

European Cockpit Association 'Piloting Safety'

UPHEAVAL IN THE EUROPEAN SKIES

Low Cost Carriers in Europe:
Economic Data, Market and
Pilot Demand Forecast



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Low Cost Carriers in Europe: Economic Data, Market and Pilot Demand Forecast

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EUROPEAN COCKPIT ASSOCIATION

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Introduction



A threat to the safety of passengers, crew and the public living underneath flight paths; The cause of huge changes in the European aviation market affecting the cost and provision of air travel and a threat to the mature and professional industrial relations within the industry...

All these descriptions have been attributed to Low Cost Carriers (LCCs) following liberalisation at the end of the last century. The European Cockpit Association (ECA) published its first study of the LCC phenomenon in 2002 and we have again commissioned independent research into the sector. As this research confirms, reality is not as simple as the dramatic claims often made.

In this study we examine the contribution the LCCs have made to the growth of civil aviation. Their arrival has caused the established carriers to react, which has in turn provoked changes in the LCCs. The study shows a blurring of distinctions between the types of airline and demonstrates that there are 'good' and 'not so good' practices followed in all sectors of the industry – not just the LCCs.

Based on the study, ECA representing over 34.000 cockpit crew, has identified some key concerns.

- Firstly there is the emerging phenomena of incoherent safety and social regulations and their inconsistent implementation.
- Secondly the ramifications of growing competition in areas of safety is worrying.
- Lastly the lack of respect which that inappropriate competition encourages in the safety culture and the breakdown of the culture of respect between employer and employees.

These developments are unacceptable in an industry which relies heavily on its workers to deliver a safe, consistent and marketable product. These are all addressed in the study.

ECA is grateful to its Member Associations for their help in performing this study, to Europairs and Mr. Eckhard Bergmann in particular, for the detailed and well researched analysis of the available data, to ATI for access to one of the broadest and deepest sets of data available and to our own staff for their tireless work in bringing to publication a comprehensive and detailed body of work.

ECA does not wish this publication to be a sterile, cold document, though. Rather we would like it to be the stimulus to debate and dialogue which enhances the success of all parts of civil aviation across Europe. Please consider it an open invitation to engage us in debate around the issues the study raises!

Martin Chalk
ECA President

Chapter 1

The Business Model Migration



© Kari Voutilainen

Chapter 1 The Business Model Migration

Low Cost Carriers (LCC) are no longer the only airlines operating in the Low Fare Market. Since their appearance, LCCs have caused a shift in the airline business model. Some of the LCC passengers have come from the 'traditional airlines' (Full Service Carriers, Charter airlines and Regional airlines). For the most part (roughly two thirds) however, LCC have attracted new passengers that otherwise would not have travelled or would have travelled by other means. In doing so the LCC have created new opportunities for the travelling public and have created new jobs. The traditional airlines have reacted to the emergence of LCC and they now also serve the low fare market. As a result the clear distinction between Full Service Carriers, Charter Airlines and Low Cost Carriers is fading; the business model is migrating.

Actually the term "Low Cost Carrier" itself does not apply to one specific kind of airline. It is used for a range of low cost airlines: the 'core' low cost airlines (like Ryanair), low cost airlines (like EasyJet) and the mixed low cost / Charter airlines (like Air Berlin). One could even argue that airlines offering low fares on certain routes without having an LCC cost structure, can be seen as low cost carriers.

The impact of the LCC on the traditional airlines has been quite intense and they have reacted in trying to resist the pressure on their market share. Some Charter airlines have (partly) mutated into LCC combining their charter product with serving the low cost market. The Full Service Carriers have sometimes reacted by buying or setting up their own LCC (not always with good results) and by providing low fares on competing routes. They have all tried very hard to reduce costs and have withdrawn from unprofitable routes. For the time being, regional airlines are the least influenced by the LCC because they generally operate with small(er) aircraft, outside the big hubs on routes with low / not growing market demand. Where on the one hand the entrance of LCC into the market has caused the traditional carriers to react, the LCC in turn have started to compete in traditional airlines' territory in terms of routes and services.

Different experts have different views on what future market development will look like. However, it is safe to say that in the coming years, the *growth rate* of LCC market share is expected to drop. In 2010 the Low *Fare* market share can be estimated at one third of the total European market. This low fare market will be served by the LCC's as well as the Charter Airlines and Full Service Carriers. As a result all airlines will fight for the same passengers, at least in parts of the market.

In the future a clear distinction between different *products* offered to passengers will be more useful in seeking to describe and analyse developments than a distinction between *types* of airlines.

Chapter 2 **Economic Data, Market and Pilot Demand Forecast**



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Chapter 2 Economic Data, Market and Pilot Demand Forecast

Preface

This chapter will provide and analyse typical economic data – general European market data and special airline figures with appropriate comparisons of full service carrier and low cost carrier data. It will also provide a brief overview on the US LCC market.

Since the ECA's 1st study of this kind, issued in September 2002, the airline market has changed tremendously with many foreseen and unforeseen developments. This chapter assesses what has happened, how to explain it and what can be forecast for the future.

1. Methods and Sources Used

If one enters the term "Low-Cost-Carrier" into the "Google" search-engine the result is 1.460.000 hits. Since about the year 2001 numerous analyses, evaluations and comments have featured in the media but few try to add up what happened in the Low-Cost market as a whole, fewer try to forecast possible developments and these often rely on very few original comprehensive sources.

Market and airline analyses are difficult due to rapid changes, few economic data available and - concerning forecasts - the unpredictable future acceptance of the Low-Cost / No Frills idea in the market. The terms Low-Cost, No Frills and Low Fares are often mixed in publications and distinguished insufficiently. The present study tries to find solutions in drawing a clearer picture.

All forecasts have to be based on past developments; in this study by rating and comparing existing analysis and by own estimates. The pilot demand forecasts in section 10 are based on these findings.

Cost comparisons, especially crew-costs, are based on very few sources, are mainly carried out by own calculations.

This study analyses and compiles data and information mainly from

AEA¹, ATI², Doganis³, Collective Labour Agreements⁴, ELFAA⁵, Flight International⁶, IATA⁷, McKinsey⁸, Mercer Management Consulting⁹, EUROPAIRS data¹⁰

and various additional media as indicated.

2. Definitions: What is a Low-Cost Carrier, or is it a Low Fare Airline?

When passengers consider “Low-Cost” airlines, they think of travelling cheaply by air and generally do not care about the airlines’ costs. Some do ask, though, how these fares are possible. In terms of value for money, LCCs are rated among the best value airlines in passenger surveys¹¹.

Airline managements think about costs, and try to reduce them to meet market costs in order to offer competitive fares. Some buy (Lufthansa - Germanwings), some set up (KLM-Buzz, BA-GO, IBERIA¹²) and some mutate to a Low-Cost airline (Air Berlin, DBA). Some only reduce prices aggressively on certain routes to keep market share (SWISS and others) without necessarily having a

1 AEA Yearbook 2004

2 10-2005

3 „The Airline Business in the 21st Century“ - Doganis, Rigas , 2001 and the 2nd edition published 2006

4 The German, Spanish and US-agreements are public; other - more generic information provided through ECA

5 ELFAA - “Liberalisation of European Air Transport, The Benefits of Low Fare Airlines...”, 2004

6 various information as will be indicated

7 „Current Airline Industry Trends“ - Peter Morris, March 2002

8 Studies June 2003 and July 2005

9 Low-Cost Airline Study 2004

10 [EUROPAIRS](#) research

11 Doganis, “The Airline Business”, 2nd edition, Chapter 6.1

12 “Cinco Dias” and “Handelsblatt”, July 22th 2005

typical Low-Cost structure¹³.

In principle there are three kinds of Low-Cost airlines:

a. Core Low-Cost airlines (like Ryanair)

- Using mainly secondary airports
- No passenger services, "no frills"
- Tickets available in the internet or call-centres
- High seat density
- minimal station handling costs
- no extensive network, no feed to long-range flights etc.
- high aircraft utilisation by point to point operation and low variation in sector length¹⁴, sectors between 1 and about 2 hours, few above 2 hours
- using single aircraft type
- smaller administration/overhead costs
- high crew-utilisation and lower crew costs

b. Low-Cost Airlines (like easyJet), differences to core LCCs:

- Using mainly primary airports
- Sometimes do offer better passenger services for higher fares

c. Mixed Low-Cost / Charter airlines (like Air Berlin)

- Using mainly primary, but also secondary airports
- Flying charter and Low-Cost-passengers, sometimes on the same flight
- Sometimes better passenger services

The example airlines are also the "big three" in the European Low-Cost market and are taken as examples for the LCC-types throughout this evaluation.

All three categories of LCCs market low fares, with the "Core Low-Cost" airlines having by far the lowest costs and fares.

¹³ Refer to 7.1

¹⁴ A "sector" is one flight between two points.

There is a 4th group:

d. Airlines offering low fares on certain routes while not having a LCC cost structure.

So a clear distinction between Low Cost, Charter and Full Service Carriers (FSC) is no longer possible¹⁵. Passengers are looking for low fares, whoever offers them.

To take the airline organisations in Brussels

AEA	Association of European Airlines
IACA	International Air Carrier Association
ERA	European Regions Airline Association
ELFAA	European Low Fares Airline Association

some airlines are members of two associations due to their “dual role” in the market.

ELFAA has chosen to use LFA (Low Fare Airline) in its name and in its publications¹⁶. Obviously ELFAA wants to challenge some “Low Cost Myths” and is therefore using the abbreviation LFA.

Almost forgotten are the early expressions “Budget Carrier” (US), indicating low prices; or “No Frills”, indicating what kind of product is offered. These terms are not always true any more. Some LCCs are offering some “frills”¹⁷ - and charge for them.

This study continues to use the term Low-Cost-Carriers, “LCC”, because it is more concerned with airlines’ costs but sometimes also refers to “Low Fare Airlines”.

15 As will be discussed further in (6.), “Business model migration”

16 ELFAA - “Liberalisation of European Air Transport, The Benefits of Low Fare Airlines...”, 2004

17 EasyJet lounges for example

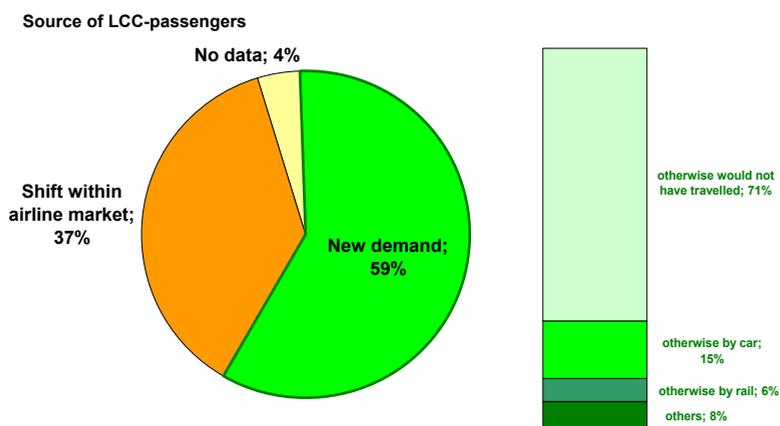
3. Where Are The LCCs' Passengers Coming From?

In its 2003-study¹⁸ McKinsey suggested

- LCC and FSC offers are complementary and
- Low Fares generate new customer groups to airlines and stimulate the market generally.

In the ELFAA study of 2004¹⁹, LCC-passenger sources have been evaluated as shown in Figure 1 (2002 data).

Figure 1: Source of LCC-passengers



Hapag-Lloyd Express indicated a mix of business and leisure passengers of 30/70 in autumn 2005; there are no other sources available on this interesting figure.

¹⁸ McKinsey, Business Breakfast - "Billigflieger in Europa", July 8th, 2003

¹⁹ Additional source: NFO Infratest, 2002; Monitor Group Analysis

Figure 2: LCC Market Share Europe

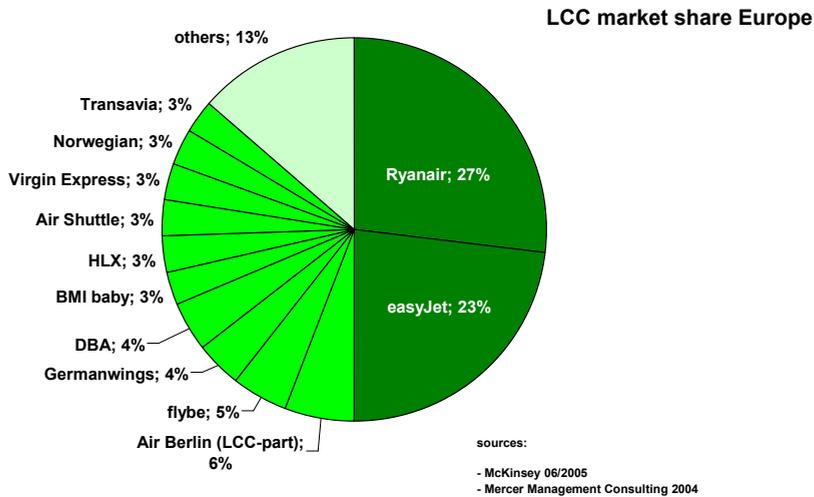


Figure 2 shows approximate European LCC market share; although not included here, Air Lingus' European division has about 7% according to AEA²⁰.

In his recent publication, based on March 2005 OAG-figures, Doganis²¹ describes average LCC market penetration of about 24% in Europe (in terms of seats offered, not tickets sold). The highest penetration was in the UK (46%) and Ireland (41%) followed by Belgium (24%), Germany and Switzerland (22%). Greece has the lowest LCC market penetration (3%) according to this evaluation.

4. How Do The Traditional Airlines React?

Traditionally there have been 3 kinds of airlines in Europe:

- Charter Carriers
- Regional Carriers
- Full Service Carriers (former "National Carriers", often state owned)

²⁰ AEA Yearbook 2005

²¹ "The Airline Business", 2nd edition, Chapter 6.4

4.1. Charter Carriers

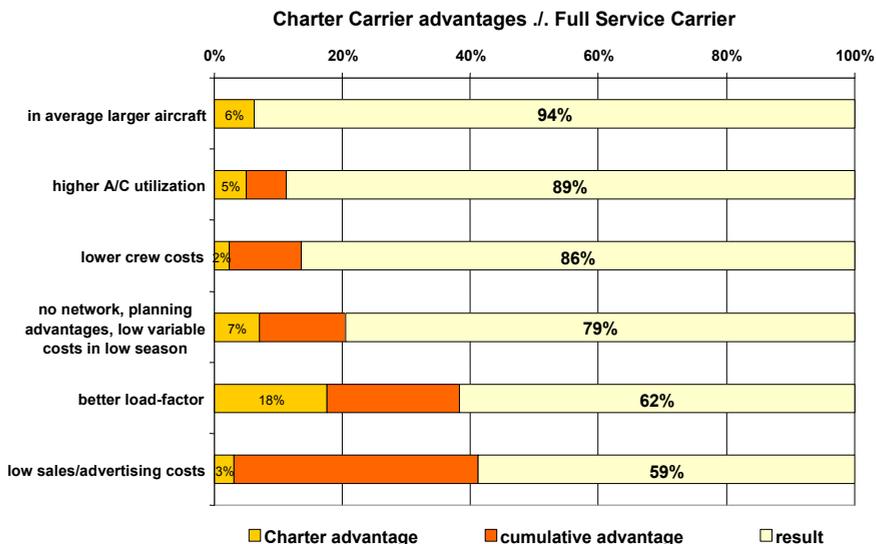
Before deregulation, Charter carriers mainly transported passengers who booked a holiday package tour. Within Europe, this traffic still had a volume of about 20% in terms of passenger numbers²² in 2000 following a high point of 25% in early 1990 and 23% in 1998²³. Since European air transport liberalisation the picture has changed.

The Charter carriers already had some important advantages over the FSCs like

- higher seat density (more seats per aircraft)
- higher average seat load factor (often above 85% instead of 60 to 75%)
- point to point flights (no route network)
- higher aircraft utilisation
- higher crew-productivity

Figure 3²⁴ shows these advantages; they add up to savings of around 40%+ in relation to FSCs. Charter carriers were the 'early' LCCs.

Figure 3: Charter Carrier advantages ./. Full Service Carrier



²² Mercer Management Consulting 2004

²³ McKinsey 2003, sources: AEA, ERA, IATA, Airline Business, annual reports, Air Transport World

²⁴ Europairs GmbH research

Also in relation to LCCs the Charters have some advantages²⁵:

- generally larger aircraft
- higher aircraft utilisation by flying at night where airports have no/low restrictions
- high daily frequencies are not important
- higher load-factor (85-90% compared with 75-85%)
- lower sales and advertising costs (a high percentage of flights/seats are pre-sold to tour operators)

The one major disadvantage for Charter carriers is their seasonal operation as long as they fly to European holiday destinations only. Some of them have tried (with varying success) to offer long-haul holiday destinations, and wet leasing parts of their fleets in the European low season.

Some of the Charter carriers were restricted to being part of a package tour, others - some aggressively - sold "seat only tickets" on their existing routes. This difference is highly dependent on the question of how independent they were from the tour operators.

For a long time the Charter carriers felt safe from LCC competition, but this has changed with the LCC attack on traditional European charter routes, accompanied by a market shift from package tours to booking the flight, hotel and other holiday requirements separately. Spanish holiday destinations are the most popular, with nearly 20 LCCs operating to destinations such as Palma (the number 5 Low Cost airport in Europe by the number of flights), Malaga and Barcelona²⁶.

Integrated tour companies like TUI are working hard to evaluate customers' future behaviour. TUI has created their own LCCs; Hapag-Lloyd Express in Germany and Thomsonfly in the UK, the latter amalgamated with Britannia under the common brand of Thomsonfly.

Other Charter carriers, namely Air Berlin, the number 3 LCC in Europe, has partly mutated from a Charter carrier to a LCC, with extreme growth rates over the recent past (average 20%+ since 2001 in terms of number of aircraft).

²⁵ Partly from "The Airline Business", Doganis, 2nd edition

²⁶ Anra Aviation Consulting, "The European Low Fare Airline Compendium", quoted in ATI 2005-09-15

LTU started its "city-quickies" to European destinations in November 2005 and Condor is expected to follow with low fares to 8 European cities from Munich in April 2006²⁷.

4.2. Regional Carriers

Regional carriers fulfil two functions in the market:

- feed into FSC hubs (especially when they are owned by a FSC)
- point to point operation outside the big hubs

In the feeder function the Regionals are relatively safe from LCCs. LCCs would not act as feeder airlines with all their disadvantages. Here the Regionals only fear the FSCs when the market calls for larger aircraft at the same frequency.

What the Regionals have in common is aircraft size, which is normally well below 100 seats; this is their advantage outside the big hubs as long as they are not operating routes with high or growing market demand. This is where the LCCs with their B-737's and A-319/320's would attack²⁸.

4.3. The Full Service Carriers

They fear

- LCCs like easyJet, Air Berlin and Hapag Lloyd Express as they compete on dense European routes with (very) low fares and
- "Core-LCCs" like Ryanair as long as there is a passenger drain to secondary airports

²⁷ According to "Handelsblatt" and "La Tribune", 2006-01-11

²⁸ McKinsey 2003

FSCs attack LCCs

- with low fares (without really low costs!) on competitive routes²⁹ and
- buy or set up their own LCCs (British Airways³⁰, Iberia³¹, KLM³², Lufthansa³³). They fear the “drain” to LCCs (Figure 1) but they also fear it if they create their own LCC; in house competition, weakening of their own brand and resulting lower average yields
- they try hard to reduce costs
- they withdraw from unprofitable routes with the gap often at once filled by an LCC³⁴

Recently Lufthansa started an “experiment” in Hamburg with 6 aircraft operating “like an LCC”; simultaneously Lufthansa’s partly owned LCC, Germanwings, named Hamburg as a new base. CEO Wolfgang Mayrhuber is promoting “in house competition” and said that in terms of Low Fare tickets sold, his airline is a big Low-Fare carrier³⁵ already.

Air Lingus’ short haul operation completed the transition to a rigorously-applied no-frills business model with a LCC market share of 7% in summer 2005³⁶.

British Airways Citi-Express will adapt the LCC model from March 2006; on the market it will appear as “BA Connect”. Fares for flights to Birmingham, Bristol and Manchester will fall up to 40%. The business passenger can book the “BA Connect Plus”-Tickets with seat reservation and admission to BA lounges.

29 “Swiss in Europe”, a low fare product of SWISS to rise load-factors since Sept. 2003, is an example “Die Welt”, September 2005: Hamburg-Rome - Lufthansa from € 43 + tax + ticket charge; Air Berlin € 176, -

30 British Airways set up the LCC “GO” to take part of the Low-Cost boom but sold it 2002 to EasyJet

31 Not clear yet what Iberia plans; at least cutting unprofitable routes (advisory board decision 10/2005)

32 Ryanair bought BUZZ, former KLM-UK, in January 2003

33 Germanwings

34 IBERIA (Barcelona) > Air Berlin; SWISS (Basel) > easyJet

35 In “WirtschaftsWoche, 2005-10-20

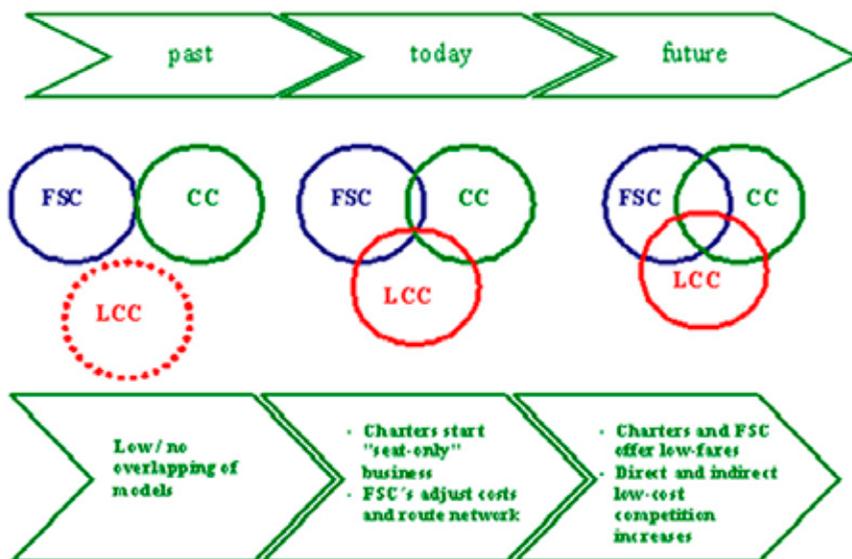
36 AEA Yearbook 2005, page 8

5. Business Model Migration

The entrance of LCCs into the market led to “traditional” carriers reacting as discussed in the previous section. The LCCs have in turn reacted by growing into traditional airline territory in terms of routes and services. IATA’s Giovanni Bisignani³⁷: “We have to become a low-cost industry”; and with reference to IATA-carriers’ problems with recent oil-price increases, Anthony Bor³⁸ says that in ten years there will be no more point to point traffic on traditional carriers outside of their hubs.

McKinsey showed this migration³⁹ (CC = Charter Carriers):

Figure 4: Business Model Migration



As a result all airlines will fight for the same passenger, at least in parts of the market.

³⁷ Former ALITALIA CEO in June 2005, “Handelsblatt”

³⁸ of Merrill Lynch in “Touristik-Report” 5/2005

³⁹ McKinsey “Business breakfast” June 2005

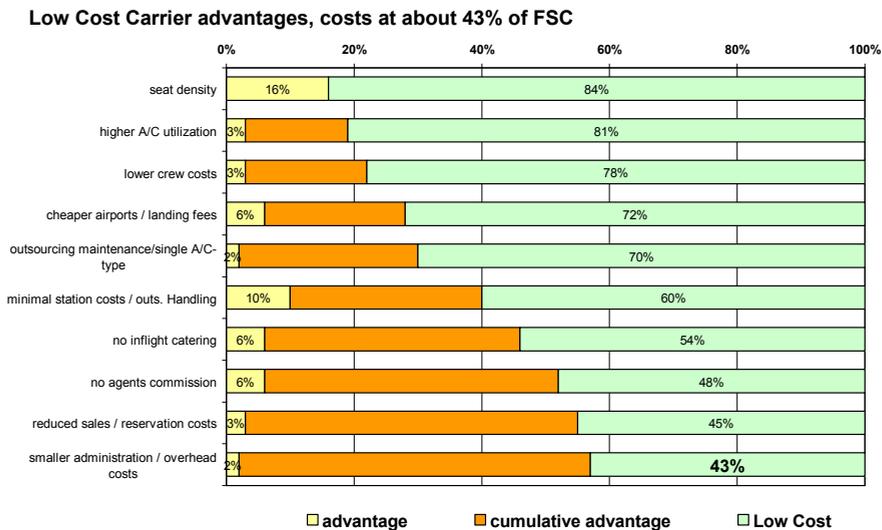
6. Low Cost Carrier Cost Advantages

6.1. Possible cost advantages of a core LCC in relation to typical FSCs

Figure 5⁴⁰ shows the cost positions where LCCs have advantages over FSCs. Even though there are differences between each LCCs' actual costs, the graph clearly shows that there are accumulated saving possibilities which cannot be matched by FSCs due to

- existing structures
- network requirements
- the need of an integrated network and
- of a network serving the FSCs long-range flights
- the need to serve major airports (with high fees)
- the need to offer a premium service

Figure 5: Low Cost Carrier advantages, costs at about 43% of FSC



⁴⁰ Compiled from „The Airline Business in the 21st Century“ - Doganis, Rigas , 2001 and Europairs research; comparable with figure 3

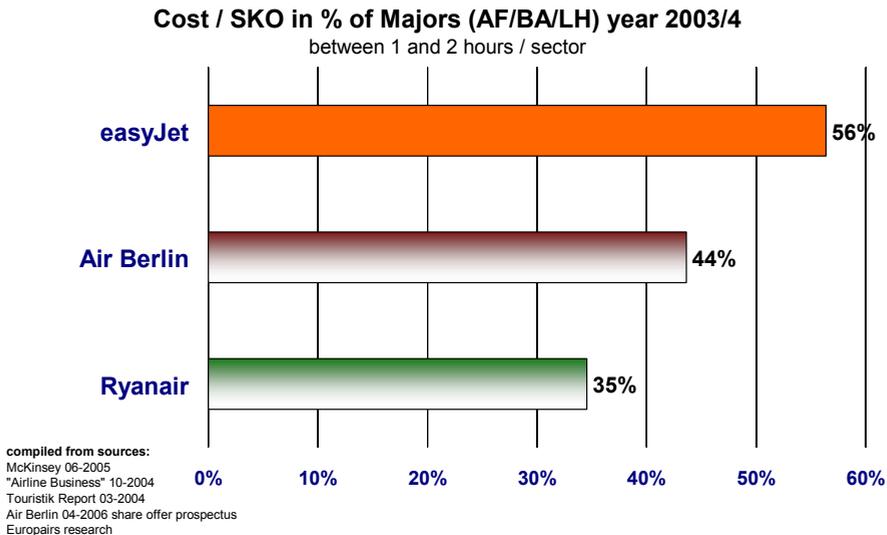
This is a graph with theoretical savings fully achievable for “core LCCs” like Ryanair only.

6.2. What is the approximate cost reality in today’s LCC market?

“A one hour’s flight must cost about € 80,-”, said Hinrich Bischoff⁴¹, owner of GERMANIA, after he bought shares of DBA in April 2005 and sold them a few month later, leaving his ex GEXX⁴² F-100 wet-leased to DBA. The LCC-model with tickets sold for € 19, or € 29,- will not have a chance in the long term, he added. “Who has higher costs than € 80,- per seat will not have a chance in future”, said Dieter Schneiderbauer from Mercer Management Consulting⁴³.

On intra-European routes FSCs operate at about 9 - 12 €cents per seat-km while LCCs fly at about 4 - 7 €cents⁴⁴. The following figures 6 and 7 are compiled from McKinsey⁴⁵ and various sources as indicated.

Figure 6: Cost / SKO in % of Majors (AF/BA/LH) year 2003/4



41 manager-magazin and STERN, 07/2005, Bischoff died on November 11th 2005

42 GEXX = Germania Express, an LCC which ceased operations after a short time with the DBA deal

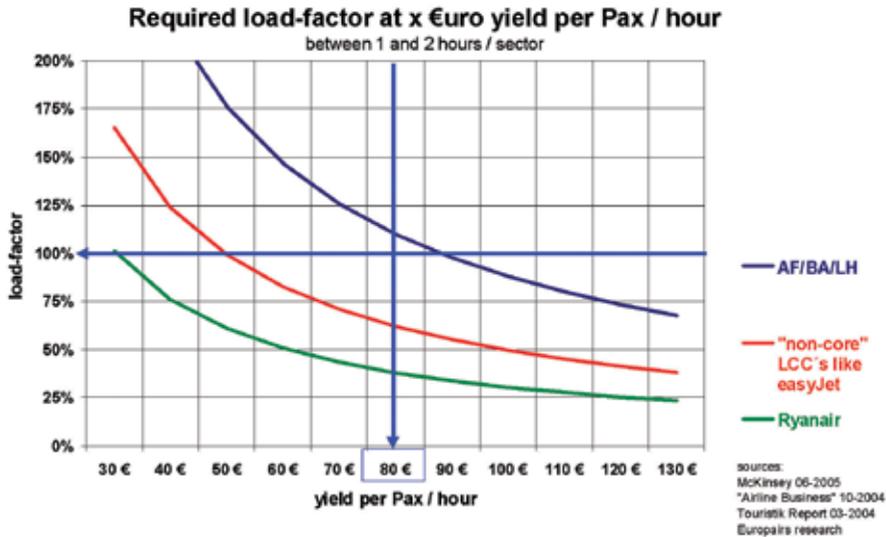
43 “Handelsblatt”, April 15th 2005

44 Charters in the range of about 5 - 7,5 €cents

45 “Business Breakfast” June 2005

Compared with Figure 5, Ryanair - as a core LCC - has an even better than "theoretical" cost base⁴⁶. Against this background the following graph has been compiled.

Figure 7: Required load-factor at x Euro yield per Pax / hour



The graph (Figure 7) shows that the quoted maximum costs / minimum yield of € 80,- per seat make sense at least for carriers who are not "core-LCCs" like Ryanair.

According to McKinsey (2005) Ryanair's break even load factor was about 64% in 2004 (actual load factor; about 85%) and EasyJet (actual load factor 2004/5 about 85%) needed about 80% to break even. These figures have increased since year 2000 due to an average yield decline of 3,6% (EasyJet) and 7,3% (Ryanair)⁴⁷.

⁴⁶ But true only in relation to the chosen FSCs AF/BA/LH

⁴⁷ See also "yield per pax" in Figure 7

6.3. (Flight) Crew Cost Savings in LCCs and LCC Operations

In Figure 5, it is assumed that crew costs may give a 3% saving. In a FSC crew costs vary between about 10 to 14% of total costs. The assumed 3% can be drawn from

- higher crew productivity
- fewer overnights and less positioning (non working transportation of crew)

Higher Crew Productivity

- point to point operation out of fixed hubs/homebases
- sector-length average 1,5 hours (1-2 hours)
- shorter aircraft turnaround times (20-30 min.)
- average 8 sectors per aircraft per day
- average of 4 sectors per crew per day, without any duty or rest time restrictions (for the day and - as importantly - the following day)
- aircraft and crews at homebase in the evening

Aircraft and Crew-utilisation is higher than in a typical Full Service Carrier operation with

- the need of mixed point to point and feeder operation
- higher sector length variation (1-4 hours)
- longer average turnaround times (feeder -ops.)
- aircraft and crews often not at same airport/homebase in the evening

LCC crews can make up to 6 block hours per day on average, while FSC European traffic crews are operationally limited to about 4 hours/day. While FSC crews seldom reach the EU annual limit of 900 block-hours⁴⁸, LCC crews may often come close to it due to the higher average daily block-hours⁴⁹.

⁴⁸ EU directive 79/2000

⁴⁹ 900 block-hours p.a. divided by 6 hours/day result in a relatively low figure of max. 150 duty-days p.a.

These differences lead to a 25% higher LCC-crew-productivity hence requiring 20% fewer crews⁵⁰ than an FSC for the same number of flown block-hours in their network. This corresponds with the higher aircraft utilisation in LCCs (up to 10.5 - 12 hours / day) compared to FSCs (between 8.0 - 9.5 hours / day) on intra European routes.

The lower or even no overnight and crew-transportation costs, which may well be around 10% of total crew-costs, together with 20% fewer crews required add up to about 30% crew-cost savings without any lower salaries per employee.

LCCs currently have additional flight crew cost advantages:

- even with the same salary scale many LCCs are in their early years and therefore have a lower actual average salary bill
- FSCs' higher pension costs/provision does not generally exist in LCCs
- Lower initial training costs because LCCs often employ only aircraft-type-rated pilots, or they ask for some kind of 'bonding'⁵¹ for the rating costs⁵². Both practices are not typical for FSCs.

LCCs in general have relatively high salaries for new flight crew entrants - in relation to their total salaries - but often have few or only one salary step(s). This avoids future automatic pay increases, which is often in contrast to FSCs' typically longer scales.

In the past, companies and unions tended to recognise seniority in salary, rather than productivity; this picture seems to be slowly changing. Lufthansa board member Stefan Lauer asks unions for "competitive salary scales to replace the 30 year old structure"⁵³. For some analysts, this is seen as an attempt to reduce the starting salaries as well as the maximum salary reachable.

50 FTE's < Full Time Equivalent employees

51 A pay back scheme for type rating costs (sometimes only when leaving the company)

52 B-737 type-rating costs are presently about € 22.000,- 25.000,- per pilot

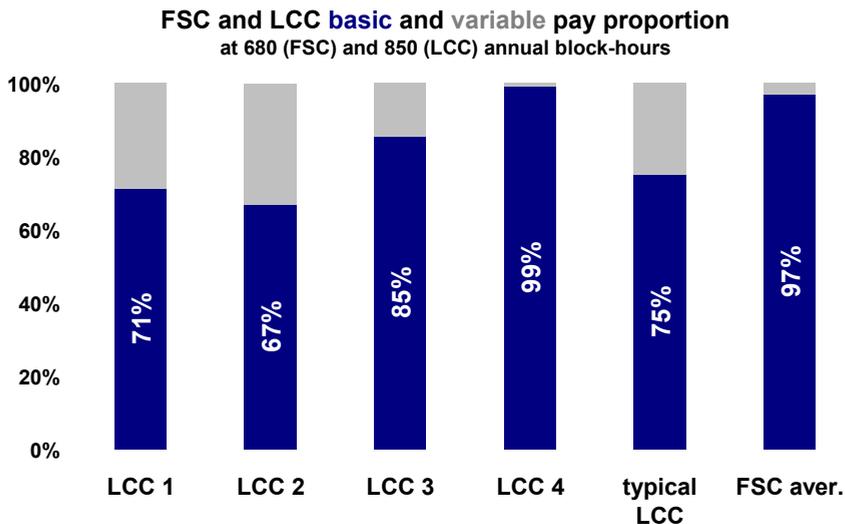
53 "Handelsblatt" 2005-10-05

ELFAA⁵⁴ claims that “the overall (*employee*) package is similar to, if not better than traditional airlines” and is also mentioning that flight crew are incentivised through their salary structure.

One structural element which is typical in almost all LCCs in Europe is the up to 40% portion of variable pay, based either on sector-pay or payment for every flown block-hour on top of a relatively low basic salary. This gives savings in times of low production and removes pressure for redundancies. On the other hand LCC crews are encouraged to fly many block-hours⁵⁵ to increase their monthly income substantially. This in turn keeps crew-productivity high.

In the next figure 8 some typical pay-relations are shown. The LCCs seldom use pay incentives only at high monthly block-hours. LCC 4 is shown as an exception to the rule. In LCC 2 a pilot can double his basic monthly salary with 110 block-hours. LCCs 1 and 2 are airlines without union collective agreements, LCC 3 and 4 do have collective agreements.

Figure 8: FSC and LCC basic and variable pay proportion



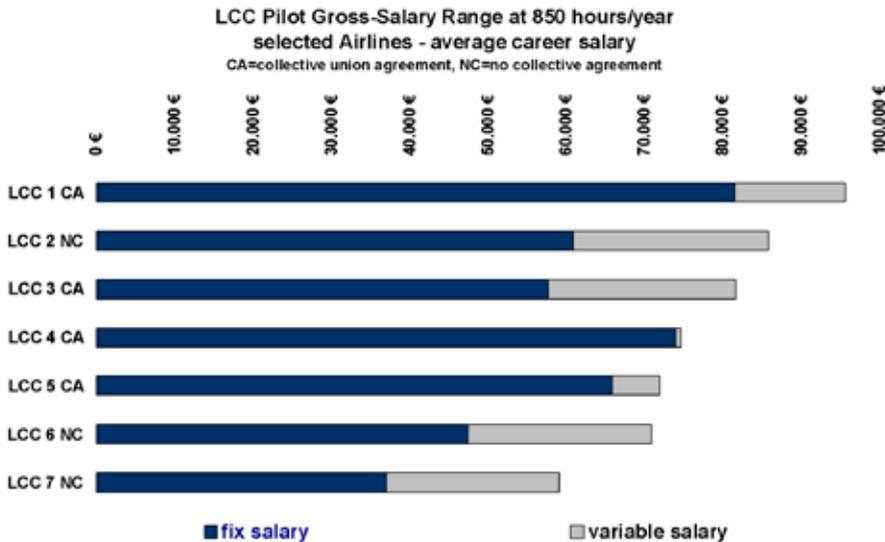
54 ELFAA, “Liberalisation of Air Transport, The Benefits of Low Fare Airlines...” 2004

55 “Block hours”: the actual hours calculated when an aircraft is moving on the ground/in the air.

FSC data are drawn from an average of Air France, British Airways, Iberia, KLM, Lufthansa and SAS⁵⁶.

Salary data and their differences say little about the real crew cost differences. Even with a relatively high salary scale an LCC which is expanding rapidly has more flight crew in the lower salary steps and hence relatively low salary costs per FTE⁵⁷. While LCCs are presently expanding 3 to 4 times quicker than FSCs or charter airlines, a salary scale comparison therefore makes little sense and has not been compiled. LCC pilot salaries vary considerably, as shown in figure 9 (average captain/first officer); the highest is 165% of the lowest. The LCC numbers do not correspond with those in figure 8.

Figure 9: LCC Pilot Gross-Salary Range at 850 hours/year



Some of the LCCs pay an annual bonus related to the company's overall performance / operational results (e.g. EasyJet).

Flight Crew salaries and scales differ considerably across the European industry and these differences are not linked to airline type. The best-paying LCCs pilot average salary in Europe is close to some FSCs-scales and above some Charter airlines salaries.

⁵⁶ EUROPAIRS research, based on 2003 data

⁵⁷ Full Time Equivalent employee

What is generating additional crew cost differences is the non-harmonised European social- and tax-law situation. Costs of employment are determined to a high degree by these laws which makes a pure salary scale comparison even less relevant.

6.4. Conclusions

The figures in a salary scale depend much more on whether there is a collective union agreement or not, rather than whether the airline is an LCC or not.⁵⁸

Flight crew cost differences depend much more on

- productivity, determined by the kind of operation,
- the degree of airline growth and
- the applicable social and tax laws

Salary figures depend primarily on the market conditions for crews in the respective home country and on its cost of living.

As described in section 5, the business models of airlines have tended to migrate into each other. High demand for pilots across the industry may force LCCs to adjust their terms and conditions. At the 10th BALPA⁵⁹ employment opportunity conference in autumn 2005 there were already some indications of greater pilot demand in the near future. EasyJet for example needs some 200 additional pilots in 2006, and a further 29 airlines represented at the conference will expand in 2006 with substantial pilot demand.

It is therefore not accurate to equate low salaries or low crew costs per crew member with LCCs.

58 About 50% of LCC pilots do have collective union agreements. Some LCC operators do not encourage - others actively discourage - flight crews' free choice of trade unions.

59 British Airline Pilot Association

7. Economic Data Comparison

Mercer Management Consulting and McKinsey made some LCC result evaluations shown in the following graph:

Figure 10: LCC result evaluations by Mercer Management Consulting

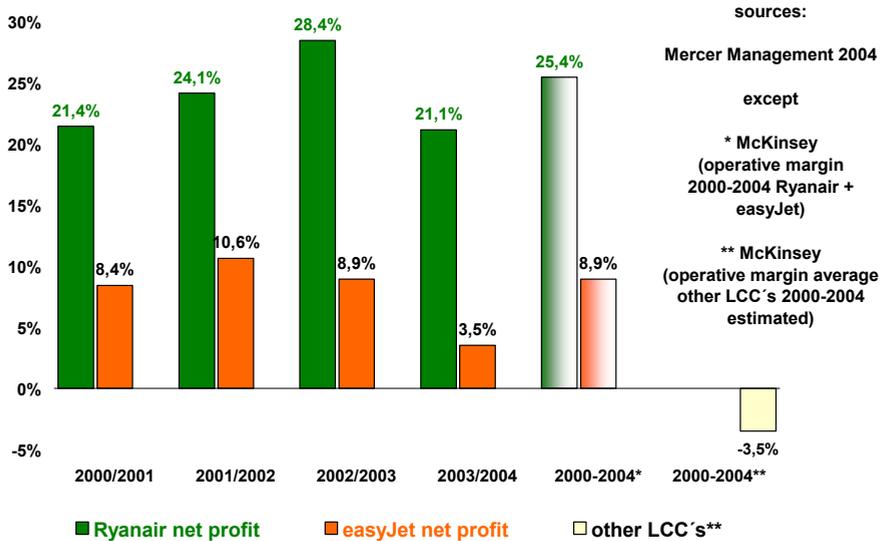


Figure 11: Operating Margins 2004 - as a reference comparison

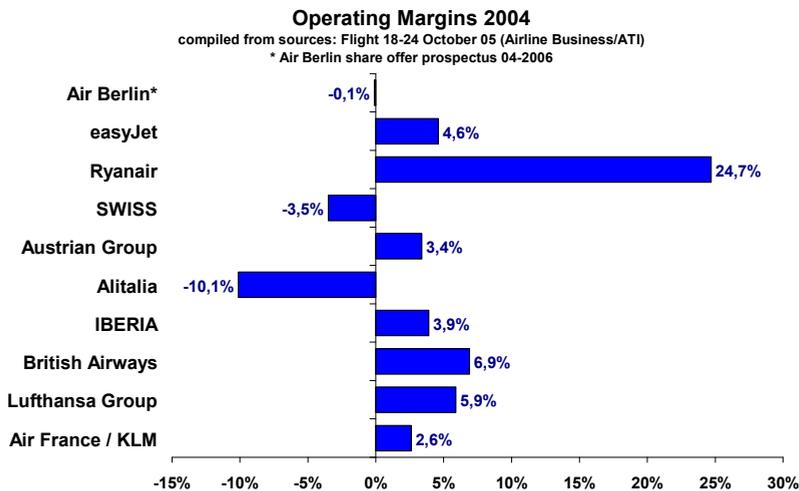


Figure 12: Data from selected European Airlines

selected airlines compiled from FLIGHT 18-24 October 2005 € / US\$ 2004: 1.25 - 2003: 1.15	Air France / KLM	Lufthansa Group	British Airways	IBERIA	Alitalia	Austrian Group	SWISS	Ryanair	easyJet	Air Berlin*
Pax 2004 (mio.)	64,1	50,9	35,7	26,7	22,3	9,4	9,2	27,6	25,7	12,1
Revenues 2004	19.243 €	16.881 €	11.534 €	4.716 €	4.054 €	2.362 €	2.269 €	1.348 €	1.564 €	1.047 €
Revenue per Pax	300 €	332 €	323 €	177 €	182 €	250 €	247 €	49 €	61 €	81 €
Operating result (mio.) 2003	407 €	-145 €	599 €	138 €	-375 €	63 €	-457 €	255 €	68 €	-53 €
Operating result (mio.) 2004	493 €	999 €	797 €	186 €	-410 €	79 €	-79 €	332 €	72 €	-1 €
Operating margin 2003	2,30%	-0,90%	5,40%	3,10%	-8,80%	2,80%	-17,50%	23,20%	5,20%	-6,10%
Operating margin 2004	2,60%	5,90%	6,90%	3,90%	-10,10%	3,40%	-3,50%	24,70%	4,60%	-0,10%

* source: Air Berlin share offer prospectus 04-2006

Note Air Berlin's high revenue per passenger in relation to Ryanair and easyJet. This is due to the mixed charter/Low-Cost operation with a relatively high average sector length of 2,16 hours. Air Berlin's LCC revenue per passenger is not available separately.

European LCC economic data, other than EasyJet and Ryanair, are difficult to source. McKinsey estimated an average operating margin of -3,5% from year 2000 to 2004⁶⁰. Together with fuel price development and expected overcapacity, this leads most commentators to predict market consolidation within the next few years⁶¹.

8. The Fuel Trap

In the previous cost considerations the rapid increase of jet fuel prices in the last two years was ignored. Ryanair's O'Leary stated, that

- "Ryanair will never apply a fuel surcharge, not now, not ever,"...⁶²
- The higher the fuel price the more of our competitors will have to leave the market⁶³.
- Ryanair will still be profitable with an oil price of 100 US \$ / barrel... and is currently hedged to the end of March 2006 at rates equivalent to US \$49 a barrel"⁶⁴

⁶⁰ See figure 9

⁶¹ See chapter "Market Development"

⁶² (AFX UK Focus) 2005-09-20

⁶³ www.faz.net 2004-12-20

⁶⁴ Dow Jones Newswires 2005-09-20

All airlines have had to cope with the present⁶⁵ oil-price of 55 to 65 US \$ per barrel (average 2005: 54 US\$), which is more than double its 2003 level (average 29 US\$; 2004: 38 US\$). Many do not have the financial ability to hedge fuel prices, either.

"In 2003 it (*fuel cost*) was just 12% of total costs for IATA carriers, which contrasts sharply with the 24% it represents today"⁶⁶.

Hedged or not, for LCCs rapidly increasing fuel prices are an even higher burden than for FSCs in relation to total costs. So LCCs' fares would have to increase by a higher percentage than the FSCs' extra fuel charges do.

FSCs implemented (and increased) fuel surcharges while LCCs adjust their prices with yield management. Both are in the position to at least partly compensate for their fuel induced cost increases. Charter Carriers, who agree ticket prices months ahead with tour operators are affected most, as they are not able to react in short term⁶⁷.

9. Market Development

Much discussion in analysis and media reports can be observed on the long predicted "bloodbath"⁶⁸ within the Low-Cost sector.

Mercer 2004:

"We expect a strong market consolidation in the Low-Cost segment. In 2010 it will be dominated by 3 to 4 big LCCs. Smaller airlines will also have a chance in niches."

Philippe Vignon, marketing director easyJet in "www.netzeitung.de", March 16th 2005:

"In 5 years (2010) there will be - besides some niche airlines - only 3 big LCCs."

65 October 2005

66 Brian Pearce, IATA Chief Economist in "Flight International" 18-24 October 2005

67 Dieter Schneiderbauer of Mercer in "Touristik Report" 22/05

68 Ryanair's CEO 2004

The “bloodbath” has not yet happened, although the market is volatile. Volare (Italy), DUO (UK), V-Bird and Germania Express (Germany), Snowflake (Sweden) and Air Polonia (Poland) for example have left the market while others have joined it: Air Lingus (Ireland, short-haul section), Helvetic (Switzerland) and Vueling (Spain). Basiq Air was merged back into parent Dutch charter carrier Transavia.

In 2002 easyJet bought “GO” and almost simultaneously planned to buy German DBA, although the DBA plan was abandoned in 2003. In January 2003, Ryanair bought BUZZ; these have so far been the most important takeovers.

Among the smaller players, Danish carrier Sterling has agreed to buy Iceland Express. Others are focusing on marketing agreements; Germanwings - for example - has deals with bmibaby and Centralwings, while Air Berlin has developed a close relationship with Austrian leisure carrier Niki and has held a 24% stake since Jan. 2004⁶⁹.

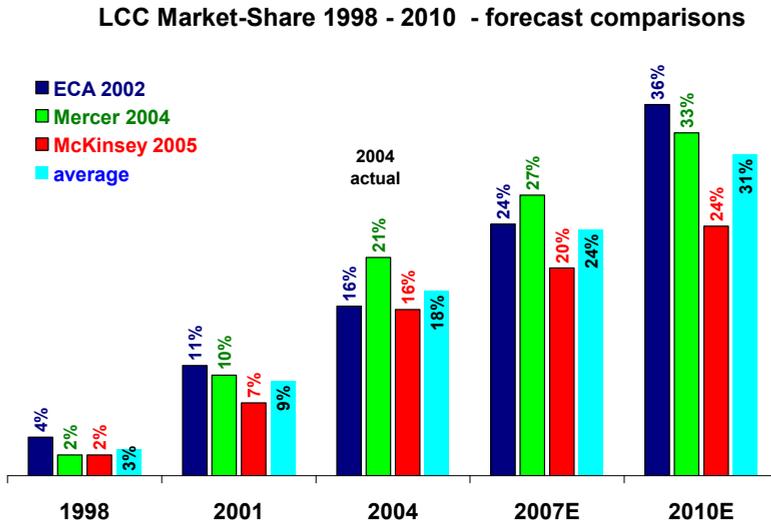
The number of LCCs in Europe has reached 50+ compared with only 12 in year 2000. It is therefore easy to say there will be market consolidation, harder to predict to what extent. 3 to 4 big LCCs is widely predicted⁷⁰ and the total number of LCCs will reduce substantially when looking at the estimated -3,5% average operating margin in Figure 10.

In 2002 the LCC growth rate until 2010 was estimated at 20 to 25% annually. Since then, this estimate has been reduced to 15% p.a. (2004 to 2007) and 11% p.a. (2007 to 2010) in the McKinsey 2005 study. These differences are reflected in the next graph⁷¹:

69 ATI airline data

70 See Figure 2

71 In graphs 13 to 15 the sources figures partly have been interpolated to make them comparable.

Figure 13: LCC Market-Share 1998-2010 - forecast comparisons

Mercer is still more optimistic about the LCC market share in its 2004 studies than McKinsey 2005.

Against the background of business model migration which has been forecast by several commentators, these market share developments should be read with extreme care. At the very least, the classification "LCC Market Share" should be changed to "Low Fare Market Share" as the forecasts do not distinguish between the airlines offering the Low-Fare product.

Consequently the market share migration does not necessarily mean that today's charter carriers or FSCs will lose market share in this proportion. It depends on their will and/or ability to change their business to suit market needs.

Figure 14: Mercer Management 2004

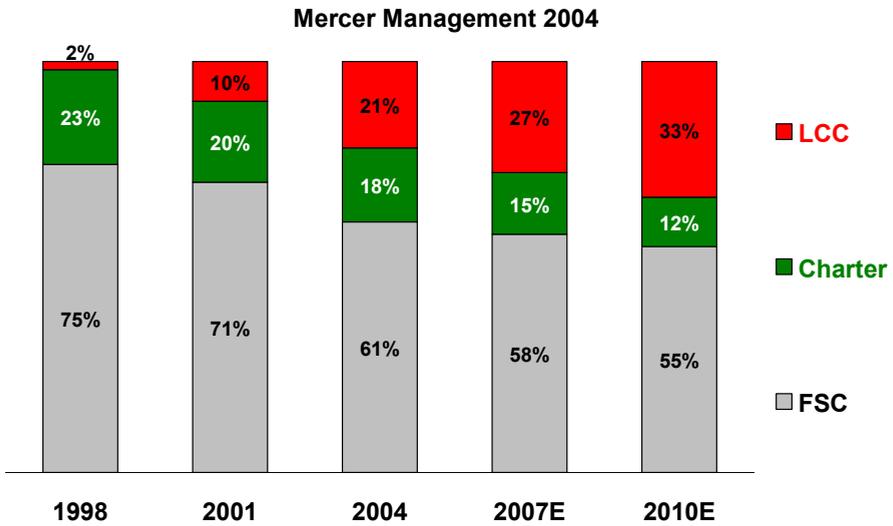
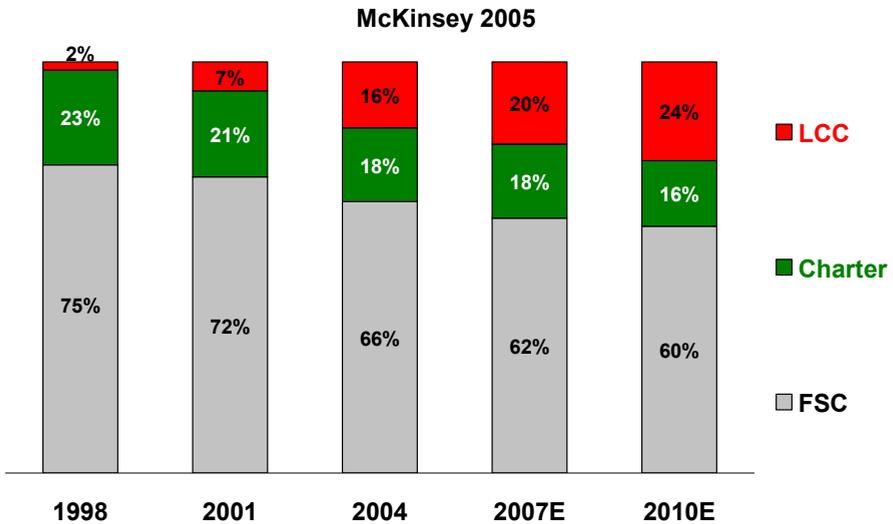


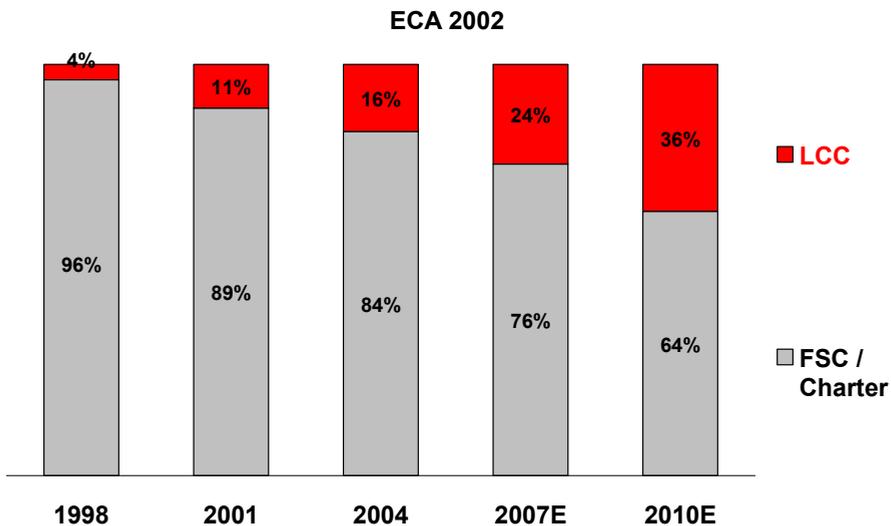
Figure 15: McKinsey 2005



The ECA 2002 study did not distinguish between FSC and Charter, but the 2004 16% LCC market share was forecast correctly. The 2005 predicted decline in LCC growth rate to 2010 by McKinsey was not seen by anybody in 2002. At that time the ECA forecast was the most conservative. Today some industry sources still see 33% in year 2010 as reasonable.

“Despite speculations that the rate of growth of European LCC development was slowing down, over 30% (= 400) of all LCC-routes operated during summer 2005 were started in 2005. Just over 25% were started in 2004 - meaning that over 50% of all LCC-routes currently operated have been started in the last two years.”, says *The European Low Fare Airline Compendium (TELFAC)*, which assesses some 30 LCC operations across more than 230 airports⁷².

Figure 16: ECA 2002



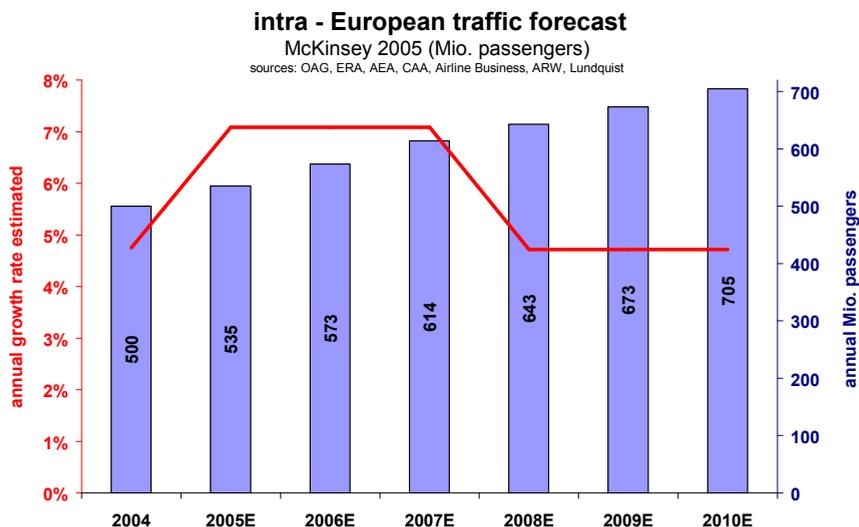
The “Low-Fare-Market-Share” can be estimated at 30-33% for the year 2010 while the pure LCC- market share may be lower, depending on who will offer Low-Fare tickets and to what extent⁷³.

⁷² “TELFAC Winter 2005”, Anra Aviation Consulting, quoted in ATI, 2005-09-15

⁷³ See also “Business Model Migration”

The 2005 McKinsey study also gave some indication about total intra European market growth in terms of passengers (see next graph).

Figure 17: intra - European traffic forecast



There are other sources - namely a recent Arthur D. Little study quoted in "Touristik Report" 25/05 and "Financial Times Deutschland" - who see LCC growth rates falling substantially over the years to 2010. "In 2004 the rates were 24%, 2005 they will be at 20% falling to an average of 12% annually."⁷⁴ The study sees annual LCC growth rates at 5 - 10% until 2010. According to the study too many aircraft have been ordered⁷⁵; in 2010 an overcapacity of about 40 M. seats will exist, with a significant part of these in Germany.

2005 growth rates in terms of passengers were 12,5% at Air Berlin (total 2005 13,5 million), 21% at EasyJet (total 2005 29,6 million) and about 20% at Ryanair (total 2005 33 million).

If the Low-Fare market-share reaches about one third as predicted by some industry sources the picture will approximately look like Figure 18. Note that here the term "LCC" and "FSC" have been changed to "Low-Fare" and "Full Service" respectively due to business model migrations. Charter would lose more share than McKinsey assumes

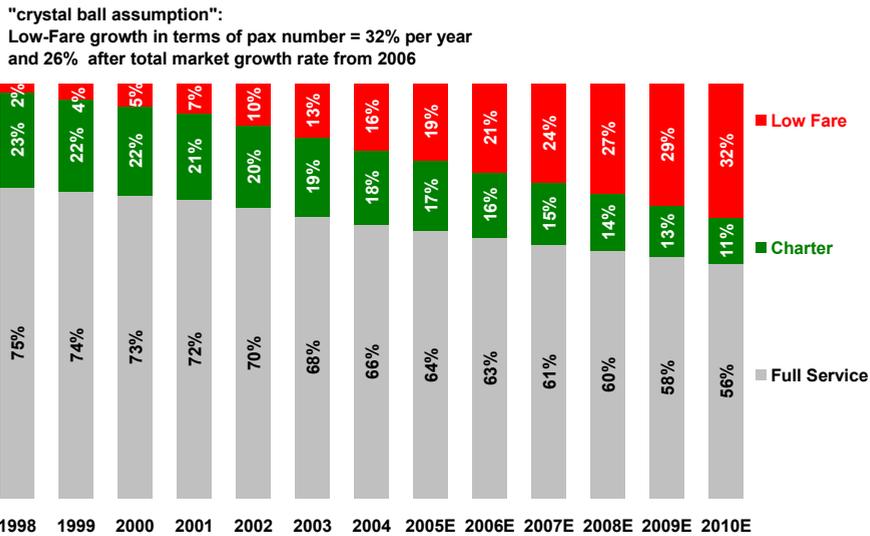
⁷⁴ Arthur D. Little quoted in FTD 2005-11-17

⁷⁵ and obviously assumes all ordered aircraft will be operated additionally rather than partly replace older ones

but this means that today's charter seats are partly future Low-Fare seats on the same aircraft in the same company. The equivalent is valid for today's FSC seats.

Figure 18 is a "what if ?" scenario which tries to show the possible market trends.

Figure 18: "crystal ball assumption"



In his recent publication, based on March 2005 OAG-figures, Doganis⁷⁶ describes an average LCC market penetration of about 24% (here in terms of seats offered, not in sold tickets) in Europe. The highest penetration in the UK (46%) and Ireland (41%) followed by Belgium (24%), Germany and Switzerland (22%). Greece has the lowest LCC market penetration (3%) according to this evaluation.

There are many and frequent trend studies on the Low-Cost market, with sometimes big differences in their results. The consensus seems to be that the Low-Fare market will grow at 2 to 3 times the rate of the total European market.

76 "The Airline Business", 2nd edition, Chapter 6.4

10. Pilot Demand Forecast

What pilot demand results from these market developments ? What will be the effect on pilot training and recruitment?

Any analysis is based on some assumptions - as a basis for calculation, the market described above is taken together with an annual retirement rate of 2,86%, which reflects 35 years average service for each pilot employed.

The annual recruitment demand – as a result – is generated from the 2,86% turnover and annual market growth.

Although retirement generated recruitment demand in LCCs is generally lower because the carriers have not existed that long yet, some of them recruit retired captains from FSCs, where retirement ages are some 5 to 8 years lower⁷⁷ due to collective labour agreements, and so have to replace them already after just 5 to 8 years.

The problem calculating pilot demand is that long-haul pilots need to be included. A total market growth for the European airline industry has to be combined with intra-European market growth and - as part of this - the predicted LCC growth rate.

Figure 19: Pilot Demand Forecast

	total pilots Europe*	market growth**	LCC Pilots***	LCC-market growth***	% LCC- pilots Europe
2005	41.252	6,0%	3.236		7,8%
2006	43.933	6,5%	3.722	15%	8,5%
2007	46.789	6,5%	4.280	15%	9,1%
2008	49.362	5,5%	4.751	11%	9,6%
2009	52.077	5,5%	5.273	11%	10,1%
2010	54.942	5,5%	5.853	11%	10,7%

* figure 2005 developed out of the ECA-Report-figures 2002
 ** assumption based on AEA, ICAO and IATA figures
 *** based on McKinsey 2005

⁷⁷ than the 65 years prescribed in JAR-FCL

ELFAA states in its report⁷⁸ that “numerous jobs have been created (...) that simply would not have existed without them (LCCs)”. With respect to LCC pilot jobs, about 2/3 of the opportunities were created by LCCs generating new business (see Figure 1), see last column Figure 20.

Figure 20: LCCs generating new business

	pilot recruitment total*	FSC / Regional and Charter*	LCC pilot recruitment*	% LCC recruitment of total	% borne by the LCC- market**
2005	3.448	2.945	503	15%	10%
2006	3.861	3.283	578	15%	10%
2007	4.112	3.447	665	16%	11%
2008	3.912	3.318	593	15%	10%
2009	4.127	3.468	658	16%	11%
2010	4.354	3.623	731	17%	11%

* including compensation of retired pilots (2,86% of annual pilot figure)
** assuming 2/3 of the LCC-traffic is generated purely by the LCC market (see Figure 1)

Business model migration will make a clear distinction between a LCC pilot and other pilots less clear in the future. It is already possible that a pilot today flies a low fare product and tomorrow a full service or charter product depending on his company’s business model / mix; often two products are seen on one flight already.

In addition, the relatively conservative McKinsey LCC market share forecast is sometimes contradicted by some industry sources speaking of a 33% LCC-market share seeming realistic in 2010. As already mentioned a clear distinction will not be possible in future as soon as one looks at the low fare market share instead of the LCC market share. The following graphs try to cope with both scenarios.

78 “Liberalisation of European Air Transport”, 2004

Figure 21: Number of Pilots - Forecast Europe

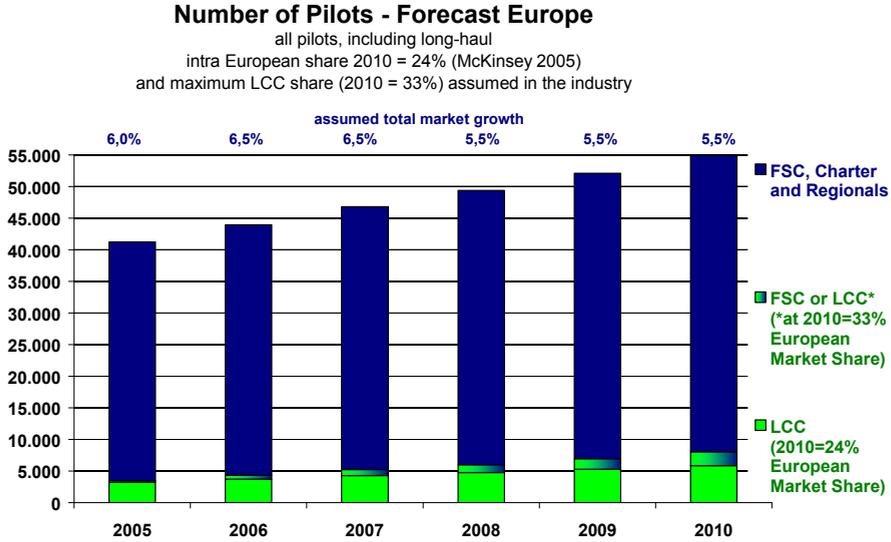


Figure 22: LCC-Pilots in Percent of Total Number of Pilots

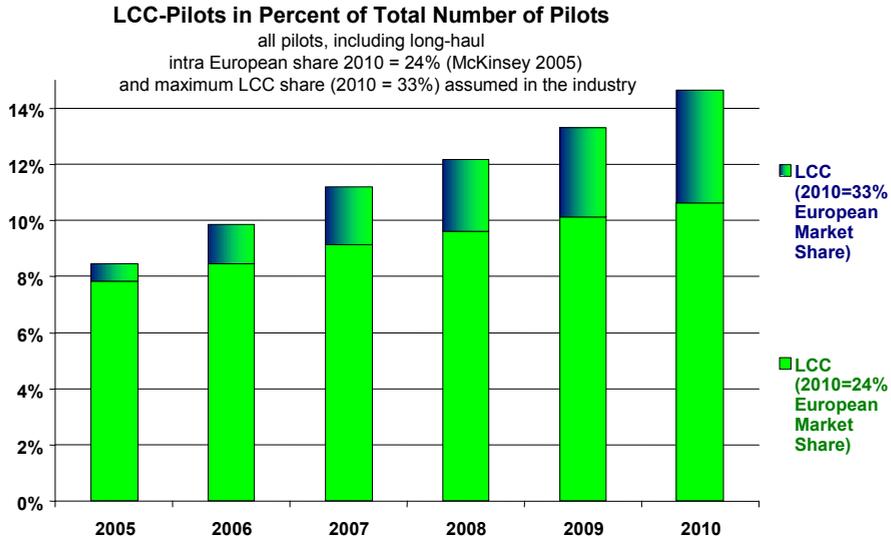


Figure 23: Pilot Recruitment Forecast Europe

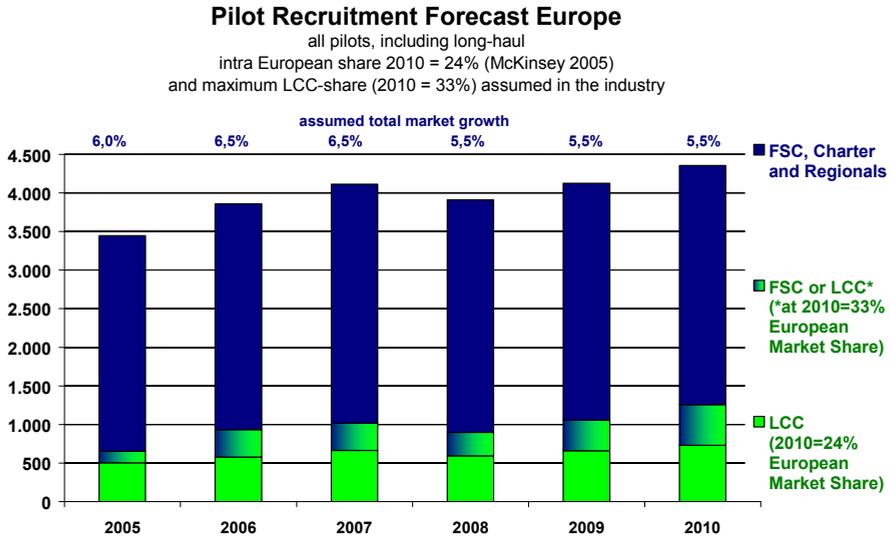
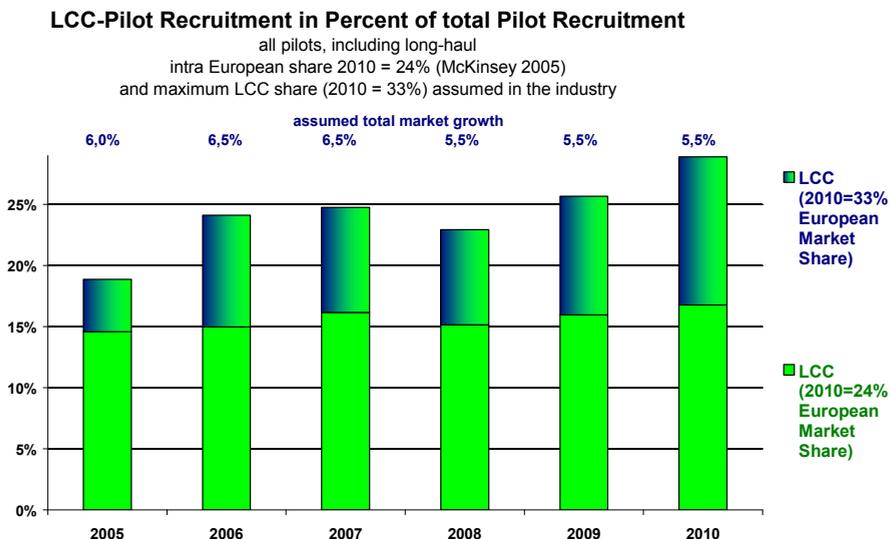


Figure 24: LCC-Pilot Recruitment in Percent of total Pilot Recruitment



Up to every 4th pilot recruited in 2010 will fly a "Low-Fare" product according to this view into a "cloudy crystal ball".

11. Is LCC Long-Haul Business To Be Expected?

He was the first in Europe to make an attempt: Sir Freddy Laker, who shook up the airline business by selling cheap trans-Atlantic flights in the late 1970s. His airline, Laker Skytrain, sold \$240 round-trip flights between London and New York, forcing major airlines to match his fares. Skytrain went out of business in 1982⁷⁹.

Laker's basic idea always was "LCC-like" thinking: "You have to go out of business with more than 6 US \$cts per seat-mile"⁸⁰.

Times have changed substantially since "Skytrain" left the market. Long-haul flying has become significantly cheaper; between 1989 and 2002 the average yield per passenger-km dropped by more than 40% in real, constant value terms⁸¹.

The LCC long-haul discussion crops up because some people simply expect LCCs to do it, BUT:

- long-haul operation out of secondary airports does not make sense, no market for long-haul aircraft capacities and/or
- a feeder operation is necessary to fill the seats which poisons the basic LCC business model
- "no frills" will hardly be accepted by long-haul passengers
- LCCs high crew-productivity and low crew overnight/positioning costs would be impossible
- a long-haul LCC would have to compete against the very low fares already offered on FSCs and charter airlines

79 In 1992, Laker started "Laker Airways (Bahamas) Limited" with B-727's, which flew between U.S. cities and Freeport, Grand Bahamas, for tour operators (the airline ceased operations in October 2004).

80 In a discussion with the author about business models in about 1995

81 "The Airline Business", Doganis - 2nd edition, Chapter 1.3

German charter carrier LTU - as an example - is offering long-haul tickets to Bangkok, Cape Town and New York at fares starting at € 199,- from November 2005⁸².

Ryanair's O'Leary states⁸³ that he expects his airline to add feeder services for a long-haul, low-cost operation - but not in the near future. Eventually, when his airline gains a critical mass, the development of a complementary long-haul operation would represent a "logical extension" but "this certainly won't be as Ryanair itself and not within five years' time". According to O'Leary the "critical mass" would be 100 million passengers a year (about 3 times the expected 2005-figure) which may be achieved in year 2015.

So a European "core long-haul LCC" seems not to be a realistic prospect for the foreseeable future. There are other views:

Consider an Airbus A380 in an all-economy configuration of about 760 seats. The aircraft would be stripped of all major galleys, with the exception of some beverage stations, and passengers would be invited to bring or buy their catering requirements before boarding. Baggage would be limited to one piece of 25kg each.

Full video on demand would be provided at a price, as would tea, coffee, soft and alcoholic drinks. There could be a place for duty-free and in-flight gambling for an extra charge.

Now fly this aircraft from London Stansted - the UK and Europe's largest low-cost hub - say to Macau or Adelaide via Colombo (assuming these fields take the aircraft), charging €400 per round trip, including tax. With New York charging €200 and Burbank California €300, you'd break even at 80% seat factor.⁸⁴

This repeats Freddy Laker's idea, under admittedly better environmental conditions, but who will start this low-cost airline? It seems more realistic that parts of this idea will be realised with low fares in the economy class of existing FSC and Charter flights (see above).

82 ATI 2005-06-06; this is part of LTU's program "city quickies" including 10 European destinations for fares starting at € 29,-.

83 "Flight International", 27. September - 3. October 2005, page 10

84 Tim Clark, president of Dubai-based Emirates Airlines, in "Airline Business" April 2005

12. The US Low-Cost Market And The “Southwest-Model“

Southwest was set up in 1971, operating 3 Boeing 737s. Today it operates 417 B-737 (with 83 on order)⁸⁵ and in 2004 was – on the basis of passengers carried – the 3rd largest airline in the USA and the number 3 airline world-wide. In terms of revenues, in 2004 it was number 17 with an operating margin of 8,5%.⁸⁶

Given deregulation of the US market in 1977, it successfully fought against competition *using high frequencies, low operation costs, standardised fleet and heavy promotion. It presented itself as the underdog carrier that should be supported because it was American and be supported as free enterprise. The latter strategy met with the approval of the state of Texas*⁸⁷.

The market background in the U.S. at that time (before 1977) was a regulated one with relatively low management responsibility for the fate of an airline – this is in complete contrast to today’s European market, but Ryanair also grew faster before and during full liberalisation of the European market on April 1st, 1997 took place.

In 1998 Southwest operated at 56% of the costs of Delta (B-737-300 – operation only), using 137 instead of 126 (Delta) seats (- 9% costs per ASK), and had an aircraft daily utilisation of 11.3 hours (Delta 9.8 h), which gave a cost advantage of about 15%⁸⁸. In 2003, Southwest managed a daily aircraft utilisation of 14.34 hours⁸⁹ compared with 6.34 hours at Delta and at 50% of Delta’s cost per seat mile.

Southwest uses the same cost advantages as the European LCCs (see figure 5).

85 “Flight international” 12 - 18 April 2005, Directory World Airlines, page 82

86 “Flight international” 18 - 24 October 2005, page 40, source “Airline Business” on base of ATI-data

87 „Strategic Airline Management“, Louis Gialloretto, 1988

88 „The low-cost revolution“ in Doganis, „The Airline business in the 21st century“, 2001

89 Source: Doganis, “The Airline Business”, 2nd edition, using “Airline Monitor” data

In year 2000 there were few other LCCs in the US, most of them not following the “core-LCC” model like Southwest. Some - like Vanguard - ceased operations during the crisis years following 2001.

As another example JetBlue started in year 2000 with some “frills” but still at very low cost and fares. 2002/03 JetBlue’s results showed even higher profit margins than Southwest. In 2005, however, JetBlue expects to post its first full year loss. The major concern for the low-cost carrier is the price of fuel. JetBlue operates 81 A-320.

Other airlines, like America West, have transformed themselves into LCCs (AW is the second largest LCC in the US) by simplifying their product and substantial cost reductions. Until 2004 these measures appeared to be successful, but falling yields and rising fuel bills again led to losses. US Airways was acquired by America West in September 2005 as part of US Airways’ strategy to emerge from more than two years of Chapter 11 bankruptcy protection. The combined company retained the US Airways name. The integration of the carriers “will be costly, complex and time consuming,” US Airways said⁹⁰, and management “will have to devote substantial effort to such integration that could otherwise be spent on operational matters or other strategic opportunities.” It remains to be seen if plans to build a bigger LCC will be successful.

Independence Air’s battle for survival ended in January 2006. The airline -former Atlantic Coast Airlines - re-invented itself as a LCC and had started operations in June 2004.

FSCs like DELTA (“Song” in 2003) and United (“TED” in February 2004, presently operating 51 A-320) reacted to the market by starting their own LCCs. Delta now operates under Chapter 11 bankruptcy protection and United has done since December 2002⁹¹.

Delta Air Lines is to close low-fare unit Song in May 2006 as part of its court protected restructuring. Song’s 48 Boeing 757-200s will be upgraded and integrated into Delta’s operation.

Interestingly the average sector length of US LCCs was about 1.000 km (540 NM) in 1999 and has increased by some 50% to about 1.500 km (810 NM) in 2002.⁹² The “no-frills” idea seems to gain acceptance on longer continental flights.

90 “The Seattle Times”, November 24th 2005

91 According to “The New York Times”, December 31st 2005, Creditors of the UAL Corporation have approved its plan to repay debt, paving the way for the company to emerge from Chapter 11 in February 2006

92 Source: O&D Plus, L.E.K. analysis

The US Low Cost market has grown tremendously in recent years and this is likely to continue. "Raymond James and Associates" analyst Jim Parker says he expects US low cost market share to increase to above 45% in 2009⁹³.

For US pilots and US ALPA⁹⁴ recent years have been a real roller coaster ride. Substantial pay increases (2000/2001) for example at Delta and United had to be traded back and tremendous job losses along with massive pension reductions had to be dealt with.

American Airlines pilots made concessions of about 23% in March 2003. Delta pilots made pay concessions of about 1/3rd in October 2004 after salaries had grown by 25% between 2000 and 2003. Northwest pilots lost 15% at about that time. A short time later United pilots lost 11.8%. A further temporary pay-cut at Northwest was agreed in November 2005 with job-security scopes still under negotiation. Additional cuts for Delta-pilots of about 15% were signed in December 2005, a first step for a final agreement to come in spring 2006.

Not so at Southwest: The pilots are flying with a comfortable contract signed in September 2002 amendable in September 2006 with pay increases of 4.43% (Sept. 2003), 15% (Sept. 2004), 3.5% (Sept. 2005) and on average 3% (Sept. 2006). The Southwest pilots' previous contract had been signed in 1994. In return for share options the pilots accepted a 5 year wage freeze followed by an annual increase of 3%. In Southwest, pilot crew costs in 2003 were about 305 € per block-hour compared with about 435 € average on B-737 in the US (2003 €/US\$ exchange rate averaged 1,15). However, Southwest pilot salaries were almost exactly the average of the 13 US major airlines (including Southwest)⁹⁵.

In a first step for the 2006 contract negotiations (starting in April) the Southwest Pilots' Association made temporary productivity concessions of about 2,3%⁹⁶, increasing pilots' salary checks by about the same percentage and reducing the number of new pilots to be hired.

93 In "Airline Business" May 2005

94 Pilots at American and Southwest are represented by own unions

95 AIR INC, pilot salary survey #5, 2004

96 In average they fly 67 block-hours per month presently

13. Conclusions

Low Cost Carriers have numerous cost advantages compared to FSCs, generated by

- higher seat density
- minimal station handling costs
- using cheaper secondary airports
- no in-flight catering - no frills
- no agents' commission
- no extensive network, no feed to long-range flights etc.
- higher aircraft utilisation

and partly by

- using single aircraft type
- smaller administration/overhead costs
- crew-utilisation and crew costs

These advantages may result in costs (per ASK) below 50% of a Full Service Carrier.

In the mid-1990s, stimulated by Southwest Airlines and Ryanair's success, easyJet (1995), Debonair (1996) and Virgin Express (1997) entered the LCC market.

Today, some 50 Low Cost Carriers operate across Europe with a market share in terms of passengers, of about 19%.

More than one third of LCC passengers are former FSC passengers looking for cost-savings in the general economic downturn. About 60% of LCC passengers are generated from other means of transportation and/or are passengers who would not have travelled without the low fare tickets⁹⁷.

The question is whether the LCCs in Europe can keep the present high growth rates. In 2002 33%+ European market share was widely forecast for the year 2010.

97 See Figure 1

- McKinsey in its June 2005 study sees a share of only 24% in 2010 with LCC growth rates coming down to 11% from year 2007 after 15% until then.
- The recent "TELFAC" study⁹⁸ sees unbroken growth without a plateau in sight - so do some industry sources
- FSCs and charter airlines attack by offering low-fare products; business models are migrating into each other, so the low fares market share will be higher than LCC market share
- 33% Low-Fare market share still seems to be reasonable for the year 2010

Rapidly rising fuel-costs, falling yields and increasing capacity may lead to mergers and a reduction of the number of LCCs, leaving 3 to 4 big players and some niche operators in the market by 2010.

The resulting pilot demand will also grow more quickly in LCCs and – given the described assumptions and traffic forecasts – will reach between 15% and 30%⁹⁹ of the total pilot-recruitment demand over the years until 2010. Given the business model migration, a clear distinction between LCC and other pilots will more and more disappear. The pilots' terms and conditions may - to a certain extent - also migrate into each other.

A core long-haul LCC seems not to be a realistic prospect for the foreseeable future. Charters and FSCs already offer low fares on many long-haul routes.

The U.S. low cost carrier domestic passenger share was 15% in 1999 after more than 20 years of LCCs established in the market, but may head for up to 45% over the next 4 years.

Flying becomes more and more common to the public particularly boosted by the market entrance of LCCs. Market deregulation and liberalisation in Europe made this development possible.

98 See chapter 10

99 See figure 24,

In terms of value for money, LCCs are rated among the best value airlines in passenger surveys¹⁰⁰. "Value for money" is important for the customer when buying common products" - and travelling by plane is far from being uncommon any more at least on routes up to about 2 hours flight-time. Impositions like uncomfortable seating, frills to be bought and landing on province airports with no connecting flights is value enough for € 41,- (Ryanair average per sector)".¹⁰¹

In the US the "no-frills" idea is already accepted on substantially longer continental flights.

Eventually, business model migration will reduce differences between FSC, Charter and LCC on routes within Europe and the US.

In future there will be a distinction possible between different products

- higher fares for full service to the primary airports
- lower fares on point to point services without the advantages of a network and/or connecting flights to primary and secondary airports and to leisure destinations
- extreme low fares between secondary airports

rather than between the different airline types

- Full Service Carriers
- Charter Carriers and
- Low Cost Carriers

100 Doganis, "The Airline Business", 2nd edition, Chapter 6.1

101 "Manager Magazin" 10/2005

Chapter 3

The Pilots' View and Concerns



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Chapter 3 The Pilots' View and Concerns

In this chapter ECA, representing over 34,000 pilots across Europe, sets out its own views on the market developments described in Chapter 1 and the economic research in Chapter 2.

1. Safety And Security

The European Cockpit Association's prime focus is to continually seek further enhancement of safety and security in civil aviation. It is the topic on which we spend the overwhelming majority of our efforts. Although aviation is already an extremely safe form of transport, it is safe only because all of those involved have – over many years – made significant efforts. ECA believes, however, that unless we continue to drive down the accident rate, by reducing the number of accidents suffered per unit of flying, we will not see the increase in economic activity which is forecast for our industry.

To put the advances in safety into perspective: flying became 100 times safer between 1945 and 1995. A further 66% reduction in fatalities in scheduled air transport operations was achieved between 1995 and 2004¹. However, ICAO concludes that:

*"Even though international civil aviation is a very safe mode of transportation, there are many challenges that need to be addressed in order to achieve a further reduction in the accident rate. Such a reduction in the accident rate is required to prevent the number of fatalities and accidents from rising as traffic increases, which could undermine public confidence in the safety of the global air transport system."*²

ECA supports the ICAO view that improvements to safety are fundamental to the health of our industry – both literally and economically. In Europe the reduction in accident rate has not been as marked as in other regions of the world.

1 ICAO; DGCA.2006.WP.002.en.doc, 1.1 - 1.2

2 ICAO; DGCA.2006.WP.002.en.doc, 3.1

When comparing the years 1995 – '99 with 2000 – '04, the rate of fatal accidents fell across the globe by more than 38%.³ In Europe we achieved 25%. Compared to North America – i.e. a market at a comparable level of development – the contrast is even bigger. It started with an even lower rate than Europe but achieved a 43% reduction nonetheless.

In fact, if the 6 regions of ICAO are compared, only the Africa and Middle East regions fared worse than Europe; with Asia Pacific, North America and Latin America/Caribbean all achieving bigger reductions in the rate of fatal accidents⁴.

Are these figures affected by the growing presence of Low Cost Carriers? And if so, how? Some media have sought to link LCCs with lower safety standards. ECA believes this is too simplistic a notion. The entire industry is becoming more competitive, and the LCCs have certainly played their part in that change. The statistics above however, show that the region with the longest history of LCCs (i.e. North America) is actually the one with the lowest accident rate, so there seems to be no absolute link.

Significantly, the North American region does have only two regulators who work very closely together providing strong, central and independent safety oversight. It is also not possible for an airline to choose between regulators – a North American airline is either from Canada or the United States.

In Europe a huge aviation market was created which compares in size to the North American market. Where on the one hand, a single European aviation marketplace has been developed, there are on the other hand, still 25 national regulators, struggling to provide effective safety oversight. There is also the possibility for airlines to “shop around” for the most “friendly” regulator, and more than one airline has already examined the possibility of ‘changing’ safety regulators. Potentially, this puts safety regulators into direct competition with each other – something which ECA believes can only have a negative effect on levels of safety.

ECA strongly believes the safety culture suffers when there is not a *single* safety oversight body. The safety culture suffers even more when there is not a truly *independent* safety oversight body.

3 When comparing the figures for 1995 to 1999 with those for 2000 to 2004

4 ICAO; DGCA.2006.WP.002.en.doc, Graph 5

In order to further improve on the high levels of safety, a strong, non-punitive safety regime needs to be fostered in all civil aviation organisations. ECA has evidence of some airline managements failing to respect the responsibilities and safety-related decisions of captains; disciplining those who, for example, exercise their discretion not to extend an already long duty day, or not operating an aircraft that they consider not to be safe for that flight.

Europe must vigorously pursue a central, strong, independent 'one stop shop' for safety regulation and oversight. The still relatively young European Aviation Safety Agency (EASA) must become such a one stop shop. Only then Europe will be able to effect the same level of success as in North America.

2. Trade Union Recognition

There are examples of LCCs making good use of the advantages afforded to them by "best practice" union partnerships. It is also a fact that also the worst forms of management practice exist in this segment of our industry. Employers who seek to impose contractual obligations to outlaw union membership and the deliberate targeting of union representatives is again a growing phenomenon across Europe.

Each Member State has developed employment legislation for its own needs and not necessarily so that it is coherent across a 25 State single market. Even if a European airline and its flight crew wished to negotiate a Europe-wide collective labour agreement, there is currently no framework available for them to enforce it! Although this is a problem throughout the industry, it is currently most prevalent in the growing LCC sector, with its many new start-ups and flight crew employed and switched between many different bases across Europe

Apart from the lack of transnational collective bargaining mechanisms, it is the legal protection of a company's employees working in different countries and across national jurisdictions that is hampered by the current patchwork of incoherent social legislation across the European Union. Companies are already exploiting an unharmonised legislative environment. Employees can rarely be expected to benefit from such practices.

Against this background, Europe must provide a harmonisation of social and labour laws and a strong Europe wide social and labour framework. Only then will our European creation of a single liberalised aviation market be also to the benefit of the people working within the industry and upon which the industry's success relies.

3. Strong Partnerships Needed - Also With LCCs

ECA strongly believes that whatever the style of service offered behind the cockpit door, the standard of operation in front of the cockpit door must be to the same high level. Generally this is the case. Sometimes this standard of operation is threatened by the quality of the employer and its management style.

Where an airline is based and employs pilots in just one member state, then the employment law in that state is generally effective in allowing both management and pilot representatives to draw the mutual benefits from a partnership. It is also true to say that in these circumstances the law generally helps unions to force reluctant employers to a partnership. Whilst the benefits are often realised only over time, they also have long-term positive effects for the company.

Our prediction from Chapter 2 is that by the end of this decade a significant part of the pilot workforce will be employed by the LCCs, and many more so in the low *fare* segment. We also believe that the Full Service Carriers (FSC) will continue an accelerating consolidation process. If this follows the same pattern as is already underway in the charter and helicopter markets, this will result in the overwhelming majority of our members working for an employer who is not so easily bound by national employment laws.

ECA does not believe that it is an objective of the EU to return industrial relations to the unregulated "trials of strength" of the 19th and early 20th century. Our Member Associations are already preparing and are fit for trans-national battles should they become necessary. We are calling on the EU to recognise that in a tough, competitive sector – where mobility of the workforce is a feature of the industry – there is a clear need to regulate industrial relations in a transnational context. Otherwise trials of strength will become

inevitable. This can only damage the peoples and the economy of Europe. ECA is ready to work with other European social partners from all industries to create a modern, representative partnership structure for industrial relations in Europe

4. Conclusions

Chapter 2 gives an insight into the steady migration of the Full Service, Charter and Low Cost Airline models into each other. They will become progressively more difficult to distinguish from each other as FSCs offer more low fares, LCCs offer more services and Charter Airlines offer more seat only tickets. An increasing number of pilots will work in the low fare segment and increasingly, many pilots will be based outside their company's "home" country.

ECA is convinced that there should be no difference between the regulations which apply to any airline business model. If we are to continue the downward pressure on the rate of aircraft accidents as the market grows, then we must ensure the swift and effective formation of a responsible and responsive, yet independent single safety regulator for all European airlines.

The situation where an airline is regulated by one of 25 Authorities is damaging the ability of Europe to achieve the highest levels of safety for its citizens. The ability to 'shop' for a regulator, thus putting commercial pressure rather than safety, at the top of the Authorities' priority list, is very worrying, and we know some airlines have already considered it.

ECA therefore calls on the Institutions of the European Union – including the national governments in the Council of Ministers – to:

1. Redouble their efforts to swiftly develop EASA into the central, strong, independent 'one stop shop' for safety regulation and oversight in the EU.
2. Provide the framework to enable all European wide businesses to benefit from strong, 'change-management' partnerships with their employees.
3. Ensure that employees – both in the LCC sector and across the industry – can freely choose their labour representatives without having to fear for their job if they do so

Recognise that in a highly competitive marketplace, we need clear, enforceable and actively enforced rules to protect the travelling public, those who live underneath the flight paths and the staff who work within the industry.

Chapter 4

The National Perspective: LCC as seen by the National Airline Pilots Associations



© Kari Voutilainen

Chapter 4 The National Perspective: LCC as seen by the National Airline Pilots Associations

The European Cockpit Association invited its Member Associations to contribute to this publication, giving their own 'informal' assessment of the LCC impact in their countries. These contributions are summarised below.

These statements are not 'official' positions from the author's associations. They are a 'snap-shot' of how representatives of these Member Associations perceive this new operational model according to their personal experience and research.

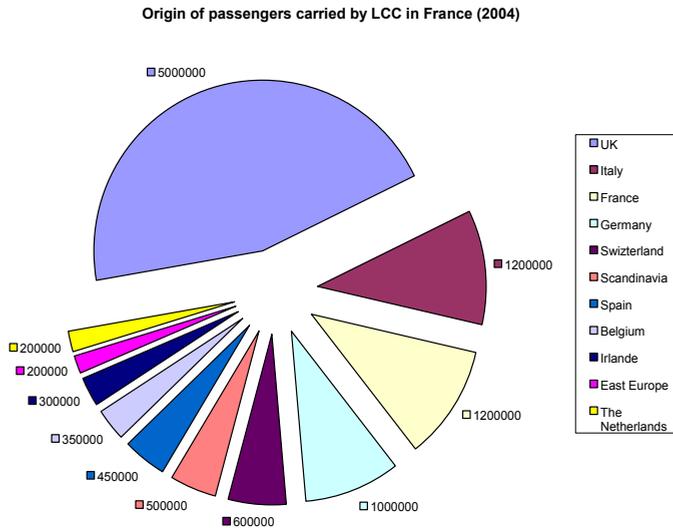
1. LCCs in FRANCE (Capt. Teppo Tyrmi & Cécile Lefaucheur, SNPL)

In 2005, after the bankruptcy of Aëris and Air Lib, Air Turquoise was the only French airline that could be considered as a low cost company.

The existence of the high-speed train (TGV) and the hegemony of Air France on the French domestic market explains the lack of a greater development of national low cost carriers. Historically, the existence of the TGV had a very heavy impact on airlines in France. For example, the construction of TGV lines between Paris and Lyon or Paris and Lille led Air France to close some of its services. Thus...

...the only true French LCC is the TGV.

In 2004, according to the French CAA, TGV has won 76% of market share, against 19% for established carriers and 5 % for the LCC.

Figure 25: Origin of passengers carried by LCC in France (2004)

However, since 1998, a growing number of foreign LCC are establishing in France. In 1998 LCC carried 732.000 passengers while in 2004 the passengers carried by LCC augmented up to 11.053.000. LCCs accounted in 2004 for approximately 7% of the French airport traffic. Eighty percent of the passengers carried by LCC are foreigners.

Ryanair and easyJet are particularly well established but have different strategies. Ryanair chose to establish its main base in Beauvais whereas easyJet preferred Paris-Orly. Ryanair allowed the development of the airport while benefiting from the proximity of Paris. easyJet has taken advantage of the reallocation of the slots left vacant by the bankruptcy of the Air Lib, Air Littoral and Aeris (between 2002 and 2004). These slots were used to develop new lines towards Europe (Berlin and Naples).

All in all, there are around 20 LCC operating to and from Paris (serving 220 routes): Blue Air, BMI Baby, Easyjet, Evolia, Meridiana, Myair.com, Windjet, Flybe, Helvetic Airways, Intersky et Hapag Lloyd Express, Jet Only, Niki, Air Berlin, Ryanair, Sky Europe, Smart Wings, Snowflake, Thomfly.com, EU Jet, Air Scotland et Flyglobespan.com, Virgin Express, Vueling & Wizz Air.

According to the French CAA, only 2.8 million passengers were transported by LCC in 2001, 5.2 million in 2002, 7.9 million in 2003. The figure is a little over 11 million in 2004.

Airports are embracing the LCC phenomenon. The Economic newspaper « Les Echos » announced that Nantes Airport is becoming « low Cost » with 6 LCC flying in and out of this base. Air Nostrum, will start in 2006 daily services to Madrid, allowing in that way multiple connexions, mainly to Central and South America. Other airports, like Marseille, are adapting themselves to LCC, building a 'low cost terminal' to simplify boarding procedures.

LCC have given a new breath of life to regional airports often ignored by 'established carriers'. The airport of Beauvais is one of the most significant examples. It has seen its passenger numbers rise from 66.000 in 1996 to more than 960.000 in 2003 (a 15-fold increase). Carcassonne has seen a 21-fold increase (from 12.000 to 252.000 passengers) between 1997 and 2003.

Established airlines, and particularly Air France, claim not to fear the competition of LCC. However, beyond these formal statements, Air France is lowering some of its fares, rationalising its offers and using more than ever aggressive advertising methods similar to the ones used by LCC.

What would happen after the initial phase of new markets conquest? Competition between LCC will probably lead to a natural selection.

While welcoming LCCs for the pilot positions they offer, SNPL is concerned by the lack of harmonisation of the social conditions in Europe, especially regarding pilots' pension schemes. SNPL sees it as it's duty to support fellow pilots in organizing themselves and to help create a mature industrial relationship with their employer. This is possible through ECA and a close cooperation with the other pilot associations in Europe.

2. LCCs in SPAIN

The progression of the LCC's market share in Spain keeps increasing steadily. In 2003 the LCC market share was 23 %, whereas in 2004 it increased by 2.8%. According to the Spanish Airport Authority (AENA) the number of LCC passengers rose to 2.8 millions during the first quarter of 2005, which represents an annual growth of 35 %. In contrast, the number of passengers carried by traditional

airlines increased by only 1.9%.

The proliferation of LCCs in the Spanish market is also reflected in the strong traffic growth experienced by most Spanish secondary airports, where LCC mainly operate from. Particularly outstanding is the case of Gerona airport with 104% increase in 2004 in comparison with 2003 traffic figures, reaching a total of 2.95 million passengers. Out of those, Ryanair carried 2.41 million passengers. There are also other airports which have experienced significant traffic increases (around 40-50%) throughout the current year such as Murcia, Valladolid, Reus, Jerez, León, Santander, Granada and Logroño.

Undoubtedly, this increased regional traffic has boosted the economic activity of those regions. Consequently, the tourist sector has clearly benefited from LCCs operating from secondary airports. This is the reason why the regional governments are so willing to grant subsidies to LCCs in return for them bringing in tourists. However, these regional aids clearly distort the market and lead to unfair competition.

According to the data furnished by AENA, the most important LCCs are: Air Berlin, Easyjet Airline Co, Ryanair, Hapag-Lloyd Fluggesellschaft, Condor Monarch airlines, and Transavia.

An interesting development is that Ryanair expects to enjoy its own private infrastructure at Don Quijote airport (Ciudad Real) once it becomes operative. This airport will be located about 200 kilometres south of Madrid and will be linked to the capital of Spain by means of high speed trains.

At present there is only one proper Spanish LCC: Vueling Airlines. It was established in 2004 and started operations on 1 July 2004. It is owned by Apax Partners (39%), Inversiones Hemisferio (Grupo Planeta) (30%), management team (23%) and private investors (7%).

Based in Barcelona, Vueling offers flights to Bilbao, Brussels, Ibiza, Lisbon, Madrid, Malaga, Menorca, Milan, Palma, Paris, Rome and Seville. The airline's other base, Valencia in eastern Spain, serves Bilbao, Brussels, Ibiza, Milan, Palma, Paris and Seville. Vueling Airlines fleet is comprised of 6 aircraft (A320). There are 350 staff.

In 2004 Vueling carried 609.077 passengers whereas in mid 2005 figures had already risen to 1.179.005 passengers. By November, Vueling is planning to start a new base at Madrid-Barajas airport. The

company also expects to obtain revenues of approximately million € 115 by the end of 2005. By 2007, the company expects to increase its fleet to 15 to 20 aircraft and to staff about 900 workers.

Furthermore, there are two projects of Spanish LCCs: Air Andalucia (www.airandalucia.com) and Air Asturias, and will be operating from Granada and Oviedo.

2.1. Conclusions

It is obvious that the irruption of LCCs within the Spanish market has brought a number of benefits:

- To consumers: through the availability of lower fares and more destinations to choose from
- To secondary airports, with rapid growth of traffic, from which they are able to generate commercial revenues. Most of these airports have been revitalised by LCCs
- To a number of Spanish regions: which have seen significant economic benefits both in terms of improved business links and substantial increases in tourism

However, the traditional airlines have clearly not benefited from the proliferation of LCCs. In fact, they have experienced significant falls in traffic and revenues on many of their destinations as LCCs have grown. As a result, they might have to cancel routes in the near future, reduce capacity and definitely they have had to cut prices and reduce costs to compete with them.

3. LCCs in PORTUGAL

The low cost carriers flying operations have dramatically increased in the past three years. Currently there are 8 low cost carries operating in Portugal: Easy Jet, Ryanair, Air Berlin, DHL, Thomas Cook, Hapag-Loyd Express, Vueling, and Hi Fly. Only the Portuguese low cost carrier, Hi Fly, has its base in Portugal.

3.1. The main destinations

Easy Jet	Faro to Belfast, Bristol, East Midlands, Luton, Stansted, Gatwick and Newcastle.
Ryanair	Porto to Stansted, Liverpool, Frankfurt (Hahn), and Paris (Beauvais). Faro to Dublin.
Air Berlin	Lisbon to Berlin. Porto to Berlin. Faro to Berlin
DHL	from Lisbon, Porto and Faro
Thomas Cook	Faro to Manchester. Madeira to Gatwick
Hapag-Loyd Express	Faro to Dowcaster and Bournemouth. Porto to Cologne and Stuttgart. Madeira to Hanover and Berlin
Vueling	Lisbon to Madrid and Barcelona
Hi Fly (ex- Air Luxor)	Lisbon to: Europe (Madeira, Porto Santo, Tenerife, Fuerte Ventura, Las Palmas, Paris, Geneve, Athens, Heraklion, Palma de Majorca, Ibiza, Dublín); Africa (Agadir, Republic of Guiné (Bissau), Cabo Verde, Democratic Republic of São Tome e Príncipe, Monastir, Djerra); South America (Fortaleza, Natal, Recife, Maceió, Salvador, Porto Seguro); Middle East (Aswan, Luxor, Hurghada; Caribbean (Cancun, Puerto Plata, Punta Cana). Porto to Paris. Madeira to Las Palmas. Faro to Dublin, Shannon, Cork and Glasgow.

As the increase of the low cost carriers flying operations in Portugal is recent and a significant part of it is seasonal, it is still early to make a statements about its impact on the Portuguese aviation market. .

The Portuguese Pilot Association APPLA notes that a large percentage of Hi Fly Pilots are applying to the Portuguese national Carrier, TAP. This is a sign that aviation professionals prefer working in traditional carriers. The most current complain of LCC professionals is the absence of a flying schedule.

4. LCCs in ITALY (Capt. Jean-Paul Nanut, ANPAC)

4.1. How everything started

There is no doubt, the 3rd Package of Liberalisation of the European aviation market created a more competitive environment and the emergence of Low Cost Carriers it is for sure a direct result of it, also in Italy.

Until the mid-1990s, the market was neatly divided among traditional players. Alitalia, the State owned Company was basically holding the monopoly of the domestic market while the intra-European market was shared with the rest of the other European flag carriers; not much was left for charter companies and/or other small private Companies.

4.2. LCCs serving the Italian Market

The following low cost carriers are serving Italy today: Air Berlin, Air Service Plus, Alpieagles, Atlas Blue, BA, Blue Air, Centralwings, Club Air, Condor, dba, easyJet, eVolaVia, flybaboo, Fly Globespan, germanwings, Hapag Lloyd Express, helvetic, InterSky, Jet 2, Maersk Air, Meridiana, Monarch, MyAir, Norwegian, Ryanair, Sky Europe, Smart Wings, Snowflake, Spanair, Sterling, Thomson Fly, transavia, Virgin Express, Volare Web, vueling, WindJet, Wizz Air ...

The “Italian Players”



myair.com. Like the phoenix that can be reborn from ashes - myair.com was founded in

2004 by some former top management members of Volare Airlines. The people behind the MyAir project are not idealistic novices: the Managing Director of MyAir, Mr. Merrick Adelstein put together Italy's first major low cost airline, Volare Web, along with Edgardo Badiali, formerly the commercial Director of Volare Group.

No labour or industrial relations are present in the Company.

The Network: 13 airports – 52 routes

Barcelona, Bari, Bergamo, Bologna Brindisi, Bucarest Baneasa, Cagliari, Catania, Madrid, Naples, Olbia, Palermo, Paris Orly

The fleet: 5 A320s, all leased.



blu-express.com is a subsidiary branch of Blue Panorama Airlines which was founded by Franco Pecci (President & Chairman) back in 1998. The blu-express project (Y2005) was completed under the guidance of a former Hapag-Lloyd airline chief executive. The management has a very aggressive and reactive attitude and no labour or industrial relations are present in the Company.

The Network (Scheduled, Charter & Low Cost Flights):

From Rome, Milan Mxp and Bologna

To Cuba, Mexico, Santo Domingo, Kiev, Brasil, Egypt, Greece, Spain

The Fleet:

5 B737-400

2 B767-300ER

Planned expansions: have an order for 4 B787 Dreamliner (launch customer in Italy)



Volareweb.com. Subsidiary branch of what is left of Volare Airlines Holding Company (Y2000) declared insolvent and placed in liquidation. Operations were restarted a few months ago just to keep the certification running.

Labour and Industrial relations held with large national politically related unions (CGIL, UIL, CISL), ANPAC has no Representative.

The Network: 7 airports – 12 routes

Bari, Brindisi, Catania, Lamezia Terme, Milan Linate, Naples, Palermo

The fleet: 4 A320, all leased



WindJet. Another phoenix reborn from the ashes of Air Sicilia, founded in 2003.

The Network: 12 airports – 44 routes

Bologna, Catania, Dusseldorf International, Ibiza, Milan Linate, Munich, Olbia, Palermo, Paris CDG, Rome Fco, Venice, Zakinthos.

The Fleet: 8 A320, all leased

Very poor industrial relations are held with UIL.

The Italian national LCCs started operations after Y2001 but it can be said that most of the passengers who fly with low-cost airlines aren't 'defectors' from the traditional Carriers. Rather, lower prices encourage people to fly when they would otherwise have gone by road or rail or not at all.

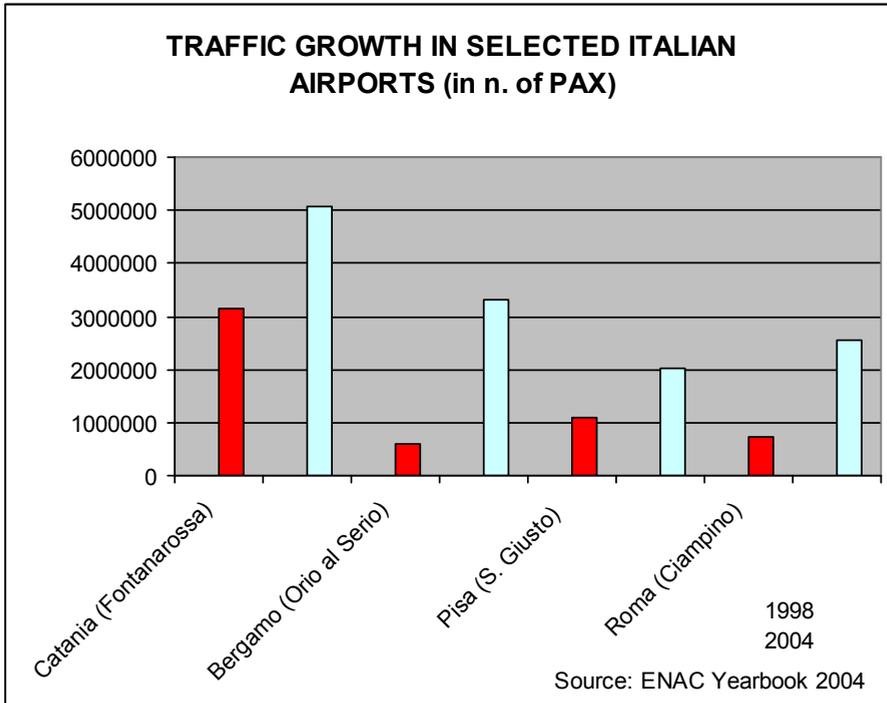
Generally speaking it can be affirmed that low-costs open to new customer growth and stimulate overall demand.

The following table (even if the data is not disaggregated) shows that the overall air traffic in a market typically rises when a low-cost carrier breaks into it. In 2005 Rome Ciampino shows a record of 4,2 millions PAX with a 65% increase compared to the previous year.

In short it appears that low-cost airlines seem to complement both traditional and charter airlines with some minor overlaps especially if they operate from regional airports.

4.3. Conclusions

The importance of the Low Cost sector in Italy is growing, but the traditional carriers dominate the market. In 2004, the traditional carriers flew 94% of the national passengers and 91.8% of the international passengers.

Figure 26: Traffic Growth in Selected Italian Airports (in n. of passengers)

The Italian Pilots Association (ANPAC) is concerned with the commercial viability of fast growing regional/secondary airports. Is this trend sustainable? The approach to airport infrastructure should reflect the objective of ensuring a long-term development of aviation maximising the expected benefits to society with sustainable development.

Furthermore, airports can't subsidise airlines indefinitely. The challenge for regional/secondary airport is to keep the low-cost airlines without subsidising their operations. This issue is lined to fair competition. The current legal framework for state aids seems to favour new entrants, generally LCCs.

The Italian Pilot Association thinks that the changes in the European aviation industry are not over. The rapid changes generate a feeling of uncertainty especially regarding aviation professionals' working conditions.

Aviation professionals have to adapt their skills to the new situation though the improvement of their representation structures at company and at political level.

5. LCCs in DENMARK (Capt. Teddy Iversen, DALPA)

Competition has definitely increased in Scandinavia with the arrival of LCC. This is easily verifiable by looking at the significant decrease in price of air-tickets from all Airlines. Sterling Airlines and SAS in particular have engaged in aggressive campaign offers, but also smaller companies as Cimber, SunAir and Danish Air Transport are offering low price tickets. Ryanair and Easyjet are not operating out of Copenhagen. Ryanair operates out of Aarhus and Esbjerg in the west, and Easyjet operates out of Malmø just across the sound to Sweden.

The main traditional carrier in Denmark, SAS, has felt the increased competition from the low cost operators, but has successfully managed to compete with offers of low price tickets.

The holiday industry is up and running in DK, and 2006 is expected to be another record year for the Charter business. At the same time, scheduled flights seems to be able to attract lots of passengers, but the financial benefits with the many low price tickets are questionable.

Sterling Airlines (which resulted from the merger of Sterling Airways and Maersk Air) was recently acquired by the "FL Group" of Island. This group have financial interest in several other airlines (Icelandair - EasyJet - Finnair). Sterling Airlines is the fourth largest low cost airline in Europe with a fleet of 28 Boeing 737 and 354 pilots.

Sterling operates a mix of scheduled and charter flights out of Scandinavia. It has three main hubs; Copenhagen, Oslo and Stockholm. The vision for Sterling is to ensure the position in Scandinavia as the leading low cost carrier based on point-to-point service and true low cost mentality. The Number of passengers carried in 2004 is estimated to exceed 5 million to around 45 destinations.

The crews in Sterling Airlines are concerned that the new management will try to downgrade their conditions.

DAT, which operates a mix of Scheduled / Charter / Cargo / Ambulance flights with 13 aircraft of ATR type, could, in some ways, be considered as a LCC. DAT serves International scheduled flights to Norway and Pelanga, Lithuania and domestic flights in Norway and Denmark. DAT has been very creative regarding ways of doing business, which in the past has led to conflicts with the Danish Pilots Associations and with the Danish CAA. DAT is not a union friendly company.

6. LCCs in SWEDEN (Capt. Bob Arnesen, SPF)

There are two main Swedish LCC: FlyMe and Air Nordic. They fly domestic Sweden and to a number European destinations. They also perform charter flights.

Their passenger load factor are on average about 55-60% on their established routes. The financial results of these companies are in general not very good.

LCCs have given the customer another choice than flying with SAS and Malmö Aviation; prices have gone down but the same appears to be true for the service level

LCC have taken a percentage of passengers from the legacy carriers but, for instance, SAS has countered by reducing prices and being more flexible with ticketing.

Regarding the employment conditions in these airlines: most pilots value having a job and an income above being unemployed. The labour conditions are however well below average.

7. LCCs in GERMANY (Thomas Weil, VC)

Germany has four low cost carriers: Germanwings, Hapag Lloyd Express, dba and Air Berlin.

The main destinations of Germanwings & Hapag Lloyd Express are in the south of Europe but they also have a lot of destinations in Germany, UK and Scandinavia.

Air Berlin operates flights within Europe and dba operates scheduled flights on the German domestic market and within Europe.

In 2004 Germanwings carried 3.500.000 passengers. In this period Hapag Lloyd Express handled 2.700.000 passengers. Dba carried 2004 3.000.000 passengers and Air Berlin 12.040.000 passengers.

The national Low Cost Carriers became more and more important. Since 2001 the numbers of passengers carried by LCC increased constantly and LCC operations have an increasing effect on the European traffic of the established carriers.

The pilot conditions in Germany except Air Berlin are regulated by new collective agreements.

In the coming years the German Low Cost Carriers will without much doubt gain importance. This is indicated by the constantly increasing number of passengers.



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