SUMMARY OF WORKSHOP SESSION 2:
Policy Implication

George H. Sarames, Lockheed California Company, Moderator

The "Policy Implication" workshop had as its topic for discussion the impact of recent changes in the international regulatory environment on the demand for international air travel and hence on the activities of the major operational/functional components of the air transport industry: the airlines, the airports, and the aircraft manufacturers.

The theme relates not so much as to what is or appears to be the aviation policies of the various governments, but rather on how these policies are perceived by the above groups and how they are reacting or planning to react to the new environment.

U.S. international aviation policy, growing out of domestic deregulation policies, has moved away from protectionism toward a less restrictive and competitive environment. Under this policy, the U.S. government has been willing to trade traffic rights (new routes/gateways to foreign carriers) in exchange for a more competitive posture, lower fares, etc. This has been done to give the consumer more service choices at lower fares than would have been experienced under the previous regulatory environment. The United States is attempting to use its market power to achieve a "free market" internationally via bilateralism.

Since policy does not take place in a "ceteris paribus" environment, the impact of other factors on the work's political economy -- the continuing fuel crisis and environmental factors such as noise, pollution and airport congestion, that support or contradict the goals of the new regulatory policy -- should also be discussed.

The consensus of the workshop is that the new international regulatory environment has had very little impact on total demand for international travel. This is true even to/from Europe which has been affected the most by recent liberal bilaterals. (Figure 14). However, there have been structural changes in the market, which have affected routes, traffic flows, frequency of service, and aircraft size.

The geographic and airline distribution of the total U.S. to Europe air traffic has changed as routes have been awarded to different U.S. carriers and as foreign carriers have received rights to new U.S. gateways. There was also a shift from charter to scheduled services as scheduled services were able to compete with charter and as charter carriers were able to offer scheduled services. (Figures 15-18).

The most significant factors influencing the demand for air travel -- even as U.S. gateways redoing new routes -- have been the devaluation of the dollar, growth in the world economy, varying rates of inflation, economic growth in different countries, and the fuel problems. (Figures 19-21).

Thus, the impact of "international deregulation" on airlines varies by carrier and reflects the degree to which they receive any new routes. However, the other factors mentioned above are the more dominent in affecting the airlines' activities. There is also a growing opinion, especially in Congress, that the United States will not be so liberal in the future in giving away new rights. The pendulum may swing back to the "balance of benefits" approach rather than the expanding opportunities approach to U.S. bilaterals. It seems there are market infrastructure constraints that have made it difficult for U.S. airlines to break into foreign local markets. Since foreign carriers do not experience such constraints in the United States, the end result was detrimental to U.S. carriers.

The changing structure of demand has made it more difficult for the aircraft manufacturers to do long range planning with regard to payload/range requirements of new aircraft. This is due to the uncertainty not only regarding new gateways/routes and market fragmentation but also as to which carriers will be serving these markets in the future. This uncertainty as to future routes also makes it difficult for the airlines to plan very far into the future with regard to their aircraft needs and for the airport operators to have adequate facilities, both of which have relatively long lead times before availability.

In summary, this new regulatory environment has not had much of an impact internationally. The changes in the regulatory environment have been overwhelmed by the economic factors: the devaluation of the dollar, the availability and price of fuel, inflation, and differing rates of economic growth in different countries. It is felt that these factors will also be the key factors influencing future demand for international travel.

Figure 14. New liberal bilaterals.

	NETHERLANDS MARCH 1978	ISRAEL AUGUST 1978	GERMANY OCTOBER 1978	BELGIUM NOVEMBER 1978	JAMAICA MARCH 1979	KOREA MARCH 1979	SINGAPORE JUNE 1979
FARE COMPETITION (DUAL DISAPPROVAL)	NO COUNTRY OF ORIGIN	YES	NO COUNTRY OF ORIGIN	YES	YES	YES	YES
LIBERALIZATION OF CHARTERS	YES	YES	YES	YES	YES	YES	YES
ELIMINATION OF RESTRICTIONS (CAPACITY AND 5TH/6TH FREEDOM TRAFFIC)	YES		YES	YES	YES	YES	YES
UNLIMITED DESIGNATION OF AIRLINES	YES	YES	YES	YES	YES	YES	YES
ADDITIONAL U.S. GATEWAYS	YES	YES	YES	YES	YES	YES	YES

Figure 15. International marketing environment: North Atlantic.

□ GREATER MARKET FRAGMENTATION:

- U.S. AND CANADIAN GATEWAY CITIES "DOUBLE" (THERE WERE 10 IN THE U.S., NOW 21)
- ADDITIONAL U.S. CARRIERS WITH TRANS-ATLANTIC AUTHORITY (I.E. BRANIFF, DELTA, NORTHWEST)
- ADDITIONAL NON-U.S., NON-EUROPEAN CARRIERS
- INCREASED DIRECT SERVICES TO NORTH AMERICA FROM THE MIDDLE EAST, AFRICA AND EAST EUROPEAN POINTS

□ INCREASED FARE DIVERSITY—SOME LEADING TO REDUCED STOPOVER OPPORTUNITIES.

Figure 16. Market fragmentation: increase in number of gateways to Europe.

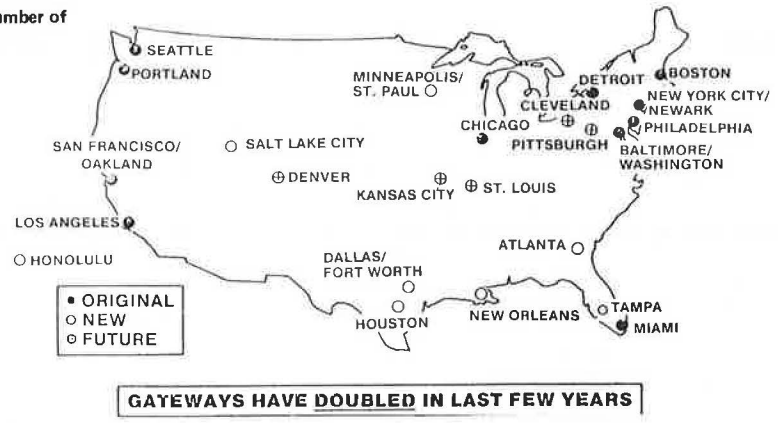

Figure 17. New carriers.

	BN	CL	DL	KL	LH	NA	PA	SN	TV	TW
FROM U.S. TO:										
AMSTERDAM										
SUMMER 1978	-	-	-	*	*	*	*	-	-	-
SUMMER 1979	*	-	-	*	-	*	-	-	*	-
BRUSSELS										
SUMMER 1978	-	-	-	-	-	-	*	*	-	-
SUMMER 1979	*	*	-	-	-	-	*	*	-	-
FRANKFURT										
SUMMER 1978	-	-	-	-	*	*	*	-	-	*
SUMMER 1979	*	-	*	-	*	*	*	-	-	*

Figure 18. New services.

FROM: / TO:	ATLANTA	BOSTON	CHICAGO	DALLAS	HOUSTON	LOS ANGELES	MIAMI	NEW YORK CITY	PHILADELPHIA	SAN FRANCISCO	TOTAL
AMSTERDAM											
SUMMER 1978	-	7	7	-	-	12	1	18	-	-	45
SUMMER 1979	-	2	7	2	-	5	7	28	-	-	51
BRUSSELS											
SUMMER 1978	4	-	-	-	-	-	-	16	-	-	20
SUMMER 1979	4	3	1	1	-	7	-	14	-	-	30
FRANKFURT											
SUMMER 1978	-	14	7	-	7	7	4	41	7	7	94
SUMMER 1979	4	10	11	-	7	7	6	40	13	13	111

Figure 19. U.S.-Brussels low fares: peak season.

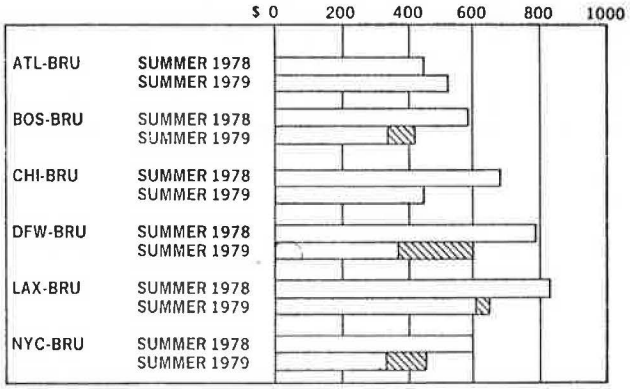

Figure 20. Real yield growth: 1970-1978.

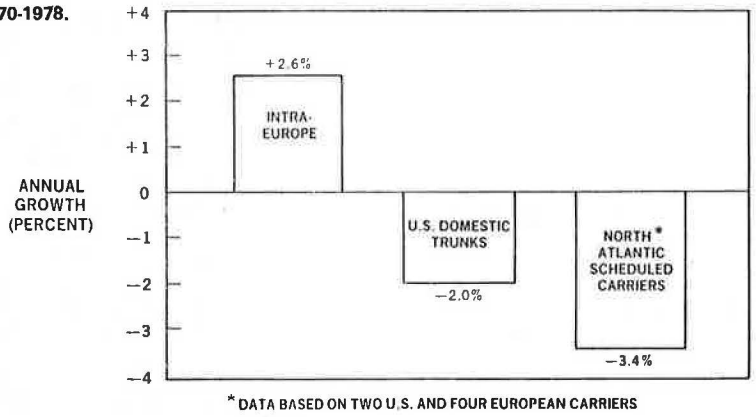
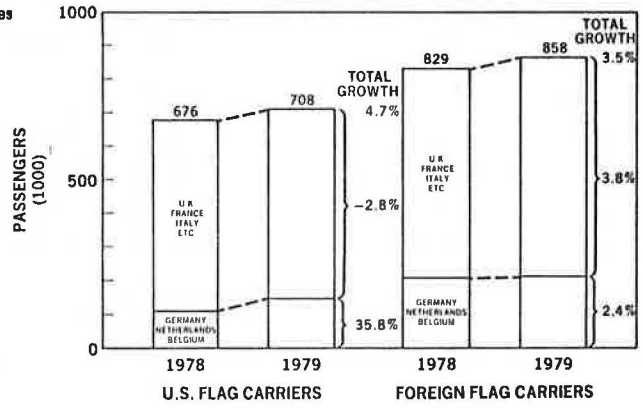
Figure 21. Air travel between United States and Europe: scheduled and charter, September 1978/79.