Proceedings

The Airline Industry in the 1990's

GREGORY A. CONLEY[1]

Good morning. I am very happy to be here this morning to discuss my perspective of the airline industry in the nineties. Just looking at the program brochure for this seminar is an indication of how rapidly changing the airline industry may be in the nineties. Two of the so-called "mega carriers" listed in the brochure are now in bankruptcy, another is entirely out of business, and one of the so-called "Second Tier" carriers is also in bankruptcy. And since I have been out of the country the last few weeks, there may have been even further casualties to these lists given the challenging financial environment that airlines are currently facing.

I believe this rapid change also will be seen in the computer reservation system (CRS) business in the nineties. This rapid change in CRS will be brought about primarily by three forces, two of which are natural and one of which is unnatural. These three forces are globalization, technology and, the unnatural one - regulation. I will talk briefly this morning about each of these forces and the potential effects they may have on CRS in the nineties.

I. GLOBALIZATION

Before discussing globalization, it's useful to look at how CRS has evolved over time. The CRS systems of today originated as internal airlines systems. After this initial phase, these systems were modified and marketed as national CRS systems to travel agents. The next phase in the CRS evolution was the transition from national CRS systems to regional CRS systems. For example, Covia markets Apollo today outside the United States in such countries as Japan and other parts of the Far East. We are just at the beginning of the next step in the CRS evolutionary process, global systems.

A commonly expressed opinion is that the push towards CRS global-

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ization is being driven by carriers. In my view, this push towards globalization comes primarily from travel agents. Travel agency operations are expanding throughout the world from growth and from acquisitions. These agencies need, and are demanding, complete information and access to that information through a single CRS system. Some CRS vendors are attempting to satisfy these agency demands for globalization by brute force, pushing their way into various countries around the world. At Covia, we believe that partnership is the way to efficiently achieve globalization.

The effects of CRS globalization in the nineties will be substantial. Travel agents, and indirectly, travelers, will recognize great benefits from global CRS systems. As I have mentioned, global CRS will bring increased efficiencies to travel agency operations by providing complete information and access to that information through a single CRS system. In addition, the push towards CRS globalization may result in a consolidation of CRS companies around the world into several direct global competitors.

II. Technology

Technology is the second force which will rapidly change the CRS business in the nineties. It is often overlooked that CRS systems consist of some of the largest computer networks in the world, coupled with some of the largest computing facilities in the world. In order to implement global CRS, advanced flexible technology tools are an absolute requirement. United States CRS systems -particularly Covia - are the undisputed world leaders in CRS technology. Unfortunately, the United States cannot make such a claim about very many other businesses today. It is this technology leadership that is bringing about CRS globalization by Covia at a rapid pace.

So what are the effects of technology on the CRS business in the nineties. First, technical advancements will give carriers, travel agents, and travelers more choices than they have ever had before. For example, carriers will have more choices about how their product is distributed; travel agents will have a wider range of possible services to offer travelers; and travelers will have the ability to make all their travel arrangements themselves directly from their homes. Second, technology will make CRS systems more flexible and easier to use.

III. Regulation

That brings me to the third force that will shape the CRS business in the nineties - the unnatural one - regulation. As many of you may know, the CRS business became regulated in 1984. Those regulations were set to expire at the end of 1990, and the United States Department of Transportation (DOT) commenced a rulemaking proceeding in 1989 to review the existing rules and determine if continued regulation was necessary, and if so, what changes in regulation were required. The DOT extended the current Rules until November of this year (1991) and recently published its proposed new CRS rules for comment. These proposals are far reaching and have the potential to alter CRS in a number of reasonably foreseeable ways, and in perhaps many more unforeseeable ways.

Before briefly discussing the proposed rules and their possible effects, I feel compelled to say that in my opinion, these proposals are founded upon a totally incorrect view of the CRS business. The two basic premises that the DOT has founded its proposed Rules upon — that the CRS business is a monopoly market and that CRS companies are outrageously profitable, are totally incorrect. To prove that these premises are incorrect, only a brief examination of a few basic facts is required.

Let's look at the monopolized market premise. Here are the facts: First, agents change CRS's frequently in spite of the rhetoric that contracts between CRS companies and travel agents severely impede such changes. Second, travel agents are paying dramatically less for CRS services each year. Third, the basic booking fee to airlines did not increase - even to account for inflation - for five years. And fourth, CRS features and enhancements continue at a rapid rate.

These are not the characteristics of a monopolized market. In a monopolized market, at a minimum you would expect to see agents paying increasingly higher above market rates for CRS services each year, frequent large increases in above market rate booking fees to airlines, and very little or no investment for new features or enhancements. The facts demonstrate that contrary to the rhetoric, the CRS business is driven by vigorous competition.

Insofar as the premise of outrageous CRS profitability goes, the combination of substantially lower revenue from travel agents, the decrease - in real terms - of over ten percent in the last five years for the basic booking fee, and the increase in expense driven by the reality of fifty percent more work per booking transaction today than five years ago (this is what I refer as the fifty percent more work for ten percent less money phenomenon) has caused CRS profits to decline to very modest levels. In fact, since I believe Covia is the most efficient provider of CRS services, Covia may be the only profitable CRS on a truly stand-alone basis.

So now that I have that off my chest, let's look at some of the basic changes proposed by the DOT. I should say initially that the DOT took more than a hundred single spaced pages to explain its proposed rules, so given the time constraints of this morning, I can only touch on a few of the many proposed changes. Two of the basic categories of proposed changes that I would like to briefly discuss are changes which govern the basic contract between the travel agent and the CRS company, and the changes which affect the provision of CRS services.

Insofar as the proposed contract changes are concerned, the DOT proposes to eliminate minimum - use provisions (i.e., the basic agreement between the CRS company and the travel agent that the travel agent will actually use the system), reduce the maximum term of the contract from five years to three years (given a prohibition on minimum use provisions and the result that an agent would have no obligation to use the system at all - the term of the contract may become essentially irrelevant), and prohibit productivity pricing (i.e., a CRS company could not charge a travel agent a lower rate if it used the CRS system more).

Insofar as the changes affecting CRS services are concerned, the proposed DOT rules call for multi-access through a single terminal and, at least in DOT's view, a greater ability for agents to use third-party hardware and software.

So what are some of the possible effects of the proposed rules? Again, given the press of time I will only be able to touch on a few possible effects. But since the effect on travel agents may have been overlooked, I would like to focus principally on those possible effects. It is worth noting, however, that some agents and agency associations opposed additional DOT regulation.

The first possible effect of the proposed rules is that they will result in financial uncertainty. This financial uncertainty stems from the fact that the basic economic pricing model in the CRS business will have to radically change because the basis of this model is the "minimum use provision" and "productivity pricing." The so-called "free automation" reported in the press is founded upon the basic agreement between the CRS company and the travel agent that the agent will use the system which in turn produces booking fees for the CRS company. The proposed CRS rules would prohibit this basic agreement between CRS companies and travel agents. This change in the pricing model may result, particularly for smaller agencies, in higher prices for CRS services. In addition, this financial uncertainty may discourage investment in United States CRS systems by their owners. This could jeopardize the technical leadership position enjoyed by United States CRS companies and undermine their ability to continue in a leadership position as CRS pushes towards globalization.

The proposed changes regarding CRS services may also have several effects. First, multi-access from a single terminal and increased use of third-party hardware and software may create a much more complicated and inefficient environment for travel agents. Multiple hardware, software and service providers could make the support and maintenance environments much more difficult and complicated - the day of one stop problem resolution with the CRS company could be in jeopardy.

This could mean, for example, that when a travel agent experiences a problem with the system, unlike today when the agent simply calls the CRS company, the agent will have to deal with multiple service providers. In an environment of multiple hardware, software and maintenance providers the diagnosis and repair of the problems could be more complicated and more difficult. In addition, travel agents will need to train their agents to use multiple systems in a multi-access environment, and agents will also have to develop a mechanism to track what CRS system in which each particular traveler's reservation was made.

This is important because when a traveler calls at midnight to change her reservation and speaks with a different travel agent, that travel agent needs to know which of the systems accessible through the multi-access terminal contains the passenger name record for that traveler. Travel agents may indeed seek to maintain the simplicity and efficiency of their current operations even in a multi-access environment. This may evidence itself through agents settling on one or two systems which could lead to a substantial reduction in booking revenue for CRS systems which are not favored by agents. This in turn could lead to the reluctance of a number of carriers to continue to participate in CRS systems which are little used.

IV. CONCLUSION

Because of the negative rhetoric that you see regarding the CRS industry, it is often forgotten that CRS represents one of the most beneficial developments in the airline industry in its history. CRS is the reason that new airline entrants can get their products to market immediately without any up front costs. CRS promotes and facilitates a carrier's ability to immediately provide a competitive response to the fare and schedule changes of its competitors. CRS insures travelers of the lowest fare and the most convenient flights available, and much, much more.

CRS today is vigorously competitive and United States CRS companies, particularly Covia, are world leaders in CRS technology. In the nineties, absent overreaching and ill-founded regulation, CRS will provide even more benefits to carriers, agents and travelers on a global scale. I am optimistic and I am looking forward to helping shape the advanced global CRS systems of the nineties. Thank you very much.

T. ALLAN MCARTOR[2]

Those of you who know me know that I have opinions on just about all the aviation issues of one type or another, but I'm going to try to focus my remarks today on the cargo side of our industry. Cargo is a legitimate player in the air transportation system. Most of the high-value, time-sensitive goods in our country and around the world rely on air transportation for their delivery. So cargo, freight and express are all very essential logistics links and not just some fly-by-night airlines as some would think we are.

The traditional transportation markets can be divided into three sectors: mail, parcel post and freight. In these traditional markets, there's little emphasis on service levels. While people relying on these services are interested in dependability, their sensitivity to time, certainly is relatively low. Additionally, there is little need to take any custodial control of the item in transit. And often these shippers and recipients don't require an invoice with complete accurate records of the transaction, much less proof of delivery of each shipment.

Over the years, however, a separate express market has evolved, also with three distinct segments: express documents, express packages and express freight. Freight is defined in this context as items which must be handled with equipment assistance. Unlike the traditional transport markets, all three express segments are highly time-sensitive. Because of their high value, strict custodial control is required.

Currently, there are two air transport markets. One, traditional mail, parcel and freight which is much larger in terms of unit volume. The other, the express market which is characterized by high revenue per shipment.

If present international trends continue, both of these sectors should have a strong economic future. Federal Express, of course, is a great believer in the long-term profit potential of the express market. Our rationale is based on three factors. First, expanding international trade. Second, the impact of economic downsizing. Third, the effects of fast-cycle production trends. It's hard to avoid the realization that the U.S. economy is becoming much more like the European and Asian economies, which are entirely tied to global trade.

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In 1960, less than ten percent of the U.S. economy was involved in global trade, and the vast majority of that was agricultural products and petroleum. By last year, that figure had grown to about twenty five percent of our GNP. But, that is already changing.

According to the U.S. Department of Commerce, as reported in the March twenty first USA Today, exports rose three point six percent in January to thirty-four point five billion. Imports rose four point eight one to forty-one point five percent and I predict you'll see much more equal balance in the next two to three years, as soon as the recession dissipates.

Robert Ruska, an economist at Nico Securities, adds another bright note. Given restored U.S. competitiveness, he believes U.S. firms will find it easier to compete with overseas imports. Reports from our company's North Pacific Region are of an international trend. One of the most dramatic changes they've witnessed is the current near equilibrium between westbound and eastbound traffic. Only two years ago, it was sixty five percent to thirty five percent. To show you how far this trend will probably go, let me point out that almost sixty percent of the German economy is devoted to international trade of one sort or another. Of course, a large part of that is intra-European which is why Federal Express has been developing its intra-Europe infrastructure.

In the United Kingdom and France, international trade figures account for about forty-five percent of the total and Japan is not far from that. In certain Asian economies, Singapore and Hong Kong for example, the figure is seventy-five percent to eighty percent. In short, the United States is the exception rather than the rule.

The international market is compelling because of market size alone. U.S. export goods and services have grown strongly in the past few years.

More importantly for the express market, this growth is coming from high-value products: computers, microprocessors, the ethical drugs, the enzymes, avionics, aircraft parts and high-priority documents required to close multi-national deals. More and more trade is becoming high-value in nature.

As Alan Greenspan, Chairman of the Federal Reserve Board, explained last October in the WALL STREET JOURNAL, while many factors are encouraging the expansion of world trade, one little known element has had a significant impact on trade across borders in recent decades. It is the marked downsizing of economic output. The creation of economic value in recent decades has shifted toward conceptual values, those created by new scientific insights and knowledge with far less reliance on physical volume. We can see evidence of Greenspan's observation everywhere. One of the most obvious examples is the radio. When we were kids, you recall, radios had their requisite vacuum tubes and were very bulky. Today, they fit in our pockets. Fiber optics replace thick bundles of telephone wire and financial transactions that once consumed reams of paper are reduced to electronic impulses.

Even our own industry has been affected. Our new aircraft, notably the MD11's, are more fuel-efficient and have greater lift capacity. As Greenspan notes, the number of air travelers, with a notable exception of the Gulf Crisis period, has expanded greatly relative to the materials required to build and fuel large modern aircraft.

The downsizing trend has had a significant impact on trade across borders. High-value, easily transportable electronic computer parts and medicines, the items I cited earlier, are more attractive cross-border products than, for example, cumbersome building materials. And these products easily spill over borders that global telecommunications are already rendering nearly invisible.

In today's "Global Village" protectionist countries now have to choose between becoming a market driven economy or building higher walls of protectionism, walls that will be much more difficult to sustain. Just as CNN found its way through the Berlin Wall, to Albania and Lithuania, over the Great Wall of China and into Saddam Hussein's bunker, so too will technological innovation continue to stimulate the downsizing trend, making global trade nearly impossible to suppress.

All signs point to more open trade, lowered barriers and integrated economies. Europe 1992 is the paradigm. Europe 1992 offers a microcosm of the global distribution revolution. One in which product parts are culled from various countries, assembled in another, and distributed worldwide.

Implicit in the move toward downsizing and greater economic integration is the need for a highly reliable, rapid transportation system. A system from anywhere in the world to anywhere. That is what is driving Federal Express global expansion.

My guess is that all of us in the air cargo industry are experiencing the increasing momentum of this trend. Greenspan predicts that coordination of international economies is bound to expand and become ever more pervasive as the cross-border trade in goods and services grows as a proportion of world output.

With global integration comes international competition. Customers and suppliers half-way around the world expect the same high quality products and services as do their domestic counterparts.

What is more, high quality products and services are becoming the norm. More and more companies are recognizing that one aspect of quality, time, is the key differentiation point between them and their competitors. Toyota's reduced production times are becoming legendary with their ability to knock the competitors into the corner of their market. Other automobile manufacturers are responding with their own time-based strategies. Witness Cadillac's Malcolm Baldrige winning "Simultaneous Engineering" process. These fast-cycle production trends bode well for the air express industry. Along with sophisticated information systems, air express enables any company to engage in Just-In-Time (JIT) methodologies on a global basis.

As Robert Hall suggests, in the 1990s, anyone who isn't getting on board with sophisticated inventory management simply won't be in business. If you're competing in a world market and not doing this, you won't be able to compete. We're betting that there won't be many companies deciding not to compete. A Council of Logistics Management survey findings support this notion:

* Inventory turnover at plant warehouses is expected to increase by almost two-thirds by 1995.
* The proportion of orders transmitted by electronic data interchange will increase from thirty nine percent in 1990 to fifty five perecent in 1995.
* Out bound bar-coded shipments will increase from fourty nine percent to sixty seven percent in 1995.
* Volume shipped just-in-time has increased from nineteen percent of shipments in 1987 to twenty seven percent in 1990 and will increase to thirty two percent by 1995.

The results are already impressive:

* Today, fourty percent of US manufacturers use some from of JIT to enhance competitiveness.
* Today's inventory to sales ratio in the United States is twenty five percent lower than the early eighties.
* Inventory carrying costs are down from thirteen point seven percent of GNP in the seventies to ten point eight percent by the end of the eighties.

With this kind of impact on the bottom line, we believe more companies will increase their use of JIT methodologies turn to global inter-modal transportation systems to add value to the process. That is why Federal Express is extending its real-time information system, COSMOS, internationally at nearly the same pace it is expanding its air-ground network. Our ability to track packages every step of the way, from pick up to delivery, concurrent with providing inventory management information on a global basis is value-added to our customers. We intend to be more than an international air express company. We intend to be the logistics arm of choice for any company wishing to compete globally.

I couldn't help but plug FedEx just now. The point is the direction we're going quite clearly is the direction global trends are pointing: Expanding international markets, the downsizing of products and services and the increasing reliance on fast cycle methodologies. These factors also indicate there will be strong international markets for both express and traditional transport segments. This rationale was behind our acquisition of Flying Tiger Lines and its global network, route authorities, landing slots and airport facilities.

We realize the risk with the international freight markets, therefore, we will continue to focus on the express business even though there are a few short-term concerns. First, we can't ignore the current volatility of the intercontinental freight market.

Pacific markets that were up in 1989 were down sharply in 1990. While the same is generally true in the trans-Atlantic markets, the U.S.-to-Europe market is reflecting the integration of global economies trend. Europe is buying an increased share of U.S. goods. Secondly, it's apparent that over the next several years there will be a tremendous increase in marginal cost, wide-body lift capacity. The reason, of course, is the introduction of the new, ultra long-range aircraft I mentioned earlier, the MD-11, A340 and B747-400.

This means that sectors previously unable to accommodate any under-belly freight, now can. On their U.S.-Australian route, United Airlines, for example, replaced their 747-200 with a 747-400. This increased their under-belly lift capacity from zero to 34,000 lbs. A United hub in Taipei has created more under-belly lift in the Pacific Rim.

Just compare the cost structure of an all-cargo aircraft, combination aircraft and under-belly freight movement on a JFK/Brussels run. Then extend that to a Frankfurt/Tokyo run and compare the relative cost differences when talking about longer distances. There's about 1200 more miles in the Frankfurt/Tokyo route. The costs assigned to under-belly are about fourty percent to fifty percent lower than a fully dedicated all-cargo aircraft. When we look at the Belgium market, we see that costs are twenty-seven cents per pound for the under-belly aircraft, forty-five cents per pound for the combi-aircraft and sixty-nine cents per pound for an all-cargo freighter.

Notice, too, on the horizontal axis a comparison of supply and demand. 92 million lbs. of demand versus the current supply of about 153 million lbs.. On the face of it, not a pretty picture for the all-cargo carrier.

Needless to say, we are asked constantly, "Aren't you worried about all that lift capacity coming into the marketplace?. . ." and "Aren't you concerned that both combi-aircraft and under-belly space has a price advantage over your all-cargo aircraft?" One hundred and fifty-three million pounds of freight lift with only 92 million pounds of demand in just that one market?! Sure we're worried, but only in the short run.

We believe there is a growing global air express freight market. We plan to do our job right and fill the express niche. Clearly, there's room enough for everybody. Freight forwarders and passenger carriers can more profitably serve the traditional air freight business. They can perform a role for the price sensitive freight market that we cannot. On the other hand, in the traditional market, the customer will find the marginally priced product is simply not responsive to their time-certain, custodial-control, service sensitive, information-intensive shipments.

The short-term hurdles are a challenge. We expect they will be for the next couple of years, but as the trends I discussed make an even greater impact on the global marketplace, we expect the air cargo business, in general, will profit enormously from it in the coming century.

JOHN W. TIMMONS[3]

I would like to begin my remarks by borrowing from Robert Cutner a phrase which I believe is relevant to this discussion. That is the tyranny of the economically correct. This applies to the airline industry and I think it applies to other industries as well. But since we're here to talk about the airline industry, that's what we'll focus on. I think an objective study of history will show that over time it has been recognized that the simple interplay of supply and demand through unregulated private transactions does not always lead to the best possible outcomes either for citizens or for nations. I think that is very applicable to the state of the U.S. domestic airline industry. I think we should be seriously concerned about the great impact and great potential for damage that exists under the tyranny of the economically correct. This is an attempt by some to state that deregulation has succeeded. End of discussion, let's move on.

This panel is supposed to address the idea of where the industry is headed and that is, of course, very intertwined with deregulation and how it will proceed in its second decade. I think there is no doubt that the industry is and will continue to globalize. I think there is no doubt that national boundaries will eventually come down, and with all due respect to my friends from labor, I think that the term cabotage will become as outmoded a term here in the U.S. as the term State Collective is becoming in Eastern Europe. I think the question turns on how we get to this globalized state and when we get there. The answers have deep ramifications for our country and for the industry. I think in large measure this depends on how we as a nation respond to what has happened in deregulation for the first decade and what we do about it in ensuring its success in future decades.

The U.S. market comprises over fifty percent of all the world's aviation traffic. As such, it's an incredible lever and influence, or should be, on all other markets. We should be using this lever to achieve our goals as an industry and, of course, as a nation. But with this opportunity comes risk. With any opportunity comes risk and with that comes the potential that we could blow it. We could wind up giving away our market and not getting back commensurate returns. I believe that we are at the proverbial fork in the road. In one direction is industry concentration, in the other direction is a competitive environment. And I believe these are mutually exclusive.

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3. John W. Timmons, is graduate of Albion College and earned his law degree from Washington and Lee University. In the past decade, he has had extensive experience holding key staff positions in both Houses of Congress. He served as Deputy Assistant Secretary of the United States Department of Transportation before becoming Minority Counsel to the Subcommittee on Aviation of the Senate Commerce Committee. Recently, he was named Vice President of Government Affairs for America West Airlines.

All the empirical evidence I have seen shows that fares increase in the face of concentration, and they decrease when healthy competition is present. I'm sure most of you, if not all of you, are familiar with the General Accounting Office (GAO) and the Department of Transportation (DOT) studies over the past couple of years and with the DOT study that they put out last year. I think these clearly show the truth of the trends I mentioned above.

I might also add that we at America West are working on a market power study. It's a regressive fare analysis. Don't ask me to explain that. I'm not an economist. That's just what it says at the top. But we have analyzed the 999 top domestic U.S. markets, and while I am not in a position to present the entire study, I think some of the evidence is interesting, given what has happened on the national scene and some of the statements that our national leaders have made about competition.

Our study indicates the most competitive market in the U.S. on a non-stop basis is Cincinnati-Chicago. There are seventeen non-stops between Cincinnati and Chicago. That includes the three hubs of Delta, American, and United. Our study indicates the average fare in that market as opposed to the average industry fare, weighted for all the appropriate variables, is double. So you have up to three supposed competitors beating each other's brains out by charging twice the average fare that exists in most U.S. markets.

Our study also indicates that American and United fares in markets where Midway is not present are close to twenty percent higher than markets where Midway is present. Our study indicates that American and Delta fares out of Dallas-Fort Worth are twice that in markets where Southwest is not present. In other words, Southwest's presence reduces the fares by half. I think that clearly shows the impact of competition and diversity on the industry. Particularly on fares.

Given the state of the industry, given the returns the industry has produced over the last few years, maybe fares are too low, and they should go up. What sort of significance does that line of reasoning have if you take it to the level of competition that exists in the Cincinnati-Chicago market? I think the significance is all around us.

If any of you read USA Today, there was a big article in the Money section on how attendance at conventions was down. . .the article cited the experience of the editor of the Charlotte Observer who found it more in his interest to drive 850 miles to a convention than fly because of the price. He was going from Charlotte to Philadelphia, which is a hub-to-hub case. These rising fares will dramatically slow growth in the domestic market. There is a Boeing study where they showed that the growth of the industry domestically depends on expansion of the industry into the middle and lower-middle classes. If fares keep going up I don't think there is much reality that expansion is going to occur. If that expansion does not occur, what will happen is a stagnating industry, and a stagnating industry reduces opportunity for everybody.

In contrast, a growing, highly competitive industry provides opportunities for everybody and produces a more vibrant industry which is much more competitive. I would give as an example the state of the automobile industry here and in Japan. Japan has a market that's approximately our size yet they have nine automobile companies and we have three. I would ask you this question: Do we want our aviation industry over the next two decades to experience, vis-a-vis the rest of the world, what we've experienced in our automobile industry, vis-a-vis the Japanese.

I think that when we saw a concentration in the auto industry, we lost quality. We were forced to invite or allow, and I'm not saying we should not have, foreign competitors into our markets to restore that quality. As a result of that, we've lost jobs, lost market share, and I don't think we really gained much in terms of penetration of the Japanese market. So we essentially gave away a good section of our market and got little in return. I think international aviation will be similar. We cannot give away our market without getting commensurate benefits. Earlier I said a study of history will indicate that you just can't rely on economic factors pricing decisions. I think aviation, clearly, is a good example of that. Aviation is a very nationalistic industry. All nations want an airline with their flag on its tail. To think that countries will surrender their industries in some sort of globalization wave is not realistic. I think that's something we have to plan for. If we're going to get more access, other countries are going to exact a price from us. A good example of that is the recent U.S.-U.K. bilateral. I don't think it's in our country's best interest to have a series of bilateral similar to that one. It's my view that we gave a lot more than we got.

I think the answer to all this is the maintenance of a highly competitive domestic industry. We are on the opposite road now to a very concentrated industry. I think the competitive problems are clear. The recent DOT study, along with the GAO, are in virtual agreement on things like frequent flyer programs, travel agent commission override slots and majority-in-interest clauses which deny people, especially a new entrant such as ourselves, access to the aviation system, and the ground system, and the air traffic control system. I think also that the U.S. - U.K. bilateral demonstrates that foreign countries recognize the power, the market power certainly, of such things as CRS and frequent flyers. In fact, in Europe, they have decided not to compete on that basis. I really question whether we are going to gain any more penetration and any more benefits vis-a-vis Europe until we deal with those competitive tools. I don't think they'll let us come riding into town with CRS in one holster and frequent flyer in the other and start blazing away. They are going to make sure that they disarm those particular weapons before they allow us in.

In addition to that, a new domestic competitive problem has arisen: The sale of international routes. It was always my understanding that when a company was in trouble, a company would shuck off the parts that weren't making much money for it, and concentrate on the stuff it did best and was the most profitable. What government policy has done by allowing the buying and selling of international routes is give incentive for companies to shuck off those parts that are the best and keep those parts that are not working. That is, of course, a recipe for disaster.

As long as international aviation is regulated, what you have are exclusive economic franchises that must be allotted on an equitable basis if you are going to have true competition. If you allow those with the deepest pockets to hoard the exclusive economic franchise, you will distort and eliminate competition. I think the sooner we deal with these problems, the sooner we get on the path to a healthy industry with vibrant competitors, the sooner we're going to be able to realize the benefits of a more liberalized international aviation regime.