

T2RL'S First View is our rapid analysis of breaking news. It helps provide perspective, putting the facts in the context of our wider and deeper knowledge of the market.

The Battle of Kazakhstan

T2R Staff

The Facts

Air Astana has entered a very public battle with Amadeus that led, briefly, to the GDS company removing the Kazakh national carrier from its displays. A Madrid court granted temporary relief to the airline on 3 February and for the time being it is bookable again in Amadeus. However the dispute has not been resolved and is now headed for an arbitration process that could lead to Air Astana being cut off again.

The Analysis

There are several threads to this story that are worth considering.

Air Astana has been attempting to negotiate the terms of its participation in all the GDSs. This is perfectly legitimate in the current regulatory environment. Until 2004 in the United States and 2009 in Europe, GDSs were obliged to offer the same terms to all participating airlines. This requirement has now been removed and very large airlines are able to negotiate favourable arrangements with the GDSs. Smaller carriers such as Air Astana, with its 2.3 million annual passengers have been less well placed to secure better deals. The one bargaining chip which they may have is favourable access to their home market travel agents. Air Astana launched a process that it called the Competitive Booking Source Program, under which GDSs that failed to offer it favourable terms would be penalised by the imposition of a surcharge on travel agency tickets booked through that system. Other GDS companies including Travelport and Abacus agreed to negotiate terms under the CBSP but Amadeus refused to do so. It determined that this program was a breach of the airline's Participating Carrier Agreement and served notice of termination. Air Astana flights were removed from Amadeus displays on 21 January.

Amadeus is the dominant GDS supplier both in Kazakhstan and in Air Astana's main European destination markets. As things stand removal from the Amadeus availability display would likely be disastrous for the airline. In the absence of significant changes to its business model or to the distribution landscape in its main markets Air Astana simply cannot survive without Amadeus. Both parties are fully aware of this simple fact.

Air Astana also relies on Amadeus for its internal Passenger Services Systems, including its Internet Booking Engine. It uses the Amadeus Altea suite of products for all of its internal and direct to consumer reservations processes as well as airport functions such as check-in. This relationship is governed by a different contract to the GDS agreement and there has been no suggestion that Amadeus would withdraw services under that IT Services Agreement as part of the current dispute. However this may not give much comfort to the airline. As CEO Peter Foster stated in a February 15th interview with Air Transport World,

"Their IT services contract is completely separate from distribution services but Amadeus breached that one also, by switching off our interline links."

This would imply that the interline and codeshare relationships that Air Astana has with other airlines are managed under the GDS participation agreement and not under the IT Services Agreement. This means that if GDS services are withdrawn Air Astana is unable to make or accept other airline bookings **even from its own ticket offices, call centres and web site**. The airline would be unable to sell its customers any itineraries that required a connection to another carrier. For a medium sized airline operating in an oil-producing economy that requires links with all parts of the world, this would also be a severe blow.

The Speculation

Air Astana has managed to gain a breathing space by going to court in Spain but Amadeus is likely to appeal the decision giving temporary relief. In any case the dispute will soon have to go to arbitration under the GDS participation agreement. There seems little doubt that Air Astana is in breach of the strict terms of the contract and it will probably base its case on common law principles around unfair contractual terms.

The presence of Abacus in this story is interesting. Until now Abacus has confined its operations to the home territories of its owner airlines in the Asia Pacific region, where it has a special arrangement with Sabre Pacific. The fact that it is present in Kazakhstan and has entered an agreement with Air Astana under the CBSP suggests that it has ambitions of broadening its geographical reach to grow booking volumes. Sabre is a 35%+ shareholder in Abacus as well as providing its back-end technology. It must at least be aware of the opportunity to break the Amadeus grip on this small but rapidly growing and wealthy market. It needs airlines like Air Astana to be relevant to the subscribers in the region.

Air Astana will come to court prepared to argue about unfair contract terms. Most attention will focus on the desire of the airline to negotiate GDS terms and the difficulty of doing that with a company that controls around 90% of its home market and a significant proportion of the market for key destinations. However there is another matter at stake that may have consequences that go far beyond Kazakhstan. Amadeus is now the world market leader in the supply of PSS services to airlines, with over 18% of the market for full PSS and 23% for reservations alone. Management of interline and codeshare transactions is a critical piece of PSS functionality for all but the simplest airlines. The courts may take a great interest in the alleged Amadeus practice of tying this essential functionality to a carrier's GDS agreement rather than the PSS or IT Services Agreement.

T2RL believes prospective customers for Amadeus' IT Services will seek to break the dependency between these agreements.