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Autor: Schuppli, Stefan
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Good flying conditions, but only for the big players

Business is booming for the major airlines thanks to huge demand – including in Switzerland where Swiss has posted a profit. But small airlines are currently fighting for survival.

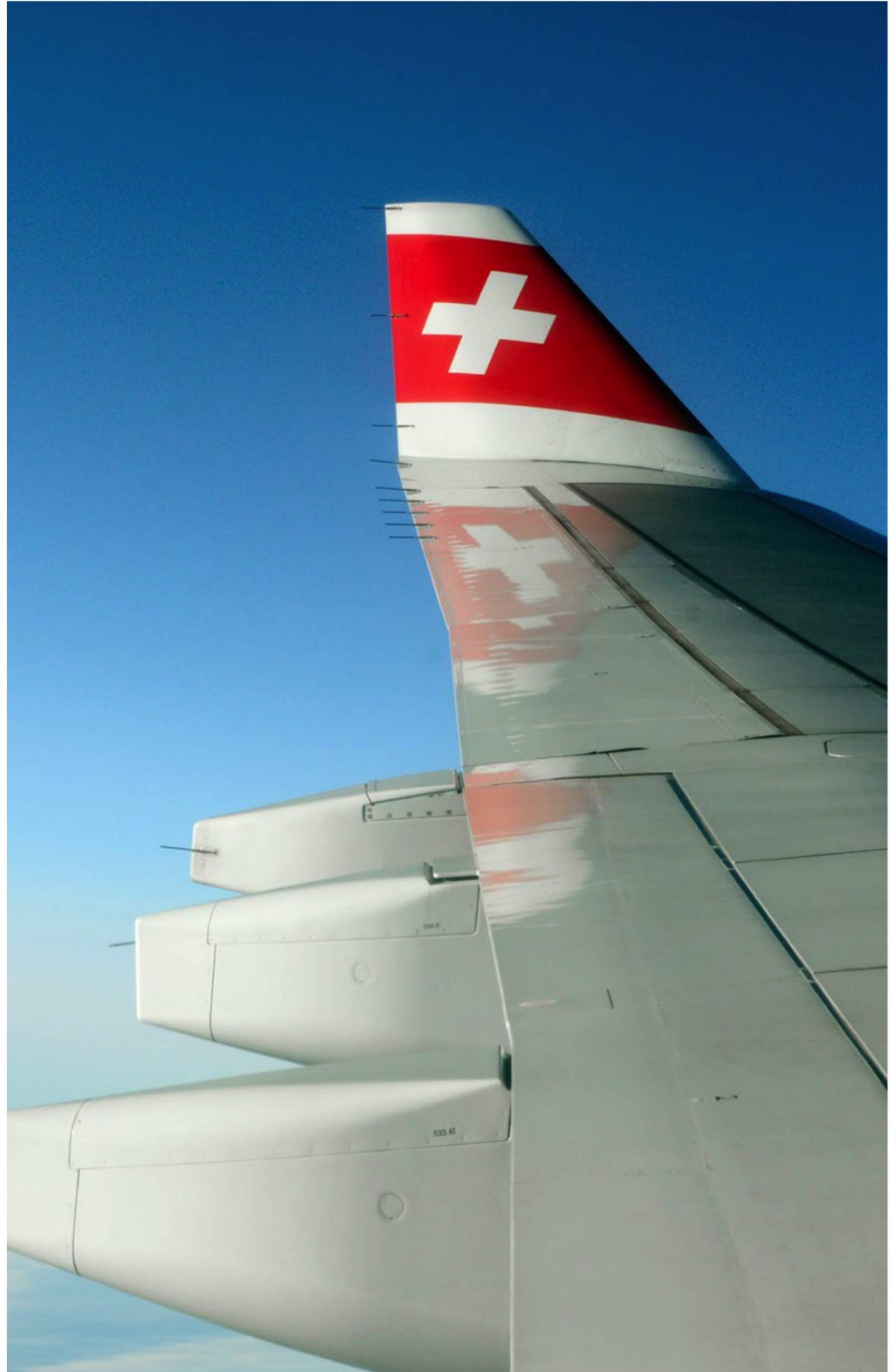
STEFAN SCHUPPLI

The airline industry is enjoying an all-time high. The International Air Transport Association estimates that the industry generated profits of CHF 34.5 billion worldwide in 2017. Losses have not been posted once in any of the past eight years. That is extraordinary. Business is also booming in Switzerland. Swiss, the market leader here, has reached new heights. This is due to strong demand, on the one hand, and new, more cost-effective and larger aircraft on the other.

The Boeing 777 is used for long-haul flights and for short-haul the CSeries 100 and 300, a completely new development from the Canadian manufacturer Bombardier. The number of seats sold on aircraft has risen to well over 80 % – which is one of the reasons why Swiss has now become a highly profitable cash cow in the Lufthansa group. Operating profit may come in at over CHF 500 million for 2017. You have to go well back to the days of the company's predecessor Swissair to find such high profit levels.

Swiss versus easyJet

Swiss may well be more expensive than foreign competitors. Customers are nevertheless clearly willing to pay the ticket prices that enable such a profit to be turned. The strong competition is admittedly keeping Swiss in check. easyJet Switzerland, a subsidiary of the British low-cost airline bearing the same name, is the second-largest carrier in the country. easyJet flies under a Swiss operating licence and has 14 Airbuses permanently based in Geneva and nine in Ba-



Swiss is flying high. Its operating profit is set to exceed CHF 500 million for 2017. Photo: Keystone

sel. At the bi-national Euro Airport serving the Basel region, the company is even the clear market leader with a market share of around 60 %.

It is fascinating to see how the business models of easyJet and Swiss have increasingly aligned in the short-haul market. easyJet previously adopted a model based on simplicity – no transfer traffic, no extra services and the lowest prices whenever possible. This stance has gradually softened. easyJet has, for example, introduced categories of seating in the cabin. Passengers sitting at the front or in seats with more legroom pay more. Changeable tickets are really expensive, even with easyJet. The airline hopes this category will attract more business customers requiring flexible travel times. Conversely, Swiss, which tends to be more expensive, has launched extremely low-price deals to avoid being squeezed out of the market, particularly in Geneva where Swiss is in direct competition with easyJet.

Edelweiss increases the size of its fleet

It is not just Swiss and easyJet who are performing well at the moment, Edelweiss Air is too. The only Swiss “leisure travel airline” – as it calls itself – is a sister company of Swiss, so it is also part of the Lufthansa group and cooperates closely with Swiss. It will add five aeroplanes to its fleet this year, taking the total to 15. There are three classes of seat on long-haul flights – Eco, Eco Plus and Business.

However, there are also examples of companies struggling. Air Berlin and Darwin Air from Lugano, which

Swiss airlines (as at the end of 2017)

	Employees	Aircraft
Swiss	9100 *	75
Edelweiss Air	670	10
easyJet Switzerland	550/340 **	14/9 **
Skywork	100	4

* End of 2016 **Geneva/Basel

went into liquidation last year, illustrate that survival cannot be taken for granted even in a strong economy. Air Berlin, which operated several routes to Switzerland and also had aircraft based in Zurich, suffered from the lack of a clear business profile coupled with notoriously high costs. The upshot was firstly administration proceedings and then the withdrawal of its operating licence. The name Darwin, which alludes to the fight for survival in nature, became a symbolic beacon for the small airline from Ticino which belonged to the Air Adria group. Darwin Air was founded in 2003 after Swiss removed Lugano from its network of routes. Ironically, Darwin also later abandoned the destination of Lugano as part of restructuring measures. Its operational hub was in Geneva and its headquarters in Lugano.

Last-minute salvation

Berne-based Skywork was in a perilous situation last autumn. Undaunted, the small airline from Berne is attempting to develop regular services but the lack of infrastructure – small hangars for maintenance work and no blind landing facilities in the event of poor weather conditions – mean it is working under tight constraints. And

aeroplanes with fewer than 50 seats are barely financially viable with current pricing structures.

Skywork only narrowly escaped closure when the Federal Office of Civil Aviation demanded additional financial guarantees. Last autumn, an investor was apparently found at the last minute to save the company. It is likely to operate more from Euro Airport in Basel in future. The aircraft operated by Skywork flew out of Basel once before around 20 years ago, when they belonged to Crossair’s large fleet of Saab 2000s.

Ever more air travellers

2018 should be another good year for flying. The economy is picking up in more or less all parts of the world, creating a very good climate for airlines. The sector association IATA estimates that the number of air travellers will increase by around 6 % in 2018, which means that 4.3 billion people will board an aeroplane this year.

The increasing demand also means that Swiss is set to continue growing. Before the end of the year, the airline announced at its annual press conference that it would create around 550 new jobs by the end of 2018.

STEFAN SCHUPPLI IS A JOURNALIST AND AVIATION EXPERT BASED IN BASEL