EFFECTS OF AIRLINES ALLIANCES AND MERGERS ON FAIR COMPETITION AND MONOPOLY PREVENTION

(Presented by Egypt)

EXECUTIVE SUMMARY

This paper addresses one of the developments that have taken place in the field of air transportation, and that relates to the emergence of strong alliances and mergers between airlines. It studies alliances and mergers implications on air transport, and suggests the development of frameworks for their regulation.

Action: The Conference is invited to agree to the recommendations presented in paragraph 6.

References: ATConf/6 reference material is available at www.icao.int/meetings/atconf6.

1. INTRODUCTION

1.1 Significant developments have occurred in the field of air transport. A large number of countries made remarkable progress in liberalizing international air transport regulations, and became involved in full market-access arrangements. At the same time, the airline industry underwent a major shift and saw the forging alliances and mergers between companies in order to consolidate their presence in a market environment characterized by strong competition.

1.2 Alliances between airlines have become a dominant feature in air transport, and a new global phenomenon unfolding relatively quickly through multiple collaborative business arrangements. Alliance agreements took different forms and included various elements of code-sharing, marketing and pricing cooperation, schedules coordination, and offices and airport facilities sharing.

1 Arabic version provided by Egypt.
1.3 Through these alliances, airlines were able to provide flights to a large number of cities and meet air traffic and best prices requirements. Partnerships and business alliances allowed them to access a large air network and provision of necessary services.

1.4 A number of competing and large strategic alliances has appeared at the global scene. Each alliance is made of a number of major airlines that cover, through larger networks, different geographical areas. These air carriers were thus able to combine networks and extend their reach to most parts of the world. Alone, they managed to cover more than 50 per cent of the world scheduled passenger traffic. Among these alliances are:

a) Star Alliance, established in 1997 and considered the largest;

b) oneworld, established in 1999; and

c) SkyTeam2, established in 2000.

There are also bilateral alliances between airlines whereby codes are shared and tickets are interchangeably sold. IATA statistics indicate that more than 80 per cent of air traffic across the Atlantic and the Pacific is covered by these alliances, and little less than that between Europe and Asia.

2. ALLIANCES BENEFITS

2.1 One of the most important benefits of alliances is the decrease in ticket prices when linking cities to each other. The big number of passengers on these flights allows for an increase in aircraft load factor, lowering thereby trip costs and serving interests of both passengers and carriers.

2.2 Airlines were also able to provide passengers with varied flight schedules and a wider choice of take-off and landing times, which lead to reduced travel time.

2.3 Alliances seek to improve quality standards and passenger services, and apply minimum standards at all stages, including ticket sales, choice of destinations, baggage procedures, lounges, passenger travel, passenger complaints, and provision of necessary services.

3. ALLIANCES DISADVANTAGES

3.1 In spite of their major advantages, airline alliances were criticized on a number of points including:

a) alliances may not respect antitrust rules. They can result in the exclusion of some companies from the market, and violation of fair competition standards;

b) due to their control of many key points and their competitive and marketing powers, alliances could lead to the collapse of some companies that have to compete as low-cost companies; and

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2 It is noteworthy that a proposed airline alliance under the name of “Wings Alliance” to be anchored by Northwest Airlines and Continental Airlines of United States with the European flag carrier KLM, was rendered superfluous in September 2004 when most of its participants joined the SkyTeam Alliance.
c) alliances have grown dramatically, making their partnerships increasingly complex.

4. **MERGERS**

4.1 Through mergers, acquisitions and operational integration, airlines in many parts of the world have pursued their quest to obtain gains from strengthened marketing capability. For them, the goal of this trend is to maintain market quotas and traffic rights, expand to new markets, reduce costs, avoid fierce competition, and enjoy a dominant market position.

4.2 Cross-border mergers and acquisitions have recently increased. Many States adopted new policies on foreign investment and reduced conditions for air carrier ownership and effective control and the designation of airlines under bilateral agreements of air transport.

4.3 This might lead to increased foreign investment in the airline industry as part of a strategy of continued alliances for further market access.

5. **CONCLUSIONS**

5.1 Despite all the features and benefits of alliances and mergers in the air transport industry, which should be encouraged, there are some drawbacks and flaws which need to be addressed. Therefore, further study is necessary to maximize the benefits and advantages and minimize the adverse effects of these alliances.

5.2 It should be noted that these alliances have become more and more complex and interrelated in terms of their cooperation frameworks and enormous marketing powers, and that ICAO has yet to undertake studies in this regard.

6. **RECOMMENDATIONS**

6.1 The Conference is invited to:

a) request ICAO to develop new policies, undertake studies to determine alliances’ impact on air transport and compliance with competition standards, and develop guidelines for their regulation;

b) request ICAO to monitor the developments in air transport alliances and keep Member States updated on the subject; and

c) urge States to recognize the importance of regulatory frameworks in insuring compliance of alliances with competition standards, and in preventing monopoly. They should also give due consideration to the benefits that alliances create.