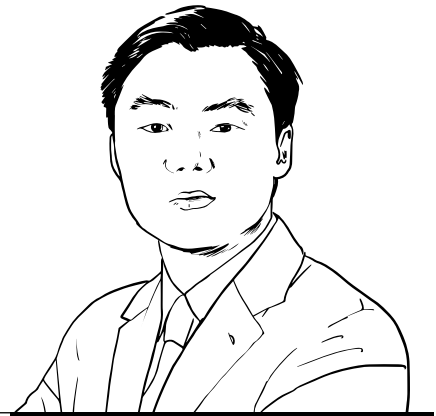


Airline alliances are in for a shake-up

The departure of China Southern from Skyteam is likely to lead to a wider restructuring of alliances in Asia



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Last November, China Southern Airlines (CSA) announced it was leaving Skyteam. This has resulted in a mad dash among other airlines, especially those in the other two major alliances, Oneworld and Star Alliance.

Before the announcement, Skyteam had two Chinese major carriers, the other being China Eastern. Star Alliance also has a strong presence in Greater China, with Air China and Shenzhen Airlines, and its newest Connecting Partner, Juneyao Airlines. Oneworld has Hong Kong-based Cathay Pacific (CX) and Cathay Dragon servicing the Greater China region. This dynamic has been awkward as the two carriers are in different alliances, but Air China holds a 29.99 per cent stake in CX. Qatar Airways also owns 9.99 per cent of CX.

CSA has many existing ties to Oneworld members. The airline recently received US\$200 million (a 2.76 per cent investment) from American Airlines, and Qatar Airways took a 5 per cent stake in CSA in December 2018. CSA already has commercial arrangements with Qantas, BA, Japan Airlines and AA, and has just signed a codeshare with Finnair starting this month. These factors all seem to make joining Oneworld attractive and easier with these existing relationships. But not so fast...

CX has the trump card in this arrangement: a veto right for any new airline joining the alliance. Would it exercise that right? Or perhaps CX would leave Oneworld altogether and join its large shareholder, Air China, in Star Alliance. I think the latter is the

more likely outcome: we will see a wholesale restructuring and shift of the major alliance members, with CX opting to leave Oneworld in favour of Star Alliance, and CSA entering Oneworld. Blocking CSA's membership only makes sense if CX stays in Oneworld. CSA and CX have similar international hub business models with bases very close to each other in Guangzhou and Hong Kong, respectively. Having both in the same alliance does not make sense with so much overlap. Both airlines also have big fleets. Their network coverage also overlaps on many major international destinations. In this situation, CX, with its power of veto, has the leverage of choosing what to do first, even though it is the smaller of the two airlines. CX's recent poor financial performance heightens its need to re-evaluate its own business, as well as realign its network and cost basis with its owner partner in Air China and Star Alliance, which will continue its direct competition with CSA but now with different alliance teams. CX already has commercial arrangements with many Star Alliance members including Air China, Air New Zealand, Air Canada and Lufthansa.

The biggest challenge for passengers is which home airline-based alliance they end up with, and whether that best serves their connectivity and flight option needs. For

Hong Kong-based customers focused on Asia, CX joining Star Alliance would be good: the connectivity within Asia will increase, adding Air China and SIA along with its other worldwide partners' networks. This change would not be as good for those who travel more frequently with BA and AA.

For travellers based in mainland China, especially those more likely using Star Alliance in Beijing, adding CX will enhance travel options. For mainland customers, this is a good net move as existing Star Alliance customers will have expanded reach globally with the entry of CX. Existing CSA customers will have a larger reach out of Guangzhou through the expanded network of Oneworld partners than if the Chinese carrier remained outside of any alliance.

Overall, such a shake-up would be good for customers. It will increase the global competitiveness and respective reaches of each of the three major alliances and their Asian members. The downside is that with a change in alliances, frequent flyer miles racked up on partner airlines might not count as they did before. This might not be as big an issue if you are a frugal buyer aiming solely at the lowest cost fares. Though, as always, it's better for frequent travellers to stick with one or more alliances with home hubs that suit travel destination and frequency selection. **BY**

Cathay Pacific has the trump card: a veto right for any new airline joining Oneworld