

Grand design or Gross debacle?

The Airline Agreement (Termination) Act 1990 was expected to bring greater responsiveness on the part of airlines to consumer needs, a wider range of fares, enhanced travel opportunities and increased competition and pricing flexibility, ultimately leading to greater economic efficiency. It brought an airfare price war and the entry and exit (twice) of Compass. Dipendra Sinha and Tapen Sinha appraise the successes and failures of the act.

The Australian government gave notice in October 1987 that it would terminate the Airlines Agreement in October 1990 and allow a competitive market to operate. The so-called "two-airline policy" in interstate aviation came to an end at midnight on 30 October 1990.

Deregulation was achieved through the passage of the Airline Agreement (Termination) Act 1990. The Department of Transport and Communications announced that deregulation was expected to

- stimulate growth in the market;
- provide a wide range of airfares and discounts;
- provide incentives for incumbent and new airlines to become more efficient and more responsive to consumer needs; and
- make available a greater variety in the type, standard and frequency of services.

Economic regulation

The first act aimed at regulating air transport in Australia was the Air Navigation Act 1920. The act created confusion regarding the roles of the State and Commonwealth governments and was amended in 1936 to give the Commonwealth government authority to control air navigation in relation to trade and commerce with other coun-

tries and among the states, and within any territory of the Commonwealth.

The Commonwealth government was thus supposed to keep out of the arena of intrastate aviation, although in practice that did not happen. In fact, there was considerable overlap in Commonwealth and State regulations.

In 1952, the Civil Aviation Agreement was passed, introducing the two-airline policy. Under the policy, two carriers operated side by side — the government-owned Trans-Australia Airlines (TAA) and Australian National Airways (ANA). The legislation provided concessions to ANA, such as a limited government guarantee of loans raised by ANA.

During the early years of TAA, public servants could travel only on this airline. However, the weaker ANA was later given part of the government business. ANA encountered financial difficulties and in 1957 was taken over by Ansett.

The passage of the Civil Aviation Agreement Act in 1957 further strengthened the two-airline policy by declaring it a Commonwealth objective to maintain a position in which a maximum of two operators provided trunk airline services.

The year 1981 was a turning point in the history of economic regulation of airlines in Australia. Policies were severely criticised. Fare structures were

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concerns about long-haul routes subsidising shorter trips. The Holcroft Inquiry in 1981 examined the issue of cross-subsidy in detail. The inquiry also observed (vol. 1, p. 14): "In the circumstances it has been difficult, in framing practical recommendations on air-fare pricing, to have much regard to the Government's stated 'objective of increasing competition'. Almost anywhere the inquiry has attempted to do this, it has run into the virtually impenetrable barrier of the provisions of the Two-Airlines Agreement, existing or proposed."

Failure of the two-airline policy

Australians who travelled to the US after the US Airline Deregulation Act of 1978 was passed complained bitterly about the higher airfares at home. Although apparently a duopoly, in practice the Australian two-airline policy acted in some ways like a monopoly, with the two carriers tacitly colluding (Bureau of Transport Economics 1980).

The level of airfares under regulation had been a matter of much concern. In fact, much of the pressure for reforms came from the perception of the travelling public that airfares in Australia had been high, especially when compared with similar routes in the US.

Comparison of Australian and US airfares had been fashionable, but such comparisons had many limitations: for example, exchange rates were fluctuating a great deal, the US fare structure is quite complex and prices were influenced by differences in safety regulations, cost of inputs such as labour and other institutional arrangements.

There are two basic approaches when comparing the airfares in Australia with those in the US. One is average yields, the other compares fares on selected routes. The average yield avoids the bias involved in the selection of fare types or routes. Average yields for the two airlines in Australia are found to be much higher than for the US national carriers (\$US100-\$1000m operating revenue a year) and US regional carriers (\$US10-\$100m annual operating revenue) in the mid-1980s. A comparison of the yields of those US airlines which are similar in size to Ansett and Aus-

Table 1: Comparison of Aust/US operating performance

Airline	Expenses per available Austr cents	Expenses per revenue passenger/km	Passenger/km per employee ('000)
Australian	89.8	13.6	545
Ansett	74.6	11.8	582
Air California	53.6	11.8	1251
Frontier	50.1	10.2	1233
Ozark	49.7	11.6	1066
People Express	36.1	5.1	3040
Southwest	30.1	6.8	2074

Source: Bureau of Transport Economics (1985)

Table 2: Movements in average and economy fares (%) Sept 1990-Dec 1991

City-pair	Average fare	Economy fare
Adelaide-Melbourne	-26.9	+15.1
Adelaide-Perth	-35.4	+12.2
Brisbane-Melbourne	-29.8	+13.1
Brisbane-Sydney	-26.2	+14.7
Canberra-Sydney	+0.5	+19.5
Coolangatta-Sydney	-22.3	+21.6
Hobart-Melbourne	-14.8	+14.9
Melbourne-Perth	-41.3	+11.9
Melbourne-Sydney	-30.1	+14.7
Perth-Sydney	-41.3	+11.6

Source: Prices Surveillance Authority (1992)

tralian Airlines will show that operating yields were much higher for the Australian operations. In a comparison of routes of similar distances, Table 1 shows some of the performance indicators of Ansett and Australian Airlines and comparable US airlines for 1983/84.

The table shows that operating expenses per available tonne kilometre and operating expenses per revenue passenger kilometre were higher for Ansett and Australian Airlines, and passenger kilometres per employee lower, than for comparable-size US airlines. This supports an earlier study by Kirby (1979) who found that the two Australian airlines had higher costs and lower labour productivity.

Airline deregulation

The pre-deregulation years were marked by mergers and takeovers by both Ansett and Australian Airlines. East-West Airlines was taken over by Ansett in July 1987. Ansett also established Ansett Express in 1991. Australian acquired Eastern Airlines, Sunstate Mildura and Sunstate Queensland Airlines in 1990. It also launched Australian Airlink in 1991.

The number of passengers carried domestically since deregulation has surpassed all previous records despite

the recession. Between 1980 and 1990, the volume of domestic passengers had increased by an average of 3 per cent a year. However, the Department of Transport and Communications records that between 1990/91 and 1991/92, despite the recession, the number of passengers increased by 27 per cent. There has also been an increase in the percentage of first-time travellers. Table 2 shows the movements in average and economy fares between September 1990 and December 1991.

The average airfares fell in almost all city-pair markets. Canberra/Sydney is an exception. The highest fall was in the Melbourne/Perth and Sydney/Perth markets where the average fares fell by 41.3 per cent in each case.

At the same time, the economy fare rose by more than 10 per cent in almost all cases, suggesting that economy fares are becoming less relevant with deregulation. Indeed, the Prices Surveillance Authority (1992) found that during calendar 1991 the number of passengers paying full economy fares more than halved. Currently fewer than 25 per cent of passengers pay full economy fares. It should be pointed out, however, that not all of the fare reductions may be

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matched knowledge of Keynes, Professor D.E. Moggridge has taken a fresh and revealing look at the man and his achievements.

Moggridge, Professor of Economics at the University of Toronto, has published widely in the fields of modern British monetary history and economic thought, with particular reference to Keynes.

In this book he gives extensive coverage to the many aspects of Keynes's life and work, including the significance of the role of Lydia Lopokova, the Russian ballerina whom Keynes married in 1925, his academic career at Cambridge, artistic Bloomsbury, official Whitehall, and his achievements and failures in each of these spheres.

With its careful documentation and its intimate knowledge of its subject and his many worlds, Moggridge's biography establishes a new benchmark in the study of Keynes. The text, with a useful bibliography, photographs and extensive index, is supplemented by an unusual and interesting *dramatis personae* with brief biographical notes on about 600 academic, political and other associates of Keynes.

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ideas and institutions which are still prominent in the late twentieth century.

Telling trends

Statistical Indicators for the Economic and Social Sciences

by Robert V. Horn

Cambridge University Press, \$70 hb, \$29.95 pb

Here is an unusual book which could be useful to investment analysts in evaluating the significance of economic trends.

In this unique, practical and comprehensive guide to statistical indicators, the well known Sydney economist Dr Robert Horn covers aspects such as the construction and interpre-

tation of the indicators and their uses and abuses. He provides readers with a useful tool of analysis for the formulation of policies in economic management and the wider fields of the other social sciences.

The book tries to demystify the scientific and pseudo-scientific aura which surrounds statistical information and shows how it can be applied for practical purposes. It covers a range of disciplines from economics, health and education to more specialised areas of culture, human rights and peace research. — E.F. Gillin.

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attributed to the economic downturn rather than to increased competition.

In considering the effect of Compass at the interstate level, the evidence suggests that actual competition matters more than potential. Average airfares fell more in those routes where Compass was competing than in those where it was not.

Intermodal competition

The US experience shows that intermodal competition increased substantially after the Airline Deregulation Act was passed in 1978. The major bus companies, Greyhound and Trailways, had to cut prices to attract customers who were lured away by the cheap airfares. Amtrak introduced special deals for train passengers. In Australia, the level of competition between air travel and land travel (bus, train and car) was very low before airline deregulation. However, data on intermodal competition are not

available for Australia.

Conclusions

There were some grave concerns over safety issues before deregulation occurred in Australia, with media reports showing how the safety of new airlines might be compromised. That did not happen.

There was also concern that service quality would deteriorate after deregulation. However, market research has shown that tourists usually look for cheaper prices and are willing to put up with lower quality in items such as food, crowded airport terminals and so on. However, business travellers are more sensitive to such factors.

In the rise and fall of Compass, we witnessed a growth in the tourist market segment of airline passengers. With "one-class" service, Compass was less than successful in attracting business travellers. A future entrant in the market will have to pay more attention to

this important segment, which provides a high profit margin on every seat sold.

Unlike in the US, hub-and-spoke operations which improve capacity use and reduce costs did not develop in Australia after deregulation. This was hardly surprising: given the much smaller population, the volume of traffic is much lower on routes in Australia than in the US and the number of routes is much smaller.

However, with the public float of Qantas, an *international* hub-and-spoke system across the Pacific seems to be on the horizon with Honolulu, Auckland, Sydney, Singapore, Hong Kong and Tokyo (or Osaka) as the hubs.

But such a development will not help the Australian domestic market unless the Commonwealth government is prepared to grant foreign airlines concessional access to the domestic market. ■