Deregulation of us and uk airline industries management essay

Environment, Air

In 2009, the United Kingdom Airline industry carried over 108. 6 million passengers, representing a total growth of 7. 4% since 2005 (Datamonitor, 2010). The United Kingdom airline industry was one of the most tightly regulated industries in the world, mainly due to the British government's ownership and interests in the British Airways Group, the United Kingdom's legacy carrier, resulting in the cushioning of the industry to prevent external shocks and competition ruining the airline. This was until January 1993, when the British government removed the long standing bilateral agreement(s) with the United Kingdom and other European countries (now known as the European Union) air services, as a form of abolishment of regulatory industry policy within the industry. The abolishment of these agreements and government policy measures, immediately opened the United Kingdom airline industry up to fierce competition from other mass EU airlines such as Air France, and now in 2011, carriers such as RyanAir, EasyJet and Aer Lingus. Although loosing policy, the British government was reluctant to leave the industry unprotected against competition, and introduced the British Airports Authority (BAA) and subsequent Airports Act of 1986, thereby still giving the British government control over the industry through schedule regulation within it's government owned airports, tightly controlled through slot restrictions and gate ownership restrictions on foreign competitors.

The effectiveness of the British governments decision to loosen policy measures and liberalise the UK airline industry in line with the European Union (abolishment of bilateral agreements in 1993), was seen throughout the UK airline industry and now in 2011, seen through the CAA's " Single

Sky" approach for UK's interaction with the rest of the EU, also effected by the part privatisation of UK's NATS air traffic control services (CAA, 2011). The Period 1994 (Post liberalisation) to 2002 saw a 256% rise in the number of Intra-European Union airline routes by multiple carriers, directly attributable to the liberalisation of the market (Smethers, 2002) By and large the positive effects of the agreements removal was seen from the consumer end, whereas the need for innovative marketing strategies and products, such as new low-cost models where born, giving a greater percentage of the population an opportunity to travel, and greatly increasing industry competition. The success of these low-cost airline models have been seen world wide through the roll out internationally such as RyanAir in Ireland and Virgin America. However, the abolishment of these bilateral agreements has also brought with it consequences for the UK airline market. The evolution of low cost airlines as questioned the long term sustainability of these models, bought about by the eventual need for airlines to recover there costs, relying on high passenger yield numbers for profitability and growth.   The market stability has also been affected given the ease of entrance (through abolishment of market entry regulations), anti-competitive behaviour and abuse of market power (Smethers, 2002).

The airline industry in the United States is the worlds largest, most competitive and highly populated commercial aviation market attributing to 49. 5% of market share for the global airline industry as a whole in 2009 (Datamonitor, 2010). Annually the United States based airlines carry over some 700 million passengers each year, with 709. 4 million passengers carried in the year 2009, with this contributing to the industry being worth over US$153 billion dollars in 2009 (Datamonitor, 2010). The United States airline industry is a rapidly changing market, strongly driven by heavy competition and rivalry between large market share holding carriers. In 2009 the United States Airline Industry was under severe economic pressure, on the brink of the 2008 Global Financial Crisis, the industry saw a rapid decrease in passenger numbers, mainly attributable to leisure customers income pressure during the harsh economic times. Additionally, airlines across the industry faced rising cost bases as world oil and aviation fuel prices increased.

The market pressures that the Global Financial Crisis bought to the United States Airline Industry, meant that several United States airlines were placed under severe financial pressure, and tighter availability of credit, restricting the ability to purchase and lease new aircraft. These pressures saw the major United States Airline, Northwest Airline Corporation, merge with one of America’s top 5 largest operators Delta Airlines Incorporated in Mid 2008 (Crawley, 2008). Further to this in April 2010, an announcement came that two of America’s largest airlines, United Airlines and Continental Airlines will merge (Milmo, 2010), due to financial difficulty and greater savings driven from economies of scale into the future, this merger successfully commenced operation as United Continental Holdings on the 1st October 2010, as is now the world single largest operating airline with the merger valued at US$3. 47 billion (Credeur et al., 2010), now with some 5, 675 departures each day and being employer to some 86, 787 staff worldwide (United Continental Holdings, 2011).

Due to these four above mentioned carriers being merged into two large legacy carriers (these being differentiated from low cost carriers), the market is in risk of oligopoly situation, if cost pressures increase and passenger numbers dwindle, leaving the world's sole largest carrier United Continental having a power advantage within the market, due to it's sheer size. These practices have a growing trend since the introduction of the Airline Deregulation Act in 1978, which other world markets latter followed with similar models. Deregulation has many potential benefits from both the airline operators view point, industry and economic stability and growth aspect and consumers price concious perspective.

However, deregulation reduces barriers to entry, enabling new low cost models to enter the market, driving competition, but also increasing speculation on " cost cutting" safety standards within these models. The deregulation of the industry in 1978 also drove large legacy carriers to alter their marketing strategies and product offerings in order to remain in the now highly intense and competitive market. One of the emergent practices as a result of the deregulation is the ability for airlines to enter into code share agreements, enabling airlines to " share flights", which put simply means an agreement between two or more airlines, to market a flight regardless of who the physical operator is. The main advantage of this being the airline can display different rates for the service, altering the perception to consumers within the market. This trend or practice has grown since the adoption of major airline alliances such as OneWorld, StarAlliance and SkyTeam, where airlines come together in alliances to combine economies of scale through aircraft fleet and services and larger route network through code share connections. The advantages and disadvantages of airline code sharing practices were examined by June Wang (2010) arguing mainly against this practice from the consumers perspective, as it is seen as purely deceptive and mis-leading marketing strategy tool, given these flights are one physical product, although briefly outlining the potential benefits to the consumer through an enhanced route network.

There are two main international institutions that regulate and control the global airline industry to provide safe and sustainable air travel throughout the world. The International Aviation Transport Authority (IATA) is responsible for a wide scope of global aviation activity ranging from legal, economic, cargo, aircraft safety and crash investigation and management services (IATA, 2011). The International Civil Aviation Organization (ICAO)is the reglatory body responsible for aircraft routing, navigation procedures and appropriate parameters and hand over requirements for Air Traffic Control centres. (ICAC, n. d.) Post 11th September 2001, the ICAO also now places strict aircraft and aerospace restrictions and policies on all operational passenger aircraft services.

The comparison of United states and United Kingdom airline industries and its respective industry deregulation measures, show the effectiveness of market deregulation both in an Economic Union trade area (Shown by the United Kingdom in the European Union), and a sole independent country's airline industry (shown by the United States airline industry). Deregulation in an a trade area, such as the European union proves to be a highly successful model, carving healthy compeition and innovation within the market. The United Kingdom's deregulation proved successful due to the geographical promixity to it's compeititors (ie. UK & France), where before prior to degregulation French airlines where heavily restricted to where and how (schedualing and slots) they flew within the UK. The compeitive model devloped since the deregulation of the industry, proved highly benefical for the United Kingdom airline industry, enabling short-haul inter-EU flights cheaper then a train fare across the United Kingdom, this not only being benefical for the UK airline industry but tourism market additionally. The United States deregulatory outcomes, have not been merely as successful as those in the United Kingdom market, mainly due to the compeitive isolation of the United States airline industry, this meaning the industry is effectively through geographical size has split it's market into two micro markets competing against each other, latter causing 4 major airlines to merge, in order to remain financially viable. The United States relies heavily on intra-international code-sharing techniques to effectively enhance it's competitive advantage globally and for airlines within the united states airline industry itself. The key fact from industry deregulation is it is a driver for innovation (due to the need for a greater competitive edge), seen in both the US code-sharing trend introduction and European low cost airline models.

In conclusion, the United Kingdom airline industry proved to achieve the competitive mix of market deregulation and minimal government intervention, opening up the airline industry, tourism and stimulating the growth within the United Kingdom economy. Industry deregulation within global airline industries has proven to be grossly successfull, particularly in those areas with close geographical distances to adjoining countries – enabling inter-tourism across countries, and those countries already involved in some form of trade agreement such as an economic union. The notion that governments still regain control within the industry is an important protection measure to ensure there is still some regulatory " equalisers" actively inforce within the industry, to remove anti-compeitive activites and to uphold importance on safety regulations worldwide.

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