

# Airlines best served by open-sky policy

**Carriers are forced to be more efficient once they lose protection**

By **Ivan Png**  
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LAST MONTH, United Airlines chief executive Gerald Greenwald warned that Japan is "seeking to control East-West commerce through a kind of economic imperialism".

Earlier this year, the Hongkong government announced it would limit the number of passengers Australian airline Qantas could carry from Hongkong to Bangkok and Singapore. In response, Australia threatened to halve Hongkong carrier Cathay Pacific's flights to Sydney.

What provoked such threats and heated language? The answer is ongoing negotiations over international air services. United Airlines wants to extend its service from Japan's Kansai Airport to Seoul, Korea, while Japan Airlines has applied to renew its route to Hawaii.

The exchange of threats between Australia and Hongkong foreshadowed negotiations to renew their air services agreement, which expires at the end of this year.

Even more so than trade in other services, international air services are tightly controlled.

Governments at every stop along a route have the right to regulate flight schedules, types of aircraft and fares.

Through bilateral air ser-

vices agreements, national governments maintain strict limits on the number and frequency of flights.

Many countries reserve these limited rights for designated "flag carriers".

Until 1978, the story was the same on domestic routes. Then the United States decided to end federal regulation of domestic air services, precipitating intense competition and change in the industry.

Today, if any US airline wants to operate between Dallas and Chicago, the only regulations it must satisfy are those on safety and noise.

The European Union is committed to a single market. In air services, this will mean an airline from any member country can serve any route within the union. For instance, British Airways will be able to serve routes between France and Italy.

Even India, the bastion of regulation, has relaxed controls over domestic air services.

National governments have been deregulating domestic air services for the same reasons that they have deregulated other industries including electric power and telecommunications.

Regulation breeds inefficiency — weak management, bloated payrolls, poor service and high prices.

Deregulation provides consumers with more choice, better service and lower prices. By removing protection, deregulation forces service providers to be more efficient.

When the US deregulated air services, fares came down



**Regulation exacts a price:** travellers find limited service and high fares on international routes

and frequency of service increased. Airlines that were not competitive went under: Braniff and Eastern Airlines were just two of the casualties.

Deregulation also paved the way for innovation. Using an all-Boeing 737 fleet, Southwest Airlines pioneered a no-frills service on short routes.

Southwest offered such low fares that it drew traffic from Greyhound, the long-distance bus carrier. At the other end of the market, a number of carriers have sprung up to provide exclusive luxury service.

International air services are also being liberalised — in fits and starts, and much more slowly. The reason for the

slow and fitful pace is that, as international travellers originate from all over the world, they have much less influence over national governments than respective flag carriers.

International travellers do not have high-paid lobbyists working the corridors of power, nor do they command large blocks of votes at elections.

Consequently, limited service and high fares prevail on international routes.

The Hongkong government claims Qantas is carrying too many passengers from Hongkong to Bangkok and Singapore. The reason is simple: Qantas offers lower fares.

Like all consumers, travel-

lers appreciate good service at a lower price. Wherever international regulators have relaxed their grip, consumers have benefitted.

Taiwan's Evergreen shipping group set up EVA Airways, which pioneered business class service for economy fares across the Pacific.

But EVA's operations are cramped by its inability to fly between Taipei and Hongkong, the most lucrative route out of Taiwan. For now, Taipei-Hongkong service is the preserve of China Airlines and Cathay Pacific.

Likewise, taking advantage of British deregulation, Richard Branson's Virgin

Group entered the international airline business. By offering superior service at a lower price, Virgin has become the carrier of choice among many executives between Hongkong and London.

National governments may ignore the interests of international travellers but they should not disregard the other reason for deregulation.

By protecting flag carriers, regulation breeds inefficiency. A weak, bloated and uncompetitive carrier is not in any country's long-term interest. The longer governments cosset their flag carriers, the less likely they will be to survive the tough competition that will come, sooner or later.

No carrier is immune from competitive forces. When the US opened international routes to other carriers, Pan American Airways collapsed. Even today, Trans World Airways barely limps along.

The best way to avoid such tragedies is to prepare for competition by initiating deregulation now. The worst policy possible is to follow the status quo until liberalisation takes place under compulsion from other countries whose airlines are better prepared for competition.

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