Coping in the **Air Transport** Sector

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Abstract | Competition is often regarded as the ultimate solution for market efficiency. In certain sectors, however, market imperfections together with scale and scope economies lead market participants to establish some sort of cooperation efforts in order to maximize the common benefit of the cooperating partners. We argue that this is increasingly the case with the air transport industry. One reason for founding an alliance is to allow its members to prepare themselves to be fit for competing in the global arena, to stay strong in order to protect the home turf, and to be confident that they will not lose neither their identity nor their independence. In this article we analyse the economic rationale behind strategic alliances in the air transport sector, namely emphasizing the individual contributions and collective benefits of airlines when merged within a specific alliance for cooperation purposes. This is an exploratory study with descriptive character based on the literature review.

Keywords | Tourism, Air transport, Competition, Cooperation, Strategic alliances.

Resumo | A competição é muitas vezes considerada como a solução definitiva para a eficiência do mercado. Em alguns setores, porém, as imperfeições do mercado, juntamente com economias de escala e de escopo levam os agentes do mercado a estabelecer esforços de cooperação, a fim de maximizar o benefício comum dos parceiros de cooperação. Argumenta-se que este é cada vez mais o caso da indústria do transporte aéreo. Uma das razões para fundar uma aliança é permitir aos seus membros prepararem-se para estar aptos para competir na arena global, para ficarem fortes para poderem proteger a sua empresa, e, ainda, estar confiantes de que não perderão a sua identidade nem a sua independência. Neste artigo vamos analisar o racional económico das alianças estratégicas, no setor do transporte aéreo, nomeadamente, enfatizando as contribuições individuais e os benefícios coletivos das companhias aéreas, quando se fundem numa aliança específica para fins de cooperação. Este é um estudo exploratório de caráter descritivo com base na revisão da literatura.

Palavras-chave | Turismo, Transporte aéreo, Concorrência, Cooperação, Alianças estratégicas.

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1. Introduction

Many industries have realised that fostering continuous face-to-face competition battles leads companies to financial exhaustion, intellectual emptiness and general worse preparedness to new stages of competition and innovation. Also, this type of competition does not secure the company the lowest cost, the best products or the highest profits.

In fact, many multinational companies have found that the best way to compete in the long run is through collaboration, hence leaving destructive competition aside as a structural option. Companies may then generate value added for customers and stakeholders, by selectively sharing and negotiating control, costs, capital, market access, information and technology with competitors and suppliers. However, this does not mean that competition ceases to exist; it is quite the opposite, as evidenced by computer and commercial aircraft markets.

Yet, competition in the airline industry is a relatively recent phenomenon, since one has to consider that the aviation sector has moved over the last quarter of the twentieth century from a patchwork of individual and state protected companies to a liberalized system of globally interconnected corporate organizations (see Martin and Voltes-Dorta, 2008; Nijkamp, 2008). The increasing liberalization of the skies both in Europe and in the US over the last few years has in turn impacted positively in the price-competitiveness of the traditional tourism packages and therefore deserves to be carefully assessed through a comprehensive approach.

In this paper, we start by briefly referring to the everlasting symbiotic relationship between the evolution of aviation and the development of the tourism phenomenon. The concept of strategy and strategic alliances is then considered by addressing possible types of partnership, management and key factors in benefit sharing. In particular, analysis will focus on strategic alliances in the air transport sector, with emphasis on the benefits and contributions of an airline to an alliance. Finally current strategic alliances will be characterized.

2. Tourism and aviation: A symbiotic interaction since ever

Tourism has only become a global phenomenon when the benefits of aviation have evolved from a privilege of a few to a market service available to all. In fact, air transport and tourism have always been interlinked; with tourism being a driving factor for and often a catalyst of change in air transport; most notably throughout the development of new business models, such as charter airlines or low-cost carriers (Biegera and Wittmer, 2006). At the same time, the evolution of air transport opened new destinations and tourism potential by allowing customers to perform long-haul excursions, on one hand, and significantly expanding demand, on the other hand, once that deregulation occurred and free market competition has set in.

As Reggiani *et al.* (2009) clearly summarize, the aviation sector has traditionally been a publicly controlled industry, with a high degree of government intervention, for both strategic and economic reasons. This process started back in 1919, with the Paris Convention stipulating that states have sovereign rights in the airspace above their territories, which lead to the necessity of establishing a series of bilateral agreements between countries willing to be flown over by international airlines. The subsequent Chicago Convention (1944) introduced a distinction between various forms of freedom for using the airspace, ranging from the 1st freedom (the right to fly over the territory of a contracting state without landing) to the 8th freedom (the right to transport passengers and cargo within another state between the airports in that state).

Consequently, the airline sector ultimately became overregulated and inefficient. More recently, however, the inevitable deregulation process started to materialize. In fact, as it became increasingly evident that the liberalization of air services between countries generates significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities and individuals affected by such liberalization, a collective consciousness started to evolve and gain advantage among both market agents and regulators. Conversely, it became also evident that restrictive bilateral air services agreements between countries was stifling air travel, tourism and business, and, consequently, economic growth and job creation.

Under this background, in the USA, the Airline Deregulation Act (1978) set the tone for a clear market orientation of the aviation sector, and around a decade later in Europe a series of gradual steps (so-called packages) have been introduced – under the political guidance of the European Commission – to ensure a full deregulation of the European airline sector by the end of the twentieth century, based on an integrated airline market ruled by fair competition and sound economic growth.

The latest and decisive step in this deregulation process was the Open Skies Agreement signed in Washington between the USA and Europe on the 30th of April 2007. This agreement entered in force on the 30th of March 2008 and has since then played a decisive role in the opening of more opportunities for air companies on both sides of the Atlantic to increase their financial viability and market shares in a free competition for the skies across the Atlantic.

This changing trend in regulatory regimes in the European airline sector has increased competition in the marketplace and prompted various new actions and strategies of European carriers in the past decade, such as mergers, take-overs and alliances. Yet, fierce competition has also led to the financial exhaustion of several existing carriers (as was the case with Swissair and Sabena). More competition in a free market in Europe has largely had the same effects as in the USA in the past, notwithstanding the fact that flag carriers managed to keep a large share of the European air transport market.

Furthermore, in the 1990s the world saw an unprecedented economic change. Along with the Berlin Wall, many other frontiers came down. Virtually overnight the world was full of new opportunities to travel and to do business. Suddenly it became possible to share work on a global scale and to build new business relationships from continent to continent. At the same time the Internet created a global village, making communication easy, fast and inexpensive while facilitating globalization, which created travel patterns far beyond the traditional economic centres such as Tokyo, New York, Hong Kong and Frankfurt.

The first decade of the new millennium has been quite hard for the airline industry. At the beginning of the decade there were security and safety problems with the terrorist attacks and the SARS epidemic. At the same time some industrialized countries experienced a downturn in their economy. Moving to the second half of the decade the air carriers have faced the rising fuel prices and as a consequence in 2008 many had negative financial results. Again many countries around the world were in recession, causing airlines to offer less seats and flights.

As a result of the above, the European aviation market is now a place of increased competition, leading, on one hand, to gains in economic efficiency and lower prices and, on the other hand, also stimulating companies to engage into strategic alliances to reinforce their competition strengths. The tourism market benefits directly from this process both through lower prices and market expansion (new destinations and routes).

Civil aviation provides the only worldwide network of fast transport, which is essential for global trade and tourism. For example, business people rely on air transport to conduct face to face meetings, but also often to enjoy a holiday in remote areas. In 2008, the air transport sector had two thousand airlines around the world, according to the Air Transport Action Group (ATAG) (2008: 2), and a fleet of 23,000 aircraft operating in 3750 airports through a network route of millions of miles.

The air transport sector is significant for tourism, growing both in parallel terms and acting as two interdependent segments. In 2008, more than 40% of the international tourists were travelling by air. Any changes made to aviation policy will impact on the evolution of tourism, be it in an adverse or a beneficial way.

The economic downturn hit particularly leisure passengers, significantly affecting low-cost airlines. They responded quickly concentrating in cheaper markets and fastest growing regions. As a result, well-known destinations such as Palma de Mallorca have been exchanged by others in the Mediterranean area, which offer lower prices.

2010 will be seen as the year of recovery for the airline industry. Both airports and airlines enjoyed a recovery in terms of traffic and profitability. The biggest growth was registered in Asia, particularly in China and India, with a growth of 9.5%, almost twice the world average. However, the highest annual increase in passenger demand was recorded in Middle East, reaching 17.8% and also capacity with 13.2% increase. This illustrates the expansion that has taken place in the region, which is also consequence of the deregulation of the sector.

Gudmundson *et al.* (2011: 323) argue that traffic growth in the Middle East is due to the fast development of its economy and population growth, the foreign workforce and religious holidays.

Following the airline trend in 2010, world tourism recovered more strongly than expected from the shock it suffered in late 2008 and 2009 as a result of the global financial crisis and economic recession (WTO, 2011: 3). The vast majority of destinations reported positive and often double-digit increases, sufficient to offset losses or bring them close to this target.

3. Strategic alliances in global marketplaces

The business world is usually portrayed as strongly competitive: to survive, a company needs to achieve a better effective performance than competitors and be ready to annihilate its opponents.

This climate of permanent conflict is not, however, necessarily the most effective and common way of competing. Based on their own experience, companies have found that they need to know when and how to compete. In fact, to know when and how to cooperate is of the essence.

In historical terms, export companies from industrialised nations sought to form alliances with companies from less developed countries, where they would be able to place and trade their products. These agreements were often conducted to gain access to markets in less developed countries, whose governments impose restrictions and local requirements to the entry of foreign companies.

As of the 1990s, leading companies from several parts of the world entered into strategic alliances, in order to strengthen their mutual capacity to serve total geographical areas and move towards global market participation. However, the projections of a few, that by 2000 there would only be a dozen major competitor networks in each sector, did not materialise.

According to Freire (1997), a strategic alliance is translated into a collaboration agreement between two or more companies, with the purpose of complementing their competences, by pursuing a common project, over a given period of time.

Tavares (2004) adds that companies join forces to share some of their strengths and face the competition of their industry, without losing their identity and independence.

The formulation of strategic alliances builds on three basic elements: the maintenance of the independence of each partner; the sharing of strategic resources; and the establishment of a validity period. These can help organizations achieve many goals that are sought through mergers and acquisitions, however, not spending so much time or resources.

Not all strategic alliances will cover the same objectives. These are determined by allied companies and may comprehend the expansion of the trade position; the acquisition of technology, commodities and components; cost-cutting efforts, the sharing of scale economies; response to local government pressure (e.g. in China and India foreign companies are required to have local partners); the filling of gaps in terms of technical expertise or manufacture; and the creation of standards. In technology-based industries, such as aerospace, the rapidly growing international collaboration mirrors the companies' wish to have access to the various technological competences. This notwithstanding, there is certainly a common purpose to any alliance, which is to create better conditions for all partners involved.

Depending on the pursued goal, alliances take the form of joint research and development, joint acquisitions, production and marketing arrangements, vertical partnerships, licensing, joint ventures and shareholding. Alliances do not always involve formal agreements; they can often be entirely informal, although this is not always explicit.

The impact of alliances on the industry's competitive nature can be considered at two levels. Firstly, there are the relationships between different groups of strategic alliances and, secondly, the relationships within the alliance itself have to be considered.

The first level focuses on the fact that the various alliance groups are competing among themselves and/or with individual companies, and it is important that, when making decisions, a member company takes into consideration the competitiveness of allied companies, as well as the relative strength of firms integrating competitor groups. By channelling their competitive energies towards the common rivals of allied companies, alliances are affecting competition. It is also worth stressing that alliances may offset corporate competitive disadvantages, influencing an industry's competitive strength/structure.

The second level shows the different degrees of influence that companies exert within the membership alliance, with existing dominant and non-dominant partners. The latter obviously intend to reach the leaders' state of competence, while the former seek to expand their influence on the industry.

International airline alliances have the effect of improving the efficiency and services of airlines, by, for example, lowering operating costs and making connections easier. They can thus lead to important pay-offs for tourists in terms of service improvements and lower fares.

4. Strategic alliances in the air transport sector

A strategic alliance is an opportunity for an airline carrier that comprises a management challenge requiring a set of resources, mostly in terms of human talent and updated information, but also involving control and distribution systems. It has become a key component of business strategy for many airlines and a way to differentiate themselves from low-cost competitors in terms of quality of service (Tiernan *et al.*, 2008).

It is clear-cut that alliances pursue different objectives and do not develop the same competences as airlines. Jaan Albrecht (Beting, 2006), who has been appointed President of Star Alliance clearly states that "we are not and we will never be an airline. We will not pasteurise our product, nor standardise our images. That is a responsibility of airlines, which we definitely are not". Strategic alliances are built on the premise of creating more value for each air carrier, originating in the extended network coverage and in operation coordination. They are assumed to perform sales leveraging, allowing cost cutting and restricting competition. Alliance partners are contractually bound to sell their partners' seats and services, often through preference in the reservation systems of travel agents, ensuring better access to the market.

Cost-cutting can be attained through a better deployment of resources, scale economies and investment maximisation. Airports from different geographical areas, such as London, Paris, Warsaw, Bangkok or Tokyo, tend to have a separate area assigned to alliances. This is the case of the Los Angeles airport terminal, which has 15 boarding gates for the exclusive use of Star Alliance members. Another way of cutting costs is to increment code sharing services, as proven by Austrian Airlines, which decided to interrupt flights from Wien to Chicago, redirecting passengers to New York, from where they would depart served by United Airlines, but maintaining the flight code of Austrian Airlines. The company continued to serve that market with no need to use its Airbus A330 in the mentioned route, which resulted in a huge resource saving.

Allied airlines seek to offer the same type of ground service in the various countries, with a certain degree of standardisation, so that passengers do not feel uncomfortable or odd in an airport served by a partner. Or even to offer the possibility of being in the same terminal. Narita was the first major international hub in Asia where passengers find most Star Alliance members collocated in one terminal. The effect on connecting times is dramatic. Transfers between international flights have been reduced to 45 minutes, down from approximately 100 minutes. Narita was followed by Bangkok and other cities followed.

Figure 1 below lays out the tasks expected of a member company and, on the other hand, which benefits it is expected to eventually reap.

According to Weber (2005), alliance partners recognize as major benefits the increased revenues and passengers, a larger scale, access to slots, a higher frequency of services, more comprehensive route networks, economies of scale in marketing and the elimination of duplication of operations. Similarly, Iatrou and Alamdari (2005), in a paper, concluded that in 2002 companies believed that belonging to an alliance brought about an increased occupancy rate, and higher revenue and profits. If they had chosen to continue not to be part of an alliance this could have meant a loss of traffic for allied companies, which would place them in a situation of competitive disadvantage. This is confirmed by Kleymann (2005) who concludes that airlines, by seeking to form alliances, are making a necessary defensive move.

More people want to fly to more places more easily and for greater value, however a single airline will not be able to serve all the markets its customers wish for. It is constrained to serve this demand by government restrictions and business economics. Whereas it is part of an alliance it will be able to offer the services required without having to increase

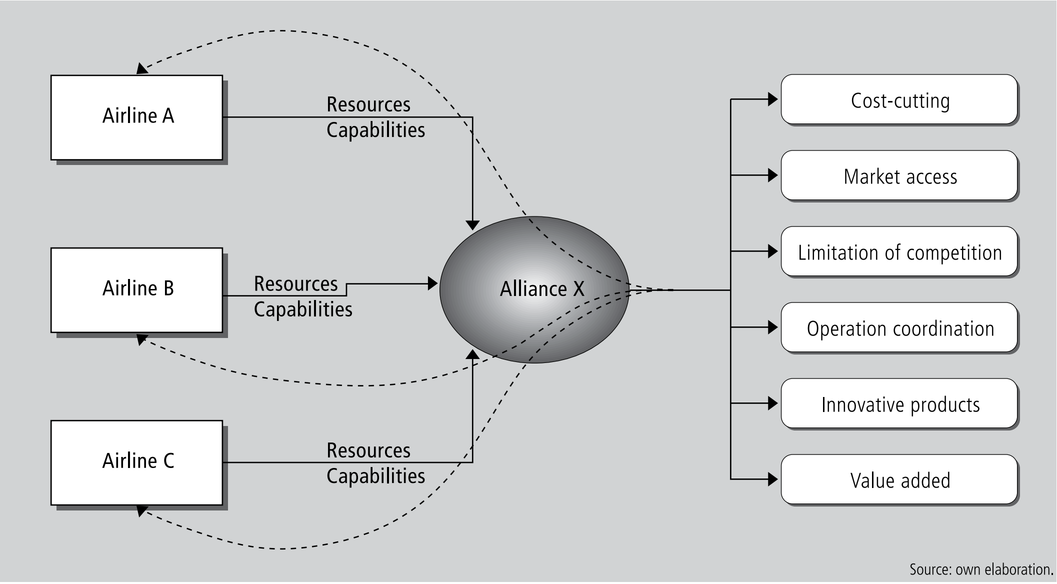

Figure 1 | Contributions and benefits of an airline integrating an alliance.

costs. Moreover it will be able to achieve substantial efficiencies through working more closely together, especially in financially difficult times as we are living today. Alliances also help improve airlines' revenues and provide opportunities for growth, by feeding passengers between members' networks.

Alliances may allow for the specialisation of a company, enabling it to concentrate on forecast products without wasting resources. However, this creates a certain degree of dependence vis-à-vis the alliance itself. Should it fail, the company will be in a situation of competitive disadvantage, e.g. in relation to a market it may have abandoned. Companies need therefore to understand this independence/dependence duality and be guided by an approach that does not excessively depend on the alliance of which they are members.

The positioning of airlines vis-à-vis strategic alliances has evolved, given that in the 1980s they were only considered for simple immediate growth, access to new markets and the possibility of circumventing bilateral restrictions. The air transport industry up until then was not liberalised, and this hindered the development of air carriers along the same lines as other industries. The sector saw high losses in the early 1990s, due to the decline in air transport demand, and again early this decade (in the wake of the terrorist attacks on 11 September, unfavourable economic conditions and the SARS epidemic). This boosted the potential for strategic alliances, given that it allowed partner companies to gain access to their partners' customers without having to create new services or purchase more aircraft, giving rise to increased revenue and profits for airlines.

A number of companies attempted to strengthen their market position through the merger or acquisition of rival air carriers, consolidating operations under a brand name. SAS – Scandinavian Airlines (SAS) acquired its Norwegian competitor Braathens, and American Airlines acquired the distressed airline TWA – Trans World Airlines (TWA).

By endeavouring to protect national interests, legislation has not allowed for an unlimited growth of airlines in foreign countries, which has also fostered the emergence of strategic alliances. Iatrou and Alamdari (2005) illustrate the example of non-European air carriers, which may only acquire up to 49% of a European company, with no chance of gaining a dominant position. The same holds for the United States, although the limit in this country is much stricter, i.e. a share of only 25%.

An air carrier gains a strong position in an alliance if it dominates an attractive, highly profitable market, entry into which is, however, difficult, due to its being geographically remote or to cultural barriers. This occurs even in case of a deregulation situation. The Japanese airline ANA – All Nipon Airlines is a partner of Star Alliance, having opened access to that important market. In turn, ANA – All Nipon Airlines cut down the number of its intercontinental flights and started offering them through partner airlines.

Airlines may also reach a strong position in an alliance if they offer a series of different connections to specific markets. This is the case of British Airways, Air France or KLM – Royal Dutch Airlines (KLM).

According to Luíz Mór, TAP vice-president (Teles, 2006: 155), being part of an alliance makes it easier to sell your airline in other markets beside the home market. Moreover it allows selling destinations where it does not operate and in the process sell part of the trip. For example, if someone travelled from Portugal to China would probably fly from Lisbon with Air France, Lufthansa or British Airways. Since TAP became member of Star Alliance, the passengers travel from Lisbon to Frankfurt with TAP and then with Lufthansa. This is important in order to keep the customer. Furthermore, an airline will decide to fly to a new destination if it is connected to an alliance, because it will be a much more sustainable decision as the risks will be shared. Mór stresses that the customer is willing to fly anywhere in the world and, if an airline wants to be part of the game, it has to offer the whole world, thus the best way is to be part of an alliance.

BA and Iberia's tie-up is expected to deliver €400 million in synergies by year five (Flightglobal, 2011). Around €150 million will come from joint marketing and revenue management activity, but the vast majority – €250 million – will stem from cost savings with IT and maintenance synergies representing around half the total.

4.1. Current strategic alliances

Strategic alliances share common goals, such as distinctive features that imply exclusiveness, in contrast to simple networks of partners with no formal integration. More than two thirds of the international airline industry are organised in alliances. The industry has inherited the model and there is no sign on the horizon that the model is losing its strength.

Airlines integrating a given alliance restructure the flight connections they serve, especially intercontinental flights, guiding their operations towards hub airports, granting partner companies flight connections to secondary cities. For 20 years SAS airlines has been serving 36 intercontinental locations from Copenhagen, although a few only once or twice a week and with several stops; in 2004 it served only eight, but almost all on a daily basis, totalling more flights than before.

It is instrumental for alliances to have partners in every major geographical area in the world, so as to be able to easily access any area. In the oneworld alliance Finnair and Iberia cover the far north and south of Europe, with Iberia also reaching the Latin American market. Local partners define key hubs par excellence. In Europe, however, there is duplication in coverage by each alliance, given that in historical terms each country had its flag carrier with one or more hub airports.

At present there are three global strategic alliances, which in 2007 had about 70% of the market, measured in RPK, considering all IATA airlines. Star Alliance had achieved 27.7% market share, followed by SkyTeam with 23.9% and oneworld with 19.6% (European Commission, 2008). The remaining 30% are for non-allied carriers such as Emirates, China Eastern Airlines or Virgin Atlantic Airways, however, it is expected that this percentage decreases as global alliances are increasingly attracting companies, especially from emerging markets like India and China.

Members of current strategic alliances are listed in Table 1, where you can see the fluid nature of this type of grouping, which allows entry and exit of airlines and the possibility of any carrier joining a rival alliance, as is the case of Continental Airlines and Mexicana.

4.1.1. Strategic Alliance "Star Alliance"

Following a serious of previous agreements between some major airlines and seeing the benefits that could be expected, five air carriers decided to form an alliance. Air Canada, Lufthansa, SAS, Thai Airways International and United Airlines launched Star Alliance on 14 May 1997, thus, creating the first global airline alliance, as a result of several previous successful agreements between some of these companies. As of October 1992, when Air Canada and United Airlines signed an alliance agreement, there was a succession of partnership contracts at various levels between a number of companies, namely at the level of joint marketing, code sharing flights and schedule coordination.

The launch of Star Alliance was targeted at facilitating global air transport, focusing on the coordination of flight connections, making them simpler, with no delays for customers, and extending frequent flyer benefits to the whole network, including lounge access for executive classes at the airport.

The alliance is currently composed of the founding airlines, in association with Air China, Air New Zealand, ANA-All Nipon Airways, Asiana Airlines, Austrian Airlines, BMI – British Midland, Brussels Airlines, Continental Airlines, EGYPTAIR, LOT Polish Airlines, Shanghai Airlines, Singapore Airlines, South African Airways, Spanair, SWISS, TAP Portugal, Turkish Arilines, US Airways and the regional companies Adria Airways, Blue 1 and Croatia Airlines. Adherence by this type of airline allowed for the expansion to other regions and other types of customer, thereby improving the competitive positioning of members.

Table 1 | Members of the current strategic alliances and year of admission

Star Alliance	*SkyTeam*	*oneworld*
United Airlines (1997) Lufthansa (1997) SAS – Scandinavian Airlines (1997) Air Canada (1997) Thai Airways International (1997) **Varig Brazilian Airlines** (1997/2007) Air New Zealand (1999) ANA – All Nippon Airways (1999) Austrian Airlines (2000) Singapore Airlines (2000) bmi – British Midland (2000) **Mexicana Airlines** (2000/2004) Asiana Airlines (2003) Spanair (2003) LOT Polish Airlines (2003) US Airways (2004) Blue 1 (2004) Adria Airways (2004) Croatia Airlines (2004) TAP Air Portugal (2005) Swiss International Air Lines (2006) South African Airways (2006) Shanghai Airlines (2007) Air China (2007) Turkish Airlines (2008) Egypt Air (2008) Continental Airlines (2009) Brussels Airlines (2009)	Air France (2000) Delta (2000) Aero Mexico (2000) Korean Air (2000) CSA, Czech Airlines (2001) Alitalia (2001) KLM Royal Dutch (2004) **Continental Airlines** (2004/2009) **Northwest Airlines** (2004/2008) Aeroflot (2006) Air Europa (2007) **Copa Airlines** (2007/2009) Kenya Airways (2007) China Southern Airlines (2007)	American Airlines (1999) British Airways (1999) Cathay Pacific (1999) Qantas (1999) **Canadian Airlines** (1999/2000) Finnair (1999) Iberia (1999) LAN – Latin American Airline Alliance (2000) Royal Jordanian (2007) Malév Hungarian Airlines (2007) JAL - Japan Airlines (2007) Mexicana (2009)

Source: Oneworld/SkyTeam/StarAlliance (2006, 2009, 2010, 2011).

The Star Alliance is responsible for about 19 700 daily departures – which corresponds to any member of the alliance take off or land every three seconds somewhere in the world. It serves 175 countries and 1,077 airports with a fleet of 3 993 aircraft. Holder of a total of 458,817 employees, it has enabled the transportation of 603.5 million passengers in 2009.

4.1.2. Strategic Alliance "oneworld"

Not long after the first strategic alliance was formed, some other carriers felt the need to grow on sustainable terms in the global market. On 21 September 1998 five world market leader airlines announced the setting-up of a new customer-oriented global alliance. American Airlines, British Airways, Canadian Airlines, Cathay Pacific Airways and Qantas Airways intended to raise the standard of air travel worldwide. With this purpose in view, they would use the name and logo of the oneworld alliance in addition to the airline's identification in airports and in other information signs, schedules and printed materials. Companies committed to carry out joint advertising campaigns in key markets around the world, to help implement the alliance's slogan "oneworld revolves around you".

The alliance currently comprises Cathay Pacific Airways, Qantas, Finnair, Mexicana, Iberia, Japan Airlines (JAL), Malév, LAN and Royal Jordanian, in addition to American Airlines and British Airways with their 17 affiliated companies. Together oneworld members serve 727 destinations in 142 countries; operate more than 8,300 departures per day – which means an average of departure or arrival every 5 seconds – with a fleet of 2,269 aircraft. It was responsible for carrying more than 320 million passengers in 2009.

4.1.3. Strategic Alliance "SkyTeam"

Two other giants recognised that they would benefit from a close relation, without the inconveniences of a merger. On 22 June 1999 Air France and Delta Airlines signed a long-term strategic agreement, which laid the foundations for a great global alliance. In August that year they launched the SkyTeam Europe Pass, with the purpose of offering simplicity and speed, low prices and the possibility for customers who visited multiple destinations in the European continent to earn additional frequent flyer points.

Precisely a year after, the signing of a strategic agreement between Air France and Delta Airlines, the setting-up of a new consumer-based global alliance was announced. At the time SkyTeam counted on the participation of Aeromexico, Air France, Delta Airlines and Korean Air. In this period, the alliance offered 6,402 daily flights to 451 destinations in 98 countries. Its major concern was to provide a consistent level of performance, quality and detailed attention, customer service wise. Hence the slogan "Caring More About You".

However, the alliance was not limited to passenger traffic agreements. In September 2000 partners decided to widen the scope of the cargo handling contract.

SkyTeam is composed of Aeroflot, Aeromexico, Air France, Alitalia, China Southern Airlines, CSA - Czech Airlines, KLM – Royal Dutch Airlines, Delta Airlines, Korean Air, Air Europa and Kenya Airways. The eleven companies offer 13,133 daily flights to 856 destinations in 169 countries, having lost the leading position in the number of daily flights offered.

Allied companies recognise that being part of an alliance enables them to provide their customers with more services and benefits, which they would not be able to provide on an individual basis. This includes a widened network of routes and the opportunity to earn and redeem frequent flyer miles and points throughout the whole network. In addition, they consider that the existing relationships between allied airlines are intensifying.

Graphic below (Figure 2) illustrates developments in airline alliances from 2002 to 2009 at the level of served countries per alliance. SkyTeam records rises by 48%, the most significant increase in the reference years, while Star Alliance reaches a 29% increase and oneworld is just about the same throughout this period, experiencing a slight decrease between 2002 and 2004.

As regards daily departures, developments are similar to previously illustrated data, with the oneworld alliance declining in 2003 and recovering somewhat in 2004 in terms of daily departures per alliance, as shown in Figure 3. It still does not have as many daily departures as it did in 2002. SkyTeam saw a remarkable 121% increase from 2002 to 2009, and Star Alliance grew by 67%. The fact that SkyTeam recorded such a high growth level is due to the adherence of KLM, Continental and Northwest in September 2004.

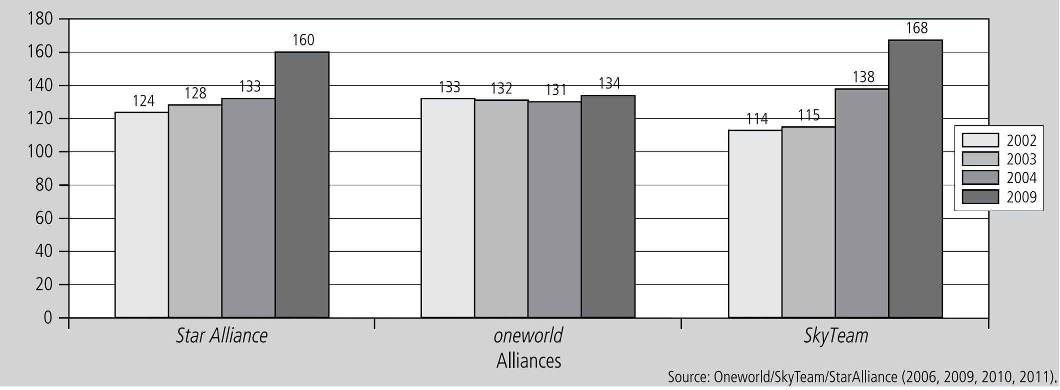

Figure 2 | Number of countries served per alliance.

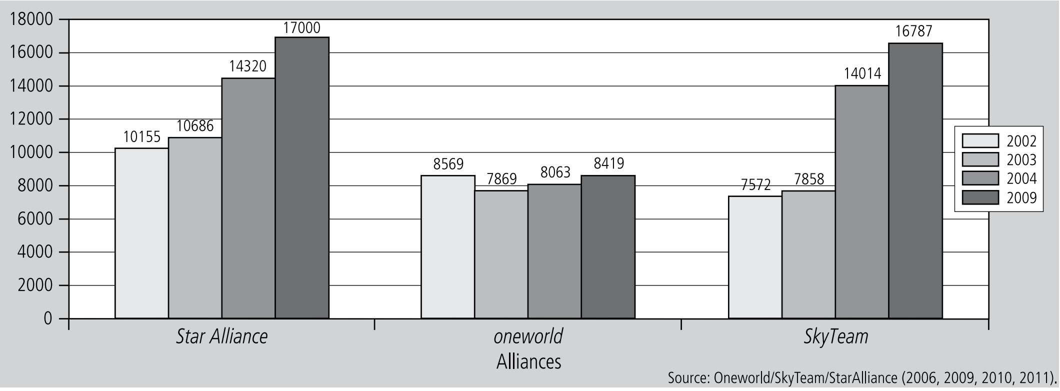

Figure 3 | Daily departures per alliance.

5. Conclusions

Tourism is today a global phenomenon with a substantial and factual economic importance in an increasing number of states around the world. The role of air transport in the wide spreading of the tourism phenomenon is sometimes so obvious and common sensed that it tends to blend in the history of aviation itself.

However, the increased competition in the air transport market stemming from the deregulation process started in Europe in the late eighties prompted a series of new actions and competitive strategies from European carriers in the past decade, such as mergers, take-overs and alliances. As a result of this process (supply shock), a new dynamic market equilibrium occurred, with increased quantities and lower prices, benefiting tourism and travel.

The air transport market is characterized by having a limited number of supply agents. This somewhat oligopolistic nature of the market implies that competitors often tend to regard certain forms of strategic cooperation as a more efficient way of competing. The increasing number of alliances established among air transport companies in the recent past is a trend reflecting this tendency to enrol into cooperative games in an increasingly competitive industry.

The conditions for the occurrence of mega-alliances between major air companies – as well as the eventual merging of existing alliances – exist therefore in the market and will eventually reinforce over time. Airports will most probably engage also into cooperative agreements with airlines, evolving to global alliances in order to ease the competition effort and keep pace with the competitive advantages acquired.

Small market niches will probably remain to be explored by low-cost airlines, which are flexible enough (namely in terms of the cost structure) to continue to benefit from the residual demand from official carriers, apart from their own competitiveness for well established destinations. In this sense, the most efficient low-cost airlines will continue to face important sources of competitive pressure from the most consolidated airline strategic alliances, namely on what regards domestic and short distance flights.

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