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"Anticipation and Participatory Change Management in Companies during a Period of Crisis and Technological Change"

BRITISH AIRWAYS - IBERIA: INTERNATIONAL AIRLINES GROUP (IAG)

(by Jean-Cyril Spinetta – October 2016)

The announcement of the merger between British Airways and Iberia in 2010 which gave birth to the IAG group, brought to a close, for all practical purposes, the consolidation of European air transport, launched in 2003 by the announcement of the merger between Air France and KLM, and followed by the groupings between Lufthansa, Swiss Airlines (former Swissair), Brussels Airlines (former Sabena) and Austrian Airlines.

At the end of this consolidation phase some ten years in the making, most of European air transport is structured around three major groups (Air France KLM, Lufthansa Group and IAG), and the only independent companies still in operation are more modest players such as TAP (Portugal) or SAS (Scandinavia) and, of course, low-cost airlines dominated by Ryan Air and EasyJet. As to Alitalia and Air Berlin, they can in no way be considered independent anymore, because even though their reference shareholder ETIHAD holds a monitory stake in their capital, everyone knows that this group has actually taken effective control of these two companies.

To try and understand why and how a consolidation announced as inevitable and desirable for decades could only take place in the beginning of the new millennium, it is necessary to:

- bear in mind the specific regulation of air transport, which long opposed the possibility of consolidation in the sector,
- While the fundamentals of the economic model of air transport made such consolidation inevitable.

1. THE SPECIFIC REGULATION OF AIR TRANSPORT HAS LONG PROHIBITED ANY POSSIBILITY OF CONSOLIDATION IN THE SECTOR

As in the case of many recent economic activities, the regulatory standards for the air sector were established by the United States in the aftermath of World War II. These rules are enshrined in the Convention on International Civil Aviation which established the International Civil Aviation Organisation (ICAO), also known as the Chicago Convention adopted in 1944.
The Chicago Convention affirms a general principle of freedom of navigation and overflight in international airspace but recognises the right of the States to accept or refuse that their countries be linked to another country by an airline. All graduations between refusal and acceptance are possible, ranging from open sky to the drastic limitation of the number of authorised frequencies. The Chicago Convention therefore recognises the intangible principle of the sovereignty of the States to decide whether to be linked with another State by air.

In concrete terms, traffic rights have to be obtained in order to link one country with another. These traffic rights are negotiated between the States and between the airlines, according to principles where reciprocity holds sway. If Brazil requests and obtains additional traffic rights to access the Chinese market, the Chinese government will request and obtain traffic rights to gain better access to the Brazilian market.

The traffic rights obtained after negotiations are the subject of international agreements between the States. These rights are held by the States which have to confer them in turn to a national airline, i.e. a company where more than half the capital is held by resident investors. This legal structure devised in 1944 is still applicable today. Its implementation and control are ensured by the ICAO. As a result, air transport does not fall under the World Trade Organisation (WTO).

In this very particular regulatory system, it made sense and was inevitable that each State would have an airline, in general in public hands, on which the State conferred the traffic rights it had obtained after negotiations with third countries.

These principles where shaken for the first time in the beginning of the 1970s, when the United States pleaded for an “open sky” policy, with large international economic areas, particularly in Europe.

But the biggest shock came when the single European market was put in place. The principle of prior negotiation of traffic rights between States in order to access markets, which had also prevailed in Europe, was abandoned. A protection principle, based on obtaining traffic rights beforehand, was replaced by a principle of freedom, freedom of establishment, and total freedom to access markets, which is today in force among the 28 EU member States, plus Switzerland, Norway and Iceland, countries linked by particular agreements.

As is always the case, the ramifications of this radical regulatory change did not become clear immediately. The rule of one country, one State, one airline, no longer made sense. The European single market ineluctably sentenced to non-existence or insignificance the national airlines of European countries whose economies did not figure among the most powerful ones. But the disappearance of national markets which constituted protected economic areas where national companies reigned supreme, was bound to pose major problems to traditional airlines even for many large European countries. For instance, without the European single market, low-cost airlines, which have posed so many problems, could not have developed because they would not have free access to the markets.

In creating the European single market, the heads of State and of government were probably not all aware of the radical nature of the changes they would cause for the markets of goods and services.

The air sector experienced a shock. The traditional principle of traffic rights assumed the existence of national champions. The European single market necessarily meant the rapid emergence of European champions through the merger of historical national companies.

Consequently, the decisive element that explains the merger process in Europe, particularly between British Airways and Iberia, is easy to identify. It was the shock in the regulation of the air sector in Europe.

But how can we explain that it took more than ten years for this consolidation movement, ineluctable though it was, to take concrete shape with the merger between Air France and KLM in 2004?

The slow pace is due to a problem of contradiction, which has still not been resolved, between the international legal system applied to air transport, and the legal system in force in Europe.

For Europeans, and particularly the European Commission, the European single market necessarily means the end of traffic rights granted to the national States alone. The Commission therefore logically claims the exclusive authority for negotiations between Europe and third countries. Third countries outside Europe, in particular Russia, China, Japan and Brazil, to mention only the largest countries, consider that the European single market does not change in any way the legal order established by the Chicago Convention in 1944. Relations between States in air transport are still based on traffic rights, allocated after negotiations to States and conferred to national companies, i.e. companies where the majority of the capital is held by resident investors.

As a result, when Air France acquires KLM or British Airways acquires Iberia, a third country outside Europe argues that legally, KLM ceased to be a Dutch company and Iberia a Spanish company, and that consequently, all the traffic rights exploited by KLM and Iberia have lapsed.

This discussion may appear somewhat theoretical, but it is cited here not for the pleasure of broaching a complex legal problem but because legal uncertainties not yet clarified have delayed an otherwise economically necessary consolidation movement, and have conferred very specific principles and organisation to said consolidation movement when it does occur. It was necessary to put in place governance principles and an organisation under which it would be possible to continue to say, in spite of the mergers, that KLM had remained Dutch and Iberia Spanish, to avoid that all or part of the goodwill disappeared.

2. THESE LEGAL DIFFICULTIES AND CONTRADICTIONS HAVE DELAYED THE CONSOLIDATION OF EUROPEAN AIR TRANSPORT EVEN THOUGH THE ECONOMIC FUNDAMENTALS OF THE SECTOR MADE SUCH CONSOLIDATION INDISPENSABLE

It is beyond the scope of this paper to describe in detail the economic model(s) of air transport. Conversely, it is certainly useful to spell out the fundamentals of this economic activity which are too often forgotten or ill known, which can lead to serious misunderstandings and wrong conclusions.

2.1. Let us therefore start with something that is self-evident. Air transport is a service business, providing services to companies and to persons to meet particular needs. It is a major line of business with a consolidated turnover of nearly $1000 billion.

2.2. This service business registers annual growth approximately double that of world economic growth. Unlike world trade, where growth has slowed dramatically, this historical trend will most likely continue in the decades to come, as a reflection of the emergence of middle classes in Asia, Latin America and even in Africa.

2.3. But this service business is also a very capital intensive business, close to traditional industrial sectors such as steel and chemicals. The aircraft acquisition costs account for nearly two thirds of the investment needs, which total some 10% of the annual turnover.

2.4. This very capital intensive service business is also labour intensive, where direct or indirect wage costs (in the case of outsourcing) account for 25% to 40% of the overall costs, depending on the company.

2.5. It is a line of business that is being increasingly liberalised, totally in Europe, as we have seen, but also on a regional basis as in Europe, North America, Central and South America, and South East Asia in particular. Furthermore, open sky agreements are gradually being implemented between large economic areas such as the open sky agreement between Europe and the United States concluded in 2004.

2.6. It is a line of business without any barriers to entry, non-existent technological barriers, people skills barriers that are easy to circumvent by hiring people with the requisite skills available on the labour market, trade barriers that have disappeared since the Internet enables direct, easy and inexpensive access to consumers. The capital intensive nature of the sector, which is normally a barrier to entry, has not been an obstacle in the air sector either.
In fact, the banks are readily prepared to finance acquisitions of aircraft because they know that if an airline goes bankrupt, they will recover assets, the planes that are easy to resell. The banks are all the more driven to do so because they have never lost money in financing aircraft.

2.7. Airlines are finding it increasingly difficult to differentiate themselves from one another by the originality of their products or by their reputation, particularly in terms of air safety, attached to their brand. Consumers note more and more that all airlines use the same planes, that the service standards are increasingly similar and that when it comes to safety, airlines are by and large serious, as accident statistics amply attest. Thus, to put it in economic terms, airlines benefit less and less from non-price competitiveness and consumers are increasingly searching for the best possible rates, which price-comparison websites enable them to do easily. The only remaining decisive elements are the size of the networks, the quality of connecting hubs, the quality of alliances with other airlines to extend and multiply the destinations nearly to infinity, and the quality of the frequent flyer programmes. But the tendency to seek the lowest prices is growing steadily and the level of the fares offered is increasingly the essential element to attract and retain consumers.

2.8. All these elements -- capital and labour intensive service business, increasingly more liberalised, without barriers to entry, without non-price competition, where the assets of companies that go bankrupt, i.e. the aircraft, can be reused immediately, thereby precluding any supply-demand adjustment –explain that when consolidated economically at world level, air transport has always lost money. Since created in 1945, irrespective of the 10-year period selected, said period always shows sizeable losses. Since 2013, with the drop in the price of oil, air transport is again registering profits worldwide, but what will happen when oil prices start rising again?

2.9. The fragmentation and crumbling of air transport, particularly in Europe, between an excessively large number of airlines (the legacy of the traffic rights system), were increasingly at odds with the single market, but also with the requirement to provide the financial means needed to finance the modernisation and growth of European airlines in the new market context, without State aid.

The indispensable nature of the consolidation of the European air transport sector was understood by all stakeholders -- shareholders and company executives, regulators and trade union officials.
Thus, whether in the case of Air France-KLM or British Airways-Iberia, all the works councils consulted gave a favourable opinion. All the mergers that have taken place were in any event amicable, but even more so they were mergers understood and approved by the trade union officials of the companies concerned.

Now that the essential reasons which led to consolidation in the European air transport sector have been examined and described, it is time to focus on the merger between British Airways and Iberia and to reflect upon:

- The governance opted for in the new group and the degree of autonomy retained for British Airways and Iberia;
- The policies pursued after the merger to improve or restore the profitability of the airlines, particularly of Iberia.
- Finally, in view of the efforts made and the reduced costs obtained, how the future of the group can be shaped in the medium term.

3. GOVERNANCE OF THE IAG GROUP: DEGREE OF AUTONOMY RETAINED FOR BRITISH AIRWAYS AND IBERIA IN THE IAG GROUP

The appended datasheets describe with precision the three constituent companies of the IAG Group: British Airways, Iberia and Vueling, to which Aer Lingus has just been added.

The merger between British Airways and Iberia resulted in a Spanish holding company, the IAG group, domiciled in Madrid, which exercises economic control over the British Airways Group and the Iberia Group.

It is worth bearing in mind that the merger was based on an economic parity very favourable to Iberia, whose value represented 45% of the value of the new conglomerate.
The non-executive chairman of the Board of Directors of the IAG Group is Spanish, and its Chief Executive Officer is English.
The figures in the table below give a precise idea of the respective positions of the two companies at the time of the merger (2010) and in the two years prior to the merger.

	IBERIA			BRITISH AIRWAYS		
	2008	2009	2010	2008	2009	2010
Fleet - Long-haul - Medium-haul	 33 76	 32 77	 35 77	 125 120	 125 120	 120 118
Production Billion seats Kilometres	66	62	62	150	149	141
Turnover (€ billion)	5.5	4.4	4.8	12.8	13.1	12.5
Operating margin (€ million)	5	-475	-28	1300	-300	+300

We immediately see that British Airways is ca. 2.5 times bigger than Iberia, whether in terms of business volume, fleet size or turnover, while the economic performance shows an even greater gap. If we take 2008, the last year before the crisis, the operating margin of British Airways is ca. 10%, whereas that of Iberia is nil.
These are therefore two companies with highly contrasting economic profiles. The contrast is even more pronounced if we take into consideration their respective corporate vocation.

British Airways is first and foremost a very large long-haul operator (125 aircraft), a leader on the most profitable long-haul international markets, i.e. between the UK and the USA, which accounts for nearly half of its total long-haul business. Conversely, to deal with competition from low-cost airlines as of 2001 as well as to limit the considerable losses of its short-and medium-haul network, British Airways has reduced its offer considerably on this front.
Iberia has a profoundly different business profile than British Airways. It is a rather modest long-haul operator, with a little more than 30 aircraft, which fly mostly to Central and South American destinations, routes on which Iberia is the European leader, with Air France KLM. Conversely, Iberia had a very powerful short- and medium-haul network, in view of the size of the domestic market and service to islands, in particular the Balearics. The development of the high-speed train in Spain, combined with competition from low-cost airlines, had a considerable impact on the profitability of this network, which was reduced substantially as a result.

All in all, the characteristics of the respective networks of the two companies are profoundly different. The connecting hubs of London and Madrid are not much in competition, as the long-haul networks have quite different routes. This means that it is not necessary to coordinate very closely the business policies and development strategies that can remain largely autonomous. This situation is exactly the opposite of Air France and KLM which have built up highly comparable worldwide networks and operate on two hubs close to each other and therefore in direct competition. This has led to the definition of a fully coordinated development strategy, the unification of business policies, the integration of sales teams and

the implementation of joint teams for the management of revenues. Such integration was not necessary in the case of British Airways / Iberia, because there was no risk of confusion or uncontrolled competition between the two networks. Each of the two companies has therefore remained highly autonomous.
Conversely, the controlling company, IAG, has most probably defined in very strict terms the financial objectives for each of the two companies as well as the cost-cutting objectives so that the financial objectives can be attained. Furthermore, all the investment decisions of the two companies are most likely centralised at the IAG group level, as investments necessary for the development of the two companies, i.e. the acquisition of aircraft, are subordinate to the verification that the financial objectives have been achieved.

The governance of the IAG group therefore seems to be based primarily on financial objectives, without any extensive integration of the lines of business of the group's companies up to now.

We may therefore conclude on this first point that British Airways and Iberia maintained their autonomy quite extensively after the merger and that the respective regulatory bodies of the two companies were able to continue to play their role and exercise their influence without real changes, except as regards financial performance and cost reductions, where the objectives seem to be fixed at Group level.

4. POLICIES PURSUED AFTER THE MERGER TO IMPROVE OR RESTORE THE PROFITABILITY OF THE COMPANIES, PARTICULARLY OF IBERIA

A brief review of the last 15 years (2000-2015) shows that air transport was faced with crises, economic challenges and changes worldwide, which forced historic companies to adapt their economic model to a profound degree and to implement cost reduction plans on a quasi permanent basis.

We have seen that growth in air transport is closely related to global economic growth. During a period of economic growth, air transport demand is about double that growth rate, while it drops considerably during periods of recession or stagnation. Linked entirely to the economy cycle, air transport increases and decreases apace with the economic cycle.

The effects of the economic crises (2001-2003, 2009-2011 have been exacerbated further by specific elements concerning air transport: the terrorist attacks of 11 September 2001, the Iraq war in 2003, the terrorist attacks in the Maghreb and the Middle East since the Arab Spring, and the terrorist attacks in Europe, particularly in France.

Air transport has also been hard hit by health risks, such as the SARS virus in 2003, and the Ebola crisis more recently.

Finally, the air transport economic model was affected by the sharp increase in oil prices as of the year 2000. In eight years (2000-2008) fuel, which accounted for less than 5% of overall costs, increased to more than 35% of those same costs, becoming by far the number one cost item for an airline. The recent drop in oil prices has certainly divided the oil bill by two, but it is quite likely that the price of oil will start rising again in the years to come.

Whilst having to deal with these various crises and sharp rise in oil prices, the air transport sector also had to face a major shift in its competitive environment.

As we have seen, long protected from competition by rules that limited access to the market by new companies, the air transport sector was steadily and swiftly liberalised, particularly in Europe with the completion of the single market.

New players appeared and developed as a result, namely European low-cost companies on short and medium-haul destination, companies in emerging countries, particularly China for international long-haul destinations, and above all the companies of the Persian Gulf (Emirates, Qatar and Etihad Airways) supported and subsidised massively by their respective States, which imposed their access to the various European markets, either because the large majority of European countries no longer have an air carrier and are delighted to welcome long-haul flights from those companies, or because the other countries come under diplomatic, financial or commercial pressure which they find difficult to resist.

The low-cost airlines have in 15 years carved 45% of the European short- and medium-haul market. This is a remarkable if misleading figure. In fact, before the creation of low-cost airlines, the historic airlines had a 70% share and charter airlines 30% of the market. Charter airlines have virtually disappeared, eliminated by low-cost airlines, and the historic airlines have seen their market share shrink by 15%, which is substantial, but far lower that the figures suggest at first glance. The British and Spanish markets were hit harder than the German market and above all the French market.
Conversely, the main long-haul markets of British Airways (North America) and Iberia (South America) were relatively unaffected by the very aggressive policy of the Gulf airlines. The reason is exclusively geographic. Although it makes sense to fly from Paris to Singapore via Dubai, it would be absurd to head from Europe to America by flying eastward first. Thus, whereas Lufthansa, KLM and Air France are up against massive competition in Asia, the Indian Ocean and even Africa, where they have developed very dense networks, the core long-haul networks of British Airways and Iberia are naturally protected.

To tackle all these challenges, European airlines were forced to implement quasi permanent adjustment plans to try and stabilise their costs in spite of the sudden increase in oil prices. It was once again a matter of survival for those companies.

The manageable costs, i.e. those which airlines can do something about to reduce their overall costs, represent only 50% of the total costs, however. Thus, if an airline wants to reduce its total costs by 10%, it must reduce its manageable costs by 20%, which is substantial. As personnel costs account for more than half of the manageable costs, the cost reduction plans of airlines are always focused, as a matter of priority, on increasing productivity by cutting staff and seeking to reduce salaries, by freezing salaries or by cutting wages or by resorting to more outsourcing.

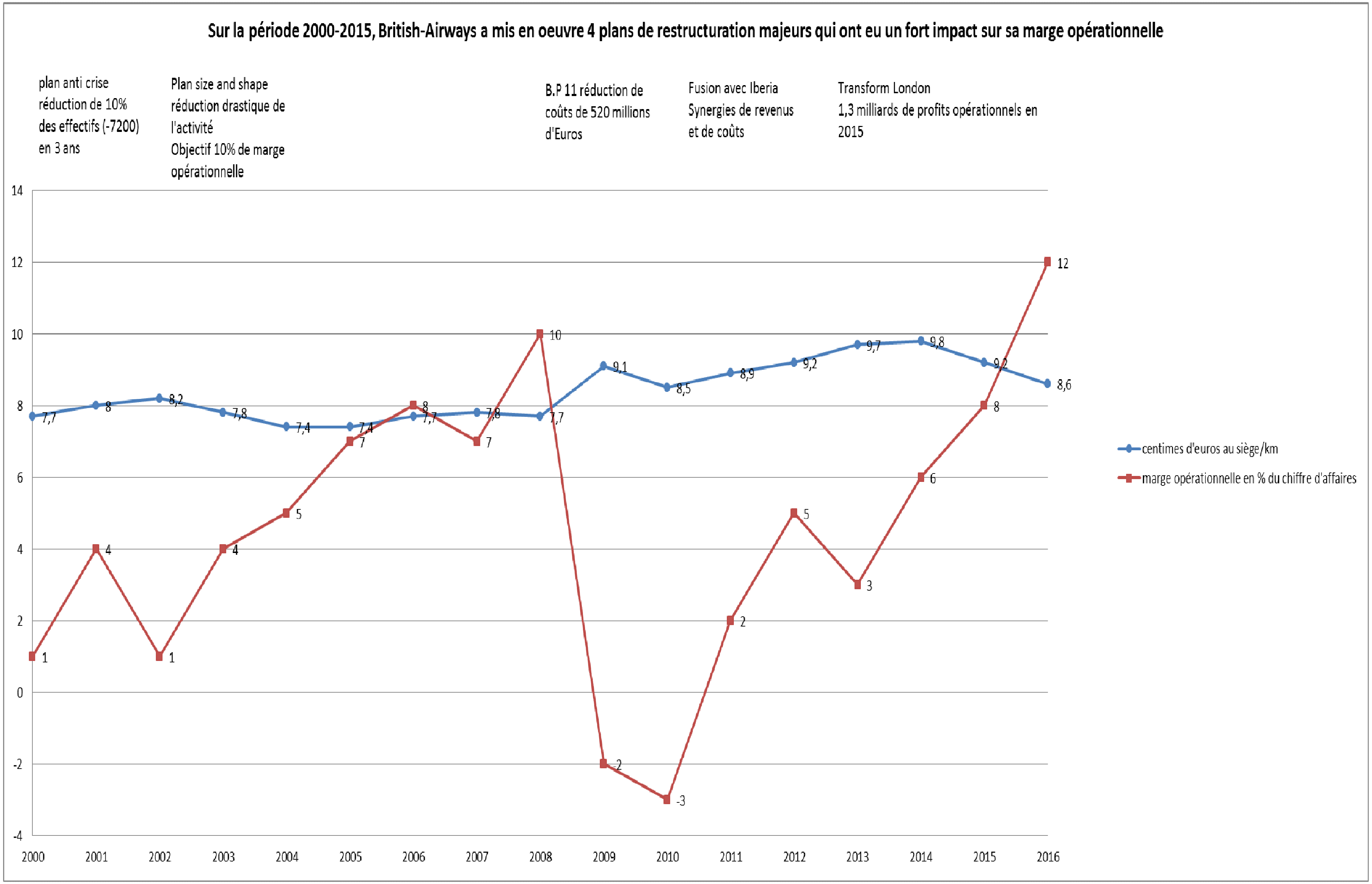
For British Airways and Iberia, the cumulative result of these restructuring plans over 15 years is reflected in the figures below:

	BRITISH AIRWAYS		**IBERIA**	
	2000	**2015**	**2000**	**2015**
Production in Billions of seats/kilometres	168	174	54	60
Number of aircraft				
Long-haul	139	131	48	32
Short and medium-haul	227	148	111	64
Number of employees	65,157	43,120	25,386	16,907
Cost in seat-kilometres in eurocents	7.7	8.6	7.9	7.5

These figures elicit the following comments:

- The production of the two companies has increased marginally in 15 years whereas the average annual growth of aviation links between Europe and the rest of the world, and inside the intra-European market, has been 5% per annum, which means that traffic has doubled in 15 years.
- At constant levels of production, the number of employees has dropped sharply at equivalent annual rates for the two companies.
- The number of planes put on line has dropped considerably, particularly for short- and medium-haul routes, reflecting the impact of competition with low-cost airlines.
- The seat-kilometre costs have gone up marginally at British Airways, and down at Iberia, remarkable performances have been registered in an environment characterised by a sharp increase in the price of oil, even if it has gone down recently. The drop of Iberia’s unit costs reflects the efficacy of the company’s last plan known as the “Plan for the Future,” on which more presently.

The next two graphs summarise the efforts by the two companies to reduce costs in the last 15 years.


Sur la période 2000-2015, British-Airways a mis en oeuvre 4 plans de restructuration majeurs qui ont eu un fort impact sur sa marge opérationnelle
plan anti crise
réduction de 10%
des effectifs (-7200)
en 3 ans
Plan size and shape
réduction drastique de
l'activité
Objectif 10% de marge
opérationnelle
B.P 11 réduction de
coûts de 520 millions
d'Euros
Fusion avec Iberia
Synergies de revenus
et de coûts
Transform London
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2015
centimes d'euros au siège/km
marge opérationnelle en % du chiffre d'affaires
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12

Sur la période 2000-2015, Iberia a mis en œuvre cinq plans de réduction des coûts qui lui ont permis de restaurer sa profitabilité

These graphs clearly show that like Lufthansa and Air France-KLM, British Airways and Iberia need quasi permanent cost reducing plans, first implemented in 2001, which have regulated the life of the two companies since.

This need is due essentially to the radical change in regulations that have enabled new players to appear, such as low-cost airlines in Europe, the Gulf airlines and companies from emerging countries on long-haul routes.

The world of transport, whether road, maritime or air, brings national systems with totally different cost characteristics in direct, head-on competition. To use an image that has arisen in the public discourse, the Polish – or rather Chinese – plumber is by definition authorised to alight and thus to work under the conditions of his country of origin in Madrid, London or Paris. In the economic sector where non-price competition does not exist, the plumber must reduce his cost or disappear.

Mergers of companies are not a decisive element that could explain these structural adjustments. Mergers are not the cause of such structural adjustments. We can even say that in and of themselves, mergers in air transport have no negative consequences for the staff, for two reasons:

- First, owing to legal reasons to do with traffic rights, companies must survive with their integrity largely intact. Normally, under a merger, the general (commercial, financial, legal) departments are merged, restructured and simplified at once. This is not the case in air transport, where these departments continue with few changes.
- Above all the relocation of production sites is by definition impossible in the air transport sector. A carmaker can relocate its production outside Europe, but an airline cannot relocate its production outside London Heathrow, Madrid Bajarais or Paris Roissy. Only a minority of activities (aircraft maintenance, ticketing processing, etc.) can be relocated. Conversely, airline operations cannot be relocated.

Accordingly, company mergers are rightly not seen as threats by employees of the companies and their trade unions. They are even seen as protecting their jobs, which explains that the trade unions where favourable in all such cases (KLM, Iberia, etc.).

Conversely, under governance by financial objectives, as seems to have been put in place at the IAG Group, Iberia had to adopt a very harsh plan (Plan for the Future) in 2012 to restore an economic situation that had suffered over six consecutive years (2008-2013) from negative operating results.

This plan set five priorities:

- Concentration on the core network, which meant capacity reductions.
- Renewal of the commercial offer.
- Use of Iberia's low-cost subsidiary, Iberia Express, in Iberia's main network, to replace flights operated by Iberia at present.
- 4500 jobs to be cut by 2017, reassessed at 5471.
- Sizeable pay cuts for all job categories, in the air and on the ground, by introducing a second pay scale (B-Scales).
- Reduction of operating costs which do not fall under the core business, such as operational maintenance and industrial maintenance.
- The aim was to improve the operating result of 2011 by €450 million in 2015.

This plan initially caused very high social tensions, which allayed gradually thanks to:

- Arbitration by the Spanish government in May 2012, prohibiting Iberia Express to operate on the long-haul network and limiting the replacement of Iberia by Iberia Express on the short- and medium-haul network to 25%;
- The agreement reached in March 2013 after mediation between Iberia and the majority of its employees.

Following this mediation, the salaries of pilots and flight attendants were reduced by 14%, and those of ground crews by 7%.

Furthermore, new double wage scales were introduced for pilots and flight attendants. If the 14% reduction for all pilots is combined with the effects of the B-Scales, the starting salary for a pilot decreases by 56% and the end-of-career salary by 24%.

The implementation of these measures, plus the drop in the price of oil, enabled Iberia to reach a positive operating margin in 2015 of 5% of the turnover and to revive growth.

British Airways had launched a savings plan in 2009 concerning essentially cabin crews, flight attendants:

- Introduction of a second wage scale for newly hired staff: €25,000 annual starting salary, instead of €40,000
- Reduction of days off
- Indiscriminate use of cabin crews in short-, medium- and long-haul flights.

As British Airways had returned to growth as of 2010, the “Transform London” plan adopted in 2012 after the merger with Iberia was quite light, where the only notable measure was the outsourcing of the ground operations at London-Gatwick.

In 2015, the results of the IAG group were clearly positive due to the cost reducing plans and the drop in the price of oil. This trend is expected to continue in 2016, even if the very strong capacity increase, on the North Atlantic route in particular, has had a severe downward impact on revenues which should stabilise, and even reduce slightly the profitability recorded in 2015.

5. IN VIEW OF THE COST REDUCTIONS, WHAT DOES THE FUTURE HOLD IN STORE FOR THE GROUP IN THE MEDIUM TERM?

The situation of the IAG Group seems to have been firmly remedied. British Airways has registered historically high profit margins and Iberia has returned to profitability. Furthermore, Vueling, the low-cost subsidiary of the IAG Group, is also profitable, albeit going through a difficult summer because of considerable operating difficulties. Finally, the recent acquisition of the Irish airline Aer Lingus should enable the IAG Group to operate, particularly from Great Britain, on long-haul routes at costs decidedly lower than those of British Airways. Yet, there is no indication that this situation will last long.

- First, there is the uncertainty of oil prices. Due to the agreement reached within OPEC recently, which will be followed by Russia, it is highly unlikely that the price of oil will remain at $50 a barrel, even if the costs for extracting shale oil have apparently dropped substantially.

- Then there is the patent imbalance between supply and demand in air transport, which has led to a sharp drop in fares. We know, however, that a supply-demand adjustment is difficult in air transport. The downward trend in fares may therefore continue.
- Finally, low-cost projects for long-haul routes appear to be multiplying (Norwegian Airlines), even if there is no real economic model for low-cost long-haul carrier.

But the greatest uncertainty concerns the capacity of the national and European regulatory authorities to get the various competitors to comply with the conditions of fair competition. We know that it took more than 20 years for the European Commission to decide to bring morality to the subsidies received by low-cost airlines. We know that in spite of the demonstrated massive subsidies received by the Gulf airlines, the European Commission and the States have done nothing yet to draw the due consequences.

Conversely, although it seemed highly likely just two or three years ago that the liberalisation of air transport would continue to make headway, there are increasing signs that suggest we are on the eve of an abrupt halt to this liberalisation process initiated nearly forty years ago. In any event, the consolidation of air transport that has hitherto taken place on a regional basis (Europe, USA, Latin America) is likely to continue, but on a global basis.

It is also likely that airline groups that have emerged from this consolidation, and which have respected the autonomy of their different entities up to now, will tend to get more and more integrated. The risk would then be that restructuring plans, which today are negotiated and decided in each of the subsidiary entities of the consolidated groups, will in future be negotiated and decided at the level of the holding companies.

The ties maintained with the social partners of each of the companies concerned would be broken in such an eventuality.

It is therefore high time to consider setting up real group committees so as to safeguard the negotiating capacity of the social partners on the developments needed to ensure the survival of the companies.