International Transport Forum Roundtable

Reshaping the Aviation Sector in the Wake of Covid-19

Session 2: Aviation policy in the post-crisis world – Airlines

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Dr Barry Humphreys (barry@bkhaviation.com)
• To understand where the airline industry might go, we need first to understand how we got where we are.

• So, a bit of history!
• Chicago Convention 1944.
  ➢ Failed to establish a multilateral regime for the economic regulation of airlines.
  ➢ Led to a regime characterised by bilateral air services agreements negotiated between sovereign States.
  ➢ Nothing could happen without the specific approval of the two governments concerned, an approach bound to discourage competition.
  ➢ Producer interests prevailed over those of consumers. Collusion between airlines was not only tolerated, but usually actually required.
  ➢ Result: - inefficiency
             - high tariffs
             - reduced demand
             - financial losses
From a regulatory perspective, the history of the airline industry for the following 70 years or so has been the gradual dismantling of those restrictions and the creation of a far more competitive environment.

Not universally true, but a clear trend. Important not to understate what has been achieved.

Notably, the industry has seen less direct government involvement and more focus on the interests of the consumer.

This has been achieved by a series of disruptions, each of which has had a dramatic impact and fundamentally changed the sector's structure.
• Disruptions:
  ➢ Technology
  ➢ Charter services
  ➢ US deregulation
  ➢ EU liberalisation
  ➢ Open Skies
No doubt that this regulatory reform has been a major success. But it has had its limitations, especially:

- The airline industry has not been ‘normalised’. It remains ‘special’ in many ways, different from most other industries;
- Key is the absence of global airlines, a reflection of the archaic ownership and control rules which still affect airline consolidation.
- Result has been a financially unsustainable industry.
- US experience shows what could be achieved.
Evident that economic regulatory reform had eventually ground to a halt following the EU/US negotiations. “Creeping Bermudaism.”

Problems:

- No clear way forward to reform the ownership and control rules.
- General reaction against globalisation. The Nation State, the core of the Chicago regulatory regime, has re-emerged as an acceptable concept again. May even be about to enter an era of ‘deglobalisation’. Aviation is not immune from this trend and is inevitably negatively affected.
- Opposition to the expansion of the Gulf carriers.
This is the background to the arrival of the COVID-19 epidemic:

- a financially weak airline sector, despite recent relatively good performance;
- continued regulatory restrictions limiting the creation of a financially sustainable industry;
- absence of the will to seek further reform, and the return of protectionism.
On top of this comes the impact of COVID, resulting in massive financial losses and increased government involvement.

The problem is not that governments have had to step in to save airlines; they did the same for many other businesses, some of far less strategic and political value than airlines.

The problem is a combination of the competitive distortion created by the way in which help has been provided and the effect of the inevitable increase in government involvement in airline operations.
• Government aid has taken numerous forms:
  ➢ direct grants
  ➢ loans
  ➢ equity purchases
  ➢ waivers of fees and taxes
  ➢ renationalisation

• Impact of the epidemic and rate of recovery has varied significantly between countries.

• Inevitable that post-COVID, competition between airlines will be affected. Risk of a split between the ‘haves’ and ‘have nots’.
• All this creates problems for the future:
  ➢ increased financial instability
  ➢ distortion of competition
  ➢ increased government involvement

• ‘Normalisation’ of the airline industry is as far away as ever.

• It is difficult to be optimistic about the short, medium and perhaps even the long-term prospects for the industry.
Addendum

Slots

- An almost impossible regulatory problem to solve.
- Desire to increase competition comes up against substantial vested interests and the sheer complexity of the problem.
- COVID hasn’t changed this. Commercial interests have sought to defend their positions or exploit what they see as new opportunities.
- Some good news for new entrants.
- Overall, however, despite some new opportunities, significant change to the core rules is unlikely soon.
THANK YOU

Dr Barry Humphreys
BKH Aviation Ltd
barry@bkhaviation.com