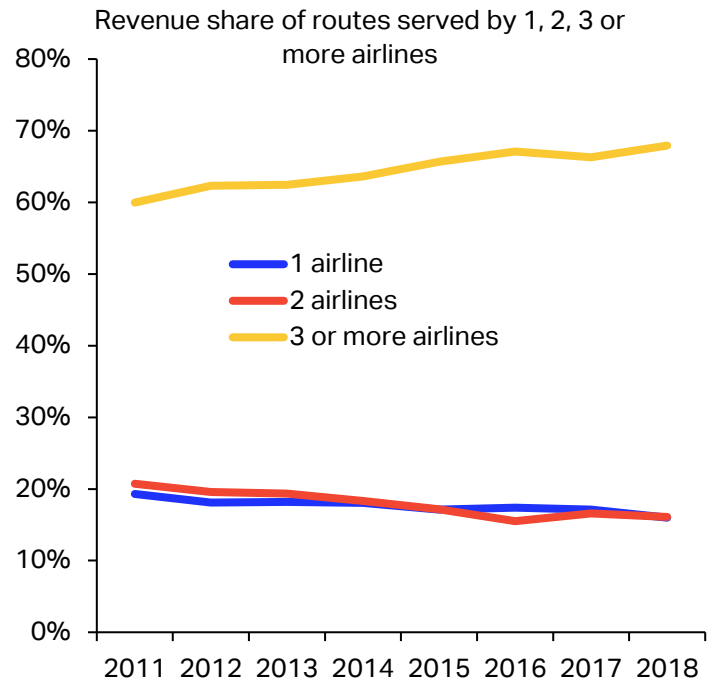
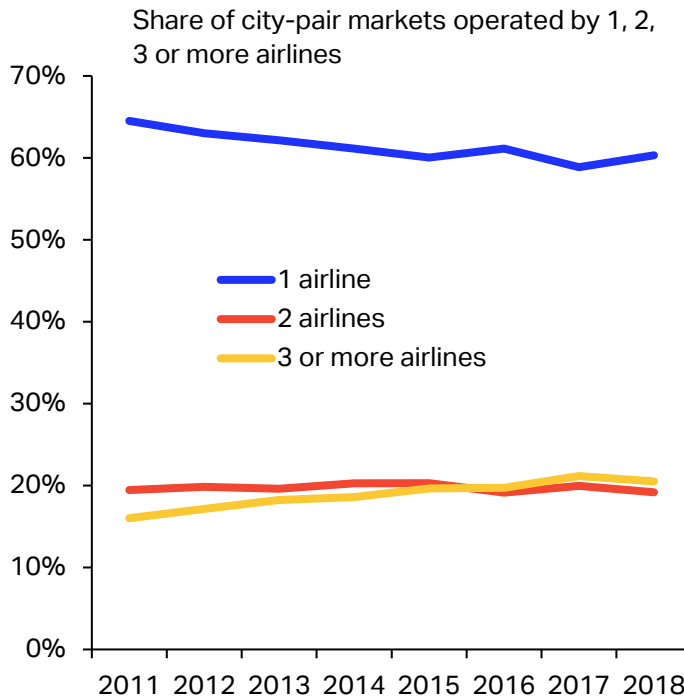




# IATA Economics Chart of the Week

29 March 2019

## Intra-European airline competition intensifying, despite consolidation



Source: IATA Economics using data from DDS

- The failure of WOW, which served North Atlantic markets via Iceland, follows a series of failures or takeovers of European airlines over the past two years. Good financial results at the European industry level are generated disproportionately by the majors. There is a long tail of struggling airlines in Europe. Consolidation is now taking place, particularly on within-Europe markets.
- Europe remains far more fragmented than within-North America markets. It takes 348 city-pairs within Europe to generate 25% of passenger revenues, compared to 167 in North America. If we look at how many airlines it takes to supply 80% of the seats serving these markets the comparison is 28 in Europe and just 7 in North America.
- More importantly, consolidation in Europe does not mean that airline competition is diminishing. Crude airline shares of intra-European seats tell us nothing about the intensity of competition. Airline markets are city-pairs – a flight from Dublin to Brussels is not a good substitute for one from London to Paris – and to assess competition we need to examine how many airlines are competing on each city-pair, which we do above for markets within the ECAA.
- A casual look at the data suggests a problem, with over 60% of city-pairs being flown by just one airline. However, these are very small markets. In revenue or consumer spending terms they represent less than 20%. Moreover, the nature of airline economics, with both fixed costs and economies of density, which generates declining marginal costs, means that on small markets it is only viable for one airline to operate. There was a small uptick in the proportion of these markets served by one airline in 2018, but that share remains lower than earlier years.
- Importantly, the share of revenues on these markets continued to decline. On city-pair markets that generated more than two-thirds of intra-ECAA passenger revenues in 2018, there were 3 or more airlines competing. Despite the consolidation, the intensity of airline competition on within-Europe markets has continued to get stronger.

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