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Ryanair puts brakes on cheap air travel

Michael O'Leary, Ryanair's chief executive, has lowered the budget carrier's growth trajectory after failing to agree on terms for 200 new Boeing aircraft

The era of cheap air travel is set to come to an end as Ryanair and easyJet, the budget airlines famous for their low-cost tickets, change strategy to maximise returns for shareholders. Both budget carriers have announced plans to rein back their rapid growth rates and the money saved in not buying new aircraft and opening new bases will go back to investors. This may be good news for shareholders, but passengers will lose out as there will be less pressure on the airlines to offer promotions such as Ryanair's £1 fare deals.

Ryanair, Europe's largest airline by passenger numbers and market value, announced yesterday that it would be changing strategy from 2013, when its current fleet acquisition programme comes to an end.

EasyJet announced a similar change in strategy earlier this year after a boardroom bust-up between Sir Stelios Haji-Ioannou, the airline's founder, and the carrier's management.

Ryanair's change of heart came as the budget carrier walked away from negotiations to buy up to 200 new aircraft from Boeing.

This decision will have allowed rival airlines across Europe to breathe a sigh of relief as the Irish airline's double-digit growth rates will stall.

As Ryanair's fleet has expanded aggressively over the past decade, it has moved pugnaciously into new markets — much to the displeasure of Europe's existing flag carriers. Europe's older, less efficient airlines have struggled to compete with Ryanair's low fares and have lost passengers as a result. However, Ryanair has been unable to agree terms with Boeing to buy a new \$6 billion (£3.7 billion) fleet of aircraft and will start returning money to shareholders instead.

The Irish-based carrier plans to take delivery of 112 new 737-800s over the next three years but the new order would have allowed Ryanair to continue adding passengers beyond 2013.

Michael O'Leary, Ryanair's chief executive, said that surplus cash would be returned to investors. His statement resulted in the share price gaining 6.5 per cent in Dublin.

Mr O'Leary said last month that Ryanair's fares could start to rise rapidly once it was no longer funding large aircraft purchases.

"We would be under far less pressure to fill capacity by cutting prices," he said.

Mr O'Leary will unveil a new strategy for the airline in the first quarter of next year. Ryanair and Boeing are understood to have reached an agreement on pricing for the aircraft — probably about \$25 million to \$30 million each.

However, Boeing is thought to have changed the terms of delivery and this was unacceptable to Ryanair.

A spokesman for Boeing said it was disappointed not to have concluded the deal but that any order had to be on commercially acceptable terms for its shareholders.

Ryanair and easyJet, Europe's largest budget airlines, have enjoyed almost continuous double-digit growth rates since the mid-1990s.

Ryanair is expected to carry 66 million passengers this year and easyJet 45 million.

Sir Stelios said yesterday: "I'm delighted that Michael O'Leary now accepts what I've been saying for over a year — the era of endless fast growth and ever larger aircraft fleet is near its end."