

9. Since air transportation will become much more like businesses in other sectors, the methods used to project future trends in other industries will become germane to air transport.

Premise No. 6. *There are several major unknowns that will affect international air transport and any projections of its future.*

The panel concluded that the following were probably the pivotal questions:

1. How much outside ownership by foreign interests or corporations not previously affiliated with aviation will be allowed in the airline industry?
2. What form will Europe take in 1993?
3. How will other rules of the game change? (For example, will there be a new Chicago Convention that allows cabotage?)
4. How fast and how effectively will infrastructure constraints on free-market industry growth be resolved? Will the resolution of these issues be the ultimate controller of the pace of global air transport growth?
5. Where will the big new markets of tomorrow be discovered or created?
6. To what extent will air transport become a business like any other? Will the rules of the game

## U.S. DOMESTIC MAJORS

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This panel was made up of a broad range of interests in the U.S. domestic airline industry --airlines, consultants, government, the financial community, manufacturers, airline labor, and users of the air transport system. Rather than producing a specific forecast, the panel concentrated on several of the critical issues that would have a major influence on the airlines over the coming years. These included the changing industry structure, pricing trends, people issues, and government relations.

allow the industry to develop on its own, or will regulatory actions interfere?

### Information Problems and Needs

As international competition between carriers heats up, it is likely that commercial information will become more sensitive and consequently less available.

Government-mandated extraction of information from foreign carriers by local regulatory requirement is not a positive development, and only equal access by all market participants to any information gathered would seem equitable.

Faster decision-making processes that mimic the increased pace of change in the industry mean less time for analysis and reduced use of information.

Increased global antitrust vigilance also means that exchange of data between carriers is in question. Everyone would like to have as much accurate competitive information as possible without having to give up any of their own sensitive market data.

Overall, it seems that, while the need for exchange of data between air carriers and other elements of the international aviation system has never been greater, competitive pressure between international carriers may not prove to be the ideal environment for enhanced exchange of data among various parties.

### A Conservative Industry

The domestic industry is showing signs of becoming increasingly conservative, and risk-averse in the area of market development. The industry is in a period of considerable internal stress relating to takeovers, real and threatened; and this adds to a tendency to direct corporate energies away from the kind of innovations that produced vigorous traffic growth a few years ago. If continued, this path might lead to a return of the economic stagnation that characterized the latter years of Civil Aeronautics Board regulation.

In those years the industry was obsessed with the minutiae of rate and route decision. This rigid

economic structure was swept away by deregulation, but it now seems to have been replaced by a similar obsession with the minutiae of what is called yield management. It appears that this valuable management tool is being used more to entrench the existing market power of the dominant producers than to build volume. Following the recent industry wave of mergers and consolidations, many airlines seem to see higher prices as a more secure source of revenue than an aggressive search for more traffic. There is considerable logic to this position, given the extreme differences in financial strength among companies. The strong carriers may be correct in feeling that a patient, risk-averse, strategy will work to their advantage as market forces continue to weed out the weaker airlines thereby delivering greater market share to them.

Most of the latest developments in the industry serve to reinforce this "yield vs. growth" strategy. The addition of large amounts of debt due to leveraged buy-outs and the creation of Employee Stock Ownership Plans (ESOPs) involve considerable financial risk. The need to generate consistent cash flow to make these plans work will tend to produce conservative operating plans, with more emphasis on higher air fares than on market development.

#### Effect on Airway and Airport Issues

These trends will have an effect on the airways and even more on airports. The well documented need for improvements in the airway system are likely to be supported by the carriers. These improvements promise more efficient operations, particularly at major hubs, at no direct cost to the airlines. Airport expansion is a different matter. It may be that major airlines are content to live with a shortage in this area since runway expansion will add to their costs, and at the same time could make it possible for new competition to enter their markets. The opposition to the new airport at Denver may be a clue to airline views in this area. This line of thought suggests that the interests of public policy may not be the same as those of the airlines in this critical area.

Perhaps the most significant implication of this airline operating strategy will be on the industry's relationship with the government. The political base for some type of re-regulation is now being formed in congressional hearings. The list of concerns includes hub pricing, computerized reservation system (CRS) abuse, gate control at "fortress" hubs, frequent

flyer programs, consolidation of market share, slot sales, and the lack of low fares. The major airlines can be expected to continue to follow the path of their own best interest (and we should not expect them to do otherwise), but following this path is more and more likely to lead to some kind of federal legislation within a few years. It is not certain what form this will take, but it is fairly sure that its intent will be to increase competition and limit the economic power of the largest companies.

#### A Potential Shortage of Skilled Employees

It is already apparent that the pool of skilled people in the maintenance area is inadequate for the needs of the business. Competition from better paying industries combined with growing maintenance requirements of an increasing number of older aircraft seem to be the major reasons. Solving this need through the traditional market mechanism means higher pay and perhaps a greater involvement in training. This will tend to increase airline costs.

In a few years, much the same situation may exist with pilots. Here the competition is not from other industries, but from foreign airlines that see the United States as an available source of flight crews to meet their expansion plans. This program will be compounded by the growing number of pilot retirements in the next decade. Again, higher pay and more direct training will be the answer, adding further to airline cost pressures.

#### Data Needs

All of the trends that the panel identified argue the need for better data. The prospects do not appear to be good for adding new requirements to those already contained in the U.S. Department of Transportation (and the old Civil Aeronautics Board) Form 41, but given the prospect of increased government concern, and possible legislation, there was a strong feeling that

no more reductions in the data should occur. Specific ideas for improvement were: (1) tap private sources such as the Future Aviation Professionals of America for information on employment issues, (2) use CRS systems to capture origin and destination data, and (3) use of consistently applied series of surveys to do market research. These surveys might have to be done by carriers, but they could also be carried out by airport authorities.