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AIRLINES PRIVATISATION ASPECTS

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Abstract: Explain and work out aspects and effects of airlines privatisation in relation to globalisation. Show advantage and disadvantage of the change of the owner from government or state to a private person or various kinds of companies.

Key words: airlines, privatisation, globalization.

1. INTRODUCTION

Privatisation is the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (the state or government) to the private sector (businesses that operate for a private profit) or to private non-profit organizations.

In a broader sense, privatisation refers to transfer of any government function to the private sector - including governmental functions like revenue collection and law enforcement.

The term "privatisation" also has been used to describe two unrelated transactions. The first is a buyout, by the majority owner, of all shares of a public corporation or holding company's stock, privatizing a publicly traded stock, and often described as private equity. The second is a demutualization of a mutual organization or cooperative to form a joint stock company.

Globalization - the process by which regional economies, societies, and cultures have become integrated through a global network of political ideas through communication, transportation, and trade. The

term is most closely associated with the term economic globalization: the integration and interaction of national economies of different nations into the international economy through trade, foreign direct investment, capital flows, migration, the spread of information technology, and military presence. However, globalization is usually recognized as being riven by a combination of economic, technological, sociocultural, political, and biological factors. The term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world. To find the right balance between benefits and costs associated with globalization, citizens of all nations need to understand how globalization works and the policy choices facing them and their societies.

Why to privatize

The air transport system is an important contributor to the quality of life of people and an essential part of world business

globalization. Increasing passenger and cargo traffic places further demands on airlines to provide adequate, facilities and services to ensure safety, regularity and efficiency of aircraft operations in the air and on the ground as well.

The effort and reason of majority of countries was clear. Generally, state owned enterprises have not better functions and profits than private ones. One of the best engine for running of money wheel is money or profit. This idea is really old and came out from historical development and experience. Private profit is closer than social welfare like it is in case of socialist property.

Process of Privatisation

In 1987 Western Europe began cautiously to deregulate its airlines, inspired by the lower ticket prices and greater competition that this policy had achieved in United States of America. In a very fresh history, appearances suggested that not much had been changed. In 1 Ailing state-owned airlines still queued up for government bail-outs; national flag carriers still accounted for 80% of traffic; and all but 10 % of domestic routes were served by a single airline. But with full liberalisation of the market due under European Union (EU) policy in two years' time, at last there were signs of a new competitive breeze stirring Europe's skies.

Legislative support

The same or very similar laws were adopted in US and later in Europe through EU and its Commission. All of them had to help and also forced the privatisation of airlines. The process of adoption was slow, accompanied by early-new raised problems.

There was plenty of the familiar old bad news at those times, however. Spain's state-owned Iberia was poised to receive up to Ptas130 billion (Dollars1.1 billion) in subsidy from its national government, just three years after its last, and supposedly final, bail-out. The European Union would like to see an end to the laws that stop foreign airlines from owning US-based airlines. The EU would like the laws governing ownership of US airlines

scrapped as a part of the plans to create a common aviation market with the US, according to EU officials. The open skies talks between the EU and the US were expected to resume later after being interrupted by the US events like presidential election. In the past, open skies talks have failed over cabotage, which could allow EU airlines to fly domestic routes in the US.

The US has reportedly offered to allow EU airlines the right to own up to 49 % of the voting stock of a US carrier, which is an increase from the previous 25 %, but EU officials have indicated that this may not be enough. An official issue of the European Commission transport has said that it is archaic to demand that you have to be American to own an American company. The European Union wanted to see an end to the laws that stop foreign airlines from owning US-based airlines.

One of the fragments creating the cost of the air ticket is the charging of air navigation services costs.

By last new Regulation on Single European Sky charging to make flying cheaper and more performing the European Commission adopted on 16 December 2010 a new Regulation on the charging of air navigation services costs, which marks another major step towards a truly performing and sustainable Single European Sky.

The charging Regulation will make sure that this target is achieved by a mechanism of risk and opportunities sharing which replaces the automatic full cost recovery system that had prevailed for several tents of years.

Under the previous system all costs increases were automatically added to the cost bases and charged to users, without any possible control except of legal compliance. Furthermore the losses incurred by air navigation service providers because of trafic decrease were automatically carried over to airspace users in the following year. This created a vicious circle when reduction in traffic during years of crisis automatically led to an increase in tariffs, exacerbating the already difficult financial situation of airlines.

On the other hand, any profit made by air navigation service providers due to good



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management and cost control had to be returned to airspace users. The air navigation service providers had no possible reward for good management.

This vicious circle is now broken: Member States and air navigation service providers set in advance their "determined costs" in real terms, and these are capped for the duration of the performance reference period. Good cost control may generate profit that will be kept by the air navigation service provider. If traffic is above or under forecasts, the difference in revenue, positive or negative, will be shared in a fair manner between airspace users and air navigation service providers.

Facts and Figures on the European sky

Today

- European Aviation market: a €140 billion business in 2006;
- +/- 150 airlines;
- 730 million passengers in 2006;
- 1,000 airports;
- 25,000 aircraft on average per day;
- 1,000 air traffic control sectors;
- 12 traffic bottlenecks account for 80 % of delays;
- Air traffic control/management costs € billions for 9 millions flights per year;
- Airlines incurred € billions losses in 2009 because of the crisis;
- The volcanic ash cloud crisis costed airlines some €1.26 billion in a week;
- In 2007, delays generated an additional €1.3 billion of costs to airlines;
- Flight inefficiencies generate substantial additional fuel burn – estimated at more than €1 billion per year - and generate some additional 16 million tonnes;

- of CO₂ per year.

Tomorrow

- Reduce the cost of flying by 50 %;
- Decrease the environmental impact of flights by 10 %;
- Allow continuous increase of capacity while reducing delays;
- Further enhance high level of safety;
- De-fragment European airspace by creating nine Functional airspace blocks;
- Improve performance of air navigation services with regard to safety, environment, cost-efficiency and capacity;
- Establish a single authority to manage the European network, in order to allow optimum use of airspace and allocate scarce resources.

2. POTENTIAL POSITIVES OF AIRLINES PRIVATISATION

The aviation transport industry is going through an exceptional transformation that has driven the market towards increasing levels of competition. Additionally, major investment programs are required to meet the expected growth in air travel demand (particularly in some emerging regions, such as Asia).

Airlines have historically been considered as essential components of the national aviation system, and hence both with airports were regarded as public utilities. Due to this approach, operational and handling activities were contemplated as being fundamental for the development of the airport and airlines business, and commercial activities had a less important role to play. For that reason, airport assets and property have always been publicly managed and commercial activities have occasionally been contracted or outsourced to

private companies. The same effort is observed and requested in access to airlines. Within such a framework, economic regulation was seen as superfluous. The traditional airlines management model becomes visibly unsustainable when most governments begin to be concerned about the burden of airlines financing and its lack of efficiency. However, for many years, a majority of airlines around the world have continued to operate under this model and some still remain attached to it. Since the 1990s, the industry started to evolve with changes being brought about in the traditional airlines management model. Currently, governments are progressively regarding airlines as potential profit-making enterprises rather than merely considering them as part of the infrastructure suppliers.

There are three main potential economic gains obtained from privatisation, namely improvements in operating efficiency (the private for-profit business model more often leads to a further exploration for means to cut costs and boost revenues than public management), the introduction of new management styles and marketing skills directed to serve users with a more consumer-oriented approach, and better investment decisions.

However, in many cases, these investment decisions might also imply under investment or capacity reductions, which mandates the presence of a regulatory environment. It is necessary to remind, that the main result of the success business and profits still depends also on the factors coming out from history (the old roads connecting Asia and Europe, old colonies), market demands, airport facilities, attractiveness of destinations and many various economic and nature inputs.

For example Deutsche Lufthansa AG is an aviation company with operations worldwide. The Lufthansa Group operates in five business segments: scheduled passenger air traffic (Passenger Airline Group) through Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Airlines AG, Austrian Airlines AG, British Midland Ltd., Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled airfreight services (Logistics) through the Lufthansa

Cargo group; maintenance, repair and overhaul (MRO) through the Lufthansa Technik group; information technology (IT Services) through the Lufthansa Systems group, and catering (Catering) through the LSG Lufthansa Sky Chefs group. In September 2009, Austrian Airlines AG was taken over by Deutsche Lufthansa AG. In July 2009, it acquired 45 % of the parent company of Brussels Airlines, SN Airholding SA/NV Deutsche Lufthansa is an interesting company, formerly controlled by government created more entrepreneurial opportunities. Lufthansa was totally privatised in 1997.

3. RISKS AND NEGATIVES OF AIRLINES PRIVATISATION

Regardless of all its potential benefits, privatisation also involves risks and requires prudent management from the public authorities. Several policy issues have not to be contemplated by the governments if the public interest needs to be safeguarded as much as they are for airports.

The end of activity or start-up of well-profitting airlines has not so serious impact to the region if there are more of them.

Aviation is a high-investment industry. To start an airline requires the purchase of planes, access to domestic and international booking systems, links with travel agencies as well as catering and service subsidiaries, and all-important access to terminal space at airports. It simply doesn't make sense to duplicate this infrastructure several times over.

The privatisation of government airlines went hand-in-glove with the deregulation of the industry. This was justified by the argument that "free" competition would lower prices and give customers more choice.

What goes hand in hand together with airlines but more difficult are significant and similar changes at the airports during the period of last 30 years. For example, the eventual externality, negative or positive effect imposed by airport users over non-users or other users, generated by the provision of airport services or strengthened market position gained by the airport operator after privatisation should be carefully considered. In



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this respect, a regulatory regime (in terms of charges, safety, quality, and noise intensity or spatial planning) should be designed before privatisation takes place and the regulatory role ought to be delegated to an independent body. The main difference is that the airspace is relatively "free" area, mainly over the oceans and seas.

The start of the process of deregulating domestic air travel and privatising government-owned airlines caused that the safety standards have fallen, services to regional areas were in crisis, airline workers who still had jobs were putting up with worse wages and conditions and air services had deteriorated. Some airlines on the other hand in last years went belly up.

In the southern hemisphere of the globe was an example in Australia where they collapsed as Ansett after its 66 years of operating and have resulted in the largest mass sacking in Australia's history. Of Ansett's 14,000 workers, just 3000 were likely to be employed by Virgin Blue or Qantas. For the workers who were lucky enough to be re-employed, things were not the same. While 98 % of Ansett workers were in a union, less than 10% of Virgin Blue workers were, and Virgin Blue spent 40 % less than Qantas did on wages, conditions and training. Qantas was arguing that it "must" reduce workers' wages and conditions in order to "survive". Qantas and Australian Airlines (formerly Trans-Australian Airlines) were fully government-owned from 1947 to 1993. During that time, Qantas maintained the best safety record in the world and one of the world's best track records for being on time. With a fully unionised work force, workers had a secure, reasonable wage.

The Australian aviation industry has excess capacity. Flying many half-empty planes, all competing with each other, makes no environmental or economic sense. Nobody is

going to invest in building more terminals at Sydney airport when, because local communities refuse to allow their lives to be further disrupted by aircraft noise, there are hourly limits on aircraft movements and planes cannot take off or land 24 hours a day.

Regional and rural areas have been worst hit by the airline industry's crisis. The airline industry crisis was a direct consequence of two decisions by federal Labor governments in the 1990s: to privatise Qantas and Australian Airlines, and de-regulate the pricing structure and government control over new entrants.

The debate over selling Qantas began in earnest in 1990, when Prime Minister of Australia announced the government's intention to sell 49 % of the airline.

The proposed privatisation was very unpopular with working people. Federal cabinet attempted to shut dissidents up by arguing that the government couldn't afford to purchase new planes and carry out necessary safety re-fits. The cost, the government argued, would be upwards of \$2 billion to keep Qantas "competitive". The government painted Qantas as a debt-ridden liability — likely to collapse in the face of fierce international competition.

Despite this, the government allowed Qantas to purchase Australian Airlines in 1992 for \$400 million, integrating domestic and international services.

In 1993, the government quietly injected \$1.35 billion into Qantas, just one month before it sold 25 % of the airline to British Airways for \$665 million. Qantas held a 40 % market share of international travel to and from Australia. The remaining 75 % of the airline was sold in a public float in 1995. The total sale price for the airline was just \$2.1 billion.

Shortly after privatisation, Qantas launched a war on its workers, extending outsourcing

and competitive tendering to every aspect of its business. As a result, staff conditions were undermined. In a 1997 submission to a Senate committee, Qantas argued that its priority since privatisation was "productivity increases", which it had successfully achieved "by increasing the direct communication between the company and staff".

Far from acknowledging the sale was underpriced, the ALP declared it a huge success, because of the number of small shareholders that had profited in the first few days after the sale. It was left to anti-privatisation advocates to point out that Qantas shareholders' profits came straight out of the pockets of millions of Australians.

Qantas was planning to outsource maintenance work to overseas contractors as a cost-cutting measure. The Australian Manufacturing Workers Union claimed lowering of safety standards. Although Qantas denies that safety standards have slipped, a Qantas 747 in 1999 overshot a runway in Bangkok. This was Qantas' most serious accident since 1947. In April 2000, the undercarriage of a 747 collapsed at Rome airport.

Since deregulation, safety standards have been monitored by the Civil Aviation Safety Authority. CASA has been the subject of numerous complaints. In March 2001, a leaked internal CASA report found that CASA was not upholding safety laws.

Customers today are enjoying historically low prices. In the year 1945 a return airfare between Sydney and London took an average worker around 130 weeks to earn. In 1965, it took around 21 weeks. Until recently, a return ticket to Sydney London costs approximately two weeks pay for the average worker. Perhaps it is even lower, but how long that will last time will tell.

4. CONCLUSION

It is very clear that the 2011 financial year and coming future will be hard for private airlines. Competition in the world and mainly in Europe and on long-haul routes is getting tougher, especially on routes between Europe, US, Asia and Africa. The air traffic tax unpleasant raising in 2011 in some countries like in Germany and others in Europe is also the fact what will not help to airlines and their customers as well. The cost of aviation fuel is rising again to record heights. At the same time, political unrest, terrorist attacks, wars and environmental catastrophes like Island 2011 and Japan 2011 represent additional risks for private airlines. They must do nevertheless everything they can to keep above the water, so that all airlines can continue to grow sustainably and in order to retain the trust of their customers in the future.

Competition in the airlines may take the form of dramatic price cuts, but no corporation is prepared to lose profits. Instead, the leaders of airlines attempt to cut costs by slashing workers' wages and conditions, increasing the number of occupied seats per flight, cutting corners on maintenance and sacking workers.

A more rational system for a publicly owned and run airlines which has to use profitable routes to subsidise regional services, reduce environmental destruction and noise. At the end but still on the first place and most important is safety, it must ensure that high air safety standards are maintained.

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