

International Airline Fares Regulations in Conditions of Air Market Globalization and Liberalization

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Improvement of international airline fare policy is one of basic instruments of airlines commercial activity in the conditions of ongoing mounting of aircraft operating costs and tuff competition. Development of globalization processes changes the rules of game and mechanisms of international fares regulations. Present research paper discusses principles of aviation transport pricing regulations in the conditions of globalization and liberalization.

Keywords: International airline fares regulations, globalization, liberalization.

1. INTRODUCTION

International airline fares is one of three basic elements of international air transport commercial regulations, two other elements include access to the market and transport capacity. In present time we could point out next levels of International airline fares regulations:

- multilateral fares co-ordination, which is offered by the International Air Transportation Association (IATA);
- fares co-ordination is within the limits of inter - governmental agreements on cooperation in air transportation, which is offered by the International Civil Aviation Organization (ICAO);
- airline fare policy, which is conducted within limits and opportunities provided by the global, strategic and marketing aviation alliances;
- airline confidential fare policy, which is based on potential possibilities and suppositions of above-mentioned levels of regulations.

2. MULTILATERAL FARES CO-ORDINATION – RECOMMENDATIONS OF IATA

The oldest and most widespread system of multilateral fares co-ordination is IATA transportations conferences (TC) system. Conferences perform the international fares coordination within the limits of tariff areas of TC1 (South, Central and North America), TC2 (Europe, Africa, Middle East), TC3 (Central and South-East Asia, Far East, Australia and Pacific Ocean Islands), between the pair of tariff areas and at world global level. Thus IATA conducts coordinating and methodological work only. All of decisions with regard to a structure and levels of international fares are directly taken by IATA member airlines and based on discussion and mutual concordance. Governments individually and collectively occupied the following position concerning IATA activity at the field of fares multilateral coordination.

- depend upon it as on the basic mean of international fares and as on the instrument of simplification of the interline world system;
- occupied neutral position, not forbidding it and not requiring its observance;
- introduces conditions or limited its implementation.

During many years the IATA international fares multilateral co-ordination structure has been developed in more flexible, clear and less obligatory system. Following that, a question is: whether these changes allows to adapt this system to more competition terms and conditions or makes it absolutely inappropriate for decisions making which satisfy airlines and governments requests in course of multilateral fares co-ordination.

3. FARES CO-ORDINATION WITHIN THE LIMITS OF INTER-GOVERNMENTAL AGREEMENTS ON COOPERATION IN AIR TRANSPORTATION – ICAO RECOMMENDATIONS.

Reasons of international airline fares regulations by the state are:

- providing a national airline or airlines with the real possibilities for international air transportation implementation;
- providing a national airline or airlines by just and equal conditions for participating in competitive activity at international air transportation implementation;
- support to the proper national aims and tasks, for example support to international tourism and trade;
- encouragement of international air transport competition, for example by providing flexibility to the tariff policies of given airlines;
- satisfaction of international air transport customers necessities;
- uphold of difference between regular and irregular air transportations

The types of the tariff modes represent both reasons of fares regulations and the fact that these reasons are not always understood identically by the involved states. Thus, a few tariff modes are a kind of compromise, which represents different reasons retained by states with regard to international airline fares regulations. Such position combined with airlines efforts to use tariffs suitable to different markets and different segments of the same market resulted in creation of the complicated and unclear international airline fares system.

In the process of aviation tariffs co-ordination the different criteria of estimation are developed. These criteria could be set out as four categories:

- criteria related to a concrete cost and terms of application of tariffs;
- criteria, related to the cost;
- criteria, related to the terms;
- criteria of the potential consequences of the offered tariff.

Some of criteria which differ from a cost and terms of concrete tariff include the following:

- Is a tariff concerted (as a result of fare co-ordination either between the route airlines, or based on multilateral base through the IATA instruments)?
- Was a given tariff established by own initiative of an airline (for example, with the purpose of taken of leadership) or it is a gathering tariff?
- If the tariff is presented a foreign airline, what idea national airlines have?

The followings criteria, concerning the cost:

- Does a price exceed the top set limit?
- Is a price placed within the fare construction area set limits?
- How reasonably a price correlates with the long-term fully up-diffused airline aircraft operation costs taking into account a requirement of a positive income on a capital?

Quality criteria include a question about whether the state considers that:

- ether a tariff is artificially low because of governmental grant or other external support;
- or a tariff is unreasonably low taking into account a situation at the competition market;
- or a tariff is overpriced, that inflicts disbursement to the customers;
- or a tariff is unreasonably high or restrictive following the misuse of dominant position.

Because of imprecise and subjective character of these criteria the states encounter difficulties with a concordance and accordingly with an implementation of these types of criteria to the concrete tariffs. In some criteria preference aims at the potential achievement of the offered tariff. For example: whether there it is unjustified discriminatory; whether it is instrumental to the creation of monopoly; whether it lead to the general losses of all of airlines enroute or on the group of routes.

The following two basic conceptions of international air transportations development made a substantial impact on the evolution of IATA international airline fares system as well as on the evolution of development of the fare limits of inter-governmental agreements on cooperation in air transport: detailed commercial regulations (Bermudian types of inter-governmental agreements on cooperation in air transport) and liberalizations (liberalized inter-governmental agreements and Open sky inter-governmental agreements).

Actually a world market was divided in this question in a proportion 50/50). But we have to notice the last decade tendency of increase of liberalized type agreements segment. Actually the EU countries, as the first and oldest opponents of aviation liberalization philosophy, united potential opportunities of regional civil aviation, initiated signing of Open sky agreements not only with neighbor countries (including Ukraine) but also with an old competitor, namely the United States of America. The gradual decreasing of the commercial regulations results at simplification of international aviation tariffs co-ordination process.

The most conceptual form of liberalization ideology realization is Open-sky agreement where government fares control is fully removed. From one side it gives airlines unlimited possibilities in relation to development of own tariff policy and blocks possibility of state limitation or vice versa state support of tariff policy. At the other side, it actually cancels protective and preference measures in relation to national airlines. Initialing of horizontal Open Sky agreement with the EU countries caused discussion of its supporters and opponents.

Among its positive factors we should mention further push of Ukraine toward integration to EU, increase of potential opportunities not only for airport - hub "Borispol" but also for regional airports and following development of air traffic control system. Among its negative factors it is tuff competitive environment for Ukrainian airlines, which are not included in any Global alliance of airlines.

4. AIRLINE FARE POLICY, WITHIN LIMITS AND OPPORTUNITIES OF THE GLOBAL, STRATEGIC AND MARKETING AVIATION ALLIANCES

As mentioned before, philosophy of liberalization gradually developed and engulfed more considerable aviation markets during many years. This tendency resulted in the substantial increase of international air routes level of competition. But the idea of free competition is not an ideal and can demonstrate stagnation and negative tendencies on different stage of realization in changing conditions. No doubt, on the certain stage their competition is advantageous for a customer, passenger or cargo owner. A competition requires from an airline constantly perfecting conditions: high level service and fare policy flexibility. However ongoing growth of airlines aircraft operating costs provokes companies to maintain permanent regime of resources economy, which in same time results in the decline of service quality and in some case to the decline of the acceptable level of safety. From the other side, permanent exploitation on verge of profitability or unprofitable routes in general actually put normal existence of airline under a threat. In this case airlines practice non competition philosophy of collaboration and coordination of commercial activity with former opponents.

The stages of tariff co-ordination develop gradually, accordingly to the commercial policy aims of given airline. The first step of competition overcoming is signing of Bilateral Interline Agreement (BITA). If airlines consider it reasonable, they made transparent to another companies elements of the own confidential tariff system and co-ordinate confidential transfer directions tariffs (by Special Prorate Agreement (SPA)). The following step of commercial activity consolidation is signing of Code – Share Agreement: at first with a proportional sale (Code – Share Blocked Space Agreement), and then with free distribution of two airlines (Code – Share Free Sale Agreement). At the same time, level of secrecy of confidential tariffs among airlines decrease accordingly to the distance of route and practically not present at joint route. Afore-mentioned procedures show development of marketing alliances relations. Expansion of routes network and subsequent fare policy harmonization specifies on strengthening of the airlines co-coordinated commercial activity.

The most influential to the air traffics market factor is development of Strategic and Global alliances of airlines. Reason for their creation is permanent growth of airlines running expenses and unrestrained competition pressure from the low-cost airlines, which aggressively develop their activities in the different IATA tariff areas. Consolidation of most powerful airlines, which represent all of world regions, results in geometrical growth of their competitive advantages gained due to:

- multilateral co-ordination of international fares ;
- harmonization of the airlines loyalty systems;
- distribution of air transportation sales under conditions of Multilateral Interline Agreement (MITA);
- global compatible exploitation of routes;
- commercial optimizations of aircrafts parks;
- promotion of the optimized direct and transfer time-table.

The next step there could be the Strategic alliance investing. At present the most influential are four Global airlines alliances - „Star Alliance”, “One World”, “Sky Team” and “Wings”, which perform more than 50% regular passenger international air traffics in the world. Every global alliance includes in itself powerful airlines which present all three tariff areas of IATA TC1, TC2 and TC3. Consequently, passenger who appealed to the alliance member airlines sale offices or internet site can get a through fare practically at any route. This looks absolutely like an implementation of the published IATA tariffs. But in this case a price for his transportation will be less, the alliance airlines will provide more comfortable time-table, implementation of Alliance General Conditions of Service will be assured, proper level of insurance will be granted and will be provided possibility of the use of alliances global loyalty system, which has 100% advantages before any classical type airlines. As a result of these coordination actions the alliance member airline can conduct the substantial economy of direct and indirect operating costs, marketing, sales, administrative and other overheads costs. Above mentioned positions result in the full implementation of economy of scale and give possibility to offer to customers more flexible, cheap and effective international fare policy.

5. AIRLINE CONFIDENTIAL FARE POLICY

Development of own international fare policy is one of priority instruments of airline competitive activity. Actually fare policy has two main aims - increases of international flights commercial load (Load Factor) and index of yield stand on 1 passenger-kilometer (Yield Factor). As a rule these indexes are in disposition to each other. A structure and size of fares directly depend on the airline commercial activity features. It is possible to select three basic types of airlines and as a result three forms of tariff policy:

- fare policy of international regular airline;
- fare policy of low-cost airline;
- fare policy of charter airline.

A fare policy of international regular airline is the most developed and difficult instrument of the demand forming and sales promotion system. Its development consists in the detailed research of external and internal factors of pricing. It experiences direct influence of all of aforementioned levels of regulations with all of their advantages and restrictions.

As a result of this analysis airlines expand Normal Fares, which are base tariffs after three classes of service (F – First, C - Business and Y-Economy). The additional Premium class can be introduced. These types of tariffs are the basic instrument of airline for the receipt of maximal Yield Factor.

With the purpose of getting of maximal Load Factor airlines utilize the tool of the Special Fares and Discounts (Discounted Fares). The decision about their implementation made on the basis of indexes of demand elasticity and structure of existent and potential passenger flows. The Special Fares includes Excursion Fares, Promotional Fares, Group Fares and Inclusive Tours Fares. Discounted Fares is not tariffs, but discounts on tariffs, which are offered to the special categories of passengers.

The main problem of wide usage of these elements of tariff policy is possibility of commercial load filling of priority for the understated prices (low level of Flight Yield Factor). With the purpose of prevention of the noted negative tendencies of airline conduct regulations of access to the Special Fares for the sale networks (strategic control) and in a time interval (operative control). For the first

direction of regulation careful marketing demand research is conducted and accepted decision in relation to opening of sale possibility cheap Special Fares on own territory and abroad. Sale channels are thus taken into account: own direct channels (sale offices of airline), own without contact channels (telephone-call centers and internet e-ticket), sale through intermediaries (partners by the agreements of Interline (MITA, BITA), SPA and Code - Share Agreement, General Agents (partners by the General Sales Agent Agreement), Agents (partners by the Sales Agent Agreement), Tourist Agents (partners by the Tourist Agents Sales Agreement).

Operative control consists in the proportional diminishing of access to the cheap tariffs on the measure of approaching of flight date with practically complete declension of the special tariffs in the flight date. More over the special tariffs rules contain preventive limitations such as eligibility, quantity of transfers and stop-overs, seasonality, day of week, minimum and maximal term of stay in a country, category of passenger (Promotional Fares), size of group (Group Fares), presence of additional tourist service (Inclusive Tours Fares) etc.

The final stage of fare policy is development of the airline loyalty system, which gives it possibility at first to economize itself from inevitable shallow losses in a fare competition fight at the aviation market, and from other side to stimulate development of services diversification. The improvement of international regular airline fare policy needs substantial infestations (what are financed from the category of Overheads Costs) and permanent monitoring from the side of tariffs, sale, marketing operative control and yield management departments.

In principle the low cost airlines fare policy differs from that. Its main feature is the maximal adhering to achievement of a 100% load of flights (maximize Load Factor) at the terms of total economy of aircraft operating costs. These airlines up to a 100% depend on sales via the Internet, does not use classic intermediators, and provide the simplified tariff proposition related absolutely to the one lowest class of service. Philosophy of this type of business consists in forming of demand due to dumping at the market. The low index of Yield Factor is compensated the economy of scale on a route network.

From the other side, it is possible to establish the gradual evolution of two airlines models (classical and low cost) directed on meeting each other. So the low cost airlines utilize the Discounted Fares, which are actively and widely shown in advertising, at the same time gradually increase base fares. Regular international airlines are engaged at the structured aircraft operating cost economy and implement the complex of consolidation actions, directed on the use of economy of scale.

Question of fare policy regulations of charter airlines and charter flights, as a rule in a less volume controlled from the side of higher certain levels. But here grows the regulations influence on the side of regular international airlines, which are appointed on a route. Fares are set out on basis of the calculation of commercial expedience and can be plugged in a blanket charter price (valid for one occasion charter and chain charters), price block – hour to time for aircraft leasing together with a crew (ACMI Agreements), given as fares for a passenger or as fares - netto at the sale of soft or hard block (Split Charter).

6. CONCLUSION

Development of globalization and liberalization processes at the aviation market changes the existent system of international airlines fare regulations. From one side, these changes give airlines opportunity to develop own international fare policy more flexibly; from the other side promote the already existent high level of competition at the market. Modern tendencies points out gradual process of declaim of states protectionism and development of the instruments of rate-setting not at intergovernmental level, but at the level of airlines which are consolidated. The clear monitoring of international airlines fare regulations and development of complex of preference actions in sphere of fare policy is needed for maintaining of acceptable level of airlines competitiveness.

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