Aviation and Tourism: The Traveling Public

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As one who deals with tourism planning at various levels, I am pleased to be here today to speak about the vital relationship between aviation and tourism and its implications for the traveling public. Over the past thirty years, the development of tourism worldwide has paralleled the evolution and growth of the airline industry. Recently, we saw dramatic evidence of the linkage between aviation and tourism during the Persian Gulf crisis when adverse conditions affected both industries drastically. The historical message is clear: The health and vitality of tourism is dependent upon affordable, speedy, convenient, and safe air transportation; and the growth of the airline industry revolves on more accessible tourist destinations worldwide.

In addressing this topic, I will touch upon the historical relationship between the two and the key issues which are important to the future of tourism and aviation. First is the strategic importance of tourism to our national economy and in international trade, second is the contribution of aviation technology to long-haul travel, and third is the impact of civil aviation policies on travel and public concerns about air service.

THE GROWTH OF TRAVEL AND TOURISM

Tourism is said to be the largest and fastest growing industry in the world today with current revenues estimated in excess of two trillion dol-

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lars — more than twice the amount the world spends to support its military establishments. On an average day worldwide, an estimated 3.4 million passengers take off from 16,000 airports on over 600 domestic and international airlines that serve thousands of destinations.

Since 1985, the volume of international tourism to the United States has increased by fifty-five percent. Current projections suggest that scheduled international passesenger traffic will double by the year 2000, growing at an average annual rate of six to seven percent in this decade. In 1990 the travel industry became our nation's leading export, generating $52.8 billion in expenditures from nearly 40 million international visitors and creating a $4.7 billion surplus in our international trade account.

1990 also marked the fifth consecutive year that travel to, from, and within the United States expanded. In over two-thirds of our states, travel and tourism is considered either the first, second, or third largest industry. In my state of Hawaii, for example, tourism is the number one industry, accounting for over 11 billion dollars in expenditures, or forty-five percent of our gross state product, generated by nearly 7 million visitors, virtually all of whom arrive by air. Here in Colorado, the travel industry is just second to agriculture, attracting more than 26 million visitors annually and generating over $6 billion in revenues.

This growth of travel and tourism has generally reflected economic, social, and political trends favoring travel consumption but clearly would not have been possible without a parallel growth in reliable air service, aircraft technology, airline regulatory changes, and travel incentives.

Let me turn now to several key areas where aviation has impacted travel trends, beginning with aviation technology.

AVIATION TECHNOLOGY

Jet Service. It is fair to say that the most influential factor in the development of modern tourism was the introduction of commercial jet service in 1958, offering increased carrier speed, range, and capacity. During the 1960s, passenger traffic grew at an annual rate of fifteen percent as travelers were able, for the first time, to cross continents and span oceans within the course of a day. At the beginning of the jet age, only about one-third of all Americans had ever flown. By 1970, this number had increased to nearly fifty percent, with leisure trips accounting for about half of all air passenger arrivals.

Wide-Body Aircraft. In the 1970s, the Boeing B747, the McDonnell-Douglas DC-10, and the Lockheed L1011 introduced a new era of airline travel. These wide-body jumbo jets were capable of carrying about twice as many passengers as the Boeing 707 and the DC-8 and provided economies of scale which reduced airfares. By the end of the 1970s, worldwide figures show that over 130 million more passengers had boarded commercial airplanes, a ninety one percent increase over counts at the beginning of the decade.

Long-Haul Aircraft. Within the past year, we have been introduced to yet another generation of jet service: the B747-400 and the McDonnell-Douglas MD11 — aircrafts capable of flying over 8,000 miles at a time. These long-haul jumbo jets open more options for travelers who will be able to fly halfway around the world nonstop; for example, from New York to the Far East or from Europe to the Pacific Islands.

Faster Aircraft. As we move into the new century, we can expect even more innovative technology. Long-haul aircraft will increase passenger capacity by twenty percent; and by the year 2100, the U.S. National Aerospace Program will introduce commercial supersonic aircraft that will fly from California to New York in about one hour (3,400 miles per hour); or from California to Hawaii in forty-five minutes. For some of us this is faster than our morning rush-hour commute. The compression of travel distances and time will affect the marketing of tourism on a global scale that will dwarf today's already impressive accomplishments.

There are other key policy issues that continue to have an enormous impact on travel.

Airline Deregulation

Of these, perhaps no topic has been more controversial or as inconclusive with respect to long-term public impact as the issue of airline deregulation. Congress passed the Airline Deregulation Act in 1978 to allow airlines to compete on the basis of fares and routes.

In the early years of deregulation, the number of scheduled air carriers almost tripled. The new entrants fueled a price war by generally offering lower fares in markets that previously were profitable, had the fewest incumbent carriers, and represented transfer markets. Some of these carriers justified lower fares by offering no frills service. By the mid eighties, consumers were enjoying up to half the full-fare discounts and more choices of airlines in expanded markets as routes served by two or more carriers grew by more than fifty percent over 1978 figures.

The net effect, as estimated by the Brookings Institute, is that deregulation has generated some $6 billion in cumulative savings to travelers, after subtracting $500 million a year from consumer savings as the cost of increased flight delays. The largest part of the savings has accrued to vacation travelers in the form of increased discounting with various restrictions. It should be noted, however, that general agreement on the costs and benefits of deregulation remains elusive in spite of numerous major studies on this matter.

Airline Concentration. As I pointed out earlier, deregulation spawned a number of new entrants into the domestic airline industry. By 1985 more than twenty new airlines had begun interstate service. These newcomers increased their market share by offering fewer amenities and lower fares than their more established competitors.

However, this advantage was short lived as the major airlines countered with competitive marketing strategies and by selectively matching the fares of their new rivals. The resulting bankruptcies and consolidations have left the airline industry more concentrated today than before deregulation, when the eight largest airlines held eighty-one percent of the market. Their share now is ninety-five percent, creating a virtual unregulated monopoly or oligopoly in some markets. Given the sad current financial climate of the carriers, it is all too possible that we will be down to four or five major carriers by the end of this century.

The lack of competition, for example, at such airports as Atlanta, Denver, and Pittsburgh, according to some studies, has produced significantly higher prices. A 1988 Department of Transportation study found that fares were eighteen point seven percent higher at concentrated airports served by a few dominant carriers. Given this state of affairs, it is interesting to note that the Reagan administration did not challenge a single merger or acquisition in the airline industry under existing antitrust laws even as reduced competition became evident.

PUBLIC CONCERNS

Air transportation policy and airline operational changes have also spawned questions of growing public concern in air travel. The most recent issues deal with air congestion, air safety, the quality of air service, and finally, one with which the public has not yet come to grips—that of taxation in air travel.

Congestion. In tourism, the first and last impression of the travel experience and a destination takes place at the air terminal. Airport congestion, security, customs inspection, immigration, and other support services are important to travelers and are of high priority to destinations seriously interested in developing tourism. It is, therefore, a concern to the industry that despite the increase of more than 150 million air passengers in the 1980s, not a single new airport was built. Instead, $6 billion in the Airport Trust Fund was left unspent to reduce the federal budget deficit.

The shortage of facilities, gates, landing rights, and airspace is not expected to subside in the near future as airport expansion and construction are often stalled by environmental impact problems, scarcity of land, cost, market issues, and politics. The new airport under construction in northeast Denver is a good case in point as new political opposition to its ongoing development makes the headlines.

Airport congestion is due also to an air traffic control (ATC) system that has not fully recovered from the air traffic controllers' strike in 1981 and its aftermath. A shortage of qualified controllers, a lack of up-to-date equipment, and a concomitant increase in air traffic have contributed to more airline delays; and new ATC equipment which could alleviate these problems will not be available for some time.

Congestion creates frustrating experiences for the traveling public. It is also costly to airports and airlines, inevitably leading to increased ticket prices and additional passenger facility charges, which have serious implications for tourism during recessionary times.

Unless governments, airlines, and the travel industry work together on the congestion problem, delays at major airports will increase. The construction of additional terminals and runways will be expensive, and we must also examine other measures to improve the system's capacity to cope. For example, many governments are allowing private sector participation and investment capital to provide new and upgraded facilities while public agencies meet other urgent demands for more basic services. The lifting of air curfews, especially in Asian countries, is another solution proposed by industry experts.

Airline Safety. Safety is one of four key concerns affecting travel motivation and behavior. An incident on one carrier affects not only the particular airline in question, but also casts a shadow on the travel industry in general. To bear out the thesis of public interest in safety, a recent survey by Becker Associates travel consultants reports that forty-seven percent of the respondents want more detailed records of airline safety infractions; forty-two percent want maintenance and performance information; thirty-nine percent want aircraft age data and twenty-two percent even want to know about the experience of the flight crews.

The hub and spoke system, which is widely used today by the major air carriers, has increased the number of aircraft takeoffs and landings in a given time period, causing premature metal fatigue and stress on those planes serving high demand markets. An examination of Hawaii's Aloha Airlines jet that lost part of its fuselage in midair three years ago—perhaps the most notorious instance of this problem—showed corrosion and cracks, having flown an average of twelve or more cycles per day over Pacific waters for the previous nineteen years.

The Aloha tragedy had the useful consequence of raising the issue of the viable economic life of an aircraft. It is expected that by 1994, forty-percent of the world's aircraft will be over twenty years old, which is a problem from both marketing and operating perspectives. The primary impact of over-utilized and aging aircraft fleet on the travel industry is a reduced level of public confidence in flying.

Airline Service. Along with concerns over safety are issues about airline service in general. The hub and spoke system, which improved operational efficiency through route changes and realignments increased flight frequency and single-carrier service, consequently adding to the convenience of air travel. But the obverse side of this is the longer travel time, transfers, and in some instances, added cost, for those who must now fly five to thirty percent farther to reach a final destination.

Information on discount fares are often confusing. Announcements of special fares sometimes seem to reach the public before the retail travel sector or the airline's own sales offices can even find the information on their computer screens. While discounted, low cost fares are appreciated particularly by the vacation segment of the travel market, the applicable restrictions are formidable and the rules do not always appear rational, except to the airlines.

Other airline consumer-oriented services such as frequent flyer programs, computerized reservations systems, and yield management do provide convenience and savings for travelers, but these incentives also discourage potential competitors since incumbent airlines have the advantage of an established base which can respond to consumer demands more quickly.

At the same time that incentive programs were promoted, complaints about the quality of airline passenger service have increased, largely as a result of airline cost-cutting practices such as overbooked flights, delayed flights, tighter airplane configurations, lower foodservice quality, and reduced ground services, adding up to what many see as reduced value. The contrast between service of U.S. carriers and such foreign carriers as SAS, Swissair, SIA, Cathay Pacific and others is startling to those who have flown on them.

Air Travel Taxation. Finally, a word about air travel taxes. In recent years, as local and federal governments face budgetary woes, air passengers have increasingly become the source of additional tax revenues. Travelers make ideal targets; they do not vote locally and they seldom notice airline and user taxes, which are well hidden under a "UX" code. An international airline traveler may now pay as many as five different taxes per trip. These charges include a departure tax, an immigration fee, customs fee, plus the new animal and plant inspection fee and a passenger facility charge. By summer, a domestic passenger may see an even greater increase with the ten percent ticket tax plus a passenger facility tax of up to twelve dollars. The airline and other segments of the travel industry are, of course, vehemently opposed to these taxes and fees, which add to the cost of travel and thus hamper tourism growth. More-over, destinations themselves do not necessarily benefit from travel and tourism taxes, as travelers compensate for added cost through lower daily expenditures or shortened stays. We have found in Hawaii, as elsewhere, that it is hard to outsmart a seasoned traveler.

Conclusion

To summarize, aviation technology and airline policies generally have been beneficial to the travel industry up to this point in time. As a result of faster and larger long-range aircraft and unregulated competition among the airlines, the traveling public enjoys increased access to more destinations, travel conveniences, relative safety, and expanded services at affordable rates. The long-term effects, however, have yet to be realized and warrant attention. I have not attempted, for instance, to comment on the current nonprofitability of carriers, the financial implications of consolidation, the interest of foreign airlines in linking with U.S. carriers, recent developments in more liberal bilateral agreements, or the airlines' evolving relationships with other sectors of the travel industry. These strategic issues hold significant consequences for the financial health of the U.S. airline industry.

Despite a cloudy crystal ball, the prognostications and projections for tourism by leading authorities appear to be both promising and bright as we move toward the twenty-first century. Tourism, in its broadest definition, is the ultimate communications force that unites people, community, business, and political interests and hastens the arrival of Marshall McLuhan's "global village". To paraphrase Professor McLuhan, if tourism is the message, then the airline industry is the medium enabling its delivery.

Whatever affects the health of the airline industry will also affect the health of the travel industry. The last chapters on airline regulatory policy and other issues have yet to be written. The decade of the nineties will be one to watch as new policies and developments are forged to respond to new challenges and new mandates from the traveling public.