



# Marriage of convenience

Polygamy has become the secret to success among legacy carriers. **Jenny Southan** reports on why airlines are joining forces and what it means for travellers

**E**xchanging vows with your arch rival is not common among people, but for airlines, strategic knot-tying ceremonies have become more and more popular. Stronger than a codeshare but weaker than a merger, the first joint venture (JV) was between Northwest Airlines and KLM in 1997, and since then the wedding bells have rung nonstop, although there's been a fair amount of infidelity on the way.

According to research from global management consulting firm LEK, JVs made up only 5 per cent of global long-haul airline traffic a decade ago, yet by the end of 2016 it was 25 per cent. In its report *Reaching New Heights Together in 2017: How Airlines Can Maximise the Value of Joint Ventures* it states: "We believe that deeper integration between JV partners of all sizes is inevitable, and that 'virtual mergers' will become increasingly popular. By 2021, 35 per cent of all global long-haul traffic could be part of an immunised joint venture." Some experts believe it could reach 50 per cent. Whatever happens, consolidation will continue.

What are the benefits? For airlines, many. Marcel Fuchs is

vice-president of Atlantic and Pacific sales for United, which has joint ventures with ANA, Air New Zealand and Lufthansa. "Through these government-approved partnerships, we jointly co-ordinate our schedules, sales, marketing and customer service to offer many more travel options than we would otherwise be able to by ourselves. By co-operating closely and sharing the economic benefits in these relationships, we provide much better access for all customers."

A spokesperson for BA agrees: "Joint ventures allow carriers to launch new routes that otherwise would not be viable if only operated by one carrier – for example, some of our recently launched services to the US [San Jose, New Orleans and Austin] are as a result of our joint business with American Airlines. They also ensure better competition in certain markets, which is good for customers."

Lufthansa is equally reaping the benefits of a transatlantic partnership with United, with new upcoming joint venture routes from Frankfurt to San Diego and San Jose in Costa Rica in 2018.

New routes, co-ordinated schedules, more choice, and a greater variety of fares are all

JV advantages for travellers, says Ignazio Strano, vice-president, head of joint ventures and Star Alliance for the Lufthansa Group. “We are able to offer the consumer a whole range of fares irrespective of whether they are flying with United or Lufthansa. In a codeshare environment, when you put the Lufthansa code on a Thai Airways flight, for example, I can only offer what Thai offers me to sell. In a JV, you are talking to each other about prices and tying up contracts that allow each other to actually sell from the highest to the very lowest prices. This gives more opportunity to customers to travel on low fares on both airlines.”

GREATER FLEXIBILITY

Like marriages, not all JVs are the same. In fact, whisper it, they are not always the marriage of equals. They can be major, headline-grabbing tie-ups between airlines – such as Qantas and Emirates, which between them have the biggest fleets of A380 superjumbos in the world and a combined network of 2,000 routes – or they can be smaller, more strategic partnerships between the likes of Delta and Korean Air, for example. For the passenger, they promise “anywhere to anywhere” tickets, with connections available on multiple airlines through just one booking channel, as well as reciprocal frequent flyer benefits such as lounge access and miles earning and redemption.

BA says: “Joint ventures allow customers to mix and match bookings on a wider network to best suit their travel needs. For example, if you are searching for a flight from London to New York on ba.com, it will give you up to 16 choices of flights between BA and AA – this allows you to get the best possible combination of airport, flight times and price.

“Once you purchase a ticket, you can use either of the airlines’ websites to check in. If you are a transfer customer moving between the two airlines at one of the big hub airports such as London Heathrow or New York JFK, then there are dedicated facilities and global support teams on hand.”

Strangely, for airlines that spend so much marketing their distinctive brand, in a JV you often don’t know which airline you are flying on. Known as “metal neutrality”, for trade body IATA, this is “perhaps the defining feature of a JV; the airlines involved share revenue and costs on a given route no matter which is doing the actual flying”.

It has been estimated that last year’s summer flight schedule saw almost 80 per cent of available seat kilometres across the North Atlantic flown by airlines in joint ventures.

We’ve listed ten significant JVs on page 26 (for the full list, see [businessstraveller.com](http://businessstraveller.com)) but it is a fast-moving space. To take one example, in 2012, Virgin sold a 49 per cent stake to Delta; this year it handed Air France-KLM an additional 31 per cent of the pie in return for £220 million, leaving Virgin with only 20 per cent, and no majority control. (To complete the circle, Delta is buying a 10 per cent stake in Air France-KLM.)

*‘Joint ventures allow customers to mix and match bookings on a wider network to best suit their needs’*





*These marriages of convenience are also a reaction to competition from low-cost carriers*

What does this mean for travellers? Shai Weiss, chief commercial officer for Virgin Atlantic, says: “Before the Delta joint venture we were simply a point-to-point carrier between the UK and North America. Post-transaction, we can connect to over 200 destinations in the US out of the major hubs both in New York, Atlanta and newly launched Portland, Seattle, San Francisco and Los Angeles. For Virgin and Delta consumers, we will also be the first JV airline to offer wifi across all its long-haul fleets.”

Despite losing majority control of his airline, Sir Richard Branson was clear about the effect for travellers. In an open letter on virgin.com on July 27, he wrote: “One of the best moves we made nearly five years ago was tying up with Delta Air Lines, to create a joint venture across the Atlantic. Part of the rationale was to provide a competitive alternative to BA

and American Airlines’ alliance and it has created a strong platform for us to promote and support our brand in this highly competitive market.

“Delta has helped us considerably with feed from America, but because we don’t have more slots at Heathrow or Gatwick we’re unable to enjoy feed from Europe or provide extra onward journeys for those customers we are now carrying to London. Today, I’m delighted to say that we’ve agreed with Air France-KLM and Delta our collective intention to form an enhanced joint venture, including Alitalia, which will be extremely beneficial to our airline, our customers and the brand.”

**LOW-COST RIVALS**

While JVs have been used to combat competition from Gulf airlines for some years, they are now also a reaction to rivalry from

**JV JARGON BUSTER**

**ALLIANCES** – there are three airline alliances, Oneworld, Star Alliance and Skyteam. Although these allow for partnerships between member airlines, they don’t have the same regulatory approval as joint ventures so relationships don’t go as deep.

**ANTITRUST IMMUNITY** – status granted by authorities such as the US Federal Aviation Authority that ensures joint ventures don’t create a monopoly and remain in the customer’s interests.

**CODESHARES** – a weaker agreement whereby two or more airlines market and sell the same flight. For example, you could fly on a BA plane booked on aa.com, earning the same points and paying the same price as on ba.com. The code for this flight shows up as both BA6138 and AA6138. Joint ventures often include codeshares.

**INTERLINE AGREEMENTS** – JVs allow passengers to buy connecting flights with partner airlines in the same booking. Both or all airlines have shared duty-of-care responsibilities towards the traveller so if the first flight from Frankfurt to Chicago with Lufthansa is severely delayed, for example, then United guarantees to get you on your onward connection to Detroit for free. Airlines call this “seamless connectivity”.

**METAL NEUTRALITY** – within a joint venture, it doesn’t matter which airline’s aircraft (or “metal”) you physically fly on. Prices, schedules, frequent flyer miles, routes and connections are all aligned, and the airlines share the revenue.

**OPEN SKIES** – government agreement made in 2008 to allow EU airlines to fly without restriction to any city in the US, and vice-versa.

**RECIPROCAL BENEFITS** – passengers are granted the same frequent flyer miles and lounge access rights regardless of the airline they actually fly on.

**WING-TO-WING FLIGHTS** – when flights with two different airlines depart at the same time. Within a codeshare, airlines can’t work together to avoid this, but within a joint venture they can. They can optimise their schedules so flights depart at different times throughout the day to give passengers more choice.

low-cost carriers, which have been eating into the profits of traditional airlines for some years. More recently, the emergence of low-cost long-haul operations across the Atlantic has created even more of a shake-up, with the likes of Norwegian, Westjet and Iceland's Wow siphoning off customers who might otherwise have flown with BA or Virgin Atlantic, for instance, to the US.

The battle is set to continue as budget airlines seek out their own partners. Ryanair announced a tie-up with Air Europa earlier this year, allowing customers to connect to 20 destinations from the Spanish airline's long-haul network of destinations (including Boston, Miami and New York) via Madrid, and make Air Europa bookings on ryanair.com.

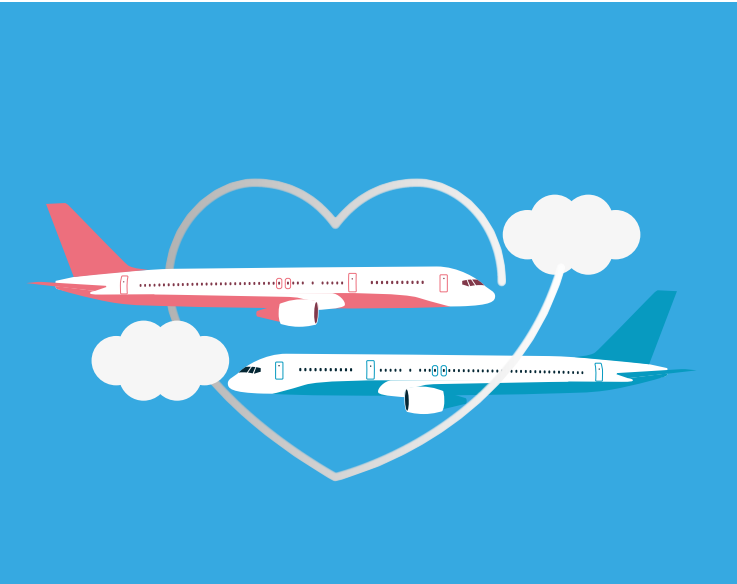
Ryanair chief executive Michael O'Leary said: "This partnership is the latest enhancement as we continue our journey to becoming the 'Amazon of travel'. We continue to speak to a number of other

long-haul airlines about potential connecting flight partnerships and we look forward to offering our 130 million customers an even greater choice and range of long-haul services in 2018."

Meanwhile, Norwegian has announced a new relationship with Easyjet to get feeder flights from across Europe on to its low-cost services to US cities such as Las Vegas, LA and Oakland-San Francisco (see Upfront, page 8). In the East, low-cost airline Air Asia has now signed a memorandum of understanding with Air China to launch a new budget carrier called Air Asia China. Air Asia chief executive Tony Fernandes was reported as saying: "This Chinese venture represents the final piece of the Air Asia puzzle" as it "closes the loop" in the region.

Whether it is the last marriage of convenience remains to be seen, but for airlines, while there may be an occasional mention of love, signing that bit of paper is all about business. ■

*The emergence of low-cost long-haul operations across the Atlantic has created even more of a shake-up*



10 AIRLINE JOINT VENTURES

♥ **VIRGIN ATLANTIC + DELTA + AIR FRANCE-KLM + ALITALIA**

This five-way love affair covers more than 200 destinations in North America, six in the UK, and 100 in Europe. There are nine daily flights between London and New York, 39 flights a day between the UK and North America, and more than 300 flights a day between Europe and the US. Air France-KLM, Delta and Alitalia are members of Skyteam. Virgin Atlantic prefers to maintain its independence and is not a member of an alliance.

♥ **AIR FRANCE-KLM + DELTA + ALITALIA**

The Italian airline joined the Air France-KLM-Delta JV in 2010 to create a three-way partnership. Together, they offer 250 transatlantic flights, with 300 destinations in North America and 250 in Europe, Asia and Latin America combined. It operates out of seven key hubs – Amsterdam, Atlanta, Detroit, Minneapolis, New York JFK, Paris CDG and Rome Fiumicino – together with Cincinnati, Salt Lake City and Seattle. Skyteam shareholders approved the sale of a 10 per cent stake in Air France-KLM to China Eastern in September.

♥ **BRITISH AIRWAYS + IBERIA + AMERICAN AIRLINES + FINNAIR**

Not content with all being part of Oneworld, this enhanced British-Spanish-American-Finnish four-way covers more than 160 cities in Europe and 240 in the US. It offers 120-plus transatlantic flights a day, including up to 17 between London and New York. BA, Iberia and AA put a ring on it in 2010. Finnair was invited to the party in 2013. Together they have hubs at Chicago O'Hare, Dallas-Fort Worth, Helsinki, London Heathrow, Madrid and New York JFK.

♥ **BRITISH AIRWAYS + JAPAN AIRLINES + FINNAIR + IBERIA**

British Airways entered into a Siberian joint venture with Japan Airlines, also a member of the Oneworld family, in 2012. After feeling left out in the cold, Finnair was welcomed with a warm embrace two years later, followed by Iberia in 2016. The four airlines now align prices and schedules on flights between Europe and Japan.



♥ **BRITISH AIRWAYS + QATAR AIRWAYS**

Last year, BA extended a hand to Oneworld carrier Qatar Airways, to create a combined network of 70 destinations. In a similar way to people double-barrelling their surnames, the two airlines now codeshare (BA/QR) on services between London and Doha, as well as connecting flights worldwide.

♥ **LUFTHANSA + AUSTRIAN + SWISS + ANA**

The German and Japanese carriers were given antitrust immunity to allow them to join hands in 2011, but the following year decided they wanted Austrian and Swiss to get in on the action too, and their plans were formalised in 2013. Today this JV covers all 196 weekly flights on 11 of the participating airlines' routes between Japan and Europe. They are all part of Star Alliance.

♥ **LUFTHANSA + AUSTRIAN AIRLINES + SWISS + BRUSSELS AIRLINES + UNITED + AIR CANADA**

This is a veritable gang-bang of a JV, with the Lufthansa Group joining forces with North American carriers United and Air Canada. It came about from relationships between Air Canada, Lufthansa and United in 2009 (Austrian, Brussels and Swiss came later), and now encompasses 10,000 daily flights to 570 destinations.

♥ **LUFTHANSA + SWISS + AUSTRIAN + AIR CHINA**

After two years of wrangling, these four airlines tied the knot in 2016 with a polyamorous route- and revenue-sharing deal between Europe and China that started this summer. If they wanted to get any closer, they would have to merge.

♥ **LUFTHANSA + SWISS + SINGAPORE AIRLINES**

Papers were signed for this union back in 2015. Today, the joint venture provides passengers with 20 codeshare routes from Zurich and Munich to South East Asia and the South West Pacific.

♥ **QANTAS + EMIRATES**

These two airlines set up a mutually beneficial partnership in 2013 and now have a combined network of 2,000 routes via three hubs – Perth, Singapore and Dubai. Today it is reapplying to extend its JV for another five years, with 2018 plans for the reintroduction of London to Australia via Singapore in March. From Europe, passengers can fly to Adelaide, Brisbane, Melbourne, Perth and Sydney via Dubai. Also in March 2018 will be the world's longest nonstop Dreamliner B787-9 flight, from London to Perth.

*The battle is set to continue as budget airlines now start to seek out their own partners*