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Downturn Opens Doors for Low-Cost Airlines

By [NICOLA CLARK](#)

PARIS — Two and a half years after the low-fare airline [Ryanair](#)'s chief first dangled the idea of cheap flights between London and New York — with some tickets selling for as little as \$10 — no viable low-cost airline has taken wing across the Atlantic.

But the financial problems facing long-established carriers may be changing the calculation. Jet leasing costs are falling as the full-service airlines increasingly idle jets. And large numbers of pilots, flight attendants and ground staff are looking for work.

Two European low-cost operators have recently announced plans to start international service next year, seizing what they see as a prime opportunity. Meanwhile, more passengers are scouring the Internet for the cheapest fares, for business and leisure travel.

"From the point of view of the supply side, it is a good time" because established airlines "are having enough troubles of their own that they can't devote the resources to try and run these kinds of competitors out of business," said Peter Morris, chief economist with Ascend, an aviation industry consultant in London. "On the demand side, clearly the market is weak."

For more than a decade, both [business travelers](#) and backpackers have embraced the concept of no-frills transport over relatively short distances, like Paris to Pisa, Charlotte to Chicago, or Bangkok to Bali.

But when it comes to longer distances, cheap air travel has always been a more difficult proposition, mainly for reasons of cost and logistics — not to mention passenger comfort.

So far, the only region where the low-cost, long-distance business model has truly taken off has been the so-called backpacker routes connecting Asia and Australia. Over the last couple of years, several airlines — including Air Asia X, a unit of the Malaysian budget carrier Air Asia; Tiger Airways, 49 percent owned by Singapore Airlines; and Jetstar, a Qantas subsidiary — have built up sizable networks, drawing on the brand familiarity — and deep pockets — of their parent companies.

Flying long distances on a low-cost carrier can mean savings of 50 percent or more in economy class compared with the fares charged by a conventional airline, but the ticket buys little other than a seat — and not much leg room. Airlines will usually allow passengers to take a single carry-on bag, but checked luggage is subjected to extra fees. Passengers can choose to buy meals on board or bring their own, while extras like in-flight entertainment are similarly subject to additional charges. Those with checked luggage and a connecting flight usually have to recheck the bag at the transfer airport themselves.

Some Asian low-cost airlines have tried to make the jump to Europe and North America, but few have succeeded.

Oasis Hong Kong Airlines survived just 17 months in operation flying to London and Vancouver, before it collapsed late last year.

Air Asia X began offering five direct flights a week from Kuala Lumpur to Stansted Airport in London in March, and has said it expects to keep at least 75 percent of the seats on its [Airbus](#) A340s filled. This month, Air Asia X won French government approval to fly to Orly Airport in Paris, suggesting that demand is strong enough to justify further expansion.

“The challenges for low-cost airlines are the same as they have always been, but the fact that Air Asia X has been able to make a go of it has changed things,” said David Bentley, a managing director at Big Pond Aviation, a low-cost consultant in Manchester.

Feel Air, a Norwegian start-up that plans to begin low-cost services from Oslo and Stockholm to John F. Kennedy Airport in New York and Bangkok International Airport next spring, is one of the companies convinced that the economic crisis will play in its favor.

“A downturn is actually a really good time to start an airline,” said Feel Air’s chief executive, Kai Holmberg. “We regard the risk as much less now than some years ago.”

Lease rates on wide-body jets like the Airbus A330 have fallen by almost 20 percent in the last 12 months, Mr. Holmberg said, and jet fuel prices, while still high, are well off their 2008 peak. Scandinavian Airlines, Feel Air’s only local long-distance competitor, is saddled with losses and retrenching deeply.

“We do not see this as a crisis,” Mr. Holmberg said. “One man’s loss is another’s gain.”

Iceland Express, an established low-cost operator that already flies between Reykjavik and more than a dozen cities in continental Europe, has said it will start a trans-Atlantic service to [Newark Liberty International Airport](#) in June. The carrier will use its base in Reykjavik to enable connections to Newark from several cities, including London, Berlin and Warsaw, at fares that will be 30 to 40 percent cheaper than Icelandair, which already flies similar routes.

“People are more price sensitive than in the past,” said Matthias Imsland, chief executive of Iceland Express. “We will compete on price but offer quality as well.”

But analysts said the operating challenges for low-cost carriers were the same as they had always been.

Those include the fact that it is almost impossible for an airline to recoup its operating costs by filling a 300-seat plane — which burns as much fuel and pays the same airport taxes and fees as a conventional airline — with cheap economy-class tickets.

“If you give up on the premium seats, you stand to lose an awful lot of money,” said Mr. Morris of Ascend. “Even when first and business class make up just 20 percent of the seats in the aircraft, they still generate more than 50 percent of the revenue.”

Most of the successful long-distance, low-cost airlines operating today, including Air Asia X, do offer a small number of premium-economy and business-class seats on their planes to subsidize their cheaper fares. But even then, the logistics of long-distance airlines mean that an airline is not able to make as many flights a day, limiting the ability to make up in volume some of what it gives up on the ticket price.

Stephen McNamara, a spokesman for Ryanair, said service across the Atlantic Ocean was still on the airline’s agenda, but conceded that it was unlikely for another three to four years. The airline, which had originally envisioned a start in 2010, says the prices of [Boeing](#) and Airbus wide-body jets are still too high.

“We had expected the bottom to fall out of the market for long-haul aircraft, but so far that hasn’t happened,” Mr. McNamara said.

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