THE CHANGING DEMAND FOR AIR TRANSPORT

The North Atlantic Case

By Richard M. Smithies*

INTRODUCTION

Civil air transport is one of the truly significant industries of the twentieth century. It is subject to rapid change and technological innovation; it is an international industry, subject to domestic and international politics because of its importance to defence, trade, diplomacy and national development.

Such an industry demands of government, management and labour an exceptional degree of adaptability to meet the changing needs of the consumers. “Consumers” are not just the travelling public, but all those persons and communities whose lives and welfare are influenced by air transport.

The extremely rapid development of the industry in the post-war period was assured by the regulatory framework provided by the Chicago Convention of 1944, the International Civil Aviation Organisation, the International Air Transport Association and the inter-governmental traffic agreements. However, this growth has led to significant changes in the composition of the market to which the industry has been slow to respond.

As far back as 1946, the Governments of the United States and the United Kingdom affirmed in the Air Services Agreement concluded at Bermuda “that the air transport facilities available to the travelling public should bear a close relationship to the requirements of the public for such transport.”

The growing discrepancy between the needs of the travelling public and the services offered by the scheduled airlines has led to the emergence of a new class of air carriers, known as the “charter” airlines or “supplementals”, who, being denied entry to established markets, sought to develop new parallel markets. Their first successes were scored in the European vacation markets linking Northern Europe and the Mediterranean resorts. This was followed by the development of the Hawaiian inclusive tour markets and group travel on the North Atlantic.

It is the confrontation between the scheduled IATA airlines and the non-IATA

*Formerly with R. Dixon Speas Associates Inc., aviation consultants, New York. This article was written in September 1972, but there have been no substantial developments since that date.

charter airlines on the North Atlantic that has focused public attention on the needs of the "new travel" market. The implications of this confrontation are wide-ranging because they relate to the fundamental principles of air transport, and because they are likely to result in significant changes which will shape mass air transport in the seventies.

BACKGROUND TO ESTABLISHED CONCEPTS

Scheduled Air Transport

Historically, governments and regulatory agencies have tried to ensure that the air travel needs of the public are met by airlines assuming a public service obligation to provide regular, safe, efficient and reasonably available air transport for all members of the general public who desire such service. The carriers who accept this obligation are known as scheduled airlines.

Because the airlines' passenger product, the seat-mile, can obviously not be stocked, and because scheduled airlines undertake to make this product readily available to the public, it follows that they are unable to operate at a high load factor for any length of time. It is generally agreed that an unacceptably high proportion of the total demand is being inconvenienced when the average load factor exceeds 65–70 per cent. Seasonal variations and traffic peaks result in load factors being more frequently around 50 to 60 per cent. Thus, the scheduled air traveller must pay a significant price penalty, or premium, if he expects that a request for a seat between two service points at any time will be met without undue inconvenience. The premium he pays must cover the cost of the unsold seats.

In return for assuming this public service obligation, scheduled airlines are assured of a certain measure of protection to guard against uncontrolled price competition and over-capacity. A recent British commission inquiring into the future of British civil aviation² considered that the degree to which this protection should be extended is one of the most crucial questions facing air transport policy makers today.

The distinction between scheduled and non-scheduled air carriers is fundamental to modern air transport. This distinction was first made in Articles 5 and 6 of the Chicago Convention signed in 1944, but it related to the technical and commercial freedoms afforded to the two types of services without defining them. A clear definition was not forthcoming until 1952, when the Council of the International Civil Aviation Organisation³ agreed that:

"A scheduled international air service is a series of flights that possesses all the following characteristics:
(a) it passes through the airspace over the territory of more than one state;
(b) it is performed by aircraft for the transport of passengers, mail or cargo for remuneration, in such a manner that each flight is open to use by members of the public;"

³See ICAO Document Doc 7278–C/841, 10 May 1952.
THE CHANGING DEMAND FOR AIR TRANSPORT

Richard M. Smithies

(c) it is operated, so as to service traffic between the same two or more points, either:

(i) in accordance with a published timetable, or
(ii) with flights so regular or frequent that they constitute a recognisable systematic series."

Most international scheduled airlines are members of the International Air Transport Association, a world-wide industry organisation formed in 1946 at Havana to control competition, ensure similarity of service standards, and establish fares. IATA has succeeded in the past in establishing a stable environment for the continued progress of civil air transport throughout the world. But as the basic philosophy and concept of air service in the mass markets has been challenged by newcomers, so IATA has become the means of implementing the defensive strategy of the scheduled airlines. Secor Browne, Chairman of the U.S. Civil Aeronautics Board,4 referred to this as the "vice of market containment rather than market development".

Reflecting increasing concern over the rationale behind the rate-making process, the International Organisation of Consumers Unions (IOCU) presented a position paper to the United Nations in June 1970. This paper, openly critical of IATA, was published as an official United Nations document5. It contains the following passage:

"Originally, IATA was entrusted only with the recommendation of the international air fares to be charged, the final decision being left to the various governments who ratified the recommendation. As few governments have the resources in personnel needed to scrutinize the more than 60,000 international air fares agreed upon at every IATA traffic conference, the net result of the present arrangement is that, de facto, the airlines fix the prices for international air fares between all those parts of the world which are the home of their 105 members.

It is the opinion of IOCU that IATA has become a mechanism for the elimination of competition in air fares. That being so, it must be insured that the system of fixing fares is more responsive to the consumer interest. It should be subjected to the cartel rules that are commonly accepted in other fields of business and, particularly, provision should be made for the disclosure of more information about fare structure and for public hearings on the establishment of rates, with an opportunity for the presentation of the consumer position with respect to rate questions."

The need for scheduled service is not open to question. What is in question in the North Atlantic controversy is how much scheduled, or "premium", service is required on the various routes, and how much "bulk" transport at low cost can be provided to meet changing consumer demand. This has to be ascertained on a route by route basis, where the traffic volume allows such a distinction to be made without impairing the necessary level of public scheduled service.

4In an address to the Royal Aeronautical Society.
5ICAO was established in 1946 as a United Nations technical agency, while IATA operates within the framework and concepts evolved by ICAO. It is therefore appropriate that the United Nations play some role in this matter.
Non-Scheduled Air Transport

A commentary attached to the definition of an international scheduled air service, agreed upon by the Member States of the International Civil Aviation Organisation in 1952, noted that two important types of commercial air transport are not available to the general public, namely, aircraft chartered by one person or undertaking (single entity charter) and group flights. The emergence of the non-scheduled air lines as a distinct category of air carriers during the ensuing decade was linked to the development of these two forms of air transport.

Within Western Europe, further scope for expansion was opened up by the Paris Agreement of 1956, which liberalised non-scheduled flights that had for object "the transport of passengers between regions which have no reasonably direct connection by scheduled air service", subject to the proviso that scheduled services were not adversely affected. The Paris agreement had the important and unforeseen effect of permitting the development of inclusive tour services, a category of non-scheduled operations that by 1971 accounted for some 50 per cent of all intra-European passenger-miles flown.

In addition to operating commercial non-scheduled services, the charter airlines in the United States and the United Kingdom relied heavily upon military charters. Indeed, it might be said that the manner in which they demonstrated their capability during the Berlin airlift ensured their continued existence during the precarious years of the 1950s.

Only in the United States has the statutory authority of the non-scheduled airlines ever been seriously questioned. In 1951, the Civil Aeronautics Board initiated the "Large Irregular Carrier Investigation", in which the Board announced that it would be seeking the answers to two important questions:

1. Is there a need for air transport services by the large irregular carriers and irregular transport carriers in addition to and supplemental to services performed by the public carriers holding certificates of public convenience and necessity . . . ?

2. If the answer to the foregoing issue is in the affirmative, what type or types of such supplemental services would best be adapted to the performance of the transport services required to meet the need . . . ?

As a result of the investigation, the CAB determined that there was a need for such services and decided to grant temporary certificates of public convenience and necessity to 25 "supplemental" carriers, as they now came to be known. The scheduled carriers appealed against this decision before the United States Court of Appeals, and a reversal was obtained on the grounds that the CAB was not legally empowered to certificate supplemental air carriers. In view of this ruling, the Board asked the United States Congress to redefine the role of the supplemental carriers and to clarify the powers of the CAB on the certification issue. This was duly done by Congress, which in July 1962 enacted Public Law 87–528. For the first time the statutory position and role of the supplementals were clearly defined, and Section 401 of the 1958 Federal Aviation Act, which deals with economic regulation and certifica-

6ICAO Doc 7278–G/841, 10 May 1952.

The changing demand for air transport

Richard M. Smithies

tion, was amended to authorise the CAB to grant certificates of public convenience and necessity to the supplementals on a geographical basis.

By the mid-1960s, the European non-scheduled carriers had convincingly demonstrated the validity of the inclusive tour concept, and the CAB, referring to the 1962 legislation, authorised such services by certain supplemental airlines in the United States. The legality of this action, which was based upon Public Law 87–528, was disputed by the scheduled airlines on the grounds that inclusive tour charters constituted individually ticketed travel. Thus the supplementals were again being challenged on their right to expand a market and a concept that they had developed. When the Supreme Court\(^8\) was unable to decide the matter, Congress once more had to consider the role of the supplementals. As before, Congress felt that the public interest was better served by the supplementals being allowed to participate in the development of the inclusive-tour market; and it enacted Public Law 90–514. Its belief was expressed in the following terms:

"Congress carved out for the supplemental air carriers a special role in transport, that of charter specialists. These carriers since 1962 have become solid, responsible, safe and profitable business entities. They have served the purpose Congress intended well and have provided a valuable adjunct to the scheduled air carriers. They have been indispensable in providing added air-lift capacity to meet the national defence needs in South Vietnam and throughout the world. They have actively promoted the airline charter business to the point where it is a growing means of travel for American citizens, who otherwise would have been denied an opportunity to take low-cost vacations by air. Supplementals are a permanent and integral part of the national air transport system."\(^9\)

The legal proceedings in the United States had the merit of permitting public debate in an open court of law and before the appropriate committees of Congress of the role that should be played by the non-scheduled air carriers. Basically, these hearings underlined two important points, which constitute the basic characteristics of international non-scheduled operations. First, the key distinction between scheduled and non-scheduled services was that charter operators could not offer individually ticketed air transport. Second, it was recognised that charter costs could be lower because all the seats on a chartered aircraft were contracted for by the chartering organisation (the tour operator in the case of an inclusive tour charter and the affinity group in the case of the group charter) and the cost allocated among the participants, who did not have to pay for the cost of empty seats.

Low cost constituted the raison d'être for charter services, while the prohibition to engage in the carriage of individually ticketed passengers provided the basis for the regulations governing the various types of charters permitted. On the North Atlantic routes, the regulatory framework within which the non-scheduled carriers have operated was determined by resolutions passed by the scheduled airlines belonging to IATA at a composite traffic conference held at Honolulu in November 1953. With minor variations, IATA Resolutions 045 and 810e, specifying the types of charters, minimum prices and conditions of sale, constitute the basis for the regulations adopted by most states.


Ninety per cent of the charters operated across the North Atlantic fall into a category known as affinity group charters, also referred to as pro-rata charters, since the cost of the charter is allocated pro-rata among the participants. IATA Resolution 045 stipulates that, to be eligible, a group must have "principal purposes, aims and objectives other than travel and sufficient affinity existing prior to the application for charter transportation to distinguish it and set it apart from the general public". Arbitrary limitations on group size from 20 to 50,000 exist in most countries, with a requirement for six months' prior membership in the group and a prohibition on the use of mass media to advertise a charter. The apparently arbitrary nature of the regulations has led to widespread abuses which have been well publicised. Nevertheless, it should be remembered that the original aim of these limitations was to differentiate a group charter from individually ticketed travel.

Other types of charters sanctioned by Resolution 045 include own use charters (single entity), student study group charters and military charters. A single entity charter is permitted when a private person or corporation charters an aircraft for his or its use on condition that passengers do not share in the cost either directly or indirectly.

The inclusive tour charter, which is the basic form of charter transport within Western Europe, has been so restricted as to play no significant part in the development of the North Atlantic charter market. It might be argued that these restrictions are in part due to its very success within Europe. The European Civil Aviation Conference defined an inclusive tour in 1958/59 in the following terms:

"An air inclusive tour consists of a round trip or circle trip performed in whole or in part by air for a comprehensive price which includes accommodation for the period the participants are away from the starting point of their journey. It may also provide for additional facilities and may be undertaken either on normal scheduled air services or an aircraft especially hired for the purpose. A tour is normally for a predetermined period and to an announced destination or destinations."

The economics of the inclusive tour are dependent upon the tour operator being able to mount a "back-to-back" operation, so that an aircraft will take one group to its destination and return with another group, thus ensuring that there are no empty legs. The 1968 U.S. legislation of I.T.C's originating in the United States includes a requirement that the tour must make at least three overnight stops at points at least fifty miles apart, effectively negating the basic principle of the operation. Proposed legislation would amend this requirement. Nothing, however, precludes an affinity group from performing a point-to-point I.T.C.

Inclusive tours from the United States also face quota restrictions on the number of inclusive tours that may be operated by charter airlines to most European countries. In 1969 the European Civil Aviation Conference evolved a frequency limitation formula which limits inclusive tours on the North Atlantic to one per cent of all scheduled flights in the preceding year. In addition, the U.S. Civil Aeronautics Board adheres to the application of an "uplift ratio" of four inclusive tour charters originating in the U.S. for every three originating in Europe. The result is that few inclusive tour charters are operated across the North Atlantic.

Until 1972 the general authority and scope of activity of non-scheduled operators on the North Atlantic have been limited to charters of these categories.
THE CHANGING DEMAND FOR AIR TRANSPORT

THE "PROBLEM" OF THE NORTH ATLANTIC

Confrontation on the North Atlantic

The regulations outlined above have successfully permitted the scheduled and non-scheduled airlines to develop a mass market for air travel across the North Atlantic. Through imaginative and aggressive marketing and low fares, the non-scheduled operators have steadily increased their share of the market. The IATA airlines, obliged to respond to price competition from the charter carriers, have resorted to promotional fares based on marginal cost pricing. Lower air fares, expressed in terms of average yield per revenue passenger-mile, have demonstrated the high price-elasticity of demand in the various markets, but at the same time have brought profitless growth and even losses to the scheduled carriers.

Between 1960 and 1971 (see Table 1), total North Atlantic air passenger traffic grew at an average annual rate\(^\text{10}\) of 17.5 per cent, from 2 to 11.3 million passengers. Traffic carried on scheduled services, including those of Loftleidir, a non-IATA airline, increased during the same period from 1.8 million to 7.8 million, an average annual growth of 15.1 per cent.

Non-scheduled traffic, flown by IATA-member airlines, U.S. supplementals and European and Canadian charter operators, has increased at an average annual rate of 29.0 per cent, from an estimated 198,000 passengers in 1960 to 3.5 million in 1972. Throughout this eleven-year period, the charter traffic carried by the scheduled airlines has accounted for between 7 and 14 per cent of the total number of air passengers on the North Atlantic routes, and has grown at a slightly lower rate than the scheduled traffic (14.7 per cent per annum compared with 15.1 per cent). In contrast, the charter traffic carried by the non-scheduled airlines has grown from 1.5 per cent of the traffic in 1960 to 4.5 per cent in 1965, 8.3 per cent in 1967, 17.7 per cent in 1969 and 21.4 per cent in 1971. During the critical years 1963–1971, charter traffic carried by the non-scheduled airlines has increased at an average annual rate of growth of 56.0 per cent.

The growth in scheduled traffic has been accompanied by falling yields on the North Atlantic, as may be seen from the experience of Pan American's Atlantic Division. During the five years 1959 to 1963, in which the jet replaced piston and turboprop engined aircraft on the North Atlantic, Pan Am's yield per revenue passenger-mile on scheduled services fell by 17 per cent, from 7.7 cents to 6.7 cents. In the following seven years the yield continued to decline steadily as an increasing number of discount and promotional fares were introduced. By 1970 the yield was 20 per cent lower than it had been in 1963, at 5.4 cents per revenue passenger-mile. Taking into account general rises in the consumer price index on both sides of the Atlantic, the real cost of transatlantic air travel to passengers has fallen even more rapidly. The introduction of jet and then of turbofan equipment reduced operating costs during these years, but yields decreased at an even faster rate.

At the same time as yields have fallen, load factors have also slipped as scheduled airlines have sought to meet increased seasonal traffic peaks and, in some cases, to improve their market shares. The result has been mounting financial problems for

\(^{10}\) Computed by the method of least squares.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scheduled Operators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IATA Scheduled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First class</td>
<td>306.0</td>
<td>244.9</td>
<td>208.2</td>
<td>192.4</td>
<td>235.9</td>
<td>277.7</td>
<td>322.9</td>
<td>355.0</td>
<td>383.7</td>
<td>460.7</td>
<td>483.5</td>
<td>464.5</td>
<td></td>
</tr>
<tr>
<td>Economy class</td>
<td>1,454.0</td>
<td>1,674.6</td>
<td>2,064.0</td>
<td>2,229.8</td>
<td>2,833.3</td>
<td>3,333.6</td>
<td>3,874.6</td>
<td>4,632.4</td>
<td>4,874.4</td>
<td>5,536.1</td>
<td>6,717.5</td>
<td>7,067.4</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>1,760.0</td>
<td>1,919.5</td>
<td>2,272.2</td>
<td>2,422.2</td>
<td>3,069.2</td>
<td>3,611.3</td>
<td>4,197.5</td>
<td>4,987.4</td>
<td>5,258.1</td>
<td>5,996.8</td>
<td>7,201.0</td>
<td>7,531.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Non-IATA Scheduled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loftleidir</td>
<td>53.0</td>
<td>58.0</td>
<td>69.2</td>
<td>74.6</td>
<td>94.6</td>
<td>128.6</td>
<td>144.4</td>
<td>162.4</td>
<td>164.1</td>
<td>176.3</td>
<td>247.3</td>
<td>262.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total Scheduled</strong></td>
<td>1,813.0</td>
<td>1,977.5</td>
<td>2,341.4</td>
<td>2,496.8</td>
<td>3,163.8</td>
<td>3,739.9</td>
<td>4,341.9</td>
<td>5,149.8</td>
<td>5,422.2</td>
<td>6,173.1</td>
<td>7,448.3</td>
<td>7,794.2</td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Non-scheduled Operators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IATA Non-scheduled</td>
<td>168.2</td>
<td>256.5</td>
<td>315.2</td>
<td>414.1</td>
<td>482.0</td>
<td>480.5</td>
<td>502.9</td>
<td>517.1</td>
<td>495.1</td>
<td>779.7</td>
<td>816.6</td>
<td>1,059.0</td>
<td>14.7</td>
</tr>
<tr>
<td>Non IATA Non-scheduled2</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
<td>45.0</td>
<td>174.0</td>
<td>197.5</td>
<td>303.0</td>
<td>510.0</td>
<td>753.0</td>
<td>1,499.3</td>
<td>2,076.0</td>
<td>2,403.9</td>
<td>56.0</td>
</tr>
<tr>
<td><strong>Total Non-scheduled</strong></td>
<td>198.2</td>
<td>286.5</td>
<td>345.2</td>
<td>459.1</td>
<td>656.0</td>
<td>678.0</td>
<td>805.9</td>
<td>1,027.1</td>
<td>1,248.1</td>
<td>2,279.0</td>
<td>2,892.6</td>
<td>3,462.9</td>
<td>29.0</td>
</tr>
<tr>
<td><strong>Total Passengers by Air</strong></td>
<td>2,011.2</td>
<td>2,264.0</td>
<td>2,606.6</td>
<td>2,955.9</td>
<td>3,819.8</td>
<td>4,417.9</td>
<td>5,147.8</td>
<td>6,176.9</td>
<td>6,670.3</td>
<td>8,452.1</td>
<td>10,340.9</td>
<td>11,257.1</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>Total Passengers by Sea</strong></td>
<td>879.0</td>
<td>785.0</td>
<td>820.0</td>
<td>810.0</td>
<td>715.0</td>
<td>649.0</td>
<td>603.0</td>
<td>504.0</td>
<td>374.0</td>
<td>338.0</td>
<td>252.0</td>
<td>218.5</td>
<td></td>
</tr>
<tr>
<td><strong>North Atlantic Grand Total</strong></td>
<td>2,890.2</td>
<td>3,049.0</td>
<td>3,506.6</td>
<td>3,765.9</td>
<td>4,534.8</td>
<td>5,066.9</td>
<td>5,750.8</td>
<td>6,680.9</td>
<td>7,044.3</td>
<td>8,790.1</td>
<td>10,592.9</td>
<td>11,475.6</td>
<td>13.8</td>
</tr>
<tr>
<td><strong>U.S.—Europe Air Travel</strong></td>
<td>n.a.</td>
<td>n.a.</td>
<td>2,515.3</td>
<td>2,810.4</td>
<td>3,490.5</td>
<td>3,984.6</td>
<td>4,566.4</td>
<td>5,320.1</td>
<td>5,913.2</td>
<td>7,085.5</td>
<td>8,533.9</td>
<td>9,455.8</td>
<td>15.8</td>
</tr>
</tbody>
</table>

1 Data for non-scheduled traffic before 1964 are subject to error, because of lack of reliable reporting procedures.

the scheduled airlines on the North Atlantic, and a forecast loss of $206 million\textsuperscript{11} in 1973 if a load factor of 55-3 per cent is achieved. To break even, IATA's commercial research committee estimated that the carriers would have to either attain load factors of 62 per cent or adopt an overall fare increase of 12-2 per cent based upon a 55-3 per cent load factor.

Knut Hammerskjold, Director General of IATA, speaking in January 1970\textsuperscript{12}, recognised the need for the creation of a new and simplified fare structure corresponding both to the requirements of the market and to sound airline economics. At the same time he stated: "Experience has shown that many of the difficulties encountered by the world air transport industry as a public service have their roots in lack of sufficient coordination and lack of consistent policies on the part of other components of international civil aviation, such as governments and international organisations. It is therefore necessary that a major effort also be made on the part of governments in order to achieve such coordinated and rational policies which will complement rather than work against the airlines' efforts to reduce travelling costs for the mass public of the '70s."

It is undeniable that the situation on the North Atlantic is fast approaching a crisis which holds widespread implications for every one concerned, the airlines, governments and the consumer. The scheduled airlines serving the North Atlantic face severe financial problems, which they consider are the consequence of competition from non-scheduled air carriers. IATA maintains that, unless measures are taken to restrict the activities of the non-scheduled airlines, scheduled services on certain routes will have to be curtailed. At the same time, increasingly vocal consumer groups are calling for the liberalisation of charter transport. The problem facing governments and airlines at the present time is in itself a measure of the success they have achieved in meeting the need for low-cost transport.

It may well be argued that the crux of the problem on the North Atlantic is to be sought in three basic contentions. First, that there is a relative excess of scheduled service on some of the major transatlantic routes, bearing in mind that only a certain proportion of the traffic has a need for "on-demand" transport. Second, that the scheduled airlines have evolved a complicated and unprofitable fare structure which results in those who need scheduled service being obliged to cross-subsidise those who require low-cost bulk transport. And third, that \textit{ad hoc} adjustments to the regulations governing non-scheduled operations have produced an unwieldy system that has obscured the essential requirements of the public. These observations are substantiated in the following sections, which deal with specific facts as they relate to the London–New York market, a route which accounted for 24.9 per cent of total transatlantic air travel in 1971.

\textbf{Excessive Scheduled Service on some Transatlantic Routes}

One of the keys to evolving a mass air transport system adapted to the needs of the market lies in a determination of the level of scheduled service that must be provided in the major markets to ensure that the "on-demand" need for air service is satisfied. If more scheduled service than this is provided, there is a relative excess of scheduled

\textsuperscript{11}\textit{Aviation Daily}, 3 October 1972, p. 175.
\textsuperscript{12}\textit{Aviation Daily}, 2 January 1970, p. 1.
service. This point was strongly made by Warren Magnuson, U.S. Senate Commerce Committee Chairman, when he stated that, while scheduled service must be preserved, "there is no need whatsoever to protect or nurture an overabundance of scheduled service if the result is to unduly restrict our citizens' right to purchase lower cost, less convenient charter transport."

From information published by the U.S. Department of Commerce (U.S. Travel Service), the Port of New York Authority and the British Tourist Authority, it is estimated that in 1968 only 18 per cent of U.S. citizens flying to the U.K. were travelling on business, compared with 27 per cent of all U.K. citizens arriving in the United States. A weighted average indicates that 22 per cent of all passengers between the U.K. and the U.S. were travelling on business.

If one makes the assumption that most business travellers, as well as those persons travelling on urgent personal business or family matters, require the availability of premium or scheduled service throughout the year, it may be estimated that roughly one third of the present passengers have a need for this service. These passengers are sensitive to time and convenience, while the remaining two-thirds, travelling on vacation or to see friends or relatives, are more sensitive to price. The personal travel market is prepared to accept a reasonable amount of inconvenience (prior booking requirements, use of an outlying airport, etc.) in return for lower cost transport.

In 1971 a total of 126 million passengers flew on scheduled and charter services between London and New York. Of these, 975,000 passengers, representing 77 per cent of the total, flew on scheduled services operated by seven airlines. Traffic flow statistics published by the International Civil Aviation Organisation for June 1971 give an approximation of the relative capacity and number of passengers carried by these airlines (see Table 2).

<table>
<thead>
<tr>
<th>Airline</th>
<th>Seats Offered</th>
<th>Passengers Carried</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number ('000)</td>
<td>Number ('000)</td>
</tr>
<tr>
<td>P.A.A.</td>
<td>63-3</td>
<td>33-1</td>
</tr>
<tr>
<td>T.W.A.</td>
<td>57-1</td>
<td>30-4</td>
</tr>
<tr>
<td>B.O.A.C.</td>
<td>53-4</td>
<td>28-5</td>
</tr>
<tr>
<td>Air India</td>
<td>12-2</td>
<td>7-0</td>
</tr>
<tr>
<td>EI Al</td>
<td>9-3</td>
<td>6-9</td>
</tr>
<tr>
<td>Qantas</td>
<td>5-6</td>
<td>2-2</td>
</tr>
<tr>
<td>J.A.L.</td>
<td>4-5</td>
<td>2-1</td>
</tr>
<tr>
<td>Total</td>
<td>205-4</td>
<td>110-1</td>
</tr>
</tbody>
</table>


In July 1972 these airlines flew between 16 and 17 departures daily between London and New York, a total of 32 to 34 flights in both directions. At least 60 per cent of these flights are on Boeing 747 aircraft, with approximately 352 seats. Because of the difference in the time zones, subsonic aircraft are limited to certain

---

hours of departure (known as departure "windows"). Thus 17 flights leave London between 10 a.m. and 6 p.m. local time (an 8-hour span), arriving at New York between 1 p.m. and 9 p.m. In the reverse direction, from New York to London, there are only two "windows" of short duration. Three flights depart from New York at about 10 a.m. to arrive within twenty minutes of each other at about 9.45 p.m. A second departure "window" opens between 6.30 p.m. and 10 p.m. at New York to permit arrivals at Heathrow between 6.30 a.m. and 11.15 a.m. In the space of 3½ hours thirteen flights arrive at London, on average one flight every thirteen minutes.

It is pertinent to ask whether the London–New York passenger with a need for scheduled service requires this kind of frequency. If regulations were adopted that ensured no change in the structure of the London–New York market between 1971 and 1980 (a purely hypothetical case), there might be between 54 and 62 arrivals and departures per day during June 1980. Obviously the traffic will not be handled in this manner, because of traffic congestion, development of other routes, charter penetration, etc. Nevertheless, the logic of the present system points in this direction.

A Complicated and Unprofitable Fare Structure

Before the introduction of group and excursion fares across the North Atlantic in the early 1960s, there were three basic fares available to passengers wishing to fly on scheduled services: first class, economy peak and economy winter. By 1972, a total of 36 fares were being offered to the public desiring scheduled service between London and New York. During the intervening years the only fares to be increased in a systematic manner were the basic first class and economy fares; the latter had been further differentiated to introduce an off-peak or shoulder season fare. In addition to the basic fares, there are now 16 promotional fares, and these are subject to weekend travel surcharges, making a total of 32.

The introduction of new promotional fares since 1963 was primarily intended as a competitive response to the non-scheduled airlines. To guard against the diversion of scheduled service passengers from the basic fares to the lower yield promotional fares, various limitations on travel were progressively introduced. To this end, every promotional fare is qualified by some limitation governing the duration of the trip, whether accommodation and ground transport have been purchased at the same time, or prior membership of a limited social group (to qualify for a student fare or an affinity group fare). The extent of these limitations may be seen from Table 3.

In spite of these precautions, the diversion to discount fares has been greater, and consequently average yields have declined faster, than expected. The overall fare structure is designed to return an average yield sufficient to cover operating and financial costs with a reasonable margin. If the yield is in fact much lower, it follows that the airline will find itself in financial difficulties.

Although little public information is available on the split of traffic on scheduled

---

14Estimate based upon a U.K.–U.S. air travel market of 9.1 million in 1980 (an extrapolation of the period of 1960–1971), no change in scheduled share of the market (i.e. approx. 75%), no change in London–New York share of total scheduled traffic (i.e. 46%), June accounting for 11.5% of the passengers, an average load factor of 55%, and an average aircraft size of either 350 or 400 seats.
### Table 3
Limitations Imposed on Transatlantic Air Fares in 1970

<table>
<thead>
<tr>
<th></th>
<th>First Class</th>
<th>Economy Class</th>
<th>Excursion</th>
<th>Affinity Group</th>
<th>Individual Inclusive Tour (ITX)*</th>
<th>Group Inclusive Tour (GIT)</th>
<th>Contract Bulk Inclusive Tour (CBIT)*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Period of application</strong></td>
<td>All year</td>
<td>All year</td>
<td>All year</td>
<td>All year</td>
<td>Mar.–Oct.</td>
<td>All year</td>
<td>All year, specifics at carrier option</td>
</tr>
<tr>
<td><strong>Stop-overs permitted without surcharge</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Limited</td>
<td>(25) Yes</td>
<td>Limited</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td><strong>Additions to basic fare</strong></td>
<td>Seasonal premium</td>
<td>Seasonal premium</td>
<td>Seasonal premium</td>
<td>Seasonal variation Yes, surcharge</td>
<td>Seasonal variation Yes, surcharge</td>
<td>Seasonal variation Yes, surcharge</td>
<td>Seasonal variation Yes, surcharge</td>
</tr>
<tr>
<td><strong>Travel on Fri., Sat., Sun.</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, surcharge</td>
<td>No, peak season</td>
<td>Yes, surcharge</td>
<td>Yes, surcharge</td>
<td>Yes, at carrier discretion</td>
</tr>
<tr>
<td><strong>Minimum stay</strong></td>
<td>None</td>
<td>None</td>
<td>(1) 14 day</td>
<td>None</td>
<td>14 days</td>
<td>14 days</td>
<td>14 days</td>
</tr>
<tr>
<td><strong>Maximum validity</strong></td>
<td>1 year</td>
<td>1 year</td>
<td>(2) 29 day</td>
<td>21 days</td>
<td>21 days</td>
<td>21 days</td>
<td>21 days</td>
</tr>
<tr>
<td><strong>Affinity requirement</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Yes</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Min. no. passengers</strong></td>
<td>—</td>
<td>—</td>
<td>25, 40, 80</td>
<td>None</td>
<td>15</td>
<td>30 days</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Application in advance</strong></td>
<td>No</td>
<td>No</td>
<td>21 days</td>
<td>No</td>
<td>No</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Non-refundable deposit</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>10%</td>
<td>None</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Travel as group</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>Yes</td>
<td>—</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Commission</strong></td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>% Low economy</strong></td>
<td>178%</td>
<td>100-120%</td>
<td>(1) 71-83%</td>
<td>(25) 64-71%</td>
<td>64-76%</td>
<td>57-69%</td>
<td>42-52%</td>
</tr>
<tr>
<td>(NYC-LON)</td>
<td></td>
<td></td>
<td>(2) 60-70%</td>
<td>(40) 49-60%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Not available since 1971.
Source: F.A.A. Compilation.
services according to fare type, an illustration of the dilemma facing the scheduled carriers is provided by Pan American in a submission to the Civil Aeronautics Board. In 1968 Pan American forecast that, by 1970, 56 per cent of its transatlantic passengers would be travelling at the basic fares, while 44 per cent would fly at discount fares. It was later revealed that the proportions were almost reversed, normal fares accounting for only 42 per cent of the traffic: 8-3 per cent had travelled first class, 34 per cent normal economy, 24-8 per cent on the 14–28-day excursion fare, 14-8 per cent on the 29–45-day excursion fare and 1-8 per cent on other excursion fares. In addition, inclusive tour passengers accounted for 1-8 per cent, group inclusive tours for 5-9 per cent, affinity fares for 4-3 per cent and family plan for 0-7 per cent. This distribution applies only to full revenue passengers and does not include staff and travel trade discount travel, which constitutes as much as 10 per cent of the total traffic. It may thus be argued that the profusion of discount fares makes it difficult, if not impossible, for a scheduled transatlantic airline to ensure the financial viability of its operations on these routes.

A further objection to discount fares stems from the observation that approximately half the fares quoted between London and New York are set at a level below the cost of providing the service. In consequence, those passengers who have a need for scheduled service find themselves obliged to cross-subsidise the carriage of passengers who do not require the full convenience of scheduled service, and who are not prepared to pay the cost that such convenience entails. This point is apparent from Table 4, which shows the various fares available to the public on scheduled services and the estimated average cost of carriage expressed in cents per revenue passenger-mile. Cost information published by the Civil Aeronautics Board for the transatlantic operations of Pan American and TWA, and by the Department of Trade and Industry for BOAC, indicates an average capacity ton-mile cost of 21 cents. Assuming a 55 per cent load factor, this equates to a cost per revenue passenger-mile performed of 3-8 cents.

There is clearly a case to be made for fare differentials which relate to cost factors. There is an added cost involved in providing capacity to meet peak travel requirements at weekends and at different times in the year. In 1971 approximately 40 per cent of all London–New York travel occurred during the three-month period July to September. However, all the promotional fares involve some limitations which bear no relation to costs, such as the duration of stay at one’s destination or social criteria. The CAB has long advocated a cost-oriented approach to pricing, but it is only comparatively recently that the transatlantic scheduled carriers have publicly referred to the need for a profit-oriented fare structure which reflects the cost of doing business on a year-round basis.

Diversity of Charter Regulations

The confusion in the scheduled airlines’ fare structure is paralleled by the variety of regulations defining the role and authority of the non-scheduled airlines. Both are due to a pragmatic and ad hoc approach adopted by governments to meeting the needs of the public, while at the same time safeguarding the market position of the scheduled airlines. The complexity of both scheduled fares and charter regulations at the present time has resulted in a situation that can at best be termed uneconomic and chaotic. Relatively few persons active in the transatlantic travel trade are
Fares are shown in U.S. dollars; rates in U.S. cents per revenue passenger mile (R.P.M.).

properly cognisant of all the details and alternatives; the result is that a large proportion of the travelling public opts for a course of action that contravenes the existing regulations. This applies not only to affinity group travel, but also to the use of youth fares and the illegal rebating activity of certain travel agents. In 1972, recognising the shortcomings of the present situation, particularly in affinity charters, governments on both sides of the Atlantic sought to introduce a number of liberalised forms of bulk transport.

The lead was taken in September 1972 by the U.S. Civil Aeronautics Board, which announced that it would authorise a new form of charter transport known as Travel Group charters. This step was taken in response to President Nixon's International Air Transportation Policy statement of June 1970, which recognised the need for low-cost bulk transport on condition that scheduled services were not impaired. The travel group charter is to be introduced for an experimental period ending December 1975; it will enable any group of 40 or more persons to be formed for the purpose of chartering all or part of an airplane. The cost of the charter must be shared on a pro-rata basis; it must be a round trip for a minimum of 10 days (7 days within North America); participants must pay a 25 per cent non-refundable deposit at least three months in advance; and the organiser must safeguard these payments through bonding or escrow arrangements with a bank. CAB member Whitney Gililland expressed the dissenting opinion that the Board lacked legal authority to issue the new
rule, since there was insufficient distinction between group travel and individually ticketed travel.

Two major obstacles remain to be overcome before the travel group charter concept can be put into practice. Several airlines and private individuals have already moved to contest the legality of the CAB's decision in the courts, and it is possible the issue may be taken before Congress for final clarification. In addition, the agreement of foreign governments must be obtained before such charters can be operated overseas. The CAB is placed in an ambiguous position because inter-governmental negotiations are handled by the Department of Transportation and the State Department, which have both expressed policy positions on charters that are at variance with those of the CAB.

Within two weeks of the CAB move, the U.K. Civil Aviation Authority announced that British airlines would be permitted to operate advance booking charters from April 1973 for an experimental period of one year. The advance booking charter differs from the travel group charter only in some minor details: 14 days instead of 10 days trip duration, 50 group members instead of 40, and applicability only to North America and the Caribbean. More important differences are that the ABC does not entail any compulsory advance deposit, and where the operator so requires refunds will be allowed. Otherwise the basic concepts are similar, the principal characteristics being the three-month advance booking requirement and availability to all members of the public without regard to prior affinity. The major weakness in both cases lies in regulatory control of the activities of tour organisers, although the travel group charter incorporates more safeguards for the travelling public than the advance booking charter. It is also worthy of note that the advance booking charter is little different from the "Early Bird" fare system which BOAC sought without success to introduce into the IATA fare structure some years ago, and thereafter made available on certain cabotage routes.

In addition to being able to provide advance-booking non-affinity charters, the non-scheduled airlines appear to be on the verge of obtaining authority for scheduled low-cost transport. The granting of this authority to Laker Airways, a U.K. non-scheduled operator, followed shortly after a critical speech by Prime Minister Edward Heath to the 28th annual general meeting of IATA, held in London at the end of September 1972. Heath stated that "if the scheduled carriers do not provide simple and inexpensive transport, these passengers will look elsewhere, and no one can blame them". Shortly afterwards, the U.K. CAA announced that it would license Laker Airways to operate a "Skytrain" service between London and New York at one-way fares of $81.25 in winter and $92.50 in summer. Bookings would be permitted only at the airport and no reservations would be allowed. Trans International, an American supplemental airline, promptly responded by asking the CAB for authority to operate a "Skybus" service at a one-way fare of $75. A valid objection to the "Skytrain" formula is that it can only be economical if its provision is limited. Otherwise it will take on all the cost characteristics of a scheduled service.

Trans International's move must be viewed against the background of two proposed bills that were reviewed in May 1972 by the Senate aviation subcommittee under the chairmanship of Senator Howard Cannon. It should be borne in mind that the basic distinction between scheduled and non-scheduled service in U.S. law lies in the concept that individually ticketed transport is the prerogative of the scheduled
airlines. One bill, S.2548, would grant supplemental authority to scheduled airlines, and scheduled rights to the supplementals. It would also permit mergers between the two types of carriers. A second bill, S.3513, would redefine supplemental air transport. This bill would amend the language in the Federal Aviation Act that states that the purpose of supplemental transport is to supplement scheduled service, and would further eliminate the differences between the two types of carriers. S.3513 would also amend the U.S. legislation on inclusive tour charters, notably by eliminating the requirement to "3-point" a tour, and would give the CAB authority to retaliate against foreign governments which restricted U.S. inclusive tour charters.

The transatlantic charter debate is by no means limited to the U.S. and U.K. governments, although the CAA and the CAB are the first agencies to take specific action. While the above developments have been taking place, the U.S. and Canadian governments have been involved in continuing discussions with the Western European States belonging to the European Civil Aviation Conference, in an effort to reach a multilateral agreement on charters along the lines of the 1956 Paris agreement on European non-scheduled services. It might be recalled, however, that the Paris agreement succeeded primarily because it was not specific and because it called upon signatory states to treat non-scheduled operations in a spirit of liberalism going beyond the terms of the Chicago Convention. The situation on the North Atlantic is too complex to be dealt with in the same terms. In an editorial dated 27 April 1972, the respected trade journal *Flight International* plainly stated: "The best rules will be founded on market research. The regulators have been flying rather too much by their seat-pants." As this article has attempted to show, the present situation is beset by a multitude of alternative schemes, which still beg the question of what kind of transport is really required.

**DEFINING NEW CONCEPTS—SOME SUGGESTIONS**

There is a need to determine the demand for "individual" transport, or scheduled air transport, and the demand for "bulk transport" or charter air services, on a selective basis, route by route. Whatever solution is finally adopted, it must be flexible and open to review at regular intervals. These demands are dependent upon the numbers and characteristics of the travelling public on a particular route. In other words, it is no longer possible to define the role of either group of carriers on a general basis. Regulatory authorities must be selective and specific in certifying airlines to meet the "public convenience and necessity".

The position of most governments concerning the need for scheduled services was clearly expressed in President Nixon's June 1970 Statement on International Air Transport Policy:

"Scheduled services are of vital importance to air transportation and offer services to the public which are not provided by charter services. Only scheduled services are expected to offer regular and dependably frequent schedules, provide extensive flexibility in length of stay, and maintain worldwide routes, including routes to areas of low traffic volume. Substantial impairment of scheduled services could result in travellers and shippers losing the ability to obtain these benefits. Accordingly, in any instances where a substantial impairment of scheduled services appears likely, it would be appropriate, where
necessary to avoid prejudice to the public interest, to take steps to prevent such impairment."

One of the key phrases in this statement is "impairment of scheduled services". Little if any market research has been undertaken to answer the question what constitutes the necessary level of scheduled or "premium" air transport on the major transatlantic routes. Impairment and diversion are terms that are often used interchangeably. It appears likely that scheduled services will in future see traffic diverted to low-cost "bulk" transport. This need not imply that scheduled services will be impaired. In determining the role that bulk transport should play on a specific route that may be qualified as a mass market, the base line must always be the number of persons requiring scheduled transport and willing to pay for the higher costs involved in providing it. This question was touched upon above in connection with the London–New York route.

Any restructuring of scheduled services should also involve an entirely new fare structure based on costs. Scheduled fares might be confined to three basic fares, first, economy and standby, with adjustments limited to seasonal and weekend surcharges or discounts. Premium scheduled service might continue to be the prerogative of those airlines currently providing it.

Charter and non-scheduled services might be reclassified as "bulk" services to avoid confusion with earlier concepts. Bulk services would be open to all members of the general public, and should meet two basic travel requirements on the North Atlantic:

(a) the needs of those persons desiring point-to-point carriage, regardless of their private reasons for travel, who are prepared to accept certain inconveniences which result in lower costs of operation. These include the use of outlying airports (Stansted, for example, at London, Newburgh or Bradley Field at New York), advance booking, low-cost handling facilities and high-density seating;

(b) the needs of inclusive tour groups, where transport is only one portion of a single package arrangement designed to meet the common desires of a group of persons for vacation, sport or cultural activities, at a lower cost due to the bulk purchasing of the various components constituting the package.

In both cases people must be grouped in full planeload batches. However, only in the case of the inclusive tour should the grouping be undertaken by an indirect air carrier (i.e. a travel organiser who is not an airline). The role of group organisers in the provision of point-to-point travel should be strictly controlled: it has shown itself to be open to serious abuse in the absence of a complicated licensing system.

Bulk transport could be offered at a fare similar to that currently being proposed by Laker and TIA for the Skytrain services, i.e., about $80 one-way. Such fares are made possible by exploiting the inherent efficiency of full planeload movements. The key to achieving full planeloads lies in advance booking. Both the travel group charter and the advance booking charter call for booking three months in advance. Consideration might be given to evaluating the use of electronic booking systems to build up full planeloads and to establishing an advance booking period as a function of the time required to accomplish booking and of the time needed to determine aircraft and crew scheduling patterns.
Such a system might be operated in the following manner. The airlines designed to serve a particular route, both scheduled and non-scheduled airlines under the present terminology, might form a “bulk transport pool”. The booking of passengers would be handled by travel agents and airline offices through the pool booking system. A certain proportion of the flights operated by the pool might be reserved for the present scheduled airlines, in recognition of their earlier role in developing the market and to compensate them for the diversion of traffic from their scheduled services. The remainder of the flights operated by the pool might be offered for open bidding or determined by bilateral agreement.

A person desiring to purchase bulk transport would be given two cards for the outbound and the inbound portions of his journey. Apart from pertinent personal information, the prospective passenger would designate a preferred date of departure/return and two or three alternate dates. These would be transmitted by the agent to the pool data processing services, which would load bookings in full planeload batches. If the last batch on a given day is less than a full planeload, or some cut-off load factor, these bookings might be transferred to the following day as a priority loading. The system would have all the advantages of the scheduled “Skytrain” concept without its drawbacks. Furthermore, it is conceivable that, if scheduled services were reduced on certain less important routes (to a frequency level below a daily service, for example), the bulk transport pool might cross-subsidise them within certain limits. This might be necessary to ensure an orderly rate structure for all services across the Atlantic.

A measure of the diversion that might be expected from scheduled services to bulk operations may be gauged from the results of telephone surveys conducted by Pan American and TWA which were submitted to the CAB. Pan American passengers booked on transatlantic flights were asked:

“Suppose you could save money on your airline ticket if a new fare were available. However, to use the new fare you would have to make your airline reservations at least six months in advance and make a 25% deposit which might not be refundable if you cancelled your trip.”

Almost 40% of pleasure travel respondents stated that they would have taken advantage of the new fare if they could save only $50. Two-thirds of those interviewed said they would have used the new fare for savings between $50 and $200. A similar survey was conducted by TWA, which showed that 35% of those interviewed would have switched to a travel group charter if they could have saved as little as $50. A full 60% would have utilised the service if the savings had been greater.

Both scheduled and non-scheduled carriers, as they are currently defined, could operate within such an advance booking system, since their operating costs per capacity ton-mile flown are directly comparable. This may be contrary to popular belief, but it is borne out by financial statistics published by the U.K. Department of Trade and Industry for BOAC and some private airlines, and by the CAB for the transatlantic operations of Pan American and TWA and for the overall operations of the supplemental airlines. Costs are presently in the order of 20 cents (plus or minus 10 per cent) per capacity ton-mile for both categories of airlines. The cost to the scheduled airlines of providing extra services is offset by economics of scale derived
THE CHANGING DEMAND FOR AIR TRANSPORT

Richard M. Smithies

from their operations, which are substantially larger than those of the non-scheduled airlines.

Such a system would have the merits of being cost-oriented, of ensuring equality of opportunity, of reducing the number of fares and regulations, of making better use of limited airport facilities, and of meeting the needs of the public for both premium and bulk transport. However, it must also be recognised that it would pose a great number of short-term problems involving the overhaul of international tariff structures, bilateral rights affecting fifth freedom carriers, and the position of smaller countries.

CONCLUSION

Technology, economic growth and lower air transport costs have been responsible for the phenomenal growth of international air transport since 1945. In the denser markets, pleasure travellers typically account for more than three-quarters of the total. When the institutions and regulations governing air transport were evolved at the Chicago Conference in 1944, air travel was essentially the prerogative of wealthy citizens, businessmen and government officials.

Today, mass air travel for pleasure has given birth to a world-wide industry of significant proportions—tourism. The needs of the air traveller in the major markets in 1970 are substantially different from those of travellers in the 1940s and 1950s, but the institutions and regulations have changed but little. Unless both are adjusted to reflect better the needs of the public, the system will be subjected to intolerable strains.

The fact that the major markets are now mass markets permits a certain flexibility in approaching the problem of reform. It should be apparent that scheduled service and non-scheduled service concepts are complementary and not mutually exclusive, since they are responsive to different consumer groups.

Responsive legislation and regulation can only result from a proper analysis of the market and the needs of the travelling public. Above all, flexibility and simplicity are required to cater for the continuing evolution of air transport.