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RECENT ADDRESSES

CRISIS IN THE CONFERENCES

A Case History in International Air Fares and Rates Negotiation

An address by S. Ralph Cohen, Public Relations Officer of the International Air Transport Association, to the Centro per lo Sviluppo dei Trasporti Aerei, Rome, on Friday, April 29, 1960.

Your Secretary General has asked me to speak about the IATA Traffic Conferences and their work. I do so, not as the delegate of an airline or as a tariffs expert, but in the somewhat different role of one of the few laymen privileged to sit through their sessions. As a result, these purely personal impressions may differ from those you would get from men who hold specific briefs for their companies or even from those of my colleagues in IATA who are responsible for the arrangements and conduct of their meetings. I cannot hope to know as much about the trees as they do, but I may be in a position to give a helpful general view of the forest.

I propose to deal with the subject in the context of the most recent meetings of the Conferences—at Honolulu last September and October and again at Paris in February and March of this year—which have happily culminated in the agreements which now go into effect.

The Crisis in International Fares

Crisis is an overworked word in the Conference glossary. Since Conferences are by nature the point of formal meeting between conflicting points of view, almost every session over the past 14 years has been advertised—perhaps with cause—as being a crisis of some sort. But it is fair to say that the past seven or eight months have been a very crucial test of the machinery for international negotiation of fares and rates. Indeed some quite sober observers went so far, with justifiable seriousness, as to discuss the possibilities of a complete breakdown of the process as we know it today.

The event has proved that they were unduly pessimistic. In fact, the experience of the past eight months, taking into consideration the diversity and magnitude of the issues involved and the differing situations of the many airlines and governments concerned, provides an unusually good insight into the workings of the Conference. It also illustrates, perhaps more clearly than has ever been possible before, the magnificent achievement of the Conferences over the last decade and a half of dynamic development in air transport.

What Conferences Are . . .

This consideration of the Honolulu and Paris Conferences must be prefaced by some examination of what the Conferences actually are and do. They are essentially a meeting of individual airlines, each holding an equal vote—and an equally powerful veto—on all matters in which it is concerned. The IATA Secretariat, under the Director General, provides the machinery, and the Conferences operate according to rules and provisions laid down by the Executive Committee of IATA, but the delegates are responsible to their individual managements and their agreements (as well as their rules

and provisions) are always subject to the review and approval of interested governments.

Strictly speaking, these are sessions of the Joint and Composite Traffic Conferences of IATA. For Conference purposes, the world is divided into three Conference areas—North and South America being No. 1, Europe, the Middle East and Africa being No. 2, and the rest of the world No. 3. Matters concerning routes which connect these Conference areas—as 1-2, 2-3 or 3-1—are dealt with in joint meetings, while business of common interest to all is transacted in the Composite, or worldwide Conference. Because fares and rates are highly inter-related by the very nature of the world air network, the Conferences generally meet at the same place and the same time.

Physically, you can visualize a Conference as a great baize-covered open square table, around the outer sides of which are ranged the delegates of the member airlines, each backed up by his tariffs experts, his cargo men and others who may sit in for him on specific subjects or in different Conference meetings. At the head table is the Chairman, who is an airline man elected as the Chairman of the host Conference; the Director General; the Traffic Director, who with the Traffic Advisory Committee "steers" the sessions in a procedural sense; the three Conference Secretaries; and the Legal Drafting Officer. And behind them, are their staffs of minute-writers, fares and rates officers and other clerical staff. In other rooms, there may be meetings of expert groups, such as the Cost and Agency Committees or the Traffic Handling Working Group, and groups of tariff men to elaborate Conference recommendations into detailed fares tables. Somewhere in the building there is also a bank of duplicating machines and about seven tons of paper to record proposals, comments, counter-proposals, situation reports and draft agreements.

... and What They Do

Having assembled them around this table—usually in a resort hotel out of season, for these are the only places where we can secure enough accommodation at a reasonable rate—what shall we expect of them?

In a sense, they are working at two different levels, which are distinct although inter-related. On one level, the Conferences are concerned with facilitating inter-line traffic—the movement of passengers, goods, baggage and mail which must use the routes of more than one airline to get from origin to destination. This is a very substantial portion of today's airline business—the \$1,000,000,000 annual turnover of interline transactions in the IATA Clearing House equals about one quarter of the annual operating revenues of the world's airlines and a much higher fraction of the international traffic of IATA members.

The Conferences are therefore the means through which the airlines standardize their tickets, baggage checks and cargo waybills, their reservations codes, their regulations for the carriage of restricted articles, their provisions for tracing baggage and cargo, the means for assigning responsibility and so on. Other Committees and working groups of IATA are very often concerned with this work, but it all finds its expression through the Traffic Conferences and the IATA interline agreements.

These agreements are the reason why it is possible to say, with some hyperbole but at least an equal amount of truth, that the IATA ticket is man's magic carpet from anywhere in the world to anywhere else, regardless of the number of airlines he must use and the number of countries, currencies, systems of law and commercial practice he may encounter.

By and large, these are normal functions of any trade association,

although rendered more difficult because they must be accomplished within an international framework. These agreements are entirely beneficial to the parties concerned, as well as IATA members, are parties to them.

In most areas of activity, such functions are carried on quietly, without much public attention or governmental concern. But air transport is a public utility, and the peculiar attitude of United States law toward public utilities requires that any agreements between airlines—even among domestic operators—must be subjected to the closest scrutiny and must be specifically approved before they can become effective. Other nations feel that they cannot exercise a lesser degree of sovereignty. The result is that these matters—even to the size of type in which the airline announces on the back of the ticket that the journey concerned involves air transport *not* within the meaning of the Warsaw Convention—are subjects for solemn consideration and judgement by many ministries.

Government Control of Fares and Rates.

At another level, the Conferences deal with the much more interesting subject of the fares and rates to be charged for international air transport. When the Conferences do something in this regard, the results are usually advertised in such terms as "IATA raises fares" or "IATA lowers fares." Actually, of course, this is a portmanteau expression—a bit of international shorthand—which covers a much more complex operation in which IATA as such has no voice at all, and in which the airlines themselves are hardly free agents. It is therefore advisable to examine for a moment just what they do and why in this area of activity, and I hope you will bear with me through a passage which for some of you at least will be rather elementary.

To be quite precise, the airlines meet in the Conferences to work out *recommendations* for fares and rates to be charged on international services. These recommendations have no force in themselves: they must be carried back by the airlines to their own governments for individual review and approval before they can become effective.

The airlines are not necessarily in the Conference because they want to be, but because their governments insist that international fares and rates be governmentally agreed and realize that the airlines must have a voice in framing them. The ways in which governments arrange, permit or require these meetings between airlines may differ in detail according to the terms of the bilateral agreements which they negotiate with each other, but it is a safe generalization that throughout the world, the exchange of commercial flying rights between governments is accompanied by the stipulation that the fares and rates to be charged must in some way be agreed between them.

The reasons why governments insist upon having the final say on fares are many and may differ from country to country. The principal reasons, however, are to protect the user against exploitation; to assure that standards of safe operation will not be sacrificed to price cutting; to avoid the necessity for undue state subsidies; and to protect the existence of their own flag carriers on whom they may depend for communications essential to their strategic or commercial existence. This is, of course, a legitimate exercise of national sovereignty; and since few if any governments have been willing to relinquish this degree of sovereignty to any supranational organization, these fares and rates agreements must be worked out by negotiation.

Necessity for Negotiation

There is thus no question as to whether international fares should be agreed. The only question is by whom. Whilst the negotiation of agreements for commercial rights is a bilateral process, the negotiation of fares is much

more complex, for with comparatively few exceptions, most international fares are a segment of other fares, or must bear a relationship to fares on parallel, over-lapping or matching routes. For most fares, simple bilateral agreement is therefore an impossibility.

Fares negotiations also involve a wide variety of factors. There is not only the cost of providing the service. One must also take into account the cost of selling it, the traditional charges of competitive means of transport and the commercial risks of promotional pricing. On these factors and many others like them managements stake their own heads, their stockholders' money and their companies' existence. Most governments have felt strongly that these are outside the proper competence of the ordinary civil service and have therefore delegated the task of working out the patterns of fares and rates to the airlines in Conference. But they retain the right to review and disapprove—which they exercise in the public interest. **Make no mistake**—IATA Conferences may propose, but governments dispose.

Thus, when the airlines enter the Conference room, they must not only reconcile their own views as carriers: each of them must also negotiate within the framework of what it knows its government wants, will permit, or may hopefully be persuaded to allow.

The sheer magnitude of what must be negotiated is one reason why the Traffic Conferences last a minimum of three weeks and sometimes go as long as five. There are some 60,000 pair of points on the air network for which there must be agreed fares and rates. Many thousands of these must be individually stipulated and rules for constructing the rest must be maintained and kept up to date. Further provisions must be made for converting fares from the currencies of the Conference table—dollars and shillings—to some 120 other currencies of sale.

Moreover, it is not sufficient to set the level of fares. There must be a legion of other provisions for differentials as between equipment and classes, for family fares, excursion fares, inclusive tour-basing fares, round trip and circle trip discounts and all of the other permissible deviations from the standard. There must be agreement as well on the commissions to be paid agents, as a percentage of the sales price.

Difficulties of Agreement

I have described so far what can be considered the normal problems of any fares and rates Conference at any time. In each year, these problems must further be considered in the light of the constantly changing circumstances of a dynamic industry. Fourteen years ago, the Conferences were dealing with one class of transportation, largely in unpressurized aircraft. As equipment began to grow in size and speed, new classes of service and new levels of fares were introduced. During the past year, the Conferences have had to provide for what are really four classes of service—de luxe, first, tourist and economy—in differing types of aircraft ranging from three different sizes of jets, through three other varieties of turboprops and four principal marks of piston-engined aircraft, each with significant variations in speed, payload and costings.

Each year has also brought its changes in the economic cycle—most of them happy, but some disturbing. A flurry of recession in the American economy, a concatenation of strikes, the devaluation of a principal currency, any of these factors and many others like them will create new conditions to which the whole fare structure must in one way or another be adapted.

Action by Compromise

It is very seldom that all airlines will see eye to eye on any issue before a Conference, if only because every one of those issues contains large

elements of commercial risk, calculated by different men on the basis of economic and commercial considerations which vary according to the locations of their head offices, the type of traffic they carry and the places which they serve. Each will have a different set of instructions, or intimations, from its government, and so on. Few, if any, of these questions can be decided on the basis of statistically demonstrable fact—they are matters of judgment which will not be proved out until long after the event. "The truth is great", said the poet, "and shall prevail/When none cares whether it prevail or not"!

The Conferences must further act only by unanimous agreement, for each airline holds a veto to protect itself from being forced to act counter to its really firm beliefs, or to protect itself against the ultimate eventuality of being voted out of business by its competitors. Thus, the Conferences are most often likely to achieve their results by compromise between divergent views, and function best when they are allowed considerable flexibility in approach. What cannot be accepted by many airlines as a flat fare proposal can often be stomached in another form. There are, so to speak, more ways of killing a cat than by smothering it in butter.

If I may draw a final analogy, the Conference is like a huge computer. Into it go all of the details of the *status quo*, the various proposals for change, the reactions of other parties, the views of governments and the practical checks which are discovered in discussion. Out of it eventually comes the best possible accommodation of all of these views. It has been said the Conference system throttles competition: actually, it gives competition a chance to work itself out on paper, instead of through the more costly methods of the market-place—in the same way that many airlines flew their jets across the Atlantic on paper before committing themselves to their schedules and costings. Few bridge builders nowadays erect their structure and then wait to see if the wind will blow it down: they calculate the stresses beforehand.

The Crisis at Honolulu

Thus we come to Honolulu. We must first, of course, look at the fares structure which was the *status quo* when the Conferences met last Fall. This was itself a difficult compromise of many elements, in which three had been paramount, worked out in the Fall of 1958. The jets were then coming into service—gradually and in small numbers, but enough to make a significant psychological impact on a market which most carriers still hoped to serve with propeller-driven aircraft, some of them still entirely new. Moreover, the actual costings of jet operations were still unproved: they promised economies once they were worked in, but every man had his own ideas as to when and how much, and no one could speak with such authority that others would accept his figures as gospel. There was also mounting pressure for a simpler two-tier fare structure on the North Atlantic and elsewhere, to replace the strata of deluxe, first, tourist and economy—but also a strong resistance on the part of operators who were still getting good passenger loads in their intermediate tourist class.

The fare structure finally agreed for 1959-60 traffic year was tailored to fit the circumstances of what carriers knew would be a troublesome transitional twelve months. Fares were still to be based on the known operating costs of the piston-engine. There were surcharges on the jets on some routes—agreed by carriers over the North Atlantic, after much discussion at government levels; and imposed unilaterally by a government on the North Pacific. The more complicated arrangement of classes was to be continued, but with the understanding that it would not last beyond the current year. No one was entirely happy and some carriers had a hard time

securing their governments' approvals, but an orderly basis on which the business could continue to run had been secured.

At Honolulu, many of these issues had sharpened and new ones arose. It was now possible to forecast that in the coming year—Spring 1960 until the end of March 1961—the jets would be producing larger, rather than the smaller part of capacity on many routes. The jet surcharge itself, having been advertised as a transitional and limited measure, had in any case to be abandoned whether justified or not.

The jets had already begun to work an operational revolution as well. Their productivity, speed and range were such that the individual jet could not be confined, as piston-engined aircraft most often are, to one route or type of operation. The fact that the same aircraft would fly from Honolulu to Hong Kong one day and Karachi to Paris the next imposed a need for greater worldwide uniformity of seating configuration and conditions. This was, in turn, complicated by the fact that on one or two of the really long intercontinental routes there was still a demand for something better than the normal first class; and by the fact that there were considerable differences in the fuselage dimensions of the various types of jets.

There was also a strong demand on the part of some airlines for the extension of economy class beyond the North Atlantic to other intercontinental routes. This was not in itself strenuously resisted, but there were differences of opinion as to the level of fares for this new class; moreover, the proponents of extension were divided among themselves as to whether tourist should be continued on those routes.

Consideration of general fares and rates levels was, if anything, even less easy than the year before. The jets had acquired a formidable amount of operating experience, but under abnormal economic conditions. The first machines to go into service had not reached their full possible range. They were subject to all of the normal on-costs of breaking in any new generation of aircraft, greatly magnified in almost every instance. Retraining of crews and revision of maintenance and overhaul facilities and arrangements meant considerable disruption of schedules in the introductory year. For most airlines, some elements of jet operating costs, notably flight crew wages, were still unknown and dependent on negotiations still to be concluded. It could hardly be said that the jets had as yet reached their optimum economy of operation.

Again, there were still propeller-driven aircraft which would be operating over the same routes, in some cases as the only equipment of a competing airline for the time being, and in others within the jet operators' own fleets.

Nailing the Flag to the Mast

All of these issues were the normal result of the technological change within the industry and the continuing search for ways to develop the mass market. At Honolulu, however, something new was added with a demand for very low fares—lower, in fact, than the normal concept of economy class—between Europe and points in Africa, on the one hand, and Europe and points in the Far East on the other. The demand was voiced by British airlines, with support from the flag carriers of other Commonwealth countries in the areas concerned and it arose out of the waxing tide of their economic prosperity and the desire of a traditionally travel-minded people to resume their wanderings after years of postwar denial.

Given the political and geographical context of the areas concerned, these proposals opened the lid of Pandora's box. Many parts of Asia and Africa affected by this proposal were in a state of political flux and extreme economic imbalance. Some areas were reaching full political sovereignty:

others were still subject to the cabotage rights of more than one European country. There were vast disparities in their economic position: some were rich and developed, others were neither. Some had large populations with strong ties to Europe; the people of others had no concern beyond the next village or mealie patch. A proposition which was commercially tenable between London and Nairobi, where a cut in fares would produce a larger flow of traffic, might well be commercial disaster between other points where even larger reductions might not produce a half dozen new passengers.

It was on this problem which the Honolulu Conference foundered. In the light of past experience, it was certainly not beyond the capacity and ingenuity of the Conferences to find a *modus vivendi* by which this demand could be accommodated along some routes without fatal consequences elsewhere; but a situation had been created which in effect destroyed the ability of the airlines to negotiate on the matter. The catalyst was a relatively simple statement by a responsible Minister in Parliament that its flag carriers would get exactly what they had asked for or it would go it alone, but it nailed the country's flag to the mast of a specific proposal. Any substantial alteration in that proposal could not have been entertained by the government without a serious loss of prestige.

This is not in criticism of the government concerned. Certainly it had every right to say what it wanted. There were many good reasons why the Minister took the position he did and, measured by the standard of political necessity, he may well have had no choice. But by decreeing that the cat was to be smothered in butter, and in butter alone, he did eliminate any possibility of doing away with the animal at all. Nothing hampers international negotiation more completely than a categorical absolute.

With this question unresolved, the Conference could not close fares between Europe and Africa and the Far East. As a natural consequence, it was further impossible to close them over the North Atlantic and Pacific. The Conference did close fares over other routes, in the Western Hemisphere, within Europe and between Europe and the Middle East, and over the mid and South Atlantic. They also closed all cargo rates throughout the world. But they went home with much of their business unfinished. For the first time in Conference history, the Conferences were adjourned without agreements on routes which had been closed in previous years. A year before, they had recessed at Miami in order to come together again at Paris 90 days later: but at Honolulu, they adjourned *sine die* without any idea as to when, or even whether, they might meet again.

Resolving the Crisis

Tuesday, October 13, 1959, was hardly a happy day for the Conferences. There was equal gloom and great consternation in the General Meeting of airline presidents which had just begun at Tokyo. And in much of the trade press and in the daily newspapers of some countries there was despondency, alarm, and copious prediction that the Conferences had reached the end of the road. Yet six months later, almost to the day, these differences—and all of the other problems which waited on their solution—have been resolved and the Conferences have been able to reach agreement. They have closed fares and they established important new principles as well: two classes of service as a future rule; fares based on the jet; and differentials for propeller-driven aircraft in the form of either a lower price or more liberal conditions.

What had happened in the meanwhile? A great many things, of course. Delegates had gone home to reconsider their own positions, to confer with their managements and to speak with their governments. They also went home to face the actual threat of a year without rate agreements more

directly and immediately than they had ever done before. This was in itself a sobering prospect—for reasons I shall discuss a little later. But the major change which permitted another Conference session at Paris, was in fact a change of Ministers: an election had intervened, a new Ministry was created, and whilst the flag was by no means hauled down, it was left more free to react to the winds whipping around the pole. Released from categorical demands, the airlines now had sufficient maneuvering space to negotiate agreements which secured much the same effect by other means. It will not be necessary, I think, to go into detail about the final settlement of this issue, except to say that it was accomplished by the use of special excursion and directional fares and group discounts on those international routes where they were needed, and applying cabotage fares on certain others, sealing off the repercussive effects on other routes in the areas concerned by measures of non-combinability and the like. It may not have been particularly neat, it would not satisfy a doctrinaire and it may give tariffs people some headaches, but there is every possibility that it will work.

Lest we forget, these were not the only matters dealt with and settled at Paris. Even when the airlines had reassembled there, it still took some weeks to sort out the loose ends and tie them up as neatly as possible. But the Conferences once again accomplished the annual miracle of computing and settling fares between 60,000 pairs of points, of reviewing all of the normal list of several hundred resolutions affecting conditions, agency interline agreements and the like.

Lessons in Retrospect

In very broad outline, this was the Honolulu crisis and the way in which it was resolved. What impression had it left with the more or less innocent bystander—the interested, but uncommitted observer of the proceedings?

I have already mentioned the sheer bulk of the Conference agenda. I never fail to be impressed by the great variety and massive number of elements which must be fed into this hydra-headed human computer, the way in which they are marshalled and carried through the process of statement, comment, negotiation and final resolution.

Impressive too, is the resourcefulness which the Conferences can demonstrate on occasion in finding ways, within a relatively rigid structure of requirements, to fit together and balance off differing necessities and points of views.

To carry the computer analogy a bit further, there seems to be no limit to the amount of detail which the Conferences can assimilate, given sufficient session time. But there does seem to be a limit to the number of changes in concept or principle which any one Conference can accommodate, or to the speed with which they can be brought into the pattern. I refer here to such proposals as the reduction of service to two classes, the institution of economy fares or new patterns of cargo rating. Issues such as these have widespread chain reactions, not only in the Conference resolutions and fares tables, but in the domestic dispositions and budgets of the airlines themselves. They may involve alterations to equipment, or even purchases of new aircraft; changes in commercial policy; or new requirements for financing. They can only be decided by further discussions with boards of directors, with sources of finance or with governments. And they may also require quite drastic changes in attitude toward the other ingredients of the annual fares and rates arrangements. The airlines are urged to send delegates to the Conferences who can act as plenipotentiaries, and most of them do, but there are issues which cannot be decided by one man on the Conference floor. To this extent, then, there are times when it may well be fruitless to force the pace of the Conferences.

If any demonstration were needed, Honolulu would provide proof positive of the fact that governments hold the whip hand over international fares and rates and that their voice, when they care to raise it, is absolutely decisive.

Honolulu would also seem to demonstrate that this power of governments must be exercised with some restraint and discrimination if the Conference process is to work. It is all too easy to talk about what might have been, but it is not unreasonable to assume that if government pronouncement had not so greatly diminished the area of negotiation, the Conferences might well have reached at Honolulu the settlement they were forced to wait until Paris to achieve.

Are Open Rates Possible?

This year's Conferences have had another interesting aftermath, in that they brought airlines and governments, for some months, closer than they have ever been before to the brink of open rates on many vital world routes. There has therefore been more speculation and serious study than ever before of the consequences of open rates and the alternatives to Conference agreement. This speculation has been widespread, and much of it has been based on wishful thinking, rather than on international realities. I should therefore like to consider the realistic residuum of the picture which emerged from it all.

To my mind, it has become very apparent that in effect there can be no such thing as an open rate. The failure of Conference agreement would not and could not cancel out the basic requirement for bilateral agreement between governments on international fares between their territories. The alternatives therefore could only be a tacit—and probably uneasy—maintenance of the *status quo* as previously agreed, or the creation in a very short time of a situation which would require governmental intervention.

In a very limited number of cases involving routes which can be set aside from the general fares pattern, agreement might be reached quite easily by a meeting of the two governments concerned, or even by the unilateral intervention of one and the acceptance of the other.

But what if they failed to agree? Or what would be the case if the route or routes concerned touched upon the interests of three or six or a dozen or more governments?

In the latter case, of course, there would be no alternative to a multilateral meeting of governments. In effect, this would be another international fares and rates conference, but one in which governments sat at the table and airlines as advisers behind them. The result, of course, would be some sort of compromise settlement—nothing more or less than what is achieved by the present system of negotiation by the airlines and review and approval by governments. But it is reasonable to suggest that these compromises might be much more difficult to reach, for the simple reason that the entry into the debate of considerations of governmental doctrine and national prestige hobbles, rather than facilitates, the essential business of give and take which alone makes compromise possible. The experience of Honolulu would certainly point in this direction.

To go a step further, let us examine what might happen if either bilateral or multilateral government negotiations failed to reach agreement. I shall not consider what might happen to the business in the interim, nor shall I raise the specter of Summit Conferences on economy class fares between New York and New Delhi via Tashkent. There is an alternative to these in a process of arbitration through the International Civil Aviation Organization which is mentioned in at least some of the principal bilateral agreements.

This arbitration has never been invoked and no one can say with certainty how it would operate, but it could only result in the ultimate imposition upon the airlines of some states of judgments by governmental representatives of other states. However impartial and fair these judgments might be, they could not be any more satisfactory in the end than the achievement of voluntary compromise in the Conferences.

Conclusions

This is not to argue that all is for the best in the best of all possible worlds. There are times when it is easier to avoid decisions than to make them, and Conferences are no less prone to take the easy way than other human institutions. The pressures of government and the press, are all to the good—if they, in their turn, do not get out of hand. And there are times as well when compromise can only be a temporary expedient. As the late Albert Plesman once said to an Annual General Meeting of IATA: “There are times when we cannot agree, so we compromise: we do it wrong for six months.”

I would, however, suggest that three points emerge rather clearly from the experience of the past eight months.

The first is that no nation can “go it alone” when it comes to international fares and rates.

The second is that, given reasonable latitude for negotiation, the airlines can find reasonable and workable solutions through the Conferences to the problems of achieving international agreement.

The third is that this Conference process is probably more satisfactory, and certainly more efficient and expeditious, than any other alternative.