

OPENING UP OF THE AIR TRANSPORT MARKET IN GREECE UNDER LIBERALIZATION

(Submitted by Greece)

1. INTRODUCTION

1.1 Until 1991, Greek air transport had developed within a protective domestic and international environment. This was due to the exclusive rights given to Olympic Airways for air transport operations. This regulatory framework started changing in anticipation of the European Single Aviation Market. Under the new legislation, air transport operations could be performed with aircraft registered in Greece as follows:

- a) Non-scheduled international and/or domestic flights for the carriage of passengers;
- b) Scheduled and non-scheduled international and/or domestic cargo flights; and
- c) Non-scheduled “air-taxi” domestic flights operating aircraft with less than 14 seats.

1.2 The 1991 legislation lowered the legal barriers to entry and allowed new Greek operators to enter the market and to engage in any of the above listed activities. A further effect on consumer’s choice was that with the opening of non-scheduled flights, Greek citizens were allowed to board charter flights to travel out of Greece on charters offering considerably lower fares.

1.3 After EU Reg. 2407/92 came into force, the CAA issued new Licenses with the purpose to grant, according to the new EU air policy, broader scope of rights to be exploited by the new entrants between points of Common EU areas.

1.4 During the early years of liberalization of the domestic market, the main players were Olympic Airways (OA), its subsidiary Olympic Aviation, Air Greece, Aegean Airlines and Cronus Airlines.

1.5 Needless to say that neither Greek air carriers nor any other European Union countries’ carriers enjoyed cabotage or 3rd and 4th freedom rights between European points to the Greek islands until the expiration day (01-06-1998) of the exemption granted by the EU Council in favour of Greece. Until this date, Greek and EU carriers used to exploit the market by operating charters and scheduled flights from the Greek mainland airports only and mainly on the trunk route Athens-Thessaloniki v.v. and a series of regular charters to the islands of the Aegean Sea. In 1994, according to the third EU liberalization package, Air France started exercising consecutive cabotage rights between Thessaloniki and Athens on their route schedule Paris-Thessaloniki-Athens v.v. Unsuccessful results obliged the airline to suspend such operations three months later. Some years later, in 1998, when restrictions of Reg. 2408/92 concerning Greek islands’ airports were abolished, Transavia Holland began to exercise consecutive cabotage rights on routes between Amsterdam and various islands’ airports to which they operated mixed charters from the Netherlands. Transavia’s operations remain today, but they are limited on the routes Amsterdam-Heraklion-Rhodes v.v. which are operated on a year-round basis.

1.6 The years following liberalization, the development of the domestic market was actually rapid and impressive, since the bigger new entrants started to compete with Olympic in the market. The trunk route Athens-Thessaloniki, and later on Crete and Corfu, became one of the first priority routes for competition, given the high level of traffic. The entrance of the new carriers in the trunk routes changed the general scene of competition. For the first time in the domestic market, new entrants offered to the public, lower and promotional fares, additional free tickets business class, and other facilities attracting more and more passengers. Their new competition policy resulted in increased traffic and upgraded services. O.A. and OAL maintained the biggest share of about 60%, while new entrants got 40% until the year 1999 with a declining tendency in favour of the new entrants.

1.7 On the other hand, small new entrants such as SEEA, AVIONIC, HELLAS WINGS etc exploited some of the smaller markets to the islands and mainland by light aircraft and regular non-scheduled passenger or light cargo operations. These low cost air carriers had the advantage of entering the domestic market and competing with bigger carriers with surprisingly low fares, although they were characterised as “no frills” carriers. Some of them survived in the market for a number of years due to the low cost of operations, in terms of labour and overheads. Others did not succeed in maintaining their services for long, due to seasonality of traffic, the high cost of airport user charges, aircraft costs, etc.

1.8 Competition in the domestic market increased during the year 1999-2000 due to the activities of the bigger private airlines operating scheduled flights to more destinations. In late 1999, AEGEAN AIRLINES took over AIR GREECE and the commercial strategy implemented by the newly reorganized bigger airline, intensified domestic competition to the detriment of OA/OAL and other smaller carriers’ operating results. Following this, the merger of AEGEAN and CRONUS inaugurated stronger rules of competition in the domestic market against OA and other domestic air carriers. It is worthwhile mentioning here that the market share of AEGEAN and CRONUS on routes where they operated parallel services with OA and OAL, exceeded 49%.

1.9 Today, 12 domestic scheduled services are operated by two carriers and three scheduled services by three carriers. A small number of seasonal, inter-regional routes are mainly operated by smaller carriers during summer.

2. DETAILS ON MARKET ENTRY/EXIT BY AIRLINES

2.1 As we have seen earlier, until 1991 Olympic Airways and its subsidiary Olympic Aviation had a monopoly of the Greek scheduled and non-scheduled services. Since then, and following the third liberalization package, new operators have entered the market.

2.2 The development of the industry after 1992 is shown in the following table:

Licences	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Issued	9	1	3	4	1	1	4	6	2	-	2
Revoked	-	-	-	2	3	-	2	3	2	2	2

2.3 The majority of the new entrants operated smaller aircraft (less than 20 seats) and engaged mainly in non-scheduled domestic services.

2.4 Nevertheless, the big challenges of the new competitive market, under capitalization, and the lack of efficient management, resulted in of a number of the new carriers failing and having their licences revoked. Carriers such as SEAA, Apollo, Cretan, Venus, Galaxy with type A licences and which were engaged in non-scheduled domestic and international operations, didn't manage to overcome the above problems and had their licences revoked.

2.5 By the 1999, the main competitors of Olympic Airways were the following:

- a) **Cronus Airlines** (established in 1994, with a fleet of 6 Boeing 737, operating to Germany, Austria and Italy and later to Thessaloniki, Heraklio, Rhodes and Chania);
- b) **Air Greece** (established in 1994 with two ATR-72 and later 3 ATR-72 and 2 Fokker, operating from Heraklio to Athens, Thessaloniki and Rhodes and later to Germany and Italy); and
- c) **Aegean Airlines** (former Aegean Aviation established in 1992 as an air taxi operator, after 1999, expanded to regular services to Thessaloniki, Heraklio, Chania and Rhodes with two AVRO RJ100).

2.6 In 1999, major transformations occurred in the market due to capital injections. Aegean Airlines took over Air Greece, becoming the largest private airline with a combined fleet of 9 passenger aircraft. In 2001, the merger of Aegean Airlines and Cronus Airlines resulted in an airline with 15 aircraft, connecting on a daily basis, 12 major cities in Greece, and 6 in Europe.

2.7 Another airline, Axon Airways, which entered the Greek market in 1999, operating in domestic and European destinations, had its licence revoked in 2002.

2.8 By September 2002, 16 carriers held a valid licence including, Olympic Airways and its subsidiaries. Yet only two of them are the key players: Olympic Airways and Aegean-Cronus (Hellenic Star Airways, which until recently was operating non-scheduled flights, has lately acquired a SAAB 340 and DHC-7, aiming to extend its scheduled activities to certain international routes). The remaining carriers are smaller ones with aircraft with less than 20 seats, and they are mainly engaged in a variety of chartered air transport activities.

2.9 Thus, the Greek air transport market which, in the early years of liberalization, saw the - eventually unfruitful - effort of many enthusiastic, but poorly prepared new entrants to exploit the opportunities offered by the new liberalized environment, is today dominated by two main carriers. The future will show if the current trend towards consolidation of the market will continue to be the main characteristic for the coming years.

3. **FARES**

3.1 For a long period of time before liberalization, domestic airfares charged by OA for its domestic services were established at reasonable levels due to regard being paid to all relevant factors, ie cost of operation, reasonable profit, suitable for the composition of traffic on each route, social aspects etc. The most significant characteristic of the Greek air tariff policy was the prior approval given by the Price Committee of the Ministry of National Economy. To this end, OA was obliged firstly to have this proper acceptance and then to submit tariffs for approval by the Civil Aviation Administration (CAA). The Price Committee used to take into consideration different factors such as inflation rates, social and national characteristics of every route etc. All these factors led to the implementation of a low fare policy, especially on routes connecting islands and

remote regional airports with Athens, Thessaloniki and other regional centres. When EU Regulation 2409/92 came into force, different conditions and procedures of fare establishment prevailed. Low cost airlines established a number of promotional fares especially during the low season and attracted a large number of business passengers and weekenders to Thessaloniki, Iraklion, Chania and Rhodes, offering fares from about 20% to 40% lower than those of OLYMPIC. Further discounts were given to students, military personnel, senior citizens and others, in addition to ordinary discounts for children and infants.

3.2 Gradually, published fares increased to levels ranging from the same to about 25% lower than Olympic Airways. Today, as there are only two major airlines competing for 12 major routes in Greece (Olympic and Aegean) the level of published fares is approximately the same.

3.3 A comparison of recently published full economy fares offered by the two competitors on major domestic trunk routes can be seen on the table below:

	Olympic	Aegean-Cronus
Athens to		
Thessaloniki	94	100
Heraklio	94	100
Chania	94	100
Rhodes	94	100

Figures reflect full economy, one-way published fares in late summer 2002.

4. PUBLIC SERVICE OBLIGATIONS (PSO)

4.1 The liberalized environment under which the air transport market operates has created a need for the provision of an adequate level of services in certain regional routes that could not be provided by air carriers considering their commercial interest. This is the reason why the Greek Government, following other European countries, has, according to provisions of Reg. 2408/92, decided to impose PSOs on a number of routes considered vital for the economic development of their region. The first programme (which started operation in December 2001 after the completion of a public tender procedure) includes 10 routes. A second programme of PSOs was recently launched on another 12 routes, and the relevant tender procedure is due to be completed by early 2003.

4.2 The PSO system under Reg. 2408/92 is an important tool in order to ensure the necessary transportation standard and quality for the remote areas of the country which the liberalized market cannot provide.

5. CONCLUSION

5.1 The monopolistic air transport regime of the country ended after coming into force of the third liberalization package. The new legislation paved the way for new entrants.

5.2 Competition rules in air transport were for the first time implemented.

5.3 Olympic Airways, Olympic Aviation and the new entrants increased frequencies on domestic routes.

5.4 Pluri-sectoral operations have been established e.g. Corfu - Athens - Rhodes etc.

5.5 Consumers enjoy increased travel choices, especially as regards charter and scheduled flights to/from certain domestic or European destinations.

5.6 After the first years of expansion of the industry, there is a clear trend towards consolidation of the market. The challenges caused by such market conditions means that in the future, substantial focus should be placed on certain aspects of competition.

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