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Competition will not disappear if BA's link with American goes ahead

From: Willie Walsh

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EVERYBODY knows that the global aviation industry faces yet another crisis. Fragmentation and archaic restrictions have been weighing down performance for a long time. And now the simultaneous shocks of high oil prices and weakening demand are forcing airlines to take a long, hard look at the business models they've grown up with. Because the sums don't add up.

The airline trade association, IATA, says carriers are set to run up worldwide losses totalling pounds 3bn this year and pounds 2.3bn in 2009. Though losses have rarely mounted at recent rates, the grim fact is that only once in the past six years has worldwide aviation made a profit.

This level of performance is not sustainable. And current economic conditions have deepened the challenge. Worldwide, around 30 airlines have gone out of business this year and, as we head toward and beyond autumn, there are clearly more casualties to come. For those of us with routes across the Atlantic, the challenges have been sharpened even further by the first-phase "Open Skies" aviation agreement between the EU and US.

We have just seen the collapse of Zoom Airlines, closely following the demise of Silverjet and Eos - all shaken out since the new competitive regime for transatlantic aviation dawned in March this year.

How should we respond? Pull the duvet over our heads and wail that it is all so unfair, like one of our noisier rivals? Or embrace the new realities and get out there and compete? I am in no doubt whatever that the latter option is the right course for British Airways and in the best interests of airline customers.

Regulation of airline competition across the Atlantic is now a matter between the European Commission and the US administration. This is absolutely as it should be. In a global economy, the transatlantic air market is much bigger and more diverse than point-to-point traffic between Heathrow and New York JFK. There are 42 airlines that fly between the EU and America. That is pretty competitive.

There are two main players. One is the Star alliance of airlines, including Lufthansa, United, US Airways and BMI, soon to be joined by Continental. The other is Skyteam, featuring Air France/KLM and Delta/Northwest.

Star has 35pc of EU-US traffic, and Skyteam 28pc. Both alliances have been granted anti-trust immunity by the regulators, allowing them to operate effectively as single airlines on transatlantic routes.

That is the same legal status British Airways and American Airlines have applied for, supported by Iberia, so that our oneworld alliance can compete fairly with the Big Two. Operating as separate carriers, our combined share of the EU-US market currently stands at 21pc.

Our proposed partnership would allow us to create real competition on many routes currently dominated by Star and Skyteam. This is especially important for customers who want to travel beyond main hubs, including people who live in the UK regions. For example, for journeys between Glasgow and Las Vegas, the Star alliance currently has 74pc of the market.

Star's possession of anti-trust immunity (ATI) allows it to co-ordinate schedules so that connections on multi-sector journeys such as this are smooth and convenient. Without ATI, we and American are trying to compete with one hand tied behind our back.

If you look at transatlantic routes direct from the big European hubs, the dominance of Star and Skyteam is equally apparent. Star's share of seats to the US from Lufthansa's hub at Frankfurt is 80pc. Skyteam's is 85pc from KLM's base at Amsterdam and 73pc from Air France's hub at Paris Charles de Gaulle. With American, our combined share from Heathrow is 51pc.

Sir Richard Branson likes to pretend this level of market share would be a "monster monopoly". He knows a good deal about monopolies. With help from taxpayers, he has run a real one on fast trains between London and Manchester since 1997. And now he is talking about establishing another one by taking over Gatwick airport. The truth is that transatlantic competition is more intense at Heathrow than at any other European airport.

Since Open Skies came into effect, there are nine airlines flying to the US from Heathrow. The second largest is Virgin Atlantic. And the competition is growing. Only this week, Continental announced plans to increase its Heathrow transatlantic schedule from the end of next month. This competition will not disappear if our partnership with American goes ahead.

If, as Virgin claims, our venture somehow led to higher fares and poorer services, we would be leaving an open goal for the competition - and our customers would vote with their feet.

Our operation with American would improve customer service. It would provide not only better connections but also greater access to

discounted fares, reciprocal frequent flier benefits and, for corporate customers, more flexible and geographically extensive deals.

And perhaps the most fundamental customer benefit is that the partnership would create a stronger business, able to withstand the present economic tempests and provide quality services and good-value fares on a long-term basis.

Virgin Atlantic thinks none of this matters. It seems to believe that aviation's competitive environment has not changed since the 1990s and that the point of transatlantic regulation is simply to give Virgin Atlantic an easy life. There's only one answer to that. No way, VA.

Willie Walsh is the chief executive officer of British Airways.