

PART 2: AIRPORTS

CHANGING TRENDS AT U.S. AIRPORTS AS A PART OF THE INTERNATIONAL SCENE

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My responsibility today is to talk about the United States airport system and its impact on international air transportation activities and future developments on the international scene.

Let me start by stating two fundamental beliefs that I have regarding international air transportation. First, air transportation and, more specifically airports, today find themselves in a continually changing environment that is and will continue to be unpredictable. Second, airports around the world today are the mainstay of dependable, safe, and efficient air transportation. With this as a basic understanding, let me suggest that there is good news and bad news in our air transportation future.

The good news is that air transportation is healthy. It is growing. It is dynamic. The bad news is that the airports in the United States and around the world are not meeting the challenge. In fact, capacity constraints and inability to respond to this very dynamic situation are going to cause serious problems throughout the 1990s and beyond.

J. Donald Reilly, former Executive Director of the Airport Operators Council International, has said that during the 1990s airports will become the Achilles heel of air transportation, and I happen to agree with him. As the demands placed upon the air transportation system continue to grow, we in the airport management and administration find ourselves continually frustrated with an inability to meet the demand of the international air transportation system.

RECENT TRENDS

Let me reflect for a few moments on what has happened. I will do this quickly because most of us are very much aware of U.S. trends. Airports historically have been dependable. They have been stable. They are predictable. They are accommodating, and they have always been there. This, I suggest, is going to change.

Historically, airports have directed most of their attention to technological improvements -- moving from non-precision to precision approach systems and now to highly precise Category II. Technological enhancement

and advancements have met our needs and helped us get by over the years. In addition to technological developments, we have also seen changes in equipment.

The advent of the wide-body, high-capacity DC-10 and B-747 significantly relieved the pressures that were building during the early to mid-1970s due to increased traffic demand.

Also we have seen regulatory change. We have seen the demise of the Civil Aeronautics Board. We have seen regulations put in place that basically helped us accommodate to new and changing needs. The regulatory processes accommodated instrument and VFR flight improvements to ease growing demand. In 1978, the United States Congress passed the Airline Deregulation Act that changed the rules under which we all operate. What has happened since 1978? In the spirit of increasing competition in the United States, and as a result reducing fares to make air travel affordable for more people, Congress has also created one of the most rapidly growing, dynamic industries in the last ten years.

In 1978 250 million passengers in the United States traveled by air. By 1989, last year, the number of passengers had nearly doubled, reaching 445 million.

Looking at aircraft fleet, average passenger capacity was 106 seats per aircraft in 1969. By 1978 average passenger capacity had grown to 162 seats, and by 1989 it had grown to 181 seats per aircraft.

The worldwide airline fleet in 1975-1978 was somewhere in the vicinity of 3,500 to 4,000 airplanes. By 1989 the fleet had grown to 7,441 aircraft as estimated by Boeing and Avmark, two companies that carefully study the aircraft fleets of world carriers.

In 1978 we had 19 major or trunk airline companies in the United States serving all destinations. As of 1989, we were down to nine major trunk carriers, and I would suggest to you that the number will continue to decline. As a result of deregulation, names that were familiar such as Braniff, Texas International, Frontier, Western, North Central, Southern, Hughes, National, Ozark, and People's Express no longer exist.

The changes have been dramatic. The impact of deregulation in the United States has been substantial. It has changed the way we think about air transportation and the way we manage airports. What has happened in the United States as a result of deregulation is only an introduction to what is going to happen around the world as we face liberalization in Europe in 1992 and witness dramatic traffic growth in the North Pacific routes.

A LOOK AHEAD

Where are we going in the future is even more interesting. Looking again at the passenger activity by 2001 it is anticipated that there will be 750 million travelers in the United States annually. By 2018 the 1989 figure of 445 million passengers will double to almost 900 million passengers a year.

The Boeing Company believes there will be 12,430 commercial airlines in the world fleet by early in the next century, a 67 percent increase over what we have today. Avmark has a more conservative prediction. Based on the assumption of more seats per aircraft than Boeing anticipates, Avmark forecasts that the fleet will reach the 10,000 aircraft by 2005, 34-percent increase in the world airline fleet. The bottom line is that airplanes are being delivered. By every measure -- whether it is seat capacity, passengers carried, or fleet size -- the industry is healthy and will continue to grow significantly. As it grows, more and more demands will be placed upon airports, both domestically and internationally.

Let us take a look for a moment at what airlines will probably do during the 1990s. This is important because what the airlines do will ultimately determine what the airports do in response.

Specifically, two major events are occurring within the airline industry are going to have a dramatic impact. First, we are seeing for the first time -- and this seems to be a settling effect of deregulation -- marketing pacts and equity agreements being formed by international airline companies. We are beginning to see globalization of air transportation.

Minneapolis and St. Paul is the home base of Northwest Airlines. We were surprised, to say the least, a few months ago when Alfred Checchi purchased Northwest Airlines, making it a private company. What was equally surprising was that KLM Royal Dutch Airlines was involved as an investment partner in the acquisition of Northwest Airlines. Because of federal restrictions and limitations on investment, their ownership percentage is limited to approximately ten percent; but it points to a significant trend. KLM is part owner of Northwest Airlines in Minneapolis and St. Paul, Minnesota. KLM also owns 14.9 percent of Air United Kingdom. They are currently involved in financial arrangements with British Airways, and they own 20 percent of Sabena.

KLM is not unique. SAS owns a 9.9-percent interest in Texas Air Corporation, which is the conglomerate that operates Eastern and Continental Airlines. Delta has a 5-percent investment interest in Swiss Air and 5-percent investment interest in Singapore Airlines. American Airlines has a 7.5-percent interest in Air New Zealand.

Through various marketing pacts, equity agreements, and financial arrangements, airline companies are becoming partners on a global front.

The second major event occurring in the industry is a dramatic increase in the order and delivery of new aircraft from manufacturers. Airlines are buying new airplanes at record levels. It is projected that between now and 2000, 600 to 700 airplanes will be delivered to the world market. The giants will grow larger. We are going to see the development of the megacARRIER that will serve worldwide markets at a level that far exceeds the efficiencies we find today. As a result, we are also going to see stabilization and slow fare increases. The fare increase will have a direct impact on airports around the world. As the fares increase, the ability of the travelers to utilize airline services will decline. We have seen this with deregulation of the U.S. airline industry, and we will see it as Europe moves toward liberalization.

We are also going to find the airlines faced with substantial debt burden that is going to cause concern for some major carriers in the competitive environment. Those new airplanes are expensive, and the burden is the debt incurred for purchase of new competitive equipment that they must operate. We are going to see an increase in foreign flag carriers operating in the United States, and in a moment I will discuss the specifics as they relate to airport operators.

Who will dominate the markets of the future? In the United States, 90 percent of the service will be provided by six carriers: United, American, Delta, USAir, Texas Air Corporation, and Northwest Airlines. Further, these carriers will also provide air transportation services worldwide. Today they are the dominant carriers in the United States. In the future they will become dominant carriers throughout the world. Why? First, they are purchasing huge fleets. I do not have the specifics on the orders for all of these carriers, but I do know that Northwest Airlines at the present time has firm orders or options for \$13.8 billion of new equipment to be delivered between now and 1997.

When an airline combines these huge purchases of new aircraft with an already large fleet and then adds a computer reservation system, frequent flyer programs, and control over the management and operation of regional airlines, you can see the development trend of the future. Finally, airline companies are negotiating new leases with airports in the United States that will secure their positions and permit continuation of market dominance.

This domination by these megacarriers will result in additional trends. Let me share with you my personal observations about these trends. First, the industry is

going to stabilize. We have gone through 10 to 12 years of substantial turmoil. We are going to see a stabilization within the industry as the number of competing companies declines and the survivors begin to carve out particular niches in the market. Secondly, airlines are going to be much more predictable regarding their earnings structure. They will have a much better handle on their overall financial situation as this stabilization occurs. The financial earnings will grow modestly as a result of increased air fares worldwide. As U.S. carriers introduce themselves into European and Asian markets, we are going to continue to see fares increase, but at a very slow and gradual rate.

There will be less competition throughout the world and perhaps failures by at least two international carriers. Whether these companies file bankruptcy or find themselves acquired or merged with other carriers remains to be seen. If you look at a chart of the top 15 major carriers of the world today, eight of them are U.S. airlines. Of the remaining seven, six are foreign international carriers that have current financial investment arrangements with U.S. carriers. What this tells me as an airport operator is that in the future I will be dealing on a regular basis with carriers having both domestic and international economic interests. I anticipate meeting individuals from other parts of the world and negotiating gate and lease arrangements with them on behalf of megacarriers.

U.S. AIRPORT CAPACITY

Let me turn to trends at United States airports that are going to have impact on the international scene. First of all, the single biggest problem that all of us must deal with, both within the United States and internationally, is that of airport capacity.

Airport capacity today in the United States is reaching a critical point. When the United States airport system becomes crippled by its capacity constraints, there will be significant impact on countries throughout the world. Currently in the United States, 22 airports have some type of capacity constraint and experience 20,000 hours or more of annual delay in operations. By 1997 that delay will grow to 50,000 hours annually at many of these airports unless something significant takes place. Today the cost of delay is 3 billion dollars. Your arithmetic is as good as mine in predicting the economic disbenefit of 50,000 hours of delay at an airport in the future. The situation is not unique to the United States; it is an international phenomenon. In Europe today, it is determined that 35 airports face some sort of constrained operation and two airports in Europe need

specific priority action today to alleviate severe problems for the economies in the countries involved.

The United States must solve the airport capacity problem, and we must do so in three ways. First, technological improvements must continue. We must learn how to handle IFR traffic better, and we must learn how to manage VFR traffic better. We must examine air traffic control procedures, and we must take a look at separation criteria currently being used. Second, we must resolve the aircraft noise problem. Somehow, one way or another, we must deal with aircraft noise as an impediment on the system. Every single major airport and many of the medium hub airports in the United States -- and the same is true throughout the world -- face severe restrictions and constraints because of environmental impact. Earlier, Senator Kato described the situation and part of the decision-making process in building the new airport in Osaka, Japan, which will be placed off-shore to avoid environmental impacts.

Finally, we must find ways to finance the future growth of the international transportation system. The historical methods of paying for airports and airport improvements probably will not work because the dollars simply are not there for the improvements. We need new major airports in the United States, and we need major improvements to existing facilities. A new airport in this country today runs in the vicinity of \$2.5 to 3 billion. There are estimates of \$7.5 billion for new airports elsewhere in the world. Money must come from somewhere; and citizen taxpayers, airport authorities, and airlines simply cannot meet all of the demand. We have to be creative and innovative. The same situation and same issues exist in Europe, and we will begin to see significant movement and additional demand as we approach liberalization throughout all of Europe in 1992.

I am pleased to tell you that airports are taking action. Things are happening worldwide. In the United States, for example, international air transportation has significantly changed the way we have operated over the last 10 years. If we go back to 1973, there were only 10 U.S. cities that were gateways for nonstop service between the United States and Europe. By 1978 the number had grown to 12. The number is now 22.

Turning toward Asia, there were five gateways to Asian nations from the United States in 1973; in 1978 there were six. Since deregulation the number has grown to 11. Basically international traffic from U.S. gateways to international and foreign markets is significantly changing and dramatically increasing.

Finally, let me discuss for a moment a newly formed organization known as USABIAS, which stands for United States Airports for Better International Air Service. Today some 20 U.S. airports are members of USABIAS. It is an organization that believes that airports need additional international service. The group consists primarily of U.S. airports that have not enjoyed traditional gateway status and quite frankly believe that the current policy of the United States government prohibits or limits their ability to enjoy international direct flight service.

USABIAS is seeking to change U.S. policy in two ways. First, they wish to have international negotiators from the United States consider the needs and the views of the local communities as part of bilateral negotiations. Second, if a U.S. carrier does not wish to serve a particular international market, then the United States government ought to be more liberal and permit foreign flag carriers the opportunity to provide direct service. USABIAS is having some significant impact. Secretary of Transportation Skinner is giving substantial consideration and time to the issues of international air service needs and permitting expansion of gateway status to communities that historically have not enjoyed such status.

SUMMARY

Let me summarize a few key points. First, growth is dramatic, and it will continue, not only in the United States, but in Europe. As we learned earlier today, capacity congestion in Europe and in the Orient is a continuing and growing problem.

Second, Boeing, McDonnell-Douglas, and Airbus will continue to produce new aircraft to meet the growing

needs of the world marketplace. They will do so by producing approximately 600 to 700 airframes per year from now until the turn of the century. We in the airport business must learn how to absorb this additional traffic and handle the new aircraft that are being placed into service.

Third, major U.S. carriers will become much more international. Through financial agreements and operational arrangements carriers will expand their influence throughout the world. The megacarriers of the future will take necessary measures to provide needed air transportation.

Fourth, airport capacity will haunt us through the 1990's and beyond as we struggle with trying to increase the ability of airports to handle increased traffic demand. Major hubs will continue to grow but they will grow at a slower rate simply because they are already approaching capacity. Medium hub airports in the United States will grow more quickly because they have the ability to meet expansion demands. With the work of USABIAS, it may very well be that medium hub airports of this country will begin to enjoy nonstop international service through various arrangements with foreign carriers.

Finally, airports must prepare for substantial delivery of new airplanes, with higher seating capacity. More and more airports plan to have international air transportation services, and to do so they will have to be able to handle wide-body airplanes with seating capacities of between 350 and 500 seats.

In summary, I have painted a picture that basically says we are going to grow. As we grow, we are going to have continued demands placed upon us. It is no longer a U.S. viewpoint alone. It is a viewpoint that must be shared by airports around the world.