AT LEAST 5 MEDIUM SIZE EU AIRLINE WILL GO BANKRUPT IN 2018-2019

News / Airlines

Gediminas Ziemelis

Between 2004 and 2015, the US airline industry saw 11 major air carriers merge into 4. This massive consolidation took place as a response to industry slowdowns and from the lack of ability on the airlines part to generate a profit. As the dust settled, the remaining airlines have learned from their past and are practicing capacity discipline. The airlines left are now generating a profit, butas a result,the industry has become much less welcoming to new

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airlines. Europe conversely, has a vibrant variety in the airline industry with some countries boasting more than one prominent airline. But with the recent bankruptcy of three major European airlines - Alitalia, Air Berlin, and Monarch – there are signs of an impending large consolidation on the horizon similar to what occurred in the US.

The first of many

Monarch was one the biggest and most tenured UK airlines, yetit was forced to cease operations almost overnight from a variety of factors that compounded to a burden Monarch could not handle. The Brexit induced weakening of the pound created an economic burden on Monarch as the airline purchased its fuel in USD. Additionally, some of its main destinations – namely those in Tunisia, Turkey, and Egypt – lost demand because of recent terrorism forcing the airline to try to recuperate funds by flying saturated routes in Europe where it could not compete with airlines who had a better angle on that market. Alitalia faced unique problems of its own before declaring bankruptcy following a trend of being unprofitable resulting in one of its major shareholders, Etihad, pulling out. Air Berlin suffered from not choosing a strategy. It was neither a low-costor a legacy carrierbut instead stuck somewhere in the middle with few competitive advantages. Combined with internal struggles and the inability to please passengers Air Berlin's only lasting legacy will be in the items auctioned off to the public.

More failure in the near future

The challenges faced by the now bankrupt airlines are not isolated to the past, as over the next 12 months it is likely at least 5additional medium-sizedEuropean airlines will follow suit and also go bankrupt. Last year, many airlines were struggling to make a profit even though expenses, such as the cost of fuel, were relatively low and oil only cost around 40 USD per barrel. This winter, oil prices are estimated to reach 80 USD per barrel, which will put the financial security of many smaller airlines in peril. Fuel makes up 35% of the total cost of an airline and the airlines who missed the opportunity to hedge prices will suffer additional expenses.

The effects of the pilot shortage will also start being felt in the next year, as larger airlines did not invest enough in cadet programs to ensure an influx of new pilots to replace all those retiring. Resultantly, large airlines will headhunt pilots from smaller airlines by offering highersalaries. Not only will the smaller airlines be suffering from losing a significant portion of their pilots but many did not plan a sufficient margin for the E261 compensation for passengers with some airlines incurring multi-million dollar unplanned expenses.

US similarities

If European airlines continue to fail, the landscape will begin to look similar to the US model in that consolidation will continue until only a few large airlines remain with the smaller airlines becoming absorbed or going bankrupt. The effect this has on the end user, passengers,is the considerable risk for ticket prices to increase dramatically. While the possibility of massive consolidation is a looming thought in many analyst's minds, Europe has somewhat of an advantage in preventing the scale of consolidation that occurred in the US just a short time ago. The US uses a hub and spoke systemof airports, soone of the main reasons there were so many buyouts was purely for geographic reasons so that airlines could maintain the edge in their regions and not because of similar corporate structures or business plans. The European airport model does not use a hub and spoke system as point-to-point travel is the preferred method. This difference in airport structures provides Europe with a natural buffer to prevent large-scaleconsolidation like what occurred in the US. The possibility for the European landscape to change drasticallystill remains.

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Some will succeed, many will fail

While the European model of airlines – favoring low-costcarriers over legacy carriers – is a more volatile market than the US model, it will likely continue to favor low-costcarriers despite an increase in consolidation and failure. Thisis because low-costcarriers are important to the fabric of the European air system. According to CAPA, low-costcarriers account for 40.4% of the seats filled in Europe, compared to only 32.5% in the US. Also, according to Allegiant, ultra-low-costcarriers account for 28% of the market in Europe and only 6% in the US. Even in the face of financial hardship and fierce competition, causing many airlines to face possible bankruptcy, the statistics are still on the airlines'side. The market spoke and hasdetermined that flexible European LCC's and ULCC's are here to stay. The only thing that remains is for the airlines themselves to find their niche, secure their market, and prepare to stay in it for the long haul while letting the airlines who do not have what it takes fade into obscurity.

About Gediminas Ziemelis

Gediminas Ziemelis is an internationally well-known aviation expert, twice awarded as one of the most talented young leaders in the global aerospace industry under age of 40. In 2016, Gediminas Ziemelis was acknowledged for his visionary and business management and development skills by the prestigious European Business Award jury comprised of EU leaders in economics, education, business andpolitics. Avia Solutions Group, led by Gediminas has become a national public champion in Entrepreneurship category, earning a spot between top 110 European businesses.

During his carrier he lead 3 companies to IPO, supported and consulted Chinese Banks: total value of transactions in the CIS region – more than USD 2 billion, led a team of experts in a successful working session of the establishment of a Joint Venture with the Henan Province and China Aviation Agency: deal worth USD 900 million, established more than 10 successful startups like: locatory.com, Laserpas.com, skycop.com, aviationcv.com, etc.

Up until today, Gediminas manages private equity fund, which owns assets net worth of 300 million euros in aviation, real estate, IT and pharmacy. He is also a sponsor of various sports, educational, voluntary and charitable organizations projects. Gediminas follows the three simple principles of social responsibility – responsibility towards consumers, employees andsociety.

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