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Global tourism has increased steadily over the past twenty years, largely driven by the availability of low cost flights. Holiday destinations, such as Thailand, which might have been a distant dream to previous generations of tourists are now well within many peoples' economic reach. However with airlines being hard hit by the rising cost of oil could long haul air travel become, once again, the preserve of the rich and famous?

# Fuel Prices Impacting Aviation?

## Scramble for Survival

In Britain, Willie Walsh, the boss of British Airways, warned that the soaring cost of oil allied to global economic uncertainty would force airlines to raise fares in a scramble for survival that will see many of them go bust. In the US, American Airlines, announced huge cuts in routes and jobs because of the rising oil price and in Thailand the Bangkok Post warned that, 'Airlines are finding it increasingly more difficult to fully pass on fuel costs to passengers without hurting demand in the wake of slowing economic conditions.'

According to The Bangkok Post, for every dollar the oil price goes up, airlines costs rise by 1.6 billion USD. With the price of a barrel of crude oil, the barometer by which the cost of oil is usually measured, having risen from approximately 90 USD at the start of the year to around 130 USD at the time of writing, it is no surprise that many airlines are struggling.

*'Several major airlines are cutting long-haul flights into Thailand next year.'*

the Association of Thai Travel Agents

## Budget Airlines Hit

The Phuket Gazette reported that, 'Low-cost carrier One-Two-Go will suspend its operations from Tuesday (July 22) until September 15, making it the first airline victim of record oil prices.' The budget airline has faced accusations that cost-cutting measures played a part in the crash of One-Two-Go Airlines Flight OG269 at Phuket International Airport on





September 17 last year, in which 90 passengers were killed. According to the Gazette the airline claimed the rising cost of oil was the sole reason behind the decision to temporarily cease operating.

The Nation reported that another low cost airline, Nok Air, has cut salaries and reduced domestic routes in order to save costs. Three routes, from Bangkok to Chiang Rai, Ubon Ratchathani and Krabi have all ceased to operate. In the same article the Association of Thai Travel Agents warned that 'Several major airlines including Thai Airways International are cutting long-haul flights into Thailand next year in line with a forecast 12-per-cent drop in the number of inbound tourists.'

Thai Airways has also terminated the high profile non-stop daily Bangkok to New York flights, as well as slashing the non-stop Bangkok to Los Angeles services from seven flights a week to five. According to the Bangkok Post continuing these routes would have resulted in losses of 120 million USD a year for Thai Airways.

### Multibillion Pound Losses

According to Bloomberg.com, One-Two-Go is at least the fourth airline in the Asia Pacific region to suspend operations this year amid record jet-fuel prices. It reports that, 'industrywide losses may total more than \$6.1 billion this year, the worst since 2003, according to the International Air Transport Association. At least 25 airlines have already shut down worldwide this year.'

In the same article Terapatr Mathanukraw, a Bangkok-based analyst at Seamico Securities Pcl. claimed that, 'Any airline with a weak financial position has to go out of business. The stronger and bigger carriers also have to lower their costs by

cutting flights in order to survive until another boom cycle.'

Evidence of this could be seen with The Nation reporting that, 'Hong Kong's flagship airline Cathay Pacific increased fares for first and business class passengers by up to 15 per cent to counter soaring oil price rises.' The airline, which issued a profit warning earlier this month over the impact of rising fuel prices, is expected to impose its biggest rises on routes to Europe, Canada and Australia.

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Interestingly the top end of the market seems to be the least affected with The Nation reporting that niche air operator, Destination Air Shuttle, was to expand its fleet. The Phuket based company recently ordered its third sea-plane for about 100 million THB. Serving an exclusive clientele, General Manager Stiphan Beher said the company is focusing on high-end customers, such as celebrities, as well as

niche markets like photo and video shoots and exotic air tours.

### A Different Type of Tourist

Just under fifteen million tourists visited the Kingdom in 2007. There may not necessarily be a reduction in the number of visitors to Thailand this year but there is likely to be a change in the composition. The Tourism Authority of Thailand recently announced that, with the energy crisis affecting worldwide travels, especially those intercontinental long haul trips, it will be heftily focusing on less affected Asian markets. In particular Singapore, Indonesia, Malaysia, Hong Kong, Japan and China as well as emerging markets like India and the Middle East. 65% of visitors to Thailand come from the Asia Pacific region and this figure is likely to increase as visitors from Western countries, typically Britain, Germany, Scandinavia and the United States are deterred by the increased cost of travel.

In the long term a decrease in our dependency on oil may help to reduce climate change (although commercial aviation accounts for just 2% of global carbon emissions) but in the short term the long haul tourism industry, of which Thailand is a major beneficiary, is clearly going to suffer.

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Bloomberg.com