

**Network strategies of multihub airlines
and the implication of national aviation policies**

Contribution:

CDG and Schiphol development : The case for bilateral air services agreements.

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Introduction

In the context of a merger such as the Air France-KLM one, the new entity may implement two different strategies in using the existing hubs of Paris and Amsterdam. From one point of view, the combined group may regard CDG and Schiphol as valuable assets for its international development in the context of scarcity of slot resources. This attitude will benefit a smooth and equal development of both airports. The case for such a development will be all the more true in the framework of growth in international aviation as is the case since 2004.

Another, but pessimistic view, would be to look at some past examples where company rationalising induced a specialisation of airports. As a matter of fact, “de-hubbing” occurred at some US airports: St. Louis, Charlotte, Denver, but also at London Gatwick or Copenhagen.

This paper explains that such will not be the case with CDG and Schiphol.

Public as well as private interests will favour maintaining two different hubs

In the Air France-KLM case, Governments of both parties have committed to a “harmonious development” at the two airports, “each with a European and intercontinental dimension, in view of the stakes involved in economic and employment terms”. This joint French – Dutch declaration is a commitment to ensure that the strategies of the airlines will not be detrimental to the strategies of both airports.

From an economical point of view, the CDG-Schiphol couple displays other major differences with the de-hubbing cases experienced in the US.

As a matter of fact, the Air France-KLM group is based, from the start, on the idea that the two different carriers should co-exist as united, but distinct entities. This brings two valuable assets: as air transport is a service industry where reputation and notoriety with the public are important, the group’s interest is to keep separate and well known brand names. Second, their respective positions at CDG and Schiphol offer prospects development in a context of growing slot scarcity in Europe. Basically, the interest of the group is also to use these strategic double-position, where clearly CDG or Schiphol alone would not be sufficient.

Traffic rights constraint puts limits on the carriers’ decisions

Another difference with the “de-hubbing” cases known to have occurred in the past, notably in the US, stems from the national position of CDG and Schiphol as main airports of two separate and sovereign countries. As a result, bilateral agreements of the two countries would

put limits to an unequal development of any of the two airports. Should the combined Air France-KLM group decide to favour one of the two cities, it would, at least in the medium term, be limited by traffic rights enshrined in bilateral agreements. For instance, an entire shift of the group's operations to South Africa from CDG to Schiphol, or the other way round, would not be possible given the constraints of the Netherlands – South Africa Air Services Agreement, whereas the addition of the French and Dutch bilateral treaties with South Africa allows for a smooth and balanced development from both airports.

Specialisation in the case of liberalised bilateral Agreements

The question may then be whether, in the long term, more liberalised Air Services Agreements will allow or encourage specialisation.

To answer this question, it is necessary to look at the situation in Europe, where traffic rights are liberalised and where this restriction does not operate. At first sight, still to be confirmed by a thorough analysis, specialisation seems to take place, but is balanced. For instance, international hub connections to Southern Europe might increasingly transit through CDG because of the Air France network; at the same time, Northern Europe connections of the combined group are increasingly directed to Schiphol. Further study would need to be carried out to understand in detail specialisation and rationalisation processes within the Air France-KLM group. Such study would also need to include international routes to the US, which is the only case where both France and the Netherlands have liberalised agreements.

Specialisation in the case of regulated bilateral Agreements

In non liberalised environments, which represent the majority of international air relations outside Europe, Governments clearly have a say, in as far as they are in charge for negotiating bilateral traffic rights. Code-sharing rights are an important part of the question. One of the Authorities' roles is to help Air France and KLM benefit from the right to code-share on their combined operations. Negotiation of code-sharing provisions in bilateral treaties (such clauses need to be negotiated twice with each third country: once by the French and once by the Dutch team) requires some coordination between the two administrations. Cooperation between Dutch and French colleagues is extremely useful and has been without defect ever since the merger.

Code-sharing helps specialisation on international routes but does not decide for the strategy of the group in its choices between Schiphol and CDG. Although the negotiating and the granting of traffic rights (put limitations here, ease restrictions there) could, in theory, be used as a tool by the Governments to direct traffic between Schiphol and CDG, such is not the policy of either Governments. French and Dutch administrations are looking at the balance, but do not wish to interfere in the commercial strategy of the Air France-KLM group, at least as far as the granting of traffic rights are concerned.

Balanced specialisation in practice

What can be observed is, indeed, some specialisation, but in a balanced way. Concessions of KLM on one route are balanced by others by Air France on another one. For instance, KLM

gave up its operations to Caracas and transferred them to Air France, on which the Dutch carriers now puts its designator code. In return, Air France gave up its operations to Jakarta, whereas it now code-shares on daily KLM flights to Indonesia. The same occurred in Douala (Air France operating) against Manilla (KLM operating). Rationalisation means both suppressing and adding flights, hence the balance.

In such cases, Air France-KLM will naturally, where possible, favour daily operations. Truly, for an average Air France or KLM customer, connecting in Schiphol or in CDG does not change much to his life, especially if he had to connect anyway. However, benefiting a daily service will make a difference. Therefore, increase in service quality should therefore attract more clients and the overall traffic should grow. In the end, Schiphol will have gained more on Jakarta than it conceded on Caracas, and reversely for CDG.

Conclusion

French authorities are vigilant that the development of the Air France-KLM group should be balanced between CDG and Schiphol. They are committed to this result but do not wish to use the allocation of traffic rights to oblige the carrier to act in such a way. Instead, and from the traffic rights point of view, they prefer to contribute to the complementarities of Air France and KLM, by negotiating additional code-sharing rights with third countries and make a balanced specialisation possible.