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## Economic Regulation of the World's Airlines

William E. O'Conner

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# Current Literature

## BOOK REVIEW

**ECONOMIC REGULATION OF THE WORLD'S AIRLINES—A POLITICAL ANALYSIS.** By William E. O'Connor. New York: Praeger Publishing, Inc. 1971. Pp. 220. \$15.00.

The first half of this book describes a series of efforts, beginning in 1944, to conclude a multilateral treaty governing the economic aspects of scheduled international air services. Chapters 2 and 3 provide a readable history of relevant discussions at the Chicago Conference in 1944, the 1946 and 1947 PICA0 draft multilateral agreements, the Geneva Conference of 1947 where the last major push for a multilateral agreement failed, and the sporadic attempts made since 1947 to revive the concept of multilateralism, at least for limited purposes or in restricted geographical areas. Interwoven in proper sequence is a brief review of the Bermuda bilateral conference which profoundly influenced the later multilateral proposals.

Without question this is the best part of the book. The motives of nationalistic self-interest ascribed to some of the principal actors in the drama—particularly the United States—will seem strangely overdone to those who participated in various of the endeavors Mr. O'Connor describes and who recall the idealistic fervor of those early days. Yet the main issues, the compromises, and the succession of events which led to the final collapse at Geneva are set out with considerable skill.

Many readers will share Mr. O'Connor's regret that the herculean efforts of the middle 1940's failed to produce at least a limited multilateral agreement on the economic aspects of air transport. Yet one has the impression that he fails to recognize how much solid progress has been made toward a truly international public service system in the quarter of a century since Geneva, despite the lack of a multilateral. If this progress is in part due to the fact that the potential of aviation simply would not be denied, it is also true that unifying factors were present. The International Air

Transport Association, which receives scant attention in the text and then only for its activities in the field of fares and rates, has actually provided a mechanism for reaching an international consensus on virtually all economic aspects of scheduled aviation other than capacity and routes. Its remarkable success in this field is exceeded only by the technical work of the International Civil Aviation Organization to which the author gives due credit. Unquestionably also the model established by the Bermuda Agreement has been an important factor in producing a considerable degree of comparability, if not uniformity, in the rules established through bilateral negotiations.

The author is critical of the present system on two main counts: insufficient emphasis on the needs of users for low cost transport, and inadequate opportunity afforded for entry of airlines of lesser developed countries.

To the extent that a case can be made on either count, Mr. O'Connor does not make it. In his comparison of United States domestic fares with those charged on international services, he inexcusably uses a North Atlantic scheduled fare on which only a minority of the scheduled traffic moves. The fact is that the bulk of the passengers between the United States and Europe travel at promotional fares and comparison with full economy fares is meaningless. The yields realized by domestic airlines are actually well *above* those enjoyed by the principal American international operator.

No one can fault the author for his solicitude for the lesser developed countries but one might ask where has he been? Under the bilateral regime, many such countries—by dint of their own hard bargaining, and, perhaps surprisingly often, because other governments have been generous—have been able to extend airline services well beyond the limits that could be justified by the doctrine of “an equitable exchange.”

In addition, by grants, loans, aircraft sales and leases on favorable terms, technical assistance, temporary management arrangements, and leases of space on flights operated by major carriers, new airlines have been enabled to acquire the equipment and to master the techniques necessary to enable them to gain successful footholds in international air transportation.

Chapters 4 and 5 contain a series of essays on a variety of matters only vaguely related to the main theme of the book. The notion that "prestige" should be an important factor in government decisions to establish international airlines is once again, and somewhat tediously, laid to rest. The importance of the American aircraft manufacturing industry to national security and the economy is acknowledged, but the significance to the country of an international airline industry is discounted. The latter's historic role in purchasing new types of equipment, thus stimulating foreign airline demand for American-made piston aircraft, jets, and jumbo transports is nowhere mentioned.

The author deplores the tendency of governments to concentrate on promotion of their own airlines, using political and other means to extract aviation advantages. While the point could have been illustrated by other examples, he reaches back twenty-six years to pick one of highly dubious authenticity: that the United States "may have" obtained aviation concessions from the United Kingdom at Bermuda in 1946 because of the United Kingdom's great need for postwar reconstruction loans. The only text cited in the footnote offers a wholly insufficient basis for this extraordinary statement. In fact, as the author must know, the United States has made almost a fetish of avoiding the use of non-aviation pressures to obtain aviation benefits.

The standard of scholarship in these chapters is uneven, and the views expressed carry a highly subjective coloration. Given the tenuous relationship of the bulk of these materials to the rest of the text, they could well have been omitted.

The first portion of the book encourages readers to expect that Mr. O'Connor's concluding chapter will outline new courses of action to pick up where the Geneva Conference left off. In this they will be disappointed. What follows is a pedestrian weighing of the merits and deficiencies of the earlier proposals for a multilateral agreement. The 1946 draft multilateral prepared by the Air Transport Committee of PICAQ, which provided for an "International Civil Aeronautics Board," is characterized as the "best" solution. But the author reluctantly discards this as probably unobtainable in the conditions of today's world—a conclusion with which few will disagree, even if they could accept an international

regulatory body as theoretically desirable.

Rejecting other plans in turn, Mr. O'Connor settles on the 1947 "minority draft" as less ideal but possibly achievable. Under that draft route exchanges were to be left largely to bilateral negotiations; fifth freedom rights were to be extended in all cases, and all bilateral agreements were to contain uniform (Bermuda) rules governing capacity. The author would change the 1947 minority draft in one respect. He would pick up a provision from the majority draft to permit any two states to agree to restrict or prohibit carriage of fifth freedom traffic.

In support of his amendment, the author argues that fifth freedom rights are desired by countries such as the United States and the United Kingdom in their own interest because they have the traffic, the resources, and relatively widespread dependent territories. It is his view, apparently based largely on the distribution of votes at Geneva in 1947, that the exchange of fifth freedom rights militates to the disadvantage of the lesser developed countries.

Mr. O'Connor has done less than full justice to the United States' position in 1947, and has ignored twenty-five years of intervening history. United States insistence at Geneva on obtaining for itself, and granting to others, full traffic rights at each stop on international routes stemmed primarily from the deeply-held conviction that optimum development of world-wide communications and commerce would require the establishment of airline routes linking countries on opposite sides of the globe as well as those who were relatively close neighbors.

This is no less true now than it was in 1947. All international airlines need fifth freedom rights for fully economic operations on routes serving more than two countries. But, as experience has shown, such rights are often of more critical significance to the airlines of smaller or lesser developed countries. Lacking the volumes of home-generated traffic available to the airlines of the major nations, they may well be unable to maintain international route services at all without the support of fill-up traffic taken on at intermediate points. Many such airlines do operate extensive air routes today. A prime example is Air India which could not fly to New York without the vast quantities of fifth freedom traffic it picks up en route.

The author acknowledges that the multilateral solution he espouses could not be expected to facilitate his objective of lowering international rates and fares. What he appears not to recognize is that his amendment, by permitting segments of international routes to be blocked off from fill-up traffic, would burden air transport with additional costs which would inevitably exert an upward pressure on the price of international air transportation.

It is unfortunate that this is not a better book because there is a dearth of good analysis in the field. Mr. O'Connor is clearly a writer of some capacity. His style is easy and he manages to present a considerable volume of historical research in an interesting manner. Beyond this he has contributed little other than an honest and eloquent plea for an enlightened and international approach to world air transport regulation.

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# Introduction





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