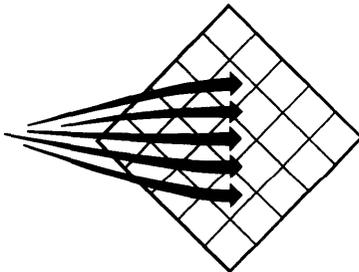


REGIONALISM IN INTERNATIONAL AIR TRANSPORTATION: COOPERATION AND COMPETITION

Papers from an International Conference
organized by The Massachusetts Institute of Technology,
held at the Amman Chamber of Commerce, Amman, Jordan,
April 19-21, 1983



Under the auspices of Alia: The Royal Jordanian Airline.

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PREFACE

Alia: The Royal Jordanian Airline is very pleased to present this collection of papers originally presented at the international conference entitled, "Regionalism in International Air Transportation: Cooperation and Competition", held in Amman, Jordan during April 19-21, 1983.

Regionalism, a method which ideally, allows groups of nations and airlines to work together efficiently in air transport operations, while competing with other similar groups, has been proposed as a means to help solve many of the problems currently plaguing the airline industry. Regionalism has been practised in the past, with some difficulty and some success, but its many possibilities have yet to be fully explored.

Thus, Alia, a commercial air carrier with a long commitment to regional cooperation and progressive thinking, and the Massachusetts Institute of Technology (MIT), an academic institution with an international reputation for excellence in the ideas and practical applications relating to modern technologies, decided to cooperate in organizing an international forum for discussion of this important concept.

As a result of long and dedicated cooperation between the MIT's Department of Aeronautics & Astronautics, its Center for Advanced Engineering Study Seminar Office, Alia staff members and a wide range of local institutions in Amman, the conference was a great success. It was a unique opportunity for senior airline personnel and civil aviation authorities to address the potential of regionalism in commercial, operational and technical areas.

As a quick scanning of the list of authors whose papers are published herein demonstrates, the participants, representing 25 different countries, were exposed to past experiences, current activities and conceptual approaches to regionalism by some of the aviation community's most respected thinkers and practitioners. Not reflected within the covers of this book are the equally valuable exchanges of ideas which followed each presentation and the high spirit of exploration which characterised the three-day conference.

We were fortunate to have welcomed also eleven journalists representing some of the most prestigious journals in the aviation industry, who produced extensive and thoughtful reports which reached a much wider audience of air transportation professionals. Conference participant evaluations reflected their high satisfaction with program format, content, organization and services. Some 84 percent of those attending the Amman conference expressed interest in a follow-up program on the subject of regionalism.

It was most gratifying for Alia to sponsor and host this meeting in Amman, the capital of a small but historic Arab country which has become an important regional commercial and aviation center. Alia has played a crucial role in Jordan's development during the past 20 years, as anticipated by the vision of His Majesty King Hussein, whose interest in aviation and the potential for regional cooperation was demonstrated by his contributions to

the conference as both speaker and participant. The regional activities already undertaken by Alia have benefitted from his counsel and encouragement, and we remain committed to seeking new cooperative opportunities.

With appreciation for the contributions of all program speakers, for the enthusiastic participation of the registrants, the hard work of the MIT and Alia staff members and the cooperation of many Jordanian institutions, this publication is dedicated to a brighter future for the international aviation industry, in the hope that the potential of regionalism – especially in its cooperative form – will be considered and tested in practice as an idea whose time has come.

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Ali Ghandour
Chairman of the Board

December, 1984

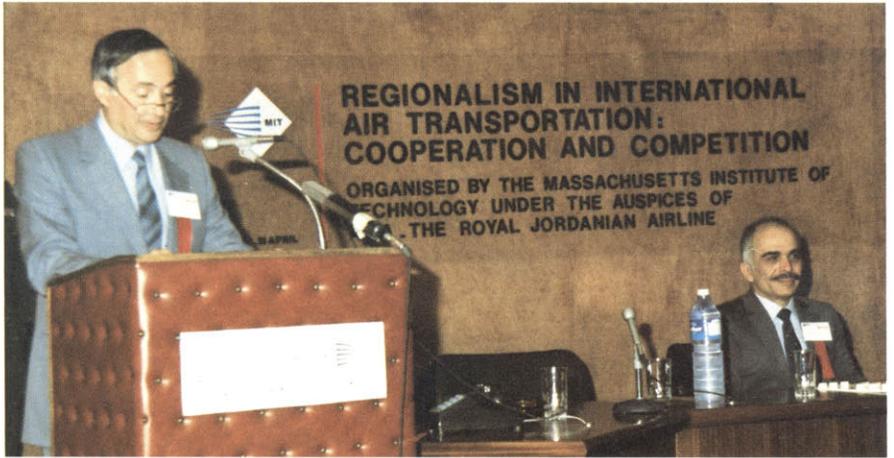
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INTERNATIONAL AIR TRANSPORTATION
“REGIONALISM”



WELCOME ADDRESS

BY HIS MAJESTY KING HUSSEIN BIN TALAL OF THE HASHEMITE KINGDOM OF JORDAN

DISTINGUISHED GUESTS,

It gives me great pleasure to personally welcome you all in our capital, Amman, and to express our appreciation to both the Massachusetts Institute of Technology and Alia/The Royal Jordanian Airline for their efforts in jointly organizing and sponsoring this important conference on "Regionalism in International Air Transportation: Co-operation and Competition". The number of distinguished participants in this symposium, and the wide and diversified representation related to the air transport industry present here today, is an indication of the interest generated in the subjects under discussion in this conference and their importance to the aviation industry.

This conference has brought together representatives of the airlines, the aircraft manufacturers, regional and international organizations and the aviation press to help remove impediments which restrict the growth of the aviation industry.

The significance of aviation to the world today needs no emphasis. Throughout the past few decades aviation has truly evolved to the point where it provides one of the most important foundations of the interaction of modern global society with its far-reaching effects on the human struggle to achieve its perpetually higher goals and objectives.

Furthermore, the benefits of aviation to our national economies are of vital importance. The Jordanian experience is a testimony to the fact that the economy is enhanced by trade exchange through the opening of new markets, by stimulating tourism and the introduction of new products and ideas to people.

We will, however, fail to continue to reap the benefits of civil air transport if the proper environment for the industry's healthy growth is not provided. Commendable efforts are being made to enhance the potential healthy growth of civil air transport yet limited vision and ignorance, protectionism and the human failing, which tends towards empire building, has created barriers in the face of proper regional planning. This trend has been both expensive, self-defeating and detrimental to possible and attainable rapid growth and benefits for aviation worldwide.

This conference provides an opportunity not only to revive interest in regionalism but also to map out strategies for present and future actions for

His Majesty King Hussein has governed Jordan since ascending to the throne in 1952, leading his people through a rapid and well-planned development process. Among the many programs and projects initiated under his leadership was the founding of Alia: The Royal Jordanian Airline in 1963. His Majesty is also an avid and experienced airman.

the comprehensive benefit of people, airlines and the aviation industry in general.

It is our hope that the interest you will undoubtedly generate during this conference will continue and produce worldwide tangible results based on your deliberations, recommendations and the subsequent follow-up of your findings.

Alia, our own national airline, has always believed that it has a duty to explore the regional approach. Jordan and Alia have made many contributions with some resultant progress in this direction.

The Royal Air Academy in Amman regularly trains students from neighbouring states in addition to our own. We hope this academy will become the nucleus of a regional Arab academy and that somewhere down the road our hope of creating an adequate regional air university will be realized.

Arab Wings remains the region's only truly international business jet charter service and throughout its existence it has enjoyed the participation and support of the Gulf States.

Just over a year ago we joined with Iraq to form Arab Air Cargo which from its inception has the makings of a truly Arab multi-national carrier. The newly formed company provides cargo services on a regional and international basis.

And, finally, there is what may be the most promising development of all, the formation of the Arab Technical Consortium. Under this agreement several Arab carriers, including Alia, have agreed not only to share the benefits of central maintenance facilities and spares but also to begin standardizing specifications for future aircraft purchases.

These, I believe, are only some steps that the Arab carriers have taken towards achieving greater regional collaboration with a view to establishing a joint approach to interaction with other regions.

Regionalism in the aviation industry, which you have taken upon yourselves to discuss in its various aspects, is a very important concept in regulating and organizing agreements within the industry with the aim of increasing widespread benefits to the world community as well as facilitating co-operation and progress in the aviation industry.

We, in Jordan, have always seen great importance in the development and expansion of this industry. We fully recognize the vital and dynamic role of aviation in contributing to the progress and prosperity of not only our nation but all nations. We have adopted and implemented policies aimed at increasing regional co-operation between our national carrier and other carriers in the region. We continue to struggle for greater co-operation between the civil aviation bodies in this region for more co-ordinated, smoother and safer operations for the general benefit of civil aviation within the region.

Finally, I am happy to announce that the new Queen Alia International Airport of Amman will commence operations on May 25th of this year. The opening of this new international airport comes in response to changing circumstances and increasing demands in our growing industry. This advanced

facility, which I hope you will visit during your current stay in Jordan, is a symbol of our faith in the future reflecting our hopes that all sectors of our society and economy will continue to flourish and grow.

In conclusion, I should like to state that my deep interest in the aviation industry has not only been influenced by my own personal experience as a pilot and my special love of flying, but more importantly it is the result of my realization of the urgent need for continuous efforts to improve and develop new avenues of co-operation for the benefit of the industry as a whole and, primarily, of mankind. I sincerely appreciate all your efforts in this regard and wish your conference every success.

LUNCHEON ADDRESS

BY KNUT HAMMARSKJOLD

First I want to commend, as other speakers have done, the initiative of Alia and MIT in arranging this timely and important conference. The subject of regionalism in international air transport is currently one of growing significance. Regional groupings of airlines and of government civil aviation specialists are playing and will play an increasingly prominent role. This is all to the good. But my thesis today will be that in a world which is daily flirting with protectionism, care must be taken to assure that regionalism in aviation remains a constructive rather than a divisive force.

The air transport industry, of all economic activities, must avoid protectionist barriers in whatever guise if it is to stay true to its supremely internationalist mission and I should perhaps add here that- partly under the pressure of the present economic recession - some regional and subregional activities have effects which are potentially disruptive or protectionist from the view-point of the world transportation system. This is in nobody's real interest and from the very outset I should therefore make the caveat that in certain areas of activity the regional approach is excellent and progressive, in others it can invite disaster and set back the evolution of the international air transport system by years.

Your conference programme has ranged widely over specific aspects of regionalism in our industry which eminently qualified speakers have been addressing in detail. That is why I have opted to focus on the broader implications.

Whenever we speak of the industry as a whole, it is important to remember how different are the individual airlines that contribute to the total worldwide network. Their home countries have widely differing political and economic viewpoints on the economic or social purpose and financial organization of the airlines. In some countries they are viewed as strictly commercial enterprises which either have to pay their own way, or go out of business if they cannot. At another extreme, we find in some countries that they are viewed first and foremost as a public service financed by the state, and we have facilities and advanced training programmes for staff. While elsewhere smaller, developing airlines, are still feeling their way and finding it tough going in today's world with the limited resources at their disposal. They all deserve understanding and a fair shake.

Of course, circumstances in different parts of the world impact on the airlines in varying ways. It is this very diversity that highlights the value of regional organizations. They perform a valuable function in delineating - and

Knut Hammarskjold is Director General of the International Air Transport Association (IATA). His paper was delivered in Amman by Dr R.R. Shaw, IATA's Assistant Director General-Technical.

interpreting to others - the particular environment in which they operate.

But one common element is increasingly apparent: in the minds of politicians and the public, the air transport industry as a whole is now mature. And, with its fortunes so intimately linked to the state of the general economy, in this time of widespread recession and financial uncertainty it is experiencing the same difficulties and pressures that are affecting most mature industries. Industries which, for example cannot look to any great technological break-through in the near future to stimulate a rapid surge in productivity or a dramatic reduction in costs. The design and development of new aircraft - despite the fact that no revolutionary techniques are involved - is an exceedingly time-consuming and very expensive business - hence the tendency for multinational projects, with a number of countries or companies sharing the work and the cost without surrendering identity. There is a parallel here for the airlines, as we can see in regional co-operative ventures in training, engineering and maintenance, extending even to joint operations.

Another aspect of maturity in the industry is the general slowing of the rate of growth. And no area is particularly immune: even for the Asia/Pacific region, where until recently the sky seemed to be the limit, forecasts are now very much more sober. And there exists the danger of an over-capacity situation arising there this year rivalling what we have known on the North Atlantic.

The current near stagnation in traffic worldwide is undoubtedly a symptom of the macro-economic situation, but we may have to face up to the prospect that the industry will never return to the high growth rates of the 1960s or 70s. Our present projections in IATA see little growth in the near future. The 1983 forecast is for only 2 per cent growth in total IATA international scheduled passenger and freight traffic. And capacity growth will probably exceed that - which is inherently unsound and bad economic policy.

Naturally, there will be regional exceptions - both good and less good. For example, we have seen scheduled passenger traffic on the routes between the USA and Middle East rise more than 9 per cent in 1982 over 1981. This was the highest rate of increase for any route area last year. But that is only one side of the picture: traffic has in fact fallen sharply in recent months and these results represent a substantial slackening in growth from the previous dynamic increases. Yet such route area variations do serve to underline the diverse factors - political, economic, tourist-related or even military in nature - that can affect traffic to and from various regions of the world.

Let me turn now to some examples of practical issues susceptible to regional action. These include tariff coordination and yield improvement. It is helpful when carriers from a particular region come to IATA traffic conferences having already compared notes and harmonized views - provided they maintain a degree of flexibility so that their thinking can be fitted into the wider inter-regional context.

And yield improvement programmes, stamping out illegal rebating are

best handled on-the-spot by the people with the local market knowledge, with some help and guidance from IATA, where necessary. This is why we look to the regional organizations such as AFRAA and AACO and indeed to local Boards of Airline Representatives in individual locations to support our efforts to stem the drain on the industry's performance caused by malpractice.

But whatever regional variations there may be, all airlines and governments have a strong bond of common interest in facing up to the deep problems currently confronting the industry. And in finding solutions that are compatible and mutually strengthening rather than of the "beggar-thy-neighbour" variety.

In times of recession there is an understandable temptation for individual governments and airlines to pursue protectionist policies. Understandable, but regrettable and misguided. Because such policies only invite retaliation. And thus prove counterproductive and ultimately destructive.

In this context, the airlines of the world wholeheartedly support last November's joint declaration by GATT member governments reaffirming their commitment to maintaining and improving the international trading system. Airlines have a unique stake in ensuring that barriers to trade are kept to a minimum.

IATA carriers have indeed urged governments to take such action. Airlines are faced daily with a variety of costly, unfair or discriminatory practices. Often exercised by government-imposed or supported monopolies singling out airlines for cost recovery policies not applied to other forms of transport. And in areas such as taxation, customs procedures and personnel restrictions, noise constraints, foreign exchange and remittance restrictions, or other practices reflecting national bias.

To take currency remittances for example. It is simply unacceptable that hard-earned airline revenue to the tune of six hundred million badly needed dollars should be locked up in thirty countries as a form of interest-free involuntary loans. The progressive unblocking of these funds through constructive negotiation and implementation of practical new thinking is hence a top IATA priority. This is in the mutual interest of the national economies of governments concerned and the "creditor" airlines, many of whom are in the "red" and badly need these monies which correspond to costs incurred for services provided, sometimes over a year earlier.

It is my belief that regional airline organizations have their part to play in the overall effort to ensure that all protectionist or obstructionist pressures are resisted, because - like any other extreme policies - they work ultimately to the disadvantage of the world economy and employment, including the airline industry, its customers, and aircraft and engine manufacturers. We have already seen - and been grateful for - the recognition by regional governmental and airline organizations of the dangers of the ill-conceived attempt to export U.S. **deregulation** internationally. Their resistance against unilaterally imposed and academically motivated deregulation helped temper U.S. zeal and in due course produce an acceptable outcome. They now

need to be equally vigilant as regards **protectionist** trends - wherever they raise their ugly heads.

IATA remains dedicated to developing a middle way - avoiding the extremes of protectionism and of deregulation - and working in close and fruitful cooperation with the regional organizations to achieve this objective. Not a glamorous or headline-catching role, but one which is indispensable.

Other fields where universal and regional interests coincide are in gaining greater access to funds for airline projects in developing countries. So that these airlines can better contribute to the total system. The provision of regional training facilities for airline staff is also especially important, and so these two elements have been clearly identified as the top priorities of IATA's Programme for Developing Nations' Airlines. I am glad to say that good progress has been achieved in both areas, working with ICAO, UNDP, other bodies and individual governments and airlines.

There are many additional areas in which developing nations' airlines could benefit from joint regional projects to improve efficiency and cut costs. And it may be that economics will soon militate increasingly in the direction of forming regional airlines grouping a number of smaller carriers, despite political and other considerations. This may mean some loss of individual identity for national airlines, but improved economy might also mean the difference between surviving as part of the overall "grid", shrinking or becoming a severe drain on scarce national resources. We are already seeing government-level thinking moving along such lines in Africa.

A less ambitious form of cooperation - and a step in that direction - could be more combined operations between two or more airlines, with joint scheduling and, perhaps, sharing of equipment, crews and ground facilities.

Other projects which could prove increasingly attractive in some regions include:

- Joint evaluation of aircraft types and aircraft standardization.
- Pooling of aircraft spares and support equipment.
- Cooperative agreements for aircraft overhaul and maintenance.
- Simulator sharing.
- Shared computer facilities for such purposes as reservations, scheduling, fleet and crew planning.
- Cooperative purchasing.
- Joint route and frequency planning.
- Group Insurance.
- Economic research.
- Combined "data banks" for management information and planning.
- Joint establishment of independent fuel service companies to maintain stable and reasonably priced supplies at given locations. This could be of special importance to those developing nations' airlines which have to pay more than the industry average for fuel.

Assistance in researching the viability of these and other joint cooperative ventures - and in obtaining the necessary funding - is something which IATA seeks to provide in its Programme for Developing Nations' Airlines,

with the close and active involvement of regional airlines and their organizations.

In conclusion, I am sure that this imaginative conference will prove highly beneficial in stimulating a cross-fertilisation of ideas, and in focusing minds on the value of strong regional inputs to the overall objective of maintaining a viable and progressive airline industry. Provided we are careful to avoid unnecessary duplication of effort and to nurture a multilateral, non-parochial viewpoint, the regional contributions are sure to help the unremitting airline drive to cut costs, improve efficiency and financial results, stimulate tourism and travel, and enhance service to passengers and cargo shippers everywhere.

KEYNOTE ADDRESS

BY ALI GHANDOUR

It gives me great pleasure to extend to you all a hearty welcome to our present conference in Amman on "Regionalism in International Air Transportation: Cooperation and Competition," which the Massachusetts Institute of Technology has organized under the auspices of Alia/The Royal Jordanian Airline. I would like at the start to express my thanks and appreciation to MIT, an international institution of unprecedented renown in the fields of aviation and technology in the world, for associating with us in this important venture to further the interests of civil air transport, and to acknowledge with a deep sense of gratitude the hard and valuable work which MIT staff have put in in organizing this conference.

At the same time, and last but not least, I wish to pay tribute to His Majesty King Hussein, a keen aviator himself and an internationalist too, for the wholehearted support and encouragement which His Majesty has accorded aviation all along. Indeed, our presence today, our get-together if you will, is a fulfillment of His Majesty's vision nineteen years ago that Alia would become, in His Majesty's words, "Our ambassador of good will around the world and the bridge across which we exchange culture, civilization, trade, technology, friendship and better understanding with the world."

I am proud to state, even to claim, that in spite of the trials and tribulations which continue to beset our industry we remain true to our mission in life to assure that air transport, as Mr. Knut Hammaraskjold, has stated early last year, remains "a powerful and indispensable catalyst in promoting social and economic progress." Moreover, inasmuch as air travel is instrumental in removing distance it has brought wandering around the world within the reach of mankind rather than it being a prerogative of the few, and more people now than ever before are able to subscribe to R.M. Ballantyne's urge to travel which he expressed in the opening line of his book the "Coral Island":

"Wandering has always been and still is what I love to do, the joy of my heart, the very sunshine of my life."

Thanks to air travel the lives of millions of people throughout the world are not only filled with happiness but enriched. I trust too that those of you who have travelled to Jordan for the first time will have every good reason to feel the same way.

So much for an introduction. I now find myself in the perhaps envious but to my mind arduous, position of being the Conference's keynote speaker and of having to present the principal issues in which you are interested.

While I am privileged to do so, I do at the same time draw comfort from the fact that this Conference has brought forth an array of men and women of great distinction, experience and expertise who will be able, in a spirit of colloquy, to deal adequate treatment to the various topics under discussion. Trusting in their specific expertise, I shall confine myself to rather broader points which may provide a context for the coming papers and discussions.

Indeed your presence here, your having journeyed to Amman from the four corners of the world, is a measure of both of your self-esteem and self-confidence, the more so because the region continues to suffer great political turbulence which unfortunately does not seem to abate.

Suffice it to say at this point that we have called, in conjunction with MIT, for this conference on "Regionalism in Air Transport" because of our sense of determination to try in our own humble ways to revitalize our industry and to set it, if we can, on the path of continued viability which is central to the wellbeing of the world community. The fact that the meeting is held in Amman, Jordan, right at the heart of the Third World, does not diminish the legitimacy of both the application and implication of the various facts of "Regionalism" on a world-wide basis, but underscores the urgency for both the developed and developing nations to meet half-way with a view to overcoming the constraints which continue to plague our industry. If we were to look at Jordan, as a case in point, it becomes apparent that Jordan, a country with a small population and meager resources, cannot insulate itself from the rest of the world community and survive. The key to Jordan's success in the sphere of air transport has been - and continues to be - its reliance on cooperation both at the regional and international levels. And what is said of Jordan applies to countries similarly placed and the world abounds with them. While cooperation amongst nations has been readily forthcoming in other fields of economic activity, there has always been reticence on the part of the airlines to come forward together because of what I may term as a "built-in" constraint - the glamour individual nations attach to their flag carriers and, as a corollary, their reluctance to forego even the semblance of sovereignty. But if the present fast deteriorating trends were to continue there will be little glamour to defend and fewer airlines to sustain.

Unfortunately, the world economic outlook is not very encouraging. A recent report issued by GATT-General Agreement on Tariff and Trade-Commission has likened the present economic situation to that which presaged the 1929 worldwide depression. Even Japan which was thought to be insular to the present recession indicated last year that it too was subject to financial stresses that are likely to undermine its economy. Simultaneously, the airline industry has to contend with exogenous change: high oil prices, which only recently show signs of abating, spiralling inflation and a pro-competitive stance in civil air transport imposed by the least typical member of the international aviation community - the U.S.A. In the present environment it is hard to expect a growth rate in the world air traffic market higher than the present 3.4 per cent which, paradoxically, is less than one-

third what it used to be in better bygone days.

It is not therefore at all suprising that industry leaders have been calling for realism in air transport policy, a pragmatic approach, to our industry problems both in the short - and long - run. The concept of regionalism, which we are about to explore and examine during our three-day conference, is one aspect, albeit an important one, not so much in dealing with the present plight of our industry but in mapping out our plans for future cooperation. In other words, the concept of regionalism lends itself, forsooth commends itself, to strategic rather than tactical considerations.

We can probably all agree on the attitudes of flexibility, open-mindedness and rationality which should be the basis for any consideration of this important concept, as well as on the commitment with which it should be pursued. However, as in all areas of human activity, there must be an understanding of what really motivates behaviour and the context in which it occurs.

Airlines' motivations for their behaviour within the industry may be political, cultural or economic, or various combinations of all three. They may take steps which are essentially palliative in nature - imperative in the face of certain events or needs - to solve a pressing short-term problem. We certainly have a plethora of such problems awaiting our response at present.

On the other hand, carriers may take initiatives intended for long-term effect and in the expectation of future rewards. Generally, our industry of late has suffered from a tendency towards the former and not enough of the latter approach.

This conference is designed to equip all of us with a variety of ideas, approaches and very useful facts which will, I hope, encourage our individual carriers and our associations to seek creative and realistic means for defining and realizing our objectives. We fortunately can look forward to some keen analysis of not only the conceptual framework for regionalism, but to some very practical treatments of the legal, economic and diplomatic aspects of our subject from today's distinguished speakers.

Another point which I believe must be kept in mind during our discussions is that the internal perceptions of self-interest, identity, strengths and weaknesses of every party to any effort at cooperation are as important as the economic, technological or political facts at hand. We must explore and understand these less tangible psychological factors as well as research and analyse the hard data or structural formulas, if our efforts are to yield the types of cooperative ventures in which the parties concerned will be willing to actively participate.

Our guest speakers from Sweden and the South Pacific, who will share their knowledge and understanding of present and past cooperative experiences in multi-national airlines and regional air service systems tomorrow, will certainly contribute to our awareness in this area. Lest we become too introspective, we have planned a trip to Jerash, where we may find some inspiration while eating Arab delicacies at an ancient Graeco-Roman capital integrated with a modern Jordanian town!

Taking a closer look at current regional activities in Europe, the Arab world and in the navigation sphere, on day three, we should be better prepared to weigh their efforts and achievements with a deeper appreciation of all variables involved, before stepping back with our speakers for a broader view of regionalism's global role, opportunities and, what concerns us all, its future.

Another point to ponder - before we can attempt to foster regionalism, we must first understand nationalism, and what it means to individuals, communities and states. It is generally acknowledged that the concept of the "nation-state" was born in Europe, giving its name to an entire age. Most of the present Third World came to know nationalism during the ensuing period of European expansion through colonialism and empire building. Ironically, it was Europe's own nationalist and freedom-theme writers who later helped to inspire nationalist movements against foreign domination around the globe.

Twice in our century Europeans have suffered directly the cataclysm of nationalism run to rampant extremes - which earned the labels of Great War and World War. The European Communities, established in the wake of World War II, are one sign of the lessons learned by the direct inheritors of nationalism. And yet, there are still obstacles to the extension of full cooperation to areas which seem to lend themselves so obviously to regional efforts - among them, air transportation.

In spite of the example of Europe's experiences with nationalism, we in the Third World have generally continued to heavily emphasize it, even sought to develop it among the various ethnic, tribal or religious groups within our young states. There are many valid practical and ideological ends thus served including the motivation of our citizens for the active development of all sectors of our social and economic life and the means of acquiring a voice and identity in the expanding forum of nations on the international stage. Our national flag carriers are a crucial and highly visible element in both these internal and external efforts.

However important a sense of national cohesion and national purpose certainly is for any state, we must guard against a dangerous, often unconscious, slide to extremes. Nationalism can imprison a people and a nation as surely as it can free them.

Representing as we do, not only one of our respective countries' largest enterprises, but also an essentially international industry - one which should act as a catalyst for closer ties between people and nations - aviation leaders bear a heavy responsibility for ensuring that nationalist or protectionist concerns do not blind us to those circumstances and opportunities which make regionalism and internationalism not only useful, but crucial, to our long-term self-interest and to that of our industry as a whole.

Aviation has become more appreciated recently as a very unique industry, operating as it does in a global context as well as regionally, bilaterally and domestically. We are increasingly affected by economic, political and other circumstances far beyond our control as individual carriers. While the

world needs us, we have not been treated lovingly by world trends over the past decade. We need help, but we must help ourselves - cooperating wherever appropriate on the basis of strong individual contributions and competing in the larger arena on the basis of pooled strengths.

Well-conceived and well-implemented cooperative activities on any level are a sign of self-confidence and careful planning. Cooperation can be viewed as a sign of failure only when it is neglected and sought out as a last resort from a position of weakness.

I do have faith that this comprehensive three-day presentation and exploration of issues in Regionalism in International Air Transport will help us make progress towards the development of rational, practical and harmonious initiatives - real strategies - that are in intent designed to assure the future health of our industry and to benefit mankind throughout the world.

**SESSION I:
“THE CONCEPTS FOR REGIONALISM”**

COMPETITION, INNOVATION & REGULATION IN REGIONAL AIRLINE OPERATIONS

BY STEPHEN F. WHEATCROFT

I THE MOVING GOALPOSTS

The airline industry throughout the world has been subjected to many traumatic changes during the past five years. Economic recession, high inflation, high interest rates, OPEC II fuel price increases, and various other developments have all been important in changing the way that the game is played. But, pursuing the sporting analogy, airline managements have also had to contend with major changes in the regulatory environment which have, in effect, moved the goalposts. In particular, the notion that air transport serves some broad purpose of national importance has been rejected in many important quarters and consequently airline objectives, strategies and tactics have had to be radically reappraised.

Two parts of the world airline industry have been profoundly affected by the new regulatory climate: domestic operations within the United States and international services across the North Atlantic. But few areas of the world have totally escaped the influences of the changes unleashed by the US Government when it embraced the philosophy of deregulation in 1978.

Regional air services in some parts of the world, and the Middle East is a good example, have been less affected by the deregulation pressures than intercontinental operations. But they are not immune and they will, in my opinion, become increasingly involved unless there is some change in the mainstream opinion. It is for this reason that regional operators (and governments) must be just as interested as the rest of the world in a review of the results of deregulated systems and a re-think of policy objectives for the industry. In other words, the time is ripe for all of us to try to decide where the goalposts ought to be and stop moving them about.

II DEREGULATION IN THE UNITED STATES

The supporters of deregulation in the United States keep assuring us that it is too soon to make judgements about the success or failure of the new domestic air transport regime. It must be admitted that a deep recession, sharply increased fuel prices and the repercussions of the strike by air traffic controllers have made it difficult to analyse the consequences of deregula-

tion. But I must say that the apologies of the deregulation fans remind me of some lines of verse from C. Day Lewis:

I sang as one who on a tilting deck, Sang to keep men's courage up.

A remarkable book was published in the United States last year and a very substantial part of it serialised in the New Yorker. It is called "The Sporty Game" and it is remarkable because its author - John Newhouse - is a journalistic scholar (or a scholarly journalist) who, without any inside experience of the aviation industry, has produced a profound commentary on the developments of the past decade and has offered some rare insights about its problems, successes and failures.

The Sporty Game is primarily concerned with the aircraft manufacturing industry. (It is a sporty game because of the number of occasions that a Board of Directors have to bet the total net worth of the company on a single project). But John Newhouse clearly recognises that the manufacturing industry and the airline industry have a much more complex inter-relationship than a producer - customer model would explain. It is for this reason that he is greatly interested in the deregulation controversy and why I found his comments and conclusions on this subject so interesting.

Let me give a few quotations which give the flavour of his thinking.

"The Airlines Deregulation Act was approved overwhelmingly despite considerable opposition from the airlines: it renounced the conventional view of mass air transport as a public utility requiring government supervision in favour of "open skies" and free-market economics. The reasoning was that in a more competitive environment the airlines would outperform their regulators in lowering fares and improving services."

"The Congress, in deregulating the airline industry, accepted the proposition that it resembles a universe of corner grocery stores more than it does a public utility."

"The corner-grocery-store-utility issue cannot be banished by legislation, because the airline industry clearly is a utility; moreover, the service it provides is a particularly difficult and exacting one."

"Can the airline industry, on its record, supply such a service if fully deregulated? Will it, and if so when, rise above the mistakes to which it has always been prone? More precisely, can the industry provide adequate service while continuing to satisfy its appetite for cut-throat competition?"

"These questions have acquired a sharper edge from the early returns on deregulation, which include: generally much higher fares, mindless competition and dislocations in air service."

"It may be too soon to know what or perhaps even how to think about deregulation. Its Darwinian logic might eventually work to the advantage of both the industry and the public by strengthening some airlines and pushing the less fit toward mergers or oblivion. Or deregulation may, as a growing number of people connected to the industry suspect it will, breed chaos and, sooner or later, some form of regulation."

I find myself in broad agreement with these concerns and conclusions in all but one analytical respect and this concerns the use of the term “public utility” to describe the public service role of air services. I believe that there are inescapable reasons why air services should be regulated - certainly it is different from corner grocery shops - but I do not believe it is necessary to describe air transport as a public utility to justify its regulation. Let me explain why.

III BACK TO FIRST PRINCIPLES

As a matter of fact, I do not think that air transport is, strictly speaking, a public utility. There are two or three characteristics which put industries like telephones, electricity and gas supply into this special category of economic activity. These are:

- a) they supply services of vital social importance;
- b) they are industries which enjoy very large economies of scale;
- c) they usually require special legal rights - eminent domain - to enable them to operate efficiently.

The classical definition and political justification for regulating a public utility was given by John Stuart Mill 120 years ago when he wrote:

“When a business of real public importance can only be carried on advantageously upon so large a scale as to render the liberty of competition almost illusory, it is an unthrifty dispensation of the public resources that several sets of costly arrangements should be kept up for the purpose of rendering the community this one service. It is much better to treat it at once as a public function; and if it be not such as government itself could beneficially undertake, it should be made over entire to the company or association which will perform it on the best terms to the public.”

In these terms airline operations are not a public utility. Airport operations clearly are, but that is another matter. Airlines, when they are providing regular scheduled services, meet the first test of a public utility but they cannot be regarded as natural monopolies like electricity and telephones.

But scheduled airline services are different from most other industrial activities and I shall have to lapse into some economic jargon to explain why this is so. In scheduled operations the conditions of supply are inherently oligopolistic: there can only be a relatively few number of airlines competing on any one route. Oligopolistic competition inevitably becomes cut-throat or destructive unless there is a control of entry which may either be by regulation or result from natural barriers against newcomers. In other oligopolistic industries like oil, chemicals, motor car manufacturing and so on, stable market conditions are brought about by natural barriers to entry. These may be one or more of the following three conditions: (a) the advantages of substantial economies of scale enjoyed by established firms, (b) the need for very large initial capital investment by a new entrant, and (c) the effective protection of established producers by product differentiation. In

airline operations none of these conditions act to protect the established operators. Recent experience in the United States shows how easy it is to start up a new airline and how easily the new comer, with non-union labour, may initially have a cost advantage (rather than a small scale disadvantage) compared with the established airlines. The US experience with deregulation, and particularly what John Newhouse has described as “mindless competition” on the transcontinental routes, is textbook material to illustrate the outcome of oligopolistic competition.

I therefore conclude that some kind of economic regulation is necessary to protect the public interest in having a stable, reliable, safe and financially viable system of scheduled air services.

You will have noted that I have limited all of the foregoing comments to **scheduled** air services and I attach great importance to this qualification.

IV WHAT IS A SCHEDULED SERVICE?

I fully recognise that the difficulty about applying the foregoing arguments only to scheduled services is that the precise definition of the difference between scheduled and non-scheduled services has defied the best brains of the industry for the past four decades. This is not the time or place to go over the disputes of all those years. I think that most people would agree that there is a real and significant difference between air services which are provided to take people on packaged holidays to Mediterranean resort areas and regular flights operated between capital cities or commercial centres. The essential economic difference lies in the nature of the demand for these two extremes of the air service spectrum. The regular service caters for a demand which is competing in a much larger and more homogeneous market. A businessman who needs to travel between London and Damascus is not interested in the competitive appeals of routes to New York or Miami. But a holiday maker contemplating the attractions of Majorca may well be persuaded that Yugoslavia would be just as nice. It is this difference which makes it possible for competition to work much more effectively in the package tour market and which determines the essentially oligopolistic nature of competition in scheduled operations. The arguments for regulation therefore apply only to scheduled operations. They impinge on other operations only to the extent that it may be necessary to regulate such services to ensure that scheduled services are not undermined.

V COMPETITION AND INNOVATION

One of the problems of being an advocate of regulation in air transport is that opponents can readily call on public sympathy for innovation and condemn any regulatory system as shackles on progress and change. All very emotive.

A further problem is that it has sometimes been true that regulatory systems have been anti-innovatory. The process of rethinking the policy objectives of the industry must recognise these problems and must ensure that

new developments in the regulatory system meet the valid criticisms of past failures.

A regulated system of scheduled services need not be anti-innovatory. It is indeed my personal opinion that the US domestic airlines under the regulation of the Civil Aeronautics Board developed an outstandingly succesful air transport system in the period from 1938 to 1978. The deregulators did not appreciate how good it was. Simulated competition under regulation can produce the benefits claimed for a competitive system.

In a report I wrote in 1958 called "Airline Competition in Canada" I discussed the general case for airline competition and listed the following six advantages which may be derived from it:

- a) more adequate service
- b) more efficient service
- c) more rapid technological progress
- d) more rapid traffic development
- e) a yardstick of efficiency
- f) the satisfaction of choice

I still think that the essence of the regulatory problem is to ensure that these benefits are achieved by the promotion of simulated competitive stimulation.

VI REGULATION IN EUROPE

Europe is a region in which air transport regulation is ripe for a re-think and where the points which I have just made must be built into a new policy.

Under the Treaty of Rome (article 84(2)) air transport (and sea) is excluded from provisions designed to establish a common transport policy until such time as the Council of Ministers decides that it should be.

Nevertheless, in April 1974 the European Court decided that one of the general rules of the Treaty - a provision concerned with employment rights - applied to sea transport. It has subsequently been argued - though this is still not legally determined - that all of the general rules of the Treaty apply to air and sea transport.

These general rules are:

- a) The competition rules (Articles 85 & 86)
- b) The employment rules
- c) The rights of establishment

Of these, the competition rules are of most immediate importance to the airline industry but in the longer term the rules about the right of establishment could be at least equally important.

Many years ago - back in 1962 - the Council agreed to a Regulation prepared by the Commission which determined how the competition rules of the Treaty would apply in the Community, but this Regulation specifically excluded air and sea transport. The Commission has therefore been preparing a new Regulation which applies the competition rules to air transport

and a draft has been submitted to the Council of Ministers for their approval.

The proposed Regulation would allow the airlines to make agreements on "technical" co-operation and on uniform rules for the structure of fares and rates, but would make other forms of inter-airline agreements illegal unless they were approved by the Commission. Agreements on fare levels and pooling agreements therefore seem likely to be prohibited by the new Regulations. Fare levels are dealt with by a draft Directive on Air Fares under which fares are to be cost related and determined primarily by the state of origin. The draft Regulation has been presented to the Council where it will be considered by a Working Party and eventually come to the Council for ratification. It will then have the status of law in all Community countries.

While all this debate has been going on about the applicability of the Treaty to air transport, a lot of other things have been happening in Europe particularly the growing evidence of moves towards a European air transport policy emerging from Brussels and Strasbourg. In the recent past the Commission has produced at least five studies on air transport and in addition the European Parliament has produced a Resolution on Inter-regional Air Services and a report on Express Air Services.

It is clear that there is an enormous interest in air transport matters within the EEC and there are powerful pressures towards the formulation of a new policy.

The current European scene has been further complicated by the action initiated in the European Court by Lord Bethell. He has claimed that the airlines of the Community have infringed the competition rules of the Treaty and that the Commission was in default for having done nothing about it. Even though this case has been dismissed by the Court it is an important reflection of the European mood.

It seems to me that the time is ripe for the formulation of air transport policy to be properly decided by the Council of Ministers and not left to a legal wrangle between the Commission and the Court. There is a good case for establishing a European air transport policy within the Community. Let it be done openly. I believe that future policy must be based on a substantial regulation of air transport, including a continuing control of entry and system of price regulation. But I also believe that consumer interests, particularly in innovation, must be protected.

VII INTERNATIONAL REGULATION

We have all watched the US domestic experiment with deregulation with enormous interest. I agree with the conclusions reached by John Newhouse and I think that most people would agree that the case for deregulation, to say the least, is not conclusively proved.

The same is true, a fortiori, about the consequences of deregulation on the North Atlantic. The nature of this deregulation has been different but there has certainly been a great deal of new competition. There is, I

believe ,a myth that this new competition has produced a boom in North Atlantic traffic because it has resulted in an entirely new level of fares. This really is a myth. What has happened is that scheduled services have taken over much of the traffic previously carried on charter flights. The percentage of charter traffic in the total has fallen from a high of 29 per cent in 1977 to the low figure of 9 per cent in 1980. There has indeed been a more rapid increase of traffic from Europe to the United States in the past three years than in the past. But this is surely more to do with favourable exchange rates and US prices than with fares. Support for this proposition is given by the fall in the number of US visitors to Europe in the period when the myth claimed an Atlantic travel boom. The converse of attractiveness of the United States for Europeans has been that Americans have seen Europe as an expensive destination because of adverse dollar exchange rates and high European inflation.

What is now needed is a calm review of the whole international aviation scene and a rebuilding of an effective system of simulated competition within a regulated structure. I am sure that we need a substantial degree of economic regulation in international air transport but I am equally sure that we cannot (and should not wish to) return to the regulatory regime of the past. It must be accepted that the old regime failed. It was not exactly swept away by what Joseph Schumpeter called "the perennial gale of creative destruction" but something akin to that has happened and nothing will ever be quite the same again.

There is, however, a powerful case for preserving a system of price agreements within an IATA Conference system. But it will need new rules to be acceptable to current public and political mores. Above all the price fixing system has to be seen as a process of simulated competition. There can be no veto by the less efficient to stop the more efficient from offering lower fares. And there must be provisions by which any airline can unilaterally escape from a price agreement if it believes its interests are threatened by competitive practices not envisaged at the time agreement was reached.

A new Conference system of this kind is necessary and I also think it is probably essential that the new system should embrace all airlines operating scheduled routes. There would be major problems if the established airlines were to join together in a new Conference of which the newcomer airlines were not members.

I come back to what I said at the beginning of this paper. The whole international aviation regulatory system needs an overhaul and countries concerned with regional air services must play a full part in this process. "No man is an island" and no regional air transport system can isolate itself from the world wide consequences of regulatory changes elsewhere.

THE ECONOMIC RATIONALE FOR REGIONALISM

BY ROBERT W. SIMPSON

I INTRODUCTION

I have chosen to focus on the economic issues associated with possible forms of regionalism in international air transportation because I believe it may be time to expand beyond the patterns of bilateral negotiation between nations established in 1946. Perhaps I am naive, but I think that with a wider focus on the sets of markets in a region or along a route, negotiators representing national interests, consumer interests, and airline interests can find ways of achieving efficiencies which would result in long term profitability for airlines, and at the same time low prices for consumers. My interests are on improving the institutional structure within which commercial practices occur, and I must admit, like most U.S. academics, I am hoping to introduce a reduction of restrictive practices and increase some freedoms of choice in the market place for both consumers and suppliers. At the same time, I am aware that there can be substantial savings in technical and operational areas if we foster cooperation amongst airlines. You will hear more about these possibilities elsewhere in this conference.

And I am aware that there are various national goals which may be pursued by air carriers which are not related to the economics of air transport markets, tourism, defense, maintenance of an indigenous aircraft manufacturing industry, political goals in foreign relations, independence in deciding on air services desired, etc. are goals for a nation which may cause the airline to be deviated from its own interests in economic viability. But in general, the management of every airline, and its owners, have a major interest in avoiding sustained losses, earning a favorable balance in foreign exchange, and attaining some degree of independence in its decision making. We all share the goals of seeing the benefits of air transportation contribute to making our world a smaller, and more pleasant place for mankind (or should I say "person-kind" to avoid chastisement by my secretary?). I am always greatly impressed by the inspirational statement of King Hussein describing the role which he foresaw for Alia, The Royal Jordanian Airline as "our ambassador of good will around the world, and the bridge across which we exchange culture, civilization, trade, technology, friendship and better understanding with the world". All of us who have grown up with air transportation in the past forty years are proud of its non-economic impacts on our world.

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But we have experienced “super-growth” in aviation in this period. It has been easier to erase mistakes, to live with each other, and to cooperate and share a piece of this ever increasing pie. In most parts of the world, air transportation has matured and growth has diminished. We will need new rules to live by, new arrangements in cooperation, and new understandings of our commercial relationships in the future if we are to sustain an efficient, high quality system for international air transport.

Economics are interested in explaining the longer term behavior of markets and their participants. They would like to be able to prescribe market conditions which would cause suppliers and consumers and regulators to behave in such a way as to achieve efficient use of economic resources such as capital, labor and energy. In recent years, economists in all parts of the world have begun, in various degrees, to espouse the idea that “free” markets, those with fewer restrictions imposed by government will perform better in terms of economic efficiency in the long term than those with a high degree of well intentioned regulations. In the USA, as you know, we are embarked upon a major “Deregulation Experiment” to see if this is true for domestic air transportation. I commend to your attention the recent article by Alfred Kohn (Reference 3). In explaining why economists prefer to see competition between suppliers, he states: “the superiority of the competitive market over governmental determinations is the positive stimuli it provides for constantly improving efficiency, innovating, and offering consumers a diversity of choices. It is precisely because neither the government nor industry planners are capable of envisioning the ideal, potential performance of an industry - how its costs will behave, what innovations it may make, what choices it will offer consumers - that we prefer, as a general policy, to leave those determinations to the forces of a competitive market.”

The issues for me are - Can we improve the operation of markets for international air transportation by liberalizing the regulatory environment? And if so, how do we change institutional structures and guidelines to cause the transition to this more liberal environment? My answers are “Yes” and “through regionalism”. My answer is not “deregulation” - I still see some necessity for minimal regulations and policies, continuing regional negotiation by governments, and industry cooperation as necessary elements of my liberalized environment. The “invisible hand” of Adam Smith does not exist in air transport - we need a very visible hand to guide us.

II THE ORIGINS OF THE CURRENT INSTITUTIONAL STRUCTURE

Although it is probably unnecessary with this audience, I feel I must briefly provide some historical perspective as to how we arrived at our current structure for international air transport. It is instructive to spend some time looking at the history of ocean transport (References 4, 9) since it provided a non-precedent for air transport as it emerged. The activities of the maritime traders of Mediterranean and European nations were conducted under a

“Freedom of the Seas” concept. The focus was on trade and not transportation of goods as a service to be offered. As a result, the fleets of maritime nations freely roamed the seas, transporting goods between parts of any nation with very little legal restriction on their activities. They were welcome visitors who contributed to the economic health of the nations they visited. But with air transport, the foreign vehicles were not restricted to ports at the edges of a nation. The “Air Ocean” lapped the complete surface of a nation and vehicles were able to visit interior cities, and overfly the land areas. As a result, the issue of who owned the airspace over a nation’s territory arose. Article 1 of the Chicago Convention recognizes that “every State has complete and exclusive sovereignty over the airspace above its territory”, and as a result the Transit Agreement was created in that convention to provide the right of “innocent passage” by commercial transport aircraft. While this was generally accepted, the granting of “traffic rights” did not gain widespread acceptance; and instead these rights came to be granted by bilateral agreement between two nations. In most nations today, these “traffic rights” deriving from sovereignty over airspace have been transformed to a concept that the revenues deriving from international air transportation to and from a nation are the property of that nation. Possibly because air transport brings people to the nation, and not goods to trade, we have focussed on the commercial value of providing the services, and not the benefits of the service to the nation. Thus, we see negotiators arguing that their national air carrier should have its fair share of traffic and revenues, and even in some rare instances exacting a revenue share when a foreign air carrier was allowed to provide a service not matched by the national carrier. This latter extraction of franchise value at least makes economic sense to me. Since the profitability of the national carrier in carrying this “valuable” traffic is generally small, or even negative, it could be more profitable to many nations to auction off the traffic rights rather than reserve it for their national carrier.

The current practice of bilateral negotiation of traffic rights tends to reinforce the concept that the two nations are sitting down to negotiate the sharing of “their” traffic. The definition of traffic is not clear generally - is it all traffic on a route between the two countries? or only that portion with both an origin or destination in one of the countries? There are many third parties who can lay claim to traffic on the route between two countries who are not represented in the bilateral negotiation. They are our missing regional participants who are affected by decisions, and who could broaden the dimensionality of the issues to allow other, more efficient agreements. The current practice of bilaterally negotiated traffic rights represents in economic terms a set of restrictions on “Entry and Exit” of suppliers of air service in international markets, and is a serious impediment to achieving efficient operations.

The Bermuda Conference which established the bilateral negotiation of traffic rights, also agreed that the carriers would meet periodically to obtain multilateral agreement on fares on a regional basis, presumably since costs

would be changing, and since it was recognized that fares needed to be coherent in the route network used to serve the various markets. These agreed fares were to be submitted to the various governments for approval (Reference 1). For many years, IATA served as a forum for agreeing upon fares, but there have been extended open rate situations in some areas, airlines operating outside of IATA, and recently bilateral and multilateral governmental negotiations which establish fares, fare levels, and fare policies which support pricing freedoms for individual air carriers. As we shall see later, it is not desirable to isolate negotiations on pricing from negotiations on traffic rights. There is a strong interaction between fares, frequency, seating capacity, and routings used to serve markets. As is becoming clear from the chaotic pricing practices under domestic deregulation in the USA, there is a need to ensure that policy guidelines exist concerning fare structures across markets, even if fare levels are left to individual carrier discretion.

In summary, the existing institutional structure for the economics of international air transport was created at the end of World War II. It created an interlocking set of bilateral negotiations between nations for traffic rights (with both published and unpublished clauses), and approved the multilateral negotiation of fares through IATA and subject to governmental veto. At a time when there were a few major aviation nations who dominated activities, and during the subsequent period of rapid growth and expansion, it has sufficed. As more international carriers have appeared to serve the interests of smaller, lesser developed countries, and as growth has diminished, I think the changing circumstances require a more extensive structure which allows efficiency of operations, some stability in service and prices, and profitability for air carriers.

I would like to return to ocean shipping before we proceed to examine the economics of air transport. The Freedom of the Seas for traffic rights evolved into a series of 300 or more Trade Route Conferences of scheduled carriers which establish commercial practices and prices, and which operate with the oversight of their governments. These conferences are "open" or "closed". In an open conference, an ocean carrier of any nationality can join to provide services which may never touch his home country (indeed we may not be certain of which country is its true home!). In a closed conference, the incumbent carriers may vote to allow entry. A member of a conference can provide service between all ports or nations which make up the Trade Route. There may be fixed prices established by the Conference. In recent years, many nations have passed "Cargo Preference" laws requiring that a certain percentage of certain cargoes to and from their nation be carried in ships registered in that nation, and bilateral agreements are being created between nations to enforce these laws. The lesser developed nations of the world are attempting to obtain financing for modern shipping fleets and increase their "share" of cargo shipments to and from their country.

These Trade Route Conferences are an example of a regional grouping of carriers with common interests and problems. The regional aspect is deter-

mined by all points served along a route which may have a set of origins and destinations, and intermediate waypoints. I find it ironic that Ocean Shipping may be leaving regionalistic structures for bilateral agreements as air transport may be moving to do the opposite.

III BASIC PRINCIPLES IN AIR TRANSPORT ECONOMICS

If we are to clarify our thinking about air transport economics, it is necessary to return to a few basic definitions and principles. There is some degree of confusion amongst regulators, academics, and airline managers which inhibits rational discussion of the economic operation of air transport markets. I will briefly touch on some of these essential to the argument that regional, rather than bilateral negotiation, will be superior in finding economic efficiency.

A. **Markets** for passengers in air transportation are defined by demand. They are characterized by a city-pair, origin-destination, by a class of service, and by trip purpose such as business/pleasure. Passengers are generally residents of either the origin or destination region, and are demanding a roundtrip service.

B. A **route** is an itinerary followed by an aircraft which provides non-stop, multistop, or connecting services to many markets simultaneously. The scheduled carriers do not make supply decisions on a market by market basis, but rather over a network of cyclic routings to be followed by the aircraft. There generally is a small set of markets in some region for which supply decisions are made.

C. The **costs** of providing scheduled service to a market cannot be determined without making an arbitrary allocation. It is possible to identify aircraft costs incurred (cost per departure, cost per route segment), station operating costs (costs per aircraft visit, costs per passenger), and system operating costs (cost per dollar of revenue, cost per ticket sold) - but these have to be allocated against the various services simultaneously produced by scheduled route operations.

D. The **marginal cost** of adding an incremental passenger to a service once it has been scheduled is essentially zero. Since average costs are arbitrary, and short term marginal costs are zero, there is no guidance from cost information in establishing prices to be charged for various services.

E. **Economics of Scale** exist in air transport operations. For the aircraft operating costs, the costs/seat (for a given stage length) decrease as seating capacity is increased; and the costs/mile (for a given seating capacity) decrease as stage length is increased. These are due to technological reasons - we use fewer resources in terms of labor, fuel, and capital as we build and operate a larger capacity aircraft, and there are costs incurred in starting and ending a flight stage. As a result, the airline scheduler must look for efficient routings which have large onboard loads on route segments of longer stage lengths. As well, there can be economies of scale in passenger and air-

craft handling costs at larger and busier stations due to more efficient use of labor and facilities.

F. **Economies of Scope** are very strong in scheduled air transportation. This is a term used by economists to describe a situation where a firm in one market finds itself in an advantageous position in other markets. Because of the Economies of Scale mentioned above, scheduled carriers find themselves interested in routings and connecting patterns of service which allow them to use larger aircraft, and keep their stations busy while serving a larger set of related markets.

As a result of the above characteristics, the airline planner is faced with a complex problem in finding an efficient pattern of service. He must simultaneously select aircraft size, range, routing patterns, frequency of service, and prices in markets. These are all strongly interrelated over regions of his network. The complexity of this problem only arises when restrictions on these variables are removed. Historically, the problem has been handled sequentially, and certain variables are not free for the planner to consider. This prevents finding optimal or even good solutions in some cases.

G. **Alternative routings** may exist which supply competitive service offerings to demand in a given market. This creates a need for establishing a coherent set of prices for all markets in a network of services. By combining services in other markets and their prices, the consumer creates an alternative. A bilateral determination of price and service in a market affects similar decisions by consumers in other markets.

IV THE INADEQUACY OF BILATERAL NEGOTIATION

The weakness of bilateral discussions is that it has to ignore these related issues, or to pretend that these other factors will remain fixed. In an era where the traffic was confined to rather direct, non-stop services between major aviation nations, and fifth freedom to extend services to small countries without their own carrier, it served to get air transport started. Today, it prevents wider ranging discussion, and simultaneous consideration of related issues. It is heartening to see the European nations negotiating with the USA to establish a pricing structure for the North Atlantic region. Should we not include Canada and Mexico? Can we extend those discussions to cover fifth and sixth freedoms for beyond services into North America and Europe? Are there useful trades which can be negotiated between three, or four, or more carriers if they meet together? Perhaps we should encourage tri-lateral discussions as a means of putting interested carriers and their governments together to demonstrate what might be accomplished. Successful changes by a triumvirate will necessarily affect others who will then ask to join the next negotiation. We will hear more of this type of gradualism when Dr. Wassenbergh describes the proposals for plurilateralism. Let me describe a hypothetical example of how plurilateralism can work.

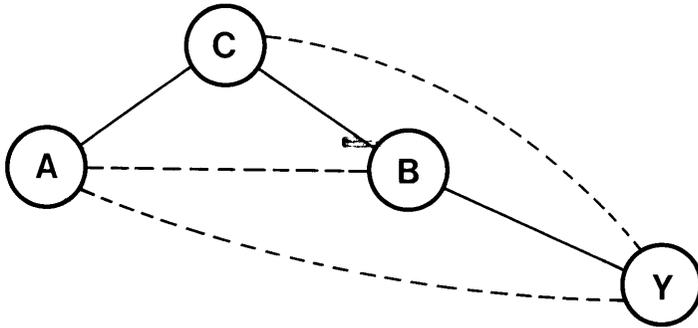


Figure 1. Regional Negotiation

V EXAMPLE OF PLURILATERAL ROUTE NEGOTIATIONS

Consider the markets between countries A, B and C as shown in the triangular route network of Figure 1. Countries A and C are major air travel nations with a bilateral covering air services between them. The smaller nation B has bilaterals with A and C but has not been flying the route AB. In times long past, it agreed to fifth freedom rights for the airline of nation A in flying ABC as a route. It thus finds itself competing with airlines A and B in the BC market. Airline C has exercised sixth freedom rights in competing with airline A. The local traffic in market AB is not strong. Airline B deems it uneconomic to fly AB nonstop until it can find a point beyond A, or a point before B to increase the traffic flow over AB route segment.

Nation B has requested fifth freedom rights from A and C so that it also may fly the route ABC and share the traffic flows. Since this would decrease their shares, A has refused, judging it improbable that B will mount AB service.

Nation B now turns to Nation Y proposing that it will grant fifth freedom rights to Y and A for routing ABY. It proposes that it be allowed to fly YBCA with sixth freedom traffic YC, while A and Y fly route YBA. It must then turn to A requesting fifth freedom rights CA. Country C may not be aware of the proposed changes which threaten to activate the fifth freedoms granted earlier to B. If and when it does hear about the proposed changes, it may attempt to influence, A, B or C with various threats of retaliatory actions. For example, if the traffic diversion from its segments occur, it can retaliate by pricing down travel from A to B via C to refill the emptied seats on its present schedule pattern. With deregulation in the USA, we have seen “smart-stop” or “hop-scotch” fares where the fares AB are a small fraction of the fares AC and CB, i.e. the “fill up” traffic on ACB services is considered to be zero cost, and provides free marginal revenue to

the primary services AC and CB. Such a threat changes the attractiveness of ABY routings to A and Y.

At this point, I hope it is clear that A, B, C and Y should meet to rationalize the patterns of scheduled service they might jointly offer on the route network. Perhaps, a free granting of fifth and sixth freedoms to all parties along route ACBY can be arranged, or some weekly pattern of services and routings which achieves good service and utilization of aircraft. It is not inconceivable that airline C might fly CA, overnight, and then fly ABY the next day even though this flight does not touch its home country. The participants may decide to share, or to compete for traffic in all markets between their nations in a variety of possible arrangements. It is the freedom to make efficient arrangements which I am after. The efficient arrangements are not necessarily the outcome of unilateral actions by carriers in a deregulated region.

This example resembles the institutional structure of ocean shipping where Trade Route Conferences seemed to evolve naturally over time. In aviation it would evolve naturally in similar ways, if a sense of cooperation and willingness to trade opportunities can be fostered in the hopes of achieving efficient use of our resources. These regional conferences must consider prices, routings, frequencies, seat capacity, etc., simultaneously. We undoubtedly need to provide guidelines for pricing structures, route arrangements, etc., to assist negotiators. They need not be similar for every route conference, or plurilateral agreement, or whatever it may come to be called.

Will such conferences succeed? Who should participate in them? Who is responsible for organizing them? Should they be public, and include consumer interests? (There are such provisions in ocean shipping).

VI SUMMARY

I hope I have stimulated our conference into thinking plainly and honestly about introducing regionalism into our commercial negotiations for international air transportation. Perhaps I am a naive academic, but I think it is time for some intellectual search for a new basis for conducting international air transport. We have had Bermuda II - do we need a Chicago II? What would be its agenda? Who would be the leader to organize such a governmental conference? Will regional entities provide such leadership in their regions? Is there any reason to impose commonality on regional initiatives?

I think these questions deserve attention. I hope we have interesting discussions on them in this conference, and that perhaps we stimulate similar discussions amongst a wider aviation audience in the immediate future.

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**SESSION II:
“THE PRACTICE OF REGIONALISM”**

THE EEC AND CIVIL AVIATION: AN EFFORT TO RECONCILE FREE COMPETITION PRINCIPLES WITH NATIONAL REGULATORY TRADITIONS

BY FREDERICK SORENSEN

I am honoured to have been invited to speak at this conference on regionalism in international air transportation. It is a subject which I remember we discussed in some detail at the conference in Kingston, Jamaica in 1978, based on an introduction by Mr. ATWOOD and I am therefore happy that he will also be able to give a presentation at this conference. The idea, which was put forward at the Kingston conference, I think, derived mostly from a wish to be able to deal with a diffuse world situation, where conditions differed from country to country, in an orderly way, i.e. by grouping countries together. This naturally would have been of interest to the United States of America, which was in the process of renegotiating a number of bilateral agreements. In addition to this political pragmatic approach there were also, naturally, economic considerations which were taken into account.

I shall not, however, treat the general economic reasons for dealing with air transport on a regional basis by grouping several countries together since this has already been done by Prof. SIMPSON. Whatever economic considerations I may put forward in the following will relate specifically to the European Communities and are not necessarily of a general nature.

It has been claimed by many that the Chicago Convention, by its insistence in article 1 on the sovereignty of individual states in fact blocks any idea of developing air transport in a regional context. This is not true and in reality the possibility of regional development is already contained in the Chicago Convention itself in chapter XVI. The principle of national sovereignty exists in general for the states for all economic activities, but this does not prevent a country from entering into cooperation with other countries and in fact to enter into agreements which oblige it to follow a certain conduct. This naturally is the case with all bilateral agreements and with multilateral agreements which already exist of a regional nature in aviation. It is, however, quite clear that these regional agreements shall not be of such a nature that they are in conflict with the Chicago Convention. On the contrary one can see that several of these agreements in fact give effect and

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amplify obligations and standards which are contained in a more general way in the Chicago Convention and its annexes.

The Treaty of Rome, which created the European Community, is a multi-lateral agreement among ten states dealing with economic relations between these Member States including air transport. This has not led to any conflict with the Chicago Convention, on the contrary, it is evident that obligations under the Convention have been taken into account, i.e. I can mention the question of article 24 concerning customs rules where specific provisions have been included in Community directives in order to respect this obligation. I can also mention that through a Community directive, in fact the Member States are now obliged to follow the obligations under annex 16, Noise Rules, of the Chicago Convention.

When I say that the Treaty applies also to air transport, this is on the one hand correct but it has on the other hand not led to the development of a specific air transport policy. This means that there is in fact a hole in the normal framework of Community policy. The Treaty is based on a balance between different policies. The general aims are contained within article 2 of the Treaty and article 3 of the Treaty mentions different policies to achieve these aims such as social policy, competition policy, transport policy, agricultural policy and many others. Time has passed since 1958 and the policies have been developed, social policy has been developed competition policy has been developed but the transport policy is lacking and the air transport policy in particular. That means from a legal point of view that these other policies have a predominant legal position and if anybody goes to the Court with a good enough case then it is these policies as they stand which will be applied and they will not have been implemented or complemented from a transport policy point of view. I think this is a very unhappy situation.

This has by now been recognised by the Member States of the Community. Some acknowledge it only tacitly while other have expressed it directly. This recognition has so far not lead to any impressive results but only to the approval by the Council of Ministers in 1978 of a priority programme for air transport (without any legal obligations to Member States), the publishing in 1979 by the Commission of the European Communities of a Memorandum setting out the possibilities for developing a common air transport policy, and the approval by the Council of Ministers of some directives of minor importance since they do not deal with the real issues which in my opinion are of an economic and social nature. The Commission has taken steps to initiate action in this area by putting direct proposals on market access, pricing and competition before the Council of Ministers, but so far no agreement has been reached. I can therefore not outline any definitive air transport policy for the community, but will have to limit myself to personal opinions for the most part as to the contents of such a policy.

Before I proceed I think it might be useful if I just briefly describe the structure of the European Economic Community. The legislative power rests with the Council of Ministers which is composed of the Ministers of

each Member State concerned by the legislation. The Council legislates on the basis of proposals put before it by the Commission which apart from this power of proposal also has several executive functions concerning the administration of existing Community legislation. Normally the proposals put forward by the Commission would have to be sent for consultation to the European Parliament which, however, can not legislate itself but which does have certain controlling functions concerning the budget. There is a specific Court of Justice which is the highest Court concerning Community legislation and whose Rulings are directly applicable in each Member State.

The Court has already pronounced that the Treaty general rules apply to air transport. These rules cover non-discrimination on national grounds, right of establishment, competition (without a specific implementing regulation the competition articles are directly applicable), state aids which are of prime importance, mobility of labour, equal pay, no sex discrimination, etc. If the present system of air transport in the Community is tried against these principles before the Court I am in no doubt that illegalities will be found and I consider that a very unsatisfactory situation. This hole, which exists now, needs to be filled.

As I mentioned earlier the general objectives of a common air transport policy will have to be placed within the concept of article 2 of the Treaty of Rome. Although this article sets out in very general terms the task of the Community it is nevertheless worthwhile to note specific parts of this article which are important for the development of a common air transport policy. These elements are:

- that the Community shall progressively approximate the economic policies of Member States
- that policies shall promote throughout the Community harmonious development of economic activities
- that the policies shall promote an increase in stability
- that policies shall work towards closer relations between the Member States.

It is also underlined in this article that the results of the policy must be a balanced economic expansion and an accelerated raising of the standard of living. This last part naturally is the whole reason for the creation of the European Communities and the whole rationale for the regional grouping of these ten states. It is the same rationale which will have to be applied to air transport. The European Communities in fact exist in order to break down barriers between Member States. For air transport such barriers are still very much in existence.

The reactions to the Commission's Memorandum of 1979 have shown that the present air transport system in the Community while fulfilling important needs, nevertheless, does not meet all the requirements desired by interested parties, be that airlines, consumers, workers or governments. This is in particular the case when the evaluation is carried out for air transport between the EEC Member States. It has, however, also been asserted quite forcibly that it would be dangerous to disturb the present precarious balan-

ce between countries and between modes of transport. It has in particular been claimed that it would be impossible to look only at air transport within the Community and make rules for this sector of air transport without considering also the effects on the international air transport system. We are well aware of these difficulties and will make allowance for them when putting forward proposals or taking any other action. However, it is our opinion that the first priority be the improvement of the air transport system within the Community as a step towards the creation of a genuine Community market in aviation, improved possibilities for Community airlines and a contribution to the improvement of the internal market in its wider sense.

It is clear that an air transport policy will have to start out from the existing system. To establish a set of rules as if nothing existed would almost certainly lead to trouble but on the other hand it is necessary with some rules because e.g. the direct application of the competition rules will lead to revolution. What are then the most important elements which have to be taken into account when establishing Community legislation.

All Member States have airlines, many of which are owned, financed or otherwise supported by their governments for reasons of e.g. increased tourism foreign exchange earnings, national security, prestige, etc. Most if not all Member States would regard it as unthinkable that their airline should go out of business and some even that it should not operate on particular routes which for political or economic reasons they consider important. Many others are reluctant to expose their airlines to a degree of competition which would put these objectives at risk. This also means that these same governments can not accept policies which would lead their airlines into deficit, unacceptable to the tax payers. These governments in fact are driven nearly by necessity to conduct conservative and protective policies. Long term stability is therefore of prime importance.

The present system of bilateral treaties and bilateral government control of airline services which was established after the war is accepted almost universally. This system enables governments to ensure that their airline does not suffer from the operations of its competitors to a degree that they consider unacceptable. Taking these bilateral agreements into account would not naturally prevent the Community through directives or regulations to try to approximate to a certain extent the structure of these agreements.

These concerns of Member States will prevent the creation of a common aviation market and it is therefore clear that there must be some cooperation at government or airline level concerning the operation of services and conditions of sale, including prices. These elements must be taken into account when trying to approximate Member State policies through Community legislation.

Is air transport at present in the Community characterised by a degree of stability? Yes, to some extent one would have to answer this question in the affirmative. However, there is no doubt that under the surface many things occur at present which lead towards instability. The practice of discounting

may in fact lead to deregulation of the price fixing mechanism as it already has to some extent. Airlines are trying to fight these practices but everybody does it as long as excess capacity exists, which it does especially during an economic recession. The economic crisis has led to decreasing revenue for airlines and all too often this has led to desperate economy measures to reduce staff in a rather disorganised way. Airlines have also tried to introduce very low tariffs in addition to discounting in order to maintain revenue but these measures do not seem to have helped much for the scheduled airlines and have in fact created a problem for the non-scheduled sector from which these passengers have been diverted. These are all problems of instability which Community policies by virtue of article 2 should try to alleviate.

Does the present system lead to an increase in the standard of living i.e. the supply of air services at reasonable prices and in sufficient volume? This is a vital question striking at the heart of the justification for the Communities. Our studies show that although the level of air fares in Europe is frequently criticised and compared unfavourably with those in the US or on the North Atlantic they are in fact in most cases reasonably related to airline costs. One can therefore claim that prices are reasonable. On the other hand there is a possibility that the costs are too high. In reality a recent study indicates that costs could be reduced by 10 to 15 %.

As to the volume of traffic as I already said it is evident that excess capacity is being flown but it is also evident that the existence of the Hub and Spoke system has led to a situation where the network in the Community is dominated by the capitals and where the geographical structure in fact reflects the national borders between Member States. This situation has been criticised strongly by the Chambers of Commerce representing business travellers. It is an area where action should be contemplated since it would work toward closer relations between the Member States.

How can the Community reduce costs of air transport? The traditional means are through competition which will give an incentive to the enterprises involved to become costconscious. The danger is that competition might lead to instability. A system dominated by public enterprises is prone to this danger. An example in kind is the experience in recent years on the North Atlantic where ruinous competition occurred primarily as a result of the large market share held by public enterprises. Another factor was the too lax public control of prices since several companies were allowed to operate at fares which were significantly below costs. As a result the balance sheets of many airlines are in a sorry state. The task as we see it is to establish fair and equal opportunities for the airlines but to maintain a certain competitive pressure or in other words the degree of competition needs to be controlled. The Community does not show the same kind of homogeneity as e.g. the US domestic market. Cost differences in particular for labour exist between Member States. This would imply that the interdictions in article 85 of the Treaty should not be applied fully since this would lead to deregulation but rather that cooperation between airlines should be permitted to such an extent that competition however is not neutralised but still exists to

a reasonable extent. Cooperation in this way would touch both prices, capacity, schedules, etc. through whatever organisation the airlines would wish to use for that purpose, e.g. IATA. Commercial agreements (e.g. pools) between airlines should be permitted except to the extent they suppress competition too much. On the other hand it is felt by many that this could lead to near complete suppression of competition and monitoring of what goes on should therefore be carried out, which is already the case to some extent by ICAO. The principle which already exists in shipping should also be introduced in aviation that an airline should not be obliged to make use of such organisations. The ideas of zones of reasonableness might also be introduced. It is this balancing out of elements which at present occupies us to a very large extent.

The Community can also take action to reduce costs through facilitation efforts and by exercising a certain price control on areas which are outside the control of airlines. After all about 60 % of the costs of air transport are outside the direct control of airlines.

What we are trying to do with facilitation is in fact both to remove barriers between Member States which can be paper work or of a procedural kind and at the same time to reduce bureaucracy in particular where duplication exists. Considerable savings can be realised in this way to the benefit of airlines and air transport in general. It is not without reason that airlines operating in a domestic environment are able to handle a number of passengers per employee which is two to three times higher than the number of passengers handled per employee for international operations. Unfortunately at present the air transport system in the Community is basically an international air transport system.

On energy the Community is very actively involved in monitoring and controlling the proper operation of the market. I have no doubt that although at present fuel prices are coming down that in the future this activity will be of the utmost importance for the air transport sector.

In order to ensure that fair and equal opportunities really do exist and are maintained it is also necessary to control state aid. This fact is fully recognised in the Treaty of Rome and the Commission has all the necessary powers to ensure that air transport between the Member States will not be disturbed in this way.

The question of market entry is another area which is closely related to the elements I have just discussed. As I mentioned the network of air transport in the Community does at present display quite clearly the existence of national borders and more could be done so that air transport would also work towards creating closer relations between the Member States apart from the fact that the present air transport system does not guarantee that services will be established where demand exists. The question of market entry is also an element in assessing whether an acceptable degree of competition does exist.

It is however, a long and arduous road to try to loosen up the question of market entry because many Member States feel that this is a direct attack

on their preferred airline. I have to agree that it can always be construed in this way. However, the experience also shows that the existence of several operators in fact seems to work to the benefit of all and that they do not destroy themselves but rather complement each other, i.e. if the system works properly. An idea which we feel could usefully be incorporated in the present system of monopolies or near monopolies in the Member States would be the so called first refusal system which would give certain possibilities for new airlines to enter the market on routes which the preferred airline can not serve. This system has been in existence in some countries already for quite a while. It is quite clear that the effectiveness of this kind of rule depends very much on the attached conditions but there is no doubt that whatever effect it will have it will lead to more routes being served than at present.

One could also contemplate creating rules of the game for the bilateral agreements e.g. of the kind that if an airport is open for international services from one Member State then it should be open for international services from another Member State also; that through bilateral agreements it should not be possible to split the traffic between the two countries on a 50/50 % basis but that the capacity provisions should only be used to create a certain safety net as is the case for shipping.

These are only some of the possibilities which exist to ensure that sufficient volume of traffic and network is offered to the citizens of the Community.

I mentioned earlier that air transport is a service which most often is considered in the public interest. It is in this context that certainty and stability comes into the picture; will there in fact be an airplane tomorrow as scheduled? This is one of the elements which certainly has to be considered if a licence has been given to an airline then this licence expresses certain duties and these duties must be honoured by that airline. If it is a scheduled service then the airline will have the duty within the period of the licence to provide the services which it has promised. I think that this is at the heart of the notion of a public service. If a non-scheduled carrier has been given the licence to provide non-scheduled services than they must honour their promises which they have made which is in fact to carry the passengers under the conditions of the contracts, etc. The passengers have rights and to that extent non-scheduled services can also be seen to be a public service.

Another aspect of stability and standard of living is the social conditions which the operation of the system creates. Redundancies may not always be possible to avoid as e.g. in today's situation, but if they do occur they should come about in an orderly way and possibilities to find new employment should be made as easy as possible. In this context we are contemplating mutual recognition of licences and there are possibilities of support in cases where redundancies come about as a consequence of Community legislation. I do not intend to go any deeper into the social aspect but have mentioned them here only for completeness sake. In my daily work in the

Commission they are of much larger importance than would appear from this very brief paragraph.

I think it is clear from my presentation so far that what we are trying in the Community is to strike a balance between the traditional national interests of Member States which are prevalent in aviation and the overall economic interests of the Community. It is a common belief that for the Community free competition is a matter of principle in order for it to achieve its aims. This is not correct. Competition is only a means to achieve an end and the tools which the Treaty of Rome does provide, their most important task is in fact to avoid distortion of the degree of competition which the Treaty does call for. This policy of competition and the other areas in which we are active must together lead to the harmonious development, stability, economic development and a higher standard of living. It is for these reasons that the regional grouping of 10 states, the EEC, was created and we must try to achieve the same results for air transport.

REGIONAL AVIATION AGREEMENTS: SUGGESTED OBJECTIVES FOR THE UNITED STATES

BY JAMES R. ATWOOD

In his invaluable book published in 1962, Bin Cheng described our system of bilateral aviation agreements as the “labyrinthine legal grotto that is the law of international air transport”.¹ Since then the grotto has become still darker and more complex. There has been an increasing number of bilateral agreements and bilateral partners, and the variety of agreements has become almost infinite. If there was ever a day when the standard Bermuda formula was something of a worldwide norm, clearly that day is gone. Now we have Bermuda I’s, Bermuda II’s, liberal “models”, conservative “mini-packages”, and so forth, and on top of them a maze of side-letters and informal understandings. Surely any reasonable person, starting afresh, would seriously question whether Mr. Cheng’s labyrinth was a sensible way to run an airline. But the aviation industry continues to function under this legal framework.

Recently, though, there have been calls for a new effort at multilateral aviation agreements.² The driving force behind these suggestions has not been simply the goal of greater legal simplicity. The motives are more complex; for a variety of reasons with which this audience is familiar, a number of regulators, airline officials, and commentators have seen the possibility of significant operational and economic agreements could be expanded beyond the traditional two bilateral partners. This meeting in Amman is a reflection of growing interest in this possibility.

This paper will focus on one aspect of the broader topic: the question of

1/ B. Cheng, *The Law of International Air Transport* 491 (1962).

2/ E.g., H.A. Wassenbergh, *A New Plurilateral Approach in International Air Transport Regulation*, in *International Air Transport in the Eighties 205-14* (Wassenbergh & Fenema eds. 1981); L.G. Sion, *Multilateral Air Transport Agreements Reconsidered: The Possibility of a Regional Agreement Among North Atlantic States*, 22 *Virginia Journal of International Law* 155 (1981); J.R. Atwood, *Regional Aviation Agreements: A Desirable Alternative to Bilateralism?*, in *Final Report on International Aviation Symposium 131-34* (U.S. Dep’t of State 1979).

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what should be the principal negotiating objectives of the United States government when discussing with other countries the possibility of regional or multilateral aviation agreements. I am referring to agreements, and thus would include the essential economic provisions dealing with routes, pricing, operating rights, and the like. Even with this type of agreement, various different possibilities may arise, underscoring the fact that the term "regional aviation agreement" is not self-defining.

As one example from the United States perspective, countries neighboring the United States might wish to consider an aviation "free-trade zone" or "common market" by which the traditionally important international borders would be deemphasized and airlines would be freed to serve a broader geographical region as a single market (for example, all of North America).

Another example might be negotiations between the United States, on the one hand, and a regional groupings of countries, on the other, where in some respects the agreement would be bilateral in nature but where one of the two parties would be a collection of governments instead of a single government. To be more specific, some have seen potential in a U.S.-ECAC agreement to replace the host of bilateral agreements covering the North Atlantic market; Europe would bargain as a unified region with the United States, just as now is occurring, to a degree at least, on some pricing issues, but I am referring to the case where the full range of aviation topics would be included. On a somewhat narrower but still important scale, there might be negotiations between the United States and a smaller grouping of countries which jointly operate a single regional airline. The U.S.-Scandinavian negotiations are a current example.

Another form of multilateralism would bear little relationship to regionalism. The Dutch government was, at one point at least, espousing a multilateral aviation agreement, intended to include the United States as a key participant, to which individual countries could become signatories without regard to their geographical proximity. I have called this a spiderweb agreement, because in the first instance it is likely, as a practical matter, to include the United States at its centre with a relatively few long routes going out in various directions to a few other signatories, with those outlying points then connected together. I will return to this kind of agreement in the course of the talk. The point here, simply, is that regional or multilateral aviation agreements may take very different forms, and it is important in considering their benefits and costs to keep in mind the different sorts of arrangements that might arise.

What, then, should be the United States' negotiating objectives for regional aviation agreements? I approach this question with a strong bias in favor of open, free markets, operating with a minimum of governmental interference and with a maximum of competitive opportunities. This approach is entirely appropriate for aviation and for international aviation in particular, and it continues to be the approach officially endorsed by the United States. While, no doubt, many in this audience have serious ques-

tions about the desirability of this competitive model, I hope you will forgive me for using it as the framework for this talk, given that it will correspond roughly to the framework which the United States government would bring to the bargaining table. It would serve little purpose to try to identify the central United States negotiating objectives for regional aviation agreements if one approached that subject from a perspective wholly different from that shared by the United States government.

Bearing in mind this perspective of open markets it is apparent that a liberal multilateral agreement has much to offer the United States. Our own domestic aviation system has been built generally on open, competitive principles, and this has resulted in a relatively efficient and successful industry, with travel available to a wide segment of the U.S. population at a range of service levels and at relatively low cost. In the immediate period the United States airlines are suffering - as are others - from very difficult economic times. This can hardly be ignored. But it is difficult to argue persuasively that the current problems could have been avoided by fragmenting the United States market into smaller submarkets, with intergovernmental negotiations required whenever an airline wished to fly, for example, from Texas to Illinois. The United States has benefited from its large, open domestic market, and if this basic concept could be expanded internationally by liberal regional or multilateral agreements, the benefits for both U.S. airlines and for U.S. consumers of air services would be substantial. U.S. carriers serving international points might have the same freedom they have domestically on such critical operating questions as pricing, routes, frequencies, and type of aircraft. Operations could be more efficient and addressed to the needs of the market rather than to the needs of government regulators or competitors.

It follows that the United States should be prepared to bargain liberally for an open multilateral agreement. More specifically, the U.S. should be prepared to grant substantial access to the U.S. market in exchange for regional agreements that are truly free and open. Significant landing points in the United States would most likely have to be offered as an inducement for the kind of argument I have in mind. Moreover, the granting of cabotage rights would have to be considered, in at least some situations. Granting cabotage to foreign airlines is regarded as heretical in some circles, and at the present time is flatly prohibited by our domestic legislation. But some change in thinking will be necessary, in my judgment, if the valuable goal of open multilateral regimes is to be pursued seriously. Two illustrations prove the point.

Assume, for example, that the United States was trying to negotiate a regional agreement with ECAC or, perhaps someday, the European Common Market. The Europeans would point out, no doubt, that intra-Europe flights are currently conducted by U.S. airlines on a fifth-freedom basis because of the many national borders dividing the European continent. European carriers, on the other hand, are precluded by cabotage restrictions from operating entirely comparable routes within the large region encom-

passed by the United States. If, as I assume would be the case, the United States insisted on open fifth-freedom rights within Europe as part of a multilateral regional agreement, certainly some concession on cabotage would have to be given in exchange. I am not suggesting that KLM should be allowed to set up a wholly internal U.S. operation, but I see no serious risk - and indeed some benefits - to allowing a European carrier fill-up rights on the intra U.S. segments of a multi-point trans-Atlantic route (e.g., London-New York-Dallas). Certainly if I were a European, I would not consider granting U.S. airlines open access to the European regional market without some degree of reciprocity for European carriers.

An illustration on trans-Pacific routes also makes the point. Let us assume the United States wished to explore a regional agreement for the growing East Asian market. For many Pacific routes Hawaii is an important mid-point, and U.S. carriers use significant mainland-Hawaiian traffic to help support international routes going on to Asia. To deny an Asian carrier any access to that same domestic segment on its trans-Pacific routes may be to doom that airline's operation from the outset. The result would most likely be no agreement. Alternatively, any agreement that was reached might prove to be so lopsided as to result inevitably in ill-will, petty harassment of U.S. airlines, and eventually confrontation.

I must emphasize that I am not advocating open access to internal U.S. markets. I suggest only that U.S. negotiators should be given the authority to use cabotage routes as negotiating leverage to be used wisely, sparingly, and only in return for significant benefits to the United States. Obviously any bargaining chip can be thrown away too readily, but this is hardly an argument for tying the hands of our negotiators so tightly that the possibility for major improvements in international aviation is made entirely remote. Nor can the traditional national defense arguments for reserving cabotage routes be plausibly advanced where foreign carrier rights are limited to selective fill-up opportunities on long-haul international routes. In short, some liberalization of U.S. cabotage laws should be pursued as a step towards the possibility of regional or multilateral agreements.

Let me now turn to a separate topic, which deals with the process for negotiating a multilateral aviation agreement. To what extent can multilateralism be approached on a step-by-step basis? I am aware of one instance where a bilateral aviation partner urged the United States to sign with it a "model" multilateral agreement, granting relatively open access to the signatories, but where the initial parties would be only the two: the United States and the other government immediately at the bargaining table. The theory was that eventually other countries could be persuaded to sign on, and thus an open multilateral regime would eventually emerge. Thus a step-by-step approach.

I doubt that this form of creeping multilateralism will work to the United States' interest. Not surprisingly, the particular country urging this course on the United States was a relatively small one, and it was likely to gain far more from the open access to the U.S. market than the U.S. was to gain

from mirror reciprocity. Moreover, once such an agreement came into place, it would be very doubtful that any other major aviation country would wish to sign on, for to do so would automatically open its market not only to U.S. airlines but also to the airlines of the other, smaller signatory as well. Such a country would probably feel that it could negotiate a good bilateral agreement with the United States on its own; and thus it had nothing to gain and much to lose by joining in a multilateral approach that it had no role in formulating. The step-by-step approach is unlikely to attract those major aviation countries who possess the markets to make multilateralism attractive to the United States.

The problems with this particular multilateral agreement were exacerbated by the fact that the initiating country wished to retain a veto power over the addition of new signatories. In other words, no new parties could be added unless existing parties agreed to the particulars of the addition. While this sounds innocent enough, it raised the risk that an early party would use the access to the United States market offered by the multilateral agreement as leverage to secure bilateral concessions for itself, principally I suspect on the subject of fifth-freedom routes, from countries which later wished to become new signatories. The risk, in short, was that this model multilateral agreement would serve mainly as a device whereby an initial party could bargain with the agreement's access to the United States, without the United States' having the power to control the course of that subsequent bargaining.

Thus, from the perspective of a major aviation country such as the United States, creeping multilateralism is unlikely to bring about the desired results. The attractions of an open multilateral regime come from the inclusion of a large block of signatories which, at least collectively, can offer attractive market opportunities. The dynamics of negotiations strongly suggest that such a block must be dealt with together as a group and at the time of the initial negotiations. It is not feasible to develop a model with a few countries, particularly small ones, and then to expect other countries to join in.

Let me now return to the subject of the spiderweb agreement, which you may recall is a term I use to describe a multilateral but non-regional agreement, that is, a multilateral regime which might include the United States and a few countries in different continents. As I mentioned, when this was first proposed to the United States a couple of years ago, it seemed likely that the result would be that the United States market would be at the centre of long run-through operations, with foreign airlines enjoying considerable fifth-freedom rights but with the United States gaining relatively little over the existing bilateral situation. For obvious reasons, the U.S. side did not find this proposal to be attractive.

One can probably generalize from this experience and conclude that, for the United States, regionalism is a critically important feature of multilateralism. Only a cluster of adjacent countries is likely to bring true value in the form of the operational flexibility that underlies the objective of multila-

teralism. To take a hypothetical situation, the United States would benefit little over the status quo in having a multilateral agreement that included Chile, Holland, Jamaica, and India. By contrast, an open regime that included Chile, Peru, Columbia, and Brazil would offer tremendous potential. Or in the Middle East, the attractions to the United States of an open regional agreement with four or five countries together are far greater than that of an agreement with five widely scattered countries which may have markets of comparable size. Thus I would urge the United States - and those seeking to negotiate multilateral regimes with the United States - to focus on regionalism rather than on patchwork multilateral regimes which will add little to the current bilateral approach.

A word about pricing. Most of you are probably familiar with the American legal system's love of the antitrust laws. Our highest court, the Supreme Court, has described the U.S. antitrust laws as representing "a fundamental national economic policy."³ One should not be too surprised, then, when the Civil Aeronautics Board unilaterally, or Departement of State negotiators with perhaps more tact, try to introduce greater pricing competition in the international markets serving the United States. I personally prefer the more tactful approach, and am among those who have criticized our Civil Aeronautics Board for acting too aggressively and unilaterally on the matter of international airline price coordination.⁴ Still, you must appreciate that as a matter of negotiating policy the United States is likely to continue to press for pricing provisions which facilitate an increased degree of price competition. The "dual disapproval" rate article included, for example, in the United States-Belgium bilateral agreement is designed precisely to allow airlines to set their own pricing policies without regard to the wishes of other carriers, as those wishes may be expressed in the regulatory policies of one of the bilateral signatories.

But, in the field of international aviation, it is one thing to allow for price competition and it may be another thing to insist on it. If individual airlines are allowed the **option** of innovative price competition, that may be sufficient to meet the United States' objective and it may be unnecessary to take the additional step of **requiring** airlines to compete, with the threat of antitrust sanctions if they do not. Much will depend on the nature of the market in question. If the market is a large one that will support a number of carriers of different types, if entry into and out of that market is free, and if the structures of government regulation are eliminated, sufficient price competition is likely to take place, even if U.S. antitrust laws are not applicable to mandate that result. On the other hand, relatively thin markets or markets where new entry is difficult are considerably less likely to fit the competitive model of the Chicago economists, who incidentally have a very

3/ *Carnation Co. v. Pacific Westbound Conference*, 383 U.S. 213, 218 (1966).

4/ See J. Atwood & K. Brewster, *Antitrust and American Business Abroad*, vol. 1, pp. 71-74, 79-80 (2d ed. 1981); J. Atwood, *Book Review, International Aviation: How Much Competition, and How?*, 32 *Stanford Law Review* 1061, 1071-72 (1980).

prominent policy role in Washington antitrust circles today.

Let me return to the subject of regional aviation agreements and apply these very crude observations on antitrust and pricing to that context. If there were a real prospect of a regional aviation agreement which involved significant markets capable of supporting a large number of carriers of diverse interests and size (I am referring, of course, to a U.S.-Europe agreement covering the North Atlantic), I would urge the United States to give relatively low priority to safeguarding the option of applying the U.S. antitrust laws to that market. For such a market there will always be a Laker, a World, a Sterling, or someone, who will provide individual price stimulation if that carrier is allowed to do so under a "dual disapproval" rate article or the like. Thus for such a market the United States could reasonably consider, in exchange for other features of the agreement important to the United States, guaranteeing antitrust protection for those airlines which elected to engage in price coordination (subject perhaps to certain conditions such as a right of independent action). For thinner markets, however, incapable of supporting a sufficient diversity of airlines, it might well be sensible for the United States to bargain hard for an understanding that competition laws will apply, so that the smaller number of carriers serving that market must reach their price decisions on an independent basis.

I should point out that this approach of using immunity from U.S. antitrust as a factor in the negotiation of regional aviation agreements presents some complications under U.S. domestic law, for State Department negotiators have no legal authority to grant antitrust immunity. That power, in the case of airlines, is reserved to the Civil Aeronautics Board, which must act in accordance with statutory guidelines as to both substance and procedure. And where the powers to grant immunity will lie after the "sunset" of the CAB is still an open issue. Nevertheless, I believe the basic concept is workable under U.S. law, and it may prove to be an important factor in coming years if the interest in regionalism continues to grow.

Let me close with some observations for U.S. negotiators on the subject of regional airlines. I am referring now to airlines such as SAS and Air Afrique, which are truly multinational in character.

As a general matter, the United States should not presume to advise foreign governments or foreign airlines about whether or not they should pool their aviation resources to operate a regional carrier. That is a wholly internal matter for the other countries involved. At the same time, the United States can and should take into account the structure of the airline industry for a country or region when it is involved in negotiations with that country or region. To cite an extreme and most unlikely example, if at some future date the European Common Market obtained and exercised the authority to merge all present European airlines into a single regional carrier, I am sure the United States negotiating posture concerning a regional agreement with Europe would be far different than it would be if Europe continued its present structure of multiple carriers. Given this necessary and logical interaction between how foreign governments structure their aviation industry

and how the United States will respond at the negotiating table, I suppose it is hard for the United States to stay wholly neutral on the desirability or not of regional carriers.

Again, have in mind that the basic United States position will be to encourage open and competitive aviation markets. For this approach to work and to work fairly, and for it to be acceptable to the negotiators of other countries, the airlines that will operate in the market must be relatively modern and of efficient size. No country or region is likely to open itself to unrestricted competition by U.S. airlines unless its own airline or airlines are capable of meeting the challenge. This is a fact of life. Regional carriers may, depending on local circumstances, develop the strength and skills to compete in international markets in a way that more local or national airlines could not. To the extent this is true, the United States should encourage regional carriers, for the result is more likely to be open and free aviation relations.

But generalizations are dangerous. We can all think of national airlines from very small countries that have competitive records far exceeding those of some regional airlines. Certainly regional airlines can be seriously handicapped if their multinational character subjects them to heightened political oversight or interference. Conversely, a regional airline may actually enjoy **reduced** political interference because it may create a unity of interests among the participating countries, far exceeding what might exist if several national carriers were constantly turning to their respective governments for aid in restraining each other. Thus whether regionalism is a plus or a minus depends critically on the local situation.

At a minimum, though, the United States should not discourage countries from investigating the possible benefits of regional cooperation. It is in the United States' long-term interest to encourage whatever steps may lead to modern, healthy, and efficient international carriers. A competitive market place requires both diversity and balance. For the international aviation market to reach its full potential, governments and airlines both must come to feel increasingly comfortable with the ability of their local carriers to survive and indeed to prosper in an open competitive environment.

THE ROLE OF A FLEXIBLE FARE STRUCTURE ON THE DEMAND FOR AIR TRANSPORTATION: THE SOUTH ATLANTIC CASE

BY LUIS CARLOS GUIMARAES COSTA AND FLAVIO FREITAS FARIA

ABSTRACT

The main objective of this work is to present a proposal for modification of the route and fare structure in the South Atlantic. The proposal aims at a more flexible market, in the sense that the new structure potentially explores up to now non-served portions of demand.

A brief comparative survey of normal and promotional fares effective in all IATA markets is presented, revealing a poor mix of alternatives for the South Atlantic. A detailed description of proposals follows considering the traffic flow Europe - South Atlantic.

Finally, a qualitative approach of the proposals, in its economical, political and operational aspects is presented, whereas a more detailed quantitative analysis is done for those modifications for which data are available.

I. INTRODUCTION

The international air transportation industry was, no doubts, one of the most troublesome markets of the last decade. Because of both endogenous and exogenous factors its economic health has been faced with scepticism by professionals of the area all over the world.

Besides both oil shocks in 1973 and 1978, with direct impacts on the fares by the increasing of quero-jet prices, the part of the market regulated by IATA has suffered strong competition of non-scheduled flights offered by non-regular companies, that affected substantially the financial health of the traditional airlines. And, at the end of the seventies, the international air transportation industry was affected by the spread of the deregulation of the North-American domestic market.

Trying to assimilate all these impacts, and at the same time, facing the international economical crisis that grew up sharply in the beginning of the 80's, the international air transportation industry came up recently weake-

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ned as it can be seen by the conclusions of the last IATA meeting.

In a report presented in the last Conference of Tariff Coordination of IATA, which took place in Geneva, last July, the "Fare Deal Monitory Group" of that Association pointed out the persistent increasing of the average costs of the industry in the last years. At the same time, the actual yield of the airlines is decreasing, which enabled them to forecast very high deficits for the years to come.

Some recommendations were made in the way that the fare should be increased in only 5 % or 7 % after October of the last year, and that the airlines should try to make its earnings greater by attracting potential demands not yet matched. Besides that, another advice was given to the companies not to use mal-practice in the fares field, what has been happening frequently, giving apparently advantage to some of them, but actually making even weaker the market as a whole.

In this not-optimistic context, it took place in Lima, last July, a Cost Seminar of the CLAC, with the Latin-American airlines trying to think out their positions about the economic situation of the market.

Giving attention to the outlook already presented, the main purpose of this work is to analyse the suggestions which may promote an increase of demand for international air transportation in and to South America. That will be done from a study of the routes and fares structure that have been offered in the area and from a political and economical description of the same market, the internal traffic of South America and the so called South Atlantic traffic, and, at the end some propositions will be made only on the Europe - Brazil routes.

II. ANALYSIS OF THE ROUTES AND FARES STRUCTURE

Besides the traditional aspects related to national prestige and sovereignty, the international air transportation has a fundamental importance to South American countries as a way to break their geographical isolation in the world context, and for their economic development.

A brief analysis of the routes chart of air transportation throughout the world shows the South American continent apart from the big North America - Europe - Asia axis. And, the still strong relationship of these countries with the colonizing European nations and with the North-American industrialization shows that the air transport system represents for that area much more than the simple touristic role that may be presented in it.

Nevertheless, by the international economic situation of the beginning of this decade, the great survival possibility and maybe even the development one, with which the international transportation in the region may count, seems to be exactly in this supplementary touristic flow.

A map of the scheduled frequencies of the international flights to Brazil [1], presented in Table 1, shows us the concentration of these routes in its terminals almost exclusively in the cities of São Paulo and Rio de Janeiro,

leaving apart very important touristic places in the country.

The sunny shores of Recife and Salvador, the Amazonic magnetic attraction of Belem and Manaus, and touristic potential of Brasilia and Foz do Iguacu were not conveniently explored yet, in touristic terms by the Brazilian government. Although a recent study [4] has shown that these places, with a population of more than a million of inhabitants, have a developed site of hotels and a good structure for touristic reception, as can be seen in Table 2, only recently the Brazilian Agency of Tourism - EMBRATUR began to advertise, slowly, these markets outside of the frontiers of the country.

TABLE I
NUMBER OF INTERNATIONAL FLIGHTS TO BRAZILIAN TOWNS BY COUNTRY OF ORIGIN

Brazilian Town \ Origin	RIO	SAO	MAO	REC	SSA	BEL	BSB	POA	IGU
Germany	8	8							
Argentina	48	34						10	4
Chile	7	4						1	
Scandinavia	3	2							
Spain	12	8							
USA	36	36	2			1	1		
France	11	11	2		1	1			
England	7	7		2					
Italy	6	6							
Netherlands	3	3		1					
Paraguay	13	13							4
Portugal	18	15		4	4	1			
Switzerland	6	6			1				
Uruguay	14	22						2	

Source: Panrotas, # 90, VIII, sept. 1980.

It should be emphasized the optimal geographical localization of the Brazilian points mentioned, located half way in the traditional routes to South America, and whose inclusion as a stopover in the system would not imply

TABLE 2
TOTAL NUMBERS OF SUITES IN FIRST CLASS HOTEL

CITIES	N° OF SUITES
Manaus	881
Belem	831
Fortaleza	1.137
Recife	1.305
Salvador	2.175

Source EMBRATUR

in fare changes. So, it is clearly a problem of marketing a more intensive touristic exploration of those markets.

An analysis of the fare structure in the South America air transportation market can be done divided in two parts: first, by comparison of the economic fare level in the sector with those of other markets, and second, through the confrontation of the promotional fares adopted in the markets regulated by IATA.

With the values of mileage and normal economic fare-round trip of selected routes, published in the Airline passenger Tariff, recent study [1] presented Figure 1, where the points represent routes of the following markets: North Atlantic, North America - South America, Asia and Australia, Europe - Africa and South Atlantic.

It can be noted the obviously reduced fare level in the North Atlantic market when compared with the other markets, and the high values between Europe and Africa, and in the routes in Asia and Australia we can find intermediate fares compared with the rest of the World.

The fare level in the South Atlantic market is much higher than that one used in the routes between South and North America. Besides have tariffs almost always higher than those among other South American countries and Europe.

The reasons for these differences among the fare levels from region to region are obviously known. as for example:

- the process of fares approval in the IATA Conferences of Tariff Coordination (decisions must be unanimous) makes more difficult any modification as lower is the number of the airlines in the sector;
- the different scale of operation in the markets, with several levels of utilization and load-factors for the fleets;
- the strong competition in some markets oblige an increasing in the efficiency which promotes a decreasing in the costs, with permits break-even with lower fare levels; and,
- the fares in the intermediate routes (international or domestic) being high automatically obliges high fares for longer routes with relationship with those.

FIGURE I
 ECONOMIC FARES vs DISTANCE (DIRECT MILEAGE -
 NM) - ROUTES BY SECTORS

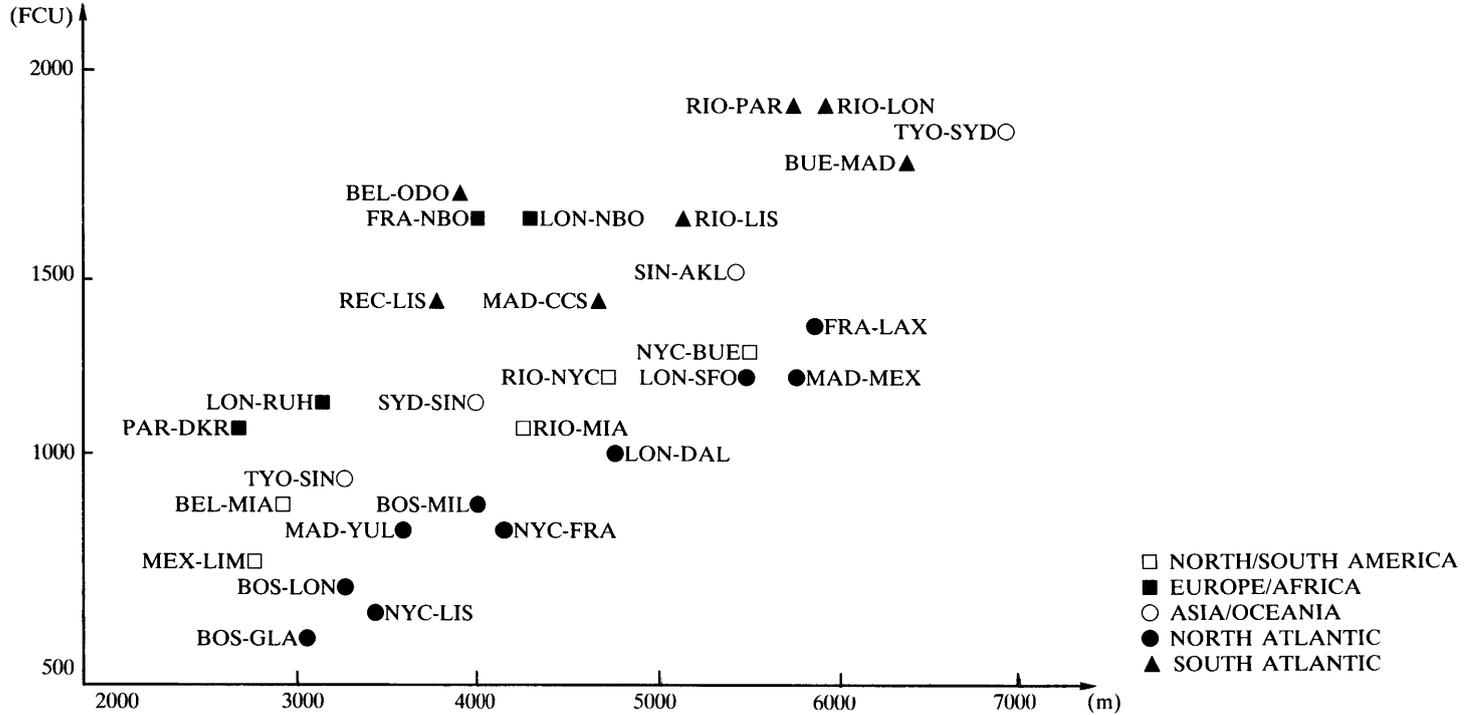


TABLE 3
DEFINITION OF FARES AND CONDITIONS - SOUTH ATLANTIC

CATEGORY		LISBON	MADRID	ROME	ZURICH	PARIS	LON- DON	FRANK- FURT	AM- STER- DAM	COPEN- HAGEN	CONDITIONS
1. From Rio											Periods of applicability: all year Stopovers: no restrictions
a) normal	F	2954	2954	3470	3470	3470	3470	3518	3518	3754	
b) normal	Y	1890	1890	2250	2250	2250	2250	2282	2282	2456	

c) individual excursion	YL60	1418	1418	1688	1688	1688	1688	1712	1712	1842	Periods of applicability: sept 15 to jun 15 Stopovers: limited to 4; additional - US\$30 each Stay min/max: 21/60 days
2. To Rio											The same north bound
a) normal	F	2148	2273	3085	3215	3638	3842	3994	3150	3648	
b) normal	Y	1374	1454	2000	2108	2360	2492	2170	2044	2386	

c) individual excursion	YL60	1031	1091	1501	1582	1770	1940	2186	1170	1790	Periods of applicability: sept 15 to jun 15 Stopovers: limited to 3 Stay min/max: 21/60 days

d) group excursion	GIT/04 PAX	962	1018	1436	1476	1530	1746	2040	1648	1670	Periods of applicability: all year Stopovers: 3 in South America, additional - US\$30 each Stay min/max: 10/35 days
e) group excursion	GIT/10 PAX	797	843	1190	1224	1268	1446	1690	1366	1384	
f) group excursion	GIT/20 PAX	-	-	-	-	-	904	-	-	-	

Source: Cernai/Brazil

TABLE 4
DEFINITION OF FARES AND CONDITIONS - US - BRAZIL

Round trip fare (US\$ jan-1982)

CATEGORY		MIAMI	NEW YORK	LOS ANGELES	CONDITIONS
1. From Rio	F	2682	2978	3188	Periods of applicability: all year Stopovers: no restrictions
	a) normal b) normal Y	1464	1602	1784	
c) group excursion	GN20	1133	1252	1399	Periods of applicability: all year, except jul Stopovers: not permitted Stay min/max: 7/30 days min group: 20 pax
2. To Rio	F	2732	3034	3246	The same birth bound
	a) normal b) normal (no restrictions) YV	1722	2008	286	
c) normal (with restrictions)	YK	1330	1412	1666	Periods of applicability: all year Stopovers: additional - US\$25 each
d) individual excursion inclusive tour	YIT	1197	1318	1542	Periods of applicability: all year Stopovers: additional - US\$10 each Stay min/max: 10/21 days
e) apex fare	YAB	953	1059	1187	Periods of applicability: all year Stopovers: not permitted Stay min/max: 21/60 days
f) group excursion inclusive tour	G20	953	1059	1187	Periods of applicability: all year Stopovers: not permitted Stay min/max: 7/30 days min group: 10 pax

80 TABLE 5
DEFINITION OF FARES AND CONDITIONS - SOUTH AMERICA

CATEGORY		BUENOS AIRES	MONTE- VIDEU	SANTIA- GO	LIMA	BOGOTA	CARA- CAS	CONDITIONS	
1. From Rio a) normal b) normal	F	846	774	1194	1566	1722	1672	Periods of applicability: all year Stopovers: no restrictions	
	Y	534	498	768	1014	1180	1168		
	c) individual excursion	YE	-	-	597	796	-	Periods of applicability: all year Stopovers: 5 Stay min/max: 7:30 days	
	d) group excursion inclusive tour	GV	399	371	-	-	879	875	Periods of applicability: all year Stay min/max: 7/21 days min group: 10 pax
2. To Rio a) normal b) normal	F	846	724	1194	1464	1722	1672	The same as normal fare to Rio	
	Y	534	466	768	948	1180	1168		
	c) individual excursion	YE	-	-	597	744	980	875	Periods of applicability: all year Stopovers: 5 Stay min/max: 7/30 days
	d) group excursion inclusive tour	CV	399	347	-	-	879	-	Period of applicability: all year Stay min/max: 7/21 days min group: 10 pax

Source: Cernai/Brazil

With respect to promotional fares, the possibilities approved by IATA in the routes with South American countries are highly restrictive when compared to the other IATA markets.

Three groups of promotional fares have been used extensively throughout IATA markets: for the individual excursions, the APEX (Advanced Purchase Excursion) and several group systems, inclusive tour or not.

In each case, the discount has a counterpart specific restrictions in the level of service, as can be seen in the Composite Resolutions of IATA. Generally, the individual excursion fares make possible discounts of 25 to 30 %, the APEX fare, from 35 to 50 %, and the group excursion fares, from 30 to 42 %. The number of stopovers permitted in a trip made with promotional fare is variable, since with free permission, passing through a limited number permitted with the additional payment of taxes or not, to completely unpermitted.

For the Brazilian case, the Tables 3, 4 and 5 show the fare values - first class and economic, and the promotional schemes, respectively for routes of South Atlantic, between United States and Brazil, and between other countries in South America and Brazil.

The fare mix inside South America is represented only by one kind of individual excursion and group excursion, with the restriction of inclusive tour. This fact is also true to the route United States - Brazil, and there is in this market the unique possibility of the utilization of the APEX fare, but with the discount of 28 %, small enough to be considered as the same fare as in the other markets.

The promotional fares approved in the South Atlantic market are:

- "45-day Economic Class Excursion", that limits the number of stopovers to three without additional fare to points in Argentina, Brazil, Chile, Paraguay and Uruguay. It gives discount of 25 % and its application is restricted to the low European season.
- "35-day Group Inclusive Tour", that permits three stopovers without additional fare, and additional stopovers with the payment of US\$30 each. It gives discount of 30 % for groups of a minimum of four, and 42 % for groups of a minimum of ten, and there is no restriction in its period of application.

To the "45-day Economic Class Excursion Fare", that has great market appeal, the limitation in the number of stopovers to three in five countries of South America causes a highly restrictive factor to the effort in increasing the number of places to be visited, especially considering all the touristic potential of the southern part of the continent.

The Group Inclusive Tour Fare presents a reasonable limitation in the number of stopovers, but its application is always restricted to the need of supplying of a specific touristic package by an authorized operator. This supply has presented a low diversification to other Brazilian cities than Rio de Janeiro.

III. MARKET TRENDS

A study on the price sensitivity of several international air transportation markets, published in 1978 [3], concludes:

“There is a very small number of countries whose role is crucial with regard to the future trend in the price sensitive market by geographical region. It is for these countries that it would be useful to develop policies and options for the medium/long term, in order to estimate the possible impact of changes in these policies - and the possible response of other countries to these changes”.

In this work, the authors believe that the Europe - Latin America market should not be included among those in which these policies and options could lead to significant changes in relation to the present situation.

Although it is apparent, through an historical and structural analysis of the Latin-American international air transport market, that the implementation of a fare structure with so many options as in the North Atlantic market should not be expected, one has to recognize the existence of a certain margin of a malleability with respect to the present fare structure.

The following are conclusions of a work developed by a Group of the ITA [2], on the international fare structure in Latin America:

- in spite of the great changes that happened in the world market, the fare structure in the area still maintains all the characteristics of IATA's system before 1978;
- with the lowering of the fares in the North America - Latin America market, the simplicity of the South Atlantic fare structure tends to disappear because of the possibility of traffic deviation through the North Atlantic; and,
- touristic flow has been limited due to several factors existing in the South Atlantic (distance, weak touristic infrastructure, political instabilities, etc) and it is doubtful that small decreases in fares would be sufficient to change this situation.

Owing to these conclusions, the authors recognise that

“it is certainly in the fare levels and diversification that Latin America - and specially South America - may expect great changes on the short or medium run”.

If the stiffness of the fare structure in the Latin America market has not permitted the absorption of significant new price-sensitive demand shares on one hand, taking the Brazilian case as an example, on the other hand the statistics reflects a steady growing rate as shown in Tables 6 and 7. The mean growth rates shown in these tables are especially significant if the world economic crisis and its particular consequences on the international air transport market are taken into consideration.

The different mean growth rates in the Europe - Brazil traffic presented in Table 7, seem to show that the passenger flow has a touristic component

that is sensitive even to few and unimportant fare advantages.

Additionally, one can state that certain conjunctural aspects of this decade tend to favour, if not an accelerated expansion of the South Atlantic market, at least the maintenance of its growth.

First, it should be reminded that the progressive fleet modernization in the late seventies has allowed an increased per flight seat availability and, consequently, has forced the mean unitary supply cost down. As a second factor, the exhaustion of the touristic poles developed in the last decades, specifically the case of the Caribbean Islands, and the political instability verified in other traditional poles, as for example the Middle East, create a favourable situation for the development of low explored touristic markets, like that of South America.

The conjugacy of these aspects, though, may result in an effective growth of the market in question only if the present structure of routes and fares is altered in order to attract price-sensitive shares of demand. For that end, existing data on the experiences done in the North Atlantic can be used, and this also can be considered another favourable aspect for a rational diversification of the existing fare structure.

TABLE 6
AIR TRANSPORT (REGULAR) PASSENGER FLOW TO AND FROM BRAZIL

		YEAR						average anual increase rate 1976 - 1981
From + to	1976	1977	1978	1979	1980	1981		
1 Europe	507596	491027	559080	613893	644178	648702	5,0	
2 South America	607272	688687	743141	949588	1103728	973930	9,9	
3 North America*	423348	388466	436408	468899	531437	521953	4,3	
4 Total (1+2+3)	1538216	1568180	1728629	2032380	2279343	2144585	6,9	

Source: Cernai/Brazil

(*) Braniff and Panam data roughly estimated.

TABLE 7

AIR TRANSPORT (REGULAR) PASSENGER FLOW BETWEEN EUROPE AND BRAZIL

From + to	YEAR						Average annual increase rate 1976 - 1981	Traffic shares 1981
	1976	1977	1978	1979	1980	1981		
Portugal	109456	97401	115201	135775	140956	138162	4,5 %	21,3 %
France	108686	96732	106394	119840	109971	109058	0,1 %	16,8 %
Spain	65787	64024	72154	87382	99717	93740	7,3 %	14,5 %
Italy	68634	71725	79200	75044	86067	93157	6,3 %	14,4 %
Germany	60664	66467	77562	82063	81415	81157	6,0 %	12,5 %
England	35130	39163	49471	48596	51682	50860	7,7 %	7,8 %
Switzerland	42445	40682	39420	42194	41545	44072	0,8 %	6,8 %
Denmark	5160	5028	9329	10953	17864	19636	30,7 %	3,0 %
Netherlands	11634	9805	10349	12046	14961	18860	10,2 %	2,9 %
TOTAL EUROPE	507596	491027	559080	613893	644178	648702	5,0 %	100,0 %

Source: Cernai/Brazil

IV. CONCLUSIONS

It could be seen by the analysis of data presented in this work that the routes and fares structure existing up to now in the international air transportation from and to South America probably has not satisfied all the sectors of demand in the market. Although it should be recognized the existence of some difficulties in the implementation of more diversified fare schemes, the present conjunctural aspects recommend, at least, some movements in this way.

As recent examples, we can mention the approval in the Europe - Brazil market of the "point-to-point fares", with discount of 30 % from Brazil and 40 % to Brazil, and of the Brazilian Airpass, sold by US\$330 outside of the country, and that permits an unlimited number of flights to the foreign tourist into the country during 21 days.

Although these two actions can be considered important steps as an incentive to the international air transportation in that region, two other pro-

motions seem to be vital for the consolidation of a regular touristic flow between Europe and Brazil. First of all, the introduction of the APEX fare, and second the liberalization of the number of stopovers, for the existing or for proposed promotional fares, trying to decrease the cost per place visited for the tourist.

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**SESSION III:
“CURRENT & PAST EXPERIENCES”**

THE PROBLEMS & ADVANTAGES OF A MULTI-NATION AIRLINE: THE EXAMPLE OF SCANDINAVIAN AIRLINES SYSTEM

BY HENRIK WINBERG

I. THE SAS CONSORTIUM AND THE SAS GROUP

Scandinavian Airlines System (SAS) is the multinational air carrier of Denmark, Norway and Sweden.

SAS is a Consortium, owned 2/7 by the Danish airline DDL, 2/7 by the Norwegian airline DNL, and 3/7 by the Swedish airline ABA.

Each of the national airlines is a company, the shares of which are owned 50 % by private interests and 50 % by government.

The Consortium and a number of wholly-owned subsidiaries, specializing in hotel, travel, and catering services, form the SAS Group. The subsidiaries are organized as Danish, Norwegian, and Swedish companies or consortia of such companies. They are not governed by the Chicago Convention, and I shall not deal with them further, although they generate around 1/4 of the group's total revenue.

II. THE INTERNATIONAL LEGAL ENVIRONMENT

During the Chicago conference, a framework for multinational cooperation was established in broad terms, and the Chicago Convention devoted one chapter (XVI) to the subject "Joint Operating Organizations and Pooled Services". The Convention simply states (Article 77) that such arrangements are permitted, but shall be subject to all provisions of the Convention.

The Convention distinguishes between two types of organizations. The most advanced is the "international operating agency". Its aircraft shall be entered on a joint or international register, and the ICAO Council shall determine how the nationality provisions of the Convention shall apply to the agency's aircraft. (In 1967, the Council determined the procedure it would apply to any specific plan for joint or international registration presented to it.)

The second type is the "joint air transport operating organization". A sta-

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te may participate in such an organization either through its government or through an airline company designated by the government. The company may be state-owned, or partly state-owned, or privately owned (Article 97).

The SAS Consortium is a joint air transport operating organization, as provided for in the Convention, and represents a middle way between the alternative forms of ownership.

So far, no international operating agency has been established. Besides SAS, there are some examples of joint air transport operating organizations, where several states cooperate in ownership and operation of a single airline, e.g., Air Afrique (1961), the former East African Airways Corporation (1967), and Gulf Air (1974).

The Convention also mentions "pooled services". They originate from agreements between airlines for the operation by them of one or more routes and allocation of revenue derived from such operations. The ordinary pool agreements are governed by the general law of contracts, and differ from joint operating organizations in that there is no joint contribution of capital and no merging of operations, and each pool-partner works for his own account, bearing the losses and keeping the profits severally.

The advantages of pool agreements are, generally, that they limit those effects of competition which are detrimental to the public service, that they lead to better utilization of equipment, that they offer opportunities for airlines to extend their traffic markets, and that they enable the airlines to reduce costs.

These advantages also exist in a joint operating organization, where the routes are served by an operational entity for the joint account of the partners. For a joint organization, there would, however, exist considerable scope for still better performance due to the greater commonality of interests, provided that separate national pressures do not adversely affect the conduct of business.

The Scandinavian experience is that there is a long lead time for the establishment of a multinational airline, and that a progressive approach can be made by means of various types of pool arrangements. In the case of SAS, the formative stage lasted about five years.

III. THE FORMATION OF THE SAS CONSORTIUM, 1946-1950

After the war, the need arose for establishing air services between Scandinavia and North and South America as soon as possible. This was a new activity for the Scandinavian national airlines, and it was easy to agree that none of them could or should operate these services alone. Each country was too small, and had insufficient traffic potential to support the undertaking. In 1946, a Consortium agreement was concluded among the airlines for the operation of these services, known as OSAS (SAS Overseas Division).

In the OSAS Consortium, the three Danish, Norwegian, and Swedish air-

lines contributed capital in the proportion 2:2:3. The operations were conducted for joint profit, so that rights and obligations, profits and losses, were shared among the participating airlines, according to their shares in the Consortium. The airlines were jointly and severally liable for OSAS obligations against third parties, and, internally, in the same proportion - 2:2:3.

Each of the three national airlines simultaneously continued to operate, separately, their respective routes in Europe, the Near East, and Africa, until 1948, when a pool agreement was concluded for the operation of these routes, known as ESAS (SAS European Division).

The ESAS agreement was different from the OSAS agreement. It was a pooling arrangement, under which each airline operated its share of a previously agreed traffic program arranged so as to divide ton-kilometers performed as nearly as possible in the proportion 2:2:3. Each airline was bearing its own operating costs. The costs for the organization in Scandinavia and representation abroad were, however, carried jointly. Total traffic revenue went into a pool, which was divided among the parties in proportion to traffic actually carried, calculated in ton-kilometers.

All this time, domestic services were operated by each national airline on its own account. These services were partly subsidized by the respective governments.

Thus, the Scandinavian cooperation at this stage incorporated both the concept of a joint operating organization (OSAS), and cooperation under a pool agreement (ESAS). Both types of cooperation offered significant advantages. In particular, the OSAS Consortium was successful, thanks very much to the profitable long-haul routes. But the overall structure of the organization also had essential drawbacks. It was complicated and costly, with separate management for the three national airlines and the two joint undertakings within the system. The distribution of revenues from the joint operations, and the clearing among the three national airlines also created difficulties in the cooperation. It soon became necessary for the parties to make a choice among alternatives for future cooperation.

Following financial losses in the late 1940's, the national airlines, in 1950, finally agreed to continue and widen their cooperation under a new Consortium agreement, which became effective October 1, 1950. It created an integrated operating entity with most of the characteristics of a single company. It eliminated the financial accounting problems which had beset the former organization, and it also saved a substantial amount of money by the elimination of duplicate functions.

The immediate results were promising. SAS became the twelfth largest international airline at that time. During the first eight years of operation, it made some profits and no losses. The following three years, SAS and the national companies suffered heavy losses. The initial equity capital of around \$30,000,000.00 was regarded as lost in 1961, mainly due to the jet crises, but also on account of mistakes by the management, and weaknesses in the structure of the Consortium.

In 1961, the capital owners - the Scandinavian governments and the private capital interests - decided to continue their cooperation on the previously agreed 50/50 basis, and to refinance the national companies. In their turn, they provided the Consortium with around \$40,000,000.00 in new capital, in the proportion 2:2:3. In 1962, the Consortium agreement was revised, primarily with regard to the various management functions, and the Consortium thus got its present shape, twelve years after the beginning.

It is tempting to say that the periods of major economic difficulties also have brought about the major steps in the consolidation and improvement of the structure of the Consortium.

I will now examine more closely the various elements of the Consortium agreement.

IV. THE STRUCTURE OF THE SAS CONSORTIUM

The objective of the Consortium is to carry out, as an entity, commercial air traffic and other business in connection therewith, for the joint account of the three national airlines, under the name "Scandinavian Airlines System - Denmark - Norway - Sweden".

For this purpose, the Consortium took over all properties and rights owned jointly or individually by the parties, except real estate in Scandinavia, which was leased to the Consortium on long-term contracts. The operating permits for both domestic and international air services, which had been granted to the national airlines by the respective Scandinavian governments, were also transferred to the Consortium.

To make the take-over complete, the understanding was reached that none of the parties was allowed, in the future, to arrange, or support, or take any interest in, any activity of the kind carried out by the Consortium, unless the other parties agreed thereto. In this way ABA, DDL, and DNL became exclusively holding companies in relation to the consortium.

The leading **management principle** was, and still is, that the activities of the Consortium shall be governed by sound business considerations, practice, and policy. Subject to this principle, the Consortium should make every effort toward allocating in a "reasonable" way its business activities among the three countries.

The relationship between the business conduct of a multinational enterprise and the allocation of its activities to the participating countries is probably always a crucial matter in multinational cooperation. In the case of SAS, there is no doubt that the national airlines, in formulating the Consortium agreement, gave priority to the business considerations.

But the agreement had to be presented to the parliaments of the three countries before it could be implemented. In order to ensure unanimous consent, the national companies had to bow to pressures, and, in a side-letter, they agreed that the business principles, in certain cases, had to yield to national interests. The Consortium thus undertook to seek to distribute aircraft overhaul and maintenance among the three countries in the proportion

2:2:3, and that this proportion should also serve as a guideline for the personnel policy.

To implement such a standard distribution in an industry with frequent technological changes is not an easy task. To start with, the technical services were divided among the workshops in the three countries according to type of aircraft. When the DC-4 was replaced by DC-7 and DC-8, maintenance was instead divided according to type of work, in specialized workshops for fuselage and wings, for engines, and for instruments. Later on, all periodic maintenance was concentrated in the operational center in Copenhagen. Finally, economics of scale caused SAS to cooperate in the technical field with other international airlines, in the first place with Swissair, KLM, and UTA. In this changed environment, the distribution of the technical services between workshops within and outside Scandinavia became primarily determined by costs and pricing in the market.

When the Consortium agreement was revised in 1962, it was simultaneously agreed that events had overtaken the side-letter, and that the Consortium, in the future, should not be bound by any standards for distribution of the activities which would take priority over sound business considerations. The national companies formally cancelled the side-letter, and the priority of the business principle was thus restored.

The **management of the Consortium** got its present structure when the Consortium agreement was revised in 1962 in order to make the organization more business-oriented and efficient.

In the beginning, the Board of Directors of the Consortium consisted of all the members of the Board of Directors of the parent companies. The body counted thirty-two members and ten deputies. Although only six members from each parent company were permitted to vote, the body was far too large to be able to efficiently direct a business enterprise. For practical reasons, the Board had to delegate much authority to an Executive Committee of six board members.

In 1962, the present constitution of the Board of Directors of the Consortium was adopted, according to which the Board consists of only six members and six deputies, two of whom are nominated by each parent company.

At the same time, the previous Board of Directors of the Consortium was assigned a new role in the management of the Consortium as an Assembly of Representatives, where eight members of each parent company were permitted to vote. This body decides on the approval of the yearly report and the accounts of the Consortium, and on the question of granting discharge of liability to the Board of Directors. The Assembly also decides on the location of the head office, which, of course, is a sensitive matter.

The parent companies, consequently, have equal voting powers, both in the Assembly of Representatives and in the Board of Directors, irrespective of their capital contribution.

The Board of Directors appoints the General Manager and other managers. In the beginning, the General Manager had two deputies. They were of different Scandinavian nationalities, although this was not mandatory. In

1962, it was expressly stated that the General Manager shall be the indisputable chief executive, so as to avoid any misconception about the authority of the General Manager.

The general characteristic of the present management is that the authority and duties of the different bodies have become the same as in an ordinary company.

V. FINANCIAL PARTICIPATION

According to the Consortium agreement, the internal relations among the parties shall be 3/7, 2/7, and 2/7, for ABA, DDL, and DNL, respectively. The parties jointly own all the properties and rights in these proportions, and share any profit and any loss, and are responsible for the obligations of the Consortium in the same proportion. As against third parties, they are jointly and severally liable for any obligation which might arise for the Consortium in connection with its activity.

The proportion 3:2:2 for participation in contributions to, and ownership in, the Consortium had been applied before 1950 in the relations among the parties, but it was not self-evident that this proportion should continue to apply. Statistically, Sweden represented around 50 % of the Scandinavian population, GNP, foreign trade, etc. However, it was not considered prudent to let one party become a dominating owner of the multinational undertaking. From an investment point of view, the level of participation only determines the share in future profits and losses. Far more important than the sharing in the enterprise is its ability to get a sufficient share of the market for its services.

In one particular respect, the agreed formula has proved to create some internal tension. The Consortium also caters to a considerable part of the domestic traffic in the three countries, and this activity in each country becomes owned and controlled by a majority of foreign, although Scandinavian, interests. My guess is that some concession to public opinion has to be made sooner or later, with a view to restoring national dominance over the domestic traffic. Such a change could very well be carried out within the framework of the principles of the Consortium agreement.

An important element in the structure of the SAS Consortium is the balance between **state and private ownership** of the national companies and the Consortium itself. This is a result of a development that took place in the formative stage, in the 1940's.

Immediately after the war, the Danish and Norwegian airlines were both 80 % privately owned, while Sweden had one privately owned and one state-owned airline, which were tied to each other by a cooperation agreement.

In the last few years of the 1940's, the economic situation for internal air transport deteriorated, and the Scandinavian national airlines lost considerable parts of their equity capital, and refinancing became necessary. This was first accomplished in Sweden, where the state-owned and the privately-

owned airlines merged in 1948. The merger was preceded by negotiations between the social-democratic government at that time and representatives of Swedish industry interests. It was agreed that a merger was advantageous, but the private interests initially made it a condition that financing and ownership should be private, as it was in Denmark and Norway. In the course of the negotiations, the principle of equality was established. On this account, the capital of the merged company was provided in equal amounts by the government and the private interests. Neither got a majority of the shares in the company. The government interests were instead considered to be safeguarded by a right to purchase the privately owned shares, and by the chairmanship in the Board of Directors. Conversely, the private interests were safeguarded by a right for them to have their shares purchased by the government at their actual value in case insurmountable difficulties would arise to cooperation within the merged organization. In addition, the private interests were entitled to the chairmanship in an executive committee of board members, which should be the body directly involved in the business activities of the company.

The private shareholders' right to request purchase of their shares was not a paper paragraph. In 1967, they made such a request, because they considered that the user charges levied by the Swedish Civil Aviation Administration were unreasonably high. The government considered that the level of the user charges was not negotiable, but the negotiations ended amicably, since the private shareholders obtained some tax reliefs on their investment. In this connection, it was also revealed that the actual value of the shares in the Swedish parent company was about four times their par value, which indicates that SAS losses during the jet crises had been considerably overestimated.

When the Danish and Norwegian airline companies were refinanced in the late 1940's, the Swedish model was applied insofar as they also became half and half state and privately owned.

The 50/50 relationship between state and private ownership in the Consortium is also reflected in the composition of the Board of Directors of the Consortium: three of the members are selected from government representatives and three from the representatives of the private interests in the national companies.

It is probably true to say that the 50/50 relationship between state and private ownership has established a balance of power between the state and the private interests. It is also an advantage that there exists a high degree of homogeneity in the capital formation of the participating national companies. It may be rather difficult to enlarge the Consortium to encompass additional national airlines, unless the same relationship between state and private capital is preserved.

The **nature of the enterprise** created by the Consortium agreement has been the subject of some discussion. The enterprise resembles an ordinary company to the greatest extent possible as far as management and operations are concerned. It differs from the more familiar forms of companies in

that it has no governmental charter conferring legal entity. Comparison is also possible between the Consortium and a partnership among its three constituent companies. However, it differs from the ordinary form of partnership in that the individual partners are not active in the direct control of the day-to-day activities of the Consortium. It does not seem to be possible to identify the Consortium with any of the more familiar forms of commercial undertakings, but to regard it as a creation of the particular arrangement out of which it grew. This also seems to be quite natural for a multinational enterprise, which is not tied to the legal system of any particular state. A practical consequence of this state of affairs is that the Consortium is not taxable for its profits in any of the Scandinavian states. Instead, the profits become taxable at the level of the parent companies when the profits are distributed to them.

For all practical purposes, the Consortium is, anyhow, capable of conducting its business on the basis of the unlimited powers which the parent companies have conferred upon the management of the Consortium, and of the undertaking of the parent companies to be jointly and severally liable for due fulfillment of any obligation which might arise for the Consortium in connection with its activity.

Thus, the SAS Consortium itself is - without any reference to the parent companies - the contracting party, e.g., in collective wage agreements with the various national trade unions, in contracts on purchase of aircraft and equipment, in bond issues, etc.

VI. OPERATIONS OF SAS

A multinational airline must comply with the provisions of the Chicago Convention (Article 77), and, in particular, with those pertaining to **nationality of aircraft**. This is important because the Convention places upon the state of registry the responsibility for the airworthiness and the safe operation of the aircraft, and the competency of the crew of the aircraft.

An aircraft cannot be validly registered in more than one state (Article 18). In the case of SAS, approximately 3/7, 2/7, and 2/7 of the number of aircraft of each type are registered in Sweden, Denmark, and Norway, respectively, in the names of the national companies. The registration is based on the fact that the SAS aircraft are internally (among the parent companies) regarded as owned by the Consortium, which, with regard to third parties, exercises any and all powers appertaining to ownership of aircraft, but legal title, for purpose of registration is regained by the separate companies.

This arrangement has made it necessary for the three Scandinavian civil aviation administrations to cooperate in the field of flight safety in order to coordinate their work and to develop identical standards and regulations, primarily in the AIR, OPS, and PEL fields. On this common basis, each of them issues airworthiness certificates for the aircraft on its register and licenses for its national crew members. The supervision of SAS from a safety

point of view is monitored by a joint OPS-Committee, with representatives from the safety departments of the administrations. The Committee has established subcommittees in various fields, and a joint Scandinavian Fight Safety Office for supervision of SAS technical operations has authority to take action in its field as if it were a joint Scandinavian authority.

The SAS aircraft can be operated by crew members from any of the Scandinavian countries, thanks to a uniform training system. The licenses issued by one administration are validated by the other two administrations. In the beginning, the validation was certified on validation cards to be carried with the license, and, later on, by means of a general statement to that effect to be carried with the airworthiness certificate of each SAS aircraft.

The Chicago Convention is not particularly interested in the **nationality of the airline**. However, the standard bilateral air services agreements require that substantial ownership and control of the designated airlines are vested in nationals of the respective parties to the agreements. For this reason, the multinational airline SAS cannot be designated by any one of the Scandinavian countries as operator in its bilateral agreements. Instead, each country designates its national carrier, which complies with the requirement of substantial ownership and control.

When SAS is operating a route under a bilateral agreement concluded by one of the Scandinavian states, it almost always employs not only aircraft, equipment, and crews belonging to the designated airline, but also aircraft, equipment, and crews belonging to one or both of the two other airlines cooperating within SAS.

In order to avoid any misunderstanding about the nature of the arrangement of SAS operations, the Scandinavian governments have, already when bilateral agreements are concluded by them, declared that the authorities and the designated airline of one country will apply the provisions of its agreement also on aircraft, equipment, and crews of the other airlines, and will assume full responsibility therefore, in accordance with the agreement. These declarations and the bilateral parties' acceptance thereof have been confirmed by exchanges of diplomatic notes.

The arrangements for bringing SAS operations into full conformity with the Chicago Convention are somewhat elaborate, and it is possible that joint registration could simplify the paperwork for future joint operating organizations and international operating agencies.

VII. AIR TRANSPORT POLICY FRAMEWORK

A prerequisite for the smooth functioning of the Scandinavian cooperation in the civil aviation field has been the development of reasonably similar civil aviation laws. The preparation of such legislation had already begun in 1943 in Sweden, but the final Danish, Norwegian, and Swedish laws did not enter into force until ten years later, in the beginning of the 1960's.

The establishment of the SAS Consortium in 1950 also called for coordi-

nation between the three governments on policy matters, and an agreement among them on cooperation was concluded in 1951.

For this purpose, ministerial policy meetings and subsequent CAA implementation meetings are held at regular intervals.

Negotiation of bilateral air agreements with other countries are almost always conducted by joint Scandinavian delegations.

For coordination of ICAO matters, a Scandinavian secretariat was established at ICAO headquarters in Montreal in 1946, and the Scandinavian countries have since then participated in the work of the ICAO Council and its subordinate bodies in accordance with a rotation scheme. In 1977, this cooperation was enlarged to encompass Finland and Iceland as well, and the Scandinavian Delegation became the Nordic Delegation.

VIII. SPECIFIC POLICY ISSUES

A. RESTRICTIONS ON MARKET ENTRY

Parallel with the formation of the SAS Consortium, the Scandinavian governments adopted a policy of concentrating the resources of the three countries in international scheduled air transport to SAS. Notwithstanding this principle, other Scandinavian air transport companies can be certified to operate specific international routes, if SAS could not or would not operate them on acceptable terms. Any application for certification must be submitted to the parent companies of SAS for their comment. This means that submitted to the parent companies of SAS for their comment. This means that SAS has first refusal rights. So far, no certificates have been granted, except for some minor inter-Scandinavian or regional routes, usually operated in cooperation with SAS.

A consequence of this is that the Scandinavian governments also apply the principle of single designation.

SAS first refusal rights also apply to domestic services. It is, however, doubtful whether a multinational airline is always prepared to devote sufficient interest to the various needs of domestic traffic, when competition on the international routes presents more pressing problems to the management. In any case, secondary domestic airlines have been established in the Scandinavian countries, which cater to considerable parts of the domestic networks.

The Scandinavian single-airline concept does, of course, not affect foreign airlines' operations. Scandinavia is not a cabotage area, and the Scandinavian governments exchange traffic rights with other governments for routes between the Scandinavian countries, as well as for routes between them and other countries.

SAS has, from the outset, been a member of IATA, and has consequently been prevented from operating **charter services**, with the exception of bona fide charters. SAS is, however, indirectly engaged in non-scheduled traffic through a sister-Consortium (not a daughter-company), named Sca-

nair. This is another Scandinavian multinational enterprise, which was established by the parent companies of SAS in the same manner as the SAS Consortium, using the same formula 2:2:3 for participation in ownership, liabilities, profits and losses, etc. This enterprise has very small technical and operational resources of its own, and is more like a tour operator. It has a certificate of competency, but this is valid only as long as Scanair employs aircraft and crews approved for use by SAS.

The Scandinavian countries have fully liberalized European/Mediterranean charter traffic within the framework of approved charter concepts, and each country is free to certify carriers other than the parent companies of SAS to operate non-scheduled air services. There exist a number of charter companies in Scandinavia, and many foreign charter companies operate into the area.

The Scandinavian air transport policy does not differ very much from that of other European countries of similar size. The overall effect on the air transport system has been that, in the 1970's, around 50 % of the international passenger traffic is carried by scheduled services, and 50 % by charter services. 50-60 % of the scheduled air transport is carried by SAS, and 40-50 % by foreign airlines.

B. THE GUARANTY SCHEME

The restrictions on entry into the market for scheduled services of new Scandinavian operators are a logical consequence of the policy of concentrating the Scandinavian scheduled operations to SAS. The formation of a multinational airline at that time was still regarded as a rather risky undertaking, in view of the many economic and political uncertainties which existed.

It was therefore necessary that the government also provided some financial support to the SAS operations during a transitional period. The support was given in the form of a guaranty to the parent companies. It was regarded neither as a loan nor as a subsidy. The purpose of the guaranty was to bridge over lacking liquidity due to losses which might occur during the first five-year period. Any amount which was used by the parent companies to cover losses should be repaid from future profits, together with a charge of 1 % per annum on amounts outstanding. The charge was small, but indicated the commercial character of the guaranty. The amount of the guaranty corresponded to around 3.5 % of the expected turnover during the period.

The guaranty has been renewed every five years, and the amounts have increased in relation to the turnover of the Consortium. The guaranty now plays a somewhat different role as a certain limited security for SAS bank loans in the United States, which have been granted on condition that SAS maintains certain ratios between long-term loans and equity capital, and between short-term liabilities and current assets.

The guaranty has been used once in the early 1960's, and the amount has been repaid.

IX. CONCLUDING REMARKS

I have tried to describe some of the problems, which have appeared in the course of the formation and the operation of a multinational airline, taking the example of SAS. These problems have been step-by-step successfully solved in Scandinavia. This is, to a large extent, due to the favorable environment for cooperation between the Scandinavian countries. The three peoples are very close to each other in languages, culture, religion, and politics. The countries are industrialized, with a high proportion of foreign trade, and a high potential for generating air traffic. The formation of a multinational airline was the most favorable solution for the Scandinavian countries, and a return to a system with separate national airlines is almost unthinkable.

The possibilities of establishing new multinational airlines in Europe and elsewhere in the world are probably also very much dependent on the existence of a sufficiently favorable environment.

The value of cooperation in the form of a multinational airline, as compared with pool agreements and other looser cooperative arrangements between national airlines lies, in my view, primarily in the obligation of the management to work only for the joint account of the parties in the multinational airline.

The formation of a multinational airline is connected with considerable risks during the first years of operation. It is important that sufficient capital is provided from reliable sources. It is also desirable that the airline can get some kind of support from the governments, so that the airline can overcome unforeseen difficulties in this period.

I think that the multinational alternative is interesting, in particular for smaller countries, which, in this way, can benefit from economies of scale.

It may be rather difficult to establish a multinational airline straight away, and I think it is advisable to approach such a project by starting practical cooperation in the form of conventional pool arrangements, which can later on be further developed in the light of experience.

The Chicago Convention is permissive, and completely neutral on the subject of joint operating organizations and pooled services. The Convention authorizes the Council to suggest to states that they form joint organizations to operate air services on any routes or in any region (Article 78). The ICAO Councils has so far not made any such suggestion.

Basically, the potential partners in future multinational airlines - states and airlines - must initiate talks and negotiations about such cooperation themselves.

UNITY & DIVERSITY: THE PATTERN AND DEVELOPMENT OF AIR SERVICES IN THE SOUTH PACIFIC

BY JOHN KING

I. INTRODUCTION THE SOUTH PACIFIC

WHERE IS IT?

This paper is prepared on the basis that the South Pacific is as unknown as it is romantically envisaged, and consequently, though I will not speak to all of it, I have included a gazetteer of the major nations involved in air transportation.

WHAT IS IT?

Briefly, and inadequately, on a nation by nation basis, I have tried to cover some of the cultural environment and political systems. It is necessary to have at least some understanding in this area in order to cope with the history and mode of operation of the inter-island nation air transportation system.

There was a movement towards unity in the development of air services. At one time there was a chance that, as we shall see, Air Pacific, based in Fiji could have become the carrier of and for the South Pacific island nations... the movement faltered and diversity became the mode - now, there is again a chance that there can be a type of unity: I shall describe towards the end of this talk how my own company - Ansett - is endeavouring to introduce a unity of purpose and hopefully profits into South Pacific inter-island air transport.

The expression "unity and diversity" will be applied only loosely: but the area has a unity: it is a unity of smallness, of relative impoverishment - the harsh reality is that the independent nations have pathetically weak economies while the neo-colonial have stronger economies, and in one case, strong primary and tertiary sectors. Secondary industry is a total absence.

The diversity lies in political systems and in ethnic make-ups... Polynesian, Micronesian and Melanesian are racially and culturally different. The Polynesians, generally, are somewhat elitist, the Melanesians more modest.

The South Pacific is for the purpose of this presentation, defined as being south of the equator, west of South Africa and east of Australia. Kiribati is

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included, though it spans the equator, as is Nauru, though it describes its airline as being the airline of the Central Pacific. There are good reasons, as we shall see, why these two possible anomalies are taken into the arca.

The island nations consist of:

Independent states

2 French colonies

1 American colony

& 2 independent states in "free association" with New Zealand

II. THE ISLAND NATIONS

AMERICAN SAMOA

American Samoa consists of the six islands of the Samoan group east of the 171st meridian. It is an unincorporated territory of the United States of America, and, in 1978 had a population of 31,000 and a land area of 196 sq. km.

The main island is Tutuila (135 sq. km) which is about 3700 km south-west of Honolulu and 2575 km north-east of New Zealand.

In 1900, just after the US took over the territory of American Samoa, it was inhabited by 5700 Samoans, a Polynesian people. It took 70-odd years for the population to rise to the September 1974 census figure of 29,191, of whom the great majority were Samoan or part-Samoan.

The American Samoans are nationals of the U.S. and have free entry to the U.S. After meeting the necessary requirements, they may become citizens of the U.S.

The Samoan way of life is structured around a social system of clans, or extended family ("aiga") and their chiefs ("matai"). A village may have any number of chiefs, depending on the number of related families in the village. The "matai" is chosen by the family members and is responsible for the well-being of the communal economy which still prevails in village life.

The whole group extends 500 km from Swain's in the north to Rose Island in the south.

COOK ISLANDS

Located between 156 and 167 deg. W. longitude, and between 8 and 23 deg. S. latitude, the 15 islands of the Cooks are an internally self-governing state in free association with New Zealand. The population of the group in December 1976 was 18,128.

The main island of Rarotonga (67 sq. km) which is 3,000 km north-east of Auckland. The administrative centre on that island, is Avarua. Local time is 10 hrs behind GMT but "daylight saving" from January 1 to March 31, puts the Cook Islands 9 hrs behind GMT during that period.

The Cook Island Maori is Polynesian and several tribes trace their ancestry back to Samoa and Raiatea (French Polynesia). By tradition there are

also connections between the Ratotongans and the New Zealand Maori. The Cook Islands census of December 1, 1976 recorded a total population of 18,128 compared with 21,323 in 1971 and 19,247 in 1966.

At the end of 1979 the population was estimated to be 19,209. About half are under 15 years of age.

Cook Islanders are British subjects and citizens of New Zealand through the New Zealand Citizenship Act 1943 and by the Constitution adopted in 1965.

Generally the islanders continue to live in extended families, with a tribal leader to whom they owe allegiance. In some cases, e.g., in Rarotonga, land is held under registered title and worked by families. In other areas, e.g., Pukapuka, the traditional communal pattern of livelihood is followed.

The islands extend 1,400 km from Penrhyn, situated 9 deg. south of the equator to Mangaia, which is just north of the Tropic of Capricorn. The largest island, Rarotonga, is about 10 km wide, and some 32 km in circumference.

NEW CALEDONIA

New Caledonia consists of one large and one small island, and the Loyalty and Huon groups. The largest island has an area of 16,118 sq. km. and is one of the largest in the Pacific. The group is located between 19 and 23 deg. S. latitude and 163 deg. E. longitude. The main island, New Caledonia and the other groups form a French overseas territory.

The capital is Houmea, on New Caledonia, and is about 1,850 km north-east of Sydney. Local time is 11 hours ahead of GMT. In January 1979, the estimated population of the group was 137,000.

The indigenous people of New Caledonia are Melanesians. Before European annexation they are estimated to have numbered between 50,000 and 70,000. They lived a fairly typical Melanesian existence of subsistence agriculture. The political unit was the village or a loosely knit group of villages: a multiplicity of dialects was spoken and intertribal wars and family feuds were common. Some groups practised cannibalism.

Divisions of the population now may be seen from the following census results:

	April 1976
Melanesians	55,598
Europeans	50,757
Wallisians	9,571
Tahitians	6,301
Others	10,916

New Caledonia is an Overseas Territory of France, with executive control vested in the High Commissioner, who is a public servant appointed by the Government in Paris.

SOLOMON ISLANDS

The Solomon Islands, which became an independent member of the British Commonwealth on July 7, 1978, consist of a double chain of six large islands and many smaller ones including those of the Lord Howe, Santa Cruz, Duff and Reef groups. The total land area is 29,785 sq. km and the islands are located between 5 and 12 deg. S. latitude and 155 and 170 deg. E. longitude.

The major island is Guadalcanal with the capital Honiara (population 18,346) which is about 25,785 km north-east of Sydney and 1,600 km east of Port Moresby.

The estimated population in 1979 was 217,000 and the projection is for a population of 268,500 in 1985.

(The group has a total land Area of 29,785 sq. km).

The Solomon Islands extend over some 600,000 sq. km of sea, lying as a scattered archipelago in a south-easterly direction from off Bougainville to Santa Cruz Is. and is stretched over 1,400 km from one extremity to the other.

TONGA

The independent kingdom of Tonga, a member of the British Commonwealth, consists of three main island groups and many smaller islands. They are located between 15 and 23 deg. 30 min. S. latitude and 173 and 177 deg. W. longitude. Total area is 696,71 sq. km. There are 169 islands of which 36 are inhabited.

The capital is Nuku'alofa, on Tongatapu, which is about 1,770 km north-east of Auckland. Local time is 13 hours ahead of GMT.

The population of the capital, Nuku'alofa, was 18,396.

The Tongans are Polynesian but as citizens of an independent kingdom, have their own nationality.

The islanders speak their own dialect of Polynesian and, usually, English.

Although Tonga is a constitutional monarchy on the British model, the King in fact exercises wide influence.

The land area of 747 sq. km is in an ocean area of 259,000 sq. km. There are about 150 islands, but only 45 are permanently inhabited. The largest island is Tongatapu, 260 sq. km in the south of the group.

From north to south, the kingdom extends 560 km from Niuatoputapu to 'Eua.

FRENCH POLYNESIA

French Polynesia, an overseas territory of France, consists of five main groups containing some 130 islands. They have a land area of 4,000 sq. km in an area of four million square kilometers of ocean. They extend from 7 to 29 deg. S. latitude and from 131 to 156 deg. W. longitude. Papeete, the capital, is on the island of Tahiti which is about 5,390 km east of Sydney and

about 6,520 km south-west of California. Local time is 10 hours behind GMT.

At the last official census in April 1977, the total population of French Polynesia numbered 137,382. Tahiti had 95,604 inhabitants of whom 22,967 were in Papeete. Polynesians represent 75 per cent of the population, Europeans 9 per cent, half-European 7 per cent, Chinese 7 per cent, half-Chinese 1 per cent and others 1 per cent. The continuing growth of the population of Tahiti, especially around Papeete, contributes to the Windward Islands' total of 101,392 followed by the Leeward Islands (16,311), the Marquesas (5,419), Austral Island (5,298) and the Tuamotu-Gambier group (9,052).

As an overseas territory of the French Republic, French Polynesia elects the thirty members of its Territorial Assembly by popular vote, every five years. The Assembly members in turn elect the seven members of the Government Council (Conseil de Gouvernement) which is presided over by the High Commissioner who is a public servant appointed by the French Government in Paris. He is the chief executive of the territory, in charge of the public service and holding considerable power. French Polynesia is also represented in Paris by a Senator and since March 1978, two deputies who are all elected.

Islands at the opposite extremities of the territory are as far as 2,000 km apart, while the capital Papeete, on the island of Tahiti, is 1,500 km from various outer islands.

Most of the archipelagoes are composed of now-extinct volcanoes, with high mountainous formations and deep well-watered valleys. Such islands are generally surrounded by a coral reef forming sheltered lagoons. Islands like the Tuamotus, however, are small, flat coral atolls.

KIRIBATI

This group of 33 islands, lying astride of the equator over an area of five million sq. km of ocean, was named the Gilbert Islands in the 1820s and was administered by Britain from 1892 until July 12, 1979, when it became an independent republic with the name of Kiribati (pronounced Kiribas, the nearest pronunciation in the indigenous tongue to the word "gilberts").

Until October 1, 1975, the Gilbert Islands were joined with the Ellice Islands in a single British colony. On that date, the Polynesian inhabitants of the Ellice Islands seceded to form Tuvalu. The Gilbert Islanders (1 Kiribati) are Micronesians.

The last census was held in December, 1978, at which time the total population was provisionally estimated at 56,452. An ethnic breakdown was not available but the 1973 count gave the total for the Gilbert and Ellice Islands as 57,813, of which 47,711 were resident in the Gilbert Islands, consisting of 43,996 Micronesians, 1,215 Polynesians and 2,125 other Pacific Islanders including people of Micronesian-Polynesian descent.

The land area of Kiribati is 822.76 sq. km with sea limits enclosing 5,000,000 sq. km, although with Kiribati's declaration of a 200-mile econo-

mic and fisheries zone the area will be much greater. The country consists of the Gilberts Group, 278.35 sq. km; the Line Group, 515.71 sq. km, and the Phoenix Group 28.70 sq. km.

Christmas Island: locally Kiritimati (Kirisimas) is the largest island with an area of 363.65 sq. km. Kiribati extends about 3,800 km from Banaba in the west to Christmas Island in the East, and 2,050 km from Washington Island in the north to Flint Island in the south. The islands are all low-lying atolls except for Banaba which is 87 m above sea level.

With the atoll terrain, the coral rock is covered with only about 2.5 m of hard sand and scanty soil. There are no rivers but most islands enclose a lagoon.

NAURU

Nauru, a single raised atoll of 22 sq. km with a circumference of 19 km, is an independent republic and an associate member of the British Commonwealth. It is located about 42 km south of the equator at 166 deg. 56 min. E. longitude. It is about 4,000 km north of Sydney and 4,160 km west of Honolulu. Local time is 12 hours ahead of GMT.

The population in 1979 was estimated at 7,700. The administrative centre is in the Yaren district.

Of a total estimated population on Nauru of 7,700 people in March 1979, 4,600 were Nauruan. The others include 450 European employed in the Government or with the Nauruan Phosphate Corporation and 1,900 Gilbertese, Tuvaluans and other Pacific islanders, 650 Chinese working for the NPC together with their families and 200 Filipinos.

The ground rises from a sandy beach to form a fairly fertile belt, 150 to 300 m. wide, encircling the island. Further inland the coral cliffs rise to a central plateau about 30 m above sea level. The plateau is composed largely of phosphate-bearing rock which covers about three-fifths of the entire area. Highest point is 70 m.

Because of the generally poor, highly porous soil and irregular rainfall, cultivation is restricted to the coastal belt, where coconut palms and pandanus grow, and to the fringe of the land surrounding the shall Buada Lagoon, where bananas, pineapples and some vegetables are grown. One of the owners of the lagoon has established a fish farm in his section of the lagoon.

With the exception of small allotments held by the Government, the NPC and missions, the island is owned by individual Naurans.

Nauru is particularly interesting country in aviation terms, because it has an airline consisting of 3 727s and 3 737s or 1 for every 900 Nauruans - by the same standards, the US would have over 2 million jet aircraft!

WESTERN SAMOA

Western Samoa consists of two large islands and several small ones with an area exceeding 2,900 sq. km. They are located between 13 and 15 deg. S.

latitude and 168 and 173 deg. W. longitude. Western Samoa is an independent state and a member of the British Commonwealth. The capital is Apia on Upolu where local time is 11 hours behind GMT. The islands are about 3,700 km south-west of Hawaii and 2,900 km north-east of Auckland.

Western Samoa gained its independence from New Zealand in 1962, being the first South Pacific island nation to become independent, to be a member of the United Nations and to be considered a Third World non-aligned state. An estimated 151,000 people live in Western Samoa, the overwhelming percentage of them being pure-blood Samoans.

The Samoan population in New Zealand was estimated in 1979 to be about 30,000 about half being New Zealand born.

The "Faa Samoa" or traditional Samoan way remains the central force in Samoan life. The "aiga" or extended family is the critical unit in the fa'a Samoa. The head of the aiga, which may include several Western-style families, is the "matai". The "matai" has "pule" or authority, over the traditional lands associated with that aiga.

The clan, whose head is called the "matai", owns all the lands, and parcels it out to members as necessity arises. All produce of the soil is theoretically the property of the "matai" in trust for the community, but in modern days it is becoming increasingly common to allow the actual cultivator to retain for his own use the fruits of his labour.

Each "matai" has his place in the village council, or "fono", the governing authority in each "nu'u" or parish. The village council has wider powers than Western style local government.

There are two main forms of "matai" title. One is the "ali'i" or high chief title, the other is the "tulafale" or orator title. Some titles are more important than others, and each title ranking and history is contained in the "fa'aiupega" which is the spoken history of the titles in that district, and is repeated at significant occasions.

The "matai" are held in high respect in Samoa. A "matai" is addressed by his title name, and only if a person is on close and familiar terms can a person use the Christian name of "matai".

For example, one of Western Samoa's previous Prime Minister's in 1982 was known as Tupuola Efi. The first is his "matai" title, the second is his Christian name. Mr. is not necessary in Samoa. There are Samoan honorifics and these are Afioga, Susuga, Tofa and Masiofa. Each applies for certain titles, for example Susuga Malietoa Tanumafili (the Head of State) or Faumuina Fiame Mata'afa Mulinu'u (late Prime Minister). Masoifo is reserved for the wives of tama aiga.

VANUATU

Vanuatu, known until attainment of independence on July 30, 1930, as the New Hebrides, is a double chain of 80 islands located between 12 and 21 deg. S. latitude and 166 and 171 E. longitude. It was jointly administered by France and Britain as a condominium from 1906 until independence. Its

new name Vanuatu, meaning The Land, was given to the group by the Vanuaaku (formerly the New Hebrides National Party) which became the government on independence. The new, independent state has a president and is a full member of the Commonwealth of Nations and of the French cultural organisation, the Association de Cooperation Culturelle et Technique.

The main island, with the administrative centre Port-Vila, is about 2,250 km north-east of Sydney, Australia.

Estimated population in January 1979, was 112,596. The totals include "locals" and expatriates.

Local time is 11 hours ahead of GMT.

While half the islands are simply islets and rocky volcanic outcrops, the other half are also punctuated by numerous peaks in a terrain dominated by mountains and plateaux with only limited coastal plains.

III. THE AIR CARRIERS

Aviation came to the South Pacific in its infancy, Charles Kingsford-Smith and Charles Ulm flew the "Southern Cross" - Fokker V11-3m, from Oakland, California to Brisbane via Honolulu and Fiji in May, 1932.

The developments of intra-regional airlines, however, really took effect in the 1950s. In 1951 Harold Gatty, a distinguished aviator, set up Fiji Airways with a deHavilland Dragon Rapide.

The initial service was purely domestic and operated between Suva and the Capital, and Nadi on the western edge of the main island Viti Levu. (It is interesting to note that 31 years later, the principal means of commuting between the two points is still by air, the road being perilous and unsealed for portion of its length).

Fiji Airways (the predecessor of Air Pacific) continued as the personal property of Harold Gatty until 1958 when Qantas purchased the airline from Mrs. Gatty, Gatty having died some months earlier. Less than two years later BOAC (now British Airways) and TEAL (Tasman Empire Airways Limited) later to become Air New Zealand became equal partners with Qantas, though that carrier retained the management responsibility. It was later that year (1960) that the first international flights (on a charter) were operated to Tonga and Western Samoa. Just a few weeks later in January 1961 the first schedule air service between Suva and Tonga was started and Fiji Airways became a regional international carrier. The next 5 years saw the development of regional routes using the Havilland Heron and DC-3 aircraft.

At the same time, elsewhere in the South Pacific, there was a significant development that was to have far-reaching impacts. In 1962, British Samoa became independent: the Independent State of Western Samoa was the first of the Island colonies to become self-governing and its airline, established in 1959, by a small group of businessmen and planters, flew only to Pago Pago in American Samoa.

By 1963, the network was extended to Aitutaki and Rarotonga in the Cook Islands. These islands were still, as I mentioned earlier, administered for Britain by New Zealand. The carrier grew and its network expanded but the financial demands of modern aviation were beyond the resources of small businessmen in a resource-poor island nation and it finally became a public company with capital subscribed by the Government of Western Samoa, Niue, by Air Pacific (as Fiji Airways was to become) and by Air New Zealand.

We now have 2 airlines each with trans-national shareholding and yet, they were not able to become the one regional airline.

CHART SHOWING SHAREHOLDING OF EACH

	Fiji Airways Later to be Air Pacific	Polynesian Airways
West Samoa Government	★	★
Solomons	★	
Niue		★
Gilbert & Ellice		★
Air Pacific	★	★
Teal	★	★
Nauru	★	
Fiji Government	★	
Qantas	★	
BOAC	★	

It is most often a mistake to attribute one single cause to any event: but let me take that risk and say in the face of an **ethnographic diversity**, the unity of region and shareholding was insufficiently strong for Polynesian Airlines and Fiji Airways (or Air Pacific as it was to become) to be united.

Each carrier grew in its own way... Polynesian initially chartered a 737 from Air New Zealand and then progressed it from there to a lease. In April 1981 the carrier took delivery of its own 737 and graciously named the aircraft SINA, after the wife of the then Chairman, Ted Annandale (aircraft are known by their “given” name and not by type designation i.e: the Polynesian 748 was always referred to as PIL1 not as the 748). The aircraft was financed by Exim Bank and a New York based international bank and sold by Boeing to the Republic of Nauru Finance Corporation and in an interesting inter-island deal, Polynesian Airlines took a lease with an option to purchase. By September 1981 Polynesian had insufficient funds to meet the 1st lease payment and interest began to accrue. It was not long after that discussions at the initiative of the Government of Western Samoa, took place between Samoa and Ansett, and in island time, a proposition was put together for the reconstruction of Polynesian Airlines, whereby Ansett is a

minority partner with the Government of Western Samoa in the operation of a holding company which exercised the traffic rights **but** which has contracted the operation and the economic risk to a company wholly owned by the principal shareholders of Ansett. At the initiative of Ansett the aircraft was purchased by exercise of the option and tender of the amount believed to be required by Polynesian Airlines Limited and immediately resold to a company again owned by the principal shareholders of Ansett.

At this point inter-island co-operation is threatened as Nauru is trying to challenge in the Samoan courts the exercise of the option.

Air Pacific in the seventies accepted its first jet, a BAC1-11. The Government of Fiji took over the foreign carrier and Nauruan shareholders in August 1974.

The BAC1-11 fleet grew to 3 aircraft and Trislanders were purchased and the Bandeirantes for domestic services and the HS-48s were sold.

By the 1980s Air Pacific had reached a stage of great unprofitability: the initial lease and operation of an Air New Zealand 737 and the subsequent purchase of its own 737 was too late to stem the enormous losses which were developing from the uneconomic operation of BAC1-11s and the unpopularity of the Bandeirante: it is certainly **no** substitute, in the passengers' eye for a 748.

In its last two financial years Air Pacific has reported losses of between \$5 and \$6 million dollars. The airline is to sell its Bandeirante and BAC1-11s and has negotiated with Ansett and two other parties for the lease of a 737 however, continued unprofitability and the inability to sell the BAC1-11s has meant a Government direction to cease negotiations for the lease of 737 capacity. The part charter of Qantas capacity on 747 flights ex Sydney and Melbourne has been an unusual **but** very successful venture for Air Pacific.

Elsewhere in the South Pacific, the major French colonies were too developing their own domestic air services.

In New Caledonia, in 1955, a domestic carrier was created. Transpac, as it was then known carried 6,000 pax in its full year of service but subsequently (1967) changed its name to Air Caledonie. This carrier has now grown to the point where it operates 6 Twin Otters, has ordered the new, as yet to fly, Franco-Italian aircraft the ATR-42. The airline is 70 % owned by the local territorial government of New Caledonia and 30 % owned by various private interests including UTA which controls about 11 %.

Aspirations for independence for the nation are to lead Air Caledonie into an intra-regional role - ill equipped though it be.

Air Caledonie has been chosen as the basis of the proposed new regional carrier which the French Government is likely to agree to as part of the devolution of power.

Ansett has been invited, as has UTA, to submit proposals for the provision of short and medium range jet aircraft, reservations systems and a wide range of commercial, financial and technical services.

Elsewhere in francophone islands, Air Tahiti, subsequently to be Air Polynesia, had become established in 1950. It initially operated only flying

boats from Papeete, however, in 1958, TAI (the predecessor of UTA) acquired a substantial interest and Air Tahiti was boosted by the termination of the Paris - Papeete TAI service at Bora-Bora due to the total absence of an airfield at Papeete. Adventure was only 23 years back - flying boats were supreme. Papeete airport brought more tourists (and more air carriers) and business boomed. The French Government Policy of airfield construction meant that by 1977 Air Polynesie had 20 different island destinations and now has 22, including the Marquesas... The airline is the largest non-Government employer in the territory.

The Noumea-Papeete route was flown by UTA (TAI as it was earlier known) and UTA plays an unusual role in the South Pacific in that it has forsworn its policy and advertising claims of ultra-long haul services and operated F.27s over the Noumea-Port Vila (Vanuatu) route as well as a 737 chartered on a limited hours basis from Air Nauru. UTA has recently however, advised the Government of Vanuatu with whom it had a 5 year contract for exclusive provision of services between Port Vila and Noumea, that it would withdraw the services effective December 1983. It is understood that the French Government has been advised that the withdrawal also extends to the loss-making cabotage routes between Wallis, Futuna and Noumea. The predominance of its operation is by all-economy DC-10 which operates between ports of Sydney, Auckland, Los Angeles and Tokyo via Noumea and Papeete. Once a week there is a 747 flight which originates in Paris and terminates in Los Angeles and flies via Middle East, Far East, Australia and the French colonies.

Further north in the South Pacific is Air Nauru. I have already described the geography-demography of Nauru **but** its route map will startle you - its history is amazing - in 1979 the operation was conducted from Nauru to Brisbane with a chartered Falcon Fanjet, in 1972 when Nauru purchased an F.28 it owned the first **island-owned** jet in the South Pacific: it now owns 3 B.727s and 2 737s and not long after the acquisition of its 1st jet, Air Nauru dealt a considerable blow to the cause of unity in South Pacific aviation by withdrawing from the board of the Air Pacific consortium, the other partners were Fiji, Tonga and Western Samoa. Air Nauru embarked upon a programme of relentless expansion in defiance of economic reality and it now operates many sectors without traffic rights - such as Taipei to Singapore and carries little traffic over many of its routes. Typical boardings at Apia are 5 pax and with the good humour that exists in the South Pacific, airport staff applauded when 20 pax joined the flight one day.

The airline reputedly lost \$15,000,000 (US) in 1981 which is \$2,000 per resident of the island - an enormous price!

I have also included the marginal nation of Kiribati to even more dramatically express the problems of air transport in the South Pacific. This country is unique: it is astride both the equator and the international date line, and so at the same time it is today and tomorrow, winter and summer. Air Tungaru was established in 1977 to provide intra-island services, but by 1979 had entered into a charter arrangement with Air Nauru for the provi-

sion of a Tarawa-Christmas Island-Honolulu route, just a few months before the Gilbert Islands ended their colonial dependency and became the republic of Kiribati.

The Honolulu service was changed to a wet lease 12 months later and operated under Air Tungaru's name: at the same time plans were being implemented to commence a Heron service to Funafuti in the Republic of Tuvalu (roughly due south) and on to Suva in Fiji, but the problems really started when the airline bought its own 727-1,000c, painted it in the most exciting colour scheme, opened an additional route from Honolulu to Papeete via Christmas Island and almost at once, having identified an unserved route, found it had a competitor, in the form of South Pacific Island Airways (SPIA) operating superior equipment (707) and on a non-stop basis.

The situation is now, that this poverty stricken nation has an aircraft which flies only 14 hours per week with a route load factor of about 40% and has to maintain a crew base and office facilities in Honolulu. The aircraft, whilst in good condition, is probably only saleable at a substantial loss, due to the surplus of 727s, especially the 100 series. Since this material was first prepared, the carrier has been in discussion with Air Nauru and has withdrawn the Kiribas - Christmas service.

The next two carriers I wish to survey are SPIA, an American-based carrier operating in both the mid and south Pacific and Air New Zealand, formerly known as TEAL or Tasman Empire Airways.

SPIA, now controlled from Honolulu, was initially established in American Samoa in 1971 as an air taxi operator, but operations did not commence until 1973. Between 1973 and 1981 SPIA built up a pattern of commuter type services between Pago and Apia, Niua, Tonga and within Tonga. By March 1981, with CAB approval, a 707 was purchased and service inaugurated between Honolulu and Pago and 3 months later, between Papeete and Honolulu. The airline made frequent announcements of service to Tonga, Nadi and Rarotonga and has commenced a Tonga route as an extension of its Honolulu-Pago service. SPIA and Polynesian do not interline, though since the recent Ansett involvement in Polynesian, approaches have been made, which, so far, have not been responded to.

Air New Zealand is in a sense, 3 airlines - it is a long-haul carrier to, for example, Los Angeles and London, using 747 equipment. It is a medium haul carrier using 747 trans-tasman to Polynesia and 737 elsewhere in the Pacific and a domestic carrier using 737s and F.27s. It is in financial difficulties, it has lost approximately \$67 million in the last financial year. It has however, completely disposed of its DC10-30 fleet, in an expeditious manner. It is only in its intra-South Pacific role that we are interested in this paper. It flies 737s to Noumea, Tonga, Apia and Rarotonga, and Nadi, and 747s as part of through services, to Nadi and Papeete. It is believed that in the interests of protecting its contracted monopoly on air services between Auckland and the Cook Islands it will upgrade the airstrip to 747 standard. The airline is seemingly concerned that its long history in the development

of intra-island air services using flying boats, Electra's, DC-8s and other aircraft may not be one of endless continuity.

The South Pacific's newest airline is Air Vanuatu, an unusual carrier, in that, though it is formally a partnership between the Government of Vanuatu and Ansett, it in fact, possesses no aircraft, no facilities and its only staff are on loan from Ansett... some, like myself, part time and others such as ticket office staff and the sales manager are full-time. All aircraft, flight and ground services are provided by Ansett... the aircraft currently being used for the 3 times a weekend Sydney - Port Vila service is SINA, the Polynesian Airlines aircraft and already we have an example of what Ansett aims to bring to the South Pacific, but I will return to that matter in a moment.

In terms of passenger numbers, and load factor, Air Vanuatu has been very successful and it has certainly brought about a resurgence of the tourist and thus the whole economy of Vanuatu. Many new hotel ventures are being announced, yet for the year prior to Air Vanuatu's announcement in September 1981, the two major hotels had average occupancy rates of 30 %.

The change in tourist numbers has been dramatic:

Visitor Arrivals

Jan-Aug 1981

9667

Jan-Aug 1982

16,822

Up 75 %

IV. THE FUTURE AND THE ROLE OF ANSETT

WHAT OF THE FUTURE?

As the major population and business centres will continue to lure most of the air traffic and the carriers continue to emphasise the economic advantages of their technology that gives longer range, intra-regional traffic will continue to be served by the locally based carriers: with only minor incursions by the major long haul airlines.

I should like, briefly to try to cover some of the considerations involved in regional air transportation. Dr. Wassenbergh, of KLM, delivered an extremely interesting paper to Lloyds 1982 New York Civil Aviation Conference. I am sure that many of you have heard or read his paper and I do not want to attempt to summarise it but I do want to observe that the notion of international scheduled aviation being a trade in services, is a very important analytic tool. The precursory development of the notion of 2 complementary legal regimes vis

1. the regulation of the operation of national air space; and,
2. the direct regulation of the operation of the air traffic market of a state by a foreign state

OR, in computer language, the regulation of hardware (routes, capacity and rights) and the regulation of software (market access), leads to the conclusion that international air transport is part of the state's foreign trade

and as such requires an economic approach rather than a legal approach, however, protectionism has prevented the development of global multi-lateralism and regional multi-lateralism seems no easier, either in the South Pacific or elsewhere.

Dr. Wassenbergh rightly observes that bi-lateral agreement on reciprocity is a dead-end as a means to arrive at a fair trade in airline services. It is also a pointlessly ineffective way to arrive at a comprehensive inter-island transportation system within the South Pacific. I have given you a view of the geography and demography of the South Pacific: there is no way that bi-lateralism is relevant where the home markets are so small, so poor and so spread. The result of the narrow, protectionist and legalistic view of strict insistence upon bi-lateral agreements is the failure of air carriers in such an environment.

Look at the record:

Air Tugaru	-	Losses \$1 million +
Air Nauru	-	Losses \$15 million
Air Pacific	-	Losses \$6 million
Polynesian Airlines	-	Losses & Failed
Air New Zealand	-	Losses \$67 million

and I assure you that our own Air Vanuatu, notwithstanding 85 % per load factors in peak season and low cost facilities at each end is not making profits.

The markets for these nations are only to a limited and non-viable extent their home markets... of course, there is an ethnic Visiting Friends and Relatives (VFR) traffic and the extended family concept so prevalent, especially among the Polynesian people **leads** to an amount of traffic which is beyond the true economic ability of the market, viewed in western terms, but is a result of an overwhelming cultural environment. The true markets are the major industrialised nations of the Pacific rim - the U.S., Canada, Australia, New Zealand and Japan. These are the suppliers of goods and services **BUT** they are also the suppliers of the tourism market of the island nations. The quality of the South Pacific is not in international class hotels with swim-up bars...! (guess they can be found anywhere) but rather in the peace and calm of an isolated beach, the generous offer to stay in the house of a Samoan when your car has broken down and just as you finish changing the wheel a fresh coconut arrives: the milk cool and refreshing in a way that no machine-generated product of a multi-national can ever be... I, find still in the South Pacific a romance that is hard to find in the stimulating history of Europe, or, the grandeur of parts of Central Australia or the Grand Canyon. There isn't the mystery of Mach Piccu **or** Angkor but there is an inevitable and endless romance. The romance won't die with controlled tourism: but unless the nations themselves could look upon aviation in a different way and those giant economic powers could be more thoughtful about the air services that reach to their borders, the prospects for change

are slim. Are 5th and 6th freedom services really harmful? Are the giants of aviation i.e., in Australia, say Qantas, to suffer because, say Air Tungaru, carried 5th freedom traffic into Sydney out to say the Solomons: 1 only and lonely mixed configuration 727-1000c... and of course, that anathema of the bi-lateralist, the carriage of 6th freedom rights, is it truly a burden to the operator of 747s when the 6th freedom traffic would be on a 737 with 4 intermediate stops? Indeed, the facts are, that the volume he can carry, at **any** price level are so inconsequential as to be irrelevant.

On the assumption, and regretfully, I believe it to be valid, that intra-regional multi-lateralism will not become a reality in time to save the island nation air carriers from even deeper plunges into the economic troughs so prevalent, what can we do...?

Governments have to handle the trade in services: but carriers can do some things between themselves. The first is to retain their freedom to negotiate and agree upon tariffs and the conditions attendant thereto. It seems to me extremely unfortunate that IATA has become so relatively ineffective in tariff setting and the Arab Air Carriers (AAC) Organization deserves to be congratulated in the apparent effectiveness of its tariff co-ordination activities - It is unfortunate that APSA, the Association of South Pacific Airlines has been unable to develop along anything approaching similar lines. It is characterised by the lack of a secretariat, infrequent meetings and those that are held are often too involved in matters which though relevant, are, in times when economic survival is the real issue, of secondary importance. IATA has its regional office in Singapore, some 9-10 hours flying from the most westerly island nations and the ICAO regional office is even further away in Bangkok. Though enthusiastic about development in the region the geographic isolation makes effective input unrealistic.

Tariff agreements can be a significant multi-lateral and economic factor in air transportation and can be one component of carrier induced multi-lateralism. Inter-lineable fares are merely the 1st step in using interlining as the tool towards multi-lateralism: there is a list of what ought to be technical functions but which seem to develop policy overtones such as ticket acceptance, luggage transfers, and monopoly or reciprocal handling, however, at this point, I wanted to point to the way that we hope to be able to develop **our** organisation in the South Pacific, in the interest of both the South Pacific island nations and in our own, and thus our shareholders', interests. We seek for profits and we believe that a multilateral approach can bring them more quickly and with more certainty for their continuity. Those same profits will ensure the development of air services and the maintenance of cultural ties and island economies through tourism.

But how? A few brief words for those unfamiliar with Ansett.

The airline divisions employ 9,000 staff and have 35 jets, with 4 767s on order, and carry 6,000,000 passengers within Australia. Our Australian significance is great and the size of our operation allows us to have impact upon the Australian market in a way that any small island based carrier could not.

Ansett operates Air Vanuatu and in July 1982 we took our first step towards carrier multi-lateralism when we brought Polynesian Airlines SINA on line to Port Vila in Vanuatu, having induced the Melanesian nation of Vanuatu and the Polynesian nation of Western Samoa to establish the legal framework.

The inducement was an extension of royalty payment and so we were able to establish a two carrier but one-plane service to Apia - from Sydney without any question of Australian traffic rights. The fledgling Air Vanuatu has been effectively denied traffic rights to New Zealand just as Polynesian Airlines has been denied additional frequencies to Auckland. It seems as if the embattled Air New Zealand, for so long a sixth freedom carrier out of Australia, has developed a protectionist approach to air transportation. However, there was one island nation of which I spoke which has no air carrier: the Kingdom of Tonga, and it is strategically placed. By the encouragement of Samoa and Vanuatu to come to arrangements with the Kingdom of Tonga it is possible to gain what New Zealand has denied, and to gain additional routes which are not operated as yet: Tonga - Cook Islands, Tonga - Vanuatu, Tonga - Nadi (as opposed to Suva) and by the same method as we adopted with Western Samoa to establish a Sydney - Tonga 1 plane service. We are currently in the process of seeking a number of 5th freedom rights from U.S. authorities out of Pago Pago in American Samoa. Washington DC is a long way from Samoa and we trust that the liberalism so evident in some areas of US air transportation can spill over into the South Pacific and so help in the development of multi-lateralism in that regional environment.

Another step we are taking is the development of a close, commercial relationship **but** without any suggestion of control or ownership of the Fiji based Air Pacific. We are at this moment exploring joint-services, pools, mutual handling, mutual GSAs, equipment lease and the flying of some of each other's routes.

All of these steps are infant ones: hesitant, through lack of experience but with the confidence of the beginner we believe we will lead the island nations of the South Pacific into economic reality in the air transport system.

Dr. Wassenbergh's theory of the pluri-lateral approach is a more elegant statement of what we are trying to do in the South Pacific - if we (Ansett) can link sufficient numbers of pluri-lateral air transport agreements together, then we will have achieved effective, but not total, de-facto multi-lateral systems.

To some participants in this conference, it would be proper to view our scheme as a kind of small laboratory experiment for a larger scale system - however I would hope that everybody will see it as an attempt to bring the tangible and intangible advantages of an economically rational air transportation system to the islands of the South Pacific.

UNITY AND DIVERSITY

One portion of the world, diverse in culture, of unity in relative economics, at one time, the possibility of a unified air transportation system, and now, another attempt to bring unity to that disastrous diversity: too many carriers, all losing money and seeking salvation through protectionism.

**SESSION IV:
“CURRENT REGIONAL ACTIVITIES”**

REGIONALISM WITHIN ICAO

BY DUANE W. FREER

The International Civil Aviation organization is very pleased to be participating in this conference on regionalism in air transport. On behalf of Dr. Assad Kotaite, the President of the ICAO Council and the Secretary General, Mr. Yves Lambert, I wish to thank Mr. Ali Ghandour, Chairman and President of Alia, the Royal Jordanian Airline for his kind and thoughtful invitation. I also wish to compliment all of the persons who have done such a magnificent job in making the arrangements for and setting up this conference. It has been superbly done. And, in that respect, I especially wish to mention Mr. Bob Simpson who has been most helpful to me in tailoring ICAO's presentation to the needs of this conference and its theme: Regionalism in Air Transport: Cooperation and Competition.

In my contribution to this conference I intend to concentrate on cooperation in the technical and operational areas of international civil aviation. To use an old nautical term, I intend to give a "wide berth" to the subject of competition.

In two years time, ICAO will be celebrating its fortieth birthday. If you will excuse my speaking metaphorically for a moment, ICAO's flight plan was filed in 1944 at the so-called Chicago conference. It became airborne in 1945 and it has been in continuous flight ever since. Judging from ICAO's current work programme and the general state of aviation today, its mission seems endless: its ETA well beyond the horizon.

Moreover, each three years at its assembly, its flight plan is amended and extended to additional destinations and to take account of "rough weather", new technologies, winds aloft and a host of other matters that may impinge on its flight progress. This year, in September, the twenty-fourth such meeting - the Triennial ICAO Assembly - will be in session in Montreal. I am sure many of you will be there.

In preparing for this conference, I took time to do some research in ICAO's library: to range back over the years and to refamiliarize myself with the basic principles, purposes and aims of ICAO as it has been seen over time by our many illustrious and far-sighted predecessors. It was both a rewarding and enlightening journey. When I finished, I found myself again filled with admiration - if not awe - for these great men who launched and guided ICAO through its early years. There are a few persons in this room who were there both in body and spirit during ICAO's first years. I know they would agree. I know that they cherish the experiences and memories they have of the organization's fledgling years and of its determination to make international air travel truly a safe and efficient mode of trans-

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port: to bring civil aviation to the far corners of the earth for all of mankind.

I would like to share with you a few historical notes I jotted down during my research. I believe that they have relevance to the theme of this conference.

It is commonly held that the initiative which spawned ICAO dates back only to 1944. It is thought by many people that this initiative came solely as an aftermath of World War II during which, under duress, giant technological strides had been taken in aviation. This, as the historical record clearly shows, is only part of the story. Initiatives for some degree of regional and global standardization and aviation unity across sovereign political boundaries were launched long before 1944.

In 1919 - twenty-six years before ICAO's birth - there was drafted the so-called "Paris Convention", which led to the birth of the "International Commission for Air Navigation" (ICAN). This institution started out primarily as a European regional initiative but, ultimately, thirty-nine states - a number of them outside of Europe - became members. And it existed until 1945 when it was "merged" into ICAO. Some of you may even remember that the first and only secretary general of ICAN became also, in 1944, PICA0's first, interim secretary general. He ultimately became ICAO's first secretary general, a position which he held for six years.

A few years after ICAN was formed at Paris, another regional initiative was taken in the Americas. It was the "Pan American Convention of Air Navigation" which was written in 1928 at Havana. It was more narrowly a regional institution; was ratified by ten states; and was also subsumed by PICA0 in 1945.

I mention these two most commonly known regional predecessors of ICAO only to jog our memories as we consider the subject of regionalism in 1983 in Amman. These historical facts illustrate better than words alone can tell that regionalism in air transport is not only an old and enduring concept, but also a cherished aspiration of the entire global aviation community. It also sheds light on the meaning of a statement in the November-December 1945 PICA0 journal where it says, "... probably the most important decision of the second session of the council was the adoption of a plan for regional organizations... the first step of which was to be the calling of regional conferences in various parts of the world."

Obviously, the council's first president, Dr. Edward Warner, who personally approved the content of each journal in those early days, felt strongly that regionalism was an aspect of aviation development that was crucial to the continuing viability of the global undertaking laid down at Chicago only a year earlier. And so it was: less than a year after PICA0 became an official international body, in June of 1945, the first three regional meetings - at Dublin, Paris and Washington, D.C. - already had taken place. A few months later, in October 1946, the first Middle East meeting took place in Cairo. Such was ICAO's concern for fostering regionalism that within its first six years it already had conducted sixteen regional air navigation mee-

tings in twelve countries in six continents. Dr. Warner characterized them as being "... among our (PICAO's) most productive innovations...".

In those first days of PICAO, the world's geography was sub-divided into ten separate ICAO regions which, within a few years, were being served by five ICAO regional offices. Over the years there have been an number of minor adjustments, of course, but it is truly remarkable to see how regionalism within ICAO has not only endured but grown as both a concept and a practice. Without regionalism in its various forms, ICAO never could have been nearly so effective. Simply stated, global aviation cannot be designed, monitored, regulated and guided from a single location - be it Montreal or any other city. Nor can any single body of people or solitary institution encompass all of the wisdom and expertise that is needed to do so.

Regionalism has always been one of the cornerstones of ICAO's foundation. It has been a respected part of ICAO from the beginning. Today, there are more regional aviation bodies assisting ICAO than ever before. All told, there are some twenty-five separate regional bodies that make important contributions to ICAO's work. ICAO continues to actively and strongly support regionalism.

Speaking of regionalism and contributions, there are a number of non-governmental entities which also make significant contributions to the ICAO process. One such organization, which makes contributions at both the regional and world level, is the International Air Transport Association (IATA). The close working relationship between ICAO and IATA dates back to the earliest days of ICAO. It is accurate to say that one of the purposes of IATA is to make a co-ordinated airline input to ICAO's work programme: to use IATA's own words in its long-established "Aims of IATA", one of its aims is "**to co-operate with ICAO...**".

Not suprisingly, Montreal is the "headquarters office" of IATA. Key members of its technical staff are permanently located virtually next door to ICAO. It also should be mentioned that IATA maintains six regional offices. While these offices are not all in the cities where ICAO has its regional offices, the two staffs are in frequent contact concerning regional matters and ICAO's regional offices are frequently visited by IATA's regional technical officers.

Currently, IATA is a permanent observer at meetings of both the ICAO Air Navigation Commission and the Air Transport Committee; it has members on sixteen technical panels of the air navigation commission; it participates in thirteen air navigation study groups assisting the ICAO secretariat; and it is represented at most meetings of ICAO regional technical bodies. In addition, IATA is a member of several non-technical ICAO bodies. Thus, it seems clear that IATA is deeply involved with ICAO's work programme on both the regional and global scale.

Of the many non-governmental aviation organizations who contribute to the ICAO process I have singled out IATA for two reasons. Firstly, it is a well known and very active organization with a long history of involvement with ICAO and, secondly, it has both global and regional interests and acti-

vities. It would be misleading to imply that IATA is the only non-governmental organization that makes significant contributions to ICAO. There are some twenty-eight other non-Governmental organizations who participate with some regularity in ICAO's work activities and whose ability to make contributions has been acknowledged by the Council. There are many other organizations whose work is relevant to that of ICAO who also have the opportunity to participate in the ICAO process. Many of them are active at the regional level as well.

I will conclude this portion of my presentation by saying only that the ICAO/IATA working relationship has never been stronger nor more productive than it is today. It is a reminder that the aviation community continues to be exemplary in this regard. As an industry and as a community its spirit of co-operation and goodwill on both the regional and international scene, it is envied by many but surpassed by none.

I should like now to discuss regionalism in practice today as it is seen from ICAO. Regionalism as it is manifested in the form of distinct non-ICAO institutional entities is concerned predominantly - though not solely - with such broad non-technical areas as economics and facilitation. An exception to this general pattern is evident right here in the Middle East where the Arab Civil Aviation Council (ACAC) recently has conducted a "limited air navigation meeting" for the purpose of considering specific regional technical matters. This effort stands out as being a unique regional endeavour not being done to the same degree anywhere else in the world. ICAO was pleased to sit in on this meeting as an observer and participant. We believe that the outcome of this ACAC initiative will be an important contribution to the upcoming ICAO regional air navigation meeting for the Middle East. The ICAO council, as you may know, recently decided to convene the meeting in the period 27 March to 14 April 1984. Attendees at this conference may wish to know that the upcoming Middle East Regional Air Navigation Meeting will be no less than the eighth such ICAO full scale or limited air navigation meeting to consider the needs of some or all of the states in this important region.

In any event, aviation is developing more rapidly in the Middle East than in most other areas of the world and there are many technical implementation/equipment infrastructural matters about which there is a need to reach agreement or modify this region's ICAO air navigation plan. The preliminary work of developing multilateral agreements on these needs - as is being done through ACAC - is a healthy and helpful effort in the eyes of ICAO. It can only assist ICAO in ultimately achieving the broader, region-wide and inter-regional agreements that will be addressed at our upcoming regional air navigation meeting.

It might be helpful here to briefly mention the types of activities and decision-making that can take place at sub-regional and regional levels without in any way compromising international standardization or running the risk of creating global discontinuities. At first glance it might appear that such regional initiatives would work at cross-purposes with ICAO's global objec-

tives. This could occur only in the absence of a clear understanding of the ICAO process. With your forbearance, I would like to cover a few aspects of the ICAO process. I believe it will be helpful to this conference in clarifying the relationship and the mutuality of purpose which should exist with regard to ICAO's global mission and legitimate regional interests. It also should serve to remove any lingering doubts that anyone may have about its co-operative nature.

First, one must consider that ICAO's world-wide standards contain explicit specifications applicable only to those aspects of the aeronautical infrastructure about which uniform - we sometimes use the word "mandatory" - application is necessary for the safety or regularity of international air navigation. Contracting states are committed by their adherence to the Chicago convention to conform to these provisions or to notify the ICAO council if they cannot do so.

A second tier of provisions are called "recommended practices". They are of lesser stature and urgency than standards but it is recognized, nevertheless, that uniform application is desirable in the interest of safety, regularity or efficiency. States are expected to endeavour to conform to recommended practices or to indicate otherwise in their aeronautical information publications.

In addition to ICAO's standards and recommended practices, there are recommendations for air navigation procedures and regional supplementary procedures. Additionally, there are a number of ICAO advisory and informational publications which are designed to be helpful and informative to contracting states as they go about setting up and operating their individual infrastructures. These documents include procedural guidance, training manuals, technical advisory circulars and various other items. States are not, of course, under the same obligation with regard to such documents or their internal applications thereof.

The point I wish to make is that ICAO's international standards and recommended practices cover only the basic and essential ingredients of the air navigation infrastructure of international civil aviation about which there either must be uniformity across political boundaries or it is at least highly desirable that such unity exists. In other words, in the absence of such standardization and unity, air transportation would be uncertain, seriously constrained or impossible. But the basics of the international infrastructure are not terribly broad nor are they all-encompassing. They leave much to be done and a wide range of decisions - especially in the area of implementation - that are expected to be made at state and regional levels. Much of this work is done at ICAO-sponsored and -conducted regional air navigation meetings such as the one now being planned for this region.

Regional Air Navigation Plans - the visible output of regional air navigation meetings - set forth in detail the facilities, services and procedures required for international air navigation within each specific regional area. These jointly developed plans contain recommendations which individual state governments can follow in planning and programming the provision of

their air navigation facilities and services. The ICAO plan enables states to do so with the assurance that such facilities and services will form with those of other adjacent or nearby states an integrated regional aeronautical system for the foreseeable future. It gives states assurance that their investments in equipment, facilities and services can be made in the most cost-effective manner and that international air travel not only within their boundaries but also within their region will be fostered to the maximum possible degree.

Let me now conclude with a consideration of what I believe to be the key to ICAO's enduring viability in fulfilling its responsibilities to the regional interests of its contracting states. I am speaking of ICAO's co-operative regional planning process. As I mentioned earlier, regionalization in ICAO got off to a flying start with three regional air navigation conferences being completed before PICAO was a year old.

It is important when contemplating ICAO's regional planning process to remember, as I said a moment ago, ICAO's international standards and recommended practices represent only a basic design around which states and regions can build up an air navigation infrastructure as elaborate as is needed or desired. It can be technologically very advanced as it is in some areas or it can be more basic and developmental in character as it is in others.

As I said earlier, the convention on international civil aviation reflects a conservative approach to standardization. In my own words, it says, "regulate and standardize but only to the degree absolutely necessary". As a corollary this implies that states and regions should be left as much freedom and flexibility as possible in adapting themselves to basic ICAO standards. This, in fact, is a philosophy that is clearly reflected in ICAO decisions over the years.

Thus, in practice, states and regions have considerable leeway in deciding exactly how, where, when and to what degree they will implement the numerous ingredients of international civil aviation in addition to those with the category of standards. These ingredients can range from ground air navigation components, to airport runways and lighting systems, air traffic control facilities and to many other components of state and regional infrastructures. There are many such ingredients. They call not only for individual decisions by contracting states but also for the joint and concerted regional actions and agreements which are fostered by the ICAO regional planning process.

The ICAO co-operative planning process involves many aspects and elements of the aviation community. It comes sharply into focus and makes crucial input to correct ICAO decisions at one place and at one time: the vehicle is the ICAO regional air navigation meeting; it is held periodically in the major regions of the world. I am sure that, even now, most states in the Middle East region are preparing for their participation in the third Middle East regional air navigation meeting, which will be held from 27 March to 14 April 1984.

In summary, the world-wide aviation infrastructure is functioning very well indeed. Philosophically, the air navigation infrastructure reflects in virtually all respects the extraordinary visions articulated in the Chicago convention. To a large degree, regionalism as practiced co-operatively within the framework of that convention and as supported and fostered by the ICAO council has made it possible for civil aviation to advance to its present state.

But neither ICAO nor the aviation community can rest on its laurels or take time to sit back and admire its achievements for more than a few moments. There are many miles (kilometers) yet to go; many improvements that need to be made; much of the basic infrastructure is yet to be implemented. In short, we have a long way to go before we can truly say that modern aviation has arrived at the four corners of the earth; that all of mankind has reasonable and reliable access to air transportation; that we have fulfilled the mission spelled out in the Chicago flight plan. The journey is long and it takes an army of people in many professions sometimes with diffuse and differing interests to co-operatively assure a safe and speedy passage. The multitude of persons, professions and interests is nowhere in greater evidence than at the regional level. In a very real sense, the ultimate success of the flight of ICAO depends upon the degree of spirit, unity and enthusiasm that is generated at regional and sub-regional levels.

I look upon this conference itself as being both an important indicator as well as a vehicle for the type of co-operative involvement that is required. I shall report back to ICAO that I am greatly impressed by what I have seen and heard. Indeed, the expression of co-operative regionalism such as is being here expressed is a cause for continued optimism. I shall leave greatly encouraged.

THE CONCEPT & PRACTICE OF REGIONALISM: THE EXPERIENCE OF THE ARAB AIR CARRIERS ORGANIZATION

BY AMER A. SHARIF

I. THE STRUCTURE OF THE AVIATION INDUSTRY

The International - Regional - Bilateral and Unilateral are the four levels into which our highly complex industry is structured. This vertical complexity is further compounded by a horizontal one running through all these four levels: we have the airlines on the one hand and the directorates of civil aviation on the other. The last element compounding the picture is that all these structures at times work in harmony with each other but at other times are in competition, each seeking the credit of being the one that best serves the Airline Industry and the public.

Yet, with the growth of these organizations, both regional and international, some form of dialogue is needed to formalize the borderlines of activity. But formalization of roles would restrict the complete freedom of action of each organization. And so far we all seem to prefer to drift into competition and drift into cooperation.

“Regionalism” in commercial aviation is about a quarter of a century old. Yet to my knowledge, Amman today is hosting the first symposium ever to specialize on the subject. It is a case where the intellect is following, mid-stream, the path opened by practical experience, drawing on the past in order to influence the future rather than acting as a fore-runner of events. This delay is perhaps because the subject began attracting world-wide attention only recently. That was prompted in part by the crisis that was threatening the very existence of IATA due to deregulation and to the feeling among most members that IATA should alter its structure if it were to survive. ICAO, the International Civil Aviation Organization, was also coming under criticism for not satisfying local and regional requirements. Thus, there was a possibility that deregulation would force the demise of IATA and many airlines and governments, not in favor of that, felt they would fall on their respective regional organizations as a line of defence.

IATA, however, has both weathered the storm and reorganized its structure. This does not mean that regional organizations have lost their “raison d’etre” because they were not conceived as a replacement to IATA and they have been expanding their activities continuously. I would like to stress

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at the beginning that there is a need in some form for all these aviation structures. Even unilateral action must have a certain scope for innovation. But we must be able to let each structure play its proper role and have its own importance in order to ensure a harmonious existence for all.

The first regional airline organization was the European Airlines Research Bureau spearheaded mainly by Dr. Plesman of KLM. It was established in 1952 by six carriers, with a very limited scope mainly for data gathering. But the regional airline organizations as we know them today date to the sixties when we got the Arab Air Carriers Organization, the Association of African Airlines and the Orient Airline Association. A similar one exists in East Europe. As for the E.A.R.B., while being the fore-runner it was influenced by the wider scope of the other regional organizations in order to get restructured in the seventies as the Association of European Airlines. And the latest comer is in Latin America about two years ago. As for the U.S.A., it is a huge region by itself and has the Air Transport Association. These regions do not cover the entire world, the way the IATA regions do. But at the same time IATA does not include all the airlines. Thus, there are still blank areas on both sides.

II. THE JUSTIFICATION FOR REGIONALISM

The regional airline organizations, mainly in the Third World like AACO, are upheld because they give their members an identity. Here you are not a number lost among many others. It is interesting to note that at international meetings of any type socialization is mainly within the groups of the various regions although it should not be so. In the regional organizations, smaller in size, the members feel they can have a more effective impact.

Another reason is that a world meeting is too heterogeneous and difficult to direct. Thus, IATA has its own sub-group, the Executive Committee, which is really the effective power and not the General Assembly. In the regional organization, the General Assembly acts without an executive committee or completely overshadows it. The smaller regional group tends to be more homogeneous.

Thirdly many problems are of a regional rather than international interest and therefore are better dealt with at the regional level. The international meeting would not devote enough time for such matters while the regional body would go into detail.

Finally, it was found that the regional body is an excellent forum at which to discuss international problems before going to the international meetings. Here the more advanced members would give quietly their advice. All regional airline organizations do that by now, a matter that has strengthened the work of IATA and not retarded it. We all go well prepared and act more correctly.

Thus, regionalism is not separatism, but better work within the international framework.

But regional organizations are small and fragile. They have limited exper-

tise and often must rely on their members for specialized assistance. The big bodies are better placed in this respect.

Furthermore, the most that one generation of staff can bequeath to the succeeding generation is experience - a functioning system of coordination. The share of the intellectual component in productivity is very high here. We have no aircraft or equipment that we gradually increase. Thus, almost all depends on the persons leading the work and the intellectual contribution they can offer.

III. THE BOUNDARIES OF REGIONALISM

It is interesting to consider the boundaries of regional organizations. These were at first political. You had to be Arab, African or you had to be in the Orient but non-communist and East of India, and so on.

This political zoning was found not to be practical for regional co-operation in all fields. Thus, we witnessed both a contraction inward and expansion outward. In the field of technical cooperation and joint maintenance the individual region itself was at times found too large and even heterogeneous for the purpose. Thus, the KSSU, ATLAS and a projected technical consortium for some Arab air carriers are for a smaller more coherent group. This was to ensure the feasibility of the project. In the Arab Air Carriers Organization this trend was even formalized by a decision that any group of member carriers can request the Secretariat General to co-ordinate for smaller projects which do not include all the members.

There was also an outward expansion as I said. In the field of tariffs, some Arab air carriers have participated in the creation of MEOCA. This is the Middle East Operating Carriers Association which groups twenty airlines operating between West Europe and the Far East across the Middle East and the Gulf. It deals so far only in fares that span across the three regions. Accordingly, it is not a regional organization, but purely intra-regional that is quite frankly, an international body. As such it is in my opinion an intrusion into IATA territory as it replaces it to a large extent in the chain of discussions. The justification given for its establishment is that many members are outside the framework of IATA. More such intra-regional organizations could attain IATA and render it more and more a forum just for registering tariffs agreements and less of a forum for discussion. However, MEOCA seems to have stopped functioning, at least for some time now.

IV. THE REGIONAL ACTIVITIES OF AACO

I come now to the activities of regional airline organizations within the framework I described and which justifies their existence. I will draw mainly on the experience of the Arab Air Carriers Organization whose activities consist of co-ordination, services and as a catalyst for joint projects.

Our first activity was in fares. We felt it would be useful to discuss them among ourselves, help explain the problems involved to each other whether this related to proposals by our members or by others affecting us and come to a co-ordinated position. Such detail is not possible at an international meeting. We felt the work of our Commercial Committee has a proper role in the chain of discussions and strictly within an IATA framework. I am proud that IATA finally came to give it as an example and that other regional organizations were much influenced by its type of pragmatic activity. At the same time, our concentration on fares at our Commercial Committee has helped to a large extent prevent any under-cutting of fares within the Arab World. What is agreed upon is applied. It has meant that no member even tries to establish a fare within or from the Arab world to the exclusion of any interested Arab carriers as we witness elsewhere. Furthermore, we have not found it necessary to indulge in gimmick fares.

A new variant that we recently added to the activities of our Commercial Committee is to invite at times an outside airline with whom we have major points for discussion in order to exchange views prior to an IATA meeting. This is also proving successful.

Our Air Freight and Air Mail Committees render similar co-ordination work besides our Airport, Scheduling, Catering, Flight Operations, Technical Committees by way of example.

In the field of services we are also successful, but I have a different picture to present. We establish manuals in cooperation with the committees concerned such as airport handling and air mail that are tailored to the needs and working conditions of the members. AACO Secretariat assembles much data on the activities of the members as well as detailed statistics of all Arab airports. We issue detailed fares tables on our region that save the members duplication in effort. We have begun organizing very successful training programs on management skills as well as on specific airline trades. These are done independently by us or in elaboration with some aircraft manufacturers. Some have the advantage of being in Arabic or mainly in Arabic.

But while in the field of commercial coordination we have spent much effort in order to have an efficient chain of cooperation between us and IATA, such a chain of cooperation in the field of services does not exist. At least two other regional organizations are as active as we are in this field, and cooperation between us and IATA in services would be beneficial to all, including our members. But I am sure in the end we will succeed through discussion.

The third function in regionalism and one very much within its boundaries is joint projects. The OAA, for instance, have by now a very well developed technical spares pool. The Arab air carriers will soon be probably the most advanced group in the field of joint operations that cover both Arab and international routes. This will give us more passengers for existing capacity and render some distant operations feasible. Thus, in the long run it will mean ordering more aircraft. Exchange of handling services is emerging

and we are discussing the possibility of a joint handling project. A technical consortium has much progressed for some Arab carriers.

All this is very important and promising, but I have also a comment there-on. These joint projects are of the type that can always be broken up into its original component parts. We do not see a jointly-owned unit of production such as a joint computer reservation centre or an engine overhaul shop. This form of cooperation is most difficult. We in AACO have spent much effort here and will continue to do so till we succeed. But great difficulties exist and experience about them has been acquired the hard way. I will list here six such difficulties in the face of establishing regional jointly-owned units of production:

1. – When embarking on a joint project, everybody considers advantages but not the disadvantages, while it is the latter that must be tackled first. This is not done. And a little further downstream the members begin to withdraw making the project lose credibility.

2. – Politics are an important stumbling bloc. The prospective partners fear lest differences among their governments affect their cooperation. Politics and economics are nowhere separated.

3. – Every member prefers a project he can control and determine its development to his own needs. Thus, he seems willing to pay a higher unit cost in order to remain independent.

4. – Some members join a project during the design phase and then withdraw. But their eventual withdrawal leads to a complete redesign and costing entailing a waste of time and money.

5. – During the stage establishing the project, the pace of progress could be determined by the speed of the slowest moving partner. But time could be of the essence of success.

6. – The location of a joint project could be considered to give a special advantage to the members in whose country it is being established and therefore an equal disadvantage to others.

7. – While a cooperative activity is beneficial to the participants, it may have a negative effect on those that opt to remain outside. Accordingly, it is natural that they should not wish success for the exercise. In such a case cooperation would best be kept as an iceberg, only a small part appearing above the water.

V. THE RELATIONS BETWEEN AACO AND ACAC

The relations between AACO and ACAC (The Arab Civil Aviation Council) is an example of horizontal cooperation in regionalism. Relations at first were not very cordial but intensive discussions were always maintained. This was crowned recently by our ability to obtain from the Council of the Arab League a decision that Arab countries will not close their air space in the face of Arab air carriers due to political reasons. I do not claim this will become immediately and completely applicable, but it is a very good star-

ting point for us to use in case of need and am sure we will get the declaration upheld in the end. This is similar to an earlier "Declaration of Marrakesh" granting full traffic rights within the Arab World to the Arab air carriers that request them. The Declaration did not lead to open skies but is has definitely helped many Arab airlines obtain traffic rights denied them previously.

We have also started on a pioneering step: the formation of a joint committee with ACAC to discuss all matters of common interest in commercial and civil aviation. This will help remove much misunderstanding that we witness in the world between civil aviation and airlines, particularly in relation to air fares.

VI. CONCLUSION

In conclusion, I would like to summarise very briefly my theme. Commercial aviation and its structure consist of several independent rings. None of them can replace the others and each has its own importance. Our duty is to form these rings into a successful chain. The task we have at hand is a very difficult one: we establish co-ordination by consent and not through executive authority. Our members are each an independant variable.

We are succeeding and the extent of our success must be viewed in the light of our media and our means. The road ahead is a long one and I wish all of us the best of effort, wisdom and patience.

A REGIONAL EXPERIENCE IN TECHNICAL COOPERATION, THE EUROPEAN ATLAS GROUP: CONCEPT & REALITIES

BY JACQUES MELINE

During the first two days of this conference, most of what was heard was related to “why’s and how’s” for regionalism in the regulatory and commercial fields. Excellent instances of the application of regional approaches to peculiar features of air transportation actual life were given by some of the previous speakers.

Mr. Freer of ICAO depicted the building up and improvements developed, of what could be called the operational environment of air transport. Now we have to look at who is to keep aircraft flying at as reasonable a cost as possible: the airlines. We shall explore the other side of the picture in the forty-five minutes ahead of us.

The constellation of international organizations which, in Europe, covers various aspects of cooperation of interest to air transport may be divided under five headings:

- Governmental Organizations (ICAO, ECAC, EEC, etc.)
- Airport Associations
- Manufacturers Organizations (AECMA, EUROCAE, etc.)
- Technical Agencies (EUROCONTROL, etc.)
- Airlines Associations (IATA, AEA, etc.)

Among the latter ones are two groups, ATLAS and KSSU, which work according to the same basic philosophy, but are applying different methodologies. In both cases, the word “COOPERATION” means a partnership of absolutely independent airlines which, in their endeavour to increase their profitability and their productivity, created, by gathering their efforts, technical consortiums which would enable each one to maintain its originality in the fields of commercial activities, aircraft selection, acquisition and operations.

The group of interest here and now is the ATLAS consortium. We shall make a survey of:

- The concepts and principles which were retained as basic elements of its creation and the circumstances which led to it, having a look at its organization;
- Its achievements;
- Its “limits” or what could be termed as “realities”.

I. THE ATLAS GROUP

Up to 1966-67, investments and expenditures to be covered by the airlines were in good ration with operation of fairly large individual fleets composed, in the main, of jet aircraft of reasonable sizes, from Caravelle's or DC 9's to Boeing 707's or DC 8's.

Suddenly, with the prospect of the introduction in operations of Boeing 747's, the air transport industry was confronted with one of the most challenging problems it ever met and, as a consequence, had to find sensible solutions to avoid the nightmare of falling at once into bankruptcy.

The technology was not new, but the scales at stake were dramatically different from what had existed. Not only had the airlines to buy aircraft worth roughly \$23,000,000.00 at the time, when a 707 was only worth \$8,000,000.00 and a Caravelle \$3,000,000.00, but they had to invest from the start in buildings, hangars, facilities of all kinds, and infrastructure which they needed to conduct their operations in the best technical and economical conditions, those investments requiring skyhigh financial commitments unknown in the past, at least at European scale (See chart, below).

Between the air transport industry and other industries, there are two important differences:

1. The very huge number of means used in any case, means which may not last very long and, however, require very heavy investments;
2. The very marginal profit resulting from the costs/revenues ratio, two high figures so close to one another that the profit is highly sensitive to the least fluctuation.

As, in 1967, the 747 fleets considered were small, these elements had all the more important an impact in that those aircraft were fewer, bigger and more complex, which meant more expensive. Managements had to keep by all means both investments and expenditures at a minimum.

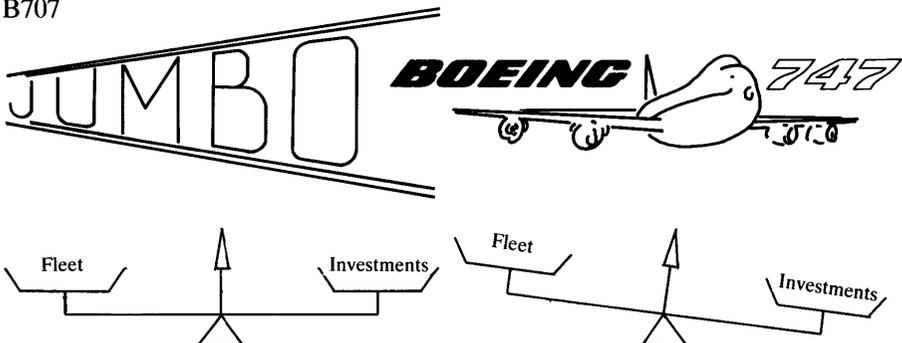
THE PROBLEM

SE210

DC9

DC8

B707



In April, 1967, AIR FRANCE envisaged the possibility of setting a cooperative scheme with selected partners which would have the same interests and worries, a scheme which would permit a more rational economy in the utilization of manpower, facilities and resources, by sharing some of their industrial activities and training means, also by the concentration of their stocks. An inquiry was launched amongst European airlines having ordered, or having announced their intention to order, Boeing 747's, with a view to know whether they would have an appeal for a solution of that kind.

Why "European" airlines rather than any other from another part of the world? The reason was very pragmatic: it looked obvious that it would be easier to build up a partnership upon common denominators, and to find common attitudes with potential companions confronted with essentially similar problems within the same geographical, economic and political context.

Those investigations having received a rewarding response, eight, and later, twelve, airlines gathered in Paris AIR FRANCE headquarters; they constituted the "Montparnasse Committee" with the aim of studying ways and means to introduce into their fleets the new "monsters", through a cooperation which would be developed along the lines envisaged and which, *inter alia*, would ease the qualification and improve the utilization of the great number of workers needed to treat fleets ridiculously small when considering the amount of facilities and personnel required.

Objectives and principles of a general nature were laid down (See chart, p. 117).

SAS, SWISSAIR and KLM had already grouped under the KSS banner, decided to carry on with their own cooperative scheme.

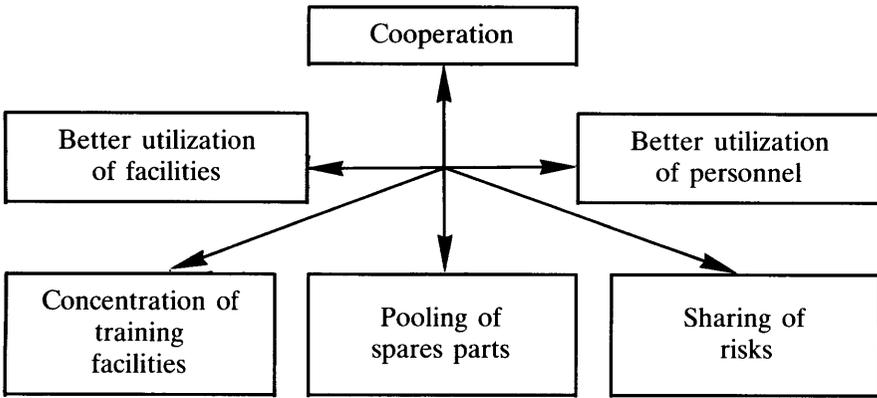
From a rapid analysis, it appeared that a fleet of roughly twenty 747's would enable to reasonably amortize the ground facilities and the operations expenditures expected for that type of aircraft. At the time, none of the European airlines could envisage to own such a fleet in the foreseeable future. In 1972, *i.e.*, five years later, AIR FRANCE had only eight 747's.

In 1968, AIR FRANCE decided to go ahead with the project and invited those who would want to, to join them in the cooperative venture.

ALITALIA, LUFTHANSA, SABENA and UTA answered positively and, with AIR FRANCE, started to work concretely on the basis laid down under the "Montparnasse Committee" oath; the acronym ATLAS was retained to represent the new association (See chart, p. 117).

On March 14, 1969, the ATLAS Group came officially to life. UTA had abandoned, as they were not to buy any more 747's, which were too big, but were rather looking in the direction of the KSS Group, which were evaluating the newcomers on the market (DC 10's), better suited to their needs. The KSS Group then became KSSU.

THE OBJECTIVES



AIR FRANCE



ALITALIA



LUFTHANSA



SABENA

March 14, 1969

The ATLAS cooperation, which was essentially geared to economic objectives, was placed, as a matter of course, under perfect mutual confidence. A "PROTOCOL OF AGREEMENT" laying down the basis of a cooperative operation for the overhaul and maintenance of the 747 airframes, engines and equipment of the partners was signed. That text vested each of

those with the responsibility of performing certain activities for the benefit of all. It set forth that:

There were to be - standard specifications for aircraft and equipment to be introduced into the cooperative scheme,
- standard maintenance methods,
- standard operational procedures,
- standard training syllabus for air crews.

There was to be as equitable as possible a sharing of activities and costs among the partners;

There was to be a first refusal right for tasks not previously allocated, when a new type of activity or of aircraft is introduced into the operation;

The investments were to be borne by partners designated as "Central Agencies" for given tasks, and recovered from the "Customers" on a pro rata basis;

All partners recognized the above principles to be binding for the lifetime of the aircraft concerned, as long as at least two ATLAS airlines were still operating them.

Based on those points, a system of voluntary cooperation was born: it was a "give and take" sort of association which was not constituted under a corporate status and therefore was not a legal entity. The relations between partners were to be governed by specific contracts which, of course, had to be in conformity with their respective national laws and regulations. Disputes, in any, would have to be submitted to the IATA arbitration clause.

In ATLAS jargon, "Central Agency" is actually a portion of the overall technical machinery - soft and hardware - which each partner uses to perform specific tasks allocated by the Group for the benefit of all. Each "Agency" is monitored by appropriate ATLAS bodies, but remains under the authority of the partner to which it belongs.

There are "Central Agencies" for - airframes,
- components,
- simulator training,
- navigation documentation.

As no group existed when the first 747's were ordered, their evaluation had been conducted by each partner for their own, so, when the Group was formed, engineers, flying personnel, etc. had to work at once on the streamlining of "THE PRODUCT" before it was delivered or during the first months of operations. As a corollary, Boeing had to make similar efforts to meet ATLAS requirements.

A "PRODUCTION AGREEMENT" was signed which set a few rules to induce "Central Agencies" to only make the investments which were really necessary and to prevent any complacency, not to say perfectionism, from creeping up into the system.

For practical reasons, such as for the partners not to lose skilled personnel, it was decided that each one would keep responsibility for their own aircraft line maintenance.

In January, 1972, IBERIA applied to become a full fledged member of the Group. What was considered then to be a relatively simple exercise required a full year of intensive studies; the problem at stake was to avoid the full collapse of the Group economy as a new balance of activities had to be figured out. It enabled the Group to appreciate how fragile the set-up was, and how delicate it was to coopt a new member without running the risk of jeopardizing their sensitive balance, allowing duplication of structures, or unduly increasing overhead costs.

The decision to “streamline” the product, to which I referred earlier, could affect the internal standardization within each partner and, as a result, increase some of their costs; that is true. However, that inconvenience had to be weighed against the overall profits to be expected and the very fact that manufacturers were stimulated in developing attractive and flexible solutions which would make their products more competitive on the market.

Operators and manufacturers have to work out in common, as early as possible in the definition of the specifications, the elements and requirements pertaining to aircraft, engines or equipment maintenance, as it is on the whole a question of practical experience, precise definition, and strict application as well as a most important chapter, if not the heaviest to bear upon the airlines’ economy, individually or as a group.

A look at the “ORGANIZATION CHART” (See p. 120) indicates that the ATLAS structure has been kept very simple indeed. It is based upon the existence of:

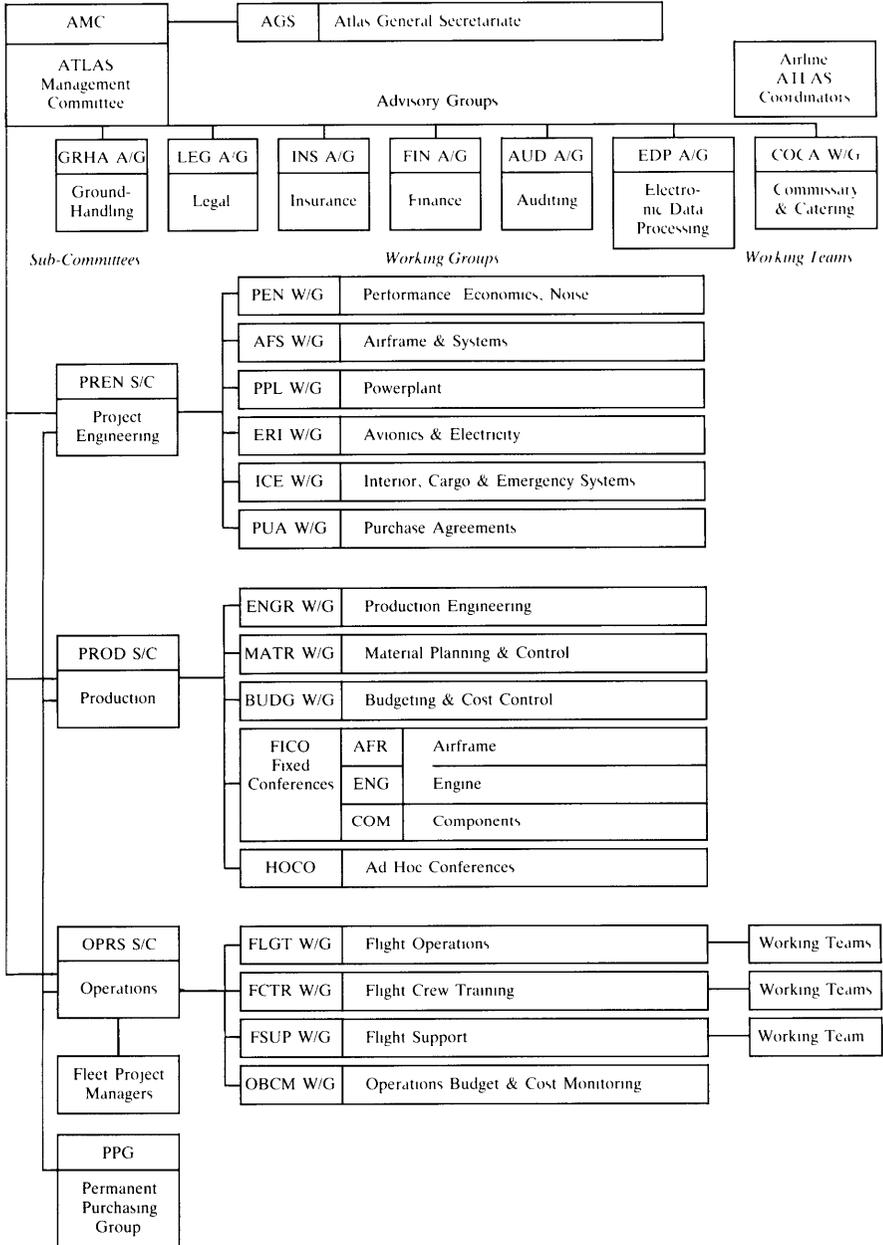
- An ATLAS Management Committee of five members who represent the “providers” and “customers” interests of the five partners, assisted by a General Secretariat, the only permanent body at that level;

- Advisory groups which meet on an “ad hoc” basis and which may vary with time; they are consulted on specific subjects and have no activity of their own;

- Three Standing Sub-Committees with their sub-group which may evolve with time as well;

- Central Agencies which are not shown on the chart.

ATLAS GROUP General Organization Chart



Reference was made several times to the principle of freedom of selection of equipment being left to each partner. But, what does happen when one of them does not order, for instance, an aircraft which has been selected as an ATLAS product by the others? Are they outcast?

Certainly not! Should that occur, and as a matter of fact did occur, it was decided that the cooperation scheme would not be altered; the building up and the economy of the project, which imply a certain workload balance amongst the partners, should be completed with time. A balance could be obtained in spite of the absence of a given type of equipment from the fleet of any one of them. Furthermore, it was considered essential that the evolution of the policies regarding production and operations fields had to be pursued by the Group as a whole and that the efforts to keep the standardization required had to be maintained by following constantly the evolution of the fleets themselves, technology developments, etc.

II. ACHIEVEMENTS TO DATE

What does the Group represent in 1983?

Five airlines;

One hundred fifty wide body airplanes, plus roughly three hundred of previous generations;

Five hundred seventy active fan engines plus eight hundred engines of the previous generation.

That fleet of some four hundred fifty commercial jet aircraft, not to mention SST's or numerous smaller airplanes, powered by one thousand four hundred active engines, is practically handled between the partners and three airframe plus two engine manufactures.

Together with the individual fleets, ATLAS compares quite well with the largest United States operators on the basis of fleet size, ton kilometers offered, and market share. Unfortunately, the total number of personnel is much higher for obvious reasons, which means that the productivity expressed in ton kilometers offered per employee is significantly lower.

One of the very first achievements to be highlighted is of quasi "religious essence". I am referring to the transition which had to be made from individual thinking to the adjustment of cooperative thinking. The first success has been to establish working procedures covering all phases of the cooperative activities, to iron out the differences of opinions which were, naturally, all based on the strictest scientific background, held by the partners, and to solve the ever present human problems.

If that success appeared to the partners themselves as a kind of miracle, those who have ever had to deal with that kind of situation will know what I mean, in particular if they had to reconcile pilots on their way to operate, or had to participate in a definition of some cockpit, or even if they had to marry several administrative organizations. The manufacturers, at once a little dubious as to the results to be expected from such an endeavour, coo-

perated very closely with the Group as soon as they realized that it would work and the benefit which they would draw from it. A common language was defined, used by both parties, and the grouping reduced the number of communication channels to deal with one another to a strict minimum.

In their turn, the state authorities helped those efforts and established excellent relationships with both sides. They even delegated to each other some of their respective powers; for instance, in the airworthiness field, which eased things a great deal.

ATLAS Manual Task Sharing Scheme

Partner Activity	AF	AZ	IB	LH	SN
B.747	 .32	.50		.01	.17 (APU)
DC.10		 .79 (APU)	.02	.02	.17
A 300B	 (1984)	.19 (APU)	.09	 .65	.07
JT 9 D			 -7Q/59A	 7A	
CF6-50	 C			 Σ	
OLYMPUS					
OTHERS			JT8 (AF) ----- B.727 AIRFR (AZ)		APU 727/737 (AF.LH)
SIMULATORS	B.747//2 A.300/2	DC 10/4	A.300/3	2 × B.747/3 A.300/3	DC.10/2

 = Central = 
Agencies

AIRFRAME ENGINE
 = Second = 
Production Centers

 %

Participation in
Centralized Component
Activities

Everybody had to work on aircraft meeting almost the same definition even though they were owned by five different airlines. There was no need for anyone to waste hours of studies in order to match individual requirements. At Boeing, any customer could find the ATLAS 747 model, as well as at MOC the DC 10, or at Airbus Industry the A 300.

Actually, the results have been so rewarding that it was decided that the expenses generated by such evaluations for future aircraft and/or equipment would be made in common, each partner being still responsible for their individual choices and commitments.

Coming to the distribution of the various tasks amongst the "Central Agencies", there is a table (See p. 122) which depicts the situation as it existed in June, 1982. As may be seen, AIR FRANCE, which had not ordered any DC 10's, participated very actively in the definition of the specifications and in the elaboration of operational policies relating to that type of aircraft, and was granted the responsibility of being "Central Agency" for the overhaul of CF S engines which were used on that aircraft when introduced, as well as on A 300's; ALITALIA was given responsibility for DC 10 airframe overhaul, etc.

A word on "CONCORDE". Very few were manufactured, but when they were offered, several partners - three, to be precise - took options. The ATLAS usual methodology was then applied and the workload generated by their possible introduction into the cooperative scheme was allocated, as any other, to different partners.

The situation evolved in such a way that AIR FRANCE eventually became the only one to order them. For obvious reasons, at the suggestion of the French airline, the ATLAS Managements Committee decided to withdraw from the cooperation all CONCORDE activities not directly connected with the OLYMPUS engines which remained in the scheme, as they were not representing particular problems of investments.

Since then, the evolution of the air transport industry entailed some adjustments in the respective fleet developments. New engines came to the fore; types of aircraft evolved in such a way that it became impossible to keep their specifications as originally drawn; progress in technology led to new choices even for a given aircraft; families of airplanes comprised a wide variety of versions, such as the 747 family with its passengers, cargo, combi, extended deck, and other versions. So, the task distribution had to be adapted to the actual partners' fleet composition.

In the PRODUCTION field, an open book system was instituted along the line of "no profit, no loss", meaning that each "Central Agency" gets a full reimbursement of their costs for the work performed for someone of the Community. It is evident that it was of paramount importance that the course followed had to be checked very attentively, as no important deviation could be tolerated. So, the process of economical planning and control is marked by two yearly events:

1. Cost and capital budget agreement for the coming year; and forecast for investments for the coming year +1, in January of each year;

2. Cost control of the past year, in July.

Third party work is perfectly acceptable, and appropriate procedures have been devised.

Considering the economic side, if facilities, such as hangars and even some test benches, are required at each partner's for line maintenance, that requirement is much lower in cooperation, as important maintenance and overhauls are centralized. It is evident that when a "Central Agency" specializes in, let us say, airframe for the Community, the appropriate investments have only to be made once.

On the purely production side, the benefits have been evidenced through capacity saturation and learning improvement. The division and corresponding specialization of the maintenance work helped to increase the productivity through better planning, scale economy, and economy with regard to the improvement of the learning curve and the training costs. The manpower development and its utilization in Engineering and Material Functions were considerably improved by cooperation. In an airline living on its own, schedules are planned in such a way that, usually, all aircraft are available at peak periods, which means that the workshops and hangars are then empty. With the cooperative work, that is not true any more; personnel and facilities are employed or used the whole year round. The well known plague named "summer gap" does not exist any more. As an illustration, between 1972 and 1975, i.e., during three B 747 airframe overhaul campaigns, the responsible "Central Agency" produced twenty-seven major overhauls whilst, individually, it would have only produced eight at best. The mean costs of major overhauls within ATLAS have been roughly 9.7 % lower than they would have been for individual partners.

As an accurate assessment of results obtained with solutions which might have been adopted by the partners in the absence of any cooperation would be unrealistic, it is only possible to work out an approximation of the relative savings to be claimed. I shall give a few figures which, as rough as they will be, will give an idea of present situation.

Great savings were obtained with regard to spare parts. A rough rule of thumb shows that when a fleet is multiplied by four, the stock value has only to be multiplied by two. In 1970, the ATLAS stock value was worth about \$70,000,000.00; in 1980, it was multiplied by five, i.e., \$350,000.00. One partner acknowledged that, in ten years, they had saved a good \$20,000,000.00 on that chapter.

In 1981, it was estimated that for a total ATLAS production cost of, let us say, \$288,000,000.00, a stock level, excluding spare engines and QEC's, of about \$229,000,000.00, and a total spare engines/QEC and APU inventory level of \$148,000,000.00, total saving amounted to roughly \$200,000,000.00.

The ATLAS formula enabled the Group to make a much better use of overhead and facilities than individual airlines, as there is a much more important volume of production for a given product.

Insofar as OPERATIONS are concerned, procedures were rationalized and streamlined within the Group, as well as at governmental level: Check lists were devised jointly, and a common reference manual comprising the main operational rules was composed. Parts of the navigation documents were produced in common, through "Central Agencies", as in the Production field.

Simulator training was centralized and proved to be a success, too; it enabled the Group to saturate the utilization capacity of each piece of equipment before any new one had to be ordered. Now there are B 747 simulators at LUFTHANSA and AIR FRANCE, DC 10 simulators at ALITALIA and SABENA, and A 300 simulators at LUFTHANSA, AIR FRANCE and IBERIA.

As anyway there is still capacity available for this equipment, any potential customer is welcome.

III. LIMITS – REALITIES

Human-built institutions inevitably have their limits; ATLAS is no exception.

Additional transportation expenses for aircraft, engines, or components, as well as for crews who had to train on one of the cooperative simulators, were factors to be weighed when decisions were to be made in selecting potential "Central Agencies" for any given activity.

There is no doubt that increased complexity was introduced in the process of decision making, and of daily administration. There were difficulties stemming from many (what I termed) "individual religions", when, for instance, specifications of aircraft and equipment had to be defined, or operational rules to be devised, or when administrative features had to be made at least compatible, as each partner was under the impression that they had nothing but "the best" for ages.

Those points were certainly limiting factors which had to be, and indeed were, overcome.

The "PROTOCOL" signed in 1969 had specifically provided for a possible extension of the project to fields other than "technical". An attempt was made a few years ago and, let us face it, failed; some of the subjects considered were too closely connected to commercial interests, and were taboo, as they had a possible impact upon the very trademark of individual partners. The best which was achieved was the development of galleys, and of their associated catering equipment. That proved to be worthwhile, however, as it led to a production of those elements more rational than in the past, and gave an opportunity to facilitate their maintenance, and to improve their utilization by personnel involved.

Later, the ATLAS Group tried to develop a form of ground cooperation at outstations. That did not meet with a great deal of success, either; no technical reason prevented it from working, but problems appeared when flight schedules had to be adjusted, common agents had to intervene, or

when there were commercial incompatibilities to be ironed out. I shall not dwell upon the obstacles raised by monopolies which existed at lots of airports. So that was practically abandoned.

As mentioned earlier, twenty 747's were considered as a reasonable basis for amorizing expenditures relating to their maintenance. So, everything works fine as long as the individual fleets remain under that magic figure. When they expand over it, temptation may creep up for the partner concerned to look into the advisability of getting their own way. Who would blame anyone? Such an attitude is very understandable; however, one has to appreciate that even when the relative level of the profits drawn from cooperation decreases with time, actual savings increase steadily, so as to keep that scheme an attractive proposition still.

The advice which I would like to offer to anyone considering that they could jump into such a venture would be a very cautious one which could be along the following:

Define beforehand very precisely, and with a high sense of realism, the goals to be attained and the objectives, as well as the principles to be used as a basis for the scheme envisaged. (It is futile and a waste of effort and time to be over-optimistic!)

Work with indomitable patience, accepting the parameter "TIME" as a necessary evil to bear with if anything worthwhile is to be achieved.

Discuss matters very thoroughly until agreements are reached to prevent any temptation to reopen issues already settled.

Set up the scheme retained with great flexibility, without any artificial strait jacket which would impose a useless bureaucratic heaviness.

Have an absolute faith in cooperation and its merits.

Trust people involved in the cooperative work and judge them on facts and not on supposed intentions or gossip.

Leave aside, as much as possible, self-pride and soften national or individual peculiarities.

Build up a proper state of mind among people involved on the venture, whatever their responsibility level - which may not be the easiest to obtain, and which, if it does not exist, may very well be "THE" limiting factor!

This advice will be my conclusion.

SESSION V: “A GLOBAL VIEW”

THE FUTURE OF MULTILATERAL AIR TRANSPORT REGULATION IN THE REGIONAL AND GLOBAL CONTEXT

BY H.A. WASSENBERGH

“When the sun is setting -
Winds of change are rising,
Promising a new day.”

I. INTRODUCTION

It is a great honour and pleasure for me to have been invited by your Organisation as a Speaker and to figure on the list of eminent experts, who are addressing this Conference. My subject is “Multilateralism” and especially also “Regionalism” in air transport organisation and regulation. The fact that the Royal Jordanian Airline is our host, gives me inspiration to treat this subject in a positive and constructive way, since ALIA is an example of a successful multifaceted enterprise and a pioneer in the field of regional co-operation.

A. WHAT IS “MULTILATERALISM”?

When I speak of multilateralism, I do realise that **any** international co-operation between more than **two** States can be called multilateralism as distinct from “bilateralism”. However, I should like, for the purpose of my address, to make a distinction between **World-Wide** multilateralism, encompassing a majority of the World’s States, and **regional** multilateralism, which, as co-operation between States of a particular region, can be termed “regionalism”. Finally, co-operation between more than two States, irrespective of their geographic location, and not encompassing a majority of the World’s States, may be called “plurilateralism”. Thus “plurilateralism” is an intermediate form between regionalism and world-wide multilateralism and can develop into (world-wide) “multilateralism”.

The foremost example of world-wide multilateralism in aviation is, of course, ICAO, the world-wide forum for States to co-ordinate the technical

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and operational requirements of international air transport operations¹.

Only in 1977, and again in 1980, did ICAO, in Special Conferences, also address the problem of the **economic** regulation of international air transport. The last effort to find a multilateral solution to this problem had failed in 1947².

Today ICAO is working on such essential elements of the economic regulation as the formulation of model capacity clauses, procedures for the establishment and enforcement of tariffs, and the definition of non-scheduled flights (including the question of programmed charter flights)³.

The second example of world-wide multilateralism in air transport is, on the airline-level, IATA i.e. the trade organisation of scheduled air carriers and its Traffic Conferences.

The continuing "multilogue" on aviation matters on a world-wide basis must be regarded as an essential means to develop and maintain a coherent international air transportation network. Of course, in these world-wide organisations different opinions, divergent approaches, dissimilar situations, conflicting interests confront each other.

Multilateralism, by definition, is or implies **intergovernmental co-operation**: A **national** "Air transport industry" represents technological maturity and constitutes in many cases the national pride of States, symbolising Statehood. Therefore, if States are prepared and able to co-operate in international air transport, they trade a part of their national identity and by willing to do so, they should be able, so to say, to co-operate in virtually all fields! Co-operation in air transport, after all, reflects on the exercise of sovereign rights, for national airlines carry the flag of their State, are seen as "flag carriers". It must be noted that this evaluation applies to "scheduled" airlines, government-owned or not. This is a consequence of the Chicago Convention, which in its art. 6 confirms the absolute power of States to use their sovereignty over the air space above their territory, laid down in art. 1 of that Convention, in respect of **scheduled** air services in the way they deem fit.

Moreover, under domestic law and bilateral air agreements, airlines have the **nationality** of the State whose nationals substantially own and effectively control the company. Finally, national registration extends the jurisdiction of the State of registry extra-territorially (quasi-territorial jurisdiction). For their international scheduled operations, they are fully dependent on the

¹ "Convention on International Civil Aviation", Chicago, 1944, Doc 7300/6 of 1980. This Convention entered into force on April 4, 1947. Today 150 States are Parties to this Convention.

² See: Doc 5230, A2-EC/10, ICAO Records of the Commission on Multilateral Agreement on commercial rights, Geneva 1947

³ Cf. ICAO Doc 9290, Work Programme of the Organization, Montreal 1980, p. 27 ff. and the 2nd Special Air Transport Conference, February 1980. ICAO Bulletin May 1980. See also ICAO, State letter EC/2-80/215 of 27/1/81.

permission of the States of overflight and landing. As a rule, their governments obtain (by bilateral exchange) such permissions⁴.

Therefore, scheduled airlines, under bilateral air agreements, can only operate internationally, if they are **designated** by their own government as the beneficiary of such permissions⁵.

Therefore also, international co-operation between national **scheduled** airlines requires (or at least, pre-supposes) **inter-governmental** co-operation. Thus, e.g. an organization of airlines like IATA can only function with the approval of governments. As “nationalism” prevails in air transport, and where the “national public interest” is involved, international co-operation in scheduled air transport, other than on a **bilateral** basis (of reciprocity), is one of the most difficult objectives to be achieved⁶.

It is gratifying to note that, notwithstanding this “nationalism”, international, multilateral organisations in the field of air transport become ever more active. Especially the establishment of **regional** organisations in the aviation field shows a promising development. Where world-wide multilateralism does not succeed, regionalism may have a better chance. Also “plurilateralism” may be more acceptable as an intermediate solution. This can only be explained by the growing interdependence of States in the economic field: economic necessities (and advantages) override, for such States, (considerations of) national ostentation and short-term national self-interest.

B. “WHAT IS REGIONALISM”

Like in nature, governments live by a “territorial imperative” (territorial sovereignty). Therefore, they see their neighbours as a potential **threat**. This gives them a “geographic imperative”. This “geographic imperative” supplements the “territorial imperative”: it means that States, with their territorial sovereignty, in order to maintain their territorial integrity, have the choice between war and peace, between expansionism and co-operation. For co-operation, a first requirement is to build up a close relationship with **neighbouring** States.

⁴ N.B. A great number of States are Party to the Multilateral “International Air Services Transit Agreement” of 1944, by which they exchange the first and second freedom of the air i.e. overflight and technical landings!

⁵ N.B. there are a number of cases in which an airline receives an operating permit for scheduled air services directly from a foreign government. This happens if there is no direct desire for reciprocal air services or pending the conclusion of a bilateral air agreement. It should be noted that the Chicago Convention, in art. 6, does not require a permission from the State, whose nationality the airline possesses for that airline to conduct international scheduled air services. As a rule, however, national law contains such requirement.

As to non-scheduled flights, art. 5 of the Convention allows more freedom. The State on whose territory a commercial landing is made may however, impose conditions unilaterally.

⁶ Bilateral airline co-operation in the form of pool agreements is rather common in international air transport. Such agreements are designed to protect national interests, not to serve the international interest, however.

This peaceful “geographic imperative” creates the first basis for “regionalism”. Regionalism is a **geopolitical** phenomenon. However, another equally important requirement of regionalism is “affinity”, i.e. a similarity in origin, culture, tradition, ideology, or way of life. And thirdly, next to the “geographic” and this “cultural” imperative, an “economic interdependence” and a “common economic interest” must be apparent.

For **aviation**, this common interest can only be the wish of States to strengthen the mutual (air) relationship and to enhance, through union, the quality of their airline industry, and thereby their aviation strength (competitiveness) vis-à-vis **others**.

Regionalism in air transport can only be fully successful if the States/Parties are willing to closely co-ordinate their aviation **policies** with the aim to integrate the interests of their flag carriers into one “regional” aviation interest: In the last instance, their national air sovereignties should be merged into one regional air sovereignty, creating a “regional air space” and a “regional flag” in the air.

One “regional air space” will **in fact** result already from co-ordinated air policies, followed in practice, based on the (peaceful) “regional imperative”. It can **formally** be created by a regional treaty. As long as no “regional nationality” replaces the nationality of the participating States, however, the relations with non-participating States must be maintained on a bilateral State-to-State basis (cf. Scandinavia and the SAS)⁷.

When adopting a “regional flag” in their air policies vis-à-vis the outside world, the establishment of a multi-national flag carrier like SAS, becomes an obvious option. We see, and have seen, **international airline mergers** and **efforts** to create, regionally, international (multi-national) airlines: Europ-Air/Air Union was such an effort; the East-African Airways Corporation was temporarily succesful; SAS and Air Afrique and Gulf Air are still shining examples of “regionalism” in air transport.

Today we see efforts to create a **Pan-Arab Airline** and a **Pan-African Airline**⁸. (Note that the **Pan-American Airline** is a different proposition, being just a national airline).

The success of regionalism in the case of SAS, Air Afrique and Gulf Air is based on the affinity of the Scandinavian resp. the Francophone African, resp. the Gulf States and on the realisation that in their case “union is greater strength”, hence a coordinated air policy of the governments concerned.

We also see less far-reaching “regional” co-ordination of air policies: South American countries follow a similar policy, based on the so called “Ferreira doctrine”, the ASEAN countries drew one line when they confronted the misbegotten and unfortunate Australian ICAP⁹, the European

⁷ SAS is a consortium consisting of Danish Airlines (2/7), Norwegian Airlines (2/7) and AB Aerotransport of Sweden (3/7). Each of these companies is 50 % owned by its government

⁸ Cf. the African Airlines Association (AFRAA), 14th AGM, Addis Ababa, 1982

⁹ Negotiations to implement the new “International Civil Aviation Policy” of Australia began in October 1978. The ASEAN countries successfully fought the exclusion of the ASEAN carriers from the low fares between Australia and Europe.

(ECAC) countries act collectively when dealing with North Atlantic problems.

However, where nationalism prevails, regionalism in air transport is bound to fail. Europ-Air/Air Union is an example, the E.A.A.C. another?

After having briefly explained above the **character** of and **conditions** for successful “regionalism” in air transport, let us now first look at the various forms of “regionalism” and then try to determine the future of regional cooperation in aviation in respect of **regulatory problems**, i.e. the future of regional air policies.

II. FORM AND SUBSTANCE OF REGIONALISM

We can distinguish between various forms of “regional” **organization**. There are regional multi-national **consultative** organisations on **government level** and on **airline level**: e.g. In Europe we have the ECAC and AEA; in the Arab countries, MECACON, the 1965, 16 carriers’ AACO and the 1967 ACAC¹⁰. The ACAC is the “Arab ICAO”, like the ECAC is the “European ICAO”. In Africa we have the AFCAC and AFRAA, the “African ICAO” and “African IATA” respectively.

In Latin America there are the LACAC and the AITAL, both very active organizations.

In Asia there is only the **airline** association OAA.

In these organisations matters of **air policy** are being discussed, (such as the regulation of non-scheduled operations, fares, exchange of statistics, regional cabotage, traffic rights), but also the harmonization of laws and regulations and **economic** and **technical co-operation** between the airlines.

Economic co-operation between the airlines will lead to co-ordinated air policies of the participating States. Such co-operation, on airline level, can take the form of a consortium of airlines and as such create a single “chosen instrument” for the governments concerned of the region, or of multilateral poolagreements, blocked space agreements, interchange of aircraft arrangements, etc.

Of course, the many other fields of possible regional aviation co-operation, especially such as aircraft manufacturing and combined airlines’ aircraft purchases and financing, combined maintenance and training, airport development and air traffic control, are of equal importance. We shall concentrate, however, on the economic **regulatory** aspects of “regionalism”.

As to the substance of regionalism in air transport regulation we are confronted with the age-old problem of freedom versus protectionism. While most people argue that protectionism is economically unsound and counter-productive¹¹, States will practice it out of a “fear of freedom”.

¹⁰ Cf. ITA Bulletin, Sept. 1981, Heidewig Bornemann, and Special Issue, ITA Bulletin Dec. 1979 on International Organizations (Paris).

¹¹ Cf. Knut Hammarskjöld, Dir. Gen. of IATA in his 1983 New Year message, where he notes that initiators and victims (of protectionism) alike will be hurt.

But they are not consistent in their policy: They want to increase their exports but limit their imports! (a “beggar-thy-neighbour” protectionism). That, of course, conflicts with the interests of other States, that may wish to do the same. There are, however, middle-of-the-road approaches, whereby nobody loses. We shall revert to those hereafter.

Ali Ghandour, Chairman of ALIA, has noted in April 1980 (Lloyd’s Press, New York), speaking about Arab carriers, that, being State-owned flag carriers (except for the Lebanese carriers), the great majority are not profit-oriented, “but they all serve as instruments to achieve **national** economic and political objectives **beyond their own profitability**. In all cases they are an element of national prestige and sovereignty”. He concludes therefrom that between them **protectionism** is the **logical end-result** of this situation and **bad for everyone in the Arab world**. He notes that vis-à-vis the outside, non-Arab World, however, “the Arab carriers subscribed to an expansive and liberal environment”.

Mr. Ghandour’s statement clearly distinguishes between intra-regional regulation and the regulatory regime vis-à-vis the outside world. He complains about intra-Arab “protectionism”. This protectionism also applies to non-Arab carriers by excluding them as far as intra-Arab air transportation is concerned.

The liberal attitude with respect to air services to and from and via the Arab region is mentioned in contrast to this “protectionism” and we may note that this “liberalism” has greatly contributed to making the Arab States a foremost center of world aviation activities, by attracting most of the major airlines to the region. However, Arab regionalism so far is limited in practice to closing the intra-Arab traffic for non-Arab carriers (“Arab cabotage”).

Here we touch upon fundamental questions relevant to the **substance** of regionalism and the possible effects of regionalism on the regulatory problems international air transport is facing: How to implement regionalism and how to fit regionalism into a global system: the choice, of course, is “liberalism” or “protectionism”¹².

The “regions” which we can distinguish from a geographical point of view, such as the North Atlantic region, Europe, the Caribbean, South America, Africa, the Middle East, Eastern Europe, South-East Asia, the Pacific, may find their own “internal” regulatory air transport system, but then the problem remains **how** to regulate next to or as a function of the intra-regional air transport system, the air transport services with other regions. Moreover, geographical regions may have to be subdivided, for pur-

¹² N B For the purpose of aviation regulation, it would be better to distinguish between “internationalism” and “nationalism”, when addressing States’ air policies: States want to either protect their national presence in the air or use aviation as a means to promote world integration.

International air transport is not (yet) seen or treated as a “trade” (in services). The real choice by preference would seem to be between national air transport **rights** and international air transportation **needs**, as a basis for international air transport regulation

poses of regional air transport regulation and **aviation** co-operation, in different smaller areas.

Protectionist regionalism i.e. regional bloc-forming, brings with it a certain “discrimination” between States belonging to the region and non-Member States: viz. the obvious regional approach would seem to grant freedom to regional partners **within** the region and treat non-Members on a quid-pro-quo basis. Of course, this quid-pro-quo basis can be freedom-oriented or protectionist¹³. The regional Arab situation, as described by Mr. Ghandour, started on a reverse course.

Of course, this has the great advantage that as much traffic as possible is attracted, before intra-regional co-operation is undertaken, and more freedom is granted to the carriers of the region **within** the region.

This still leaves the question how to treat each other as regional partners where it concerns air services by the region’s carriers to/from non-Member States.

Thus we have three problem areas:

- a) the regulation of air services operated by region-carriers **within the region**;
- b) **the regulation of air services operated by carriers of the region** to/from outside States;
- c) the regulation of air services operated by **non-region** carriers to/from, via and within the region;

When we look a bit more closely at these three problem areas, the following observations may be of interest:

- ad a) for “intra-regional” air transport by carriers of the region, mainly two different approaches seem possible:
 - (i) deregulation (“freedom of the skies”) for the existing **flag** carriers of the region for air transportation **within** the region: free competition, i.e. free routes, capacity, and traffic rights. A step further is to grant free tariffs and free entry and exit to any carrier of the region (cf. US domestic deregulation); or
 - (ii) establishment of a multinational airline consortium of flag carriers of the region as a “chosen instrument” of the States of the region for air transport services within the region and for air transport to/from the region¹⁴;

¹³ A “freedom-oriented” quid-pro-quo policy will grant a large measure of freedom to foreign airlines in return for reasonable entry into the market of the homeland of the foreign carrier concerned. A “protectionist” quid-pro-quo policy will not allow more value to be derived from a bilateral air relationship by the foreign carrier concerned than is derived from that relationship by the own national carrier(s).

¹⁴ Cf. e.g. the plans of “Caricom” to designate State-owned BWIA as the regional carrier of Caricom (Trinidad Guardian, November 19, 1982). Cf. also the efforts to create a Europ-air/Air Union: the present plans for an “Arab Airline Consortium” of five major Arab carriers to operate the US routes falls in the category under ad b.

- ad b) The regulation of air services to non-Member States by carriers of the region can either be left to individual bilateral relationships or be entrusted to a regional inter-governmental body and a regional airline consortium.

However, if individual bilateral relationships are continued, the policies of the individual States within the region must be closely coordinated to avoid “gateway”-competition between them. Such competition would put an intolerable strain on the intra-regional co-operation. This means that the character of the regional co-operation and the intended relations with outside States are closely inter-related. It should therefore be realized that agreement on b) is a prerequisite for agreement on a)!

- ad c) These alternatives (under ad a. and b.) in fact create “one regional air space” as a kind of “cabotage” area, which may be closed to air carriage by non-region States, unless reciprocity is granted (e.g. vis-à-vis the US, intra-State US cabotage could be claimed?)

Such cabotage regions, air politically speaking, would constitute “blocs”, and air services by non-region carriers **within** these blocs could be negotiated on a “bilateral”, bloc-to-bloc, reciprocity basis. The combined, regional strength can be used to obtain greater freedom for the air carriers for air transport services between and via these blocs, or to strictly regulate such air transport services on a 50/50 basis!

The only examples, which I know, of a “bloc” policy are the (ad hoc) ASEAN-action against a protectionist Australia, the ECAC-action vis-à-vis the US in respect of the tariff regime on the North Atlantic, the Eastern-Europe and Arab “cabotage” and the South American doctrine in respect of carriage of intra-South American traffic by non-South-American carriers.

The “**gradual**” approach to regionalism in air transport policy is apparent in the **consultative** character of inter-Governmental regional organizations and the regional inter-carrier organizations¹⁵. Only in the case of the ECAC-US Tariff Understanding did this lead to a multilateral or rather plurilateral arrangement, overriding bilateral relationships between the European States and an outside State, as far as the tariff regime is concerned.

III. DIFFERENT APPROACHES TO AIR TRANSPORT REGULATION

There are two main (and opposite) approaches to scheduled international air transport regulation, viz. based either on the concept of the scheduled airline industry being a **private economic activity** or on the concept of scheduled aviation being a “**public utility service**”. A “parallel system”, i.e. partly deregulated as a private activity and partly regulated as a public activity

¹⁵ Cf. also the “evolutionary” approach to a “common air transport policy” of the European Commission of the EEC

does not seem very well possible in all cases, because of the indivisibility of the general public as an air traffic market.

Europe may be an exception as far as this indivisibility of the market is concerned as in Europe there is a rather clear distinction between seasonal tourist routes which can best be served by charter operations and routes which require and can sustain regular, year-round scheduled services. The seasonal routes are operated by private charter carriers and by charter flights of scheduled air carriers, and are practically liberalised. The “scheduled routes” are closely regulated, also with respect to seasonal charter operations on those routes.

It seems foolish to allow regulated (restricted) and non-regulated (free) operations in one and the same market next to each other unless the market can be divided in separate segments, c.q. time-sensitive and price-sensitive traffic. For scheduled airlines it is uneconomical to limit their operations to either one of such segments.

Nevertheless it is often advocated that operations in the price-sensitive market should be liberalised while the time-sensitive market could then stay regulated.

As **scheduled** airlines carry traffic of both segments in one and the same aircraft, such distinction is purely artificial. Thus the problem is brought back, to the question of liberalisation versus close regulation of scheduled air transport as such.

The role of governments, and thereby the type of regulation under regionalism in international air transport, will depend on one’s choice of approach. In general it can be said that as a rule the “private” approach is a liberal one which will diminish the role of governments (de-control) and promote **competition**, while the “public” approach is a restrictionist one which will enhance the government-influence and lead to **protectionism**.

Both approaches strive after **profitability**, be it that the “public approach” includes the acceptability of subsidies in the public interest, if need be. Given the present state of the world, of the airline industry and States’ air policies, there are no convincing arguments for either approach **in general**. For **specific** countries and markets this may be different.

In practice air policies often reflect a reaction to other States’ policies: extreme protectionism is answered with an outcry for liberalisation, de-regulation is met with cries for “law and order” and greater protection. The question could and perhaps should be asked, which approach would result in the better international air transportation system, if **all** States would accept one and the **same** approach, either the “private” or “public” approach, or even a mixed approach such as in Europe at present.

This question may be easier to answer if asked with respect to air transport regulation on a smaller scale e.g. in a certain region or even within one and the same State. The US de-regulation experience may give a lead. If **domestic** US de-regulation is successful, the “private” approach should be adopted by **all** or a group of States and could **then** work as well internationally between them, at least if the air traffic market concerned is treated as

one market and is sufficiently developed. In less developed markets, it may be wise for economic reasons to temporarily restrict competition to competition between **single**, nationally designated air carriers, as far as the international transportation between all of the participating States is concerned.

The problem in the international field, however, is that States for reasons of their own and depending on their circumstances, follow different approaches and thereby offer no practice ground to find the answer to this question in respect of international, regional, let alone **global** air transport regulation, for either approach.

States, with relatively small markets may wish to protect a market share for their own national air carrier, but then, they may wish to adopt a liberal policy in order to benefit from reciprocal liberal policies of other States, with bigger markets. They may follow a different policy depending on the country they are dealing with.

The domestic US experience remains too controversial to convince protectionist States of the blessings of competition in international air transport. A fact remains, however, that where protectionism reigns, air transport development tends to lag behind the development in more liberal environments.

There are those who worry about the economic recession, over-capacity, currency fluctuations, inflation, rising charges, congested airports, crowded airways, illegal discounting of tariffs and air carrier bankruptcies and wish to maintain a strict **order in the air** by close economic regulation of the airlines' activities, even at the expense of progress. And there are those who just jealously guard what they consider their "own" market and their "legitimate" market share.

The present-day approach adopted by a majority of "worrying" and "jealous" States, therefore, is the "public service" approach, favouring protectionism to safeguard at least a minimum of regular, year-round, scheduled services in the national political and economic interest.

The ten countries of the EEC, on the other hand are bound by the Rome Treaty of 1957 to adopt competition **within** their common market as the best stimulant of their economy.

Only for **air** (and sea) transport they could not yet agree on a common policy to bring this about, because of the "public approach" to air transport, adopted by the majority of the Member States (and because of the inter-relationship between European and intercontinental air services and the non-European character of sea transport).

However, many and ever stronger voices are heard in Europe in favour of introducing competition in European air transport, favouring the "private approach" to the benefit of the consumer and the efficient air carrier. Carriers with their main place of business within the EEC would benefit, if they are owned and controlled by nationals of the Member States at least 50 %. Others, already operating commercially within the EEC could probably benefit as well.

And, of course, "regionalism", creating one market, can be an ideal test-

ground for such competition experiment, as “nationalism” and “protectionism” can be overcome more easily between groups of States, which have many common interests binding them already together in other fields. In this way, “regionalism” can be a stepping-stone to more freedom for the airlines to plan and operate their network.

IV. THE “PLURILATERAL” ALTERNATIVE

Within one and the same region there may be States with widely varying aviation policies. Therefore, instead of regionalism, or in addition or parallel to regional developments, the plurilateral approach deserves attention. It can operate in a wider context than the regional approach as it is not “regionbound”! It simply aims at linking together States which adopt the same “private” approach towards their airline interests and operations. Thus the plurilateral system may throw a bridge across the air **between** different liberal regions or selected liberal States in different regions. The plurilateral agreement as drawn up by the Netherlands¹⁶, provides for full liberalisation of bilateral air relationships, be it that, if desired, a step-by-step approach (partial liberalisation) may be followed towards this end.

In this light, the ECAC-US Memorandum of Understanding on tariffs on the North Atlantic¹⁷ may be mentioned as an example of this step-by-step method i.e. controlled (partial) liberalisation of “pricing” by airlines on the North Atlantic services, be it that the Understanding does not expressly exclude protectionist pricing policies¹⁸.

The “private” plurilateral approach, as a form of “multilateralism”, is the alternative to a regional aviation co-operation which preserves all elements of national sovereignty in air transport regulation (the “public” approach, whereby **Governments** wish to strengthen their control over airline operations through greater air political union).

What is wrong with the “public” regional approach?

To be effective, such public regional approach would need to designate a “chosen instrument” of the region, which could be one or more of the airlines of the region but preferably a consortium of the flag airlines of the region.

While airline-co-operation through mergers or the formation of regional or plurilateral, multi-national consortia would be a **free option** for air carriers under the “private” approach (to strengthen their **competitive position**)¹⁹, it might be a “must” under the “public” approach (to strengthen

¹⁶ Cf. “International Air Transport in the Eighties”, Kluwer, the Netherlands, 1981.

¹⁷ Cf. the Memorandum of Understanding of May 2, 1982, extended till the end of October 1983. ECAC Secretariat December 1, 1982.

¹⁸ E.g. no solution is agreed as to competition between direct and intra-line/inter-line air transportation. Cf. reservation made by the Netherlands when adhering to the Memorandum of Understanding (p. 30E).

¹⁹ Note the increased number of mergers between US carriers under de-regulation.

their air political position). For in order to be able to pursue their “public service” approach, the governments concerned must have one (or more) “chosen instrument(s)” to exploit **together** the greater quid-pro-quo reciprocity which they can **obtain together** from the outside world in return for granting “foreign” airlines access **to their region**. If they can’t agree on designating one or a few of their carriers as the “regional chosen instrument”, a regional consortium is the answer²⁰.

Under the public approach, regions will then (have to) act as “blocs” in air negotiations on a “bilateral” quid-pro-quo basis. This will simplify, but also **intensify** the power play in the bilateral negotiating process. The question whether this will result in inter-regional agreements more beneficial to the participating nations’ economy and the travelling and shipping public must remain unanswered.

Whether a better, world-wide air transportation system would result is equally uncertain.

The “private” plurilateral approach, on the other hand, promotes an integration of the world air traffic market, favouring free access to the markets of the Member States for their airlines and the adherence of an ever growing number of nations to the private approach.

The public regional approach starts with a “closed door” policy, while the private plurilateral approach starts with an “open door” to the world.

V. REGIONALISM IN THE GLOBAL CONTEXT

We have explained two theoretical and extreme approaches in respect of air transport regulation: the private-and-liberal approach and the public-and-protectionist approach. Moreover we have mentioned the alternative c.g. additional (or parallel), plurilateral approach, which allows for progressive liberalisation “across” the regions of the world.

Then we have noted the policy presently practiced in Europe: the private liberal policy in respect of charters, next to the public restrictionist policy with respect to scheduled services.

Under this European, parallel approach charters and scheduled services are kept apart as much as possible to avoid competition for scheduled services by charter flights and the reverse. The drawback of the restrictive approach in the scheduled services field is that expansion of scheduled services is slowed down artificially.

When we look at the world-wide picture of long-distance services, the trunk routes between the different parts (regions) of the world, we cannot ignore the wide differences in level of economic development between the regions.

The UNCTAD recently noted that the “gap” between what is called the North (the industrialized world) and the South (the Third World) is widening.

²⁰ Cf. the Caricom countries choice of **one** of their flag carriers as their “chosen instrument”.

Whatever aviation policy or airline co-operation is built up **within** any particular region, the economic regulation of air transport services **between** different regions must take account of these differences. For example: a regime for air transport between Europe and North America, or between Europe and the Arab region cannot be applied uncritically to, for instance, air transport services between Europe and Africa or between Africa and Asia, or between North America and Latin America.

Also **within** each particular region great differences between various countries may exist, which prevent a "regional approach", both in respect of intraregional air transport services and with respect to air transport services to/from other regions.

It may be, therefore, that "regionalism" in some cases, can only work **inwardly** and there even only **partly**, while no overall co-ordination is possible because of diverging interests between them and vis-à-vis non-region States. As close **political** co-operation is a pre-requisite for **outward** co-ordination, no regional policy may then be developed vis-à-vis the outside world.

The aviation relationships between developed and less-developed nations, whether or not organized in regional blocs, will in many cases be determined by the "compensation" which the developed nations are willing to offer to the less-developed partner. Now States can be characterised as high income, middle income and low income countries, as industrialised, new industrialising and less developed countries. The question of "compensation" shall arise in unequal situations and depend on the benefit air services offer to the less developed State and the possible adverse impact of foreign air service on the air services of the national airline, at least if that airline is considered to be a "public utility service" of the nation.

Thus, compensation in aviation terms, will depend on whether the national airline concerned is competitive and operates as a private enterprise or whether the airline cannot (yet) hold its own under competitive conditions and is regarded and treated by its State as an instrument of national policy, subsidised if necessary and protected, as much as possible, from competition.

The latter is the case with respect to most airlines of less developed countries. The choice for the L.D.C.'s will then be between the advantages of having a national airline and the advantages of an open market.

The more competitive an airline becomes the less protection, subsidy or compensation it requires, but the more freedom of operation it needs and the more freedom for foreign carriers it can tolerate. Liberalisation is the road to efficiency and independence through competitiveness. The airline, however, may need **temporary** assistance on the way (i.e. temporary specific protection or temporary compensation for the adverse impact of foreign competition). The choice for such airline is "hopeless protectionism" or "growing but measured competition" coupled with temporary **assistance** as compensation.

"Compensation" can be translated in money or airline co-operation. Co-operation can be translated in assistance, pools or joint ventures. One thing

should always be kept in mind: air transport is not an end in itself. It is an economic activity which can yield prestige or profits. To yield profits, **efficiency**, not protection or compensation in money, is the key. This leaves inter-airline co-operation as the best choice.

As air transport is also an activity which acts as a catalyst for other economic activities (the tourist industry is an example; the slogan: "traffic is trade" or "trade follows traffic" is an other), each individual country or each region should determine its priorities in this light. The development of an own airline industry should not go to the detriment of this important role of the airlines.

Regional unity can be strength but it can also be counter-productive. The purpose of regional and international co-operation should be to better integrate into the world system and to become competitive and able to allow competition. Regionalism becomes counter-productive when it leads to protectionism, which isolates the region from the world air traffic market²¹.

Protectionism, therefore, is a dead end and self-defeating: it kills what it wants to protect, unless it is used temporarily and moderately to build up the national or regional competitive strength²².

Times are hard for world aviation, the sun is setting and it will remain dark if States don't wake up! As it is, States and airlines are becoming ever less lenient vis-à-vis each other! But winds of change are rising. One form of change is inter-airline co-operation and more pronounced "regionalism". The question is whether States, under a regional policy, can afford to, and will become more open-minded again, or, on the contrary, wish to re-enforce (their) protectionism.

True regionalism can only mean

- a) more freedom for carriers of the region **within the region** c.q. the formation of regional consortia of airlines of the region, together with
- b) more regional co-ordination of air policies vis-à-vis non-region States.

The **option** under b) then is either to follow a "private" or a "public" approach, that is, a liberal or a protectionist approach.

It would be a mistake to think that the "private" approach stands for complete "de-regulation", "freedom of the skies" and unfettered competi-

²¹ N.B. Helmut Schmidt has recently characterized protectionism as a "flight into suicide"!

²² It must be noted that States in general and the LDC's in particular jealously guard their sovereignty and recently their permanent sovereignty over their natural resources. International agreement and co-operation, however, should be seen as a co-ordinated exercise of sovereign powers, conditioned upon a common purpose, upon its realization along agreed lines and upon the termination of such co-ordination (when circumstances change substantially) in accordance with agreed procedures. It is an extension of sovereignty inasmuch as the sovereign partner is bound to act as negotiated and agreed. International agreement suspends the right to act arbitrarily and unilaterally in the matter concerned. If the relative power between the parties changes, however, States may wish to disregard international agreement. Aviation, therefore, is characterized by short-term agreements or short-notice cancellation clauses, which promote agreement on interim amendments or adjustments.

tion. Not all criticisms of US-type de-regulation do apply to what I call here the “private” approach.

On the other hand, the “public” approach does not need to necessarily lead to “**a-priori**” protection, i.e. protection **before** the need thereto becomes apparent in the market place. The original Bermuda air agreement of 1946 wisely left restrictions on airline operations to ex-post-facto reviews.

Government intervention could (and should, in my opinion) indeed be limited to cases, where the national airline threatens to be **unduly** affected by competition, notwithstanding its own efficient performance. In Europe we talk of “safetynets” for such occurrences, when trying to introduce more elements of the “private” approach into air transport regulation²³.

It would seem, therefore, that the compromise could be a “private” approach, allowing an optimum of competition, coupled with a “**conditional** public approach” to safeguard continued national (or regional) participation in the competition.

VI. CONCLUSION

There is no possibility of a uniform application of a general formula for liberalisation (de-regulation) or protection (State-control) to the world’s airline industry. There are too many differences and inequalities between the various States and regions, their airlines and their markets. What is important, however, is to find one uniform **direction** in which to move towards world-wide economic aviation regulation: The simplistic “public” approach only serves to accentuate the differences and inequalities between States. The US-type “private” approach, under the present-day circumstances in the world, only favours the strong at the expense of the weak.

The compromise could be to gradually go from bilateralism to regionalism or plurilateralism and then to multilateralism, building up, step-by-step, **equality in the competition**, while safeguarding, through “safety nets”, each State’s participation, directly or indirectly. While gaining national economic strength, States can then gradually move from the “public” to the “private” approach.

The technological advances in all fields of airline operations must be exploited to the optimum to improve the product and reduce costs and thus enable the airlines to keep up with the competition. One may try to exclude competition as much as possible, but then the protected air carrier will lag behind the inexorable march of science and society.

One should never confuse short-term gain and long-term benefit. States therefore should all move in a direction which ensures benefits for all on the longer term.

The regional co-operation between the African countries in the AFCAC

²³ Cf. the report of the Task Force on competition in intra-European air services. ECAC Doc. N° 25, “Report on Competition in intra-European air services”, Paris, 1982, and ECAC Press release on this “COMPAS” report, of November 12, 1982.

and especially also between the African carriers in the AAFRA bears testimony of the will to find constructive solutions²⁴.

The regional co-operation between the Latin American countries (LACAC/AITAL) still emphasises the sovereignty of States with respect to civil aviation, while the European States cannot find a "common air transport policy", because of the extreme "nationalism" of a number of them.

Arab regionalism contains many elements of a sound outward looking approach.

Asian aviation co-operation is still in an early stage.

North Atlantic co-operation shows a promising trend.

East-European aviation co-operation, finally, remains an instrument of the official policy (ideology) of the Member States.

I have come to the end of my presentation:

Regulation should adjust to the situation it is to apply to. Regulation "before the fact" is bound to be "doctrinaire". The airlines need flexibility to create for themselves the optimum situation, taking into account the existence of others, with the same objective, and the ever changing circumstances. The regional c.q. plurilateral approach is eminently suited to eventually find and build a universally acceptable pluriform global regulatory framework for international air transport, adjusted to the needs of world aviation and adjustable to changing circumstances.

To-day, world air transport is a **product** offered by (too) many airlines. Because, for the airlines, the world air transport **market** is a cake which is too small to feed them all according to their aspirations (appetite). The fare level required to get a cake big enough to do this, is unprofitable for most airlines.

Regionalism is a way to rationalize production, and remove undue restrictions, thereby decreasing costs and creating a bigger market at low but **economic** tariffs. Regional co-operation, however, should then not be a defensive and isolated effort, but a way to better integrate into the global air services network of the future to arrive, via a plurilateral stage, at a truly **multilateral** economic regulatory system for international air transport.

²⁴ N.B. The intra-African scheduled air services network, like the present intra-European scheduled network, is politically determined, reason why, on a bilateral basis, mainly (uneconomic) point-to-point services are operated (Cf Erik Wassberge in ITA Magazine, No. 3, February 1983).

OPPORTUNITIES FOR REGIONAL COOPERATION IN INTERNATIONAL AIR TRANSPORT

BY JOHN E. DOWNS

The title of the presentation might be called “the swan and the egg” or “in whose region are you” or “lend me some sovereignty”.

In 1944, ICAO was created and one of the most important documents involving freedom, the Chicago Convention, was drafted. Since its beginning in 1944, the Convention has now been recognized and ratified by 150 States. The Founding Fathers conceived the idea as an international body to concern itself with operational, technical and legal aspects of international civil aviation. In short, the Founding Fathers were looking for standardization so that we would not fly our planes on the wrong side of the airway as automobiles are driven on the wrong side of the road, depending on whose road you are driving on.

The reference to economic aspects was in many ways an afterthought and is found in Article 44 of the Convention, which provides in part to “foster international air transport so as to meet the needs of the transport; and prevent uneconomic waste caused by unreasonable competition”; Article 77-79 provides for joint operating organizations and participation in operating organizations.

Despite the looming problem and opportunity of additional operational questions, satellite communication, inertial guidance systems, the entire problem of systems planning, the transmission of meteorological and collateral information, a new generation of aircraft and aircraft engines, a new horizon in weather briefing and knowledge, not the least of which is the question of micro-burst and wind shear, there seems to have crept into the minds of the aviation world the thought that ICAO has reached some kind of a technical apogee and that ICAO should direct its attention now to air transport matters and that, indeed, economic and air transport matters should move to the forefront. It has even been suggested, and a paper was introduced at the last General Assembly suggesting that certain areas of air transport would be raised by ICAO to standards or recommended practices.

New and better devices are being created every day in the United States and throughout the technical world with reference to switching systems, air-

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borne and ground control collision avoidance systems, automated transfer of speed-of-sound aircraft from one flight information region to the next. The new Boeing 767 which some of you have ordered is in many respects a new generation of aircraft with separate airworthiness, certification, and designed to meet a technical need, as well as an economic need, for the next five to ten years.

Without regard to the logo on the tail of the 767, that is, whether not there is a giraffe for Air Tanzania, or the symbol of any of your great airlines, this aircraft will stall at precisely the same angle of attack and speed. The question of obstacle clearance will not have regard to the identity of the crew. The minimum descent altitude will remain constant regardless of the colour of the paint on the outside and whether or not the operator is making or losing money in his operations.

In short, technical standards are a state of the art and a fact about which there is no dispute regardless of the political philosophy or personal predilections of the owners and operators of the aircraft and if, indeed, there are quarrels between those owners and the sovereign states, the big aluminium bird at the end of the runway is unaware of these quarrels and performs in precisely the same way at every circumstance; perhaps the density altitude problem would be the same in Kathmandu as in Denver, Colorado, but the aircraft does not know geographically where it is.

It is in this respect that ICAO has presented to the world the safety and guaranteed landing which was the dream of the Founding Fathers.

The Council, as you know, elects 15 scientific experts from around the world every three years to act in some respect as a autonomous subcommittee making recommendations in the field of technical excellence which are ratified by the Council and then passed to your states for acceptance or rejection via the ICAO process of making standards and recommended practices.

To what body would the world suggest that we pass the question of economic theory and advance these theories to standards and recommended practices? Who is to say that Adam Smith, Thorstein Veblen, John Maynard Keynes, Karl Marx, John Kenneth Galbraith, John Stewart Mill were right or wrong as they viewed the economic prognosis of the world. Who is to say that a wholly controlled economy is better than a partially controlled economy or that a free economy is better than the other, or a combination of any of the economies are a fact and not a theory?

Who would suggest that ICAO should devote its time to the promulgation of rules involving predetermination, dual disapproval, country of origin, tariff enforcement, fifth freedom, sixth freedom as a standard to which your countries would find it necessary to file a difference or, in not filing a difference, shackle the minds and hands of your bilateral negotiators when you deal with your neighbours, and in this case your neighbours are not people next door necessarily. Your aviation neighbours are the people on the face of the earth.

Regionalism, whose regionalism? Is regionalism geographic regionalism

or is it common purpose, and indeed if it is common purpose, who is to delineate the common purpose. Is anyone suggesting that ICAO would become a worldwide CAB? In the United States we have found with our 48 contiguous states that the rule-making authority of the CAB and the good it did was outweighed by the evil and disadvantages of control. And despite the failure of Braniff, the decontrol in the United States, even in the face of the falling economy, has caused a burgeoning of feeder airlines, and indeed the well-managed airlines are making money to this day and no airlines look back with regret to the old days.

I have displayed here a map of the world in which the most recent drawing of the air navigation regions of the world are set out. We are standing in the Middle East region; who decided where these black lines would be drawn and who has decided that the midregion should be changed, and who will make these changes? Answer: the International Civil Aviation Organization. All of your states have received a State Letter from the Secretary General of ICAO Navigation Meeting. In the handout I have provided you will find the agenda for the Middle East regional Air Navigational Meeting. The agenda items are not closed and member states may introduce with the proper procedure other agenda items. It is interesting to note that in all of the vital items and those to be added we do not in the provisional agenda provide for any type of economic rules as it relates to air transport.

There has not been a MID meeting since 1968. This was held in Manilla in the Philippines. Since 1968, therefore, we have seen changes which to some would seem to be like Alladin's flying carpet and the absolute need to focus on these changes and at the highest technical level. I have reviewed the roster at the recent Asia/Pacific regional air navigational meeting and most pleased to see that representatives of Middle East were in attendance. It is not too early for any of us in aviation to carefully consider the coming Middle East meeting and mental preparation should be accompanied with documents to ICAO. It is probable that this meeting will be held in Montreal early next year.

In short, I have in my hand the very extensive agenda touching all segments of operational safe aviation, all of which are old and none of which are new but all of which are new.

In this relatively short period of time which will be devoted to the massive question of civil aviation in the regions and as the regions connect with the world, how could we devote ourselves in the Regional Air Navigation Meetings to the question of the economies of the various sections of the world.

Surely, such an allocation of time would bog down the aviation world indeed as the Air Transport Agreement which was open for signature at Chicago has never come into being.

Which of your countries and airlines would surrender their economic sovereignty and determination to a group; who would dominate this group? Having stricken our colonial chains, politically would we offer our wrists to be bound to economic chains?

The International Air Transport Association is an excellent trade association. Their contributions in the field of operations, and their research in this area is invaluable in the safety of aviation and in my four and one-half years with ICAO I found myself consulting with these forthright and capable people on almost a weekly basis. Their contributions, as you know, in the field of interlining and facilitation matters are without parallel, and their briefs and arguments to our appellate courts and regulatory bodies in the United States are received with the greatest care and respect.

I question, however, the IATA or any organization, be it the Air Transport Association of the United States, ATA, or ECAC, or AFCAC, or LACAC, can and do have the expertise to set down rules involving financial operations of our airlines.

The region of the world in which the airlines belong is the world. Indeed, within ICAO the suggestion has seriously been made that in Africa we change the semicircular route from north to south to east to west. The proposers of this have assumed the Africa is a region and have forgotten that Northern Africa bounds on the Mediterranean Sea and the Mideast and that such a change would have impacts operationally on all of the airlines who serve Africa from any direction.

It occurs to me that the trade associations of airlines should be in competition and that competition is healthy. It occurs to me that unreasonable competition, the phrase used in the Chicago Convention, or predatory rate fares, are the subject of bilateral negotiations and not a subject of surrender of sovereignty to regional spokesmen.

In the field of the region of the airlines vis-à-vis other political groups, we are constantly under attack and technical standardization is always at issue. IMO, which used to be called IMCO, is purporting to set us rules involving helicopters. UNCTAD has created the multimodal convention, which is at serious variance with the Warsaw Convention, and in the opinion of many aviation legal experts will present and does present a conflict of law in connection with the area of liability, has venue clause and recovery which will keep the lawyers of our countries and airlines in court for years. As we approach the area of the recent amendment to the Chicago Convention involving lease, charter, and interchange, I should not like to see regionalism turn into a protective tariff type of trade association.

It seems to me we are having a regional meeting on air transport at this very moment without the danger of having this meeting misconstrued as an opening shot. The following questions will not be raised as a result of this meeting:

- 1) Which carrier or carriers will a region designate to serve the United States.
- 2) Will the features of the operating agreement apply to cargo as well as passengers. And in this connection it is interesting to note that an airline is an integral and inseparable part of the industry of country and we note that the third world is becoming the source of the most effi-

cient and economical fabrication of goods to be transported by air to the developed world.

- 3) Will our close neighbours wonder whether or not the major airports in a region will become a hub airport for a commuter airline, and if they are not parties to the formal agreement will their to be formed prosperous airlines come to this region? Or transfer their cargo and passengers to a hub outside the region. And next will the carriers and states in the region be able to tailor their schedules and bilaterals to market demands, to tailor route networks to match traffic flow? Will major carriers consider the ceasing of service into a region where regulation reduces incentives for efficiency causing airline costs to become inflated.

Recently one of the leaders in this part of the world in discussing mergers of airlines had this to say “We must continue to grow and do the things we believe need to be done despite our losses”. A rigid regional agreement would seem to me to cast a shadow over the prospect of such growth and what agreement can be drawn except that by its very nature it tends to be very rigid and fails to cover such contingencies as new entries into city pairs and expansion.

In the forty years since Chicago and the International Air Transport Agreement failed, can we believe now that the 150 nations on the earth should divide themselves into geographic regions devoting themselves to questions of Bermuda-1, Bermuda-2, regulation, deregulation, currency conversion, all at the expense of the time necessary to ensure flight safety and advancement technically?

Perhaps this story is true, perhaps it is not, but it involves the beautiful swan who was incubating the eggs for her next generation when a zookeeper slipped a crocodile egg in amongst the swan eggs. Sure enough, in due time the cignets cracked out of the eggs and the baby alligator cracked from his egg. The mother swan was looking forward to the graceful swoops in the air and teaching all of her offspring how to fly and how to get along with the other birds. She was puzzled with the interesting and peculiar creature found in her nest but cared for it anyway with the thought that perhaps she would be protected as would her offspring. Not suprisingly, in due time the alligator grew enough to swallow the swan and her children.

Is the invasion of economic rule-making in the field of the International Civil Aviation Organization and its satellite members an egg which although attractive at first will hatch and incubate in such a fashion that in due time it will be necessary for the aviation countries, and that is now nearly every country in the world, to have a new meeting in Chicago so that we can divorce ourselves from the economic jungle and get back to the basic reason for aviation organizations, safety in the air.

Aviation should be grateful, and is grateful, to ICAO, and I only wish all of you could have followed this organization for the past four and one-half years under the direction of perhaps the most distinguished and single-minded person in the world with objectives of the safety of aviation. I refer to

our President, Dr. Assad Kotaite. Last month I left Dr. Kotaite's office realizing that I was leaving the presence of a great man under whose direction the International Civil Aviation Organization has served every corner of the globe. We in ICAO have not concerned ourselves with regional interests and clashes of a political nature. This is due to the soul and genius of Dr. Kotaite. We will all look forward to your heavy participation in the tri-annual assembly to be held in September this year.

ATTACHMENT B TO STATE LETTER SR 156/1 - 82/127 AGENDA MIDDLE EAST REGIONAL AIR NAVIGATION MEE- TING

1. Amendments to the AOP plan concerning the physical characteristics of aerodromes, provision of visual and non-visual aids to approach and landing, and the choice of suitable alternate aerodromes, in respect of:
 - (a) aerodromes, not already in the plan;
 - (b) changes in the critical aircraft, route stage distance and aerodrome designation;
 - (c) changes in the type or operational performance category of runways;
 - (d) outstanding amendment proposals that have been circulated to States prior to the meeting but in respect of which objections have been raised but have not been resolved.
2. Amendments to the ATS plan in respect of:
 - (a) required changes to the airspace organization arising out of the table of aircraft operations*;
 - (b) required changes to the ATS route structure arising out of the table of aircraft operations*;
 - (c) required changes to the plan of nav aids arising out of (a) and (b) above;
 - (d) required changes to the communication requirements arising out of (a) and (b) above;
 - (e) civil/military co-ordination;
 - (f) changes required to the SAR plan consequential to changes made to the airspace organization;
 - (g) outstanding amendment proposals that have been circulated to States prior to the meeting but in respect of which objections have been raised but have not been resolved.
3. Amendments to the MET plan in respect of:
 - (a) changes required to the MET services in the light of changes to the AOP and ATS plans recommended under agenda items 1 and 2 above;
 - (b) review of the regional aspects of the area forecast system;

- (c) review of the MET exchanges and the Regional Operational Meteorological Bulletin Exchange (ROBEX) Scheme in the light of changes to the AOP and ATS plans recommended under agenda items 1 and 2 above, and of relevant changes in aircraft operations and basic operational requirements;
 - (d) outstanding amendment proposals that have been circulated to States prior to the meeting but in respect of which objections have been raised but have not been resolved.
4. Amendments to the COM plan in respect of:
- (a) changes required to the aeronautical fixed services in the light of changes to the ATS and MET plans recommended under agenda items 2 and 3 above;
 - (b) changes required to the aeronautical mobile service in the light of changes to the AOP, ATS and MET plans recommended under agenda items 1, 2 and 3 above;
 - (c) review of the nav aids and mobile frequency assignment plans in the light of changes to the AOP, ATS, MET and COM plans recommended under agenda items 1, 2, 3 and 4 (b) above;
 - (d) outstanding amendment proposals that have been circulated to States prior to the meeting but in respect of which objections have been raised but have not been resolved.
5. Implementation programming including consideration of future planning processes and machinery in the MID Region.

* The table of aircraft operations will be prepared by the Secretariat on the basis of information provided by States and operators concerned.

THE ROLE OF REGIONALISM IN GLOBAL AIR TRANSPORT

SUMMARY OF REMARKS BY SECOR D. BROWNE

Recent world events - military, diplomatic, political and economic - have brought into sharp focus the many problems of the world's civil air transport system and the critical need for nations and their governments to understand the fundamental importance of that vital integrated system of transportation and communication in today's world.

The simplistic notions of the role of air transport put forward in some of the developed nations - particularly in the United States - which hold that each airline is an individual commercial venture like any other business enterprise are being increasingly demonstrated to be naive by the economic chaos afflicting our domestic and international air carrier and those of other nations.

With respect to **internal** air services, the airline must be considered an essential public utility providing necessary transportation services in the public interest that are both reliable and fairly priced for both the user and the provider of those services. Even a brief view of the economic condition of U.S. domestic airlines today and the chaotic pattern of air services and fares will emphasize that these public services cannot be assured without regulation by the central government.

With respect to **international** air services, the simplistic economic free market "Open Skies" theory of one nation cannot, however strong its superficial populist appeal, be forced on a global air transport system the vast majority of whose partner nations do not subscribe to such economic theory nor do they believe that their airline(s) could survive in such an unregulated economic jungle.

That majority of international civil aviation partner nations see civil air transport as an essential instrument of their own national/regional/world political, diplomatic, defense, social as well as economic policy. And even that economic policy is viewed as embracing **total** economic policy - not simply civil aviation economics.

In addition to the civil aviation regulatory bodies of the individual partner nations of the global air transport system there must be, and are, organizations (ACAO/IATA) where solutions can be sought to global international civil aviation problems which can not be resolved in bi-lateral agreements.

The bi-lateral mechanism may be adequate to reach agreement on com-

promises between two partner nations, but national and regional differences and inequalities in economic and technological resources, markets, populations, living standards, etc. - to say nothing of geographical limitations, advantages, disadvantages in distances (market proximity -stage lengths, terrain, climate, etc.) raise other problems which can be best solved at a regional rather than at a bi-lateral or global level. Obviously, that has been the requirement, and is the role, for the regional airline associations of the Middle East, Africa, Europe, Latin America and Asia in global air transport.