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INTERNATIONAL REVIEW

CONFESSIONS OF A FORMER IATA MAN*

BY S. RALPH COHEN†

I. IATA IN RETROSPECT

WHEN I was with IATA, I very naturally considered it the navel of the air transport world and a model for other forms of social organization. Today, I can go for days and even weeks without thinking of IATA at all. And when I do, it is most often because some IATA resolution has prevented me from doing something which seemed a good idea by any other standards. I daresay that this is, by and large, the attitude of most airline people, except the comparative few who immerse themselves in IATA committees and conferences. This is not necessarily a bad thing; yet, when one considers the extent to which the activities of an airline are influenced by what goes on in IATA, the process would certainly benefit from a broader positive awareness of its work on the part of the people most affected. Many of IATA's public relations problems arise because airline people themselves are ignorant or misinformed. I wish that I had realized this as clearly ten years ago; I would certainly have tried harder to find some way of filling this information gap. Of course, I cannot help but look back upon IATA with a great deal of nostalgia. Those years from 1946 onward were days when we were all younger, when we still had contact with the men who started our industry and when helping to build a worldwide network and a world association were great and satisfying adventures. If greater adventures seem to beckon elsewhere, I continue to hold IATA in great respect for its real achievements and its indispensable contribution to the network of today.

Being human, one tends to think of those years in terms of people. There were many I can think of, and to name some would do injustice to still more whose friendship I also enjoyed and from whose instruction I also profited. It may be important to remember that it has been people, hundreds of them, of all colors and creeds and cultures, who have drafted the resolutions and taken the decisions which are the sum total of IATA. Because people can be fallible, subject to emotion, to excitement, to frustration, to limitations, one must realize that IATA too, can be fallible, subject to change, and sometimes to mistakes. One abiding impression of IATA is of course its sheer necessity. It is impossible to think of our business without the base of cooperation and the framework of uniformity

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which IATA represents. If there had been no IATA, we would inevitably have come to the creation of something quite like it under some other name; yet, I am bound to wonder whether, if we were starting it up now, we would organize it in quite the same way.

In retrospect, it is still amazing that so much universality and cooperation has been achieved in IATA, a triumph, perhaps, for sheer operational necessity over the compartmentation of the world and the diversity of its law, languages, and customs—although not, perhaps, a complete triumph. Because such things as the IATA standard documentation and the Clearing House are relatively simple and easy to understand, they have always had the bulk of public recognition and acclaim. Yet, I am inclined to think today that some of IATA's finest moments have occurred in its technical work. It was not always easy to give this work its due. For one thing, much of it could be successful only if it went unpublicized, *i.e.*, only if some other agency with real executive power (a government, an airport administration, or ICAO itself) could be persuaded to adopt an IATA proposal as its own bright idea. One of the troubles with universality is the tendency of man to think in terms of himself, his family, or his country. It is a good story in Britain, or America, or Italy if IATA endorses a British, American, or Italian device or idea, but it is hardly a story anywhere if all three of them sink their identity in a more vital process of cooperation.

Finally, IATA's most substantial long range technical contribution has been to the philosophy of air transport development, and this is always much more difficult to define and dramatize. Perhaps the most exciting moments I spent in IATA were as a spectator at the construction of the Copenhagen Gymnastic as the first reasoned statement of the parameters of operational possibility, and at the monumental Montreal Technical Conference on the SST. If you will look back on that meeting in the early 1960's, you will find it an excellent guide to what is coming along in the 1970's. When you fly in your first SST, you may find it a better and more sensible airplane because that Conference was held.

II. THE TRAFFIC CONFERENCES

One comes inevitably to the IATA Traffic Conferences and their thousands of pages of resolutions and tables of agreed fares, rates, conditions, and provisions for agency administration. When airline people and the public think of IATA, this is what they think of most often. It is the part of IATA which is easiest to criticize and even to make fun of. This is the area in which the work of IATA impinges most directly on the travelling and shipping public; it is the area in which the airlines must operate with the least scientific certainty, beset by the most intangibles, in which they must make judgments on the basis of forecast opinion rather than demonstrable fact, and in which they can proceed only by compromise. Albert Plesman once defined compromise by saying: "There are times when we cannot agree, so we say: 'All right, we will do it wrong for six months'." He was right, and IATA is often criticized for doing it wrong. But its

critics often forget that it may be better to do something which is wrong by many measures than not to be able to do it at all. If I go on now to venture an opinion that certain things have been wrong, it is not in any spirit of criticism or mockery. When one is part of an IATA Conference, one can be so caught up in the drama of achieving agreement between a hundred harrassed airlines that any agreed result, however tentative or incomplete, becomes spectacular, and even miraculous. Yet the accumulation over the years of many miracles of this sort can produce some very lop-sided results, and it is only by standing off at a distance that one can get an accurate idea of how far, and in what direction, the Tower of Pisa is actually leaning. I am certainly not the only one who has tried to look at IATA in some perspective. IATA itself, very laudably, if rather belatedly, has tried to do the same thing through the eyes of Stephen Wheatcroft. His report and recommendations are now being reviewed in IATA, and since they are *sub judice* in my own company and elsewhere, I make no comment on them. Others as well, with varying degrees of information and friendliness, have made other studies and observations. My remarks, then, have little chance of being terribly original, but they may at least contribute to a timely discussion.

A. *Voice, Vote And Veto*

For those of you who do not follow the subject too closely, I might explain that the world has been divided into three Traffic Conference areas for the negotiation of fares, rates, and related matters, and that there are joint and composite Conferences to deal with matters which would concern any two or all three of them. Every Conference member has an equal vote and an effective veto; a single airline may, of course, be a member of as many Conferences as its route network and interests justify. As a practical matter, the Conferences are scheduled to meet every two years in the same place and at the same time. Watching them in session is very much like watching an amoeba separate, fuse, and branch again under a microscope. The net effect is that everyone sits in and, it would seem, everyone has a voice, a vote, and a veto on almost everything. This is certainly in the great democratic tradition of the Athenian Senate and the New England Town Meeting, but the affairs of an industry as complex as air transport can no longer be run on the same basis as a debate among 50 householders about the installation of a new lightning rod on the town hall.

B. *Decision-Making And Deadlines*

Since the Conferences are dealing with the way in which the airlines hope to transact several billions of dollars' worth of traffic in a year, it is naturally vital that the airline officers ultimately responsible for the result—the vice presidents—be on hand to make the ultimate decisions. However, Conferences last for five weeks or more, and it is not always possible for men with other important responsibilities at home to stay on. If they do, they must cool their heels far from home, while their tariffs experts debate

relatively minor issues. If they go, the whole Conference may have to cool its heels while a junior delegate tries frantically to get authority to change a position from a vice president at the other end of a defective telephone connection.

Since each airline must look at the world from a somewhat different point of view and live within a different set of circumstances, the Conferences must function by reconciliation and compromise. Too often, the compromise agreement is not a point in the logical development of an argument, but rather the point at which the hotel can no longer provide space for the Conference. And, too often, the really important issues are decided by exhaustion, by the pressure, actual or artificially induced, of a deadline which may have nothing to do with the case in point; too many Conferences are ended without adequate consideration having been given to the consequences or implications of a decision. To illustrate the latter point, one might hark back to the international controversy which exploded over the economy class sandwich, simply because a Conference session was too tired to set down a simple definition, as an earlier Conference had done in a more relaxed moment on a related issue. A more recent case in point has been the series of meetings and mail votes needed to clarify the details of the actual application of the new Group Inclusive Tour (GIT) fares on the North Atlantic, proceedings which went on, incidentally, after the carriers had started advertising and selling these tours to their agents and the public.

A Conference is a cumbersome affair, not easy to accommodate or call into session. If an important issue arises only a short time before a Conference opens, there is an inevitable feeling that it must somehow be dealt with in the few weeks before the Conference closes. This can make the Conference susceptible to panic. Again, the GIT fares provide a good recent illustration. These were essentially an immediate reaction to the initiative taken by a government to open the intercontinental market to non-scheduled carriers for charters under advantageous competitive conditions. One wonders whether the IATA airlines would have reached the same decision if they had had time to reflect on whether they needed these fares to fill their airplanes this season, in view of a capacity shortage caused by delayed equipment deliveries; whether the charter carriers themselves would have had the capacity; whether the services proposed were actually provided for in the ICAO agreements; and whether, therefore, the other governments concerned would have given those carriers the permissions they needed to operate in the first place. It might, of course, be argued that these new GIT fares have been necessary to prepare for the introduction, two or three years hence, of the new generation of high capacity jets, at which time many more customers must be found to fill them. However, they also represent a further complication of an already highly complex tariffs structure which, in itself, has neither averted nor even inhibited non-scheduled competition. This competition is itself quite willing and able to acquire the same jumbo airplanes. A good many

armies have found that adding another spare tire to an armored car does not fit it to fight a new tank.

C. *Limitations Of The Computer*

I once compared a Conference to a large computer. The comparison is still valid, although I should perhaps have specified that it is strictly a manually operated computer. The agenda of any Conference under the present dispensation is immensely long; yet the ability of a Conference to digest and assimilate new and difficult situations is relatively limited. A session which must somehow cope with a large volume of routine business cannot give adequate consideration to more than a very few major issues. If there are more—and it is likely that in a rapidly changing and dynamic industry there will be more, rather than less—some must be entirely neglected or none can receive adequate consideration. The transfer of cargo matters into a separate Conference of their own has helped, but it has not really reduced the overload in other directions.

It is both possible and proper for airlines to have quite different points of view on matters before a Conference. Each of them, however, will reach these positions on the basis of different aspirations, different degrees of optimism, and different sets of data, some more complete than others. Much, perhaps too much, of a Conference's time can be spent in trying to reduce all of these to a single, generally accepted set of facts or, at least, assumptions. Sometimes this never happens at all, and the Conference becomes like Matthew Arnold's "darkling plain, . . . where ignorant armies strive by night." The information needs of modern airline management are so great that no one airline can really hope to keep up with them all. Furthermore, information, once established, must be programmed in order to make consideration and decision as efficient as possible. An attempt towards this end has been made in IATA through working groups of airline personnel, but the process is still slow, unsure, and possibly extravagant in terms of their time.

D. *Law, Legalism, And Uniformity*

Somewhere along the line, the Conferences appear to have fallen into certain basic and related attitudes which have had debatable results. The first has been the tendency to legislate in every detail for every conceivable eventuality and to leave little room for experiment in the normal give and take of the market. Thus, if one airline wishes to try a new type of fare or a variation in service, it must have the *a priori* agreement of all other airlines concerned before, rather than after, its case is proven. Of course, if the new idea is adopted and proves a failure, not just one airline, but all the carriers concerned, will have suffered. The second has been an over-emphasis on uniformity. If airline A desires, for example, to use its aircraft interchangeably on a wide variety of routes, other airlines with more local interests are under pressure to mold their services in the same pattern, regardless of whether this really suits local needs and market conditions, and regardless of whether a diversity would do any real harm to airline A.

The third has been a tendency to extreme legalism. Conference resolutions are not merely summaries of agreements reached between carriers; they are drafted, enacted, and regarded as explicit laws, in which the undotted "i" and the uncrossed "t" may have as much significance as the basic intent of the resolution. They are, moreover, subject to enforcement and penalty. Obviously, if there are to be agreements, they must be recorded in such a way that all parties will be certain of what was agreed to, and there must be some protection against a party which might break its word. Yet, there have been many times when a resolution has not been completely explicit, when the Conferences have not anticipated all its implications, or when points have been deliberately left obscure in order to get some kind of agreement on paper. As the Conferences presently operate, these gaps cannot be filled or conflicts clarified until the vote of a further Conference, except through the process of an enforcement tribunal in which some carrier must be put in the dock to defend itself against charges, and at some considerable hazard and cost. This regime, in which the lawyer becomes more important than the party in interest, was a necessary part of the price paid for the fusion in the early days of the American and European air transport systems. It was necessary to accommodate intercarrier agreement to the exigencies of American public utility regulation and anti-trust statutes. But one is impelled to wonder whether, in the course of the ensuing 20 years, it might not have been as feasible to alter American laws to meet the conditions of a wider world, as it has been to cram a complex and rapidly developing activity into the strait-jacket of one country's practice.

E. *The Law And The Agent*

The effects of these tendencies seem particularly apparent in the relations between IATA and the thousands of passenger and cargo agents through whom a large part of their traffic comes to the airlines. Agent and airline are to a large extent dependent on each other, and both know this. Thus, the relationship between the agency trade and IATA, as the instrumentality of the airlines, should be as cordial and understanding as possible. But the need to reflect and adhere to the letter of the law has somehow helped to poison the spirit. Agents, who are for the most part small businessmen working with personal rather than corporate capital, have been made to feel that they are not partners, but objects of legislation by some remote and untouchable authority. They have in turn resorted too often to the law as their response; what should have been a dialogue between members of the same family has too often had to be carried on through intermediaries, such as courts, legislatures, and arbitrators. There are other reasons why relations between airlines and agents are sometimes flawed; but a relationship that starts out with a lawyer's letter does not have much chance of warming up.

By creating a new highlevel Agency Policy Committee authorized to talk with a world body of travel agents, IATA may possibly be laying the foundations for a new bridge over the chasm. One would hope that

it will be made wide and straight. Particularly now, when we are facing revolutionary changes in the merchandising of air transport, closer cooperation, consultation, and understanding as between airlines and the agency trade is a vital necessity.

F. *The Rate Structure*

The ultimate object of all Conference effort is the table of agreed fares and rates. Today's tariff structure is admirably codified and organized, but to a very large extent it still represents the results of 20 years of tinkering and ad hoc adaptation of what were originally prewar precedents, surmises as to the future, and comparisons with surface transport competition two decades ago. This is not necessarily bad, if it works. However, in some important respects it does not work. We have built the castle, with its walls and its soaring pinnacles, but we have neglected the foundations. By failing to find a proper place for charters in the rationale of IATA, the airlines have cut the ground from under themselves. Within Europe and the Middle East, scheduled carriers have already lost the larger part of the air travel market to non-scheduled competition. The same thing could happen on the North Atlantic. And, the structure of tariffs for scheduled transport itself has become so complex that it is enormously costly to administer and confusing to apply. Moreover, it has so far failed entirely to reflect the changing capability and operating costs of the airplane itself. The North Atlantic rate structure, for example, is still conditioned by the limitations of the piston-engined aircraft of 1948. Because they are still founded on the assumption that the airplane is incapable of a longer overwater flight than Gander-Prestwick, they are calculated on a base of London-New York, with all continental and interior points as add-ons. Thus, while it is possible now to fly non-stop from Los Angeles to Copenhagen on a direct route of much lesser mileage than the sum total of Los Angeles/New York/London/Copenhagen, neither the airline, nor the public, nor the destinations served can benefit from this circumstance.

G. *Some Implications*

Any attempt to draw conclusions from these somewhat random comments carries the hazard of appearing to offer panaceas which do not exist, or assuming an authority I cannot claim. Yet having ventured the comments, it is only honest to spell out those conclusions for which I am willing to take responsibility.

These, therefore, are suggestions as to certain directions in which solutions to some Conference problems might be found:

- (1) Break down the concentration of Traffic Conference business into omnibus, biennial sessions;
- (2) To a greater extent, separate major issues of principle requiring decisions by top management from more routine matters which can be dealt with at expert levels;
- (3) Give more time and concentration to the study of principal individual issues, divorced from artificial deadlines;

- (4) Allow the individual airline more scope for imagination and more freedom to experiment—subject, if need be, to review if others feel conscientiously that they have been harmed thereby;
- (5) Equip IATA with a larger and better qualified secretariat, able to prepare and program information on behalf of the whole industry and at least to suggest alternative courses of action for Conference consideration;
- (6) Delegate more decision-making authority to principal standing committees—subject again to review as suggested above;
- (7) Give the Director General or some other IATA officer the power to make binding interpretations of resolutions *ad interim*;
- (8) Commission a complete and objective review by an outside and non-partisan body of the IATA fare and rate structure, to include charters as a recognized part of the price structure, take into account the effects of new non-stop and direct routing capability, and seek the utmost simplification of tariffs consistent with effective merchandising;
- (9) Seek a new climate in the IATA-agency relationship, based on better understanding and joint exploration of mutual problems; and
- (10) Improve the processes of communication between IATA, the various branches of the industry, including airline personnel, and the governments who have the final say.

III. THE LIMITATIONS OF IATA

For all its impressive organization and the imposing authority which its critics ascribe to it, IATA's actual power is very limited. For all the well documented opinion it has marshalled and expressed on the subject of the SST, for example, IATA has had little or no influence on the actual decisions as to its construction and timing. Years of struggle have as yet failed to give the airlines the unquestioned right to deal as equals with government authorities in the determination of fair levels of airport and route facilities charges. Even in the Traffic Conference area, where the airlines have in effect been commissioned to regulate themselves, IATA can at most *propose* to do something; the power to carry it out can only be conferred by the subsequent and specific approval of governments.

Nowhere, I suspect, is the airline-government, or the IATA-government, relationship more difficult and delicate than in the United States, where the attitudes and actions of the Civil Aeronautics Board have had a primary and far-reaching influence on what goes on in the Conferences. The Board and its staff are able, intelligent, and conscientious, but they are also prisoners of circumstance. The American system of public utility regulation, which regards airlines as either incompetent minors or ravening economic monsters, puts the Board under the mandatory necessity of acting as a universal maiden aunt, who must have a say on everything

that goes on in the family and who cannot constitutionally let well enough alone. Moreover, the system was conceived and the Board staffed primarily for the regulation of the great American domestic network and its attitudes and procedures have been extended virtually without adaptation to the quite different conditions of the international industry. In a field where many other governments, as well as airlines, are involved and where diplomacy must be paramount, the Board is forced to act unilaterally and to cover all its actions with the assumption of absolute infallibility and righteousness. In this situation, the opportunity for friction and misunderstanding has been great.

Much has been said about the necessity for IATA to make itself better known and its problems better understood at the CAB, and it is good to note that efforts are being made in that direction. Yet, it may not be out of order to suggest that the CAB has an equally great public relations problem. The system may be impossible to change, but it could perhaps be made to work better if the Board itself took the initiative, within the limits of the law, to set up a continuing dialogue with IATA and with the other governments who share its responsibilities and concerns.

IV. THE AIRLINES—FROM THE INSIDE

I have said much about how IATA appears from the outside, looking in. I have also promised to say something about how the airline business appears from the inside, as compared with the view from the ivory tower. Since I have already gone on at length, these last observations will be as selective and succinct as possible. Of course, one could not be around airline meetings for 17 years without picking up some knowledge of the business, but there is a difference between academic understanding and personal participation. I feel, so to speak, like a critic turned actor.

In these last four years, I have been continuously and increasingly impressed by the vital and constructive role of the marketing and sales people in the airlines. Our whole system is dominated by the need to achieve constant and substantial growth. No airline, however small, can expect to exist if it merely waits for the public to knock at its door; every airline, however large, is under the constant compulsion to reach out to more people, to discover more motivations for travel, to exploit new destinations and to turn all of these into more sales. I realize now that much of what has gone on in IATA may have hampered, rather than aided, creative merchandising of air transport, which is the key to our future. I am still filled with admiration at what the sales departments of the airlines, my own and others, have been able to achieve in the face of keen competition, from each other and from all the other clever people who want the same disposable consumer dollar. Today, I am closer than I was to the questions of government attitudes as they apply to airlines and their fortunes. My opportunity to observe them may not be quite as extensive, but in terms of the government in my own area, it has certainly become more intensive. One cannot expect consistency from governments, any

more than from airlines, but I have a greater appreciation of the problems of management under the impact of the widely varying policies of the different agencies of a single state. In the past couple of years, for example, one part of that government has been attempting to discourage the flow of tourism abroad, while another has been pressing for lower fares to generate more tourist traffic. One part of that government has been discouraging the use of foreign flag carriers for overseas travel, while another has been justifying the SST program on the basis that purchases by these same foreign airlines will improve the country's balance of payments position. One part of the government has attempted to negotiate more restrictive understandings as to the frequency and capacity to be allowed scheduled foreign carriers, while another has attempted in effect to dump unlimited charter capacity into the very same areas. I make no comment on these matters, except to say that I am keenly aware of them.

Today, I am far more keenly aware of the role of profit in airline operation, and of the relatively vulnerable condition of the airline economy. Money is the *sine qua non* of the airline business, even more than airplanes or expertise; for with money, these can be bought. However, money costs money. To secure capital for operations, whether it be from private investors, institutions, or public funds, an airline must offer the promise of a reasonable return, in competition with other activities which require capitalization in both the public and private sectors. While we are presently, as an industry, enjoying sizeable profit figures, the results in perspective are not quite as impressive. It is true that during 1966 what ICAO calls the world's airlines made a record operating profit of \$932 million. However, it is also true that during the ten year period from 1957 through 1966, the average operating profit for the year was only \$293 million; in two of these years, 1957 and 1961, the industry sustained losses which totalled more than the profits earned in 1958 and 1959. It is also true that the record profit of 1966 represents a slowdown in the growth curve of the previous five years. Starting in 1962, net operating profit as a percentage of revenue climbed from 1.5 to 4.5, to 7.5 and 9.6; in 1966, it slipped again to 8.6. Since these are figures of profit before taxes, one can legitimately ask whether they as yet constitute a sufficiency for the investor. Increases in labor and material cost have noticeably slowed down the rate of profit during the past year, and the climb seems to be continuing. At the same time, the actual yield per passenger or kilo of cargo is decreasing, while the brute costs of developing larger traffic to compensate must inevitably increase. At the same time, the industry and many of its members are faced with the necessity of finding new capital investment of greater magnitude than ever before. On the basis of announced orders alone, for example, the airlines have committed themselves to more than \$2 billion worth of 747 aircraft, all of which must be fully paid for before they go into service during the next five years. There are undoubtedly many more 747 purchases to come, plus the investment committed to other long and short range transports. Introduction of high capacity aircraft,

moreover, will involve expensive changes in other phases of airline operation, for instance, higher terminal and handling costs. I will not mention the SST, except to note that the American version alone has already cost the airlines \$52 million in down payments.

I have said we are a vulnerable industry. A single percentage point up or down in load factors can make an incredible difference to the year's results; the meaning of this is the more poignant when one has seen at first hand the result of a ten day strike, or delays in aircraft deliveries, or of the threat of war or civil disturbance in an important destination area. What has happened these last sixty days in Greece, in Hong Kong, and the Middle East will have repercussions on the final balance sheet of most of the industry. This is not to cry havoc. It is, however, to suggest that for the sake, not of the airlines as managements, but of the individuals, the banks, insurance companies, and government organisms who are the investors in the airlines, carriers need an opportunity to accumulate some fat as a cushion against the pressures which lie ahead. Profitability may require some extraordinary measures by the airlines themselves, but it also requires understanding and occasionally restraint on the part of others as well.

V. CONCLUSION

One overriding impression which these four years of active airline experience have left with me is that our industry faces a decade of change more rapid and problems more massive, more demanding, and possibly more upsetting than those it has met these last twenty years. As in anything else, there is danger in approaching tomorrow's problems with yesterday's ideas. Individual airlines, including my own, are trying to keep their thinking and their organization abreast of this rapid development and change. The same flexibility must somehow be found for IATA as the indispensable agency of their joint efforts.