Interline and code-share agreements

by Arpad Szakal

Interline Agreement

Interline agreements between airlines facilitate travel for passengers who require flights with more than one airline to reach their final destination. The term relates to the ability of one carrier to sell a journey, or part of a journey, on the services of another carrier, together with the procedures for settlement of the revenue owed to the carrying airline. Interline agreements allow air passengers to travel across the networks of multiple airlines with the convenience of a single reservation and the confidence that their itinerary includes appropriate connection times. The agreement allows each airline to accept the other's ticket and covers baggage transfers and liability.

Advantages for the Airline

The main advantage of interlining from an airlines' perspective is revenue increase. The two interlining airlines have the opportunity to offer a highly competitive joint fare that attracts customers to their particular route. Cash flow also benefits the airline that issues the ticket since ticket revenue for both airlines is collected by the issuing carrier. Internal airline accounting procedures process tickets via industry clearing houses, and the issuing carrier then pays other airlines for travel over their routes based on the interline prorate agreement. Interline agreements also simplify customer claims for baggage irregularities and provide a system for settling claims internally after final customer settlement.

Benefits for the Passenger

Air travellers benefit from interline agreements from a cost and convenience standpoint. Many small and medium-sized cities feature air service but often only offer flights to a larger hub airport where a connecting flight takes the passengers to their final destination. Fares between the regional airport and the hub airport are often high, but an interline ticket to the final destination is normally considerably cheaper than the sum of the two local fares. Another added benefit for passengers is that airlines automatically transfer baggage at the connecting airport. Interline agreements also cover irregular operations where customers may be transferred to other airlines at no cost. Other irregularities include baggage damage, delay or loss where the customer deals only with the final delivering carrier regardless of which airline was responsible for the irregularity.

Code-share Agreement

In its most basic form, a code-share agreement simply allows for a flight operated by one carrier (which will offer the flight for sale under its own code or designator and associated flight number, such as ‘SQ1234’), also to be marketed by another carrier, under that other carrier’s code and flight number (e.g. ‘LH5678’). The carrier operating the flight (in this case, carrier with code ‘SQ’) is known as the “operating carrier”, while the carrier marketing the flight under its own code (in this case ‘LH’) is known as the “marketing carrier”. The carrier that issues tickets to the passenger for a journey involving a code-share flight is known as the “ticketing carrier”. Where the complete journey does not involve a third carrier, the ticketing carrier will generally be the same as the marketing carrier.

Code-share agreements are, from a legal perspective, commercial contracts between the marketing and operating carriers. Code share agreements can be distinguished from the broader relationships underpinning the three major, worldwide airline alliances (Star, SkyTeam and oneworld). Alliance members often code share with each other but they do not specify the details of such agreements.

The underlying motivation of airlines in entering into code-share agreements is to broaden the offer that airlines can make to customers in terms of the number of destinations and, in some cases, the flight timings that they can offer potential customers, without the costs and difficulties involved in additional investment in equipment or in mergers with other airlines.

It should be noted that code-sharing agreements between airlines may go beyond a mere sharing of the designator codes and may be supplemented by other elements of cooperation: i.e. coordination of the frequent flyer programmes, route and schedule planning, coordination of marketing, sales and distribution networks, joint pricing, sharing of facilities and services at airports, integration as well as development of information systems.

The geography of the routes covered by code-share agreements can be classified into the following three major types:

Parallel operation on a trunk route - two carriers both operate the same sector (flown airport pair), and each gives its code to the other's operated flights. An example of this is flights between Frankfurt and Chicago, operated by Lufthansa and United, which have each other's codes as well as their own. These are sometimes known as "online code-shares".

Unilateral operation on a trunk route - a carrier puts its code on a sector operated by another carrier, but not by itself, and not (necessarily) connecting to one of its own operated flights (for example, Delta puts its code on Paris-New York, operated by Air France). These arrangements are sometimes called as "network extension code-shares".

Behind and beyond route (connecting to a trunk route service) – a carrier puts its code on sectors, operated by another carrier, to provide connections with its own operated services. Connecting code-shares generally require the marketing carrier to sell an interline journey, i.e. one involving travel on its own service and then on the service of the partner carrier (and this kind of code-share is therefore sometimes known as an "interline code-share"). The classic example of this sort of code-share is, for example, when British Airways sells a journey from London Heathrow to, say, Austin, via Dallas, with the US domestic sector operated by American Airlines.

Space sharing arrangements within Code Share Agreements

Freesale code share

Freesale or "free flow" code-share arrangements give the marketing carrier access to the operating carrier's inventory and allow it to market seats independently of the operating carrier. The risk is completely on the operating carrier since the marketing carrier functions almost as an agent. Moreover, seats availability is determined solely by the operating carrier that can decide whether or not to close seats availability at the prices set by the marketing carrier.

Blocked space code share

Blocked space (blocked seat) agreements allocate the marketing carrier a certain number or percentage of reserved seats on flights provided by the operating carrier. Under a '*hard' blocked space* code-sharing the revenue risk is borne by both, as operating and marketing carrier are responsible for the sale of their allocated number of seats. The marketing carrier has to pay to the operating carrier the agreed financial contribution for the reserved seats independent of whether or not he succeeds in selling the blocked seats. However, in the context of a *'soft' blocked space* agreement the marketing carrier can return seats to the operating carrier according to the terms concluded on a bilateral basis.

Two agreements shared benefits

Code-sharing allows airlines to offer their passengers a range of travel options that extend beyond their own network. This type of airline partnership offers air passengers the convenience and confidence of making a booking with a single airline for the entire journey. When agreed upon between airlines, code-sharing can also allow air passengers to earn and redeem frequent flyer rewards on journeys involving one or both airlines. With both interline and code-share agreements, airlines can offer passengers more destination choices with the convenience of a single reservation and the confidence in appropriate connection times.