



ASSOCIATION OF CARIBBEAN STATES
ASOCIACION DE ESTADOS DEL CARIBE
ASSOCIATION DES ETATS DE LA CARAIBE

ACS/2010/TRANS.19/INF.001

ANNEX VI

ASSOCIATION OF CARIBBEAN STATES (ACS)

19TH MEETING OF THE SPECIAL COMMITTEE ON TRANSPORT

Paramaribo, Suriname, 23rd and 24th April, 2010

"BASES FOR THE CREATION OF A COMMERCIAL CO-OPERATION ALLIANCE AMONG THE AIRLINES OF ACS COUNTRIES"

I. EXTRACT FROM THE STUDY NOTE OF THE INTERNATIONAL CIVIL AVIATION ORGANISATION ON AIRLINE ALLIANCES

Chapter 4.8 of the Manual on the Regulation of International Air Transport (Document 9626), second edition.

AIRLINE ALLIANCES

Airline alliances, in other words, voluntary unions of airlines held together by various commercial co-operation arrangements, constitute a relatively recent and rapidly evolving global phenomenon in this sector.

An alliance agreement may include a variety of elements, such as code-sharing, blocked space, co-operation in marketing, pricing, inventory control and frequent flyer programmes, coordination in scheduling, sharing of offices and airport facilities, joint ventures and franchises.

Airline alliances, especially transnational alliances are a consequence of air carriers' response to rules perceived as constraints (for example, bilateral restrictions regarding market access, ownership and control of airlines), the need to reduce their costs through economies of scope and scale and a more globalised and increasingly competitive environment, among other factors. Numerous airlines consider such alliances to be an effective instrument for increasing their revenue and tax traffic.

Modern alliances differ from traditional co-operation among airlines (for example, resources in common) where the latter usually involves an agreement among airlines on tariffs or space sharing, costs and revenue, which usually covers double monopoly routes and provides few incentives for competition or economic efficiency; while modern

alliances are normally established based on possible synergies and structures and the servicing of complementary routes.

Alliances can be national, regional, intercontinental or global in nature and can be of any size, for a specific objective or for a specific period. Although numerous agreements are related to co-operation on a limited scale (for example, code-sharing for certain routes), the number of far-reaching strategic alliances has increased in recent years. The most significant development was the creation of several mega-alliances, within a competitive environment, that is to say, the grouping, within an alliance, of large or medium airlines that have extremely different geographic coverage and with vast combined global networks. The following are three examples of global alliances:

- **Star Alliance**, founded in 1997 by Air Canada, Lufthansa, Scandinavian Airlines System (SAS), Thai Airways International and United Airlines. (At the end of 2003, it had 15 affiliate airlines).
- **Oneworld**, established in 1998 by América Airlines, British Airways, Cathay Pacific and Qantas. (At the end of 2003, it had 8 affiliate airlines).
- **Sky Team**, founded in 2000 by AeroMéxico, Air France, Delta Air Lines and Korean Air. (At the end of 2003, it had 6 affiliate airlines).

However, participation in each alliance group can be unstable. An example of this is the group referred to as "Wings", led by KLM and Northwest Airlines, which established one of the first strategic alliances in 1989. There have been many changes in participants, the last of these being KLM, the founding member, which in October 2003, entered into a merger agreement with Air France, one of the founding members of Sky Team.

Although most alliance arrangements revolve around passenger-related services, alliances have been forged for air cargo transport. Intermodal alliances with railway services have grown in Europe and North America as well. Partnerships among alliances have also entered into this already complex environment and are usually bilateral in nature.

Global alliances have significant repercussions for airlines. Their marketing capabilities and the corresponding consequences in terms of competition, including their dominance at several airport hubs, have caused concern for the small or medium airlines regarding their survival, which has led them to develop a particular segment of a market or to compete as low-cost point-to-point airlines. Some small airlines also decided to form regional alliances with neighbouring carriers whose criteria are similar (for example, Carib Sky Alliance) and to enter into franchise agreements with major airlines.

Regulatory authorities have also been considerably interested in alliances due to their possible repercussions on market access, competition and consumer interests. Some proposed major alliances have been examined closely by the corresponding national and regional regulatory bodies; in some cases, specific regulatory measures have been

introduced to improve the anti-competitive aspects of arrangements (for example, the requirement to surrender a certain number of seats to facilitate the entry of other airlines into the market). From a regulatory perspective, the treatment of alliances among airlines varies from one State to another; said treatment is applied primarily on a case by case basis and not systematically, often taking into account aeronautical considerations and general policies of the States in question.

II. DRAFT COMMERCIAL ALLIANCE AGREEMENT FOR ACS AIRLINES, PREPARED BY THE AIR TRANSPORT DIRECTORATE OF THE CIVIL AERONAUTICAL AUTHORITY OF PANAMA.

COMMERCIAL ALLIANCE

The airlines identified in Annex No.1, hereinafter referred to as The Parties, agree to enter into a commercial alliance that shall be governed by the following clauses:

1. **OBJECTIVE OF THE ALLIANCE:** The Alliance seeks regional commercial integration among the airlines whose primary headquarters are located in the territory of the countries that constitute the Association of Caribbean States, through the completion of bilateral Collaboration Agreements such as: code-sharing, blocked space, frequent flyer programmes, joint promotion of flights or destinations, coordination in scheduling, sharing of offices and airport facilities, agreements on stop-over services and other common commercial agreements in the aeronautical industry.
The objective of the Alliance is to enhance client service, promote the exploitation of new routes and increase the number of frequencies and the complementation of the operating networks of companies, so as to more closely link the cities of the region and increase the number of business and tourism flights between them and the cities of North America and the South Cone.
2. **COORDINATION IN SCHEDULING:** In order to maximise connectivity among cities and facilitate transfers of connecting passengers and luggage, the Parties shall coordinate their schedules in so far as is possible.
3. **CODE-SHARING:** The Parties shall facilitate the completion of code-sharing agreements in order to maintain and improve their market participation.
4. **AGREEMENTS ON FREQUENT FLYER MILES:** The Parties shall consider the benefit of entering into agreements for participation in their frequent flyer programmes, so as to offer their passengers a greater option for acquiring miles.

5. **GENERAL SALES AGENT (GSA):** The Parties may enter into agreements to share the same General Sales Agent in several cities.
6. **VIP LOUNGES:** The Parties may also enter into agreements to share VIP Lounges.
7. **ADVERTISING AND MARKETING:** The Parties shall together design advertising and marketing strategies to promote new flights and routes, to, from and among the destinations in the territory of the countries that constitute the ACS, particularly tourism and business air traffic.
8. **TICKET ENDORSEMENT:** The Parties shall endorse airline tickets in accordance with interlining agreements.
9. **ALLIANCE COMMITTEE:** The Parties shall form an Alliance Committee, whose purpose shall be to settle disputes among airlines, supervise safety operations, develop Advertising Plans in general, improve passenger service using total quality criteria.
10. **COLLABORATION AGREEMENTS:** The Parties shall submit for the approval of the Civil Aeronautical Authorities, the bilateral collaboration agreements in which they are engaged.
11. **DISPUTE SETTLEMENT:** Disputes shall be resolved firstly through consultation among the Parties involved. In the event agreement is not reached, the Parties shall submit to arbitration pursuant to the provisions of the Conciliation and Arbitration Rules of the International Air Transport Association.
12. **RESERVATION:** The clauses of this Agreement and any document stemming from its implementation are confidential. Confidentiality shall be maintained even after the termination of this Agreement.
13. **VALIDITY:** This Agreement shall have indefinite duration. Nevertheless, any of the Parties may withdraw, notifying the other Parties in writing no less than 90 days in advance. The Agreement shall be terminated by consensus among the Parties.
14. **APPLICABLE LAW:** The Law of the State that is established in each Bilateral Commercial Collaboration Agreement shall apply.
15. **NOTIFICATION:** The notifications or announcements pertaining to this Agreement shall be dispatched to the addresses of the Parties listed below: (List of Airlines with their addresses, fax numbers and e-mail addresses)

Done in the City of Port of Spain, Trinidad and Tobago, this ____ day of _____, 2006.