

REGIONAL AVIATION

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The Regional Aviation panel reflected the international character of this industry. On the panel were representatives from manufacturers in Brazil, Canada, Germany, the Netherlands, Spain, Sweden, the United Kingdom, and the United States. As international as this group was, however, we all acknowledged that the United States is indeed the largest market for regional aircraft. Therefore, our deliberations tended to be heavily U.S. oriented, although we did address emerging regional aviation networks elsewhere in the world.

Individual members of the panel made presentations on a variety of issues which they felt were likely to be important determinants in the shaping of the future of regional aviation. Out of these presentations came a few basic points which will be discussed later. First, I would like to briefly describe the topics of discussion.

Discussion Topics

Our panel considered the character of rural air service in the United States. We learned that service to smaller communities, while being perceived as declining because of aircraft utilized, in fact has improved.

We looked at the increasing regulatory burden on U.S. regional aviation, which will make it more expensive to operate regional aircraft. We concluded that the costs would make regional aviation only slightly more expensive to passengers.

One study covered the growing competition between regional airline partners of the major carriers at smaller cities, in which it was concluded that competition is increasing at these destinations. This indicates a continued need for smaller turboprop aircraft.

Another study presented an economic model that might be able to quantify the stimulative effects of additional point-to-point service, although this might take the form of what might be described as tertiary hubs.

In that light, we looked at the issue of congestion at airports and its likely effect on regional aviation. It would appear that pressures to use economic measures

to manage airport demand (such as the Massport PACE initiative) will increasingly affect regional airlines but, more importantly, the rural communities which depend on airport access to communicate with the outside world.

Given our international character, we turned to Europe, where we found regional aviation playing a role different from that in the United States. Regional aviation in Europe tends to be oriented towards direct service between smaller cities rather than feeding traffic to the largest carriers, as in the United States. The development of regional airline networks in this way is the result of constraints placed on liberalization in Europe.

Next we noted how the domination of the largest airlines is continuing worldwide, with greater equity holdings by large carriers in smaller carriers all over the world. Code-sharing is not just a U.S. phenomenon; it is spreading everywhere.

We considered the possibility of regional aircraft for military roles but concluded that the market was limited by low priority in worldwide defense budgets for regional transport aircraft.

And finally, we looked at the regional jet phenomenon, about which there remains a great deal of controversy. On one hand, costs of operating a 50-seat jet are higher than a comparatively sized turboprop. On the other hand, passenger perception and greater speed may lead to service in new markets not presently served (especially longer thinner routes).

Conclusions

Primarily, we expect to see a new phase of strong regional aviation growth. This growth is going to be made possible by the development of new, faster, more comfortable regional-sized aircraft, ranging from 19-seat turboprops to 50 passenger jets.

These aircraft are being developed because of the desire to serve more smaller and distant cities from hubs in the United States, and to provide more long-distance, point-to-point service between smaller cities in Europe. The combination of greater competition in non-hub cities and new point-to-point services will stimulate regional airline traffic.

There are potential obstacles. Congestion at hub airports is likely to lead to continued pressures on regional aviation at large hub airports. Perhaps more insidious than the airport congestion issue is the problem of ATC congestion in Europe which might

make it difficult to develop the network of regional airline routes crisscrossing Europe.

Furthermore, now that regional airlines are grown up, so to speak -- indeed some U.S. regional airlines have, or soon will be graduated to national airline status by virtue of their revenues exceeding \$100 million per year -- regional airlines will be forced to comply with a greater burden of safety regulations than they are used to. This is likely to make operations less flexible and more expensive.

Perhaps, though, the greatest threat to growth is the increasing domination of regional air services by the largest airlines through code-sharing agreements and ownership, both full and partial, which give the large airlines a great deal of clout when it comes to determining new services (e.g. who gets to fly which route, which aircraft, what to charge, etc.), slowing the potential growth of regional aviation.

These constraints can be opportunities. For instance, if regionals are pushed out of large hubs, perhaps this will lead to the development of "tertiary hubs", a term we coined to cover hubs even smaller than the secondary hubs formed in smaller cities today.

Perhaps the greater regulatory burden will make our industry even safer than it has become, thereby improving the public confidence in, and thus ridership on, regional airlines. And finally, maybe once an airline owns its own regionals, it will not be so concerned about a regional siphoning off revenue on

hub by-pass services, therefore allowing it to explore new opportunities in potentially high-yield and high-profit markets.

In conclusion, although we recognized that there are potential impediments to regional aviation growth, there is enough evidence to justify optimism in the future of regional aviation.

Data Needs

The most pressing need the panel identified was for more consistent data in terms of origin and destination (O & D) traffic statistics. From the panel's standpoint, there is an inconsistency with the way the traffic is counted. Large carriers participate in the O & D traffic survey but smaller carriers do not, thus causing discrepancies in data.

Another area of concern raised by the panel was the new T100 schedule proposed by the Department of Transportation to replace T9 and ER 586 schedules of Form 41 data and slated to go into effect in January 1990. Public access to data from the new T100 schedule would be restricted for one year. This contrasts with the current situation in which T9 and ER 586 data are available immediately upon filing with the Department of Transportation. The imposition of the one-year restriction would have a detrimental effect on analysis because of the highly dynamic nature of the airline industry, and it would add to the continuing deterioration of available aviation data.