



Italy's government has come under pressure from local politicians to keep Alitalia in Italian hands. (Jochen Eckel/Bloomberg News) [\[Enlarge this image\]](#)

Italy considers the once-unthinkable: letting foreigners buy Alitalia

By Nicola Clark

Published: December 25, 2007

PARIS: When British Airways experimented a decade ago with removing the Union Jack from the tail fins of its planes, few of the company's executives seemed to have anticipated the public outcry that would ensue.

Scale models bearing examples of the new "ethnic" designs were displayed at a Conservative Party conference in 1997. The former prime minister, Margaret Thatcher, whose government had privatized the airline a decade earlier, took one look and deemed them ghastly.

"We fly the British flag abroad, not these awful things," Thatcher snapped. Then, in full view of the television cameras, she pulled a handkerchief from her handbag, draped it over one of the model planes and stormed off.

"It was an extraordinary moment," said Simon Bennett, a sociologist at the University of Leicester in Britain and author of "After Hubris, Nemesis: Why Flag Carriers Fail." "Here was a former prime minister telling off the executives of a company that she privatized for diluting its British identity," Bennett said. "It shows what powerful national symbols airlines are."

British Airways has since reverted to a version of the flag on most of its fleet. But the episode remains a stark example of how politicians with even the most bona fide free-market credentials can still harbor a weakness for the glamour and gloss of airlines.

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As Italy hems and haws over the sale of its remaining 49.9 percent stake in Alitalia, which has been losing money - and with the governments of Greece and Portugal readying sales of their state airlines, Olympic and TAP - it is clear that, even as a growing number of travelers migrate to competitors, national attachments to flag carriers die hard.

"Airlines occupy a unique place in the public consciousness," said Gehan Talwate, managing director of Ascend, an

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aviation consultancy in London.

Last Friday, Alitalia's board unanimously named Air France-KLM as its preferred bidder, spurning an offer from Air One, a much smaller Italian airline.

The center-left government of Romano Prodi is studying the proposals and - after three postponements already - is now due to make its decision in mid-January.

Prodi has come under intense pressure from local politicians to keep Alitalia in Italian hands, although the prime minister insists that its final choice will be based on the strength of the business plan, not on the bidder's nationality.

A flag carrier is in many ways the embodiment of national ambitions, a political instrument as much as an airline. Even the flying public sometimes has viewed them almost as an arm of the state, maintaining national prestige and projecting influence abroad - filling a role that was held before the jet age by ocean liners and gunboats.

"That perceived need to show the flag around the world is still there," Bennett, the sociologist, said.

Yet in an era when private airlines seem to be cropping up regularly across Europe and beyond, much of the economic rationale for the traditional state carrier has disappeared, analysts said.

"As new models for running airlines have evolved, you can't argue for the nationalized model in the same way as you could 10 or 15 years ago," Talwate, of Ascend, said. "The political and economic justification for it is becoming less and less certain."

Alitalia reported on Monday that its group debt as of Nov. 30 had risen to €1.19 billion, or \$1.71 billion. The airline is losing about €1 million a day.

In addition to its financial troubles, it is saddled with a fleet of aging, fuel-guzzling aircraft and a bloated, strike-prone work force of 20,000. It also faces stiff competition from low-cost rivals, including domestic carriers like Air One and Volare as well as foreign ones like EasyJet and Ryanair.

"Alitalia grew up in a time when if you wanted to fly between two countries you basically had a choice of two airlines," Talwate said. "Today, if you look at almost any city pair, there is likely to be a range of options depending on your price point."

The plight of national airlines has been worsened, analysts say, by years of state support that have enabled them to cling to outdated, unprofitable business models, despite competition from nimble newcomers operating from a far lower cost base.

When the likes of British Airways and Air France were privatized, in the 1980s and 1990s, Europe's aviation market was still highly regulated. Private start-ups like Ryanair were still flying just a handful of planes to a few destinations.

Oil prices were relatively stable and European Union limits on government budget deficits - not to mention restrictions on state aid to companies - had yet to take effect.

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All that has since changed.

"The Alitalias and the Olympics of the world who haven't adapted to the new environment are facing the cult of the dinosaur," he said. "There are no obvious solutions that don't involve a lot of pain."

Those national airlines that have successfully made the transition to private enterprises have tended to emerge from the process as smaller carriers that cater either to a particular region or class of travelers.

Aer Lingus, which Ireland privatized in 2006, has cut its operating costs sharply and now focuses on long-haul travel, catering particularly to business customers and flying to major hubs like Frankfurt International Airport and Kennedy Airport in New York.

Brussels Airlines, forged last year from the remains of Belgium's bankrupt flag carrier, Sabena, and the low-cost carrier Virgin Express, has reinvented itself as a largely regional operator, offering frequent connections to about 50 European cities while serving a limited number of long-haul destinations, especially in Africa.

Elsewhere, Royal Jordanian Airlines was privatized in 2001, after nearly collapsing in the late 1990s trying to compete against the big Gulf carriers Emirates and Etihad on long-haul routes to Asia and North America. Over the past six years, Royal Jordanian has reduced its work force, spun off ancillary services like flight catering and concentrated on the Middle East market, increasing frequencies to destinations in North Africa and cities like Beirut, Cairo and Damascus. The airline listed 49 percent of its shares on the stock exchange of Amman, Jordan, this month.

With its one-third share of the Italian domestic market, Alitalia, analysts said, could find a successful niche as a regional airline, providing feeder service to other European hubs or offering more frequent connections to Mediterranean or North African destinations.

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"If someone could get it right, then there is a real opportunity there because it has been so wrong for so long," said Peter Morris, chief economist at Ascend.

In Greece, the government has vowed to privatize its debt-ridden flag carrier, Olympic Airlines, as early as next year. Athens has said it hoped to attract investors for at least a 51 percent stake, though any buyer would have to overcome staunch opposition from labor unions and repay hundreds of millions of euros in past state aid that the European Union has deemed illegal. Nationalist politicians have also insisted that the carrier's Greek identity - complete with Olympic rings logo - be maintained.

TAP Portugal said last week that it expected to begin talks in the first half of 2008 about a sale of some of the government's shares in the airline, which was nationalized in 1975. Previous attempts in the 1990s to privatize the occasionally profitable carrier fizzled in the face of union protests.

Meanwhile, the Spanish carrier Iberia, which was privatized in 2001, was soliciting takeover proposals as it struggled to compete in an increasingly crowded European market. But while several potential bidders have considered making offers this year - among them Lufthansa of Germany, Air France-KLM, and the U.S. private equity group TPG - the country's politicians and the airline's unions are strongly backing a bid from an all-Spanish consortium. The Spanish state retains a 5 percent stake in Iberia.

For governments, abandoning control of their flag carriers can be seen as a blow to the national ego, almost as bad as letting it fail.

"It's better to let it atrophy than admit to the public that you are powerless in the face of global competition," Bennett said. "Otherwise, what you are implicitly saying is that we Italians - or we Greeks - are not capable of running an airline."

But even in their privatized incarnations, as the example of British Airways has shown, one enduring feature of former state-owned carriers is their resilience as national icons.

"Flag carriers are absolutely here to stay, even if it is just in symbolism rather than fact," Bennett said.

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