,132.0	19,489.0	74.6	13.42	11.79	10,631	5,078.0	3,575.0	70.4	54,556
Jul-Sep 98	3,528	3,167	361	198	26,929.0	20,681.0	76.8	13.10	11.76	11,198	5,231.0	3,748.0	71.6	54,695
Oct-Dec 98					25,530.0	18,259.0	71.5			9,819	5,204.0	3,676.0	70.6	
SAS														
Apr-Jun 97	1,379	1,151	228	178*	7,962.0	5,392.0	67.7	17.31	14.46	5,617				23,904
Jul-Sep 97	1,244	1,093	151	83*	8,084.0	5,598.0	69.2	15.39	13.52	5,325				24,168
Oct-Dec 97	1,334	1,204	130	63*	7,771.0	4,940.0	63.6	17.17	15.49	5,211				28,716
Jan-Mar 98	1,184	1,077	106	76*	7,761.0	4,628.0	59.6	15.25	13.88	4,863				24,722
Apr-Jun 98	1,323	1,149	174	107*	7,546.0	5,260.0	69.7	17.53	15.23	5,449				25,174
Jul-Sep 98	1,283	1,152	131	127*	8,283.0	5,843.0	70.5	15.49	13.91	5,714				26,553
Oct-Dec 98	1,368	1,266	102	46*	8,116.0	5,089.0	62.7	16.86	15.60	5,431				27,071
Swissair **														
Apr-Jun 97	1,787	1,724	63	76	17,464.4	11,880.7	68.0	10.23	9.87	7,643	3,340.6	2,291.9	68.6	10,163
Jul-Sep 97	SIX MONTH FIGURES													
Oct-Dec 97	2,084	1,946	138	147	18,934.8	13,770.8	72.7	11.01	10.28	6,352	3,536.4	2,538.1	71.8	10,132
Jan-Mar 98	SIX MONTH FIGURES													
Apr-Jun 98	1,907	1,780	127	86	18,983.8	13,138.7	70.5	10.05	9.38					9,756
Jul-Sep 98	SIX MONTH FIGURES													
Oct-Dec 98	2,187	2,070	117	165										10,396

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Pre-tax. **SAirLines' figures apart from net profit, which is SAirGroup. ***Excludes Condor from 1998 onwards.

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Keith McMullan
Aviation Economics
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