Miscellaneous Proceedings

I. COMPUTER RESERVATION SYSTEMS

JAMES WEISS[1]

Competitive problems for both airlines and travel agents ostensibly caused by computer reservations systems (CRS) are among the most written about topics in antitrust and trade literature today.

CRSs are essential to both travel agents and airlines to market their products, and they are controlled by only a few vendors, two of which, Sabre and Apollo, have long held an advantage in terms of market placement. The recent formation of the WORLDSPAN partnership only partially redresses this problem. Long term contracts, liquidated damages, minimum use clauses and other factors lock in travel agents to use one particular CRS. In addition, the availability of better information on the host airlines as well as commission overrides and other devices, which may or may not be tied explicitly to CRS usage, disadvantage the airlines that do not own the system most travel agents in a given city are using. The combination of these factors, and their advantages to the vendor airlines, has been dubbed the "halo effect".

It is a fact that travel agents do tend to book disproportionately on the airline or airlines that own the CRS they use. This behavior is the very reason airlines have invested in CRS development and travel agency conversion. This problem is not unique to the United States. This phenomenon has been recognized in Canada and Europe, with respect to their vendors, and in Asia with respect to U.S. vendors. The Canadians have imposed rules concerning the ownership and operation of the systems that go beyond the ones adopted by the Civil Aeronautics Board (CAB) shortly before it went out of business in 1984. And, currently, the Economic Community (EC) is considering whether to impose rules to deal with the proposed joint venture between SABRE and Amadeus.

The Asian governments have taken a different route. In some instances, they have denied access to U.S. CRSs altogether, either directly or by allowing their own carriers to refuse to participate in the U.S. sys-

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tems. The result is that U.S. systems are noncompetitive and U.S. airlines less competitive.

The Department of Transportation (DOT) is proposing to outregulate the other regulators. In addition to maintaining the current rules, the DOT may change the contract terms, further level the playing field between host and non-host airlines, and even require multiple vendor access to travel agency hardware. It is important to keep in mind that these are not final rules but proposed rules and, indeed, most of them are posed as questions; i.e., we would like comments on what might happen if we require that all vendors allow other CRS vendors access to their installed hardware base. It is unclear which of the proposals will be adopted. However, you can be sure that some of them will, and they have the potential to change the industry radically.

First, the proposal retains the current rules precluding biased displays, but it would expand them to require that each vendor carrier participate in other systems to the degree it participates in its own. The result would be that no carrier will be able to display its flights, or offer services concerning the booking of its flights, more favorably in its own system than in the others. While it may appear that this rule would be more directed at one CRS than another, in fact it should affect the CRSs equally since the owners of each CRS are leaders in some markets.

Second, the proposal includes some tightening of specific rules prohibiting display bias. The new proposals are to (1) disallow "direct flight" status for change of gauge flights, (2) require improved connecting flight data, and (3) consider precluding host carriers from offering biased second screens. It would not, however, require the elimination of the systems' preference for online over interline connections.

These proposals would eliminate some of the more obvious ways a host can get an advantage on its system over non-host carriers. Again like the vendor participation proposal, the affect on all the systems would be equal. On the other hand, it is probably safe to assume that if the vendors came up with these ways to defeat the purpose of the earlier bias rules, some will come up with ways to beat the new ones.

Third, the rules seek to address what the Justice Department has referred to as "architectural bias." This refers to the inherent advantage a host has when the data base of its CRS is its own internal reservation system. The proposed rule seeks comment on whether technological advances in the CRS industry now make possible universal "equal functionality" such as WORLDSPAN is currently developing, so that the information a system provides concerning the flights of participating carriers is equivalent in timeliness and accuracy to the information provided about the host carriers' flights.

First, the rules would prohibit host carriers from loading fares into

their own system more quickly than others' fares are loaded. If other carriers have to go through ATPCO, so will the host carrier. Second, the proposal would change the current rules which allow host carriers to reserve enhancements for themselves. Any enhancement for the host carrier will have to be offered to all participating carriers as well. Lastly, the rule seeks information on the feasibility of achieving functional equality by either requiring separation of internal reservation systems from the CRS, or development of enhanced links between each CRS and the internal reservation systems of each participating carrier. WORLDSPAN is currently developing these enhanced links.

These proposals are sure to be controversial. They could involve substantial additional costs or, alternatively, could lead to a reduction in the quality of information available about carriers' services.

The big changes in industry structure would come from the proposed changes in the vendor-agent relationship. Those changes could be significant if adopted because the proposed rules would make an agency's choice of a system less momentous by eliminating most of the impediments to switching systems. These rules would provide for arbitration of agent-vendor contract disputes, reduced contract length from no more than five to no more than three years, eliminate minimum use provisions, and prohibit rollover clauses. The rules might require inclusion of some of the provisions of the rules in agency contracts so that the rules will be enforceable in court and require the vendors to allow access to third party (non-CRS) products that are compatible with their system and would require all vendors to offer open architecture; i.e., to allow agencies to switch between systems on their terminals. The latter two proposals are likely to be particularly controversial.

Third party products could allow the agents to introduce their own bias, possibly without notice to their clients. Open architecture, aside from possibly being limited by current technology, would limit the amount of computer hardware likely to be sold to an agency. Unlike the airline-vendor rules, the agent-vendor rules are obviously designed to affect certain systems more than others. If the rules are effective, the systems will have to compete for one another's user bases on the merits. If they win expiring or new contracts from one another approximately equally, the big losers will ultimately be Sabre and Apollo, today's leaders in the industry, and the most aggressive enforcers of restrictive agency contract terms.

All sorts of questions are raised by the proposed rules, not the least of which is "Are they too little too late," and "how will this affect the vendors' ability to market their products overseas?" Certainly some carriers are likely to argue that the damage has already been done. One argument is that CRS bias so weakened them that they have either exited the industry or are in dire financial straits. Whether that is true or not may

never be known, since the issue has been litigated, and the damages the plaintiff airlines were alleging were found to be too remote from their claims concerning limitations on agents switching systems to entitle them to an antitrust recovery.

As for marketing overseas, one lever the U.S. vendors have had to date to achieve access to foreign markets is their right to bias their systems against foreign carriers from countries that impede the vendor's sales in that country. The new rules would presumably eliminate that leverage since they do not distinguish between foreign and domestic carriers and they allude to the fact that we are required by most of our bilateral agreements to treat all carriers fairly. It may be, however, that leverage will no longer be necessary.

One of the primary weapons used against U.S. systems is the refusal of foreign carriers to participate in the U.S. system in their home country. For example, Iberia does not participate in WORLDSPAN at all, and Lufthansa provides much less information to WORLDSPAN than it provides to Amadeus, the system in which it is a part owner.

Canada has already adopted rules that would preclude such actions. In the context of the merger of its two computer reservations systems, Canada required the Canadian carriers to participate in other systems, chiefly Sabre, which was actively marketing in Canada, to the same degree as they participate in their own system. The EC has the opportunity to do the same now, as a condition of its approval of the proposed Sabre/Amadeus alliance. If it doesn't, it will be a serious problem for other U.S. systems, in particular WORLDSPAN, which is not allied with one of the two European systems. It will be foreclosed from access to a number of countries and will have no leverage to overcome that handicap.

In short, DOT has been kind enough to give us a lot to talk about and to think about. Given the scope of the changes the agency is proposing, I suspect the question of which rules will be adopted will not be resolved soon. Furthermore, even once the rules are adopted, there will undoubtedly have to be modifications. Regardless of what you think of the rules, however, you have to be surprised by the agency's initiative. For while the rules may be coming too late for some, it appears that they will go further to address the perceived problems in the CRS industry than anyone anticipated they would.

II. NO TRAIN TO THE PLANE, OR YOU CAN'T GET THERE FROM HERE

WILLIAM E. THOMS[2]

Long distance air travel began as an adjunct to railroad sleeping car service. Transcontinental passengers would board a Pullman train in New York's Pennsylvania Station, travel in sleepers to Columbus, Ohio, whence they would fly during the following day to Albuquerque. From there, the Santa Fe was ready to take them to their California destinations, thus spending two nights on the rails, rather than three or more.

The advent of navigational aids permitting night travel by plane, and soon the rail-air combination went the way of the dodo and dinosaur. Transcontinental rail travel exists, but the airways have long since pre-empted the market for coast-to-coast passengers. And surface transportation companies are unwilling to short-haul themselves by interlining with air carriers.

When one flies to a destination city, there is very little concern on how one gets from airside to his urban destination. Presumably the rental car companies fill the gap, but relatively high rental prices plus the special needs of those unable or unwilling to drive themselves leaves the American air traveler with few travel alternatives. Those cities which maintain airport transit links often fail to indicate to the air traveler how to use the system, and the casual tourist finds the transit vehicles hard to find and confusing to use.

Intermodal passenger transportation has not been developed in the United States to the extent that it has in most urbanized and industrial countries. Most airports are operated by local or county authorities, who have little or no responsibility for surface operation. Similarly, bus terminals are often owned by intercity bus companies, and rail facilities by local commuter authorities or Amtrak. There is very little coordination among these bureaucracies and no reason why one should aid the other. Thus, getting to the airport may well be the most traumatic part of the trip.

A quick run-through of the extent of surface-air passenger connections appears as follows:

AMTRAK: The rail passenger carrier is over twenty years old. It has evolved from a fledgling entity using the equipment, track and crews of private railroads to a nationwide system, using its own employees and trains and requiring less in federal subsidy each year. Primarily an intercity carrier, Amtrak is precluded from entering the commuter rail business and has only recently provided some intermodal service with dedicated buses. However, in connection with the State of Maryland, Amtrak has

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established an intercity stop at BWI (Baltimore-Washington International Airport) for its Boston-Washington "corridor" trains to interconnect with Maryland commuter trains and (via a bus shuttle) the air terminal itself. The system is not perfect; not all trains stop at BWI, and the shuttle bus adds to the downtown-to-airport time. But it is an attempt to link air and rail travelers in the vicinity of the nation's capital, using a pre-existing rail line. The renovation and restoration of Union Station as a Washington tourist, shopping and transportation center has increased the attractiveness of the BWI connection. Amtrak's other foray into airport connections was not so felicitous. In 1990, Amtrak extended its Atlantic City service, then suffering from disappointing patronage and competition from chartered buses, to the Philadelphia International Airport using a spur line built by Philadelphia's SEPTA commuter rail system. Amtrak engaged in a through-ticketing arrangement with Midway Airlines; the trains were listed in Midway's public timetable, and baggage was checked through to the passenger's final destination. Alas, Midway gave up its Philadelphia hub in 1991, and filed for bankruptcy in March of that year. Amtrak quickly removed its trains from the airport spur by the Spring 1991 timetable. However, Philadelphia commuter trains still serve the airport, much as MARC commuter service between Baltimore and Washington over Amtrak's main line serves BWI.

Early this year, Amtrak entered into a joint ticketing arrangement with United Airlines, by which a passenger could travel one way by air, the other by rail on the same round-trip ticket. Although adding to the flexibility of travel plans, the arrangement did not contemplate any intermodal service to airports. Outside of BWI, Amtrak has not chosen to penetrate that market. In Europe, by contrast, the railways of Britain, Belgium, Netherlands and Germany provide express connecting service to their principal international airports. (For a while, British Railways was selling tickets in Stapleton International Airport.) Lufthansa operates its own trains, in its own livery on Deutsches Bundebahn trackage; these are listed in the timetable as local connecting "flights," very much like the short-lived Midway/Amtrak experiment.

GREYHOUND: When Greyhound Lines (the bus operator) was sold to the current operating company, the intercity carrier made an effort to provide airport connections. A national timetable was published, showing Greyhound connections from regional airports to smaller cities throughout the country. Many of these were routes to small cities near principal airports but not adequately served by commuter airlines. (New Orleans-Baton Rouge, seventy five miles, was an excellent niche for such service.)

Most of these bus schedules were intercity runs, originating at downtown terminals, which incidentally stopped at the airport terminal. Designed mostly for the long-haul passenger, rather than the air traveler

wishing to reach a nearby town, the schedules were often inconvenient for air travelers (who tended to arrive and leave at a hub's "pulse" time).

Greyhound's role as a feeder for air service did not have long to develop. The year 1990 was not kind to the bus company. Difficulties in absorbing one-time competitor Trailways and a long bitter strike led the "Big Dog" to file for bankruptcy in 1991. Now attempting an income-based reorganization and looking for a new buyer, America's only nation-wide intercity bus company is on the ropes. Concentrating on rebuilding its major routes, its role as an incidental-to-air carrier has apparently fallen by the wayside. A future role for a bus connection to airlines should focus on more luxurious equipment and schedules tailored to the air traveler, rather than incidentally trying to pick up one or two airport passengers on an existing downtown-to-downtown schedule.

TRANSIT AUTHORITIES

Most large cities have bus lines which serve the airport, but few make an earnest attempt to draw air travelers to use the service. Denver, with express service to Boulder direct from the airport and a number of lines serving the metro area, probably does as good a job as most. Usually, the signs marking the bus areas are inconspicuous and hard to find and the traveler with baggage is wary of getting involved with city bus systems where the driver stops at every other block.

Cleveland was the first city to build a rail transit line to its airport. Since then, the following cities have added to their transit systems to include an airport rail line:

Atlanta
Chicago (O'Hare)
Miami
Washington, DC (National)
Boston (a bus shuttle is required)
Philadelphia (commuter rail)
Baltimore (commuter rail)

New initiatives will bring rail transit to airports in San Francisco, Los Angeles, Milwaukee and South Bend within the current decade.

Denver fielded an ambitious proposal in 1990 to build a demonstration light-rail line from downtown to Stapleton Airport. However, community opposition to the route along Martin Luther King Blvd., plus the fact that the city planned to close Stapleton to air traffic at the time the line was to be completed, caused the plan to die aborning.

This year, New York City discontinued its "train-to-the-plane" service to JFK International Airport. The plan suffered from lack of direct connections (a bus transfer from Howard Beach was required) and despite the

extra fare, passengers were often required to wait on the track behind a stopped local subway train. The demise of the "train-to-the-plane" illustrates the difficulty of attempting to adapt an old system to the needs of air travelers in a hurry.

OPPOSITION

Taxpayers, for one. The new rail lines cost money — lots of it. In addition, as the Denver example shows, local residents are fearful of the disruption to their communities which construction of new rail lines will bring. Taxi and limousine companies, although in many ways pursuing a discrete market, fear competition from swift rail facilities. The opposition is probably enough to insure that an airport rail line will not be built in New York City.

However, for the rest of the country, as freeways become congested and air travel concentrated in fewer and fewer hubs, we should be looking at some type of improved facility for the traveler who debarks from his plane and starts the really dangerous part of his journey — on a public highway.

III. ORGANIZING GLOBALIZATION

ERWIN VON DEN STEINEN[3]

I shall offer you modest ideas under a mile high title, Organizing Globalization. I choose that because, if I could sell one idea, it is that the globalization we would like will require forms of organization that we have barely begun to think about, far less achieve.

People use words differently. The word organization as I am using it should not suggest imposing control. Germans used to have a terrible term: Gleichschaltung — making everything the same — that's one old form of organization. There are others. Some forms of adversarial belief can also make it harder to create cooperative forms of order. We, for example, still think of capital and labor as fundamentally opposed, even as knowledge-based production processes increasingly put capital inside people. Another albatross is industry and government antagonism, especially the American tendency to view not only strong but even just capable government as a step toward socialism. The reverse can be true.

To cite an aviation example, consider air traffic control. Here adversarial approaches, in this case even more in Europe than here, have not produced effective organization — neither at governmental nor at industry levels. Safety and sovereignty concerns have typically dictated putting ATC inside government. But we also want innovation, ability to invest and service provider motivation in this modern network industry.

We could probably be best served by an integrated network of regional systems with rigorous governmental supervision of technical and performance standards but corporately run under private managements in which airlines, airports and key professional groups such as pilots, controllers and engineers directly participate. If users become part of management, then the monopoly-pricing aspect, for what is an essentially a pipeline service, would also be in far better hands than it is today, and essentially self-regulating.

Unfortunately, the various forums that try to organize international aviation, whether in the setting of technical support services or in the negotiation of air service rights, still tend to be trapped in various "we" and "they" contexts.

Some say it is the role of government just to get out of the way. Others say: "Industry should keep its powder dry." Industry, to quote Sir Colin Marshall, needs to be "proactive" not reactive. A government that tries to be non-competent will often just succeed in being incompetent.

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Aviation agreements represent choices on how to organize markets. Then the question becomes: How well do the markets work — do players operate under conditions of trust, information, rules and opportunity that establish acceptance; or do we keep coming back to the table year after year, sometimes month and month, because we failed to get it right?

The frameworks we organize for international aviation must relate more to markets — all kinds of markets, including those in information and ideas, as well as transportation. We are no longer in the age of the Conquistadores who showed up somewhere after a long voyage, planted a flag and said "This is Spain." Modern systems have become and will remain dynamic, interactive and diverse. There is a system called Canada and another one called the U.S.; then there are other types of systems like ATT, General Motors and even Arlington County, Virginia. There may be also a system already out there called North America.

In the next few minutes, I will touch on five topical areas:

1. The issue of social and political constraints on globalization;
2. The consequence of not having policies that address these constraints, creating what we shall probably soon term a "supply-side crisis" in international aviation;
3. Thoughts on U.S. negotiating policy;
4. Recent policy developments; and
5. Finally some thoughts on the C-Word: CABOTAGE.

1. SOCIAL AND POLITICAL CONSTRAINTS

The earth's surfaces are finite, while people-numbers grow and demand expands — expands exponentially. Major challenge and major opportunity both confront global aviation. Opportunity is there because we can, to some extent, extend our use of scarce space vertically and airports demand only a fraction of the land needed by other transport modes. Challenge is there, because any one airport demands considerable space in any particular place. A famous acronym is NIMBY, not in my backyard. The more urbanized an area becomes the more its businesses and its inhabitants, as travelers and employees, need airports. Yet, the more urbanized and crowded it becomes, the less its inhabitants, as residents, want them.

The lesson of this is that classical economics, i.e. the "unseen hand," will have trouble solving this problem. This is not a self-regulating equation. Demand generates demand and ratchets up the shortfall in supply. In short, there have to be conscious political processes, i.e. land use policies that are simultaneously local, in terms of reaching a compact between communities, airports and airlines to meet the needs of the place, and large scale, in terms compatible with our need for uniform and efficient systems for national and international movement. Neither gov-

ernments nor industry can abdicate leadership in this discussion, unless they want to pay a painful perhaps terrible price.

2. INFRASTRUCTURE

Today nationally, regionally, globally, we face a creeping crisis covered by a rather creepy word: Infrastructure. We creep along the rush hour routes or stare at watches in airports. We also creep along in our response to the problem.

We, and millions of others, are part of a huge global constituency that ought to be demanding priority action and getting it. But what happens? In an increasingly specialized world, businesses and even governments segment. The airline industry spends millions on studies documenting billions in losses, but cannot seem to mobilize action. The construction industry works up the problem separately and even calculates trillions in losses. But no one, at least in this country, seems able to put across the broader social point: A society that constantly puts consumption ahead of investment will soon start having less to consume.

What bad infrastructure also does more mundanely is become a piece of higher costs that have to be passed on to consumers or accepted as red numbers on airline balance sheets. Infrastructure shapes both competitiveness and competition. Our trade negotiators can talk all day in Japan, but when there are no airport slots available in the heartland of global economics, i.e. the Kanto and Kansai Plains areas, competitive products either can't get in or must bear enormous supplementary costs in distribution. When we talk about the recent Heathrow deal, I will ask you to reflect on the fact that this transaction, which may have major policy effects on U.S./European aviation relations, has its genesis in an infrastructure factor.

3. U.S. NEGOTIATING POLICY

Let me now address U.S. international aviation policy which, since 1978, has been associated rhetorically with the term "Open Skies." Reality might require us to change this to: "As Open as Possible Skies." There has been a lot of sincere effort by our Government, but results are not unlike our Department of "Not too much Energy."

With the exception of Germany, where the rules are very liberal, there is a noticeable fault line that runs across U.S. aviation agreements with major OECD countries, i.e.:

* Japan;
* The other four bigger players in Europe — the U.K., France, Italy and Spain;
* With big continental partners such as Canada, Mexico and Australia; and

    *   In general, with virtually every state that can be said to have an internal
       . aviation system of any consequence,

U.S. negotiating outcomes since 1978, have become less liberal in structure. With such countries we have negotiated specific, and at times substantial, benefits point by point. However, liberal provisions such as multiple designation have been gutted and new mechanisms that frame, if not constrict, capacity growth, introduced.

Open Skies really has only been accepted by countries who operate primarily or even entirely international systems — e.g. small countries and islands with economies dependent on international trade and tourism. This points perhaps to a flaw in Open Skies — its weakness in terms of bridging mechanisms. Foreigners, rightly or wrongly, have perceived the US as simply trying to extend the U.S. system.

Thus when such countries have internal systems, even liberal internal systems, they are disposed to dig in and say "Wait a minute." If U.S. commercial interests are nonetheless strong then the context of the negotiation can rapidly shift to just doing it their way. That is also why, even though there have been very interesting signs of intellectual movement in Mr. Skinner's Department, it may be wishful to believe we can achieve anything revolutionary of even truly evolutionary (which might be better) either in the coming Canada-U.S. negotiations or with Europe as 1992 arrives.

4. RECENT POLICY DEVELOPMENTS

First, some observations about at the recent U.S./U.K. agreement involving Heathrow airport and, perhaps, a whole lot more. Should we call this Bermuda two point five? While it is risky this early to draw overarching conclusions, the footnote type arrangements reached between the U.S. and U.K. on March eleventh to create the possibility of new U.S. mega carrier participation at Heathrow, embody provisions and ideas that I believe could reach far beyond U.S. purposes.

Essentially, the entirety of the deal for the U.S. was the removal of restrictions denying transfer of incumbency rights at Heathrow Airport from Pan Am and TWA to other U.S. carriers. For Chicago Convention reasons, however, the U.K. had to perform this step unilaterally, i.e. remove its new entrant restrictions not just for us but for everyone. In exchange, the U.S. agreed to fly less than it otherwise could have on some of the biggest routes on the North Atlantic and freeze growth on beyond services for three years while allowing British carriers among other things to:

    *   Greatly expand their participation on existing gateways;
    *   Gain online access, through possible marketing agreements to any other
        U.S. point listed on line by any U.S. competitor;

    *   At least double the level of their intermediate and beyond rights between the U.S., Canada, Mexico, East Asia and South America; and

    *   To introduce revolutionary services from Continental Europe.

Why did people agree to this? We come back to our creep word, infrastructure. In recent years, U.K. policy was to make all new carriers go to Gatwick (which in the meantime is also full). This had nothing to do with routes, it was an issue of slots, of so-called ATM's, air traffic movements. Interestingly the March eleventh deal says not one word about slots. All its says is that now four (two U.S. and two — formerly just one — British) carriers may operate on the route description using Heathrow as the access ramp. There is no language, at least in the official public domain, that conditions the deal against subsequent loss of slots because of possible EC or British policy.

So, United and American really only buy designations on routes, i.e. something the U.S. disposes over unilaterally under the agreement, with the expectation (perhaps well founded but not guaranteed) that they will obtain and over time keep the slots they need to make this all work. So, if we wished to be harsh, we could conclude that because the British authorities already defaulted once on their implied obligation to provide the U.S. means to exercise its basic traffic rights under the agreement but, were [nonetheless] wise and/or stubborn enough to obtain U.S. acceptance of this state of affairs, that the U.S. now has to pay for compensatory mechanisms and again lacks protection for the future. So what does this say about the prospects or sense of just articulating the need to Open Skies, when closures on the ground can hammer you into a truly outrageous negotiating box? This question provides an apt introduction to a second larger area of significance the Heathrow deal addresses — how the North Atlantic market could work in relations with post-1992 Europe.

Terms of the new arrangement include joint venture rights uniquely for the U.K. So if any designated British carrier owns less than fifty percent of a German, French, Benelux or Irish carrier designated under another bilateral or otherwise operates a "joint venture," a term which otherwise has no definition, that entity can operate full U.K. route authority (i.e. some twenty U.S. points plus newly added ability to match any U.S. online service through code sharing). Clearly it can also benefit from unrestricted capacity provisions found, for example, in the German and Benelux bilaterals. This provision could become quite interesting. Other countries possess far fewer points in the U.S. than does the U.K.

The U.K. also gets approval for unique rights now added to the British route description that permit up to fourty two weekly frequencies to operate with non-stop sectors between Germany, France, Ireland and the Benelux countries. The U.S. agrees to waive all existing restrictions on change of gauge and fifth freedom capacity. What that means is that BA,

for example, may be able to hang several flight numbers on any plane going to Frankfurt and then up three long range wide bodies that would fly to cities like Denver not on Germany's present route description and then turnaround, operating the same scheme in reverse. Traffic could be 100% U.S.-Germany on both long haul sectors.

United Kingdom policies to exploit these new rights will, I fear, increasingly reflect a segmented regulatory approach. I say segmented, because on the one hand, the British have discovered a clear self interest in liberalizing, even integrating, market access within Europe — indeed they have been in the forefront of such efforts. At the same time, they continue to keep the bridges to the U.S. narrow and well staffed with toll keepers.

So here is the real world question: What becomes the model? Will Bermuda II and recent deals with Italy and France become the model for European relations with the U.S., just as the European states open up to each other within? Will we see a "Common air transport policy" akin to the Common Agricultural Policy — very open within but highly structured if not sharply restrictive without? There were some of us, four years ago, who urged unsuccessfully that it was then timely to develop a serious multilateral approach, when the situation still remained formative. Now the trains may have left the station.

While the above statement may open more questions than it provides answers, let me switch to say a few words about the Canadian negotiation, since European developments should also help put before us the issue of North American interest. Our negotiators need to face the question of North American competitiveness and ask whether there is not a level of interdependence in these economies that demands an aviation system that enables effectively integrated transportation.

Most of you know how bad these air services are now. Connections between major U.S. and Canadian cities are incomparably worse with respect to both routing and frequency than between comparable cities in Europe, for example. As explained thoroughly in Joe Chesen's book, *Canadian-American Air Service Negotiations: Ending the Gridlock,* institutional habits, as well as commercial perceptions, share responsibility for this state of affairs. Now, with unprecedented support from the respective Transport Ministers, it is up to the governments, and I suggest also to the industry and community interests working actively and interactively, to end the "gridlock."

The great risk is that institutional mistakes will be repeated — that the negotiating process may again begin to look like bean counting in a tornado. The prospects may depend on seeing that the new system is not an either/or proposition. The North American system can coexist symbiotically with local system needs.

5. CABOTAGE

I shall close by taking a look at the range of specific organizational and legal alternatives that we could consider, now that we dare utter that historical taboo word: CABOTAGE. Turning to a schematic that is at the end of my paper, let me put forth the proposition that an array of diverse regulatory, organizational and ownership options can be pursued or mixed and matched. Reason for considering any of them should be their ability to build NETWORKS at North American scale. The driving impetus should be this function.

In Option One, the foreign carrier integrates his schedules with a domestic joint venture partner, perhaps on a blocked space basis. Both hold national permits. Minority equity participations are possible but not at all critical. Critical to this is a synergistic service fit.

In Option Two, we have to permit foreign investment. An operator can create supporting networks in the other country, but his operations there are subject to that countries regulation. As in the first option, employees are legal residents of the country they work in.

In Option Three, which is the basic Canadian proposal, carriers can pick up domestic traffic on sectors they fly behind the gateway to "fill up" their aircraft. This is cabotage pure and simple. It can also operate on the historic routes system that we have all grown to love so much. Licensing is the responsibility of the foreign country.

In Option Four A, there is an interesting twist. The traffic is cabotage, but all the flights occur on international sectors. An example is the package that moves from Toronto to Vancouver via Memphis. In Option Four B, you set up a hub in the other country, an idea that Joe Chesen thinks might help Canada. But you can still maintain an "international" route system by having flight number criss crossing your hub and leading back to your country. In Option Four C, you just do what you want — we have the North American market in toto. Logically DOT and Transport Canada in this option simply endorse each other's inspection and licensing procedures.

The first two options, which involve rights of joint venture or establishment, arguably do not involve cabotage. The domestic traffic is carried by an operator licensed under the rules of the country. Rights of foreign ownership, provided under Option Two, could raise a political issue of foreign domination.

First, anti-trust policies would or could limit whatever takovers — foreign or domestic — that curtail competition. Second, in issuing the 401 permit or its Canadian equivalent to the joint venture partner or subsidiary, licensing authorities could, perhaps should, make conditions that prevent abuse or even an establishment of a dominant position.

Cross border subsidiaries would have to meet national licensing rules and conditions. Those in the United States who worry, on national security grounds, that foreign owned equipment could disappear off-shore, could ask for restrictions on deregistration of aircraft.

Rather than getting further immersed in questions of detail, let me now close to leave time for questions and for one last observation on my title: Organizing Globalization. This process can move on a variety of tracks including how we succeed or fail in relating across a set of regional thresholds. The nineties will also test the ability of developed countries to work with the developing world. In this respect aviation may find itself on the frontlines, often very dangerous frontlines. The Gulf Wars may have been good for morale, but they are poison for commercial aviation. No industry has a more vital interest in organizing peaceful world relationships. Few industries possess such potential to foster a new world order that sustains life and expands opportunity for our children.