

Abstract

This study examines the underlying processes behind the airline privatisation experience in Europe through the cases of three main European airlines, British Airways, Lufthansa, and Air France as well as the resulting developments in terms of industry dynamics. The study examines various privatisation processes, including intra-firm planning related to rationalisation and operational strategy to industry-wide developments, such as alliances and mergers. The framework of Competition-Cooperation-Consolidation (“3C’s”) is developed in this study to best represent how the post-deregulated industry has changed since the 1980s.

The study reveals that in terms of intra-firm dynamics, Lufthansa and Air France followed a similar strategy of rationalisation ahead of privatisation as that of the first fully privatised British Airways. The British Airways rationalisation strategy has become an industry standard for cost-cutting and pre-flotation recovery. Furthermore, Lufthansa and Air France have followed the British Airways post-privatisation scale strategy of investments, acquisitions, and code-sharing agreements with partnered airlines. The aim has been to survive 1990s liberalisation and the Single European Aviation Market 1997 competition drive.

In terms of industry-wide dynamics, all three airlines have developed their code-sharing agreements to pursue cooperation within the industry given the pressures of deregulation. These partnerships evolved into the three main airline alliances, Star Alliance, Oneworld, and SkyTeam. As a result, closer cooperation led to alliances and eventually mergers like the Lufthansa Group, with the aim of consolidating market power within the international market. Consequently, the “3C’s” framework is exemplified as the common configuration that British Airways, Lufthansa, and Air France have followed and contributed toward.

This study also shows how the state has been involved in the privatisation process and since. A continued presence of the state in the functioning of these flag carriers has been noted despite privatisation due to strategic reasoning and, in the Air France case, political ambivalence related to privatisation. The most recent COVID-19 bailouts exemplify how the state continues to be involved, even if indirectly in the case of British Airways, often leading to a “too big to fail” type scenario and flag carrier favouritism. This aspect brings about concerns about continued government intervention within industry, resulting in distorted competition accusations.