



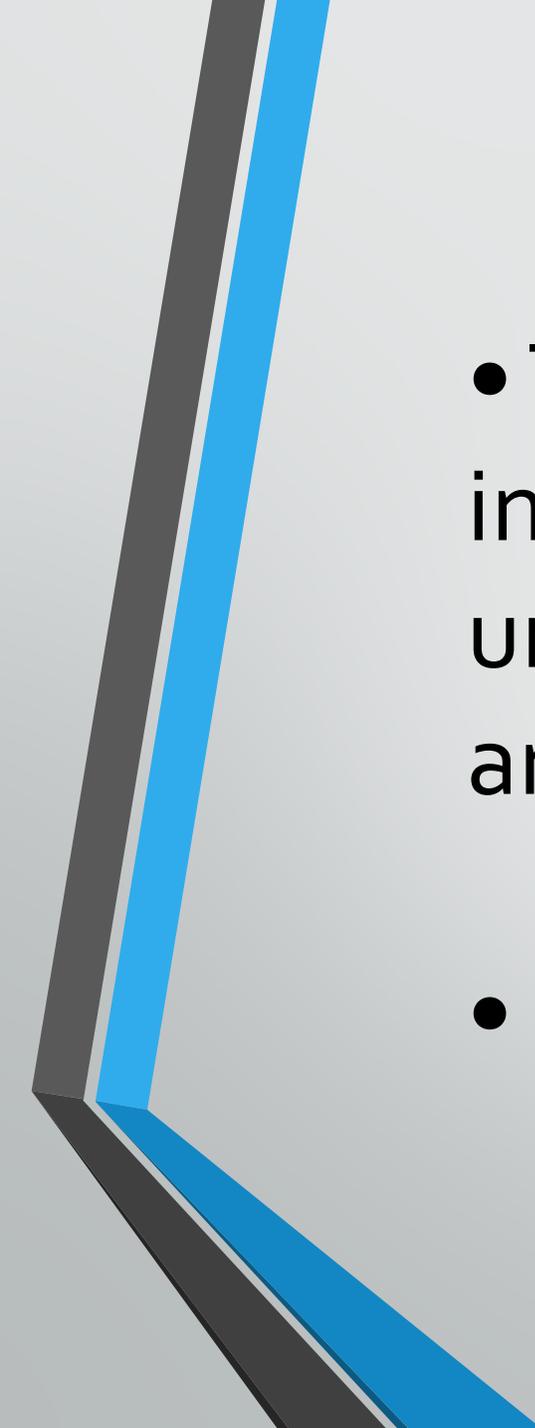
International Transport Forum Roundtable

Reshaping the Aviation Sector in the Wake of Covid-19

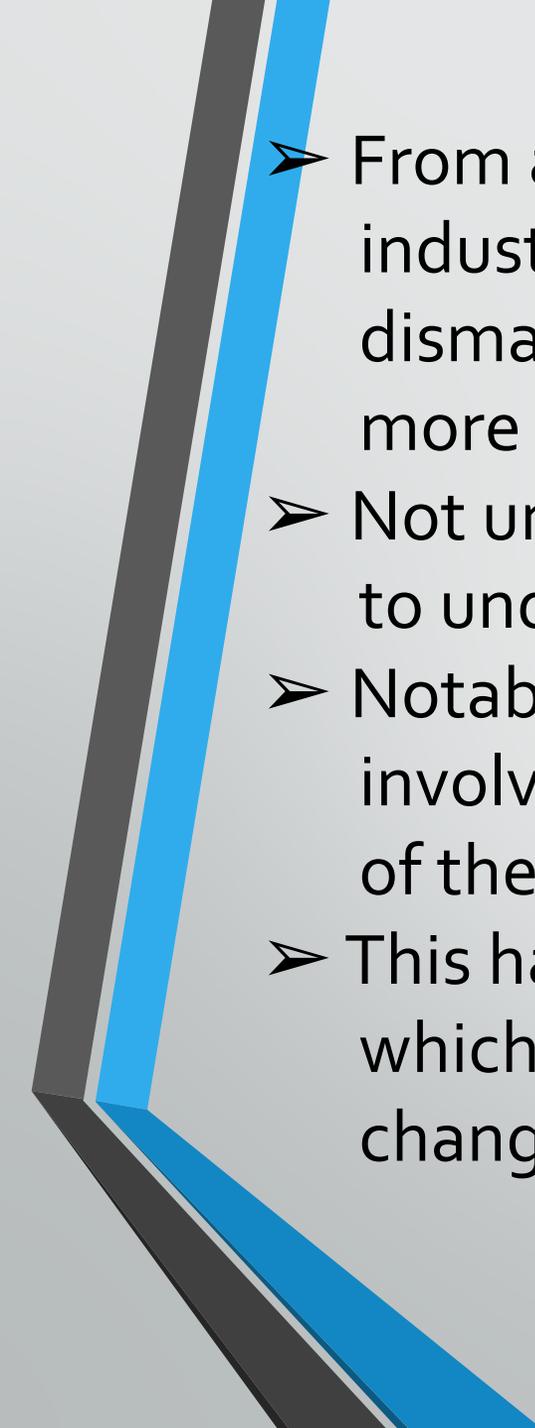
Session 2: Aviation policy in the post-crisis world – Airlines

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- 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

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- 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.

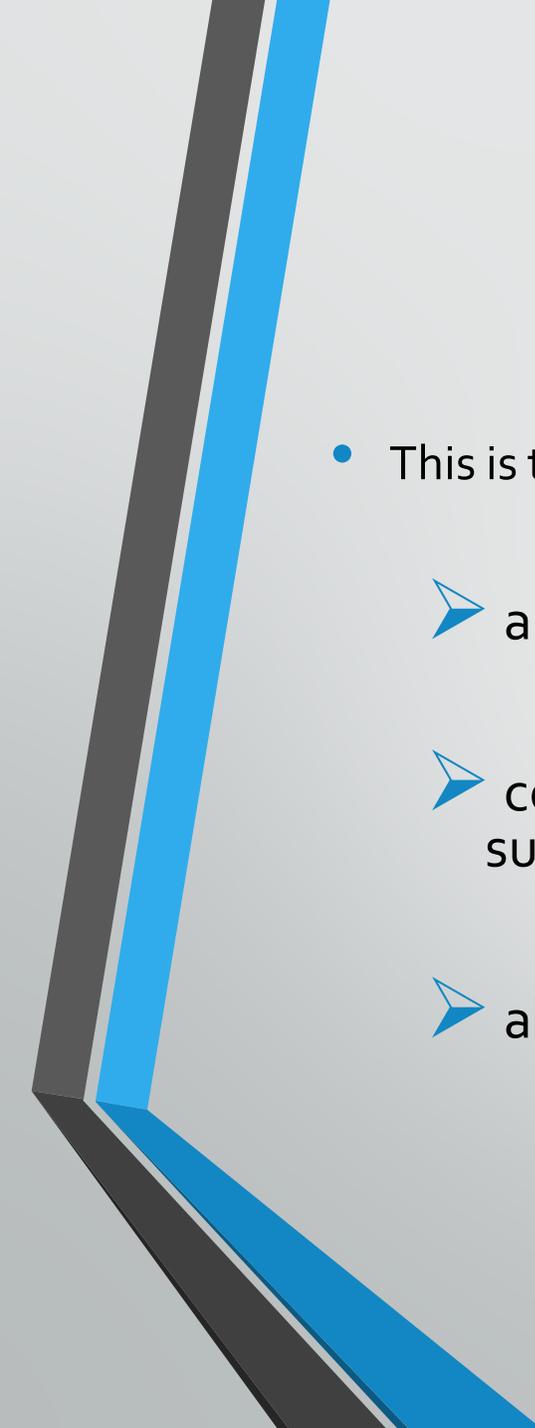


- Disruptions:

- 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.

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- 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

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