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FLIGHT TRANSPORTATION LABORATORY
REPORT R 80-9

THE MARKETING OF INTERNATIONAL AIR
TRANSPORTATION IN THE USA

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July 1980

DEPARTMENT
OF
AERONAUTICS
&
ASTRONAUTICS

FLIGHT TRANSPORTATION
LABORATORY
Cambridge, Mass. 02139

FTL REPORT R80-9

THE MARKETING OF INTERNATIONAL AIR TRANSPORTATION
IN THE USA

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Seminar

July 15, 1980

to

Summer Course

"Air Transportation -- Management, Economics and Planning"

sponsored by

Flight Transportation Laboratory/
Center for Advanced Engineering Study
Massachusetts Institute of Technology
Cambridge, Massachusetts 02139

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INTRODUCTION

I am very honoured to have been invited to talk to you today at such a distinguished place of learning as the Massachusetts Institute of Technology. I understand that you have already had talks from several far more distinguished members of the aviation community, including the Chairman of the Civil Aeronautics Board and the Director General of the International Air Transport Association, so by now you are certainly well aware that international aviation has reached a critical, and some would say, crucial stage in its development.

In spite of all the talk of deregulation which you will have heard within the last few years, there is nevertheless no doubt that in international aviation airlines remain at the mercy of decisions by governments, and indeed cannot operate unless the governments of the countries between which they wish to fly permit them to do so. There is not time in this lecture to discuss this subject in detail, but you can do no better than read Professor Taneja's excellent book on U.S.

international aviation policy* if you wish to obtain a clear understanding of the implications of government policy for international aviation to and from the USA.

AIM OF LECTURE

My aim today is to discuss the marketing of international air transportation in the USA and to describe why it has developed in a certain way. The subject is particularly relevant because the CAB is at present investigating these methods in a massive proceeding called "Investigation into the Competitive Marketing of Air Transportation" (Docket No. 36595).

This investigation encompasses both domestic and international air transportation and they are of course closely related, but I will concentrate today on the international aspects since this is an area on which I am far more qualified to speak.

Worldwide Background

Before considering the marketing of international air transportation in the US it is necessary to give you a background on the worldwide airline sales distribution system since it has a major influence on the way airline marketing ^{HAS} ~~is~~ developed in the US.

As you know, most of the international scheduled airlines of the world belong to the International Air Transport Association known as IATA.

*"U.S. International Aviation Policy" - Nawal K. Taneja
Lexington Books 1980
Library of Congress Catalog Card Number: 78-874

It is common these days to hear IATA referred to as a cartel - a piece of nonsense which indicates quite clearly to me that the speaker is either unaware, or wishes to ignore, the fact that the decisions of IATA are, and always have been, subject to the approval of governments. How you can have a cartel when you don't have a final right of decision I have never been able to understand. IATA cannot and never has fixed fares - it has to obtain the approval of the governments at either end of any route before fares can come into effect and the disapproval of these fares by either government automatically precludes any changes, unless that government has agreed to any other arrangements.

Whilst IATA is probably better known for its pricing activities it has, I am sure you are aware, many other roles. One of the major areas is the administration of the passenger and cargo agency programs on behalf of all its members.

Aim of Agents Program

Through the Secretariat located in its head quarters, and at its offices in other parts of the world, IATA administers worldwide agency programs on behalf of all of its members. The programs have certain common benefits that are carefully tailored to meet the commercial needs, legal

requirements and business customs of the countries ⁱⁿ ~~of~~ which they are operated. About 300,000 passenger sales agents and 3,000 cargo agents are involved, with more than half of the IATA agents located in the USA.

IATA's programs establish standard procedures and financial experience criteria for the accreditation, administration and retention of passenger and cargo agents. Agents who qualify under these criteria enter into a master agreement with IATA. This single agreement permits them to be appointed formally by all IATA Members without further negotiation or paperwork. As a practical matter, agents in the US average 50 or more appointments. In any event, IATA qualification permits any appointed agent to write interline tickets and waybills involving all IATA carriers and thus to offer a full range of options to the travelling and shipping public.

Once an agent is accredited and appointed, the IATA programs make provision for continuous monitoring to ensure a high level of financial responsibility and fidelity to the instructions of airline principals. Carefully balanced procedures permit objective review of departures from contractual agreements while simultaneously providing quick problem recognition and corrective action to protect the travelling public.

In addition, the IATA Secretariat conducts vocational training programs for agents which are designed to increase their competence in air transport planning and in dealing with the complex documentation, routing and currency problems affecting international movements of passengers and goods.

Within the US, travel agencies have increased and prospered under the IATA system. The number of IATA accredited agents has grown from approximately 7,000 to almost 17,000 in the last ten years. Consumer reliance on travel agents in international transportation has reached the point where almost 80 per cent of all international passenger travel sold in the US is sold by agents.

Revised versions of the USA programs have recently been filed with the Civil Aeronautics Board and await their approval. I have had an excellent opportunity to appreciate the value, and understand the problems, of these programs since I have for the past two years been a member of the IATA Working Group which re-wrote the USA passenger program. In addition to the other airlines involved, this Group also contained representatives of the American Society of Travel Agents, the Association of Retail Travel Agents, the American Automobile Association and the Association of Bank Travel Bureaus.

INTERNATIONAL AIRLINE MARKETING METHODS IN THE USA

As I am sure you know, there are two main methods used by airlines in marketing their product in the USA. You can either buy air transportation direct from an airline, or you can obtain it from a travel agent.

Direct and Agency Selling

The IATA sales agency program satisfies the need of all participating airlines - US as well as foreign - for a maximum number and variety of retail sales outlets as a means of penetrating the vast United States market. It appears that even US airlines, with the support of their large volumes of ticket sales on a variety of domestic and international routes, cannot economically blanket this nation with their own sales offices. Foreign airlines can develop only a fraction of such sales volumes since they are precluded by law from competing for domestic traffic flows and as a rule are permitted to serve only a few US gateway points on routes to their foreign homelands. There is not the remotest possibility that a foreign airline could achieve the volumes of ticket sales that would be necessary to support a network of ticket offices sufficient to provide reasonable market coverage. For foreign airlines direct selling on a large scale is simply not an option.

British Airways, certainly one of the largest foreign airlines in terms of its US sales volume, demonstrates this point dramatically. It is British Airways' policy to maintain its own ticket offices where they are cost effective, but not to do so at a loss simply to "show the flag". Incidentally we are not subsidised, and we are required by our shareholder, the British Government, to run on a profitable basis. In pursuance of this policy, British Airways presently maintains only 28 sales offices in the US. It maintains street level offices to serve the general public only at on-line service points where there is a heavy demand for direct sales which can be combined with servicing activities for incoming passengers needing to adjust their travel arrangements. At a number of these locations we share space with another airline to make the sales office cost effective. Our sales offices at off-line locations (over half of the total) exist primarily to serve the needs of IATA sales agents in the areas where they are located.

Through the IATA sales agency program we currently are obtaining sales representation at approximately 17,000 locations throughout the United States. I think it is accurate to say that as a result of this system there is no significant geographical or functional segment of the US travel market lacking ready access to our services. This is a superlative distribution network both absolutely and in comparison to other industries,

many of which are competing with ours for the discretionary income of American consumers. I cannot image^{INE} that there is any other distribution system we could practically adopt that would provide us with the tremendous number and variety of sales outlets of the IATA sales agency program.

It is no exaggeration to say that the very existence of our airline, and indeed all other foreign international airlines, in this country in anything like its present form is dependent upon the agency sales representation we receive under the IATA program. About 80 per cent of our passenger revenues in the US are produced by IATA agents. Despite our inability to match the direct selling capability of our US-flag competitors, thanks to the agency program we attain load factors and market shares on most of our US routes that are at least competitive. According to evidence submitted to the CAB by Mr. Michael Styles, a former member of the US State Department, on the US/UK route the American designated carriers had 384 sales shops in the USA compared with 18 for British carriers so you can understand the need for agency representation to redress this imbalance.

The comprehensive scope of the IATA agency network in terms of sales locations is vitally important to British Airways, as I am sure it must be for other carriers. That is not to suggest that all those 17,000 agency locations authorised to sell British Airways transportation are doing so in anything like equal measure. Indeed, some of them may never have sold

a British Airways' ticket. A few of them, I am happy to say, top a million dollars in annual sales for us. However, we are to a very substantial degree dependent upon the collective efforts of thousands of IATA agents whose individual sales production for British Airways is small and/or occasional.

Importance of Small Agents to International Airlines

In our 1978/79 fiscal year 88 per cent of US IATA agents produced less than \$25,000 in annual sales for British Airways - the smallest sales category that our records recognise. However, these thousands of small individual producers collectively accounted for 44 per cent of British Airways total passenger revenue. On some of our routes (e.g. Chicago - London) the proportion is much higher and it is clear that we could not serve the route at all without access to these numerous, small distribution outlets. On other routes the increment of revenue provided by our numerous small agents would spell the difference between operating fuel-efficient wide bodied aircraft or not, or providing an adequate frequency of service to meet the needs of the travelling public. In all cases this revenue provides at least the margin of any profit we might earn.

Cross Benefits of IATA/ATC Programs

This is perhaps an appropriate point at which to mention that the very broad sales coverage of the IATA agency program upon which we depend draws strength from the joint sales agency program of the US domestic carriers administered by the ATC. The two programs are designed to be complementary so as to permit travel agents handling the very broad range of US domestic air travel to write international tickets also without much added effort. Under this "piggyback" relationship both domestic and international air transportation receive the widest possible sales representation throughout the US. Individual travel agents benefit from having a broad range of travel to sell and the public enjoys ready access to a tremendous array of travel offerings.

FAIR AND EQUAL OPPORTUNITY CONSIDERATIONS

I have already pointed out that international aviation depends upon agreements between governments. Most of the agreements have a clause which requires that each side gives fair and equal opportunity for the designated carriers of both countries to compete in each other's markets.

Equal Access to the Market

I have already noted that access to the agency system in this country is relatively more important for foreign airlines than it is for US airlines which could maintain more extensive networks of sales offices and agents on the strength of their greater volumes of US sales. On this basis alone the IATA program is important in preserving a fair and equal opportunity for foreign airlines to compete for international traffic. However, its implications for the fair and equal opportunity concept go much deeper than that.

Prevention of Misuse of Market Power

The joint sales agency program of IATA embodies a critically important understanding among IATA carriers to permit each other to enjoy equal access to the commonly-appointed sales agency network. Stated another way, the IATA carriers, by establishing the common agency program, have undertaken not to exercise their individual market power to foreclose each other's access to agency sales outlets. This undertaking is important to the competitive opportunities of foreign airlines in the United States. It is perhaps even more important to the competitive opportunities that US airlines enjoy in most foreign countries where national carriers have relatively more market power than individual US

airlines have in this country.

Under the agency program travel agents are not forced to choose between representing some airlines at the expense of not representing others.

IATA agents represent all of the airlines which have appointed them in a manner that is on the whole remarkably faithful to the tradition of serving the best interests of their clients, the travelling public. Without the restraining influence of the joint agency program one can clearly foresee efforts by major carriers to appoint agents on the condition that they do not represent competing carriers. Among the airlines, the losers in this country if that happened would clearly be the foreign air carriers.

US airlines are simply more important economically to most American travel agents than foreign airlines. The major US airlines that operate internationally offer US agents a vastly greater volume of sales to far more destinations than a foreign carrier. They offer domestic travel which is completely closed to all foreign airlines. In these circumstances, there can be no doubt what choice the economic interests of most agents would dictate if a choice were forced upon them. Even a large foreign carrier like British Airways would find the contest quite unequal if a substantial US airline pressed travel agents to represent it on an exclusive basis in the US-UK market.

US Government Policy on Fair and Equal Opportunity

As I understand its position, the United States Government is committed to overcoming constraints which deny its own airlines a fair and equal competitive opportunity in foreign countries whether they are the result of foreign government actions or the exercise of market power by foreign airlines. As an example of the latter type of constraint, the US Transportation Secretary Goldschmidt recently declared:

"For example, the US does not consider it a fair and equal opportunity to compete when US airlines are excluded from foreign airline-operated computerised reservation systems even though those carriers have open access to US computer reservations systems." *

The issue of US carrier access to computer terminals which the national airlines of foreign countries have installed in the offices of travel agents in those countries is obviously related to the issue of competitive access to the sales agency outlets themselves. There is no IATA agreement supporting the reciprocal access to carrier reservations computers which the US seeks, and, predictably, in the absence of such an agreement some carriers have been tempted to exploit their dominant power in certain markets. There is an IATA sales agency program that guarantees reciprocal

* Remarks prepared for delivery by US Secretary of Transportation Neil Goldschmidt, International Aviation Club, Washington, D.C. April 15, 1980, page 5.

access for all carriers to the agency outlets themselves. This program is obviously responsive to US policy and the US view of fair and equal opportunity obligations.

Worldwide Inter-Relationship of Agency Programs

Should the Board act to disapprove or curtail the agency program in the United States, I think this would inevitably lead to breakdown of the IATA agency system in other countries at least insofar as sales to the US are concerned. I find it difficult to imagine that the national carriers of foreign countries, who generally exercise a degree of market dominance in those countries that far exceeds the market power of any US airline here, would continue to tolerate joint access by US carriers to the IATA agents in their countries. This would not be an act of political retaliation (although that possibility would surely exist) as much as an act of commercial necessity whereby foreign carriers attempted to recoup in their home markets the contraction in revenues they would suffer here. Such developments would represent the very antithesis of US fair and equal opportunity policy, and since US traffic no longer predominates on many international routes, would also be contrary to even the narrowest conception of US mercantile interests. Ultimately, the consumers in all markets would suffer from diminution of the readily available competitive alternatives that it is the purpose of the fair and equal opportunity policy -

and the IATA sales agency program - to promote.

COMPETITIVE CONSIDERATIONS

I am sure you will have heard suggestions that the IATA agency program, which requires standards and experience as a requisite for representing airlines, is in some way "anti-competitive". This is a Washington "buzz" word that has so far eluded both my Oxford English Dictionary and your Webster Third International Dictionary. Since I am neither a lawyer nor an economist, I do not propose to debate the competitive merits of the joint sales agency program either in terms of anti-trust or market theories. As an airline executive I can tell you for a fact that the IATA agency program promotes competition in important ways that affect me and my business. If the CAB wants to promote effective competition, and I believe that it does, then it should continue to support this program.

I have already mentioned the fact that 17,000 IATA sales agency locations are enabling international air transportation to compete successfully against a panoply of tempting alternatives ranging from camping in the fabulous US national park system to the purchase of vacation homes, boats and video tape machines. Our industry has enjoyed a sustained growth rate well above the average in the US economy, especially in the pleasure travel

area where we compete head-on for discretionary consumer dollars. The comprehensive agency network created by joint industry appointment has served well to maximise the competitive presence of our industry and each carrier throughout the nation.

Competition Amongst Air Carriers

The IATA agency program also promotes competition among air carriers. The multiple-appointment system coupled with a strong tradition of professional impartiality among US travel agents serves well to bring worthy competitive offerings to the attention of consumers. In particular, this has promoted effective competition by foreign airlines or new entrants lacking established market identification.

I have seen the competitive benefits of the IATA agency system at work in the past two months when a good portion of my time has been occupied with the inauguration of service on British Airways' new Seattle-London route. We had never before provided service at Seattle on any route, and, to say the least, were somewhat concerned as a new foreign carrier taking on an established US competitor, about our lack of strong identity in that market. I can assure you that our task has been and is being made vastly easier by the fact that we have an established sales agency network in

place in the Northwestern US. The agents there are professionally familiar with our airline and start out with a thorough knowledge of the forms and procedures to be followed in representing us. It is a manageable task to acquaint them, as distinguished from the public at large, with the schedule, fares and other details of our new service offering. While we are, of course, engaged in general public advertising, we will rely primarily upon the IATA agents to bring the competitive merits of our new service to the attention of consumers who are seriously in the market for international air transportation. This is a process we have gone through, successfully, in many other markets and we have every confidence of its success in Seattle.

The joint agency network promotes effective competition by all airlines, not just new entrants. The range and complexity of our fare and service offerings in this industry taxes even the most experienced professionals. Our most significant competitive pricing initiatives are wrapped up in arcane jargon like APEX, Super APEX, GIT, Super Saver, Supreme Super Saver, Peanuts and Vacances, which is paraded before the American public in a jumble of TV and radio ads which mention "some restrictions" with the caveat to "see your travel agent for details". There are dozens of competitive service variations that have significance for at least some travellers such as three-class service, sleeper seats, lounges, special

terminal facilities and inflight movies, to name a few. These are not widely known among the general public any more than our fare offerings are generally understood.

Without a network of professional travel agents to explain to individual consumers on a fair comparative basis the price and service options that have relevance to their particular circumstances, airlines risk failure of many of their best competitive initiatives for simple lack of consumer awareness and understanding of them. We would be somewhat like the American food packager who recently perfected a new technique for packaging frozen croissants without spoiling their delicate texture or flavor. Test marketing revealed that the average American consumer found the new product to be delicious when tasted but did not know what croissants were when seeing the package in a grocer's freezer. According to a press report, this lack of consumer recognition caused the demise of an obviously superior product.

Competition Amongst Travel Agents

The IATA agency program as it now exists in the United States promotes a degree of competition at the retail travel agency level itself that would disappear without the program. Under the program the air transportation

industry is almost entirely free of the most common restriction in other market distribution systems: the demands of retail sellers for exclusive sales territories.

Entry into the travel agency field as an IATA-accredited agent is available to all who satisfy certain objective standards. Established IATA agents must accept that IATA does not protect them from the competition of new entrants in the geographical or functional markets they serve.

In the absence of the joint IATA program, established agents would be free to bargain with airlines for exclusive appointments in various areas. Thus, for example, the largest and most influential travel agent in a particular town might demand to be the exclusive British Airways agent in that town as a condition of representing British Airways at all. There are many agents who are important enough in particular markets to demand and get that kind of consideration notwithstanding that it restricts the airline's distribution network and the choices available to consumers.

PUBLIC SERVICE REQUIREMENTS

I think it is some times forgotten that international civil aviation is very much a public service industry and indeed I doubt whether there would

be a Department of Transportation or a Civil Aviation Board in the form we know them if this public service requirement was not considered most important. Although the CAB is scheduled to disappear under the Deregulation Act, many of its powers in international aviation will revert to the Department of Transportation, the Justice Department and the State Department, which seems to indicate a clear view that public service requirements will remain even if the CAB does not!

I would now like to give you some idea on how the agency program makes important contributions to the ability of the air transportation system to serve public needs.

Interline Benefit

In the first place, it provides the only known framework for the joint designation of sales agents by airlines that is fundamental to interline air transportation. That is certainly a major public need if British Airways' experience is any guide. About 35 per cent of our total passenger traffic involves through transportation on two or more airlines. At least 55 per cent involves some form of interline transaction with another carrier or carriers involved in the passenger's standard travel document which is usually issued by an IATA agent.

The only reason why it is possible to buy a ticket from any approved agent which provides travel on any of the IATA airlines is the knowledge by these airlines that the tickets are issued by agents whom they have mutually accepted. Without that assurance there would be a complete fragmentation of international air travel with a loss of all the benefits of joint fares, through checking of passengers, and the ability to change flights using the same ticket without going through a difficult process of refund and re-purchase.

Financial Assurance

The IATA/ATC agency programs also provide reasonable assurance - indeed the only real assurance the public has - that the persons calling themselves travel agents to whom consumers are entrusting their money and their travel plans are in fact financially and professionally qualified to act in that capacity. I submit that on this ground alone there is a compelling public interest in maintaining these programs.

Public Confidence

The growth and development of the air transportation business depends to a significant extent upon a continued high level of public confidence in

the reliability and integrity of travel agents. British Airways is, of course, greatly concerned that the agents accredited to represent it are publicly regarded as experienced and capable of giving high quality of service. However, British Airways also has a direct business interest in the quality of the travel agents representing all airlines, including its competitors. Anyone familiar with the history of charter air transportation in the United States is aware how the reputation of an entire industry can be tarnished and its sales revenues depressed, by the irresponsible or dishonest actions of a relatively few agents.

Standard Procedures

The IATA/ATC agency programs also provide the basis for developing standard industry-wide forms and procedures for such things as reporting and remitting by agents. Apart from fostering interline transactions, this promotes efficiency in the air transportation industry, avoiding the sheer economic waste of procedures that are duplicative as well as incompatible.

ALTERNATIVES TO PRESENT DISTRIBUTION SYSTEMS

It is entirely speculative to talk about alternative distribution systems

since there is no relevant experience to guide us, even by analogy to other service industries like hotels and rental cars which use a travel agency distribution system.

It is my impression that they are piggybacking on the IATA/ATC program which they see as the best in the world. I know that is what the non-IATA airlines with which we compete, such as Pan Am and Laker, are doing. The IATA/ATC joint agency system is simply the most economical and effective one that anyone has yet devised for widespread sale of fairly expensive, rather complex service contracts for transportation (i.e. airline tickets), alone and in conjunction with other travel related services.

Potential Loss of Outlets

If the IATA agency program were not available for some reason, it seems quite clear that most airlines, including British Airways, would not have any realistic alternative of going it alone. British Airways could not afford on the strength of its own limited volume of US ticket sales to administer an agency program encompassing anything like IATA's 17,000 locations, most of which are producing very little revenue for it on an individual basis. Yet, as I have demonstrated, British Airways requires

representation by this large number of small agents in diverse locations to sustain its US operations. Thus, we would be forced to try to find some entity that could be substituted for IATA in the role of administering a large sales agency network.

Lack of Suitable Alternatives

There is no organisation in being today that could readily undertake IATA's agency administration function, a fact tending to confirm that IATA/ATC efforts have been reasonably satisfactory to a great many interests. If I were to speculate, I imagine that in the absence of IATA and ATC, major US airlines or tour wholesalers might be likely candidates to assemble agency networks which they would use themselves and, as general agents, provide to others such as foreign airlines. I see nothing to recommend such arrangements over the present IATA/ATC system from the standpoint of the public, the airlines or the agents. Lacking the extremely broad base of collective appointments that the present system has, these Balkanised agency networks could never hope to equal the comprehensive sales coverage now provided to the airlines and the public. Nor could they provide agents with as wide an inventory of air transportation offerings as at present. They would impair if not destroy the range of interline opportunities available to American travellers. And they would lack the commercial

neutrality that characterises the IATA/ATC agency administrations.

Federal Government Licensing

It has sometimes been suggested that the Federal government could provide a substitute for some of the important IATA/ATC agency administration functions through a program of travel agency licensing. However, there is no purpose in debating here the merits of government licensing of agents versus the present conference appointment system since there is not the slightest indication that a comprehensive licensing scheme will be adopted.

MARKETING INNOVATION

The accusation that the present distribution system is unduly restrictive is, in my view, entirely misplaced. It does not preclude direct selling by participating airlines and indeed all the participants engage in direct selling whenever that is commercially advantageous. Most airlines are commercial organisations and they would not support a system for long if it was not the most cost effective and they could see better ways of making money. In this context it is interesting to note that as soon as Laker Airways decided they wanted to sell transportation with a reservations

system, they used the present agents' distribution system in the United States. Clearly there was nothing else available that was anything like as effective.

It has often been claimed that it is unfair that organisations like Ticketron cannot provide simplified services as agents of the airline without meeting the financial or experience standards required of all other agents. Quite apart from my misgivings as to whether they could adequately cope with anything but the simplest fare, and then not always be able to advise on its limitations, this attitude does seem to encourage the extraordinary view that airlines should require standards as a pre-requisite for agent representation and then in certain cases waive these standards! This can hardly be a sensible philosophy and I cannot see other agents accepting such a view for long. The inevitable result would probably be the destruction of the whole basis on which the present system has been constructed, without any coherent sensible system to replace it.

Nevertheless, the international airlines do not view the IATA agency program as a barrier to experimenting with novel distribution techniques. As an example, we have ourselves approached Ticketron as a possibly efficient way to distribute our point-to-point standby tickets. As it

happens we judged Ticketron's computer system to be incompatible with our needs at present, but our IATA membership has never been thought to prohibit us from exploring such distribution options. International airlines will constantly look for a mix of distribution systems that achieves the best balance of efficiency, maximum scope and consumer satisfaction.

RETAIL PRICE COMPETITION

One major proposal that could have a serious effect on the marketing of international air transportation in the USA is the idea of retail price competition - sometimes called "net fares". I fundamentally disagree with the suggestion advanced in the CAB Order of Investigation that something labelled "retail price competition" is a desirable policy objective in the marketing of air transportation.

Public Service Versus Resale of Goods

It appears to me that the "retail price competition" notion is the product of sloppy thinking which has failed to distinguish between the sale of the public service of air transportation and the resale of goods like bathroom fixtures. The concept of resale price competition, including a

public policy against resale price maintenance, is a familiar one even in the United Kingdom. When the owner of goods, whether a manufacturer or wholesaler, parts with his interest by selling them, there are obvious grounds for saying he should not be able to restrict the subsequent course of dealing with them by other owners. This concept has no place in the marketing of air transportation.

Only airlines can provide air transportation. Others in the so-called "chain of distribution" can only provide promises that an airline has authorised them to make about the time, place, manner and circumstances in which an airline will provide air transportation. Regardless of whether we call these people "retailers" or "agents", they are incapable of owning air transportation or providing it to others. Their stock in trade is promises - promises that airlines will be called upon to honor.

An airline never parts with its interest in these promises in the way that a supplier of goods does when he sells them. The conveyance of these promises represents the beginning, not the end, of the airline's responsibility to its ultimate customer, the passenger or shipper. No matter how many layers of marketing intermediaries are interposed or what we may call them, the ultimate object is always a direct transaction in which a customer physically entrusts his person or his property to the

airline for transportation in accordance with the promises that have been made. The airline which must physically confront the customer at the time of performance has a compelling interest in the nature of the promises that have been made and the qualifications of the persons making them. That is why the principal-agency relationship has been, universally adopted as the dominant form of non-airline selling.

Complex Nature of International Airline Ticket Sales

The simplistic notion that airline seats are all pretty much alike is naive in the extreme. An airline ticket is a rather complex service contract governing a vast array of matters such as the ability to cancel and change reservations, time of check-in, baggage allowance, airport lounge amenities, seat selection, class of on-board service (including size and location of seat, pattern of assigning empty seats, quality and selection of meals, type of beverage service, in-flight entertainment, reading material, and on-board lounges), en route stopover, privileges, interline baggage handling, speed of flight (e.g. Concorde), wheelchair assistance, baby bassinets, and special diets. The travel agent, who is not a "retailer", acts as a professional counsellor to assist consumers in choosing from among myriad price-service options those that are suited to their particular circumstances. It is important to the consumer, to

the airline and to government authorities who license and regulate airlines in the public interest, that there be accountability by the agent to the airline and by the airline to the public and the government for acts and omissions of the agent.

I am somewhat taken aback by the view expressed in the CAB's order of investigation that the marketing system which has developed in air transportation "differs markedly from that which prevails in most industries". I cannot think of a single industry anywhere in the world where the provider of a service allows a bunch of so-called "retailers" to determine independently the price the public will pay for the service. Most assuredly no such pattern exists in the travel and tourism industry which I believe is the largest industry in the United States and in the world.

CONCLUSION

I hope that I have been able to give you some idea of the way international air transportation is marketed in the USA and also some of the reasons why I feel this system is in the best interests of both the consumer and the airlines.

I hope that the Civil ^{AERONAUTICS}~~Aviation~~ Board will take very seriously the reasons why the present system has grown up and will resist the temptation to change for the sake of change.

I have been disturbed in recent months by claims that at least one member of the Board seems to have given indications of having pre-judged the case before it is ever heard, and I hope that this is not so. The public deserves impartial and responsible judgement if it is to continue to receive the benefits which have made air transportation one of the public service success stories of the twentieth century.