

WORLDWIDE AIR TRANSPORT CONFERENCE: CHALLENGES AND OPPORTUNITIES OF LIBERALIZATION

Montreal, 24 to 29 March 2003

Agenda Item 2: Examination of key regulatory issues in liberalization
2.3: Fair competition and safeguards

MAINTAINING THE MULTILATERAL INTERLINE SYSTEM

(Presented by International Air Transport Association)

SUMMARY

The IATA multilateral interline system provides a unique airline industry product that benefits consumers, airlines and governments alike. Open access to the worldwide airline network, with the flexibility to change carriers and routings at short notice produces a service that cannot be duplicated by any single airline or alliance. However, the system is often taken for granted and the common standards that are needed for it to function and that also involve other parties such as airports, handling companies and agents, tend to be overlooked. The system continues to evolve, and work is now in hand to both simplify and improve it. Unilateral action by national or regional regulators can undermine the global nature of the system, and the benefits it brings to the flying public. International Air Transport Association (IATA) invites the Conference to call on States to support the system and avoid its fragmentation.

Action by the Conference is in paragraph 4.1.

1. INTRODUCTION

1.1 The IATA Multilateral Interline System provides unique consumer benefits (**see Appendix**). It gives consumers access to any of the nearly 4000 commercial airports around the world on a single ticket paid for in the passengers' local currency, in a single transaction. It allows travel via routings and on those flights that best suit the needs of the consumer, and it expands choice by giving access to the widest range of airline schedules. It enables one airline to sell another airline's services with the knowledge that its tickets

¹ Arabic, French and Spanish versions provided by the International Air Transport Association (IATA)

will be accepted. Finally, interlining makes possible complex itineraries that a single airline, or alliance of airlines, cannot provide.

1.2 The Multilateral Interline System (MIS), is a voluntary system that is open to any carrier and operates alongside the products offered by airlines on-line or through alliance or bilateral arrangements. The common standards, developed through IATA to support the MIS, also provide a consistent and standardized interface between airlines and related service providers including airports, handling companies and travel agents.

1.3 These benefits are often taken for granted and airlines are concerned that uncoordinated regulatory actions in related areas run the risk of fragmenting the system.

2. WHY THE MULTILATERAL SYSTEM IS IMPORTANT IN LIBERALIZING MARKETS

2.1 The MIS provides important public benefits in the ongoing liberalization process.

2.2 The key feature of the MIS is that it provides access to *worldwide networks*. As stated above, passengers gain from the broad range of schedule and routing choices that interlining provides. But Governments also benefit by ensuring that their airports are connected to the worldwide airline network, rather than having to rely upon a limited number of direct services. For airlines too there is the benefit of being able to offer a wide range of destinations and choices that enables them to compete with much larger carriers.

2.3 In many parts of the world today, the travel needs of many passengers can be met by point-to-point services or relatively simple routings offered by selective carrier cooperation. But this does not diminish the advantages of a wider range of routing options and depth of schedule provided by being able to switch freely between airlines and alternative routings – particularly for the business traveller. The multilateral interline system remains a highly valuable service, especially at a time when liberalization is resulting in the restructuring of airlines and route networks.

3. THE SYSTEM IS EVOLVING

3.1 At the same time, the MIS is a system that continues to evolve to meet the concerns of governments.

3.2 Over the years the MIS has been overlaid with more selective but less flexible arrangements between airlines, leading some to question whether the IATA system will be needed in the future. The answer is yes. Without the open, multilateral approach and the practical IATA standards that support it, many other inter-carrier arrangements will, over time, fail as approaches differ and standards break down, resulting in fewer choices for consumers and higher costs.

3.3 Today, the IATA system is evolving and efforts are in hand to ensure that the multilateral interline product is made simpler and more attractive to the travelling public – simpler by removing administrative constraints, and more attractive by extending its application and availability.

3.4 However, there is a danger that national or sometimes regional measures, aimed at furthering “liberalization” will lead to fragmentation of the global system. An example is that of conditions of carriage

and contract, including liability. Different rules in different jurisdictions can make open interlining almost impossible as there will no longer be common conditions attached to what is today a through journey on a standard ticket. Similarly, different approaches to the application of competition laws may oblige some airlines to withdraw from parts of the multilateral system, undermining its effectiveness as well as its benefits and ultimately threatening to destroy it completely.

4. ACTION BY THE CONFERENCE

4.1 IATA strongly recommends the Conference to incorporate in its conclusions recognition of the value of the Multilateral Interline System and a call for States to avoid unilateral actions that could undermine that system.

APPENDIX

THE MULTILATERAL INTERLINE SYSTEM

1. INTRODUCTION

1.1 The worldwide interline system benefits travellers everywhere. No single airline can fly to all of the almost 4,000 commercial airports around the world, but any passenger or cargo consignment can, thanks to interlining. One of the major virtues of the system is making small and peripheral communities accessible to all.

1.2 The interlining system allows payment for the whole itinerary, regardless of the number of flights and airlines involved, in one transaction in one currency. It also expands consumers' choice, giving them access to the widest range of carriers' schedules. This means that a passenger can fly complex routes all around the world or on a simple journey travel out on one airline and return on another.

1.3 How important is interlining? Globally, it is estimated that interlining accounted for over US\$ 20 billion worth of passenger and cargo business for airlines worldwide in 2001. This is equivalent to about 15% of the total international scheduled service revenues. In a study conducted for IATA, the value to consumers of having the IATA multilateral interline system was calculated at US\$ 2.9 billion. Within the European Union, in a study commissioned by the European Commission, interline traffic was estimated to account for an average of 28% of European airline's international scheduled traffic.

1.4 The smooth and sound functioning of interlining rests on three interconnected pillars:

- a) The framework agreement for participation in the world-wide interlining network;
- b) Practical mechanisms, i.e. common standards and procedures; and
- c) An economic structure, ensuring that participants receive satisfactory benefits from the system.

1.5 The end result is a system that is simple, efficient and highly beneficial for customers. The foundations may be complex but the user sees a seamless process that works, thanks to five decades of industry cooperation.

2. PARTICIPATION

2.1 Participation in interlining is voluntary and does not require bilateral negotiation for each arrangement between companies. Instead there is the Multilateral Interline Traffic Agreement (MITA), establishing the basic framework used by over 300 carriers around the world, including alliance and code share partners. The principle of MITA is mutual acceptance by participating airlines of each other's passenger tickets and cargo air waybills.

3. PRACTICAL MECHANISMS

3.1 The basis for the worldwide system depends on common standards and procedures that bridge differences in cultural, linguistic and business methods around the world. These ensure the functioning of the overall system, through accepted formats for all the documents, messages and other components of doing business. The standards and procedures are developed by the IATA Passenger and Cargo Services Conferences.

3.2 The emphasis on uniform standards and procedures does not mean one measure must fit all. For example, industry cooperation has created the mechanisms for passengers with special needs, such as those with reduced mobility and those requiring special meals.

4. ECONOMIC STRUCTURE

4.1 The economic element is both practical and the reason for the system's success - it provides benefits for passengers, shippers and airlines.

4.2 The benefits for passengers should not be under-estimated. In addition to the simplicity - one single transaction in one currency - there is an economic gain - interlineable tariffs are cheaper than other methods of calculation. Simply adding the fares for individual route sectors not only costs more, but eliminates the flexibility offered by the current system that permits changes of routings at the same fare.

4.3 These freely interlineable tariffs and the standards used to support them, such as rules for currency and mileages, are developed by IATA Member airlines at the Passenger and Cargo Tariff Coordination Conferences. Participation in these Conferences is voluntary and the agreements produced are non-binding, but 132 of the world's leading carriers have chosen to participate, since freely interlineable fares allow them to extend their networks and compete more effectively, as well as offering customers increased choice. And many more airlines apply these tariffs for interlining, with small and medium sized carriers often relying on the open multilateral system to give them access to wider markets and make them more competitive. MITA participation consists of over 300 airlines, and bilateral arrangements could not be a practical or economical substitute. Further, the nature and degree of competition existing between many air carriers would require that exemptions from Competition laws be granted for many of the bilateral agreements, particularly in Europe.

4.4 The market drives carriers' "online" fare levels. Experience shows that multilateral interline fares function alongside these carrier-specific tariffs, to the benefit of consumers.

4.5 Distribution is simplified through a network of about 100,000 travel and cargo outlets, making travel purchase simple, and eliminating the need to go to an airline office. The distribution system was developed and is maintained by the Passenger and Cargo Agency Conferences.

4.6 In addition to direct consumer benefits, interlining has a social function. It enables peripheral locations to benefit from (and carriers based in these areas to offer) an adequate level of service to all other points. Similarly, it helps small carriers offer a much wider range of destinations to passengers and thus compete on an equal footing with major airlines.

5. CONCLUSION

5.1 The foregoing briefly explains the foundations of the multilateral interline system, which is largely the result of the ongoing work of the IATA Traffic Conferences. By their nature these Conferences involve cooperation, in the public interest, between competitor airlines. Consequently, they need exemptions from competition laws in various parts of the world, most notably in the US, EU and Australia.

5.2 Assuring the future of the multilateral interline system requires that the industry continues to receive exemptions for its cooperative activities.

5.3 The air transport “world-wide doing business system” must be preserved. Its three pillars ensure balance and stability and the removal of any of these will cause it to collapse, to the detriment of passengers and shippers, and airlines, large and small.

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