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## **Bailout and Code Share: A Japanese Domestic Airline Market<sup>1</sup>**

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### **Abstract**

A failed carrier has been rescued by forming an alliance among carriers, not merely through public finance. In June 2002, the failed AIRDO (ADO) received a bail out offer from ANA. Both ANA and ADO started a mutual and *specific* code-sharing agreement whereby ANA purchased 50% of all seats served by ADO. We evaluate this mode of bailout using the structural estimation of demand and counter-factual experiments. From a perspective of welfare, this code-sharing is reasonable. We also calculate the price at which ANA bought code-sharing seats from ADO using a Nash bargaining solution and show the ratio of the bargaining power of ANA and ADO as about 85.03% to 14.97%. Finally, we examine properties of code-sharing itself in terms of price differences, flight service differences, convenience by increased frequency of flight service, and economies of scale. We quantitatively demonstrate both merits and shortcomings of code-sharing.

*JEL Classifications:* H81, L13, L93

*Keywords:* Bailout, Code-sharing, Counterfactual experiments, Nash bargaining solution

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