

Impact of the Airline Deregulation on the Turkish Tourism Industry

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Abstract

The airline deregulation started first in United States of America in 1978 and later 1990's in Europe. Turkey air deregulation first part was in 1980's and second part was in 2003. The first part of the deregulation gave private enterprises to establish airlines and airport operators, and the second one gave rights airlines to operate domestic routes independently. After 2003 the air transportation industry growing day by day likes other countries before. Tourism and air transportation industries were linking each other. Airline deregulation effected tourism market positively and made the industry bigger. New airlines were established, air ticket prices were decreased, new routes opened, etc. It meant that people had more choices to visit new destinations. Tourism industry needed market new destinations and affordable prices. The airline deregulations provided what tourism industry needed. Travel industry was becoming important day by day for governments because of impact on the country. This study tries to explain how airline deregulation affected the Turkish tourism industry.

Keywords: Tourism, deregulation, airline, Turkey

Introduction

Deregulation revelation of air transport to free market forces, achieved to removal of permitting carriers enter and out of the market free (Goetz and Graham, 2004). Air transportation deregulation was made first in US in 1978. Airline industry was the first industry to be subjected to revolution. Deregulating the industry started in 1970's declaration 1978 and the effects felt in 1980s. (Goetz and Dempsey, 1989) After US, Western Europe started deregulation the airline industry in 1990s. Deregulation around the globe have changed aviation industry dynamics. The emergence of Low Cost Carriers (LCCs) started great competition. (Sun, 2015) Deregulation meant to achieve lower air fares, greater competition, improved reliability, and better quality airline services. (Wanga and others, 2015) The concept of LCCs is to offer flight service with attractive prices to reduce all kinds of cost-related functions like free catering, use secondary airports, internet check-in etc. LCCs offer only basic transport service. (Ko, 2016)

After 1980's, Turkish government gave permission to start up private airlines in Turkey operated especially charter flights between Western Europe and Turkey. Airline companies were important to improve the number of tourists' for the states. During late 80's, new hotels were being built and finished late 90s and charter airlines brought tourist's this hotels. After two decades, the airline industry's growth and strength, second part of the deregulation gave this private firm to operate domestic routes independently. After this decision, the air traffic (domestic and international) grew rapidly. The industry was bigger; new city pairs opened, existing routes grew and because of the competition, prices decline more than 50% compared to pre deregulation era.

Table 1: Deregulation Effects Air Transportation System in Turkey 2003-2013

	2003	2013	Change %
Number of workforce	65.000	180.570	278
Revenue (billion USD)	2.2	23.8	1082
Number of flights center	2	7	350
Number of domestic routes	26	53	204
Number of international routes	60	237	395
Number of airport	26	53	204

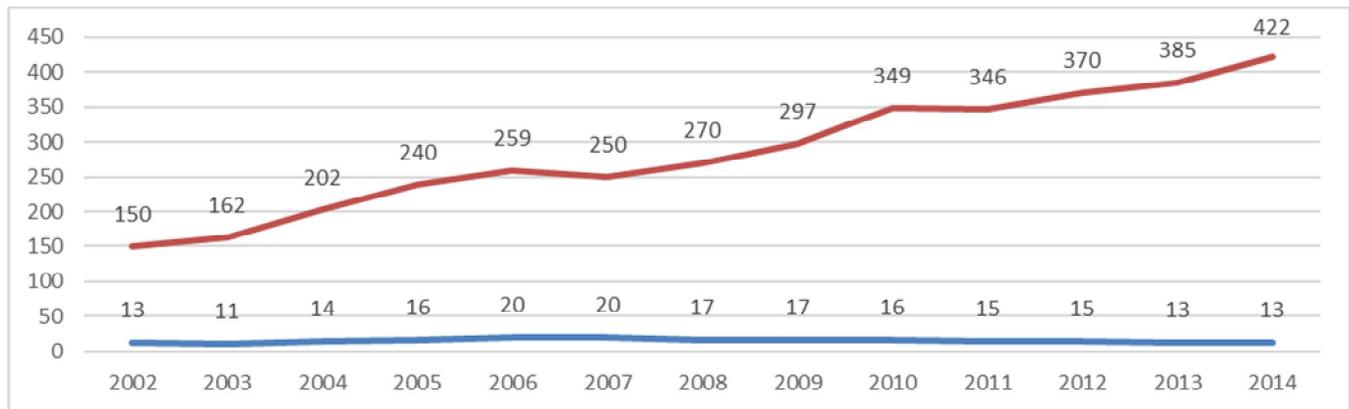
Source: <http://www.udhb.gov.tr/images/faaliyet/a5ec26a31a72281.pdf>

The airline industry’s work force grew almost 3 times and its revenue more than 10 times during 2003-2013. During same period, domestic flights grew from 2 center to 26 points to 7 center to 53 points. International route numbers increased from 60 to more than 237. (<http://www.udhb.gov.tr>) Before deregulation, Turkish Airlines (THY) operated only from Istanbul-Atatürk Airport and Ankara to city centers. Ten years after deregulations more than 5 carriers, operated from seven (Istanbul-Sabiha Gökçen, İzmir, Adana, Trabzon and Antalya) center.



Figure 1. Comparison of Domestic Flights in Turkey between 2003 and 2013

In Turkey, number of airlines in 2003 was 13. This number was going to become during 20 next five years, later down to 13 in 2014. Some airlines established, some of them bankrupt last 12 years. The number of airplanes increased for the same period from 150 to 422, almost 3 times. Because of the mortgage crises in 2007 and economic crises in Europe during 2011, all airlines in the world like Turkish airline industry were affected and the airline fleet was downsizing.



Source: Collected from Civil Aviation Authority Data.

Figure 2. Number of Airline and Airplane 2002-2014 in Turkey

Full service carriers like THY and Atlasglobal based on Istanbul-Atatürk Airport, low cost carriers like Pegasus based on Istanbul second airport Sabiha Gokcen Airport. THY trade mark Anadolujet’s hub was in Ankara and Istanbul-Sabiha Gokcen Airport. Charter airlines like Corendon, Onurair, Sunexpress, Freebird and Tailwind are mostly operate from Antalya and Istanbul. Onurair and Sunexpress both operate scheduled domestic and international flights. The only regional carrier is Borejet, operating under umbrella of THY (Anadolujet). Three cargo carriers, MNG, ACT and ULS operated mostly sub-charter.

Table 2. Type of Airlines in Turkey in 2014

Type of Airline	Name	Base	Number of Plane
Full service	THY	İst.-Atatürk	231
	Atlasglobal	İst.-Atatürk	18
Low Cost	Pegasus	İst.-S.G.	46
	Anadolujet (THY)	Ankara-İst. S.G.	(29)
Charter	İzair (Pegasus)	İzmir	6
	Corendon	Antalya	10
	Onurair	İst.-Atatürk	21
	Sunexpress	Antalya-İzmir-İst. S.G.	53
	Freebird	İstanbul-Antalya	8
Regional	Tailwind	Antalya-İzmir	7
	Borajet	Ankara- Adana	8
Cargo	MNG	İst.-Atatürk	7
	ACT	İst.-Atatürk	4
	ULS	İst.-Atatürk	3
TOTAL			422

Source: Collected from related web sites.

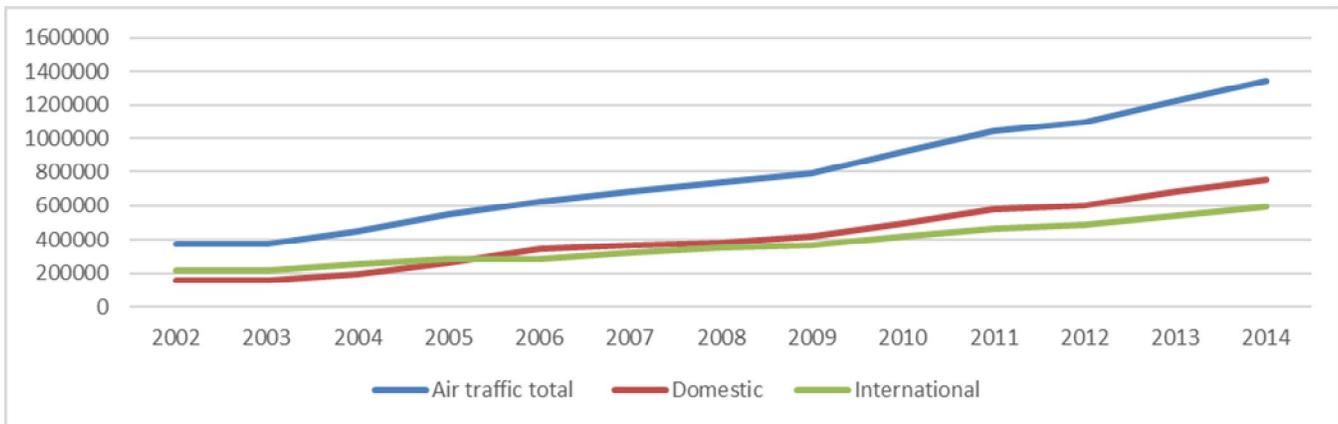


Figure 3. Domestic and International Flights Number in Turkey 2002-2014

Domestic flights was number around 158.000 and international flights number around 219.000 in 2002. Domestic flight traffic number exceeded the international traffic number for the first time in 2006. By the year 2014, domestic traffic number was around 757.000 and international traffic number was 592.000. Total traffic number growth 377.000 to 1.346.000 same period. The growth rate was 476% for domestic and 270% for international air traffic number.

Airline deregulation in Turkey change the nature of the industry. Before deregulation, limited number of carriers operated limited number of routes. After deregulation competition started, prices dropped more than 50%, new routes opened, number of the employees increased. LCCs started operation and make the market bigger. Existing carriers' number of the passenger did not drop in fact their passenger numbers increased.

2. Tourism Industry in Turkey

In early 1850's, only rich people were able to visit another country in the world, but time after time it became a norm, because of affordable prices. Only 45-50 thousand tourist visited Turkey in 1930's, Turkish Government wanted to improve this number, but World War II started and tourism almost ended. After World War II, in 1950, the number of tourist in the World was around 25 million and the number of tourist in Turkey was 30 thousand (2.2 million USD revenue) and Italy 3.5 million, Spain 1 million. (www.tursab.org.tr) After 1980's Turkish Government saw the power of tourism and gave priority and some monetary support for hotel industry. At the same time, first part of air deregulation started.

Tourist allocation by their countries is shown in Table 3. Germany, Russian Fed. and Great Britain is the top three countries. More than 12 million tourist visited these countries in 2014.

Table 3. Allocation of Tourists in Turkey 2012-2014

Country	2012	2013	2014
Germany	5.028.745	5.041.323	5.250.036
Russian Fed.	3.599.925	4.269.306	4.479.049
Great Britain	2.456.519	2.509.357	2.600.360
Bulgaria	1.492.073	1.582.912	1.693.591
Georgia	1.404.882	1.769.447	1.755.289
Holland	1.273.593	1.312.466	1.303.730
Iran	1.186.343	1.196.801	1.590.664
France	1.032.565	1.046.010	1.037.152
USA	771.837	785.971	784.917
Italy	714.041	731.784	697.36
Sweden	617.811	492.373	667.551
Ukraine	634.663	756.187	657.051
Greece	669.823	703.168	830.841
Others	10.900.012	12.712.993	13.490.309
TOTAL	31.782.832	34.910.098	36.837.900

Source: <http://www.altid.org.tr/tr/Turizm-Istatistikleri/1557-2013-Ziyaretci-Sayilari.html>

Tourists chose Turkey for vacation because of 3-4 hours of flight time, sea, sun and sand (3S), historical places, cheap and quality services, all-inclusive tours, shopping, etc. Day by day the number of tourist visited Turkey has increased. Number of foreign visitors in 2014 was almost 37 million. Nearly 22 million (more than 50%) visited Istanbul and Antalya in 2014. And the tourism revenue was 32, 3 billion dollar and money spent per tourist was 825 USD in 2013. 17.5 million Visitors preferred package tours in 2013. The top five tour operators; TUI Turkey 16.61%, DIANA/THOMAS COOK 8.26%, PEGAS 7.46%, TEZ TOUR 6.87% and OTI GROUP 6.82%. (<http://www.aktob.org.tr>)

Figure 4 show that the number of beds in 1980's less than 100 thousand, and it grow almost 1 million beds in 2012. Because of these investments and government subsidiaries Turkish tourism industry bigger day by and now Turkey is in the Top 10 Touristic country in the world. Figure show that the number of beds doubled last two decades.

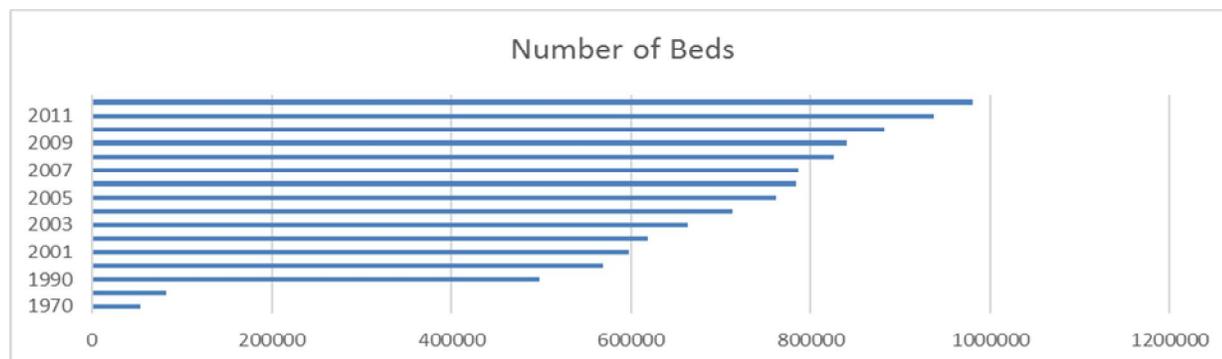


Figure 4. Number of Beds in Turkey 1970-2012

3. Impacts of Airline Deregulation on Turkish Tourism

Airline deregulation impacted many industries like tourism industry in Turkey. Some of them are car rental, online shopping (air ticket, tours and hotels) etc. After deregulation the prices dropped, and people preferred plane to bus, train or their own cars. And some discounts prices like 15 dollars (if you buy 5-6 months before) stimulated demand, people bought these tickets even the trip was not certain. This discount ticket prices offered first by low cost carries like Pegasus and Anadolujet, but later other carriers came up with this kind of marketing activities and offered low prices for customers to compete. This competition made the air fares lower and the market bigger.

After deregulation with the first package in 1982, only Turkish Airlines (and some very limited carriers) operate some domestic and international flights. However after first package, new airlines established like Onurair, Pegasus, Atlas etc. to operate charter flights between Western European countries and Turkey. They did not have rights to operate domestic routes. Also there was limited domestic demand for air travel in Turkey because of the high ticket price and the low income of households. Private airlines started operating and experienced in the business by charter flights. They got in the domestic routes later.

Figure 5 shows the passenger number, domestic and international passenger number separately and number of tourist 2002-2013 in Turkey. The number of tourist and international passenger curve has some similarities. In 2005, 2006, 2008 breaking points are similar. This show that there is strong relationship between airline passenger number and tourist number.

Figure 5 shows that after deregulation in Turkey domestic and international passenger number increased rapidly. Domestic passenger number is around 9 million and international passenger number is around 25 million after deregulation in 2013 these number reached 76 million and 73 million respectively. It means that during last decade 2004-2013 the growth of in domestic market's more than 4 times, international passenger number 140% and annual average increase is 20% domestic, 10% international passenger number. Total passenger number grew 34 million to 150 million during same period. Number of tourists increased from during the same period 15 million to 39 million almost 160 % growth.

Improvement international tourism

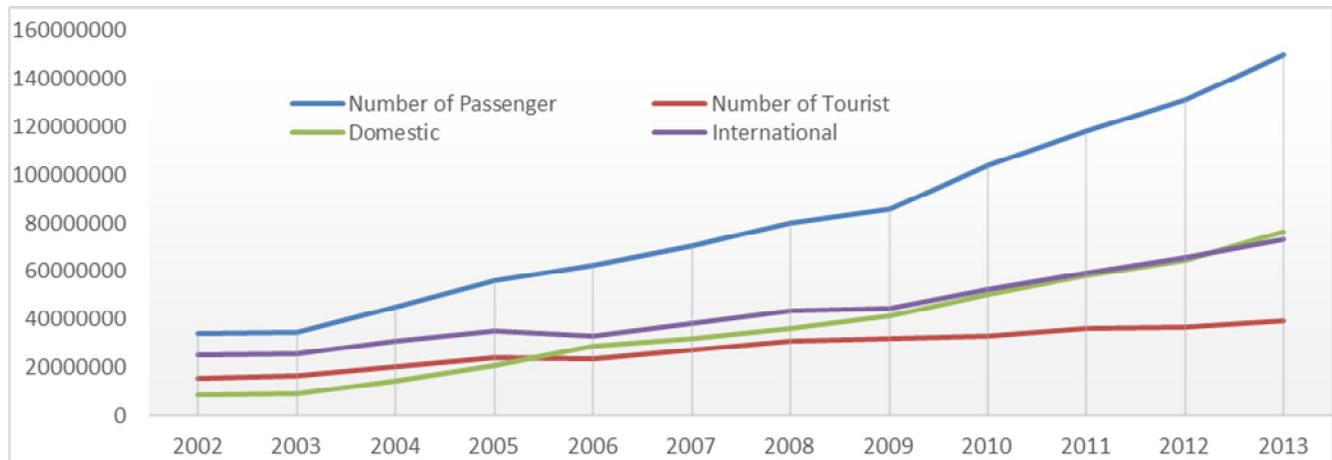
Deregulation also gave power to international tourism in Turkey. Turkish airlines opened new routes between Turkey and others countries. They tried to make new markets against competition with others. It meant new tourist for travel industry. For example, Pegasus started operations between Istanbul and Krasnodar, Osh, Omsk, etc. and there was no direct flight before. LCC's got bigger in the market while opening new routes and offering discounted prices.

THY flied 11 points in 2002 in Middle East region this number reached 34 in 2014, same period this number increase for America from 2 to 10, in Europe from 40 to 84, and for Far East from 15 to 45 and for Africa from 4 to 42. Same period the international passenger number increase more than five times.

During same period THY open 160 new routes and reach 264 route number which is 219 is international routes. The relation between international passenger number and number of tourist shown in Figure 5.

After airline deregulation in Turkey, airlines open new destinations, and most of them is international routes. For example, Pegasus international route number is 65 in 2015. Just Pegasus carried 7, 8 million passengers in 2014. It meant that millions of tourist for hotels, car rent companies, restaurants, malls, etc.

The biggest international routes market share belongs to THY by 64.5%, second is Pegasus 15.1% and third is Sunexpress 7.1% in 2014. (DHMI, Statistic Book 2014) THY shares are down from 90% to 60% but the number of passenger grew more than five times in the same period. It show us to how improve the market from 2002.



Source: State airport Autotypy and Tourism Ministry.

Figure 5. Number of Passenger and Tourist 2002-2013 in Turkey

Improvement in domestic tourism

Airline deregulation also affected domestic tourism in Turkey. Turkey's transportation system depended heavily on road transportation, train gives limited service and very old system. Except, the high speed train serve between some big cities. The only one is road transportation system, it means bus or cars. Traveling from south to north is around 12 hours, east to west is around 24 hours by vehicle. Deregulation dropped the ticket prices and this stimulated demand for the air travel. Many airport passenger number increased dramatically (4 times grew in domestic passenger number explain this). For example, in Mardin (south east city of Turkey) the number of passengers was around 20 thousands and this number reached 360 thousand in 2013 (only domestic passengers). The hotel numbers are for the same period 2-3 from more than 40 in 2013. (www.mardin.gov.tr)

After airline deregulation, new routes in domestic market opened. Airlines opened new city pairs not only from Istanbul and Ankara, also from Antalya, İzmir and Trabzon. For example, only Pegasus operated 35 domestic destinations in 2015. Pegasus carried almost 12 million passenger in domestic routes in 2014. Market share for domestic routes is 28% in 2014. THY carried 22, 7 million passenger 45 domestic routes in 2014. (<http://investor.turkishairlines.com>) In 2002 the all domestic market passenger number was 8, 5 million passenger. It means millions of tourist for the new destinations. Number of domestic passenger exceed international passenger numbers in 2012 first time.

After deregulation, domestic travel price decreased and people leaned towards visiting domestic routes with cheap price like 30-40 US dollar. Domestic tourism were improving.

New type of carriers (LCC)

Airline deregulation provided Turkey with new airline business model called Low Cost Carrier-LCC. LCCs reduced costs such as, catering, staff, and etc. and offered low fares for the customers.

This model started from Southwest Airlines in the world and then Rynaair and Easyjet the European carriers followed this business model. The biggest LCC in Turkey,-Pegasus, was founded in 1990 as a charter airline and after it was sold to another group and changed its business model as a LCC in 2005. Pegasus is based in Istanbul second airport (Sabiha Gokcen International Airport) which is in Asian side of Istanbul. After deregulation in Turkey, the air ticket prices dropped from 150 TL to 70 TL; more than 50% drop.

THY founded its own LCC Anadolujet; which is based in capital of Turkey-Ankara in 2008. Anadolujet carried more than 9 million passengers in 2014 (<http://investor.turkishairlines.com>) and 11 million in 2015. Anadolujet operated with 42 plane from İstanbul-Sabiha Gokcen International Airport to 18 destination, from Ankara to 32 destinations with low prices as 39 TL (15 USD). Domestic market share was 22% in 2015. (<http://www.airnewstimes.com>)

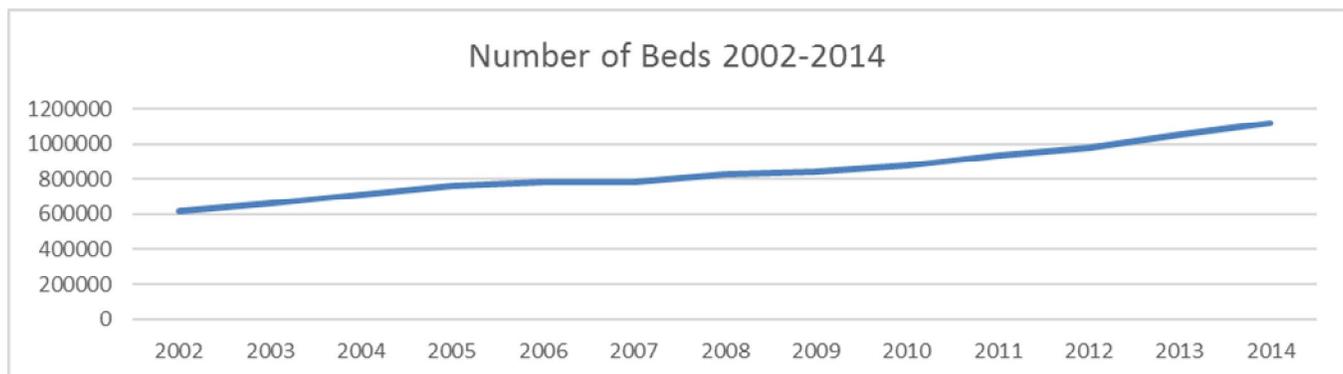
LCC's carried 29 million passenger in 2014, this number will reach in 2015 over 33 million. The number of passenger before deregulation was around 33 million in Turkey in 2002. Just LCC's reached this number alone. This is one of the key example to understand the impact of deregulation to the industry.

LCC's in Turkey brought new opportunities for both the passengers and the tourism industry. There are 13 airlines operated in Turkey, and 6 of them-THY, Atlasjet, Onurair, Pegasus, Borajet, and Pegasus operates domestic and international scheduled flight. Three of them are cargo carriers, others are charter airlines. The city pair number increase 26 to 120 in Turkey. LCCs domestic market share is around 50% which is quite high among US and Europe.

LCCs allowed small income people like students, retired etc. to use air transportation system and join them this market. Even high income people use LCCs because of cheap ticket price and on-time performance.

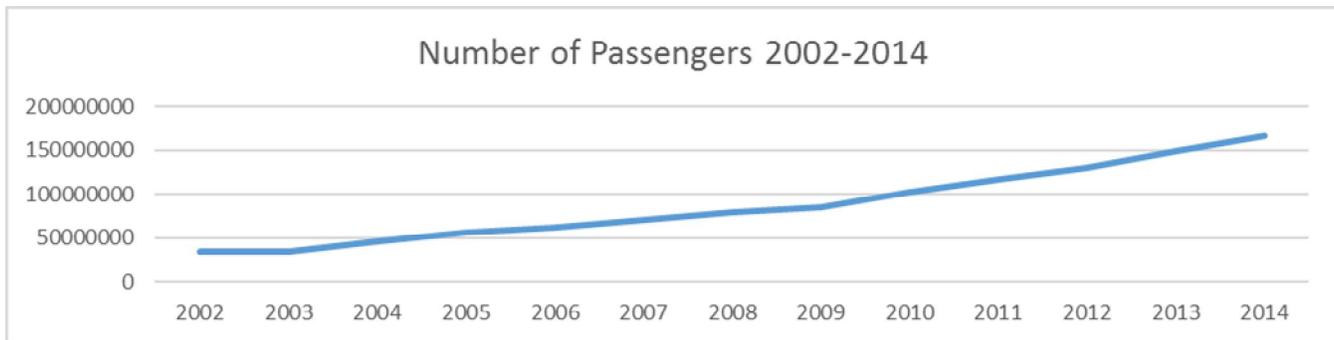
Tourism investment growth

Because of flow of domestic and international passenger's hotel investment and tourist related business investment rise all over the Turkey. Even more touristic areas like Antalya which has more than three hundred and fifty 5 star hotels to small towns like Mardin which has limited hotel number before deregulation now more than 50. Four and five stars hotels number increase from 419 to 1.072 in Turkey (<http://docplayer.biz.tr>). Figure 6 and Figure 7 shows the strong relation between the number of beds and number of passengers in 2002-2014 in Turkey. Number of beds and number of passengers curves similar growth.



Source: <http://www.tursab.org.tr>

Figure 6. Number of Beds 2002-2014



Source: <http://www.dhmi.gov.tr>

Figure 7. Number of passengers 2002-2014

Enabled given service away areas with air transportation

Air transportation enabled tourism investment and tourist visit far cities from road transportation system. With air transportation, in 1-2 hours you can reach to 1500 km away. After deregulation, with low prices, people started to visit new destination both domestic and international cities. Low prices attracted people and even some low profile cities even got attraction.

In domestic tourism, cities like Malatya, Gaziantep, Şanlıurfa, Trabzon, etc. Cities away from west (the improve region of Turkey) or Ankara (the capital of Turkey) are hard to visit by road transportation system which is more than 12 hours away, became one hour away with bus ticket price. Or even some cities not so popular such as Amasya, Giresun, etc. became new routes for travelers.

In international routes near Turkey like Krasnodar in Russia, Dnipropetrovsk in Ukraine, Batum in Georgia, Sarajevo in Bosnia and Herzegovina, etc. became popular routes for travelers. With low ticket price both side tourist numbers were increased.

Conclusion

Tourism and air transportation are linked each other closely. After air transportation deregulation in 2003, domestic and international passenger numbers increased more than World average in Turkey. Passenger numbers increased from 50 million to 160 million, international tourist numbers increased from 15 million to 30 million.

After deregulation in Turkey new airline business model –Low cost carriers- started operations; which meant that new potential passengers (tourists). LCCs give new hope to the industry. Pegasus Airlines started operations with low price (almost half price of established airlines). It was another engine for the industry to get bigger. Especially LCCs alternatives of individual tourism who do not like packet tour but prefer low prices. LCCs force to the industry serve low air fares which tourism industry closely related and in dependence.

Airline deregulation occur new airlines, new airline business model airline, decrease ticket price, open new routes, create new job opportunities, some airlines go out the market, etc.. Because of intensive competition some airlines were out of the market like Flyair, Sky Airlines, Saga etc. Deregulation brought opportunity and threats together. If airlines had something wrong in the company, it was hard to stay in this highly competitive market. If chose wrong city pair, or aircraft type or take some risks like new investments in wrong time, the airline would be out of the game easily.

Airline deregulation impacted Turkish domestic and international tourism positively. Domestic passenger numbers were for the first time more than international passenger number in 2012. It was almost half in 2002. People had opportunity to visit cities with one hour flight before same route would take more than ten hours with bus or train, with the same price but travel time is now 90% less. It meant that new hotels, new souvenirs shops, new customers for taxi drivers and restaurants, etc. would join the business market. Increase of international and domestic route numbers also support number of tourists in Turkey. For example, in 2003 between Ukraine and Turkey; there were only 3 city pair (İstanbul-Kiev, Odessa and Simferepol) and one carrier (THY) but in 2013 there were more city pair (Kharkiv, Dnipropetrovks, Donetsk and Lviv) and three (Pegasus, Atlasjet and Onur Air) more carriers.

Deregulation in airline industry had massive impact on tourism industry for both domestic and international destinations in Turkey. Because of new destinations and cheap prices, millions of tourists visited new destinations. Increase in tourism, demanded new investments which is related to tourism industries made like construction to car rental to restaurants. Air transportation were used like a weapon between countries. For example, Russia stopped charter flights to Turkey and (four) millions of tourist could not visit Turkey in 2016. It shows how air transportation is important and close related to tourism industry. But it's clear that Turkish government treated airline industry and tourism industry together. If you didn't have strong charter airline, the visitors would go another country. If you did not improve these two industries together, it is hard to sustain growth in travel and tourism industry.

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