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International Air Transportation: Some Challenges

Abstract

In a Spring 1984 article in the FIU Hospitality Review, new developments in the domestic airline industry were discussed, particularly those relating to the forces of deregulation and the changes brought about by this phenomenon. This article takes a wider perspective in examining the global air transportation scene, the changes that have been wrought recently on air carriers flying international routes, and the carriers' responses to these changes.

Keywords

J. A. F. Nicholls, International Air Transportation: Some Challenges, International Air Transport Association (IATA), Air passenger seat capacity, Airline industry profits, Sir Freddie Laker, FIU

International Air Transportation: Some Challenges

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In a Spring 1984 article in the FIU Hospitality Review, new developments in the domestic airline industry were discussed, particularly those relating to the forces of deregulation and the changes brought about by this phenomenon. This article takes a wider perspective in examining the global air transportation scene, the changes that have been wrought recently on air carriers flying international routes, and the carriers' responses to these changes.

Throughout the 1980s, the major problem facing international carriers has been that the seats available for purchase have exceeded seats actually purchased by a considerable margin. That is, supply has outpaced demand since 1980. Not only has supply exceeded demand, but it has done so by a wide and growing margin; airlines have increased the seats available, while the total passenger traffic has barely held its own.

Even though passenger traffic has increased 37 million from 1980-83, seat capacity has risen 122 billion. In percentage terms, this reflects an increase in passenger traffic of less than 5 percent, while seat capacity has risen more than 7 percent. (See Table 1).

Table 1
Air Carrier Worldwide Growth*

	Passengers Carried (in Millions)	Available Seat/Kilometers (in Billions)
1980	748	1.723
1981	749	1.753
1982	758	1.785
1983**	785	1.845

* International and Domestic

**Preliminary

Source: International Air Transport Association, *World Air Transport Statistics, 28th ed., 1983.*

A year-to-year percentage breakdown is, perhaps, even more revealing. On the one hand, in 1980 there were 0.8 percent fewer passengers

carried by all the scheduled airlines in the world than in 1979. The following year, 1981, there was virtually no growth — a mere 0.1 percent. In 1982, a growth of 1.2 percent was experienced, while in 1983, preliminary figures indicated a growth rate of 3.6 percent. Passenger seats available, on the other hand, grew by 7.2 percent in 1980, 1.7 percent in 1981, 1.8 percent in 1982, and on a preliminary basis, 3.4 percent in 1983. As might be surmised, members of the International Air Transport Association (IATA) have not made a collective profit since 1978. (See Table 2).

Table 2
Air Carrier Worldwide Growth Rate*

	Passengers Carried**	Available Seat/Kilometers
1980/79	(0.8)%	7.2%
1981/80	0.1 %	1.7%
1982/81	1.2 %	1.8%
1983/82***	3.6 %	3.4%

* International and Domestic

** Parenthesis indicates a negative growth rate

***Preliminary

Source: International Air Transport Association, *World Air Transport Statistics, 28th ed., 1983.*

Empirical evidence of some sort of learning curve, at least, seems to be present in these gruesome figures. During this 1980-83 period, implicit in Table 2, the difference between the rate of growth of available seat/kilometers and the rate of growth of passengers carried, has dropped from 8 percent (1980/79) to 1.6 percent (1981/80), to 0.6 percent (1982/81), to, finally, 0.2 percent more passengers carried (1983/82).

Capacity Problem Began With Growth

In the non-communist world, passenger traffic had grown by a factor of 14.6 percent per annum in the 1960s and by 7.7 percent in the 1970s. In 1979, scheduled airlines saw their traffic grow by 11 percent worldwide. The temptation to project these historic growth rates into, at least, the near term future, appears to have been irresistible for the world's airlines. After all, no sensible airline, particularly on international routes, wishes to see its market share eroded because of insufficient seat capacity. Besides, this was an industry cosseted by decades of international and domestic regulation which had brought order, security, profitability, and dominion to the air transportation industry — but not immunity from the disease of competition. Consequently, world airlines continued to acquire new aircraft, frequently the capacious, wide-bodied ones. So much for industry expansion based on trend projections.

In many ways, this smashing of the IATA Humpty-Dumpty was adumbrated, for those who had eyes to see, by Sir Freddie Laker.

between passengers when lower prices are indicated.¹⁰ So, fares have been eroded in both these cases.

Outright bribery is not beyond the reaches of IATA's members. For example, Japan Airlines has been so eager to take passengers from the Australian airline Qantas that it is believed, though not proved, that Japan Airlines has offered commissions, perhaps as high as 30 percent, to its travel agents. The potential for a commission-to-travel-agents war is obvious since Qantas has already responded by offering 15 percent to its agents.¹¹

From the viewpoint of IATA members, the discounts are believed to have been costing the membership around \$1.5 billion per annum in lost revenue, which approaches the IATA members' aggregate losses of \$1.8 billion in 1982.

European Market Has Changed

Competition has entered the United States domestic market with a vengeance since deregulation became a fact in 1978. Consequently, the American consumer now probably takes competitive pricing for granted. This is not the way the system has worked in Europe where prices have been fixed through elaborate agreements between the air carriers of different countries. Consequently, prices per mile flown are much higher in Europe than in the United States.

For example, the regular round trip, economy air fare between Miami and Chicago costs about \$522. A round trip from Paris to Athens, a similar distance, costs \$790, about 51 percent more. So it is with most air travel in Europe. As a rule of thumb, charges on domestic flights in the United States average about 21 cents a mile. Those in Europe average about 28 cents. This compares with airline seat-mile costs in the range of 7-8 cents in the United States.

Recently, however, a change has developed. Instead of staying with time-honored control arrangements, Britain and the Netherlands agreed to discount fares between their two capitals. This arrangement is one of the first to challenge the traditional European pool arrangements that divide up lucrative markets between the state-owned airlines.

Those who work in the hospitality industry are usually well aware that they are in an industry that is market-oriented. That is, it must respond to its customers, its consumers, or it does not succeed or perhaps even survive. Hospitality people are dealing with that most fragile of markets, the world of services, both tangible and intangible.

The international airline industry, on the other hand, has organized itself for the most part into a combination that attempts, at its best, to provide the passenger, its consumer, with an appropriate melding of price and service. Whatever this may be, it is an assumption, a paternalistic assumption, an abrogation of the consumers' right to determine his own utility function. Let hospitality people not follow this piper.¹²

Footnotes

- ¹L. Eric Calonius, "Flying High," *The Wall Street Journal*, (August 20, 1984), p. 1.
- ²John Andrews, "Destination Uncertain: A Survey of Civil Aviation," *The Economist*, (May 28, 1983), p. 6.
- ³Calonius, *op. cit.*, p. 1.
- ⁴IATA membership as of July 11, 1984.
- ⁵International Air Transport Association, *World Air Transport Statistics*, 1983, 28th ed. (Geneva, Switzerland: IATA Economics and Industry Finance Department, June 1984), p. 27.
- ⁶*Ibid.*, p. 22.
- ⁷"Airlines Find Market Forces Still Work at 30,000 Feet," *The Economist*, October 29, 1983, p. 69.
- ⁸Dan Baum, "British Air Cuts U.S.-London Standby Fares," *The Wall Street Journal*, (August 1, 1984), p. 7.
- ⁹Andrews, *op. cit.*
- ¹⁰"Airlines Find Market Forces Still Work at 30,000 Feet," *op. cit.*
- ¹¹*Ibid.*
- ¹²The author wishes to express his thanks to Josephine Peach, Information Officer, International Air Transport Association, Montreal, Quebec, Canada, for generous help, willingly given.