**Faculty of Law – McGill University**

## AIRLINE BUSINESS & LAW

Kuan-Wei (David) Chen

ASPL 614

Fall 2014

**Language of instruction:** English  **Credits:** 3

**Course objectives**: This course, taught through a combination of interactive seminars and presentations by invited guest lecturers, introduces the student to an interdisciplinary analysis of the business and legal issues confronting airlines. Focus will be on such areas as economics, finance, securities, bankruptcy, pricing, marketing, distribution, alliances, joint-ventures and competition.

**Detailed Description:** This course weaves the legal and regulatory issues airlines face into business principles of economics, finance, planning, operations, marketing, distribution, pricing, labour, cost containment, and inter-corporate alliances. Relationships with airports, travel agents, computer reservations systems, and government also are explored, as are international dimensions of commercial air transportation. Economic theory and regulatory and policy issues involving safety, antitrust, licensing, securities issuances, aircraft finance, employment, environment, and sustainability are further examined.

**Method of Evaluation:**

10% will be based on class participation and a 10 minute presentation on a topic of your choice that is listed in the Outline below. Please decide *by 22 September* and let the instructor know the topic of your presentation to avoid overlap.

20% of the final grade will be based on a 7-10 page essay on one of the topics listed in the Outline. The essay should be double spaced, 12 point font Times New Roman (10 point for footnotes), and is due on the last day of class (4 December). It can be the same topic as the presentation.

70% of the grade in this course will be based on student performance on the final 24-hour take-home examination.

**Professor Information:**   
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**Office hours:**Room 207, 3690 Peel Street, after class, or contact me by email to arrange a meeting at mutually convenient day and time.

**OUTLINE:** Law school should prepare students to serve the needs of their clients. This course attempts to provide students with the necessary skills to serve the needs of airlines and their adversaries. As such, this is more than a class in law. It is a class in business, economics, finance, marketing, law, regulation, history and policy. The emphasis is one of the world’s most important industries—*commercial aviation*. Below (not necessarily in chronological order) are the topics and concepts that will be covered and that students should be able to grasp.

1. ***Introduction and overview of the commercial aviation industry***
2. **AIRLINE ECONOMICS** *Chapter 1 and 2*

(cyclical demand, and airline response thereto, airline pricing, marginal cost pricing, reasons for oversupply, the impact of the S-Curve.)

1. **ECONOMIC THEORY: BUSINESS ENTERPRISE & AIRLINE DEREGULATION** *Chapter 3*

(summary of theoretical literature on small entrepreneurial companies, their opportunities, strengths, weaknesses, and growth and expansion strategies, overview of economic theory of deregulation, economies of scale, scope and density, economic and regulatory barriers to entry, contestability, and the neo-classical model of perfect competition).

1. **AIRLINE** **OPERATIONS** *Chapter 7* (the benefits and disadvantages of different types of route structure; the challenges of efficient fleet utilisation; the “cost” of incremental flights and the impact of such costs on competitors.)
2. **AIRLINE LAW AND LAWYER** *Guest speakers*  
   (insight into how an airline lawyer can have an impact on the operation of the airline.)
3. ***"Running" an Airline Business***
4. **REGULATORY HURDLES** *Chapter 6*   
   (economic regulation; fitness certification process; safety regulatory process; standards and tests employed by both; insurance, advertising, consumer protection regulation; securities regulation).
5. **STRATEGIC PLANNING** *Chapter 7* (an understanding of airline management, theory of organisational structures, impact of size on corporate organisation, different growth strategies.)
6. **FLEET ACQUISITION & FINANCE** *Chapter 7*

(purchase vs. lease, old vs. new, strategies to avoid import duties, different types of leases, aircraft purchase legal issues, and registration of aircraft in foreign jurisdictions.) Aircraft finance techniques will be discussed by Professor Donald Bunker.

1. **AIRLINE FINANCE** *Chapter 4 and 12* (an overview of financial and accounting terms, familiarisation with balance sheets and income statements; an overview of the sources of airline finance and major categories of expenditure; an overview of aircraft finance, method of valuing an airline; advantages and disadvantages of public IPOs vs. private placements, and employee stock ownership; costs and cost containment ).
2. **CORPORATE STRUCTURE** *Chapter 5* (the way an airline’s corporate structure may be designed for strategic and competitive advantage. Some particularly creative structures will be examined.)
3. **BANKRUPTCY and RESTRUCTURING** *Chapter 5* (an examination of Protection from Creditors, and Liquidation and the factors that would influence an airline’s board of directors to pursue one of these alternatives).
4. **MANAGEMENT AND ORGANIZATION** *Chapter 5* (finance vs. professional oriented management, experience, theory of organizational structure, conservative vs. aggressive growth strategies, impact of size on corporate organization).
5. **AIRLINE BUSINESS** *Chapter 11* (the costs of running an airline, whether schedules matter, factors that influence profit.)
6. **EMPLOYEE RELATIONS** *Chapter 13*(non-union vs. union, employee motivation; the challenges of engaging and managing a work force for a startup, mature or legacy carrier. Strategies for avoiding the conditions that give rise to union drives, and examples of excellent management-labour relations.)
7. **AIRLINE LOGISTICS** (competitive impact of ramp operations, the economics of airline maintenance, and airline security issues.)
8. **AIRPORTS** (types of airports, airport ownership, slot & gate restrictions, bargaining power.)
9. ***The airline product***
10. **MARKET NICHE: PRODUCT DESIGN/DIFFERENTIATION** *Chapter 8*   
    (inherent fungiblility of air transport product, geographic focus, leisure vs. business markets, hub vs. linear route system, route selection, airports, single vs. multiple class cabin configuration, seat pitch, in-flight amenities including meals, and frequent flyer programs; the conception and sculpting of an airline as a competitive response to an identified market need, and the creation of niche or “exclusive” product as a means of product differentiation; how the competitive strategy used by an airline may allow it to succeed where others have failed).
11. **AIRLINE MARKETING** **& DISTRIBUTION** *Chapter 8 and 11*  
     (the 4Ps of marketing will be presented, and explored in an airline context. Traditional and non-traditional marketing will be explored, direct or via computer reservation systems and travel agents, corporate sales, advertising, and company image).
12. **AIRCRAFT & MAINTENANCE** *Chapter 9*(equipment appropriately sized and costed to the market; leased or purchased; old or new).
13. **CUSTOMER RELATIONS** *Chapter 9*

(the impact and potential high cost of customer service issues.)

1. **PRICING** *Chapter 10*(simple or complex fare structure; definition and implementation of yield management as a tool to derive maximum revenue through strategic management of inventory and customer benefits; the difference between advertised and charged prices, the importance of a level playing field so that fares can be compared on an apples-to-apples basis ).
2. ***Marriages, divorces, and hostile relationships in the airline industry***
3. **INTERCARRIER AGREEMENTS AND ALLIANCES** *Chapter 14*   
   (ticketing-and-baggage, joint-fare, interline and code-sharing agreements; alliances with megacarriers and foreign carriers; types of cooperative arrangement, franchise agreements and code-share agreements, impact of code-share vs. inter-line arrangement on GDS screens; alliance ‘feed’ strategies, and legal implications of foreign code-share agreements).
4. **ANTITRUST & IMMUNITY** *Chapter 15*

(the need for immunity, the process to seek immunity, ATI for Alliances, “metal neutrality”, competition between alliances.)

1. **COMPETITION & MERGERS** *Chapter 15*

(An examination of competition law principles, factors in approving mergers, analysing airline competition, merger concessions, the need for labor approval.)

1. **PREDATION AND REMEDIES THERETO** *Chapter 16* (predatory pricing, dumping of capacity, refusal to deal, essential facilities doctrine, CRS bias, travel agent commission overrides, and “dirty tricks”; public relations responses; civil and criminal antitrust prohibitions; regulation of “unfair and deceptive practices”).
2. ***Air cargo and couriers***
3. **AIR CARGO** (the variety of cargo, the major player, different operational characteristics of pure cargo carrier, 7th Freedom cargo rights, legal liabilities, cargo security issues.
4. **COURIER COMPANIES** (the evolution of courier companies from document delivery to just-in-time global logistics; an insight into their operations, impact of customs and security requirement on “overnight” delivery.
5. **CONCLUSION & REVIEW** *Chapter 18*   
   (which strategies have succeeded or failed?; what difference can lawyers make?; what, if anything, should governments do to facilitate entry and survival?).

**Teaching Hours and Course Schedule:**

Mondays, 08:30 – 11:30hrs (8 September – 1 September 2014) and Thursday 4 December 2014 (review class). Exam period: after 8 December 2014.

Students should read the assigned material before class and be able to discuss it in class.

The topics covered and guest lecturers may be subject to change, and students will be notified beforehand.

**08-Sep-14**

Introduction

Airline Economics

**15-Sep-14**

Corporate structure

Management and organisation

**22-Sep-14**

Operations

Running an airline business: The Case of Frontier Airlines (guest lecturer)

**29-Sep-14**

Airline Finance and Cost Containment

Pricing

**06-Oct-14**Aircraft Financing (guest lecturer)

**13-Oct-14**

*Thanksgiving: no classes*

**20-Oct-14**

Marketing

Product differentiation and Customer relations

**27-Oct-14**

Employee relations

Low cost carrier business model (guest lecturer)

**03-Nov-14**

Regulatory hurdles

Canada's transport policy (guest lecturer)

**10-Nov-14**

Anti-trust and immunity  
Airline Alliances (guest lecturer)

**17-Nov-14**

Competition and Merger

Predation (guest lecturer)

**24-Nov-14**

Bankruptcy

Fleet acquisition and planning (guest lecturer)

**01-Dec-14**

Cargo and courier

Airline lawyer

**04-Dec-14**

Review

**Compulsory text:**

Paul Stephen Dempsey and Laurence E. Gesell, ***Airline Management: Strategies for the 21st Century***, Third Edition (Coast Aire Publications, 2012) (hardbound)

ISBN 978-1-890938-14-7

The bookis presented in 18 chapters, and students are strongly advised to go through the book and any new material that appears on MyCourses.

**Additional Recommended Reading:**

* Donald H. Bunker, *International Aircraft Financing: Volume 1 General Principles; Volume 2 Specific Documents,* (International Air Transport Association, Montreal-Geneva. 2005).
* Donald H. Bunker, *The Law of Aerospace Finance in Canada* (ICASL, McGill University, 1988).
* Donald H. Bunker, *Canadian Aviation Finance Legislation* (ICASL, McGill University, 1989).
* Paul Stephen Dempsey & Laurence E. Gesell, *Public Policy and the Regulation of Commercial Aviation* (Coast-Aire 2013)
* Paul Stephen Dempsey & Laurence E. Gesell, *Air Commerce & the Law* (Coast Aire 2004).
* Paul Stephen Dempsey & Laurence E. Gesell, *Aviation and the Law* (5th ed. Coast Aire 2011).
* Paul Stephen Dempsey, Robert Hardaway & William Thoms, *Aviation Law & Regulation* (two volumes, Butterworth 1993).
* Paul Stephen Dempsey, “The Financial Performance of the Airline Industry Post-Deregulation”, 45 Houston Law Review 421-85 (2008).
* Paul Stephen Dempsey, “Predatory Pricing & Monopolization in the Airline Industry: A Case Study of Minneapolis/St. Paul”, 29 Transportation Law Journal 129-87 (2002).
* Paul Stephen Dempsey, “Predation, Competition & Antitrust Law: Turbulence in the Airline Industry”, 67 Journal of Air Law & Commerce 685-840 (2002).
* Paul Stephen Dempsey, "Airline Deregulation and Laissez Faire Mythology: Economic Theory in Turbulence," 56 Journal of Air Law & Commerce 305-412 (1990).
* Laurence Gesell & Paul Stephen Dempsey, *Air Transportation: Foundations for the 21st Century* (3rd ed. Coast Aire 2010).

**Academic integrity:**

* McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (For more information, see: www.mcgill.ca/students/srr/honest/).
* In accord with McGill University’s Charter of Students’ Rights, students in this course have the right to submit in English or in French any written work that is to be graded (Approved by Senate on 21 January 2009).