

*Discussion Panel Report*  
**REGIONAL AIRLINES**

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## **Introduction**

The regional airline industry is expected to continue to grow at rates exceeding those of the major airlines. The growth will primarily be from new and larger markets made possible by the introduction of regional jets. However, there are several key issues that will affect the regional airline industry. These include labor relations, consolidation, slots, and small community air service.

## **Labor Relations**

Labor relations is expected to be a major issue for the industry over the next decade. Regional airlines operating regional jets are in effect providing the major airlines an in-house "C" scale, or lower pilot wage scale, operation. Thus, scope clauses will be the major area of negotiation between the major airlines and their pilots.

The panel forecasts that the scope clauses will be relaxed to increase the number of 50-seat and smaller regional jets but retain the 70-seat limitation. Tight limits are expected to be imposed upon 70-plus-seat regional jets. The long-term trend will be to merge work forces, and ultimately scope clauses will be negotiated away.

The cost impact of imposing pilot pay scales used by the larger airlines is expected to not be dramatic since the pay scale for pilots is weight and productivity driven. Regional jets are much lighter and have fewer seats than the mainline jets. However, imposing larger airline contracts on regional flight attendants and other union groups would result in significant increases in cost.

The panel noted that the National Mediation Board's docket contains largely regional airline cases. There are a large number of open contracts. The issues are now becoming more than wages and include benefits.

A concept that is gaining popularity is the flowthrough

of regional airline pilots into the major airlines' network. Regional pilots generally do not receive seniority numbers in the major airline systems, but are offered opportunities to move up into the major airline in an orderly progression.

While the panel found that there was no problem at the moment, there is a severe training issue that could have a significant effect on the future. When regional pilots leave for the major airlines, two weeks' notice is typical. The regional airlines have a four-week training cycle. Flight cancellations would be due to lack of training, not to a shortage of pilots. The cost of hiring, recruiting, and training is escalating. In addition, the FAA has issued new interpretations of reserve rest time that are projected to increase the need for pilots by 20 percent.

## **Consolidation**

The panel forecasts increased consolidation in the regional airline industry. The major airlines will continue to absorb the code-sharing partners. The panel expects more majors to purchase feeder partners like Delta purchasing ASA. Regionals are used by major airlines not only to increase markets served, but also to be politically convenient. The majors use regionals for local politics and to serve markets that are not otherwise economic.

The barriers to entry for a new tier of regional airlines are too high to allow for the growth of a new level of regionals. The power of the code share with frequent flyer programs and overall marketing costs make it extremely difficult for new independent regional airlines to begin operations with 19- to 30-seat aircraft.

The only potential for new entry is with smaller aircraft, such as Cape Air. Cape Air has created a niche with single-engine, single-pilot operations in Cape Cod. Cape Air provides very high frequency service in less-than-200-mile markets.

### **Slots**

The panel found that there is no safety reason for the imposition of slots. The Regional Airline Association directly advocates the elimination of slots by DOT. Slots are expected to be eliminated at O'Hare and JFK airports within five years. It is expected to take longer for slots to be eliminated at LaGuardia and Reagan Washington National airports. Once slots are eliminated, it will be the job of the airlines to handle congestion.

### **Small Community Air Service**

Small community air service will suffer losses due to 19-seat aircraft retirement. The program is expected to be rationalized and to include fewer communities. Funding is expected to stay at \$50 million. Some small and medium-sized communities will benefit from the less-than-50-seat micro regional jets.