

Aviation Advocacy

Introduction to Airline Cooperation and Anti-Trust Issues

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Why do Airlines Cooperate?

- Commercial reasons
 - Network Reach/Scope
 - Costs/Economics
 - Competitive response
- Regulatory Reasons
 - Ownership and control restrictions
 - Restrictions on network spread
 - Obligations on service provision

How do Airlines Cooperate

- Safety cooperation
- Parts pooling/ramp cooperation
- Reciprocal handling
- Trade associations
- Leasing of capacity/aircraft
- Interline/MITA
- Tariff coordination
- Code sharing
- Alliances

Forced Cooperation?

- Regulatory framework driven
- ‘Substantially owned and effectively controlled’
- If no Chicago System requirements?
 - What form cooperation?
 - What form international airlines?

Forms of cooperation I

- Safety Cooperation
 - Public benefit
 - MH17?
 - States working to increase
- Parts Pooling/Ramp Cooperation
 - Efficiency gains
 - Safety improvement
- Reciprocal Handling
 - Cash/Non-Cash transactions
 - Efficient use of resources

Forms of cooperation II

- Trade Associations
 - IATA/BARs etc
 - Slot Committees

- Leasing of capacity/aircraft
 - Wet leases
 - Dry leases
 - Space/Seats only

Forms of cooperation III

- Interline/MITA
 - Bi-lateral or multi-lateral
 - No need for rights
 - Carrier code noted on ticket
 - To sell, need:
 - Pricing understanding
 - Or agreed price
 - Information on availability
 - Access to reservation systems
 - Agreed reconciliation procedures
 - To deliver, need common processes
 - Hence MITA

Forms of Cooperation IV

- Tariff agreements
 - Pro-rates/conditions of carriage etc to be agreed
 - Wholesale price agreed
 - Controlled by each airline
- Code Shares etc
 - Requires underlying rights to operate
 - Can be done on wholesale fares only
 - Space (capacity) not coordinated
 - Behind and beyond

Forms of Cooperation V

- Alliances
 - Brand convergence
 - Seamlessness
 - No need for members to be competitors
- Immunised alliances
 - Only interesting if members are competitors
 - Controls both price and capacity between competitors
 - Question is harm vs benefit
- Complex solutions to simple regulatory issue

Progression?

- Interline
- Code share
- JV
- ATI
- Profit Share

Airline Cooperation

- Not so much:
 - Ready
 - Willing
 - Able

- As:
 - Able
 - Ready
 - Willing

Once upon a time...

- Airlines cooperated through the IATA process
 - Fares agreed globally
 - Exchange of access to booking internal systems
 - Agreed interline processes at airports
- Bi-lateral system removed competitive expectations
 - No expectation of competitive advantage
 - No service level comparison issues
 - Few, if any, competitors on routes

...Commercially?

- No revenue risk
 - Underpinned by tariff agreements
- No commercial risk
 - Because no revenue risk
 - No competitors
 - Little quality-of-service differentiation possible
- ‘Customer service’

Able?

- Membership of IATA required interline-ability
 - MITA
 - Interline processes
 - Agreed pro-rate tariff rates
 - BFFs could agree a 'special pro-rate'
- Not binding on non-Members
 - Southwest
 - LCCs generally
 - Still able/required to use many interline processes

The Brave New World...

- Liberalisation
 - Designation of multiple carriers on routes
 - Creating a competitive difference (eg VS/BA)
 - Opening to 5th and 6th freedom carriers
- Deregulation
 - Breakdown/removal of tariff coordination
 - Removal of regulatory restrictions
 - Capacity/routing/service/tariffs
 - Open Skies agreements
- Regulatory focus: Safety; Customers

...Commercially?

- Service levels a point of distinction
- Seamlessness a point of distinction
- But, commercial drivers remain:
 - Efficient use of resources, saving costs
 - Passenger on network longer, protecting revenue
 - Customer service for FFs/complex itineraries
 - Market access/entry at lower risk

Ready?

- Interline processes in place
- Advertising/branding in place
- Customers looking for service offerings
- Efficiencies always attractive

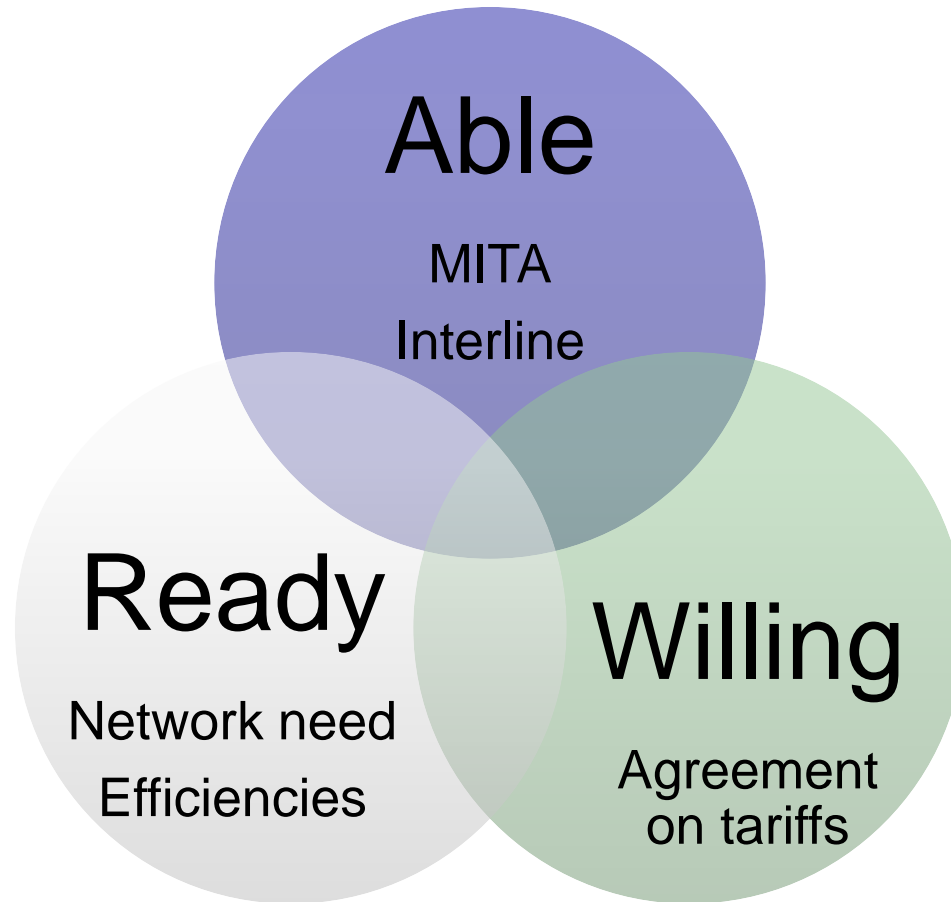
Willing?

- However, no automatic tariff agreement
 - Special pro-rates
 - In effect interline
 - No seamlessness, branding etc
 - Code Sharing
 - Block space/free sale etc
 - Not a lot of seamlessness, branding etc
 - Alliances
 - No guarantee of revenue protection per se
 - Needs additional revenue sharing undertakings

Willing?

- Without agreement on revenue, no incentive
 - No guarantee of partner loyalty
 - No benefit in allowing passenger off-network
 - Risk of no return on investing in relationship
- Hence, no overlap between alliances and partners
 - Alliances for branding, market reach etc
 - Code shares for network
 - EG: QF: oneworld/EK alliance/AF code shares

Able; Ready; Willing



Competition Analysis

- Harm vs Benefit
- Tariff agreement vs Network need
- ‘Ready’ vs ‘Willing’

Benefits: Cost Drivers

- Efficiency leads to cost saving
 - Cost sharing = cost reduction...
- Allows network to appear larger than otherwise
 - Sell complex itineraries to travellers
 - Benefits to FFs, shippers etc – one stop shop
 - Seamlessness
- Keeps the revenue on the network
 - Allows route development with lower entry risk

Potential Harm

- Reduction in service to particular ports
- Cost agreement leading to increases
- Loss of connectivity for passengers
 - Relevant in a true network industry?

Harm vs Benefit

- Customer harm
- Vs
- Network benefit...
- Aviation is a network business
 - City pairs vs network outcomes...

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