

Czech Airlines cuts UK routes

London and Manchester routes deemed unprofitable by the state-owned airline

BY CLAIRE COMPTON
STAFF WRITER

The latest step in Czech Airlines' (ČSA) ongoing restructuring effort to create a leaner,

more profitable company came as a shock to both analysts and businesspeople, who say the decision to cut all routes to the UK market is a step in the wrong direction.

"I don't think the cancellation of the London Heathrow route is a good idea," said Jan Procházka, an analyst at brokerage firm Cyrus who watches the airline industry. "There are so many big airlines linked to Heathrow. If I'm a businessman, a part of their target group, and I'm taking one-day trips on a regular basis to

Paris, London and Moscow, this is going to be a reason for me to leave Czech Airlines."

In addition to the UK routes, ČSA announced they were dropping routes to Brno, Munich and Cologne/Bonn, none of which was profitable for the airline, according to spokeswoman Hana Hejsková. The airline does not disclose exact reasons for unprofitability, but passenger volume isn't a surefire indicator of whether a route

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turns a profit," she added.

"It's about overall profitability, both the direct cost level and full cost level and the revenues per passenger," she told *The Prague Post*. "It also includes the operational model, the situation on the market, etc. Most importantly, revenue is not equal to profitability."

The changes will take effect for the airline's winter season, which runs from Oct. 31 to March 26. Other changes include adding destinations to Thessaloniki, Marseille and Venice, and changing the frequency and timing of other flights. The airline will actually increase the frequency of flights to Belgrade, Brussels, Paris, Athens, Beirut and St. Petersburg.

The management characterized the changes as a part of the company's three-year restructuring plan, approved by the government in May of this year.

"The new Czech Airlines flight schedule for the winter season reflects the next stage on the path to creating a more flexible, efficient airline," said Philippe Moreels, vice president for sales, marketing and finance.

In May, ČSA President Miroslav Dvořák said the airline would likely reduce both routes and its fleet 30 percent by the end of the restructuring period, in 2012.

But the surprising cancellation of the UK routes seems to be motivated by the company's need for great-

er liquidity, Procházka speculated.

Canceling the UK routes did provide a cash influx to the airline. ČSA traded its time slots with another airline in London, Hejsková said. The practice does not allow for airlines to directly sell the slots, but airlines trade for more advantageous times, and agree on a financial settlement for the airline that takes the less desirable spot.

"I can confirm that Czech Airlines exchanged its London slots with another airline. However, Czech Airlines still has slots in London, but we will not be flying them from the beginning of the winter schedule," she said.

ČSA would not confirm with which airline it made the trade, or

for how much, but Procházka said the details of the deal are nearly certain, including that the trade was made with British Airways, now the only non-low-cost carrier to fly between London and Prague.

"There is speculation it was for about 400 million Kč [\$20.8 million], which is quite an important amount," he said. "Who knows what the exact reason is? It's quite complicated for them, and I think they will be losing business managers as a result."

One business organization made it clear days after the airline's announcement that the decision to pull UK routes would cost them business. The International Business Forum (IBF) sent an Aug. 31 letter

to Dvořák lamenting the decision. A large number of their members belong to the platinum or gold frequent flyers club, the airline's rewards program, the letter stated.

"You should not disregard such loyalty. With no ČSA flights, our members will be required to fly with competitive airlines when traveling to the UK, all of whom either fly to other destinations themselves or have alliances with

other airlines," the letter read.

As of press time, Dvořák had not responded to the letter, which had been passed on to the airline's legal department, said Jo Weaver, president and founder of the IBF.

"Our membership was taken aback by it. ... The decision seems foolish at the end of the day," she told *The Prague Post*. "It makes you feel a bit concerned about the way things are happening here, and

it doesn't feel like a commercial decision."

In response to the IBF's letter, Hejsková would only say "Czech Airlines is a commercial entity and behaves like one: It has its own plans, its own strategy and business reasons for operational and service changes."

Claire Compton can be reached at ccompton@praguepost.com

CHANGES AT CZECH AIRLINES

► **The winter flight schedule runs from Oct. 31 to March 26.** Airline management says it's focused on building a "carriage network," moving away from having as many destinations as possible to cutting the least profitable routes and increasing revenue "per passenger mile." The airline has announced the following changes:

- **Route cuts:** Brno, Munich, Cologne/Bonn, London and Manchester
- **Added "vacation" destinations:** Marseille, Thessaloniki and Venice
- **Greater frequency:** More flights to Belgrade, Brussels, Paris, Athens, Beirut and St. Petersburg
- **Less frequency:** Fewer flights to Ostrava, Bratislava, Stuttgart, Hamburg, Zurich, Bologna, Vilnius, Oslo and Copenhagen

Source: ČSA

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