REGIONAL AND COMMUTER AVIATION

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Introduction

The panel or regional and commuter aviation included representatives of two major U.S. regional airlines, a significant European carrier, the Regional Airline Association, the Federal Aviation Administration, and industry consultants.

Over the past two decades the regional airline industry has experienced phenomenal growth and evolution. Traffic has consistently increased at double-digit growth rates. New technology aircraft have opened market opportunities, and the restructuring of the major carriers has redefined the role of the regional airline industry.

The primary questions before the panel were the outlook for continued growth in the regional airline industry and the anticipated structure of the industry.

The panel structured their discussion into six areas:

- Industry definition,
- Market structure,
- Fleet development,
- Cost impact,
- Revenue issues, and
- Emerging trends.

Industry Definition

The Federal Aviation Administration defines regional and commuter aviation as Part 298 air carriers, i.e. operators of aircraft with fewer than 60 seats. The FAA definition is driven by workload measures and staffing requirements and based on operations, not passengers. The current FAA definition excludes operations by larger regional aircraft now in the fleet (such as the ATR72 and ATP/J61) and the new aircraft under development (such as the Fokker 70, Dash 8-400, ATR82, and IPTN N250).

The panel suggested that the current definition no longer accurately describes the industry and proposed an alternative definition: *"Airlines that predominately operate aircraft with fewer than 100 seats and/or have a primary role as an affiliate of another carrier."*

Consideration was given to recommending that all providers of scheduled air service be considered air carriers and that the distinction between classes of carriers be eliminated. The panel decided that there is value in forecasting the regional airline industry separately from the larger air carriers. The FAA workload issues related to regional airline operations continue to be different from those of the larger jet operators. This distinction will become less clear as the new single safety standard is introduced and implemented.

The panel agreed that ultimately it is the mission that defines a regional airline. Thus, an airline that operates under the code, name, and market presence of another carrier is considered a regional airline.

Market Structure

There are three tiers of scheduled airlines:

TABLE 1 FLIGHT SEGMENT VERSUS AVERAGE SEATS PER DEPARTURE

Segment Length	Average Seats per Departure
Less than 400 km	58
401–800 km	105
801–1,600 km	146
1,601–2,400 km	162

- Tier 1 — Major/National (i.e., jet partners for regional airlines).
- Tier 2 — Regional Affiliates (e.g., USAir Express and American Eagle).
- Tier 3A — Subaffiliates (e.g., GPExpress feeding Continental Express).
- Tier3B — Nonaligned (e.g., Sierra Expressway).

With the introduction of regional jets, regional airline markets have expanded to almost 1,000. Traditionally, the regional airline markets were in the turboprop aircraft range of under 300 miles. As turboprops gained speed with the increase in the power of the engines the range expanded out to 400 miles. Now, the large sixty-plus-seat turboprops are designed for speeds up to 380 knots and ranges approaching 1,000 miles. The regional jets with speeds of 460 knots expand the range up to 1,200 miles.

Traditionally, as the flight segments increase, the average seats per departure also increase (Table 1).

The number of nonstop segments in the 401-600 km range served by turboprops has increased from 99 in 1978, to 184 in 1985 and more than double to 495 in 1994 (Figure 1).

Segments over 650 km have increased from only 31 in 1978 and 1985 to 124 in 1994 (Figure 2).

The panel concluded that the regional airline industry role will remain as feeder partners to the major jet carriers and that they will continue to expand into longer route segments and develop less traditional markets.

Fleet Development

There are two major trends in the regional airline fleet: the introduction of large regional aircraft and the diminishing role of the 19-seat aircraft. The U.S. regional airlines are now operating turboprop aircraft with over 60 seats and regional jets up to 100 seats. As the new larger aircraft are introduced into the fleet, the industry ASMs and RPMs will increase faster than enplanements. The 19-seat aircraft are facing significant threats to their economic life. Virtually all Tier 2 Regional Airlines are getting out of 19-seat aircraft. The Tier 3 regional airlines are becoming the primary operators of 19-seat aircraft. The introduction of the larger regional aircraft and the diminishing role of the 19- seat aircraft will drive the average seat size to exceed 30 seats by 2000.

Cost Impact

The three primary drivers of the regional airline cost structure over the next five years will be regulatory/legislative actions, labor, and fuel.

The single safety standard will have a very large cost impact on the regional airline industry. As proposed, the new rule would require by the end of 1996 en route communications, dispatchers, expanded record keeping, and increased initial operating experience of pilots.

The single safety standard will have an especially heavy impact on new-entrant Tier 3 regional airlines that generally begin operation with 19-seat aircraft and on the existing operators of 19- to 30-seat aircraft that will all need to be recertified as Part 121 carriers. Potentially 800 19-seat aircraft and 300 30-seat aircraft will be affected. The new rule will have a major workload impact on FAA.

Other major regulatory/legislative programs that will have an impact on the cost structure of the regional airline industry include:

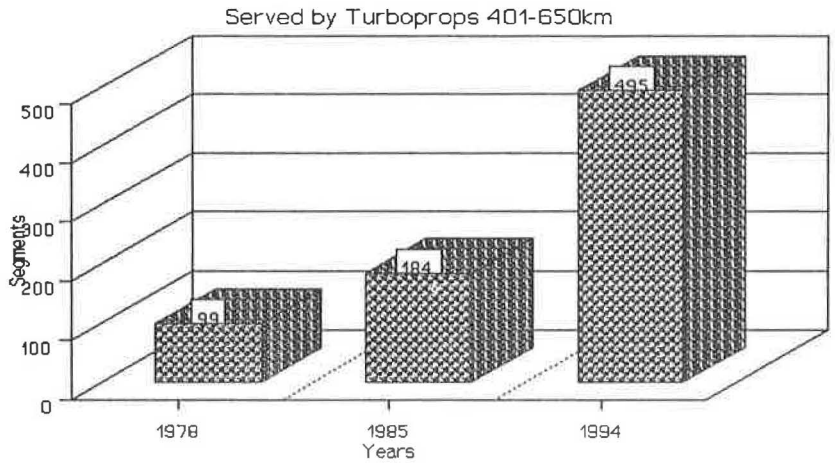

FIGURE 1 Nonstop segments served by turboprops (401–650 km).

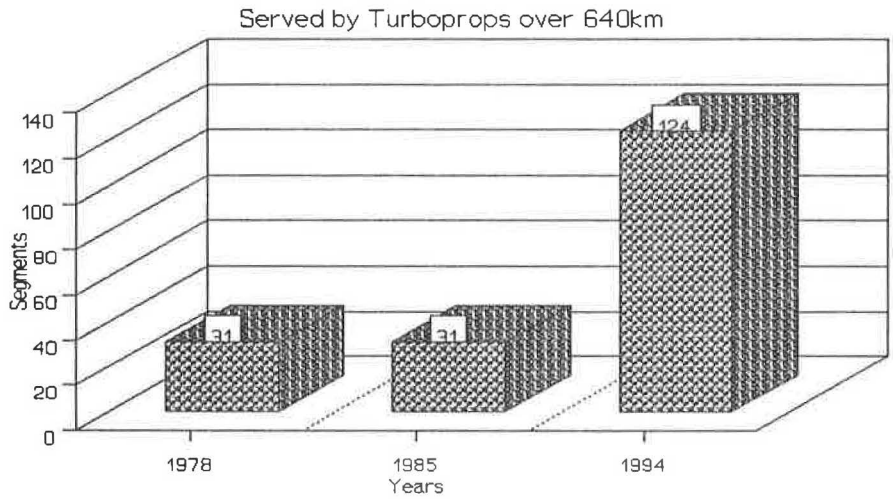

FIGURE 2 Nonstop segments served by turboprops (more than 650 km).

- Pilot training - New training requirements will apply to all Part 135 operators, not just those with aircraft larger than 19 seats.
- Flight and duty time - the proposal will impose duty time limitations and affect labor productivity.
- Essential air service sunset - EAS sunsets in 1998, and the current round of funding is very limited.
- DOT/FAA Budget - Budget constraints will limit FAA's ability to implement new single safety standard.
- FAA Reform - This could bring additional user fees.
- Security - Tighter security requirements in the U.S. domestic market will continue to be a major issue.

Labor issues will cause costs to rise in the regional airline industry. Regional airlines are becoming a career, not just a stepping stone. Thirty of the top 50 regional airlines now have unionized workforces. Seniority is now an issue and will lead to increased cost and potentially more restrictive work rules.

The fuel tax of 4.3 cents per gallon will result in an additional cost of $30 million for the regional airline industry.

There are two major revenue drivers. Elimination of EAS will affect the Tier 3 carriers' revenues and the overall declining yield trends will squeeze industry revenues. Yields decrease with segment length.

Therefore, as regional airline industry routes extend out to 600-1,000 miles, overall yields will fall.

Emerging Trends

Tier 2 regional airlines will continue to serve at the pleasure of the larger jet operators. As the load factors in the major carrier industry increase, the value of feed traffic is diminished. The larger operator has the opportunity to resell seats in local markets and to support the hub. Until capacity is increased by the major and national airlines, they will require less feed from regional affiliates.

The hand off of short-haul routes will continue at a diminishing rate. The need of the jet carriers to reduce overall cost and fleet size will ensure that routes will be transferred to regional partners.

Enplanements will grow somewhat more slowly than the historical rate, with ASMs and RPMs spurting as stage length increases. Load factors will creep up very slowly as the size of aircraft increases. The fleet size will be affected by the diminishing role of 19-seat aircraft and the addition of larger regional turboprop and jet aircraft.