An efficient international air transport system is crucial to the world economy, as it enables the movement of people, goods and ideas around the globe. For decades, international air transport was strictly regulated by agreements that limited market access and competition. The idea that competition between airlines is a key driver of efficiency has led global aviation policy to a more deregulated regime that promotes competition between carriers on international routes.

Notwithstanding this (ongoing) process of deregulation, a large share of international route markets are still dominated by so-called national carriers. These carriers represent the distinct airline brand of their domestic country and usually operate a large share of the international flights from that country (e.g., KLM, Lufthansa and Qantas).

This thesis explores how the prevalence of national carriers impacts international airline competition. In three independent empirical chapters, it particularly studies the competitive advantages of national carriers on routes that depart from their respective domestic countries. Further emphasis is put on consumer loyalty towards their own national carrier as one of the mechanisms that creates and sustains the dominant position of national carriers.

The main finding of the first chapter is that national carriers are able to exercise market power on domestic-originating routes. Results from reduced form fare regressions, show that fares on domestic-originating routes are about 9 per cent higher than fares on equivalent foreign-originating routes. Consistent with
market power theory, national carriers are also better able to price discriminate in their domestic country.

The second chapter reveals that national carriers enjoy large loyalty advantages among their domestic consumers. A geographic regression discontinuity design is used to study behavioral differences between domestic and foreign consumers in an international frequent flier program. It is shown that foreign consumers are about 70 per cent less likely to join the program and, once member, are likely to spend less than equivalent domestic members.

In the last chapter, the domestic competitive advantage of national carriers is shown to spillover to foreign partner airlines. A stated preference experiment and subsequent consumer choice model, reveal that willingness-to-pay for flights by foreign carriers increases by about 6 per cent once these flights are offered under a partnership arrangement with the local national carrier. Quality signals that emanate from the partnership seem to be driving at least part of this effect.

The findings from this thesis demonstrate that domestic market power represents a substantial hindrance to competition in the deregulated international airline industry. Dealing with this market imperfection requires policies that take away any remaining supply-side barriers and prevent new barriers from being installed.

Even with further deregulation, part of the domestic competitive advantages may persist due to consumer loyalty towards their own national carrier. However, this thesis also shows that carriers can leverage the national identity of their foreign partners to overcome loyalty disadvantages. By doing so, carriers themselves may increase competition.