



The Impact of Liberalisation on Cross-border Airline Mergers and Alliances

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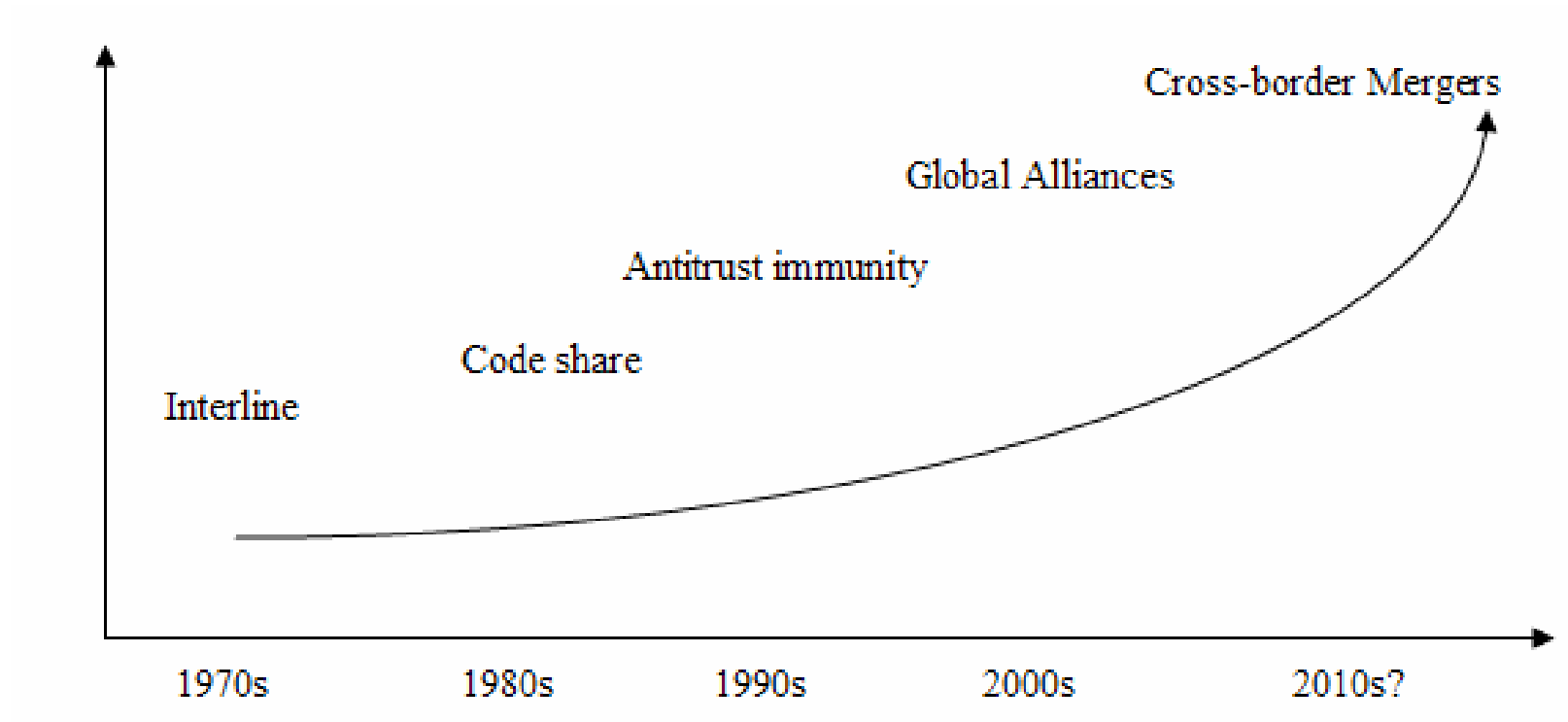


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Introduction

Development of partnerships



Source: Iatrou (2006)

The Impact of liberalization on alliances and mergers

- The airlines in their effort to extend their network to meet the needs of the globalised environment have had to interact with regulatory authorities
- Alliances were the mechanism chosen or rather the only available to airlines to achieve their purposes
- Alliance development was assisted by the domestic deregulation, the bilateral and regional liberalisation
- Air France-KLM and Lufthansa-Swiss merger has changed the landscape of air transport and set the foundation stone towards air transport consolidation



The Impact of liberalization on alliances and mergers

- The main driver behind airline alliances has been the need to acquire global reach
- Firms in other sectors have had the “luxury” of being able to choose at will between mergers/consolidations and alliances
- Airlines seeking to extend their networks have had to deal with a regulatory framework
- Regulatory framework, in the form of ASAs, provided that individual states negotiate bilaterally the provision and exchange of air services and capacity rights between national territories



The Impact of liberalization on alliances and mergers

- A distinctive feature of the current mega-alliances is that a US airline and a European airline form the core partnership in each
- These two geographical regions represent the world's most important aviation markets
- Liberalization as part of the European Union single market program has resulted in cabotage restrictions being removed and in bringing about increased competition in the regional airline market
- Domestic mergers – Air France, UTA and Air Inter in France, British Airways and British Caledonian in UK



The Impact of liberalization on alliances and mergers

- ➔ In the wake of deregulation, with a more competitive environment, the airline industry became increasingly concentrated
- ➔ The best solution for both US and European airlines was to establish alliances, which represented the mechanism that could provide indirect access to restricted markets
- ➔ Liberalization has been the great catalyst behind the formation of airline alliances
- ➔ Without liberalization it would have been impossible for airlines to cooperate closely enough
- ➔ Full deregulation in the European Union, in combination with open skies agreements, have enabled airlines to access new markets

Perception of Airlines about Alliances

→ Iatrou (2003) survey

A comprehensive questionnaire was sent at the end of 2002 – beginning of 2003 to the heads of the alliance departments of all airlines – that is 28 carriers at the time of this survey – participating in the four alliance groupings of Wings, Star Alliance, **oneworld** and SkyTeam

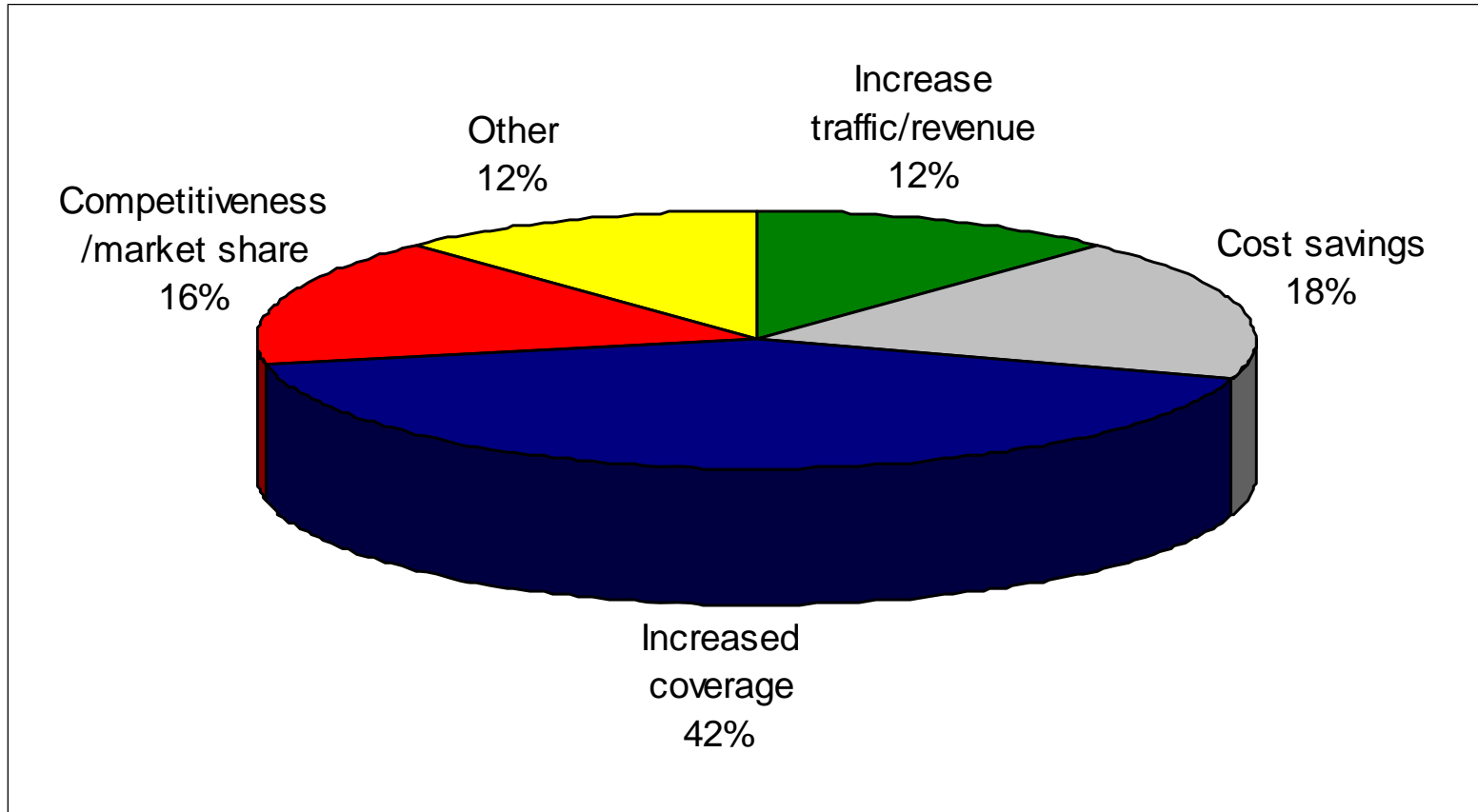
All 28 carriers participated in the research giving the survey a 100% response rate

The questionnaire covers some specific areas of airline operations that alliances may affect, such as passenger traffic, load factors, traffic, revenue, costs and fares



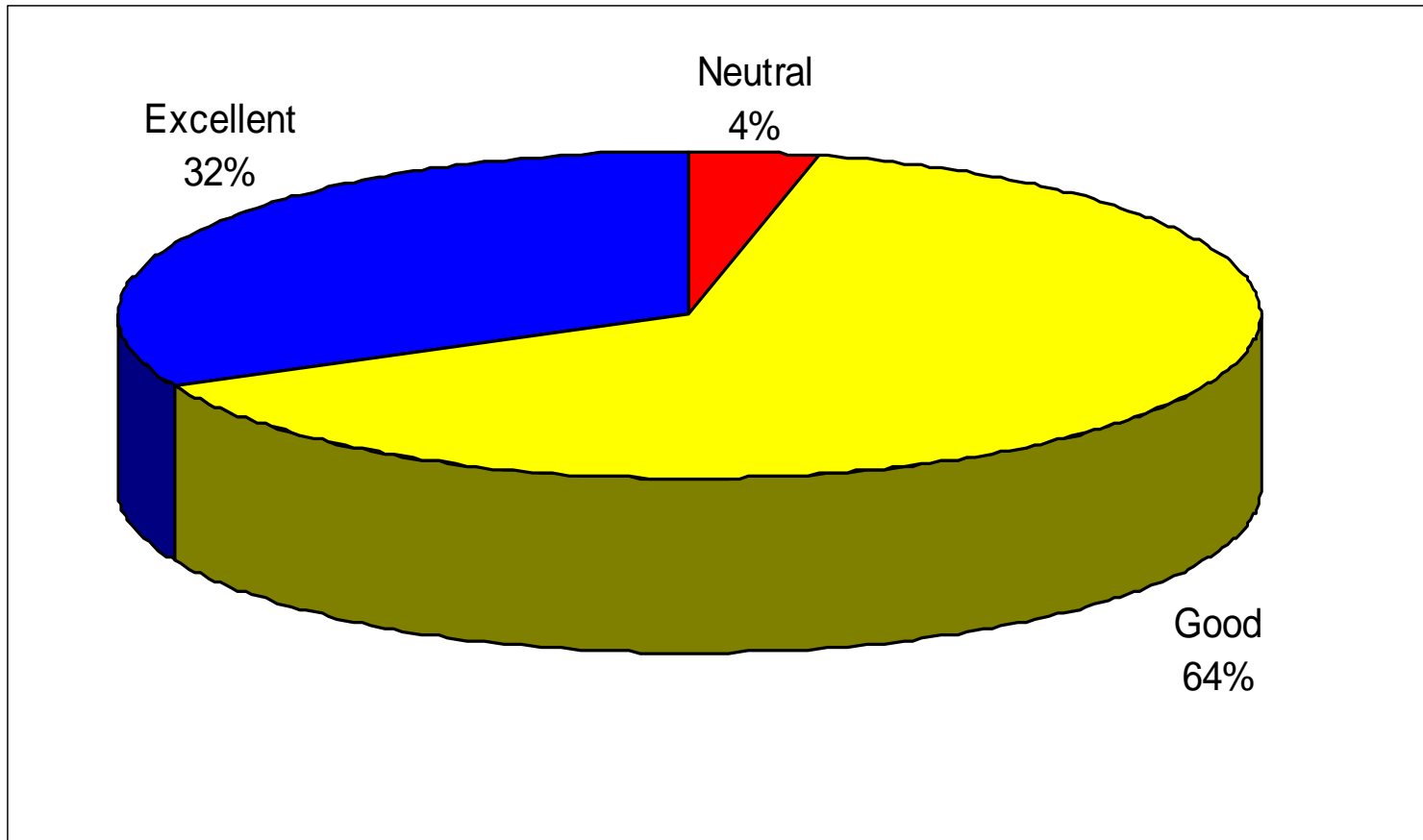
Perception of Airlines about Alliances

Alliances' objectives



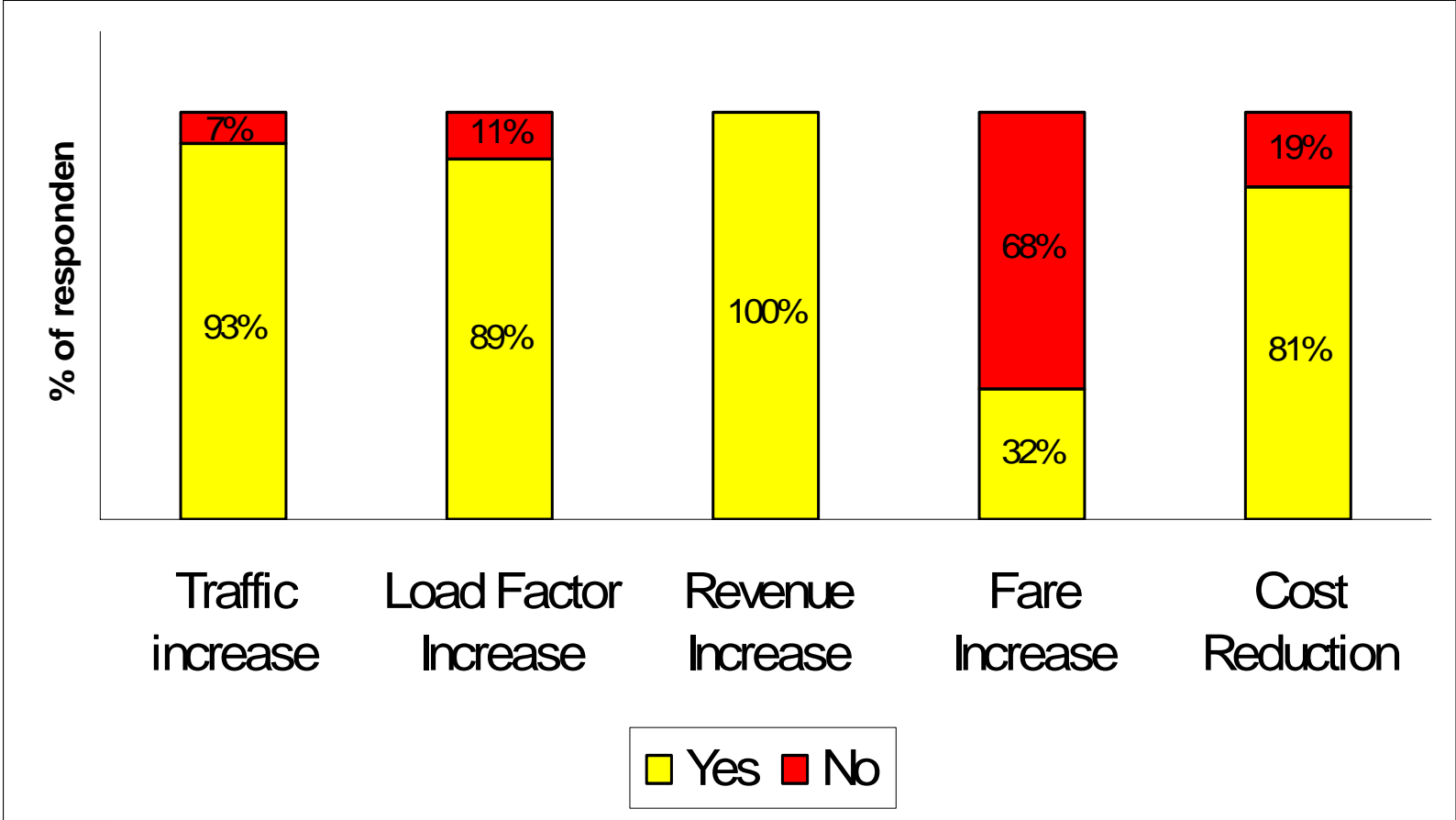
Perception of Airlines about Alliances

Opinion about alliance cooperation so far



Perception of Airlines about Alliances

General Impact of Airline Alliances



Perception of Airlines about Alliances

Estimation of the impact of the alliance

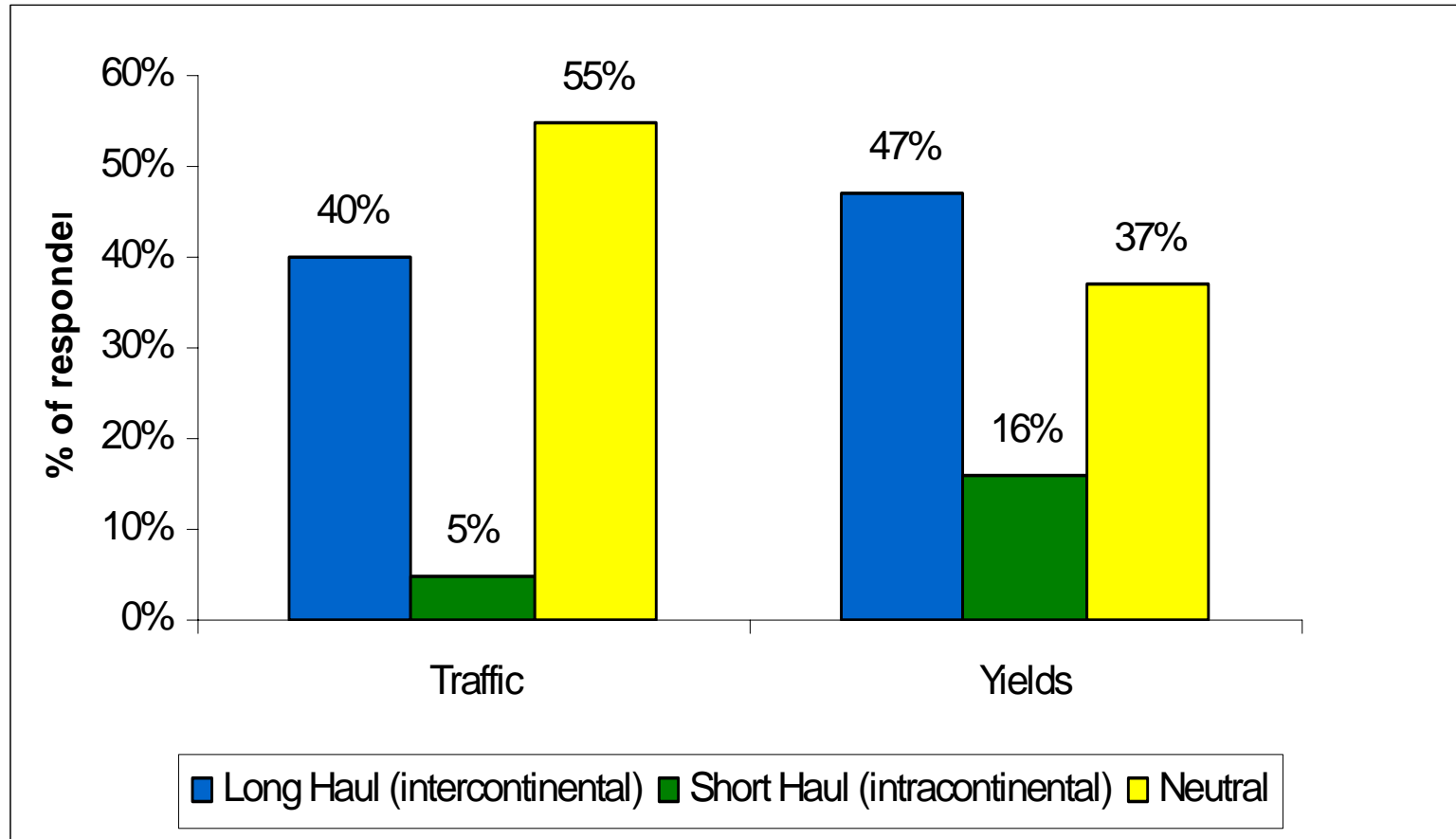
Traffic	Less than 5%	36%	6/15%	36%	Above 16%	28%
Load Factor	Less than 5%	55%	6/15%	36%	Above 16%	9%
Cost	Above 0%	14%	-1/-10%	82%	More than -11%	4%
Revenue	Less than 5%	43%	6/15%	35%	Above 16%	22%
Fare	More than -11%	32%	-10/0%	36%	Above 1%	32%



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Perception of Airlines about Alliances

Impact on Route Type measured by Haul Length



Perception of Airlines about Alliances

→ Impact on Traffic

The greatest benefit airlines have experienced from their participation in airline alliances is increase in traffic

Almost 90% of respondents claimed that they experienced an increase in traffic within one to two years from the inception of their partnerships with other airlines

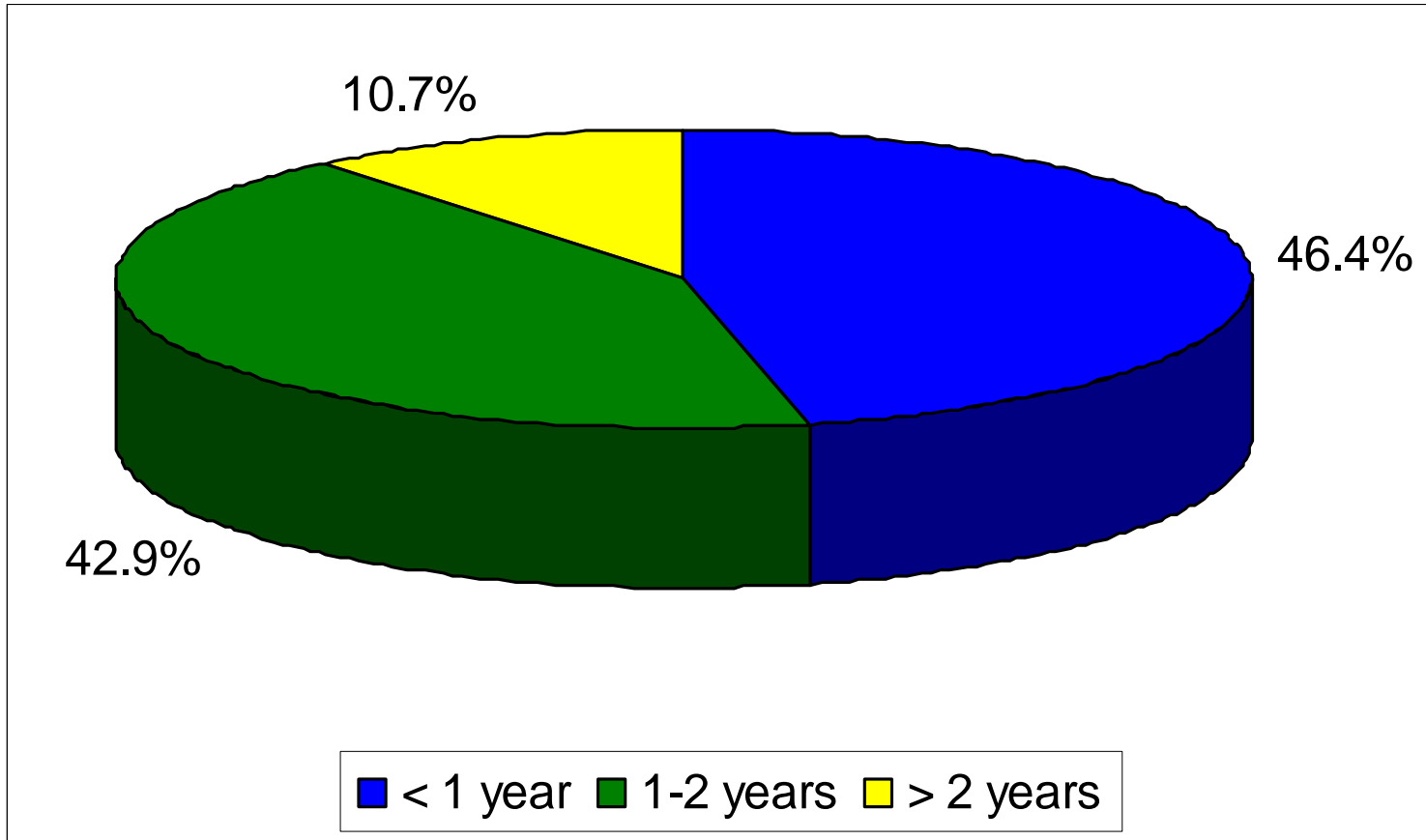
The co-ordination of frequent flyer programmes has played an important role in traffic upsurge

The rate of traffic increase tends to stabilise a few years after the launch of the alliance



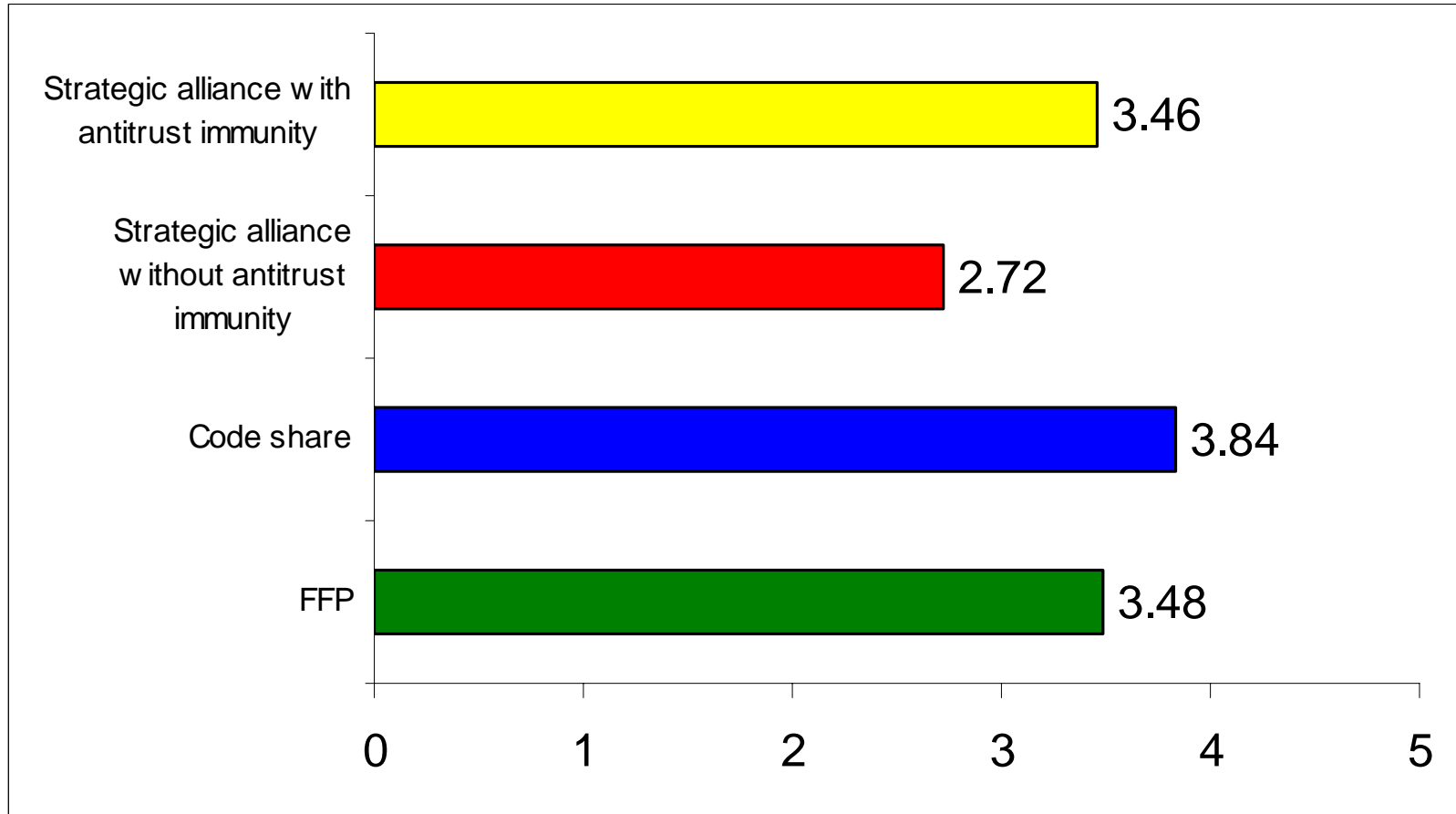
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Time needed to observe the impact of alliance membership on airline traffic



Perception of Airlines about Alliances

The most productive type of cooperation in relation to traffic increase

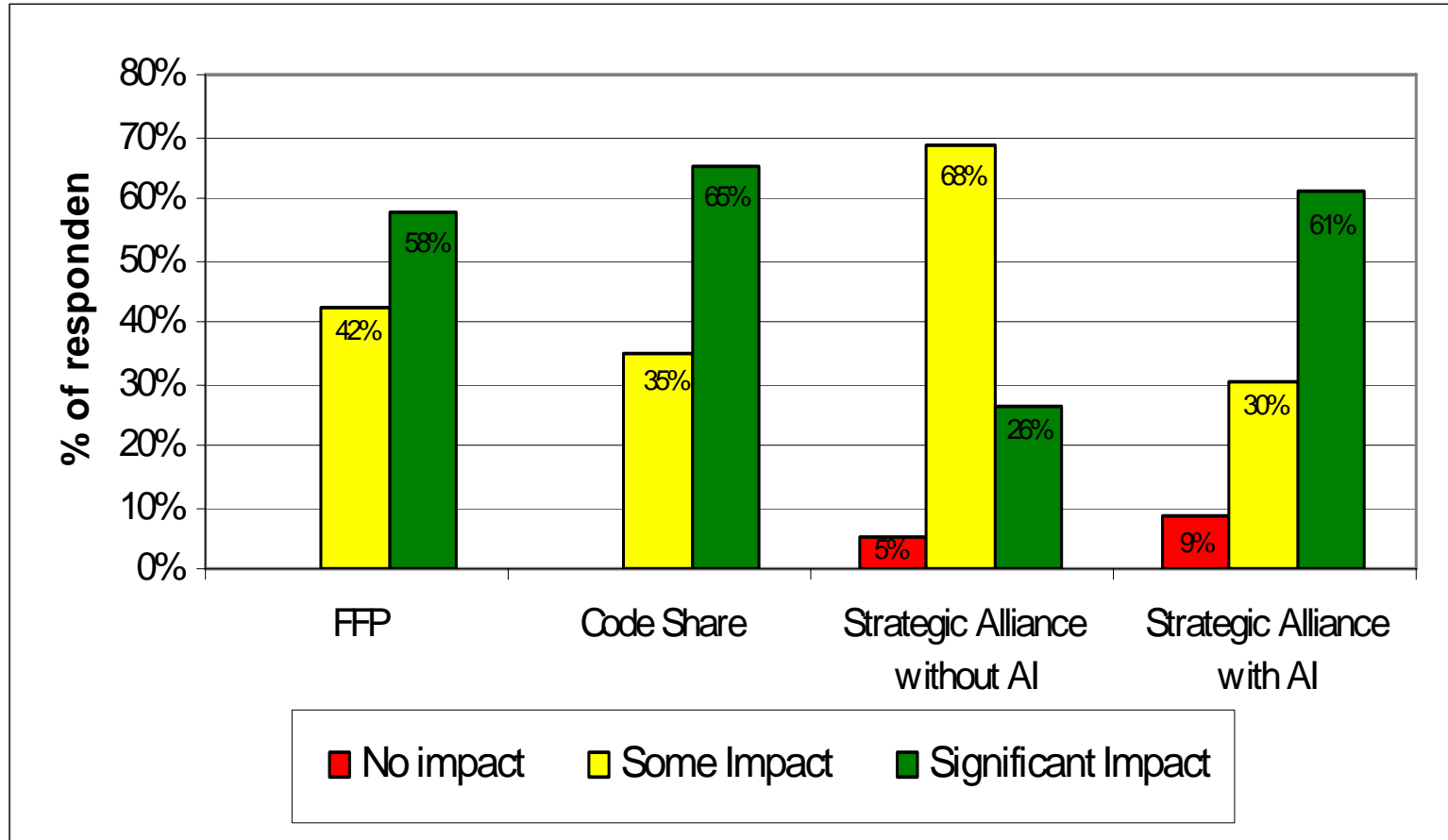


Scale of 1 to 5, 1= no impact and 5=significant impact



Perception of Airlines about Alliances

Impact on Traffic by Type of Co-operation



Perception of Airlines about Mergers

→ Iatrou (2006) survey

The heads of the alliance and marketing departments of all airlines – that is 32 carriers at the time of the survey – belonging to the alliance groupings of Star Alliance, oneworld and SkyTeam were contacted to participate in a questionnaire survey

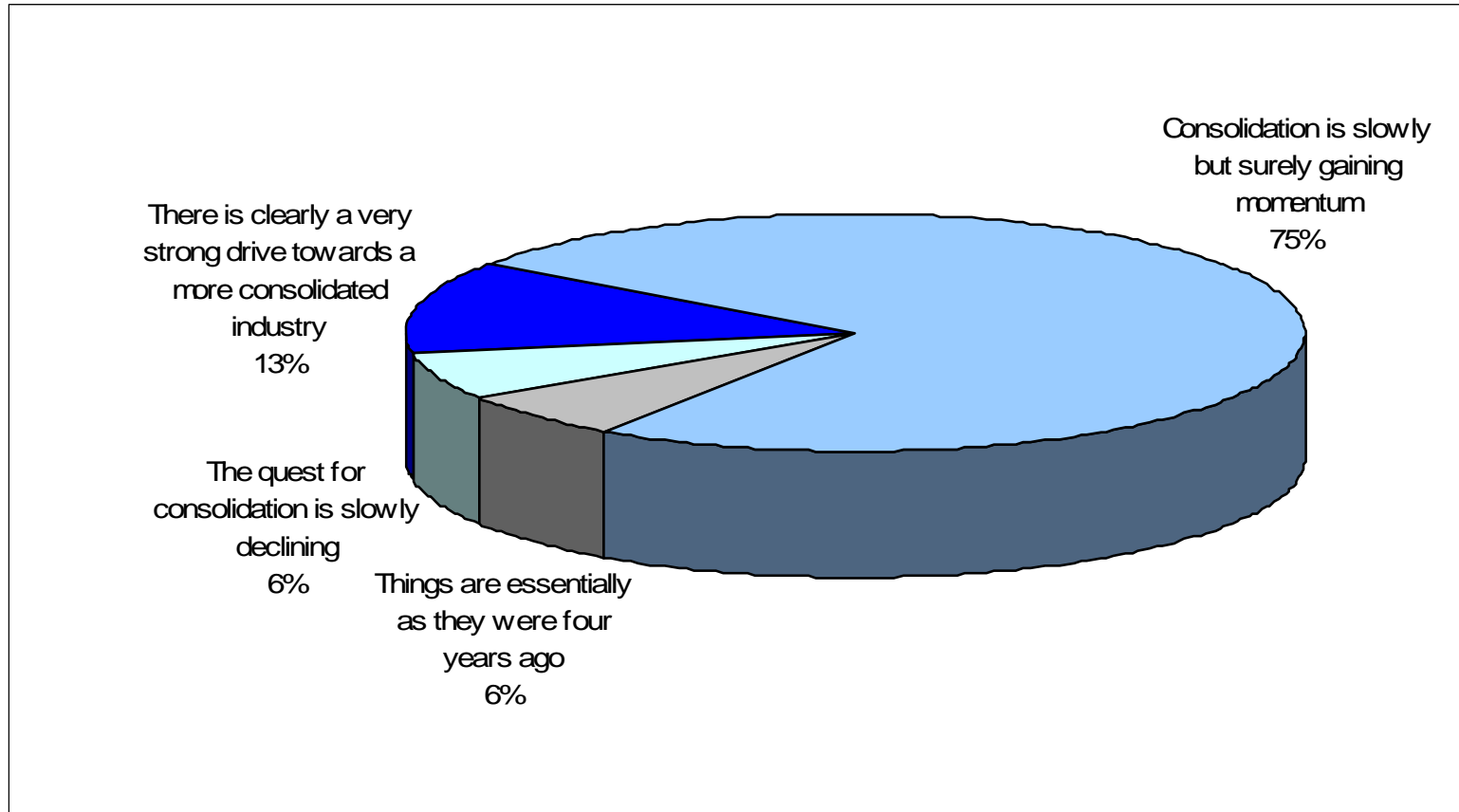
The questionnaire focused on the impact of cross-border mergers on airline operations, on how mergers interact with alliances and on the possible course the through mergers restructuring development will follow

31 carriers participated in the research giving the survey a 97% response rate



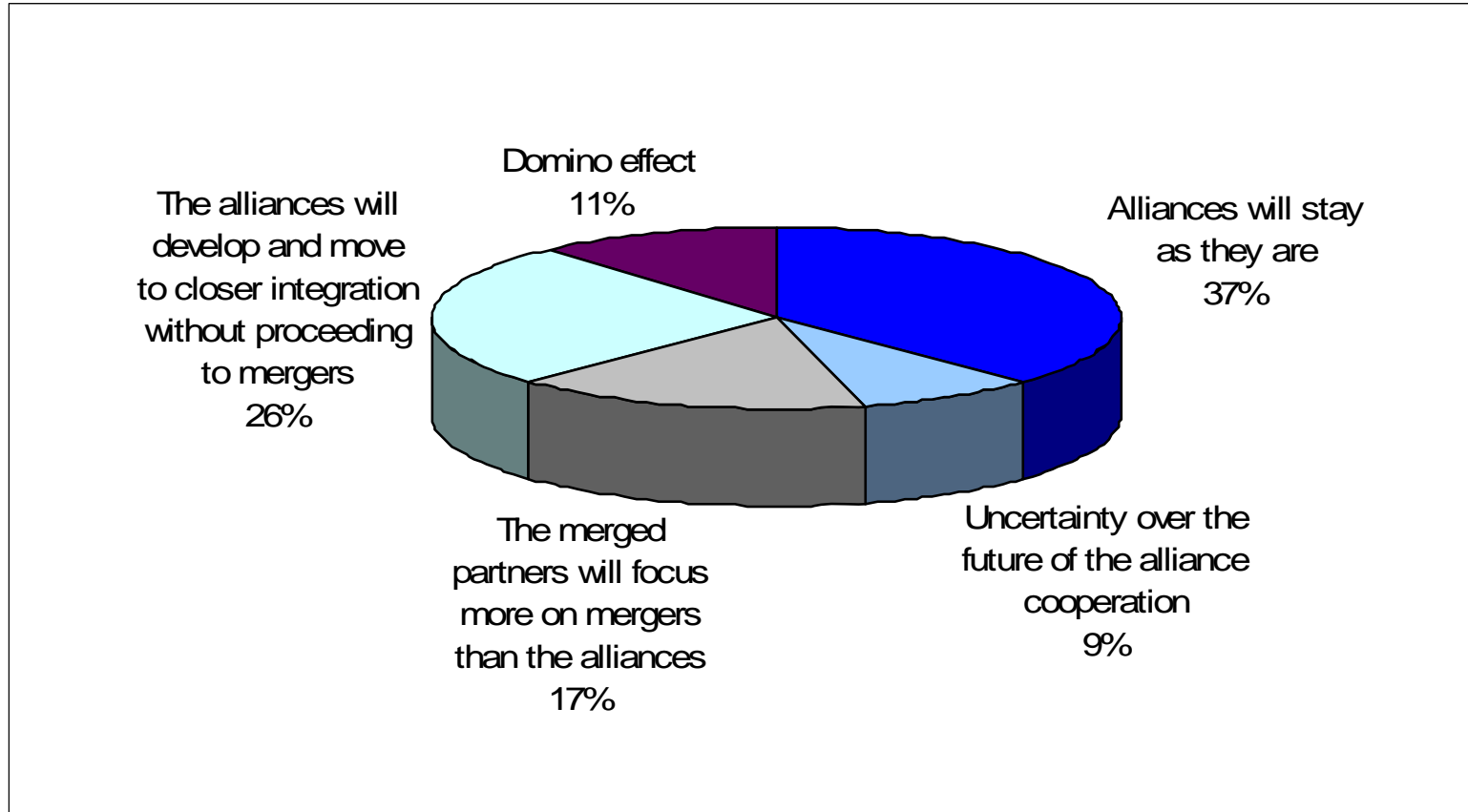
Perception of Airlines about Mergers

Is the air transport industry moving towards consolidation?



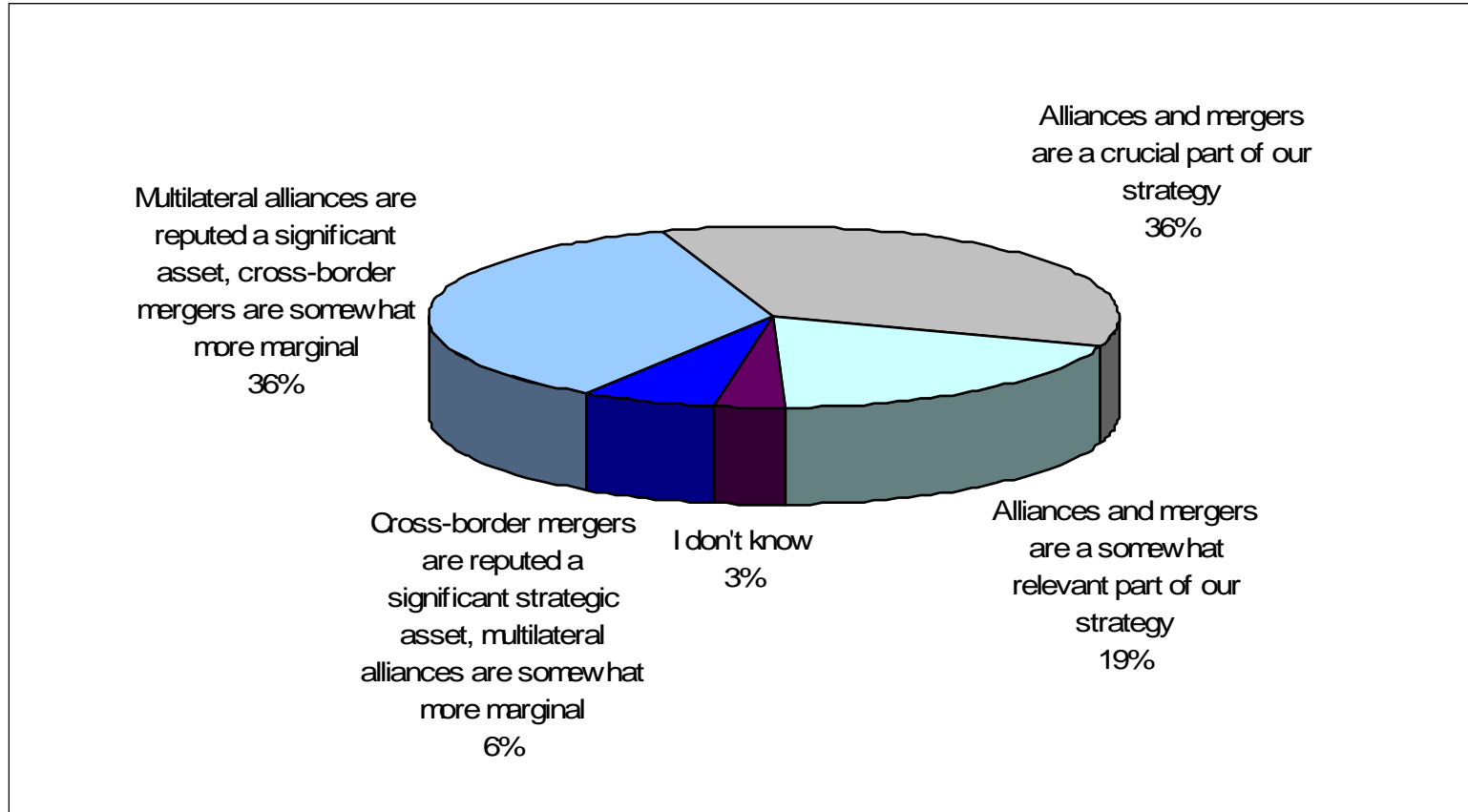
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What is the future of alliances in relation to mergers?



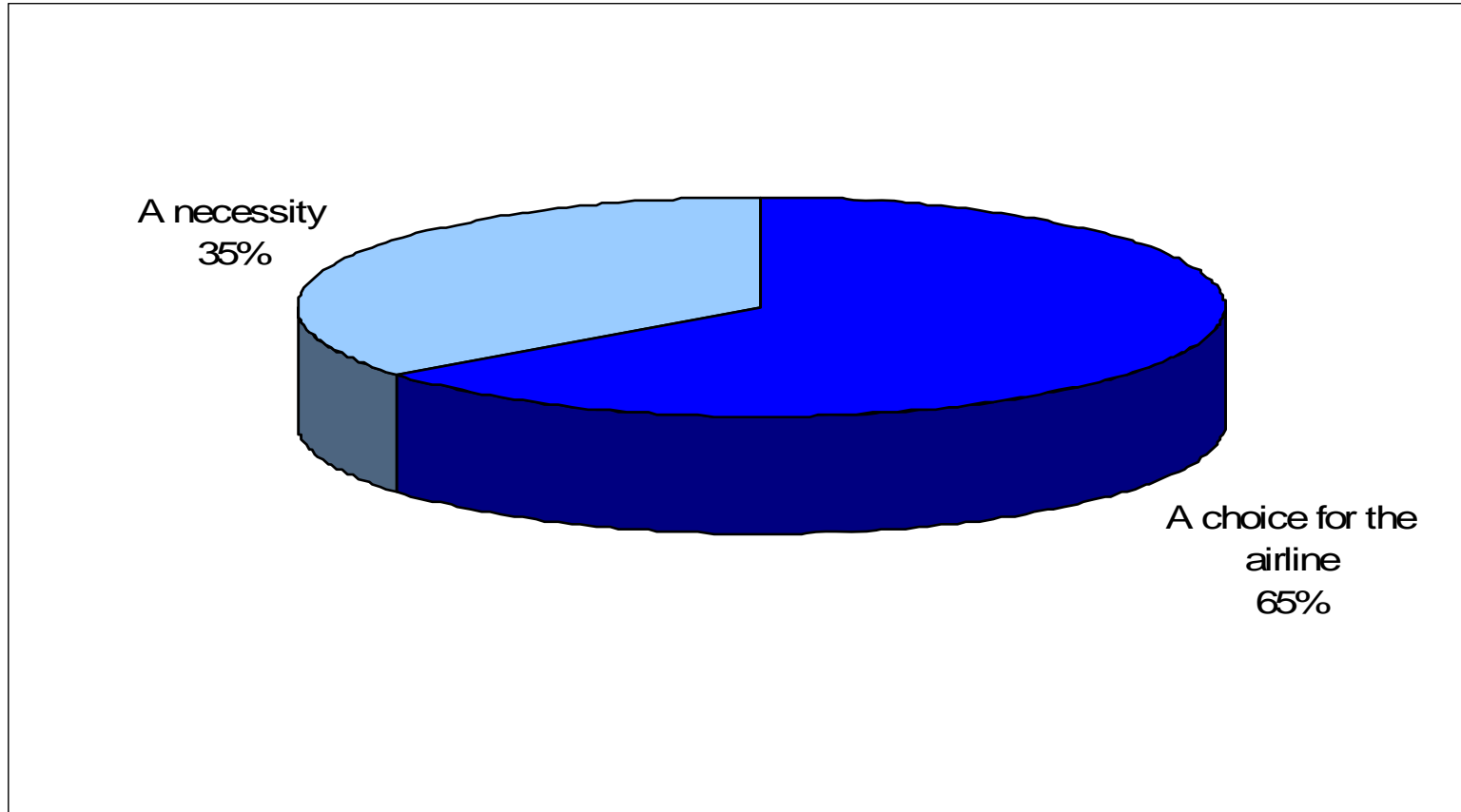
Perception of Airlines about Mergers

Are mergers/alliances a significant part of the airline strategy?



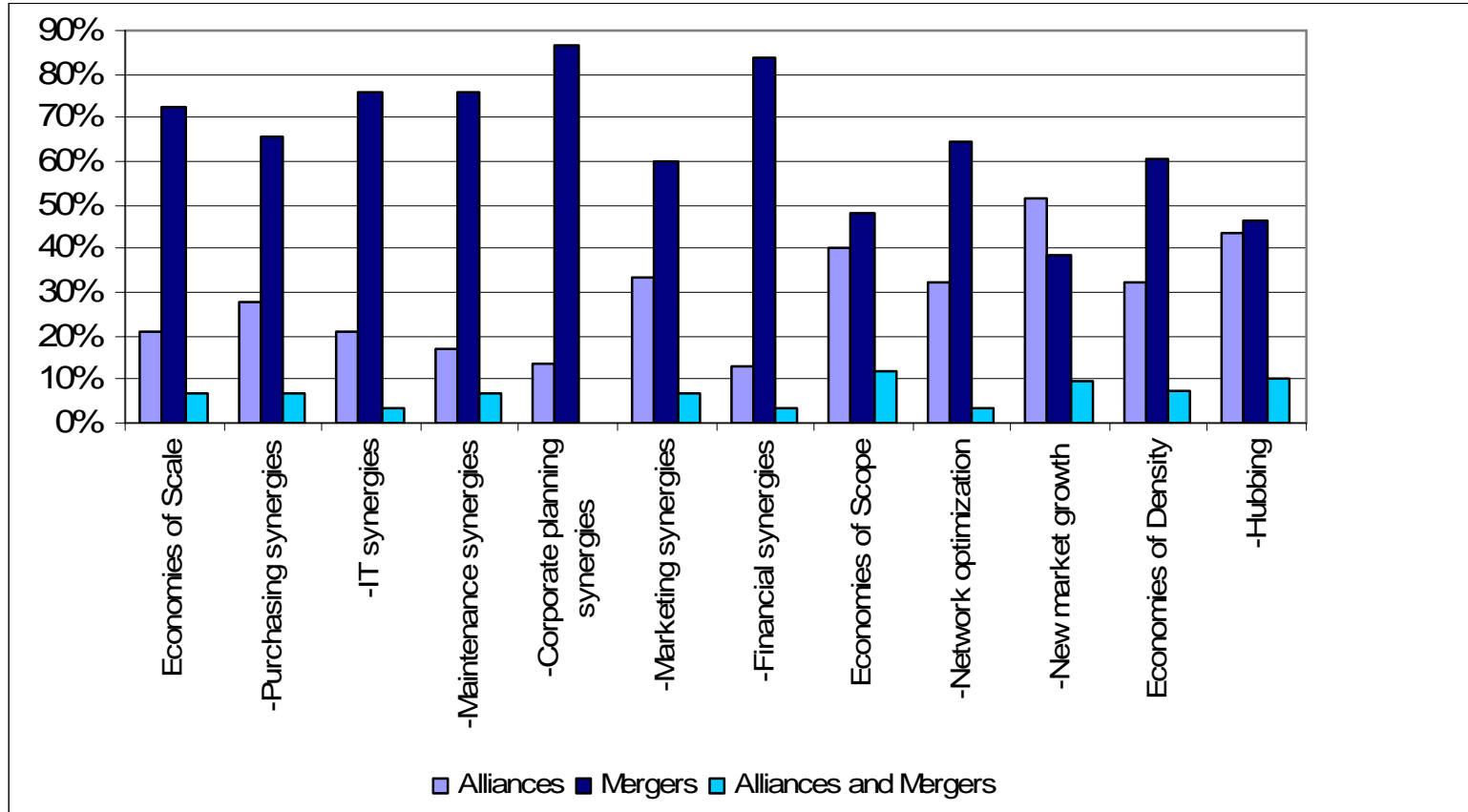
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Mergers are a choice or a necessity?



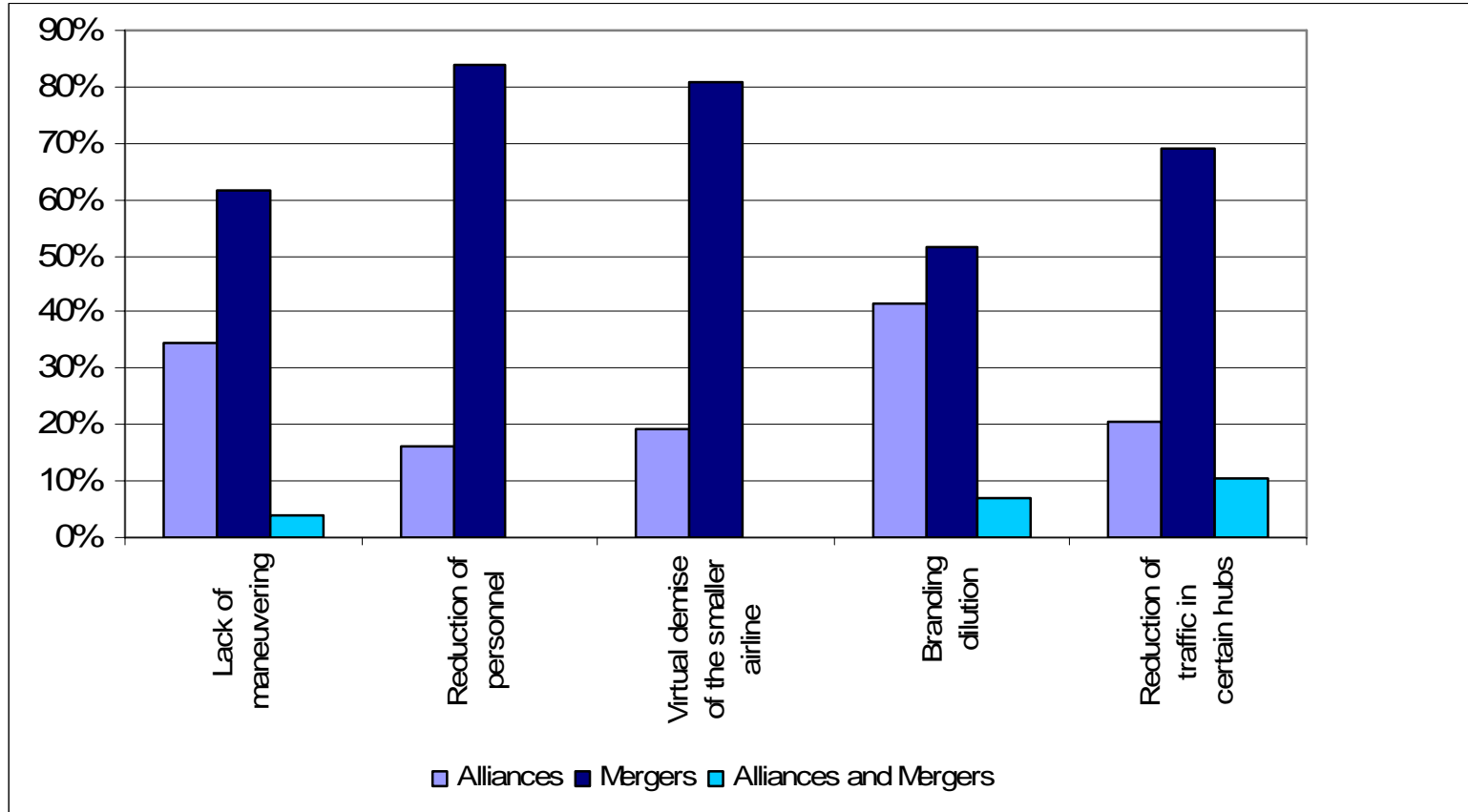
Perception of Airlines about Mergers

Benefits of alliances and cross-border mergers on airline operations



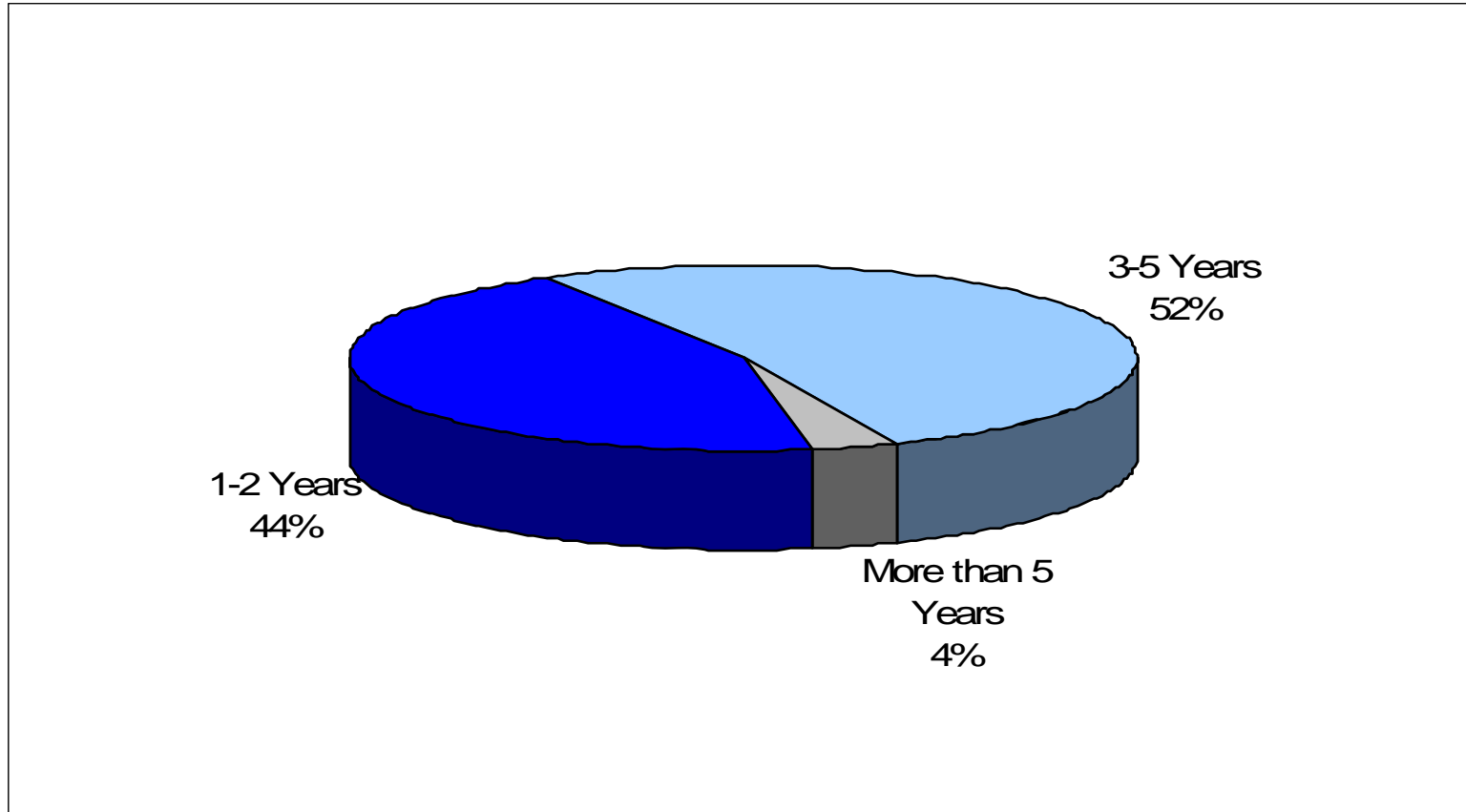
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Negative impact of alliances and cross-border mergers on airline operations



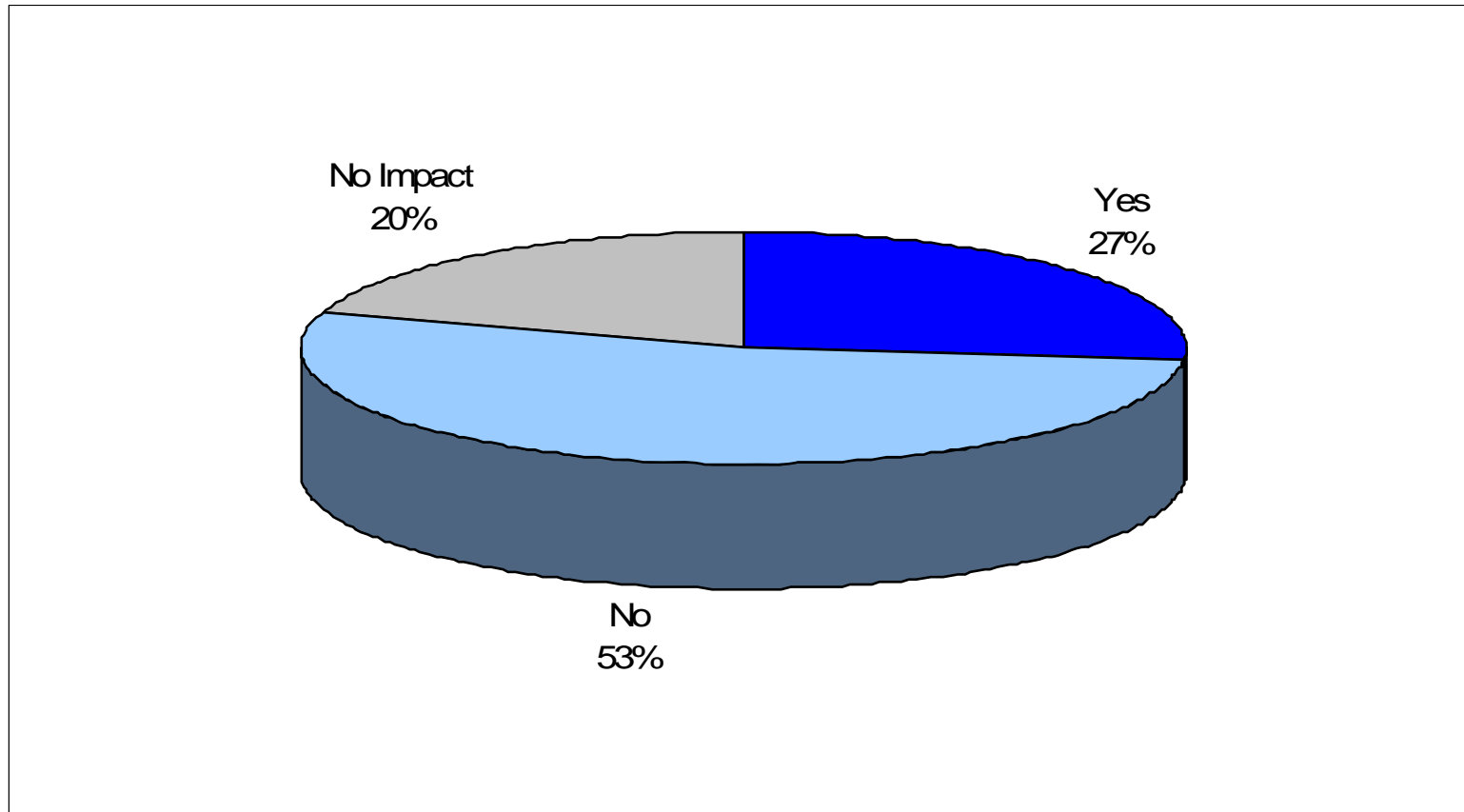
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Timeframe for the next cross-border mergers



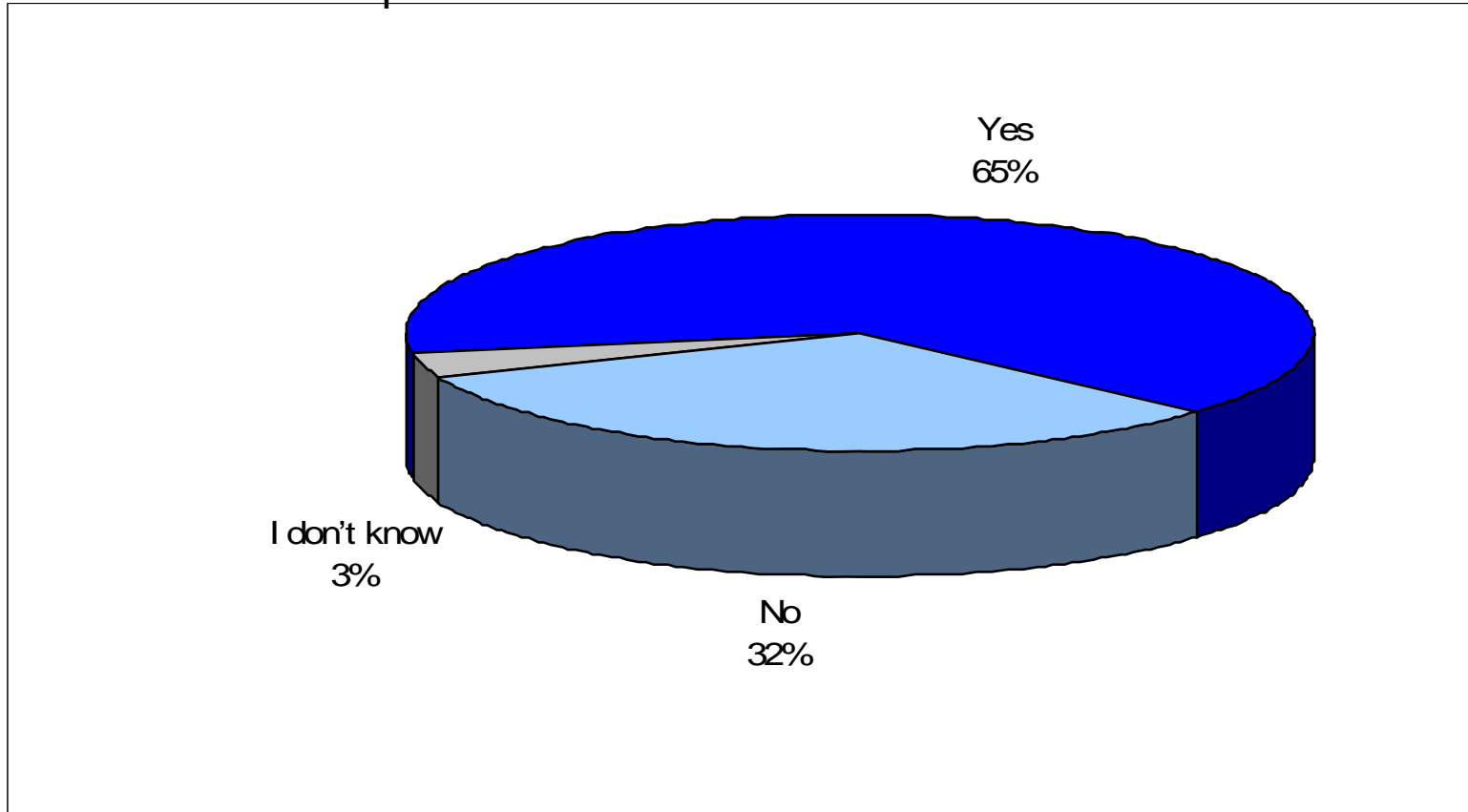
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Is existing regulation an obstacle to mergers?



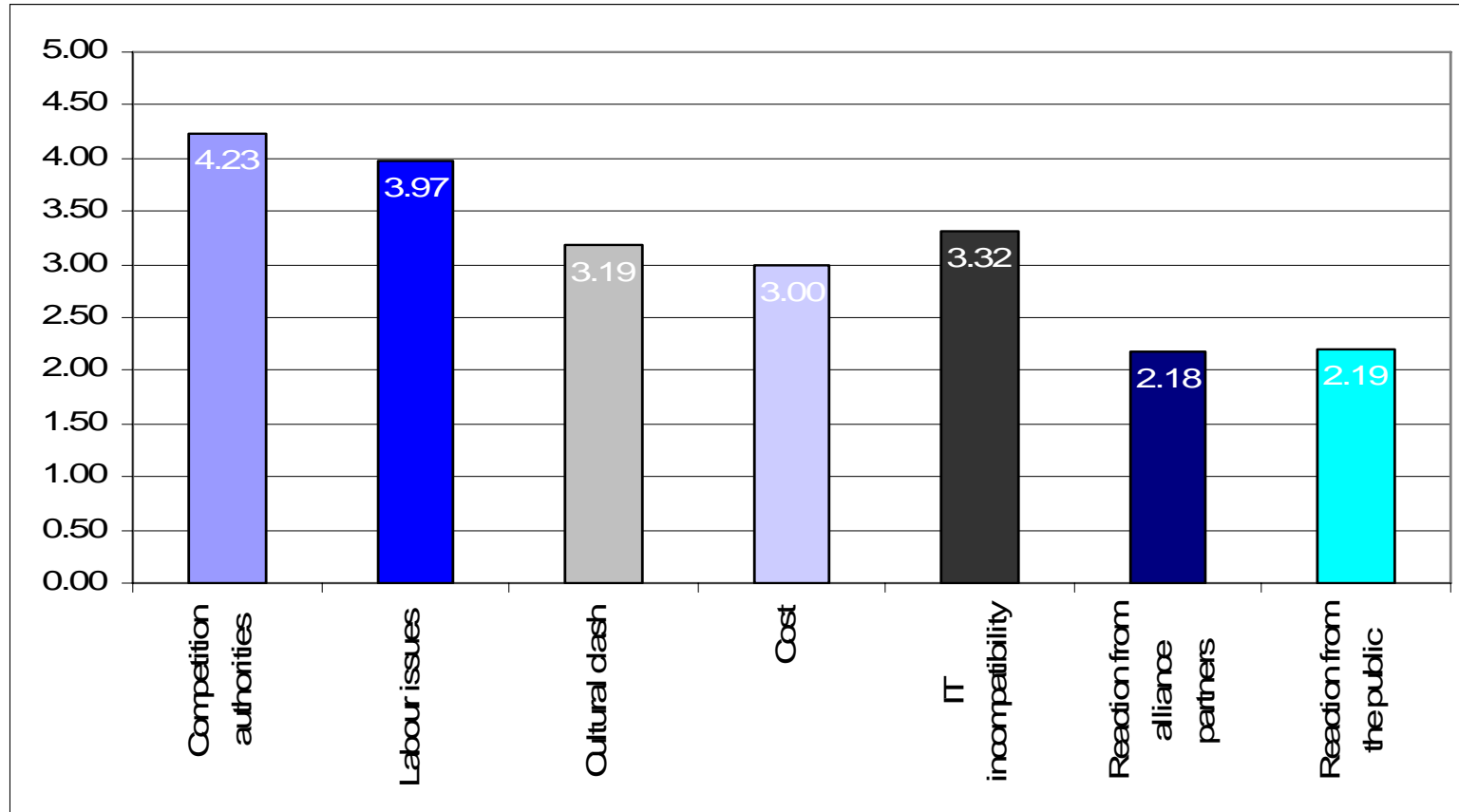
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Is an open skies agreement of US and EC is a prerequisite for European and North American consolidation?



Perception of Airlines about Mergers

In which areas will there be reactions to mergers?

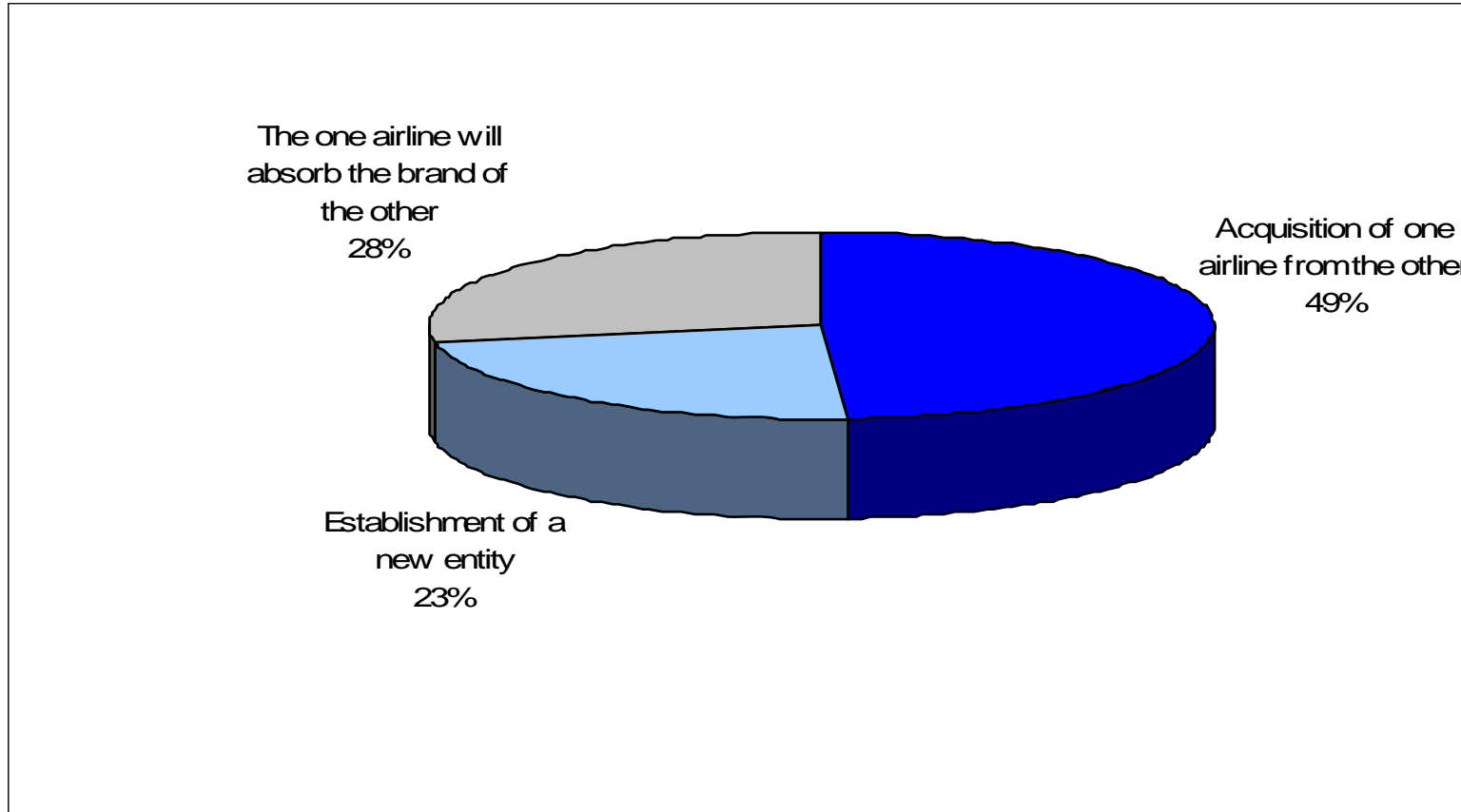


(1 = no serious problem, 5 = very serious problem)



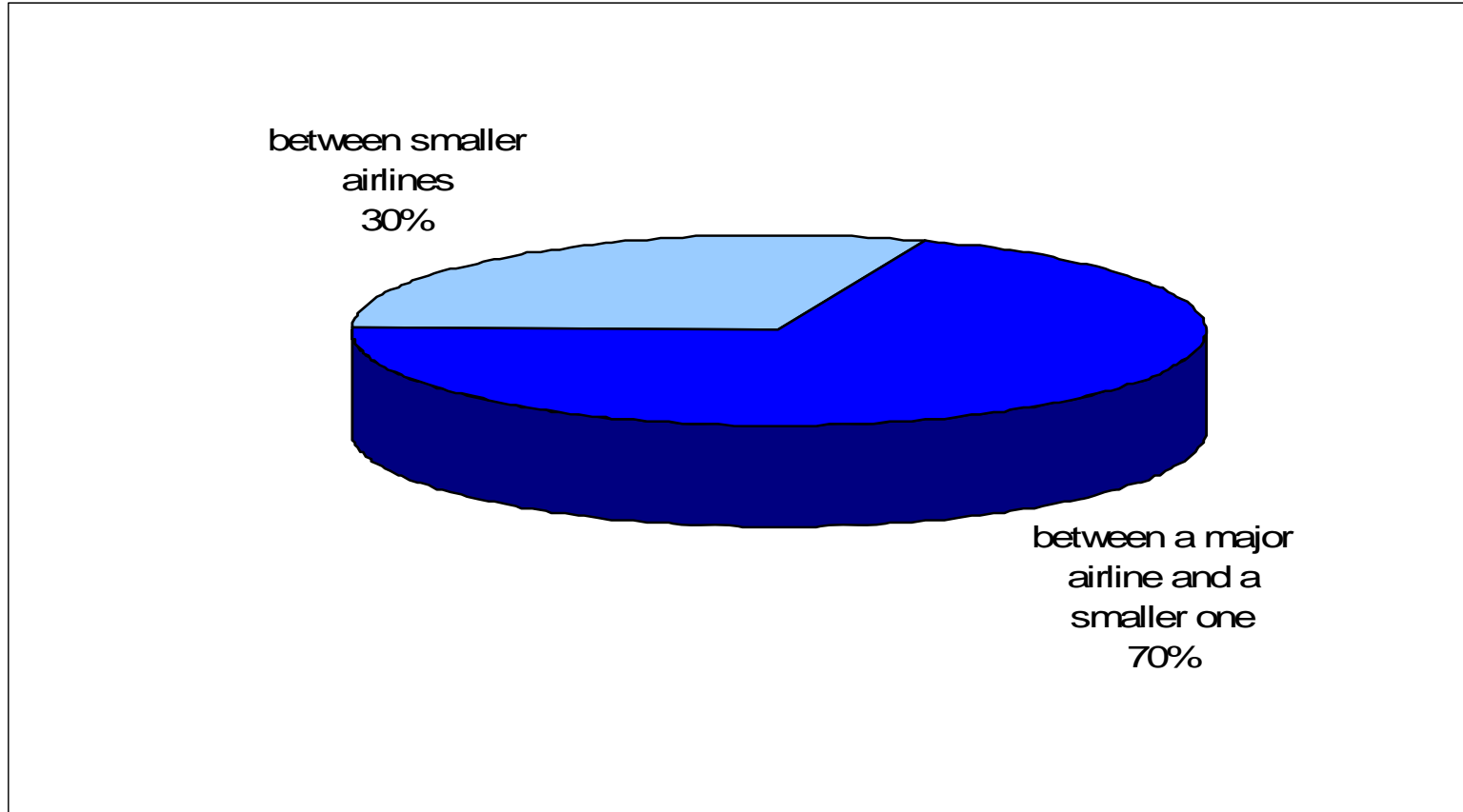
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How will merger be effected: acquisition, absorption or new entity?



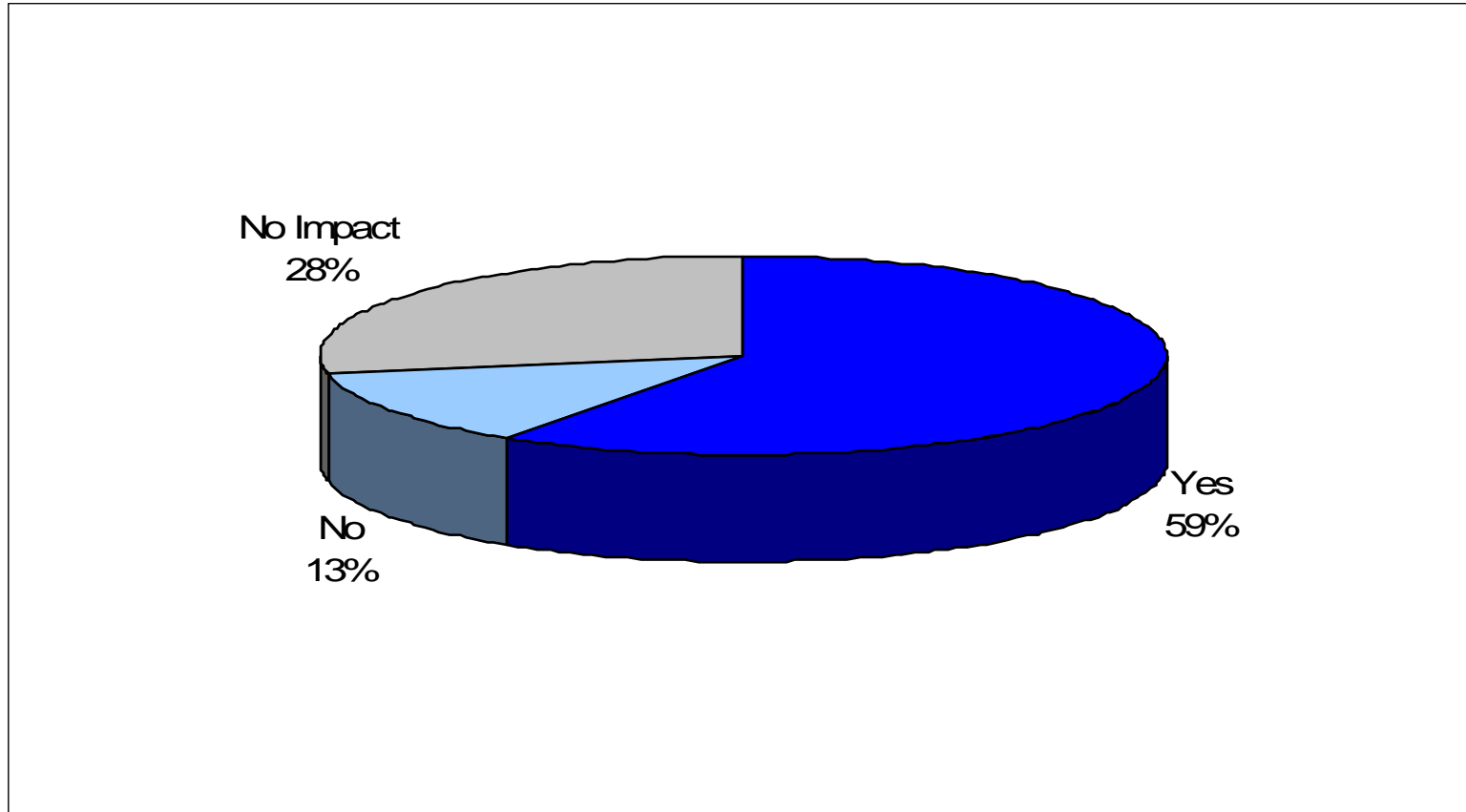
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Will mergers be between smaller airlines or between a major and a smaller one?



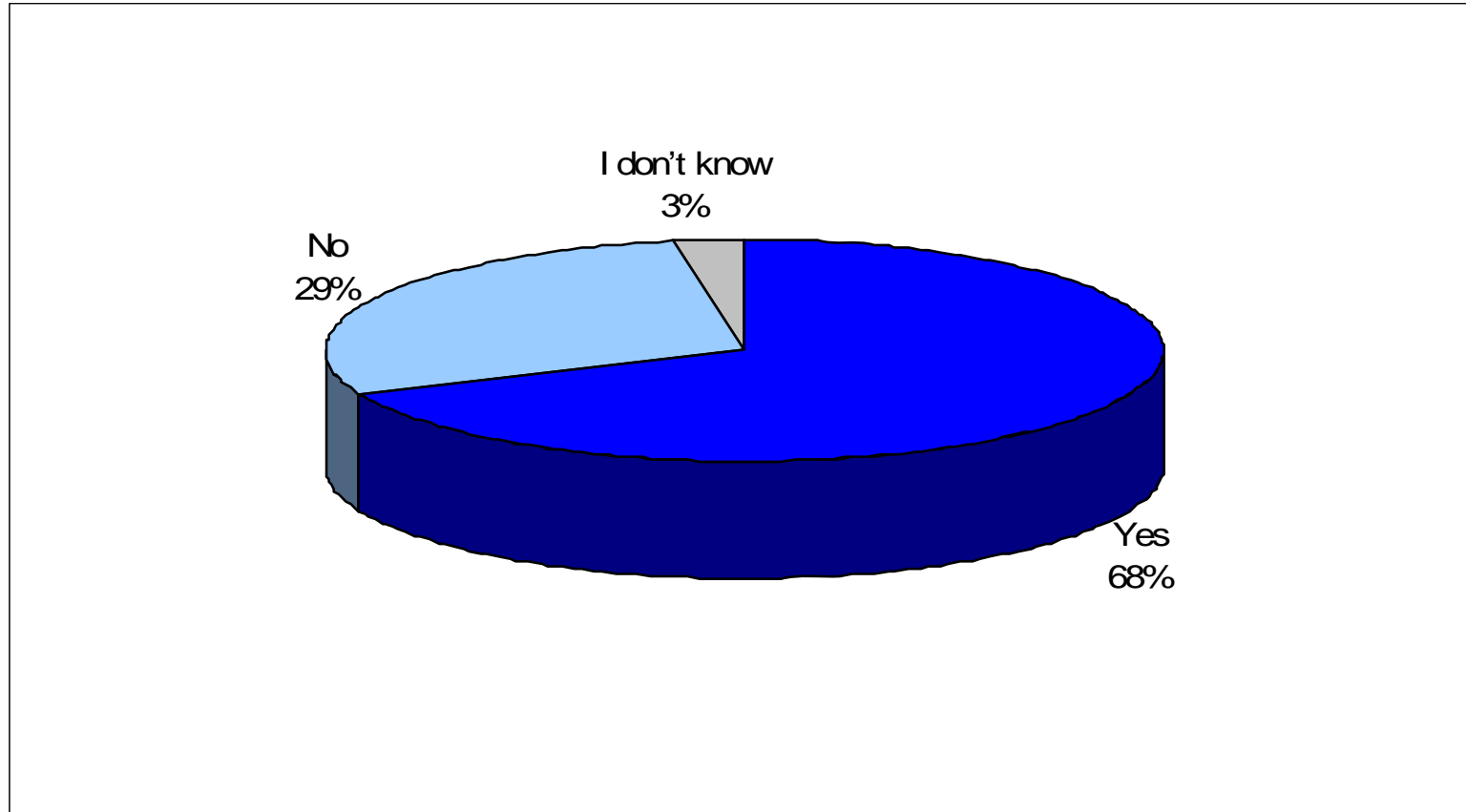
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Will mergers impact on the balance of power within the alliance?



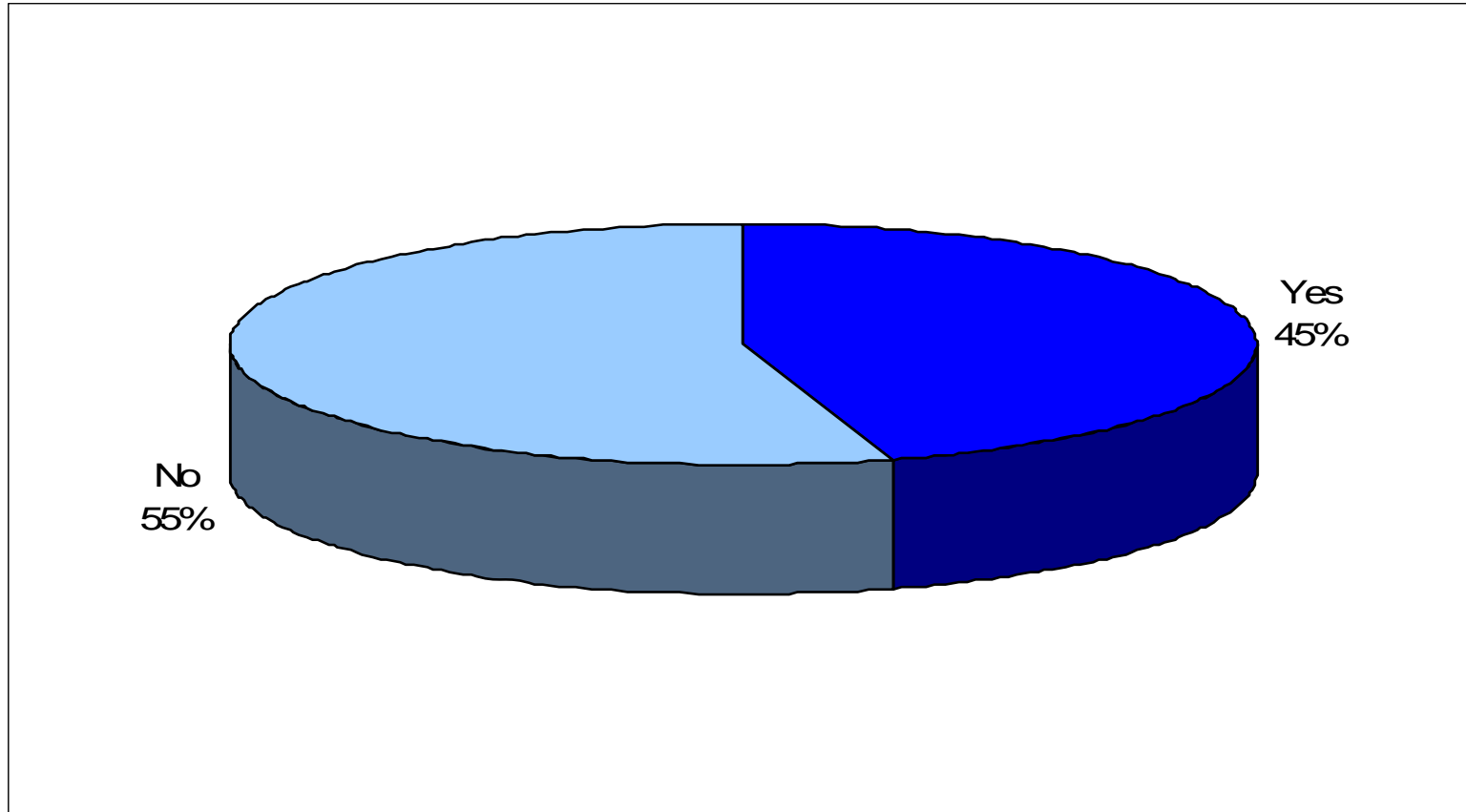
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Will mergers occur within the same alliance?



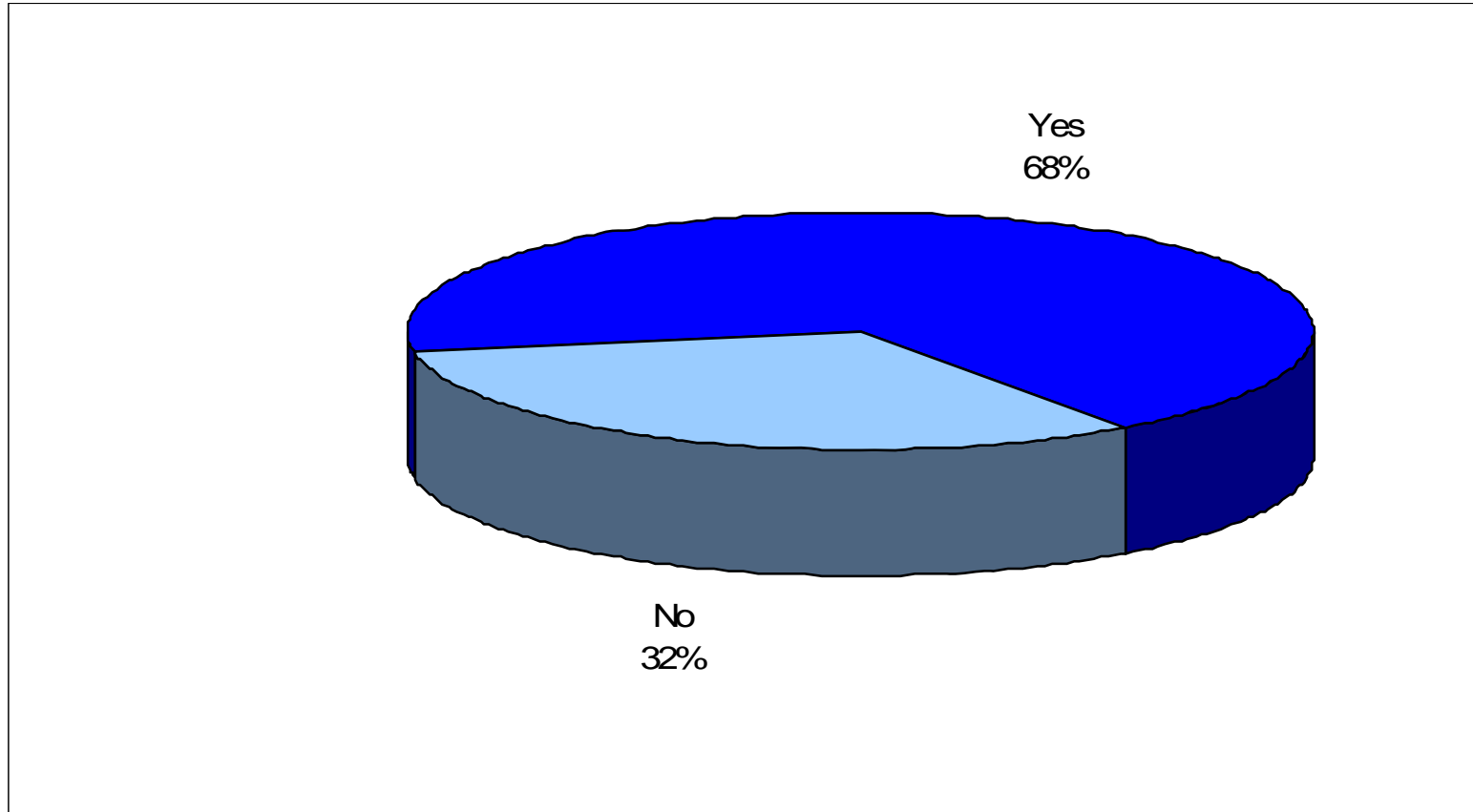
Perception of Airlines about Mergers

Will there be multilateral mergers?



Perception of Airlines about Mergers

Will there be cross-continent mergers?



Conclusions

- ➔ Global airline alliances have developed in response to the economic demand of global markets and to the opportunities provided by deregulation and liberalization initiatives
- ➔ International alliances appear to be crystallizing around three major international groupings
- ➔ There are many that have argued that airline alliances are simply a second best solution
- ➔ It seems that there will be some merger activity within the next five years on an intraregional level
- ➔ Liberalization will depend on the continuous interaction between airlines – and their strategies – and the public bodies and the regulatory framework they impose





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