

British European's hybrid "half-service" brand, Flybe, is a response to no-frills carriers



airlines has been to act as feeders for flag carriers. There are 500 regional jets (with 100 seats or fewer) serving this market. Lufthansa's network is arguably the most advanced of all the major airlines. Its feeder airlines such as Air Dolomiti, Cirrus Airlines, Eurowings and Lufthansa CityLine operate close to 100 regional jets, while its turboprop carriers, jointly branded as Team Lufthansa, include airlines such as Augsburg Airways, Cimber Air and Contact Air. These airlines are a combination of wholly owned subsidiaries (Lufthansa CityLine), partly owned airlines (Air Dolomiti, Eurowings) and independent carriers which operate under a franchise.

Big brother pitfalls

The precise nature of the franchise relationship differs from airline to airline, but largely involves the regional paying a royalty in exchange for use of the mainline brand and access to its brand, route network and ticketing operation. While there are obvious attractions, there are pitfalls in becoming too dependent on a big-brother airline, warns Heinemann.

"It will sense your dependence and squeeze an unrealistic deal out of you," he says. Having a close link with a large airline is certainly no guarantee of survival; Air France feeder Gill Airways, based in Newcastle in the UK, collapsed a year ago having failed to restructure its operations after misplaced expansion.

If regionals cannot keep their independence, their best option might be to sell out completely to the major carrier. This is what happened when British Airways

"We do not expect a perfect system, but expect the EU to have more understanding of air transport"

MIKE AMBROSE, ERA DIRECTOR-GENERAL

bought its London Gatwick-based regional feeder airline CityFlyer Express for £75 million (\$116 million) three years ago as part of its now-defunct strategy to develop the airport as its second London hub. CityFlyer has now been disbanded and its BAE Systems Avro RJ's are being redeployed to regional airports.

The need to rationalise operations in the post-11 September downturn has led to a new spate of consolidation by flag carriers. Despite its CityFlyer experience, BA has, for entirely different reasons, purchased and merged its independent affiliate British Regional Air Lines/Manx Airlines with its subsidiary Brymon into a new integrated CitiExpress regional operation. Air France has also taken its regional affiliates, Brit Air and Regional, into its mainline operation, while Lufthansa is understood to be reviewing its entire partner strategy, a move which could see it exercise the right to double its 24.5% stake in Eurowings.



However, Jim French, managing director of British European, is sceptical about the economics of mainline carriers taking their regional operations in-house and suspects the tide will soon turn. Operating costs inevitably rise as airlines inherit more aircraft types, all of which need to be maintained, and pilots, used to regional pay scales, demand salaries that reflect their status as employees of flag carriers.

Fritz Feitl, a regional airline aviation consultant and former chief executive of Tyrolean Airways (now part of Austrian Airlines), says that "in case after case, a major has acquired control, often outright ownership, of a regional partner and then systematically removed the very elements that made the regional successful and profitable in the first place".

Pressure on costs is forcing regional airlines to look closely at their aircraft types. Despite the long-running trend away from turboprops towards regional jets, propeller-driven aircraft still form a slim majority at 51% of ERA members' fleets, a drop of two percentage points from a year earlier, and carry almost 53% of passengers.

British European is one of a handful of airlines flying the Bombardier Dash 8 Q400, and French believes there is a strong future for lower-cost, high-speed turboprops, likening their perception today to that of diesel cars in parts of Europe a decade ago.

Then, diesel cars were viewed as economical, but noisy, slow and uncomfortable. Today, technological leaps have meant diesel cars are viewed as a more fuel-efficient alternative to petrol vehicles, and