

THE INVISIBLE ARCHITECTURE OF GLOBAL AIR TRAVEL INDUSTRY



In 2025, the last year for which figures are available, the air travel industry generated \$1.008 trillion. That works out to roughly \$2.76 billion in revenues every day, or \$115 million a minute, through some 1,300 scheduled airlines. By 2026 the industry will carry over five billion passengers. Passenger traffic grows every year by 4-5 percent, or about 250 million passengers, on a fleet of more than 25,000 airplanes.

What explains this growth? There are three possible answers. First, a fundamental human urge: the desire to travel. The ability to travel from one country to another, despite all the visa requirements and restrictions, fulfills an important longing in modern people. Second, technology: airplanes keep getting bigger, faster and safer. **Each new generation adds considerably to the previous one's range, reliability and comfort.** The price of a flight keeps dropping in real terms, opening up aviation to a broad new group of travelers. Finally, and perhaps most surprisingly, the commercial and organizational side of things: the ability to buy a ticket and travel on multiple airlines within a single journey has played a major role in the industry's growth.

The last and, perhaps, the least expected factor was the result of the creation of the International Air Transport Association (IATA). IATA was formed in Havana in April 1945, before the Second World War was officially over. Even from the start, its founders understood that a significant number of passengers would want to travel on multiple airlines within a single journey. The airplanes' limited range at the time meant that a journey could involve multiple legs on different airplanes, and it would make sense to allow passengers to buy a single ticket and then travel on different carriers.

The problem with such a system is that the airline that sells the ticket must transfer the appropriate share of the passenger's payment to every other airline that takes part in the transportation. This calls for advanced cooperation between competing airlines, and it has taken decades for the system to evolve to its current state. Nevertheless, it was a crucial innovation, as it enabled a traveler to buy a round ticket from American Airlines and fly on AA and BOAC, British Overseas Airways Corporation, planes on the two legs of the journey.

Interline ticketing agreements have been an essential part of the industry's infrastructure for the past eight decades, growing alongside the airlines, going through waves of ups and downs, and making long-haul international travel both convenient and affordable.

Interline agreements are used by the majority of airlines today, with even some budget carriers adopting them. There are few other industries with such a sophisticated method of cooperation between competing companies, the closest analogs being telecoms and, to some extent, the banking sector.

Interline agreements were one thing, but a new complication soon arose: distribution. Before smartphones and computers could purchase airplane tickets, travelers would go to a local travel agent and arrange their flights. But for every airline that wanted to be represented at a given agency, the agency needed to keep a separate stock of tickets. At the same time, each travel agency needed to keep an inventory of tickets for all airlines represented there. That system created a headache for everybody involved, and it was IATA's solution to this inconvenience that became the

second pillar of the modern aviation system. It is called the Billing and Settlement Plan.

As opposed to tickets, which are kept in stock at any travel agency, the BSP method does not require an agency to keep any tickets at all. Instead, the agency works with a single IATA-maintained stock of tickets. When a traveler buys a ticket, it suffices to mark it as belonging to a particular airline. At the end of a settlement period, IATA transfers the money from the agency to the appropriate airlines, minus the agency's commission. The method was adopted slowly but surely: the first country to use it was Japan in 1971, and it took another fifty years for the system to be adopted in nearly 150 countries. It was fully digitized long ago, but the concept remains the same, and in 2025, the annual value of all payments processed by IATA exceeded \$492.4 million, with the default rate being below 0.05%.

Interline agreements and the BSP are examples of the invisible infrastructure of the aviation industry. They are not seen, heard, or discussed by the traveling public, and they have to be, in order to work. They make long-haul aviation possible and keep billions of passengers at large happy day after day. Everything started in 1945: the air travel industry, interline agreements, and the BSP, with its first payment in Japan in 1971. And today, the aviation industry is worth over a trillion dollars a year, and it shows no signs of slowing down.

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