

Airline Cooperation and MITA

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OVERVIEW

I. Introduction

II. Forms of Cooperation

III. MITA

I. Introduction



A. Airline cooperation

- Airlines agreements for cooperation are contracts
- Some similar to 'arms-length' business deals, no different than in other industries
- Others involve a greater degree of cooperation
- Greater cooperation raised competition (antitrust) law issues

B. Why do Airlines Cooperate?

- Airlines cooperation for many reasons, all of which lead to **increased profits**
- Motivations include:
 - Expanding networks to
 - reach more customers and
 - access new markets
 - Minimise exposure and share risks in launching new routes
 - Cost sharing
 - Eg. Creating new IT products for ticketing, routing, etc.

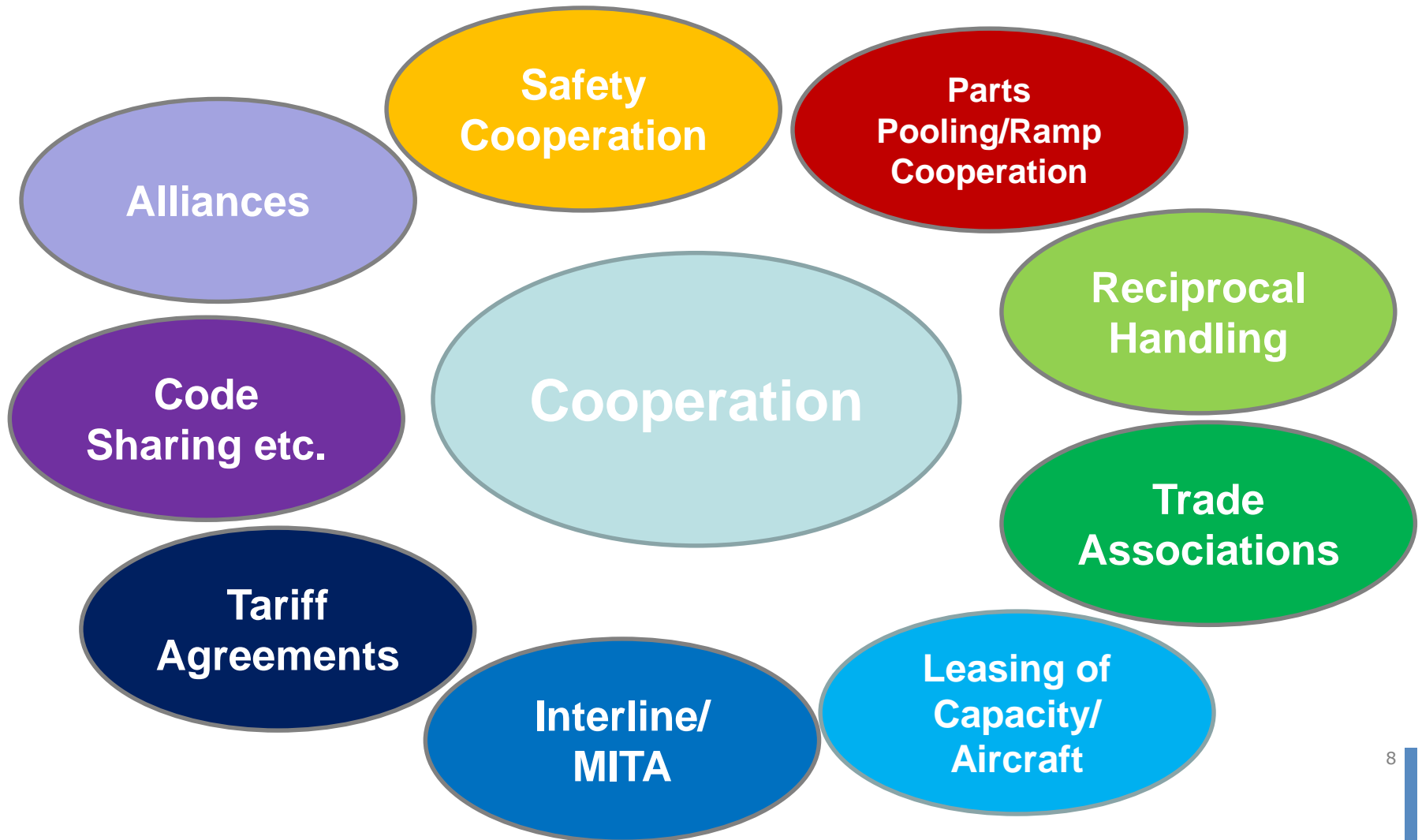
C. How do Airlines Cooperate

- Safety cooperation
- Parts pooling/ramp cooperation
- Handling
- Reciprocal Trade Associations
- Leasing of capacity/aircraft
- Interline/Multilateral Interline Traffic Agreements (MITA)
- Tariff coordination
- Code sharing
- Alliances

D. Forced Cooperation?

- Regulatory framework driven
- ‘Substantially owned and effectively controlled’
 - Transit & Transport Agreements require the airline to be ‘*substantially owned and effectively controlled*’ by one of the contracting states (for scheduled air services)
- If no Chicago System requirements?
 - What form cooperation?
 - What form international airlines?

II. Forms of cooperation



Airline Cooperation

- Generally, tactical agreements or strategic arrangements
- Tactical agreements address network deficiencies
 - Eg: Interlining agreement
- Other types of cooperative agreements are strategic
 - Eg: Alliances

- **A. Safety Cooperation**

- Public benefit
- MH17 crash (July 2014)?
- States working to increase



- **B. Parts Pooling/Ramp Cooperation**

- Efficiency gains
- Cost reduction
- Safety improvement



- **C. Reciprocal Handling**

- Cash/Non-Cash transactions
- Efficient use of resources



- **D. Trade Associations**



- IATA/BARs (Boards of Airline Representatives) etc
- Slot Committees

- **E. Leasing of capacity/aircraft**

- Wet leases
- Dry leases
- Damp leases
- Space/Seats only



→ The market can quickly and efficiently distribute capacity around the world

- **F. Tariff agreements etc.**
 - Pro-rates/conditions of carriage etc to be agreed
 - Wholesale price agreed
 - Controlled by each airline

- **G. Interlining Agreement**

- Also known as interline ticketing and interline booking
- A commercial agreement between air carriers to handle pax on itineraries requiring 2 or more flights involving 2 or more carriers
- 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 Multi-Lateral Interline Traffic Agreement (MITA)
- Interlining system underpinned by the IATA system, including the MITA (IATA Resolution 780)
- A standard traffic document (i.e. pax ticket or air waybill) to travel on various airlines involved in routing to a final destination

Example Interline Agreement – Cargo

<http://knottknows.info/amerijet/BD/Interline/SampleSPA.pdf>



INTERLINE CARGO SPECIAL PRORATE AGREEMENT

between: **AMERIJET INT'L INC (810)**
2800 South Andrews Ave
Ft. Lauderdale, FL 33316.

hereinafter referred to as "M6"

and: **LTU INTERNATIONAL AIRWAYS (266)**
Leisure Cargo GMBH 40474
Dusseldorf
Dus Air Cargo Center Room 3.554/3.563

hereinafter referred to as "LT"

The subject matter of this agreement is to establish special interline rates on long term basis for predetermined destinations on M6 as well as LTon flights.
The contractual and statutory provisions underlying the respective air transport will not be affected by this agreement.

1. Applicable Shipments

- 1.1 This agreement shall apply to airway bills issued on either M6 and or LT . Each shipment to be transferred from/to one party to/from the other party for transportation on M6/LT sectors listed below shall be covered by either M6 or LT cargo transfer manifest.

2. Special Prorates

- 2.1 All rates apply only for the transportation of such shipments specified in Annex A/B. Any other services performed by the carrier, its agents or subcontractors shall be subject to additional charges set out in the applicable rules and conditions of M6 **Memo Tariff published** with US department of transportation which is incorporated by reference for Annex B.
- 2.2 Unless a special rate has been agreed upon for specific commodities in Annex A/B the rates agreed upon hereto will apply only for General Cargo.
Rates for Live Animals, DGR, PER and Valuable Goods will apply as mentioned in Annex A/B.
- 2.3 The parties reserve the right to change the rates giving 30 days prior written notice to the other Partner.

- **H. Code Shares**

- Agreements wherein 2 or more air carriers share the same flight (≠ Interlining).
- ‘Code’ refers to the identifier used in a flight schedule, generally the 2-character IATA airline designator and the flight number.
- Generally involve
 - a **marketing carrier**, which sell seats on the flight, and
 - an **operating carrier**, which operates the aircraft and delivers passengers and cargo to their intended destinations

- Block space code share:
 - Marketing carrier purchases a block of seats on board an operating carrier and sells those seats to its clientele
 - Marketing carrier pays a fixed price for block of seats, which are excluded from the operating carrier's inventory

- Free-flow code share:
 - Both air carriers serve as marketing and operating carriers for their respective flights and both air carriers' inventory and reservation systems communicate in real-time

- Capped free-flow code share:
 - Same as free-flow, except that the number of seats available to a marketing carrier on an operating carrier are capped at a pre-determined number.

- **I. Alliances**

- Brand convergence
- Seamlessness
- No need for members to be competitors

- **J. Immunised alliances**

- Only interesting if members are competitors
- Controls both price and capacity between competitors
- Question is harm (competition) vs benefit (for society)



- International carriers increasingly prefer global strategic alliances (eg: Star Alliance, Sky Team, oneworld)
 - All partners within an alliance cooperate on a **basic level**, involving code share agreements, cooperation on Frequent Flier Plans (FFPs) and shared lounge access.
- Some alliance partners have **additional** agreements allowing for direct coordination of prices, routes and scheduling
- Others engage in even **deeper** levels of cooperation, such as **metal neutral Joint Ventures (JVs)**:
 - Indifferent as to whose plane or 'metal' carriers the passengers
 - Pool and redistribute profits according to elaborate agreements

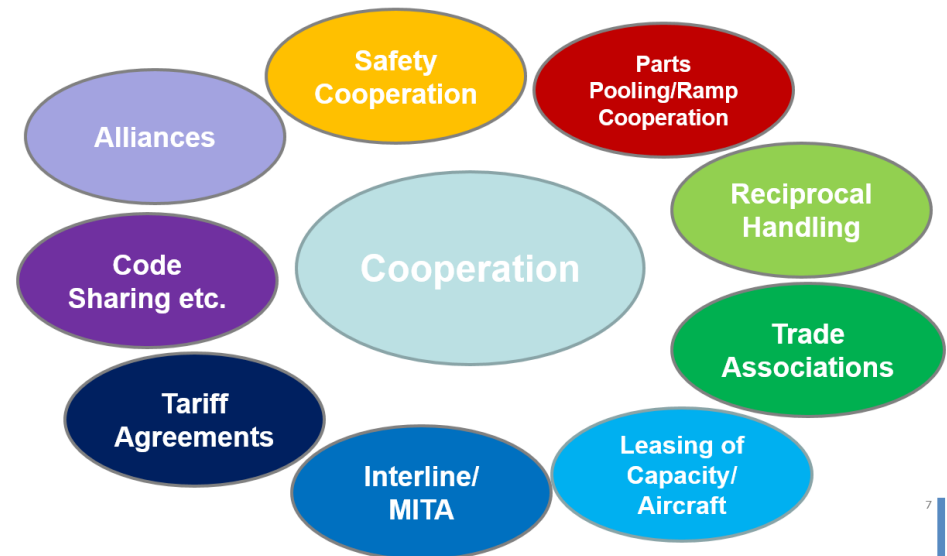
Complex solutions to simple regulatory issue!

A. 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



II. Forms of cooperation



III. Multilateral Interline Traffic Agreement (MITA)



Passenger Services Conference Resolutions Manual

RESOLUTION 780

FORM OF INTERLINE TRAFFIC AGREEMENT—PASSENGER

RESOLUTION 780 Attachment 'A'

IATA INTERLINE TRAFFIC AGREEMENT—PASSENGER

WHEREAS, the parties hereto operate scheduled air transportation services and desire to enter into arrange- ments under which each party may sell transportation over the routes of the others,

WHEREAS, the parties hereto mutually desire to agree upon the terms and conditions relating to the handling of interline baggage,

NOW THEREFORE, in consideration of the mutual cove- nants and agreements herein contained, the parties agree as follows:

A. Once upon a time...

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

- 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
 - Low Cost Carriers (LCCs) generally
 - Still able/required to use many interline processes

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

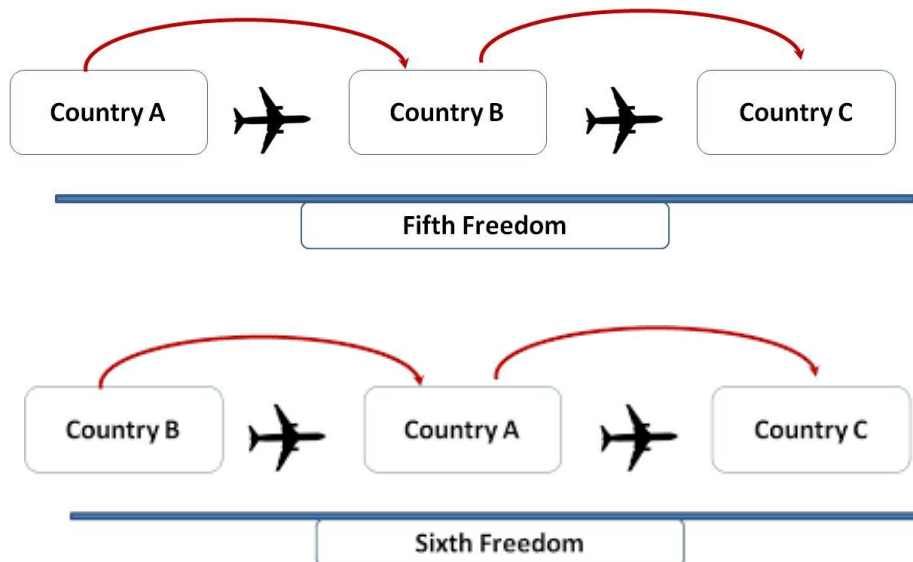
Structure MITA

- Article 1—Definitions
- Article 2—Issuance of Tickets and MCOs
- Article 3—Interline Checking of Baggage
- Article 4—Mishandled Baggage
- Article 5—Claims and Indemnities
- Article 6—Interline Service Charge
- Article 7—General
- Article 8—Interline Billing and Settlement
- Article 9—Arbitration
- Article 10—Administrative Provisions

- Attachments:
 - Baggage Handling
 - Interline Service Charges

B. 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



- 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



- **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

- 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



IV. Competition Analysis



Analysis

- | | | |
|--------------------|---|--------------|
| • Harm | ↔ | Benefit |
| • Tariff agreement | ↔ | Network need |
| • 'Ready' | ↔ | 'Willing' |



A. Benefits: Cost Drivers

- Efficiency → 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

B. Potential Harm

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

C. Harm vs Benefit

- Customer harm



- Network benefit ...



- Aviation is a network business
 - City pairs vs network outcomes...



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