Entrepreneurship in European commercial aviation (1957-2010)

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Historically, the field of commercial aviation has always been a fertile ground for entrepreneurs. Despite the international civil aviation market being heavily regulated until the mid 1990s, the strong growth in tourism from the late 1950s gave rise to the creation of non-scheduled or charter transport companies[1]. The fact that non-scheduled flights in Europe were not regulated and the low entry barriers in this market attracted a relatively abundant number of entrepreneurs to the commercial aviation sector. The objective of this paper is to reconstruct the variables that enabled the creation of airlines and stimulated the wave of entrepreneurs that have accessed this market over the years, within a European context where rapidly increasing income levels after the post-war reconstruction period boosted air traffic.

Charter airlines were created to satisfy the demand of tourists who began to travel from northern and central Europe to Mediterranean countries[2]. The increase in disposable income after the Second World War and the consolidation of a welfare state in Europe gave rise to a new market: mass tourism. Air transport was essential to support the development of tourism. Tourism companies were also created, offering a new product: package tourism or the Inclusive Tour (IT)[3]. These Tour Operators began by contracting transport services out to specialised companies which offered air charter services separately from hotel and complementary services. In the 1970s, a transition process began in which the tour operators began to integrate the transport service into their business and created their own airlines[4]. This process was not widespread across Europe, being developed to a greater extent in the United Kingdom and Germany. In many cases,

[1] R. Doganis (1991)

[2] P. Lyth (2003)

[3] The relationships between Tour Operators and charter flights in DG Pearce (1987a, 1987b)

[4] P. Hanlon (1999)

airlines specialising in charter flights continued to be independent but were increasingly strengthening their ties with tour operators.

In the 1980s, a new de-regulation process of the air travel market began. In 1987 the process was boosted by the European Union which proposed the full liberalisation of transport by 1994[5]. Simultaneously, a profound mutation occurred in the commercial aviation market. From this moment, charter airlines began to adopt two strategies to adapt to the new competitive environment. Some were integrated into tourism companies or tour operators while others became scheduled airlines[6]. The new liberalised environment gave rise to the creation of new airlines and new companies were continually entering the market after the year 2000.

The first part of the paper explains air transport regulation in Europe in relation to the evolution of the tourism market. Then it analyses how the creation of airlines evolved in the United Kingdom, Germany, Denmark and the Netherlands – the leading European outbound passenger and tourism markets – and in Spain, the largest inbound tourism market. Finally, the paper concludes that the regulation of markets in the airline sector and the growth trends of tourism and its changes have been the main variables that have influenced the creation of airlines and the emergence of entrepreneurs and their initiatives in the European airline sector between 1955 and 2010. Furthermore, the specific features of each of the European economies and their cultural and traditional values have contributed to shaping the unique profiles of the different companies and entrepreneurs. All of these factors have been influential as the creation of companies and the characteristics of the entrepreneurs in the airline sector have arisen from the different changes occurring within the industry and from the modifications taking place in the markets throughout the second half of the 20th century.

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[5] S.Wheatcroft, G. Lipman, (1990) R. Doganis (1992); K. Button; K. Haynes y R. Stough (1998)

[6] Lobbenberg (1995)

The international framework and institutional regulations of commercial aviation

The commercial aviation sector emerged after the First World War and became more consolidated during the 1920s and 1930s. During the interwar period, the majority of countries in Western Europe took advantage of the technological changes taking place in aviation to stimulate the creation of airlines. These passenger carrying companies had to organise themselves around the mail carrying monopolies and international relations. On the whole, this model became consolidated, supported by Government strategies aimed at establishing close ties between development and the growth in national aeronautical technology[7]. To do this, it was essential for each country to support the expansion of airlines by increasing their fleet orders. There were also other factors, including the need of European nations to strategically link their formal and informal colonial territories to the mother countries through commercial aviation.

The national and international legal regulations played a central role in achieving the above-mentioned objectives. The IATA -*International Association of Transport Aviation*-was created – the body that implemented the first operating regulations in the international air travel market. The regulations established by the IATA prescribed the monopoly of air routes between countries through airlines officially designated by the different nations[8]. Each country chose a national carrier as its official airline and directly or indirectly subsidised it in order to support its expansion. In addition, the bilateral principle in air transport relations was established. In virtue of theses bilateral agreements, the establishment of air links between countries implied a preliminary recognition of the airlines that were to operate the flights and the tariffs were also fixed. These tariffs were subject to the double approval of the countries involved. International air traffic therefore, was rigidly organised around an oligopoly of national carriers that shut out any type of competition and applied high transport prices.

[7] M. Staniland (2003)

[8] About IATA see A. H. Stratford (1973) R.Y. Chuang (1977) J.W.S. Brancker (1977)

Many airline entrepreneurs sought profitability from their initiatives through securing state subsidies for carrying mail. Others were manufacturers of engines and aeronautical components or aircraft constructors seeking to secure serial production for the airlines. In the majority of cases, these entrepreneurs ended up conceding to the wishes of the Governments whose aim was to merge the existing companies and create publicly-owned national carriers that were subject to the strategic interests of the State. The end of the 1920s was characterised by the gradual establishment of privately-owned individual airlines with specific companies receiving state subsidies. This model became consolidated in the 1930s and the national flag carriers, such as Air France, BOAC and Iberia were founded[9]. The objective of these airlines was to officially transport the outbound international passengers from their markets and to project the prestige of their countries around the world. The international air travel market regulations sanctioned this development model of international traffic, particularly in Europe[10].

The consequences of the Second World War further consolidated this organisational model of the global air traffic market. The repercussions of the war reinforced the regulations, with a re-founding of the cartel represented by IATA and new ways of regulating the so-called freedoms of the air which were approved in the Chicago Convention. The only significant new aspect was the consolidation of the United States as a new player in the global air traffic market. Moreover, the loss of Europe's weight in international aeronautical production also reinforced the new role of USA industries and aircraft manufacturers as a leader in aviation technology[11].

While the technological leadership of the United States was becoming hegemonically established, with the large-scale production of Boeing and Douglas aircraft, the war generated an extensive stock of American and European-built planes which, at low relative prices, later supplied the future charter airlines, both in the United States and particularly in Europe. Jets, which were introduced at the

[9] About Air France see N. Neirtz (1998); BOAC , P. Lyth (2000) and Iberia, J.Vidal Olivares (2008b)
[10] Hans-Liudger Dienel (1998)
[11] D. M. Pattilo (1998)

beginning of the 1960s by the national scheduled airlines, had considerably lower prices than the more technologically outdated aircraft. This created a supply of planes that was exploited by a new generation of entrepreneurs to create airlines. These companies capitalised on the flows of tourists who had become interested in travelling to medium-haul destinations by plane.

Indeed, in the second half of the 1950s a significant increase in tourism movements was observed. The increase in disposable income after the economic reconstruction process and the consolidation of workers' rights in European society, with the widespread introduction of paid holidays, increased the inclination to travel. This boom in tourism coincided with the existence of a de-regulated aviation market for non-scheduled charter flights. The fact that there were planes available and entrepreneurs who were interested in exploiting them for tourism gave rise to a charter passenger traffic movement in Europe that experienced exponential growth.

For more than 25 years, this tourism traffic market was growing at increasing rates in Europe, with the exception of the industrial recession of 1974-1981 which slowed down the growth process. During this time, charter traffic increased and co-existed alongside scheduled traffic, and in many cases, flag carriers created affiliate charter companies in order to tap into the seasonal tourism market.

In addition, and at a time when charter tourism traffic was increasing, the de-regulation of the domestic market carried out in the United States in 1978 sparked a liberalisation process in Europe[12]. Starting in 1987, the European Community began a process to gradually open the European market by establishing three periods during which aspects related to tariffs and flight rights were to be dismantled. The process would culminate in 1994, ending the monopoly of companies in both domestic and international scheduled flights[13]. At the same time, the European Community established a timetable for privatising the flag carriers with the objective of ensuring full competition in the aviation market between the countries belonging to the European Union. The next step was to establish a treaty of free movement between Europe and the United States which

[12] Button, K.; K. Haynes y R. Stough (1998) Button, K. (2004)
[13] R. Doganis (2001) M. Staniland (2008)

completely liberalised the air travel market between the two sides of the Atlantic in 2009.

The fertile ground for entrepreneurs in European commercial aviation: from charter companies to low cost airlines.

As we have already seen, in the 1950s there was a series of factors that attracted many entrepreneurs into the commercial aviation sector, who created numerous airlines which became very successful in the market. The strong increase in tourism and the restrictions imposed by the air traffic regulatory system created an opportunity for the emergence of charter airlines.

The country that has created the most airlines since the end of the Second World War is the UK. This market, which was technologically mature in terms of its aeronautical industry and was the economy with the largest outbound tourism market in the 1950s, pioneered the first business ventures in the field of commercial aviation. These initiatives were carried out by experienced wartime pilots who, after the war, with the financial support of commercial and bank loans, leased aircraft to transport goods and in some cases passengers. This was the case of *British Eagle*, founded in 1948 by Harold Bamberg. BE began its operations with flights to transport military troops for the British Government. In 1954 it started to operate exclusively in the tourist charter flights sector and in so doing purchased the travel agency chain Henry Lunn Ltd.

This was also the case of Alfred Laker[14], who had also worked for *British European Airways* (BEA) and *London Aero Motor Services* (LASM). In 1954 Laker founded *Channel Air Bridge* to transport cars with their owners to Calais. After selling this company in 1958 he became the Managing Director of *British United Airways*, which he later left to create his own airline in 1966, *Laker Airways*, a company which he formed by buying two second-hand turbo-propeller aircraft from the British flag carrier BOAC. Laker launched his business in the field of charter passenger transport and in 1971 he founded *Skytrain,* a group company which was

[14] Howard Banks (1982)

primarily engaged in launching the first low-fare scheduled transcontinental airline between London and New York. However, due to the opposition of scheduled flag carriers it did not fly until 1977. In 1982 Laker Airways went bankrupt due to the excessive debts incurred during its launch phase and due to the industrial recession at the end of the 1970s.

Another airline operating in the charter market was *Caledonian Airways*. It was created in 1961 by the BEA pilot, Adam Thomson[15]; and a former director of *Eagle*, John de la Haye. *Caledonian* was supported by North American and British investors, most of who were Scottish, and also began operating in the North Atlantic market and in the European charter market for ITs which demanded air transport services during the holiday seasons. In 1970 *Caledonian* merged with *British United Airlines* (BUA) creating *British Caledonian* (BC), giving rise to a new company which operated international flights as the "Second Force" to the flag carrier BOAC[16]. BC challenged the flag carrier both in Europe and in the routes between the UK and the US, opening direct connections with New York and Los Angeles which it had to abandon at the end of the first year due to the losses accumulated. Incapable of significant growth through scheduled flights, it attempted to open new routes from London Gatwick airport but failed to obtain permission from the British Government. In 1988 it was taken over by British Airways[17].

The predominance of British tourism in Europe during the 1950s and 1960s placed this country as the leader in terms of the creation of charter flight

[15] Adam Thomson (1990)

[16] The *second force* was a project of the British Authority *Air Transport Licensig Board* in increasing British Airlines in the international market with especial interest in North Atlantic. The target was to improve the competitiveness in the flights between USA and UK, including no scheduled flights. Peter Lyth (1998), pp.78-79

[17] M. Cronshaw & D. Thompson (1991a y 1991b) points out that the regulation was against the competitiveness of BC in front of the flag carrier BA. The most important idea of British government was then to defend the monopoly of BA; for this reason rejected that BC was taken over by SAS ad was also interested in a big airline with capacity to cope with the three USA Airlines (American Airlines, United and Delta) in the Atlantic market. Peter Lyth (1998), p. 79

companies[18]. Initially, the formation of companies engaged exclusively in charter passenger transport was carried out independently from the business of travel agencies and wholesale companies of organised tourism. This situation prevailed while there were low entry barriers in the charter airline sector, enabling aviators and pilots who possessed only technical knowledge to create aviation companies and offer their services to organised tourism wholesalers in the most prominent destinations of the Mediterranean. In the mid-1960s the situation changed. The formation of larger-sized groups in the sector obliged individual entrepreneurs to depend on these wholesalers who took advantage of this situation to assert their position in the market. They did this mainly by using their financial weight to support the creation of charter companies, either by becoming shareholders or by uniting their strategies with those of the charter companies through preferential agreements.

An example of this new situation is the charter flight company, *Monarch*. This airline was founded in 1967 by B. Hogdson and D.Peacock. They were both former directors of the company *British Eagle*, where they accumulated knowledge and experience in the airline sector. Their financial backing was provided by the Swiss banking family, Mantegazza, owner of the *Globus Gateway Holdings* group, which in turn owns one of Britain's leading tour operators: *Cosmos Tours*. In 1968, this new airline began to operate flights from Luton Airport to Madrid and from 1985 it was granted the rights to operate scheduled flights to some Spanish Mediterranean destinations and became a mainly scheduled flight company in the second half of the 2000s. A similar case is that of the airline *Britannia*, founded in 1929 by Ted Langton under the name of Euravia. Langton had experience as an airline pilot with *Falcon Airways* and *Air Safaris* and when he formed the company his majority shareholder was Universal Sky Tours, a travel wholesaler. In 1965 Britannia and Universal Sky Tours became part of one of the largest tour operators in the United Kingdom, Thomson[19]. Britannia was now the transport operator of International

[18] P. Lyth has explained how charter airlines were created in UK in relation with tourism boom and the new business organised by Inclusive Tours companies. See P. Lyth (2009), pp. 11-30. In the case of Europe as a whole see P. Lyth and Marc L. Dierick (1994), pp.97-116.

[19] About Britannia see David Learmount, "Classy charter", *Flight International*, 18 April 1987, pp. 33-35

Thompson Group, consolidating this wholesaler as one of the largest European companies in the travel and tourism industry.

Another of Britain's leading independent charter airlines after BUA was *Dan Air*, a company founded in 1953 by the London shipbroking firm Davies& Newman[20]. From the beginning of the 1960s it experienced spectacular growth with just 48,900 passengers in 1964 compared to 2,306.373 passengers in 1975 and 4.5 million in 1985[21]. Dan Air remained relatively independent from the IT companies, gradually increasing its fleet to expand to new markets and cover the growing demand of new tourists. In the mid 1970s it was the largest independent airline in the UK after BA and the largest charter flight company in terms of fleet size and passengers carried. In the 1980s it began operating scheduled flights in order to combat the problems of the industrial crisis of the second half of the 1970s, expanding its activity until 1987. The problems in the financial structure of the company which it had suffered since1992 culminated in the disappearance of the Dan Air which was sold to BA. The greatest of these problems was its resistance to vertically integrate with a tour operator, leading ultimately to its bankruptcy.

In addition to the UK, Germany was also a leader of the European tourism market with the highest number of tourists in the continent which increased after 1989 with the unification of the country. With the acceleration of the post-war economic recovery, Germany gradually increased the number of holidaymakers interested in travelling abroad. The transport supply responded to the high demand of tourism travel with the creation of charter airlines. In 1955, after the ten-year moratorium on the production of aircraft after the Second World War, *LTU* (Luftransport Unternehmen) was established as a private airline. The German architect Kurt Conle who also had his own construction business, together with his business partner Ernst-Jürgen Ahrens, founded LTU in Duisburg. The initial fleet consisted of 3 planes of 36 seats that flew from Frankfurt to Sicily and later to Majorca. From 1962-1963 LTU began to organise inclusive tours, creating its air travel subsidiary

[20] This company had as most important asset Dan Air, because it represented 99 % of the benefits. The Group also had assets in shipping companies with Norwegian Partners. See David Learmount, "Dan Air: Britain's second airline", *Flight International*, 21 September 1985, p.28
[21] P. Lyth (2009), pp. 20 and 24.

Transair and in 1968 it founded its own network of travel agencies, THR Tours. When Conle died, his partner Aherns became the CEO until his death in 1975. The majority of the shares (80%) remained in the hands Conle's wife and three daughters. LTU created two affiliate airlines –LTU Sud and LTE in 1984 and 1986. 75% of the latter company was sold to the Spanish entrepreneurs Pedro Montaner and Iñigo Cotoner in 1992. The large market share controlled by LTU in West Germany enabled it to compete with the largest tour operator group at the time, TUI. To do this, it bought other tour operators, acquiring 40% of Tjaereborg in 1986 and 90% of the German subsidiary of Thomas cook in 1992[22]. Later, in 1998, LTU was purchased by the SAIR Group from the German bank West LB, which had bought the shares of Conle's daughters in 1989[23]. LTU's growth was based on developing a group of companies engaged in leisure, travel and tourism and expanded outside of Europe with the development of a network of destinations in America, Africa and Asia[24]. In the 1970s it also began operating scheduled flights, consolidating this position in extra-European markets at the end of the 1980s[25]. After the period in which it was owned by the Swiss holding company SAIR, which managed the German group and other French and Swiss airlines such as AOM, Air Litoral, Swiss and Air Liberté, a 55% share of LTU was sold again in 2006 to a group of German-owned companies called INTRO Verwaltungs Gmbh of Nürnberg, owned by the textile entrepreneur Hans Rudolf Wöhrl[26].

LTU was the only independent charter airline for a long time in Germany. *Lufthansa*, the state-owned scheduled airline, founded in 1955, had implemented a policy to prevent competition, obtaining a controlling stake in the charter

[22] Hans-Liudger Dienel (1998), p. 113

[23] Andrew Doyle, "SAir restructures airline interests as profits plunge", *Flight Internationa*l, 29 August-4 September 2000, p. 30

[24] LTU had three different brands in the airlines sector, travel agencies, tour operators, hotels and catering business. See John Bailey, "LTU gears up for 1992", *Flight Internationa*l, 4 March 1989, p. 25

[25] LTU had links with Sri Lanka, USA, Brazil, Thailand and East Africa: Joachim Hunold, LTU Sud sales Director in 1989 said " As long as we can maintain sales and load factors, we don't mind if we are called a charter airline or a regular airline, *Ibidem,*

[26] "La alemana LTU se asoma a España", *La Vanguardia*, Barcelona, 14 de enero de 2007

companies that emerged in the West German market[27]. This was the case of *Condor Flugdienst* founded in 1955 which later changed its name to Deutsche Flugdienst. This charter airline was created with the financial support of the leading German shipping companies at the end of the 1950s -–Hamburg-Amerika Line (Hapag) with 27.75% of shares and Norddeutscher Lloyd, also with a 27.75% share. The remaining shareholders were Germany's state railway company, Deutsche Bundesbahn with 18.5% and Lufthansa with 26%. Then, in 1959 Lufthansa acquired 95% of shares, becoming the majority shareholder of *Condor*, and converted it into a subsidiary company of the German flag carrier. Another charter company that was officially independent but closely linked to *Lufthansa* was *Hapag-Lloyd*. Founded in 1972 by the shipping company with the same name, it operated within a coordination strategy with Lufthansa which acquired 10% of the company in 1992. In 1997 it became part of the tour operator group TUI AG.

The differences between the UK and Germany in terms of the creation of charter airlines were directly related to the characteristics of how tourist travel was organised in the domestic markets. In the UK there was fierce competition between the IT companies with low margins and a concentration of activity in the national market. In Germany, however, a stable oligopoly prevailed, obliging the IT companies to expand into other European markets, where the flag carrier reinforced the lack of competition in the organised tourism market through agreements with large local tour operators[28].

Besides the UK and Germany, Scandinavian countries and the Netherlands were also large outbound tourism markets. There were entrepreneurs in these economies who were interested in exploiting the opportunities of the market in order to create charter airlines. The Dutch case is remarkable in that its small size yet high relative income per capita enabled its population to directly access aviation as a means of transport to travel abroad. Two charter companies were created at the end of the 1950s and the beginning of the 1960s by two individual entrepreneurs. The first was *Martinair* which was founded in 1958 by J. Martin

[27] Hans-Liudger Dienel (1998), pp. 112-113
[28] C. Gratton and G. Richards (1997), pp. 213-226 T. Baum and R. Mudambi (1994) think that UK market for IT was oligopolistic in the first 1990'.

Schröder. In 1963, following the example of the German airlines, *Martinair* sold 49% of its shares to four shipping companies. In 1964 Martin sold 40% of its majority share to the Dutch flag carrier, KLM, although its founder continued to manage the business. The objective of KLM was to protect itself from competition in terms of domestic flights and charter flights operating in the rapidly growing international market[29].

Another entrepreneur, who was the cofounder of *Martinair* and partner of J. Martin Schröder and who also created his own charter airline was Johan Nicolaas Block. This pilot, who had trained in the Dutch armed forces and who had worked for the state postal service, purchased the brand and the rights to operate the airline *Transavia Limburg*, which had barely flown. Block renamed the company as *Transavia*, and began to operate the airline at the end of 1966. It started to operate charter flights in the Netherlands and a decade later its tour operator had a 50% share of the Dutch external market for leisure and recreational travel. Block sold shares of *Transavia* to the shipping company Royal Nedlloyd Group which progressively purchase more until it owned 80% of the company. In 1989 the shipping company sold its share to *KLM*, which, after receiving the approval of the EC in 1991, bought the airline outright in 2003[30]. Until his death in 1994, Block's interest in creating new airlines continued. After losing control of Transavia, in 1997 he created an airline for executive travellers which was named *Jetstar*. He sold the new company to an investment holding company. In 1984 he founded Air Holland which he sold in 1989.

Another significant outbound tourist market in Europe during the 1960s was Scandinavia. The largest Scandinavian charter company created at the beginning of the mass tourism boom was the Danish airline *Sterling* [31]. At the height of its expansion, this company became the European leader of airlines of this type: in 1974 it carried 2.5 million passengers. Sterling was founded in 1962 by the pastor

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[29] Marc Dierickx (1998), pp. 152-153
[30] *Ibidem*, p. 153
[31] The other airline, founded in 1969 as charter, was Maersk, which belonged to A.P Moller-Maersk Goup, holding created in the XIX Century, based on shipping and energetic business. Maersk and Sterling merged in 2005 under control of Icelandic Group Fons Eignarhaldsfélag, which also bought Maersk Airlines to the holding owned by the shipping company.

and bus entrepreneur Eilif Krogager. He began operating in the tourist transport business through buses in 1951 and in the 1960s he established a network of travel agencies, *Tjaereborg Rejser*, which expanded into Germany in 1973. In 1962 he and Jørgen Størling founded Sterling Airways, which offered charter flights from Billund with two aircraft purchased from *Swissair*. As well as providing services to its own group of agencies, *Sterling* began offering them to other tourism service companies. Airline traffic and turnover continued to grow. In the 1980s the company started to accumulate losses and its financial problems obliged it to sell *Tjaereborg* in 1989 to the owner of another travel agency network in Denmark, Janni Spies. In 1993 *Sterling* went bankrupt and after the Danish government's attempt to refloat the company, it was sold to the Norwegian shipping company Fred Olsen. This company finally sold the airline to the Icelandic investment group Fons Eignarhaldsfélag in 2003, after having tried to partially transform the charter company into a scheduled airline, which is what a large number of other European charter airlines were also trying to do.

While the outbound passenger markets were largely engaged in the creation of charter airlines, the inbound markets were also tapping into this new opportunity offered by the market. The largest inbound tourist market was Spain. Being the largest mass tourism destination for tourists from northern and central Europe[32], Spain had become a country that offered opportunities to entrepreneurs interested in creating charter airlines, taking advantage of the legal regulations that allowed this, which were similar to those governing the whole of Europe. The deregulation of the charter air transport sector and the nationalist legislation with respect to the ownership of aviation companies were decisive factors in the creation of charter airlines throughout Europe, but particularly in Spain where the inexistence of large tour operators favoured the entrance of individual entrepreneurs in the sector[33].

The largest Spanish charter company was *Spantax*[34]. This airline was founded in 1959 as *Spain Air Taxis*. The company received subsidies from the Spanish state to carry passengers and cargo between the Spanish Sahara and the Canary Islands. Its

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32 Allan M. Williams (2001) J. Vidal Olivares (2009)
33 J. Vidal Olivares (2008a)
34 I have explained the business history of this airline in J. Vidal Olivares (2010)

founder and majority shareholder was Rodolfo Bar Wright, an Iberia pilot, who initially continued to fly for the Spanish flag carrier while owning his own charter company. His business partner was the flight attendant Marta Estades and together they set up the company which began its growth process in 1962. It began by operating flights for different oil companies which were searching for oil in the Sahara. Subsequently, it began to carry tourists to the Canary Islands. Finally in 1962, it extended its operations to mainland Spain and the Balearic Islands and received authorisation to operate flights for and sign contracts with foreign travel agencies and tour operators. From this moment, the growth in the number of passengers and the increase in fleet size were unstoppable, and in 1974 it became the third largest European charter airline in terms of passenger numbers after *Sterling* and *Britannia* [35]. However, the oil crisis hit Spantax hard. The rise in fuel costs was steep and the airline's fleet was entirely composed of high fuel-consuming aircraft such as the Convair Coronados. Its fleet renewal programme was implemented too late incurring high financial costs and in 1988 it went bankrupt with no business group willing to purchase its shares. *Spantax* not only went out of business due to its mistake in choosing a high fuel-consuming fleet, but also due to its incapacity to vertically integrate with a tour operator. It attempted to develop its own tour operator with two hotels and a catering service in its base in Majorca but failed to increase its turnover or achieve growth despite its favourable position in the Scandinavian and Swiss markets. Furthermore, its founder and owner maintained his position as Managing Director of the airline without making any substantial changes to the organisation of the company or employing directors specialised in the commercial aviation sector.

The case of *Spantax* and its founder was repeated in the majority of the charter airlines that were created in Spain as a result of the deregulation of this market and the strong growth in the volume of tourists choosing Spain as a destination. *Transeuropa* was another airline also created during the tourism boom by former pilots of the Spanish Army that took advantage of the low entry barriers to gain access to the charter transport market. When it started operating in 1965, it used a

[35] Douglas Aircraft (1977) and "Spantax", *Flight International*, 24 January 1974, pp.97-98

DC7 to combine passenger and cargo traffic, and then purchased two more of these aircraft. It also used four DC 4 planes for flights from Palma and Las Palmas. In 1969 the company replaced its entire original fleet with seven Caravelles, which it continued to use until the 1970s. This company also used Fokkers, owing to their adaptability to short runways and their compact size, which made them ideal for short-haul regional routes.

Transeuropa's growth strategy, essentially based on international charter flights, was frustrated by the economic crisis of the 1970s. In an attempt to solve these problems, the company established agreements with Spain's national airline, Iberia, and its subsidiary AVIACO. The aim of these agreements was to secure "third level" traffic, i.e. in the sphere of regional aviation. Despite being a loss-making market segment in the mid-1970s, it provided a source of income for the company's owners. The Spanish Government tried to solve *Transeuropa*'s financial problems and the obsolescence of its fleet (composed of the kerosene-guzzling Caravelle 10-R planes) by taking over the company and including it the National Industry Institute's transport group (INI -a holding of public enterprises) at the end of 1981. The deal, which involved the INI paying 260 million pesetas (1,560,000€) for *Transeuropa*, was based on the condition that *Transeuropa*'s employees (over 350) would be incorporated into the workforces of Iberia and AVIACO. The INI estimated that up to 4,000 million pesetas (24 million Euros) would have to be invested in fleet for a company that had only 134 million pesetas in capital and reserves of 400 million (800,000€ and 2,400,000€) [36]. In the final years leading up to the takeover, the company's management had tried to gain more international charter traffic but the second oil price rise in 1979 rendered their efforts futile, as they were unable to undertake the necessary restructuring of the fleet that would enable them to carry on operating in viable financial conditions in an increasingly competitive charter flight environment.

[36] "Los pilotos de Transeuropa se oponen a los ajustes laborales planteados por la compañía" (Transeuropa pilots opposed to the labour force adjustment plan requested by the company), *El País*, Madrid, 9th February 1982.

In the case of *Air Spain*[37], this airline started operating in the charter flight market in May 1966, using two turbo-driven *Eagle Britannia* planes, i.e. relatively old aircraft that were available on lease with an option to purchase at relatively low prices. In 1969, the company bought another plane with the same characteristics from the Israeli airline El Al, although it was used for transporting cargo. *Air Spain* transported passengers all year round, but also operated in the cargo market during the winter. After initially operating only in Europe, at the beginning of 1970 it began to fly to tourist destinations in the Caribbean, for which it purchased six DC-8 21s. The company went bankrupt in 1975, having failed to overcome financial problems relating to the price of aviation kerosene after the increase in oil prices, and then found itself unable to compete with other airlines that operated in conjunction with tour operators[38].

Another of these charter flight companies, created in 1967, was *Trabajos Aéreos y Enlaces* (TAE), whose priority was revealed by the subtitle that appeared in its corporate advertising and on the fuselage of its planes: "Sunshine Liner". Focusing on the transportation of tourists for the British, German and Scandinavian Inclusive Tour Operators, with a fleet consisting mainly of Caravelles, DC 8s and DC 7s, it grew rapidly from 1973 to the end of the decade, but in 1981 it suddenly disappeared, overwhelmed by debts and the problems caused by rising fuel prices and the general stagnation of demand in the tourism sector[39].

Access to the charter flight market in Spain, and in Europe in general, was not exclusive to the tourism boom period in the 1960s. When *Transeuropa* was taken over by the INI in 1987, a new charter company bought some of its Caravelle planes. *Hispania* was the name of this new airline, set up in 1983 as an on-demand flight operator. The recovery of the tourism markets and air transport in general in Europe gave rise to new players. After taking its first steps in 1982 as a former TAE worker's cooperative- also managed by a former TAE pilot - comprising about 800

[37] Created also by former pilots of the Spanish Army.
[38] The company was owned by Banco del Noroeste. This bank was within *Rumasa* holding, which was managed by José María Ruiz Mateos.
[39] TAE was participated by the family Aznar, owners of a shipping company, Naviera Aznar. See J. Valdaliso (2006), pp. 175-176

shareholders, *Hispania* entered the charter flight market the following year[40]. This company focused on the German, English, Dutch and French tourism markets and acquired a new fleet consisting of Boeing 737-300s and Boeing 757-200s. These planes were a product of the technological changes brought about by the oil crises of the 1970s, but they placed an excessively heavy burden on *Hispania*'s balance sheet. Despite using the leasing system, the company ran up heavy bank debts and, in 1988, was on the verge of being taken over by Air Europa, a Spanish charter airline that had been set up two years earlier. After a failed takeover operation by the Italian finance group Fimpar, Hispania went out of business in 1989 with a net worth shortfall of 1400 million pesetas (8.5 million€). However, *Hispania*'s passenger traffic figures had risen in the years immediately prior to its bankruptcy, and by the time it announced the close of business operations in July 1989, the airline had nearly one million passenger bookings for the period between July and October[41].

In 1994, coinciding with the start of the liberalisation process of the European air transport market, both *Air Europa* –born in 1986[42]- and *Spanair* –created in 1991[43]- became general operators offering scheduled flights in Spain, thus ending Iberia and AVIACO's domestic monopoly of air transport. At the same time, a second cycle in the creation of charter airlines got under way, as new companies took advantage of the *cluster* of air transport services that had been consolidated in the centres on which the old companies had focused their development. As a result, Palma de Mallorca and, to a lesser extent, Tenerife and Las Palmas in the Canary Islands became the headquarters of the majority of these new companies,

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[40] "Spanish charters go upmarket", *Flight International*, 30 May 1987, pp.25-27

[41] *El País*, Madrid, 18 July 1989.

[42] *Air Europa*, was set up by Juan José Hidalgo, an entrepreneur trained in bus transport industry. He initially bought 75 % shares to Harry Goodman's International Leisure Group-owner of Air Europe brand-with the support of Banco de Bilbao and Banco de Vizcaya. "Spanish charters go upmarket", *Flight International*, 30 May 1987, pp.26. Also "ILG forms new Spanish airline", *Flight International*, 12 July 1986, p.6

[43] Gonzalo Pascual and Gerardo Díaz –entrepreneurs coming from tourist and transport sectors-were the founders of this charter, supported by the Scandinavian airline, SAS.

as well as the handling, maintenance, supply, catering and flight simulation companies and the crew training centres that had developed since the mid-1960s.

This second period of creation and development entailed a series of major transformations in the new companies. Most of them were part-owned by hotel groups, financial entities and travel agencies, both Spanish and international. The strong backing provided by these new partners, all of whom were knowledgeable in the tourism side of the air transport market, stemmed from a process of vertical integration initiated by investors who took advantage of the existence of a favourable new environment for leisure market opportunities and the latest phase of recovery in the sector. Moreover, the first cycle of charter company development had created a large group of qualified executives and trained personnel in the sector (pilots, cabin crews, auxiliary flight personnel, maintenance mechanics), who were taken on board to set up the new airlines. The planes that were available at this time also underwent a technological transformation as a result of the far-reaching changes that the manufacturing companies introduced after the industrial crises of the 1970s and the sharp increases in oil prices. Both Boeing and Airbus, the leading manufacturers, started producing planes which consumed less fuel and whose size was better suited to the market's needs and the European routes.

The liberalisation of air transport markets which began in Europe in 1987 generated new opportunities for developing entrepreneurial ventures in commercial aviation. Many charter airlines became scheduled companies with new capital, formed on the whole by groups with strong financial bases, enabling them to adapt to a deregulated and more competitive market. Others integrated into IT groups or Tour operators. This process segmented their affiliate airlines into markets – which was the case of Thomson or TUI – sometimes developing their own brands, something which had not been done in the previous phase. During a transition phase, which in some cases began in the mid-1980s, some companies operated in both markets and began to specialise at the end of the period[44]. In 1994, when the European Union was fully liberalised, all companies were

[44] Other charter airlines have had many problems to adapt its structures to a low cost airline as P. Morrell (1998), p.51 has pointed out.

specialising, with many charter airlines opting to become scheduled flight companies[45]. New companies also emerged, based on a fundamental change in the basis on which the airlines had been traditionally developed, introducing a new concept of commercial aviation; the so-called low cost or no frills airlines. Many of these initiatives corresponded to a new type of entrepreneur, which in many cases were very similar to the pioneers of charter aviation; independent and experts in the aviation market and organised tourist travel or entrepreneurs with a background in maritime transport. The objectives of these new entrepreneurs included the exploitation of the progressive segmentation of the tourist market demand in order to take advantage of cultural changes and tastes of the European population: increase in short-haul trips to European cities, music and sports events within the context of a clear de-seasonalisation of leisure travel. The two airlines that have exploited these new emerging markets within a context of full market deregulation are Ryanair and EasyJet.

Ryanair was created in 1985 by Tony Ryan, a former director of Aer Lingus, the Irish flag carrier. Ryan founded the Guinness Peat Group, one of the largest aircraft sales and leasing companies in the world. Thanks to his knowledge of the plane and passenger market, Ryan was able to create a new airline to operate the routes between Ireland and the UK. It was to Michael O'Leary, who worked for him as an expert accountant, whom Ryan transferred his rights of the company in 1991[46]. Based on the low cost airline model of the American company Southwest, O'Leary reinvented Ryanair, with the objective of developing a network of connections between European cities at low costs which could be achieved quickly with the short and medium distances in the continent. His model is based on maintaining low costs with respect to labour, airport taxes, fuel and also distribution and logistics. Taking advantage of the new cultural and leisure practices and needs of the European urban classes, Ryanair has constructed a successful airline model, benefitting from the total liberalisation of the market which began in 1994.

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[45] Liberalization of the market in Europe did not change the nature of charter airlines that could cope with *low cost no frills* companies as T. French (1995) explained.
[46] S. Creaton (2004,2007)

Similar success has been enjoyed by *Easy Jet*, founded in 1995 by Stelios Haji-Ioannou, a Greek ship owner who established his new company based on the experience he had accumulated in his company Estelmar Shipping [47]. By borrowing the business model of the American low cost airline Southwest, Easyjet grew at a similar rate to that of Ryanair with the difference that it was supported by investment groups such as FL Group which, since 2004, provided the necessary finance to carry out a rapid growth strategy through acquiring fleet and opening routes in Europe. Contrary to Ryanair, Easyjet also targets business travellers which represent a substantial market in intra-European travel. In its map of routes Easyjet competes with Ryanair in some high density markets and complements it in others. For example, the Irish airline is hegemonic in the Canary Islands and Easyjet in Greece.

The low cost airline sector has been fertile since the total liberalisation of the European market. Currently, the *European Low Fares Association*, in addition to nine other companies –which represent a total of 18 airlines – carry 43% of passengers in the European Union with respect to point to point services[48]. Growth has been fast and intense and movements in the market to create new airlines through mergers, acquisitions, take-overs or new entrepreneurial ventures are continually rising.

[47] L. Jones (2007)

[48] York Aviation, *Market share of Low fares airline in Europe*, February, 2011, p.1 http://www.elfaa.com/documents/LFAs_Market_Share_YorkAviation.pdf

Entrepreneurship in European commercial aviation: trends in charter and scheduled Airlines creation

1955-1965	1966-1980	1980-1994	1994-2005
Pioneers entrepreneurs ---------- Sterling Transavia Martinair Condor LTU Spantax Caledonian Britannia Dan Air Transeuropa Condor Hapag- Lloyd	*IT* *Travel Agencies* *Investment Holdings* *Entrepreneurs* ------ Monarch Laker Airways Air Spain TAE	*Investments Holdings specialised in Airlines* *IT-Tour Operator* *Independent charter airlines* ----------- Hispania Air Europa Spanair	*New Airlines in scheduled flights* *New arlines* *(mergers&adquisitions&fusions* *Low cost no frills airlines* *Individual entrepreneurs* ------------- New IT-Tour Operators Thompson Fly Tui Ryanair Easyjet
Flag carriers	Flag carriers Isolated privatisation (BA)	Flag Carriers Privatisation European Commission	Flag Carriers Privatisation Global Alliances

Conclusions

The main conclusion of this paper is that the regulatory environment has generated different types of airline, founded by entrepreneurs from different backgrounds. Between 1960 and 1994, airline entrepreneurs had little experience in the scheduled transport sector. They focused on the opportunities that the tourism sector had to offer in both outbound and inbound markets. Airlines were able to remain independent until the increasing trend to integrate with tour operators reduced their capacity to compete. In this respect, the difference between several European markets and the historical configuration of travel distribution companies in each country determined the differences in fertility for airline creation. The cases of Germany and the UK clearly illustrate these differences.

After 1987, with the start of the liberalisation process of the European air travel market, significant changes can be observed in the formation of airlines. The charter companies that were not integrated with tour operators began to consider entering the scheduled flight market, selling an increasing number of seats in the free markets. After 1994, the change in air travel regulations in Europe and the new organisational forms in the tourism industry gave rise to a fundamental change in the entrepreneurial spirit for creating new airlines. Entrepreneurs created new companies in the scheduled sector. In many cases they were charter companies that definitively switched to being scheduled airlines; others were completely new. The latter were a completely new type of company: the low cost airlines. Their founders were a new type of entrepreneur that shared a different business concept of air transport. The evolution of the market meant that these new entrepreneurs needed significant financial backing in order to undertake their initiatives. Indeed they largely turned to leasing, stock markets or investment groups specialised in the airline business. The fact that they were handling such large amounts of assets implied that they were a more professional breed of entrepreneurs, far removed from the aviation pioneers who had embarked on their business ventures with only their technical knowledge of aircraft and their remarkable entrepreneurial spirit. The transformation and segmentation of leisure time and the tourism sector have created a new type of airline, designed by entrepreneurs with a different concept of the commercial transport sector.

The local institutional framework of the different countries has also influenced the behavioural patterns in creating airlines. Tradition and previous conditions under which the transport sector was organised, with a greater or lesser involvement of institutions or the State, also influenced the mechanisms for creating airlines. In the UK, airlines were created by individual entrepreneurs with a military aviation background. This was also the case in Spain. In Germany, Denmark and Holland, the shipping companies played an important role in creating and supporting airline founders in practically all cases. Travel retailers and wholesalers as well as the large tour operators interested in creating new air transport companies also played a significant role. The State, through the state railway companies or flag carriers, with public capital, also intervened in the creation of airlines. In this last case, the objective was to control the increasing competition of charter companies and tour operators in the tourist transport sector. Finally, tourism was the movement that, with its spectacular growth since 1950, had generated a new air traffic market in Europe which the flag carriers, due to their structural characteristics, could not satisfy. This sparked the motivation to create new airlines, a spirit which is still very prevalent in the industry today.

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