

OVERALL VIEW OF ALLIANCES IN AIR TRANSPORT IN LATIN AMERICA



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(By Claudia Esguerra Barragán)[1]

1. ALLIANCES IN AIR TRANSPORT

During its almost one hundred years of history, Colombian air transport has been an essential component for the country's development. In the domestic arena, the air communication needs among the different regions are evident, given the distances and mobilisation times of other modes, the problems concerning safety in ground channels, the gradual development of several urban centres that have transformed Colombia into a demographically distributed country, all of which has been helped by the isolation of many of the country's regions. In the international domain, its geographic position and leading role in international trade, boosted by the trends of opening up and globalising the economy, intensified over the last decade, have also translated into significant demands for air transport, in order to mobilise products, business people and tourism flows.

These demographic, geographic, economic and social characteristics have made air transport an essential public service, as is recognised by the Law. Thus, government policies have played and continue to play a pivotal role in the development of Colombian commercial aviation.

The so-called deregulation that was adopted in the United States in 1978, led to a new trend in the

international air transport market, which began to be governed by more open commercial air agreements and with less intervention from the authority, thereby facilitating intense competition among airlines, where economies of scale are clearly determining factors in competitiveness. In that process, the size of the market and the creation of increasingly extensive networks, are key in order to ensure survival in a more open and more competitive international market, hence the reason why alliances among airlines are the order of the day as a competitive strategy in the current global aviation market and are playing more and more a crucial role in the development of aviation in Latin America.

2. ADVANTAGES AND DISADVANTAGES OF ALLIANCES

Advantages

Synergies by combining the best aspects of the parties and optimising processes.

Greater coverage of the network of routes and more convenient connections.

Take better advantage of resources by consolidating and rationalising the supply, maximise the use of aircraft and achieve economies of scale that would result in increased efficiency.

Transfer of technology and best practices, thereby strengthening competitive advantages.

Greater coverage of sales, access to new markets and facilitation in optimising distribution channels.

Greater potential for clients and strengthening of loyalty strategies.

Increased capital resources for the development of markets and/or technologies.

Expansion of the network and the offer is one of the principal advantages promoted by the development of alliances, which represent benefits for users and are a decisive factor for justifying amalgamations, mergers and acquisitions, provided that there is the assurance of compliance with the rules of competition.

In short, in addition to providing airlines with a global presence, Alliances help to generate a wider variety of services for clients – greater frequencies and routes, improved connections, merging of frequent flyer loyalty programmes, joint use of VIP rooms, single billing for trips that involve flying with more than one company, etc. – while giving member airlines greater purchasing power, they also promote synergies, etc.

Disadvantages

Conflicts of control regarding the decision making capacity and interest of members in the management of the company.

Different approaches in the business models prior to the alliance and excessive costs resulting from the adjustments required during the alliance process, such as the standardisation of fleet, processes and technology.

Possible objections or conditions by the authorities regarding the rules of competition, which can create uncertainty in the alliance process.

Possible adverse effects for users if there are no proper control tools to prevent unfair practices in competition.

3. RECENT ALLIANCES IN LATIN AMERICA

In the different regulatory contexts of air transport that have arisen throughout its commercial history, such as increased regulations (aeronautical protectionism) or greater opening up (liberalisation and open skies), agreements and alliances among airlines have existed and have prevailed, although with nuances in their scope, their content and the way in which they are carried out. This text will make reference only to the most recent processes that have been observed in the Latin American region.

Following the stages of development that the international air transport market has experienced, an approach of greater protectionism survived in this region until the nineties, in which the different countries, with several nuances, negotiated air traffic rights under the concepts of real and effective reciprocity and with market access restrictions and rigorous tariff control. In that framework of increased market regulation, curiously, it accommodated agreements among operators and on many occasions, these were the vehicle for achieving an increase in capacity, which was conditional on the existence of a previous agreement among the airlines. They can be cited as typical during that stage, pool agreements, royalty agreements or Joint Venture agreements. It was considered symbolic during that era, the LACSA-AVIANCA-VIASA alliance, which operated as a tri-pool to cover the San José-Panama-Barranquilla-Caracas-San Juan route. It seemed to be a contradiction that in an environment where competition was restricted, the authorities would facilitate agreements among airlines, which translated into much more closed market structures. Added to this, in some cases, was the promotion or even demand for tariff agreements among operators, through clauses agreed to in the bilateral treaties on air traffic rights.

The nineties saw the onset of the promotion in Latin America of a much more flexible model for negotiating air traffic rights, in the framework of the international trends taking place in the United States and Europe, of adopting models referred to as open skies, models which, at least conceptually, are more compatible with alliances among operators, as long as the barriers to accessing air routes are eliminated. In this new more liberal air market environment, the typical commercial alliance agreement among airlines has become the code sharing agreement, and in so far as this is reproduced, involving multiple operators, the road is paved for the so-called Global Alliances, as networks of airlines that follow a commercial pattern that seeks to standardise benefits for clients, through frequent flyer programmes with the consequent accumulation of miles, standardised recording processes, VIP rooms, class upgrades, etc.

Considering this brief description of the regulatory environment, presented below are the most recent experiences of alliances among airlines in the Latin American region, which demonstrate a coming together of the competitors in different groups of airlines, which can be considered as a distinctive feature of the current scheme of alliances in the region.

3.1 GRUPO AVIANCA-TACA (AVIANCA-TACA GROUP). As the background of the amalgamation of AVIANCA with TACA, it is necessary to point out that since the end of the nineties, the Salvadorian airline Taca International began creating a group of operators, referred to then as the Grupo Taca (Taca Group), made up of LACSA of Costa Rica, AVIATECA of Guatemala and TACA PERU, for the purpose of achieving better negotiating conditions, particularly in fleet acquisition contracts, based on a larger scale. For its part, the Colombian airline AVIANCA, between 2000 and 2001, had promoted the first great alliance in the recent history of Colombian commercial aviation, known as the Alianza Summa, comprising the national airlines AVIANCA, SAM and ACES, authorised at the close of 2001, but which was dissolved in 2003 with the bankruptcy of ACES, subsequent to which SAM was absorbed by AVIANCA (2010). The decision by AVIANCA to accept in 2003 the so-called “chapter 11” to restructure its difficult financial position, led to the purchase of this airline in 2004 by the Brazilian group Sinergy, then owner of the Brazilian company OCEAN AIR. Since then, AVIANCA has followed an ongoing process of recovery and strengthening, which led it in 2008 to propose a strategic union with the airlines of the Grupo Taca, creating the AVIANCA-TACA alliance, in order to strengthen its competitive position, establishing one of the largest air transport networks in Latin America, thereby facilitating connectivity from its multiple system of connection centres, in Bogotá, El Salvador, San José de Costa Rica and Lima; which allows it to offer a broad coverage of destinations, schedules, frequencies and a larger fleet. In 2010, the Ecuadorian airline AEROGAL joined this alliance.

3.2 GRUPO COPA AIRLINES (COPA AIRLINES GROUP). By 2000, COPA AIRLINES created an alliance with the former CONTINENTAL AIRLINES (presently UNITED AIRLINES), which initially involved shareholder participation and which focussed primarily on introducing new technologies in its processes, standardising and modernising its fleet and accessing more international destinations, through a code sharing agreement, all of which strengthened the Panamanian airline. Under this process, in early 2005, Copa Holdings acquired the Colombian company AERO REPUBLICA, establishing since then a strategic alliance with the Panamanian airline COPA AIRLINES, in an attempt to complement its operations and air connectivity, mainly through the Hub of Panama. COPA AIRLINES offers more than one hundred daily flights and covers almost 60 destinations in some 30 countries on the American continent, to which users can travel on direct routes to and from Panama. This operation is complemented by the flights and network of routes of AERO REPUBLICA (known today as COPA AIRLINES COLOMBIA), which services the main cities in the Colombian domestic market as well as international routes to Panama from nine Colombian cities, in addition to direct flights to several capitals in the region, such as Caracas, Quito, Guayaquil, Havana, Punta Cana, Cancun and Mexico, to name a few.

3.3 GRUPO LAN (LAN GROUP). At the close of the nineties, the Chilean airline LAN AIRLINES began an expansion process in the South American region, through a model of establishing airlines in different countries, under the same LAN trade name, seeking to service both the cabotage market

and the principal international routes. Appearing under this concept were LAN PERU, LAN ECUADOR and LAN ARGENTINA, which together with the Chilean mother airline, created what was referred to as the GRUPO LAN. In 2010, drawn by the tremendous growth in the Colombian cabotage market, which grew by more than 30% in that year the LAN group acquired the majority shareholding in the Colombian company AIRES, and one year later changed its trade name to make it consistent with that of the group, calling it LAN COLOMBIA for commercial purposes. The acquisition of AIRES by the Grupo LAN represented the presence on the Colombian market of another great competitor, with international recognition, servicing the third largest cabotage market in the Latin American region. Almost parallel to the process of acquiring AIRES, the LAN group announced the establishment of a strategic alliance with the largest Brazilian air transport company, TAM, undoubtedly one of the largest in the region, which gave rise to the so-called LATAM alliance which was just consolidated having obtained approvals from the various relevant authorities.

3.4 GLOBAL STAR ALLIANCE IN LATIN AMERICA. The recent admission of AVIANCA-TACA and COPA AIRLINES to STAR ALLIANCE, one of the largest global alliances in the world, comprising 31 members that operate more than 22,500 daily flights and service 1,292 destinations in 188 countries represents an important Latin American regional aviation presence in a true global network of the international air transport market, which will translate into improved connectivity options for users and greater benefits. Based on information disseminated by the airlines, Star Alliance passengers can enjoy access to a vast offer of flights connecting through the Copa Airlines hubs in Panama City (Panama) and Bogotá (Colombia), and in turn the AVIANCA-TACA hubs in Bogotá (Colombia), San Salvador (El Salvador), Lima (Peru) and San José (Costa Rica). Additionally, the AVIANCA-TACA and Copa Airlines client base will have access to the Star Alliance global network and to the benefits offered by the alliance such as accumulating and redeeming miles in all the associated airlines.

4. CONCLUSIONS

The permanence and expansion of the different types of alliances among airlines are part of the trends and very characteristics of the air transport market, especially in its international domain. In some cases, they respond to restrictions in the regulation of the market (such as bilateral restrictions on access to routes); in other instances, they respond to the need to reduce costs in order to remain competitive and with a presence on the market, or to the need to restructure the larger networks in the more competitive markets, so as to improve profitability.

Co-operation agreements or strategic alliances are an alternative for mitigating risks and increasing strengths, thereby improving competitiveness, although the legal method of their implementation varies according to the conditions of the environment and competition, the legal framework, the financial position of partners, etc.

In air transport business, there is no denying the great importance of increasing the scale of operations and the creation of networks of routes in the domestic, international and regional arenas contributes significantly to achieving greater scales of operation, lower costs and increased competitiveness. Market liberalisation trends have helped to move beyond the traditional concept of the flagship airline, arriving at one more scheme of airline groups (alliances) that transcend the boundaries of a single country, striving to service more extensive geographic zones. In this environment, alliances are essential in order to improve competitiveness and guarantee market

presence in the long term.

The air industry is no stranger to the trend of Alliances, nevertheless, it faces the challenge of rendering this trend compatible with a more liberal regulatory framework, in which it is imperative to ensure that competition is developed fairly and equitably.

Lastly, in the case of Latin America, it has been observed, a growing trend toward the creation of airline groups, through alliances that are in the process of development, which is evident by the different types of Agreements among airlines, such as Code Sharing, the common use of the technological platform of reservation systems and passenger records (unique code), Agreements on Aircraft Use, with respect to freight and the reciprocal exchange of aircraft, which seeks to optimise the use of the fleet and to increase the operating capacity of the airlines, in addition to several commercial agreements such as that on the joint use of a common trade name.

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