

# EC airlines face deregulatory pressures

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**A**IRLINE deregulation in a single European market may result in lower fares and other short-term benefits, say some airline observers but, "the liberalization" of European air transport will also bring about higher departure taxes, the creation of mega-carriers and increased traffic congestion.

Some obvious changes for passengers flying within the European Community will be fewer custom-control checkpoints, increased frequency and the elimination of duty-free zones. The duty-free cuts are not popular with airlines that depend on that added revenue to offset costs. Airports will probably introduce higher user charges on airlines (which normally react by increasing fares) to replace the millions of dollars in lost duty-free sales.

Another sore point with EC carriers rests with the proposed classification of intra-EC border travel, as domestic rather than international, therefore qualifying for a value-added tax. The tax is now charged by some countries on domestic travel with rates ranging from 4 per cent to 9 per cent. The eventual goal

is to introduce a common VAT rate.

VAT is not applied on international travel. EC carriers say foreign carriers, especially North American, will have a distinct advantage on intra-EC travel because they're VAT exempt.

For example, passengers flying Toronto-London-Rome on an EC carrier would have to pay VAT on the London-Rome leg of the journey, while passengers flying on non-EC carriers would not pay VAT on the same route.

To escape the VAT on intra-EC travel some people may drive to neighbouring non-EC countries to catch a flight into another EC country.

Of major concern to EC airlines has been to gradually phase in their deregulated system to avoid massive problems down the road.

"We've learned from the [deregulation] mistakes made in Canada and the United States. That's why the Europeans are handling the process in stages," says Chris Wendland, Canadian public relations manager for Deutsche Lufthansa AG of Germany.

"Congestion is our main problem and it will only get worse if airlines start cutting their fares. Before we increase capacity, Europe needs to

build new runways and more airports."

Recent travel reports, prepared by the International Air Transport Association and other associations before the Persian Gulf war, show that world air travel will grow by 5 per cent in 1991 and even higher in Western Europe. In 1989, 1.2 million Canadians travelled to Europe, spending a total of \$1-billion.

Statistics released by the European Travel Data Centre show that of the total European market in 1989, 15 per cent of passengers travelled on business: 64 per cent of them were on traditional trips and 36 per cent attending conferences or on incentive trips.

More than 90 million or 41 per cent of all travellers in Europe preferred the car, 71 million or 32 per cent flew and 13 per cent went by bus and coach.

At a recent speech in London, British Airways PLC chief executive Sir Colin Marshall said his airline's major concern for 1993 is the negative impact the Channel Tunnel will have on air travel. He forecasts there will be a slide over from air to tunnel travel between Britain and close mainland countries; as much as 30 per cent of present air travel.

Another pressure facing Eu-

ropean airlines is the high-speed rail network that might replace air service on many trunk carriers' routes.

Despite the somewhat gloomy forecasts, EC carriers are optimistic that deregulation and a healthy economy will encourage more air travel at home and abroad.

North American carriers are also positioning themselves, mostly through alliances with European carriers, to gain more access into Europe.

Canadian Airlines International Ltd. of Calgary has signed alliances with Lufthansa and Scandinavian Airlines System. Air Canada has signed an agreement with LOT Polish Airlines and is actively seeking other alliances.

"Alliances help serve the market alongside the competition without putting excess capacity into the system. It's more efficient," says Canadian Airlines' spokeswoman, Ann Ivory.

Small European carriers have also formed alliances with some of the bigger players to remain competitive in future.

Swissair has knit itself a safety net by forming alliances with Delta Air Lines Inc. of Atlanta, Singapore International, SAS, Austrian Airlines and Finnair.

"We're well-positioned to take on deregulation and compete with North American carriers," says Georges Theriault, Canadian public relations director for KLM Royal Dutch Airlines of the Netherlands. "We've signed commercial agreements because we know we can't rely on domestic routes for our bread and butter."

Mergers have already formed between Air France, UTA French Airlines and Air Inter to form a mega-company supplying international, regional and cargo service.

"A major benefit from regrouping is that as one company we can negotiate contracts collectively . . . and that will result in savings in the future," says Lorraine Ross-Aublet, Air France spokeswoman in Canada.

Spain's Iberia Airlines is at present undergoing some structural changes, which include buying equity in Aerolineas Argentinas and Dominicana Airlines, to set itself up as the key European carrier to South America.

Lufthansa's survival strategy for the '90s has been to place more equity and importance in building an air-rail system.

"Trains and planes should work together," Ms. Wendland says.