



EUROPE'S DISAPPEARING NATIONAL AIRLINES

News / Airlines



Signs in the Vaclav Havel Airport here include a new language: Korean. It's not about an influx of Korean-speaking passengers. Korean has become the language of survival for struggling Czech Airlines.

Korean Air, which flies only four times a week to Prague, bought a 44% stake in the Czech Republic's flag carrier, which hasn't earned a profit in more than a decade, for less than US\$3 million in 2013. It has pumped in money so Czech Air could stay aloft, restructure and even expand.

"It gives us a chance," says Czech [Airlines](#) spokesman Daniel Sabik.

National airlines, also known as flag carriers, were once visible fixtures of international air travel, funded and run by governments to link a nation to the rest of the world. For decades they had the advantage of holding traffic rights to their homelands when governments dictated which airlines could fly which routes. But liberalized aviation treaties that permit more competition and the global

rise of startup airlines have clipped their wings.

All across Europe, flag carriers are trying to fight off extinction. They are still saddled with high costs from their days as state-run monopolies and now, trying to privatize, face a one-two punch of high-quality, low-fare service from Persian Gulf carriers on long-haul routes and Pac-Man-like discount carriers gobbling up short routes around Europe. Last year Ireland-based Ryanair carried more passengers in Italy than Alitalia.

Some flag carriers have used foreign-airline investment to stay afloat. Alitalia's latest bailout came from Etihad of the United Arab Emirates in January; TAP Air Portugal was saved in June by an investment group led by JetBlue founder David Neeleman. Some are still seeking buyers: Government-owned LOT Polish Airlines has been for sale for several years. Others have folded, including Malev Hungarian Airlines.

And many have consolidated: British Airways' parent company now owns Spain's Iberia and acquired Ireland's Aer Lingus in August. Lufthansa controls Austrian, Swiss and Brussels Airlines. The CEOs of both big airline companies have said they are looking for more acquisitions and believe Europe needs to consolidate like the U.S. has.

"I think that the era of national flag carriers is over and the only thing which matters is a viable business and operational plan," says Vaclav Rehor, chairman of Czech Aeroholding, the government-owned company that sold to Korean Air and still holds an 18% stake in the airline, as well as control of the Prague airport.

In terms of passenger traffic, Europe is roughly the same size as the U.S. market. But Europe has some 60 airlines, compared with a dozen in the U.S. Politically, it's hard for any country to admit it can't support an airline - air service brings economic development, tourism and prominence.

But the situation now "is like Wyoming having its own airline. It's not sustainable," says Sebastian Mikosz, chief executive of LOT Polish Airlines until Sept. 17, when he resigned in frustration at the government's slow pace toward privatization ahead of upcoming elections.

Many niche airlines exist, and sometimes even thrive. Some specialize in holiday flights, even Christmas shopping junkets, that bigger airlines with higher costs don't fly. "Markets are much more segmented in Europe, so you get more airlines," says consultant Craig Jenks, president of Airline/Aircraft Projects.

The European airline turbulence has taken a toll on travelers. Strikes at several big airlines, including Lufthansa and Air France, have left fliers grounded. Flights to some European cities have become less frequent and connections more difficult. Discount airlines often fly to secondary airports that can be hard to reach and impose their own expensive fee structure for luggage.

Tourism is a key part of the economy in the Czech Republic, and the struggles of Czech Airlines have hurt. The national airline has just one flight to Asia (Seoul) four times a week, no flights to North or South America and not even a single flight to London. Czech Airlines sold its takeoff and landing slots at London's Heathrow Airport six years ago to raise cash. Over the past seven years, the percentage of Prague airport passengers carried by Czech Airlines has dropped from 36% to just 12%, according to the airport.

When airlines have direct routes to destinations, their marketing helps sell your country, says Jan

Herget, director of foreign offices at the Czech Tourism Board. When visitors arrive in a city as their first stop, they stay longer, filling more hotel rooms. And robust air service is essential to getting companies to locate headquarters and offices.

"Airline service is crucial," Mr. Herget says, adding that despite its current, limited schedule, tourism in the Czech Republic would suffer without a national airline.

The flag carrier's fleet consists of 17 planes, some of which have telltale signs of age such as old-fashioned "No Smoking" lights, smaller overhead bins and the pleasant surprise of good 32-inch seat pitch, more generous than on airlines that have pushed rows closer together to squeeze in more seats. Flight attendants politely begin announcements with "Dear passengers," and proudly serve free Budweiser Budvar, a native Czech beer.

"It's not a good airline. They have canceled many destinations," says business traveler Wolfgang Wehner, who recently flew Czech from Munich to Prague. "I try to avoid Czech Airlines."

But Marcus Sjogren, a Swedish government official heading to Prague for a weekend vacation, says Czech wasn't much different from other airlines and it offered nonstop flights and good fares. "The most important thing is that it's a direct flight," he says.

Czech Airlines thinks a restructuring plan launched one year ago is working. The airline was profitable in the first half of this year without one-time benefits like real estate sales for the first time since 2004. It has reduced costs through layoffs, pay cuts and renegotiation of maintenance, technology and telephone agreements, says Mr. Sabik, the airline spokesman.

It also changed how it prices tickets, offering one-way fares and consistent, simple pricing. Average fares are up about 10%, he says.

"We have to change and follow the market, or we could be fired out from the market," Mr. Sabik says.

Traffic on the Seoul-Prague route is relatively small: Seoul doesn't make the top 15 destinations for Prague airport passenger traffic. And most just go to Prague. Only 20% of passengers arriving from Seoul make connections on Czech Airlines, the airport says.

Still, Korean Air says it is optimistic. The partnership with Czech Airlines -- the first time a Korean-based airline has invested in a foreign carrier -- has led to a 35% increase in passenger traffic this year on the Prague-Seoul route. And Korean-language signs at the Prague airport mark "a significant investment and optimism in the future for Korean Air and Czech Airlines," a spokeswoman says.

Mr. Rehor of state-run Czech Aeroholding says he believes privatization was the right decision, but "the original strategic intention has not yet materialized." He also doesn't have an answer to the question of whether the country will keep its airline.

"Czech Airlines still has particular emotional and historical importance," says Mr. Rehor. "At the same time, we are aware that this fact alone does not justify the airline's very existence."

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