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RECENT DEVELOPMENTS IN TRADE AND COMPETITION ISSUES IN THE SERVICES SECTOR: A REVIEW OF PRACTICES IN TRAVEL AND TOURISM

by

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Preface

The basic mandate for UNCTAD's work in the area of competition law and policy is provided by the Conference itself and by the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (adopted by General Assembly resolution 35/63 of December 1980), which constitutes the sole universally applicable multilateral instrument in this area, although it is not a legally binding instrument. In the implementation of this mandate, the UNCTAD secretariat prepares studies on different competition issues, services annual meetings of UNCTAD's Intergovernmental Group of Experts on Competition Law and Policy, and undertakes technical assistance, advisory and training activities for developing countries and countries in transition, aimed at assisting them to adopt and effectively implement national competition laws and policies, to establish appropriate institutional mechanisms and procedures, and to participate effectively in the elaboration of international rules in this area.

At the present time, UNCTAD is heavily involved in the preparations for UNCTAD X, to be held in Bangkok, in February 2000. Moreover, UNCTAD's Intergovernmental Group of Experts on Competition Law and Policy, meeting at its second session (7-9 June 1999), acted as preparatory body for the Fourth United Nations Conference to Review All Aspects of the Set of Principles and Rules for the Control of Restrictive Business Practices, scheduled to meet in September 2000.

In addition to this, the World Trade Organization (WTO), at its Singapore Ministerial Conference (9-13 December 1996), decided to establish a Working Group on the Interaction between Trade and Competition Policy at WTO, and decided, *inter alia*, that this Group would draw upon work in UNCTAD and the contribution it can make to the understanding of issues. Further, it encouraged cooperation with UNCTAD, to ensure that the development dimension is taken fully into account.

To help fulfil these mandates, the UNCTAD secretariat is issuing a series of papers with the aim of providing a balanced analysis of issues arising in this area, and addressed to governmental officials, officials of international organizations, representatives of non-governmental organizations, business people, consumers and researchers. While the series would best be read as a whole, each study may also be read by itself, independently of the others. The main objective of publishing these papers is informative, for background use by delegations, and they are part of the process of capacity-building in the broad areas of competition law and policy and competitiveness in globalizing markets. The papers are published under the name of their authors; however, the views expressed therein do not necessarily reflect those of UNCTAD.

This series of papers has been made possible thanks to voluntary contributions received from the Netherlands and Norway. These contributions are gratefully acknowledged.

Rubens Ricupero

Geneva, August 1999 Secretary-General of UNCTAD

Executive summary

This study is designed to map out the market structure and private anticompetitive activities that have been thrown up by recent developments in the air transport and travel and tourism markets. It is structured as an attempt to marry together the two approaches that the author thinks are needed to address the issue adequately. On the one hand one has to be able to chart the macro-economy issues that direct and shape the nature of the air travel and tourism markets. On the other hand, one also has to be able to look at the way in which the consumer behaves in the market and how he takes decisions about travel. The author believes it is only through approaching the issue from both directions that one can really get a true view of the market.

In this light the study is structured in four sections. Part I looks at the issue of how the consumer is reached and how the consumer takes decisions in travel markets. Of particular interest here is the focus on distribution mechanisms and the tour operator/ travel agent relationship. Part II looks at the development of aviation alliances and the disjuncture between the national/regional nature of aviation regulation and the increasingly globalizing industry. Part III looks at the hotel sector and the matrix of issues that face players in the industry and at the relationship between the sector and the distribution mechanisms by which consumers access hotels. Part IV attempts some conclusions and recommendations for future work.

CONTENTS

Introduction

1. Analysing competition in the services sector is always a peculiarly difficult job. The provision of services involves a direct and close relationship between buyer and seller, and the nature of their relationship cannot always be rationalized in a standard market model. The regulation of services has also tended to be different from the regulation of goods insofar as services are very often tied closely into products and often form the "soft" or culturally specific element of the overall offering.

2. The travel and tourism sector, while a relatively recent phenomenon in its present form, has been with us for centuries. An extremely insightful comment from Hippolyte Tain (1828-1893) illustrates the lack of change in tourism over the past two centuries: "There were essentially six kinds of tourists. The first travel for the pleasure of moving, absorbed in counting the distance they have covered. The second go with a guidebook, from which they never separate themselves: 'They eat trout in the places it recommends and argue with the innkeeper when his price is higher than the one it gives.' The third travel only in groups, or with their families, trying to avoid strange foods, concentrating on saving money. The fourth have only one purpose, to eat. The fifth are hunters, seeking particular objects, rare antiques or plants. And finally there are those who 'look at the mountains from their hotel window . . . enjoy their siesta and read their newspaper lounging in a chair, after which they say they have seen the Pyrenees.'" [1]

3. While the recent commodification of travel has altered the nature of the travel market it has also given rise to new regulatory problems. The flow of tourists primarily from developed to developed and from developed to developing countries has meant that competition and market structure issues in developed countries have had cross-border effects not previously encountered. Similarly, the trend toward globalization has placed the national and regional nature of the regulatory system under increasing strain. These and other questions are dealt with in this paper, which is designed to map out the market structure and private anticompetitive activities that have resulted from recent developments in the air transport and travel and tourism markets.

I. Reaching the consumer: competition issues in distribution

4. The key relationship in the holiday industry is that between those who supply the "holiday" package and those who retail these holidays. The supplier, or tour operator, puts together the holiday package by negotiating with destinations and operators in third countries. Tour operators operate largely through the following routes:

- A subsidiary of a vertically integrated firm with a number of related travel interests;
- An entirely independent firm that specializes in putting holiday packages together and selling them;
- A subsidiary of an airline; and
- An operator directly linked to a travel agent.

5. The tour operator market is characterized by a large number of small players and a few very large players with relatively large market shares, as shown in table 1 below. This tends to lead, in most industries, to a position where the larger operators face little effective competition because the size of the next tier of competitors is so small.

TABLE 1

Tour operator market concentration, United Kingdom and United States

(*Early 1990s*)

	Tour operator numbers	*Number of major tour operators*	*Major tour operator market share (percentage)*
United States	c.1,500	c.40	c.33
United Kingdom	c.1,000	c.4	c.60

Source: M. Thea Sinclair and Mike Stabler, 1997. *The Economics of Tourism* (London, Routledge).

6. The travel agent acts as a broker and retailer of holidays to the consumer. The travel agent is the high street presence that most people think of when they think of the travel market. In the role of broker, the travel agent is presumed, and wished to be,[2] independent of the tour operator. There is an interesting divergence of market structure between the United States and Europe in this last regard. In the United States, around two thirds of travel agents are independent agents without any ties to tour operators or airlines. In contrast, in the United Kingdom for example, the opposite is the case, with one third of travel agents being independent and two thirds tied. This tying of agents removes the role of the travel agent as a broker and replaces it with the role of sales outlet. This change in role, which is not necessarily clear to the consumer, is one of the key problems for getting destinations to market and in dealing with the market power of those travel agents that are tied to tour operators.

TABLE 2

United Kingdom and United States tour operations sector analysed within the structure-conduct-performance model[a]

	Element	*Evidence*	*Drivers for change*
Structural elements	Number of buyers	Very many c.17m (UK)	Increasingly diversified Greater access to information
	Number of firms	Very many c.1,500+ (USA) c.1,000+ (UK)—although gap between largest groups and independents very large	Europe—greater concentration in vertically integrated groups
	Size of firms	Wide range—indicated by: – capacity (No. of holidays) – market share	Increasing divergence between few very large firms and large number of very small firms

Structural elements (*continued*)	Barriers to entry	Generally low sunk costs except for large and integrated entities; case for entry/departure indicated by: – firms' birth rate: 100% in 10 years to 1992 (USA); 100% in 8 years to 1993-1994 – firms' death rate: USA and Europe 70% in 15 years to 1993-1994	If taking on largest groups: cost of entry increasing Cost of entry for alternative channels decreasing If wish to stay small, cost of entry low
	Cost conditions and structure	Relatively high fixed costs of contractual arrangements but offset by "get out" clauses: – potential for economies of scale and scope	Costs may increase for independents with consolidation among majors
	Diversification	Generally low except for largest operators as part of conglomerate	Growing diversification/branding for majors
	Integration	High: largest own aircraft, hotels, travel agencies facilities, e.g. Thomson, First Choice, Airtours	Getting higher unless alternative channels used
	Concentration	High as measured by market share: e.g. USA 10 largest control 30%+ (1992) UK 4 largest control 60%+ (1994) UK 10 largest control 70%+ (1994)	Getting higher in Europe
	Product characteristics	Heterogeneous: differentiation, price discrimination, segmentation strategies	Becoming more heterogeneous

	Element	*Evidence*	*Drivers for change*
Conduct	Pricing behaviour	Governed by relatively high elasticity of demand Recurrent price wars (not necessarily initiated by dominant company) aimed at: —filling fixed capacity —securing market share	Increasingly untransparent—e.g. “fluid pricing”—not having a fixed price. Concentration may increase likelihood of price leadership
	Advertising	Relatively high percentage of sales and costs: —persuasive rather than informative	Majors increasingly persuasive/image based
	Production/ marketing strategy	Objectives: —high volume sales —company growth —product differentiation —market segmentation	Majors—likely to aim for control/leadership
	Cartel/collusion	Virtually none—although notoriously difficult to detect. Increased concentration may aid tacit collusion and price signalling	Tacit collusion possible through information technology
	Innovation	Information technology concerning reservations sometimes outside control of the sector —some incentive for product innovation —few to benefit individual company	Primarily external in technology/alternate channels May see innovation in product through diversification
	Legal arrangements	Principal-agent legislation —some franchising, management —arrangements carry legal status	Greater complexity through “relationships” as access to information technology

Performance	Consumer satisfaction	Moderate —governed by potential of the many components of the product to cause dissatisfaction —policy of securing consumer brand loyalty	Increasingly awkward consumers with more information and greater incomes
	Efficiency	Moderate: gross margins often less than 10% —driven by fierce price competition	New channels may force efficiency moves
	Company growth	Difficult to maintain by established companies; relatively stable among top 5-10 firms —rapid for innovative and/or early phases	Growth through acquisition for majors. Alternative channels rapid growth
	Market share	Pursued vigorously only by top tier of around 20 operators	Almost obsessive
	Profitability	Volatile coinciding with boom in economic cycle —on average less than 5%	Concentration may help profit rates
Public policy	Regulation	Licences specifying number of holidays/air travel required —bonds to safeguard consumers' interest —deregulation of transport has affected its cost and availability	e-commerce rules may legitimize alternate channels more than established ones

	Element	*Evidence*	*Drivers for change*
Public policy (*continued*)	Competition laws	Attracted relatively little attention to date (although major Monopoly and Merger Commission inquiry in UK and some work elsewhere on distribution systems)	Increasingly important as concentration increases and profits rise

Source: Adapted from M. Thea Sinclair and Mike Stabler, 1997. *The Economics of Tourism* (Routledge, London).

[a] See Freidrich M. Scherer and David R. Ross. *Industrial Market Structure* (Houseghuton and Mifline, United States, 1990).

Trends in holiday-making

7. There are a number of developing trends in the tourism and holiday market in developed countries that have important implications for developing country strategies. First, the developed world consumers are taking more holiday time dedicated to the pursuit of relaxation. However, conversely, the time in which they have to research and take decisions about that enhanced leisure time has been curtailed. Thus, developed world consumers are becoming holiday-rich and leisure-time-poor at one and the same time. This has enormous implications for developing countries in relation to the type of product they offer and the manner in which they make their leisure offer visible to the consumer in developed countries. For example, a notable trend in the 1990s in United Kingdom travel agency bookings is the shift toward later and later bookings. Fewer consumers are booking holidays a significant time in advance, and more are booking last-minute holidays. This trend, which makes the market less manageable for travel agents and tour operators, does offer destinations opportunities to bypass tour operators to reach into the decision-making process through use of new media.

8. Secondly, and importantly for developing countries, the number of long-haul holidays being taken by developed world consumers is increasing and showing few signs of slowing down. As table 3 below indicates, the share of total United Kingdom package holidays accounted for by long-haul holidays is small, but increasing. Estimates for later years indicate a trend toward a larger share for long-haul holidays. Of course, it has

to be noted that for United Kingdom consumers, Florida accounts for somewhere around 70 per cent of all long-haul holidays.

TABLE 3

United Kingdom long-haul inclusive holidays

(*Million and percentage of total inclusive holidays*)

	Long-haul inclusive holidays	*As percentage of total inclusive holidays*
1990	1.2	11
1991	1.2	11
1992	1.4	11
1993	1.5	11
1994	1.7	11
1995	1.9	13

Source: International Passenger Survey.

9. The trend towards greater numbers of inclusive long-haul holidays is aided by the simple fact that the unit cost of getting consumers to long-haul destinations is lower than to short-haul destinations. As table 4 indicates, the cost of operating a Boeing 757 per hour is considerably lower the further the aircraft flies. All other things being equal, the charter operators are therefore happier to see their aircraft utilized for longer-haul flights. This is to the advantage of long-haul developing country destinations.

10. A third fact, which has to be taken into account, is the growth in independent holidays as opposed to all-inclusive holidays. The positioning of a destination between these two extremes of holiday is an important factor to consider. This choice also, to a large extent, directs the destination down one distribution channel as opposed to another. The growth in independent holiday-taking has been marked in the United Kingdom since the late 1980s with figures growing by around 40 per cent. However, the division between destinations in this growth is notable. The huge growth in holidays to the Far East/Asia and to the United States has seen up to half of all holidays to these destinations being taken on an independent basis. It

appears that destinations less well known to the consumer are much more likely to be accessed on an inclusive basis in the first instance. The growth in beach holidays and safaris in Africa attest to this assessment.

TABLE 4

Monarch Airlines operating cost per hour

(*B757, 5-hour sector = 100*)

5-hour sector	100
4-hour sector	111
3-hour sector	131
2-hour sector	169
1.5-hour sector	207

Source: Danny Bernstein, Managing Director, Monarch Airlines, presentation to conference on low-cost airlines, Amsterdam, 28 October 1998.

11. The growth in long-haul holidays from developed countries has essentially followed a two-stage process. In the first stage the long-haul holiday to developing countries tended to be of the cultural and exploration variety. Such holidays appealed to either guided wealthy tourists, or poor backpackers. The more recent stage of growth has seen long-haul holiday destinations offer a competitive product to the beach-based holidays that dominate the inclusive market in Europe. Such destinations as Thailand, India (Goa) and the Gambia have been able to offer new variations on the package holiday and have managed to tempt the inclusive holidaymaker to travel further afield.

Key competition issues in the travel trade

12. As discussed above in relation to the airline alliance development, the manner in which competition occurs in markets is a culturally specific process and one that involves an interactive process between the macro-factors of market structure and process and the microlevel factors enshrined in consumer decision-making processes. In the travel trade these two approaches centre inquiry onto the distribution channels by which information is communicated and decisions are made.

13. The implications for developing countries of the manner of competition in the travel trade are twofold:

- How destinations interact with travel channels: supply;
- How travel channels interact with consumers: demand.

14. The travel trade is the sector that joins these two together. The manner by which the industry deals with either end of the equation is the key to the structure of the market.

15. At the destination end there is a rather simple set of problems for destinations to face. The following factors have to be taken into account:

- There are relatively few developed country markets that can provide significant tourist numbers:

  —Reaching those consumers has always been difficult for individual countries/destinations;

- Developed country firms act as intermediaries:

  —These firms are becoming fewer in number;

- There are far more countries and destinations available to these potential tourists:

  —Access to information about destinations has been restricted;

  —Trusted intermediaries have tended to control this information flow;

- Consumers tend to want a limited range of holiday types:

  —Destinations differ in what they offer and how they offer it.

16. The competition issues involved in carrying the consumer to the developing country tourism destination are reasonably soluble through the utilization of negotiation, lobbying and monitoring. However, there is a more difficult competition problem contained in the issues about how the tourism destination in a developing country reaches the consumer. This is not just a matter of marketing and advertising. There are a number of key competition issues at the demand end of the equation in tourism development that arise from the manner in which distribution channels for tourism products are structured. In particular we need to focus on:

Physical distribution networks

- Travel agents:

  —Unbundled travel packages;

  —Bundled travel packages;

- Technology solutions to distribution bottlenecks;

- Generating demand through image control and promotion.

17. One thing that has to be remembered is that there is no such thing as an average consumer of tourism services. There are many different types of consumer with differing needs and differing levels of incentive to research new destinations. It has also to be noted that individual consumers can have different patterns of demand at different times of the year and throughout a lifetime. The differentiation of the consumer must thus be carried out on a social basis (the typical ABC1 categorization), an age basis (e.g. the “grey market”), a life-cycle basis (e.g. young families versus young singles), a seasonal basis (e.g. summer resorts/winter breaks) and a time basis (e.g. long/short break).

18. If one takes this greater differentiation and adds in another complex factor to the equation one can begin to unravel some of the distribution issues that face tourism resorts when trying to reach their prospective consumers. The major factor driving so much of the leisure sector in developed countries is the rather contradictory process that gives workers longer guaranteed holidays, but less time during working periods to find out how to utilize that time. In essence people are working harder during most of the year, but taking longer breaks for holidays. However, the key day-to-day problem for many consumers is “time poverty”. While a large number of consumers are suffering from time poverty, there is another group that is time-rich. The key issue with these two groups is marrying up that distinction with income levels. There has developed a divide between the time-poor/income-rich (the salaried middle classes) and the time-rich/income-poor (elderly and unemployed). However, there are significant niche markets of consumers who are both income- and time-rich. This group is most likely to be found among retired workers and has been quite effectively tapped by such groups as the Saga Group in the United Kingdom.

Travel agents: unbundled travel package

19. The distribution of separated travel offerings can occur via a number of routes. As we will discuss below, one of the most interesting growth areas in distribution is the Internet. This growth presents significant challenges to existing players and distribution networks.

20. As will be seen below, the pattern of travel agent use, and indeed airline use, differs between developed countries. In Europe there is a heavy usage of charter airlines and all-in-one package holidays. In the United States there tends to be much more reliance on direct airline use and associated bookings carried out independently of each other. The competition and regulatory issues are thus likely to be very different. There are also likely to be more specific strategic issues for developing countries trying to market themselves as destinations in such different markets. For example, in the United States the global distribution system (GDS) used by airlines, hotels and car hire companies is going to be of great importance in shaping the competitive environment within which firms operate. In Europe, by contrast, the position of the tour operators and travel agents will be of central importance, as they act as portals through which travel choices are put before consumers.

21. For the unbundled travel package the manner in which information is displayed on a computer reservation system (CRS)/GDS is thus centrally important. The manner by which travel agents are remunerated is also important, particularly when it comes to such things as hotel and car hire recommendations. The tourism destination in the developing world has a dual problem of ensuring that once the consumers are dealing with the travel agent the information is displayed in an unbiased manner. The second problem relates to the need to try to influence the consumers ahead of their initial decision.

22. The unbundled travel package is as likely to be based around a clear asymmetry of information as the package travel offering. However, it has the initial appearance of not being thus biased. The challenge is thus to bypass the established distribution channels with information targeted at consumers to enable them to deal with travel agents with a more symmetrical distribution of information.

Box 1: The operation of the CRS

The computerized reservation system (CRS) is an airline-specific system. Such systems developed as a means of controlling inventory information for airlines to enable them to manage their own operations more effectively. In technical operation terms they operate in the following manner. When a travel agent accesses a CRS he or she will sit, probably at a PC, and access the CRS Wide Area Network, which will interact with the CRS switch and host mainframe. This will interrogate the database which will have information fed into it by individual CRSs through pooling systems such as SITA in Europe and AIRINC in the United States. SITA and AIRINC are designed to handle the vast amount of communications between individual airline CRSs. The CRS mainframe will also handle information from other sources, such as hotel and car hire systems and other airline systems.

The operation of the GDS

The Global Distribution System is an amalgamation of CRSs, although not an outright merger. In effect the GDS is a large switch that connects a number of CRSs. The GDS has its own mainframe computer that does many of the things that a PC sitting in a travel agent's office currently does. GDSs run cooperative systems with CRSs, with some functions being driven by the GDS and some by the CRS. The GDS offers an advance on the individual CRS as it allows hotel and car hire booking systems to be more fully integrated into the process.

GDS	*Amadeus*	*Galileo*	*Sabre*	*Worldspan*
Terminals	168 000	128 000	130 000	39 101
Locations	39 000	33 000	30 000	15 000
Countries	117	66	64	45
Airlines	440	500	400	414
Hotel chains	268	208	215*	82
Properties	35 000	37 000	35 000	26 000
Car hire firms	55	47	50	40

Source: Gary Inkpen, 1998. *Information Technology for Travel and Tourism*, 2nd edition (Addison Wesley Longman, Harlow).

* Sabre's hotel chains exclude chains within chains.

The importance of the GDS as a factor in information transmission and thus competition differs between regions of the developed world. For example, GDSs handle around 80 per cent of all travel bookings in the United States, including hotels and car hire. By contrast, the GDS accounts for only about 20 per cent of travel bookings in Europe. The remainder of European travel bookings are carried out by package travel operators, which are far less important in the United States, and by alternative modes of travel, such as rail and ferry.

Travel agents: bundled travel packages

23. The key problem for both consumers and destinations is the dominance of the travel agent as a purveyor of information and advice. The key issue for the destinations was neatly summed up by the Director-General of Fair Trading in the United Kingdom when he launched the Monopolies and Mergers Commission (MMC) inquiry into vertical integration in the travel industry. He was concerned that vertical integration among tour operators and travel agents would create the "market power to put competitors at a disadvantage, for example by deracking (removing brochures from shelves) or threatening to derack their brochures in an attempt to negotiate larger commissions, by pressurizing tour operators not to supply independent travel agents on better terms, or by pushing their own holidays through in-house incentive schemes".

24. The importance of transparency in the market is important when one considers how few consumers actively "shop around" in the market for holidays. Evidence from the United Kingdom Consumers' Association (CA) indicates that fully 63 per cent of consumers do not shop around between travel agents before they purchase a holiday. While this is a concern where links between travel agents and tour operators are not made apparent, the issue of brochure use highlights the scale of the problem. As discussed above, the travel agent "racking policy" (the decision on which brochures to place on display) amounts to the distribution of a scarce resource. For tour operators, the travel agent display rack is almost an "essential facility", where a denial of access can severely restrict consumer exposure. The same CA evidence indicated that 67 per cent of consumers looked at a number of brochures before deciding on a holiday and 58 per cent of all holidays booked by these individuals were booked on the basis of brochure information.

25. For destinations this poses a difficult problem. Following the conclusion of the MMC investigation, complex monopolies were found in the manner in which linked travel agents (the people talking to consumers) directed consumers toward their parent companies without clearly indicating a link. This lack of transparency effectively allows tour operators to restrict the choice available to consumers. The problem here for destinations is that, following the inquiry, the travel industry has become more concentrated and less diverse. Already large vertically integrated tour operators are combining into even larger groups. While this acts to restrict the transparent choice available to consumers it even more clearly places a

constraint on the ability of destinations to “shop around” between tour operators to ensure that they receive a healthy margin and a prime marketing position. This concentration among tour operators, which is currently proceeding at a pace across Europe, threatens to reduce the actual number of tour operators in the market. This will clearly transfer a good deal of market power into the hands of the intermediaries that direct consumers to specific destinations. This should be a major concern for developing countries. As one recent newspaper article rather graphically argued: “Of the £6 billion that will be spent on traditional package tours, some three quarters will find itself into the pockets of only four mega-companies. These are Thomson, the market leader, Airtours, First Choice and Thomas Cook, which has just boosted its position in the rankings by merging with the American-based operator Carlson. The scope of their operations is mind-boggling. A weary worker planning the trip of a lifetime might pick up a Hayes & Jarvis travel brochure to select an escorted three-week tour of Inca country. A twenty-something might opt for a livelier break—maybe two weeks on the tiles in Ibiza with Club 18-30. And a young family could choose a picture-postcard English country cottage from a pretty brochure of the same name obtained through a Sunday supplement. They are selecting niche holidays, offered by companies with established reputations for delivering something a little different. Who would know that they are actually booking their holiday with First Choice, Thomas Cook and Thomson?”[3]

26. The increased concentration will thus not necessarily appear as such to the end consumer. The fact that the larger operators will offer a multitude of differently branded brochures selling everything from beach holidays to escorted cultural tours will look like a wide choice to the consumer. However, both to the destination provider and consumer, the actual number of options will have been limited at the discretion of the tour operator/travel firm. This lack of diversity in the sector is particularly apparent in Europe, as the tour operator is in a key position in the travel market.

27. The process of concentration in the tour operator end of the travel business has become more rapid since the MMC inquiry finished its deliberations. The inquiry faced the difficulty, as mentioned above, of identifying specific remedies for an industry in which market share was reasonably evenly distributed among four large players and then unevenly distributed among a host of smaller carriers. However, the remedies imposed, which centred on information requirements, set off a rash of merger and acquisition activity that has seen the industry change dramatically. As indicated in

table 5, the degree of concentration in the industry has been quite marked. The effect this has on competition in the sector is as yet unclear. What would appear to be happening is that the tour operators are attempting to create enough market power to control major elements of the market. The rather perverse situation that occurred in the industry prior to and during the MMC inquiry was that the vertical control of the distribution chain did not significantly increase retail prices, largely because no single tour operator was strong enough to act as a price leader. It would appear that the major groups are trying to remedy this situation.

28. The latest twist in the tale of the tour operator concentration story occurred in early May 1999 when Airtours announced that it was launching a hostile bid for First Choice holidays. First Choice had been negotiating an agreed merger with Kuoni Holidays of Switzerland. The Airtours bid, which was immediately notified to the European Commission, would leave the merged group with somewhere around 34 per cent of the United Kingdom package holiday market. This would overtake the current market leader (Thomson Holidays), who have 24 per cent of the market. The overall picture in the sector would leave the top four carriers with 80 per cent of the market.

29. One of the key questions remains as to how such mergers will be treated in a European context. The most recent case, that of the merger between Westdeutsche Landesbank, Carlson and Thomas Cook,[4] was decided in March 1999. The merger case relied upon a definition of the market that understated the degree of concentration. The market defined was significantly broader than it is in reality. The data used, from the British National Travel Survey, covered the entire UK market for holidays, rather than the more accurate, and narrow, definition of all United Kingdom package holidays. The latter is the market in which the firms operate. Even using this survey, the degree of concentration in the market is apparent.

30. The major problem with the approach of the European Commission in this case was their reliance on unsound data, which underestimated the effect of the merger, and their rather mechanistic view of how the market functions. As a number of competition studies have indicated, the degree of concentration is only one important element of an investigation. What is also important is the degree of difference between players in the market. For example, if a merger occurs in which the two largest players control 30 per cent of the market, but the remaining market is divided up among a

TABLE 5

Tour operators' vertical ownership links

Group	*Retail outlets*	*United Kingdom-based tour operators/brands*	*Airline*
Thomson	791 Lunn Poly Shops	Thomson Holidays	Britannia Airways
	34 Callers-Pegasus shops	Portland Direct	
	11 Sibbald Travel shops	Holiday Cottages Group	
	2,000 agents signed up to Preferred Agents deal	• (includes Country Cottages, English Country Cottages, Blakes Cottages, Blakes Boating, Country Cottages in France, Chez Nous, Something Special)	
		Thomson Breakaway	
		Crystal International Travel Group	
		Port Philip Group	
		• (includes Ausbound and Austravel)	
		Magic Travel Group	
		Simply Travel (and Headwater Holidays)	
		Spanish Harbour Holidays	
Airtours	720 Going Places shops	Airtours	Airtours International
	Travel world (120 shops)	Aspro	
	352 Advantage franchises	Tradewinds	
		Eurosites	
		Cresta	
		Bridge	
		Panorama	
		Direct Holidays	
		(First mainstream UK operator to gain a foothold in Germany when it took a £17.2 million stake in Frosch Touristik)	

First choice	Hoping to have the equivalent of 700 retail outlets due to various strategies by 2000	First Choice Holidays Sovereign 2wentys Eclipse Skibound/Ski partners/ Travelbound/Schools abroad Unijet Hayes & Jarvis	Air 2000
Thomas Cook	385 Thomas Cook shops 412 Carlson Worldchoice shops—to be rebranded as Thomas Cook, after Carlson/TC merger A further 650-700 ARTAC Worldchoice shops affiliation	Thomas Cook Holidays Sunworld Flying Colours Time Off	Caledonian Airways/Flying Colours

Source: Unpublished Consumers' Association research.

very large number of very small players, the effect will be greater than if there are a medium number of firms of near equal size. In the travel agent/ tour operator market, there are indeed a very large number of very small operators. This merely acts to enhance the anticompetitive effects of mergers among the large groups.

31. The radical change in concentration at the tour operator end is leading to a proliferation at the retail end of the operation. The lack of transparency in the sector, both accidental and wilful, looks set to increase with the threatened launch of a new low-price "fighting" brand by Thomsons to fend off the Airtours bid. The launch of the fighting brand is an interesting step given the shortage of upmarket rooms in many destinations and would appear to be relying upon the large number of two-star beds that have been freed up by the difficulties faced by Eastern European tour operators. As the table above indicates, the huge number of brands compensates for the small number of tour groups. The large number of brands, brochures and specific holiday options only serves to drive the consumer into the arms of the travel agent booking clerk, who can then feed the consumer through the travel-buying process. Of course, the lack of objectivity in the computer

TABLE 6

The 1997 United Kingdom market shares of the major operators

Group	*Market share*	*Post-merger market share*
	(*Percentage*)	
Thomson Travel Group Ltd.	20	20
Airtours	13	22
First Choice Ltd.	9	
Thomas Cook Group Ltd.	9	10
Carlson Leisure U.K.	1	
Others (maximum 1% each)	48	

Source: DGIV.

TABLE 7

The 1998 United Kingdom market shares, by number of agency outlets

Group	(*Percentage*)	
Thomson Group Ltd.	15.9	
Airtours	16.6	
Thomas Cook Group Ltd.	7.8	15.6
Carlson Leisure U.K.	7.8	
Others	51.9	

Source: DGIV.

system is not made clear to the consumer, who assumes that the “best deal” is being offered.

32. This increased and non-transparent concentration is extremely important for developing country destinations. Rather simply put, the greater the number of tour operators bidding to offer a destination, the

more likely the destination is to receive a healthy return; the fewer the number of bidders, the smaller the return. There are essentially two options for developing countries:

- Intervene in competition investigations of proposed mergers and begin a dialogue with competition regulators about their concerns;
- Develop a strategy to bypass established communications channels.

33. The former option, involvement in competition investigations, may not be as impractical as it may first appear. For example, national tourism offices in developed countries could be charged with monitoring the developments in industry structure in the countries they serve. This may simply involve occasional meetings and a reading of the travel trade press. It could also involve offices establishing relationships with other stakeholders in the travel business, including consumer groups and independent tour operators. Should an industry development occur that is of concern to the country, a meeting could be requested with the regulatory authorities. UNCTAD can play a useful role as well in monitoring wider industry developments, providing expert assistance in specific and important cases and dealing with regional and global regulators, such as the European Commission and the World Trade Organization (WTO). The resources that a country would need to expend would not necessarily be significant, as many regulatory processes can be accessed at a relatively low cost and with advice and help from the regulators themselves.

34. For example, during a merger case involving two tour operators (such as the current Airtours/First Choice case in the United Kingdom), one could foresee a situation in which a particular developing country previously dealt with two competing networks but was now being faced by one. It would then have a legitimate interest in intervening in the case to ensure that its interests were reflected in the decision.

35. The second option should be pursued independently of the first. Developing countries need to identify means of getting directly to the consumer, bypassing the networks of existing relationships. They need not supplant them entirely, but an effort has to be made to reach the end consumer independent of established intermediaries and channels. The positive side of this latter recommendation is that the technology available to do this is increasingly available, and at decreasing cost.

Technology and distribution mechanism dependence

36. The travel and tourism product is characterized by two major factors. Firstly, it provides an experience product, namely, a product whose quality cannot be ascertained in advance of purchase but only assessed after consumption. The second major characterizing factor is the fact that travel and tourism involves a significant information asymmetry on the part of the consumer in relation to the provider of the service. These two factors lead to two responses by consumers. Firstly, they will rely on proxy measures of performance for the experience product. They will therefore take into account such things as recommendations from friends/publications/television guides and seek both to rebalance the asymmetry in information and/or trust the retailing intermediary to provide unbiased information.

Routes around the distribution bottlenecks: Internet and digital TV

37. The most important development in the area of information provision is the ability of consumers in developed countries to access enormous volumes of information about destinations, flights, hotels and car hire offers via the Internet. In addition to the Internet, there is the more recent development of digital television, which may catapult the Internet into the homes of millions of people previously unwilling or unable to use the Internet. The effect of both these systems on travel decisions and planning is likely to be profound, if a little difficult to quantify in advance. Most specialist consultancies in the Internet field say that travel and tourism is one of the industries most likely to see significant changes in distribution as a result of the Internet.

38. What is clear is that the Internet and digital TV offer opportunities to developing countries to bypass established distribution mechanisms and formats and place information directly with the consumer. To do this effectively they will have to format the information in such a way as to maximize its impact on the decision-making processes of consumers. That process for choosing and taking a holiday can be broken down into five basic stages:

- A felt need/want—“I need a holiday”;
- Pre-purchase activity—researching possible holiday destinations;

- Purchase decision—travel agent, direct purchase, Internet;
- Use behaviour—enjoying the holiday experience;
- Post-purchase feelings—turning a one-off visit into a regular event.

39. It can easily be seen that the tourism destination has a major say in the fourth aspect of the holiday, and how it handles this process will very much determine the fifth stage. It should be noted that a successful management of the fourth element would also have a major effect on the cost of developing the fifth. The travel market is no different from others in terms of the relative cost of acquiring new customers as opposed to dealing with repeat customers. Most industries put the relative cost as being 6:1; in other words, attracting a new customer costs six times as much as retaining an existing one.

40. The important stage for most destinations, particularly new ones, is stage 2, the pre-purchase decision. This decision evolves through a four-step process called AIDA:

- Awareness;
- Interest;
- Desire;
- Action.

41. The manner in which many developing country destinations generate awareness and interest has often been left to marketing departments of national ministries to determine, and frequently involves global strategies of “Visit X Year”. There is also a panoply of other mechanisms by which consumers access this information from magazines to television holiday programmes to general filmed images. The manner in which a country captures the interest generated by such information depends largely on the ability of its marketers to direct desire in the right direction. For example, the interest in North Africa that has been generated by a wave of films set in the region, from “The Sheltering Sky” to “The English Patient”, has not always been captured by the country in which either the books or films were set.

42. While this may seem trivial, it is important to understand in relation to the bypassing of established channels. In order to bypass established communications routes successfully, one has to be able to funnel interest

from consumers into a specific source point. Thus one could establish documentary Internet sites based on the country behind the movie. The ability to do this can be greatly enhanced by using the Internet for transmitting data and using the growth in digital television to direct advertising directly at consumers upon request, while they are viewing a programme or immediately afterwards. For example, digital television viewers should be able to call up information fairly quickly about a country while they are watching a documentary or film about it and then proceed to request further information and even book a holiday. At the very least they should be able to call up further information about the destination they are interested in. It is important that developing countries involve themselves in helping to develop this sort of information. This is probably best done with established tour operators, as they will have the necessary budgets. However, a well-coordinated information provision will make a purchase more likely than a poorly coordinated one.

43. The same philosophy applies to Internet sales. While there has probably been an overhyping of Internet commerce, or e-commerce, it is certainly true that the Internet can act as a very powerful tool for developing countries to offer services to consumers in developed countries. For example, if a Website offered booking links to hotels and tourism bureaux it might gain all of the revenue generated by such a sale, as opposed to a smaller amount for agency-based sales.

44. Developing countries should develop a series of Internet sites, possibly supplying them via a main portal service, such as Yahoo or Excite, which allow consumers in developed countries to book holidays and hotels from their computer. The key approach is to provide the consumer with what they want, when they want it. The Internet sites should aim to provide information and practical links on almost every aspect of a possible request. It is considerably cheaper to have one major site with all of the information loaded on to it than to have a network of offices that respond to telephone inquiries. The potential spin-offs for developing country firms and destinations are many. There is no need for each firm to have a dedicated link; rather, a central point for hotel bookings can be organized. Having Internet sites accessible to developed countries is also important for putting information across to consumers while they are thinking about possible destinations.

45. The two tables below illustrate the importance of developing alternative distribution mechanisms for destination information. Table 8 indicates

that the consumer generally learns of travel opportunities from travel agents and from press advertising and brochure information. The importance of the travel agent is further indicated in the following table, table 9, which shows that the travel agent has the most important influence on the consumer of all the possible media.

46. While estimates of the market for Internet and television shopping are prone to exaggeration, it is clear that they will have greater effects in some sectors than others. The retailing of travel products is likely to be significantly affected. Estimates in the United States put current on-line yearly sales of travel products and retail goods at around the $8 billion mark, with 9 million individual transactions taking place. Accordingly to most estimates of on-line sales, some 30-40 per cent of individuals account for 6 per cent of total sales. It might be sensible for developing country destinations to analyse their most important markets/potential markets and assess the degree to which they will benefit from Internet/digital TV sales. For example, Latin American destinations that currently receive large numbers of United States tourists will probably benefit most from Internet-based sales because:

- The United States consumer is the most likely to be connected to the Internet;
- Travel agency relationships are less manipulable in the United States, with most purchasers going for unbundled holidays;
- There is a large untapped market of United States citizens capable of receiving information.

47. Likewise, in Europe, the markets that currently receive a large number of tourists from Germany and the United Kingdom would do well to develop an Internet sales strategy. For example, given the large established base in computer services, India would be well placed to develop an Internet service for British and German consumers. Such a site could link consumers to travel agents in India who could book hotels and excursions. The existing growth in Internet usage in India will capitalize on this. The Internet is a very useful tool for a country such as India because of the enormous diversity of travel offers available within its borders. Everything from the simple beach holiday to wildlife trekking and cultural tours is possible. In many ways the diversity of offers makes marketing such a country difficult without a tool capable of allowing consumers to find their way through the myriad options with minimal fuss. An electronic guidebook placed on the Internet would help to generate and sustain interest.

TABLE 8

United Kingdom travel promotion awareness, 1998

(*Base = 151 adults; percentage of total and percentage mentioned*)

	Where do consumers find out about travel	*What types of travel advertising have you seen*
Travel agents	60	63
Press advertising	25	68
Brochures	21	46
Magazine adverts	17	54
TV adverts	17	68
Teletext	13	36
Direct mail	11	46
Newspaper inserts	6	39
Door drops	3	26
Radio	0	25

Source: Royal Mail/Mintel.

48. UNCTAD can certainly help in this area by identifying and promoting best practice in Internet site development. It can also develop technical knowledge and help to identify potential host sites that can act as a portal for a number of linked developing country sites.

TABLE 9

What advertising influences you when booking travel, 1998

(*Base = 151 adults; percentage*)

	Does influence	*Does not influence*	*Balance*
Travel agents	54	40	+14
Press advertising	15	72	–57
Brochures	25	62	–37
Magazine adverts	14	74	–60
TV adverts	16	73	–57
Teletext	17	72	–55
Direct mail	19	71	–52
Newspaper inserts	5	81	–76
Door drops	2	85	–83
Radio	3	83	–81

Source: Royal Mail.

TABLE 10

Internet connections and tourism exports

	Tourism exports (1997, million US$)	*Internet registrations (1996, million)*
United States	75 056	15.4
Italy	30 000	0.2
France	27 947	0.3
Spain	26 720	
United Kingdom	19 875	2.40
Germany	18 989	2.00
Austria	12 393	
China	12 074	
Australia	9 324	0.5 (households)
Hong Kong, China	9 242	

II. Carrying the consumer: competition issues in aviation

49. The growth in airline alliances is predicated on an essentially unique proposition in global regulatory terms. Most industries consolidate on a global basis through merger and acquisition, or expand through the development of franchising and licensing agreements. We will see this trend when we look at the hotel industry and the tourism industry.

50. However, in aviation, the development broadly categorized as globalization has been impeded by a number of national, regional and international policy frameworks that have had a significant effect on the shape of the industry and its likely trajectory.

51. At a national level the clearest restraints on airline consolidation come from a few key sources. The source of these policies is not clearly protectionist, although the effect of them may well be so. The key constraints relate to:

- Foreign Ownership Limits;
- Over-flying rights (the so-called five freedoms plus cabotage); and
- National security considerations.

52. At a regional level there are clear attempts by geographically contiguous country blocs to merge policy in the direction of liberalization within the bloc. Of course the clearest example of this process has occurred within the European Union (EU). However, the dynamic of that process should not be seen as a unique process that cannot be replicated elsewhere in the world. This is particularly the case for developing countries. If one suspends the notion of the nation-State as the driver in the regulation of aviation and instead thinks of the economic drivers behind the industry, one can see that countries the size of India and China and as geographically dispersed as Indonesia and the Philippines are, in essence, a geographic entity equivalent to an economic bloc.

53. The pattern of global regulation of aviation competition has emerged very slowly over the past 80 years. As with all regulatory environments, there was an element of time lag in the development of regulations to direct aviation. The first real attempt at regulation occurred in 1919 with the Paris Convention, which apportioned rights to countries to ownership of their airspace. This provided the building block for all future agreements, as it permitted sovereign nations to offer concessions on a reciprocal basis to fellow States to allow aviation to occur on an agreed basis. Of course, that Convention was fairly limited in scope, as only a few countries had any interest in aviation. However, this purely bilateral approach to aviation began to suffer from the strains of traffic levels and an increase in the number of countries involved in aviation very early on, and by the time the Second World War came to an end, a new approach to the regulation of aviation had begun. The 1944 Chicago Conference brought together 52 nation-States to discuss the regulation of aviation in three key areas:

- The control of flight frequencies and flight capacities;
- The control of fares and freight charged; and,
- The exchange of the right to fly between countries: the “five freedoms”.

54. The main divisions between countries 50 years ago at the Chicago Convention are illuminating when thinking about the geopolitics of aviation today. At the Chicago meeting the United States took a very laissez-faire attitude to the negotiations. It wanted to see no control of fares and capacities and the most liberal application of flight freedoms. The primary reason that the United States took this position was the strength of their domestic commercial aviation sector, which had survived the war relatively unscathed. The United States commercial aviation sector had already undergone a process of restructuring that had led to the emergence of the big four airlines (American Airlines, United Airlines, TWA and Eastern Airlines), which accounted for 80 per cent of United States domestic traffic by the onset of the Second World War. The United States was supported in its efforts by, most notably, the Netherlands. This position emerged from the fact that that country’s national market was too small to sustain a significant international airline. Instead, the country would have to rely on international traffic for its survival. This positioning was interesting when one thinks of airlines like Emirates and Singapore Airlines: both rely on international traffic and the ability to transit international passengers through domestic hubs that have been designed to maximize spending and stopover opportunities.

55. On the other side of the Chicago divide stood the United Kingdom and most other European countries. Given the fact that the ravages of war had effectively destroyed their domestic aviation industries, it is hardly surprising that they opposed total free trade in air transport services. Such a position would have left them open to dominance by United States carriers. The failure to agree on any truly liberalizing agreement on fares and capacity led to a peculiar situation in international aviation. The Chicago Convention, which was eventually signed at the meeting, was reduced to two elements: the right to overfly another country, and the right to land in another country—the first and second freedoms. The Convention also led to the establishment of the International Civil Aviation Organization (ICAO), which acted both as a forum for the development of aviation regulation and as a centre for the dissemination of information and technical assistance.

56. It is useful to contrast the failure of the Chicago Convention to establish aviation regulation on a sound footing with the other international regulatory developments that were occurring at the same time. The impending end of the Second World War and its immediate aftermath led to the creation of the United Nations, the Bretton Woods twins, the International Monetary Fund (IMF) and the World Bank, and the latter's half-brother, the General Agreement on Tariffs and Trade (GATT). Even the least comprehensive of the agreements, the GATT, established a system of important and broad principles for the operation of international economic commerce. It is instructive to note that the sectors not covered by such agreements included agriculture, shipping and aviation. The mere listing of these exemptions to international regulations indicates the centrality of feelings of national security and well-being to the conduct of international negotiations.

57. The weakness of Chicago led to the three core elements of aviation regulation—fares, capacity limitations and traffic rights—being ceded to different actors in the market place. The regulation of fares fell to the International Air Transport Association (IATA), a cartel of the international airlines. Capacity limitations became subject to a process of negotiation between airlines (inter-lining agreements) or between countries on a bilateral basis. The all-important traffic rights became, and have remained, an important issue between Governments, to be negotiated on a bilateral basis.

Recent strains on the system of regulation

58. The increasingly anachronistic nature of aviation regulation has led to a greater incidence of calls for a move toward a multilateral system of governance. While certainly not a coordinated nor deafening chorus, the calls for multilateralization have increased in frequency and volume. The calls for such a move have emerged on the back of a number of developments. Firstly, the Uruguay Round of trade negotiations developed the General Agreement on Trade in Services (GATS), which has created a climate within which the liberalization of air transport can be more easily envisioned. Secondly, the gradual process of liberalization in air transport has now extended beyond the shores of the United States to reach Europe and a number of significant countries, most notably Singapore and the United Arab Emirates. The possibility of a *demandeur* for increased liberalization may thus emerge from among this group. Thirdly, the trend toward increasingly large “families” of airlines in alliances is posing a challenge to the current system of regulation. Fourthly, and not least, the international aviation sector is increasingly seen as an “anomaly” in regulatory terms. The work at the Organization for Economic Co-operation and Development (OECD)[5] on air transport, while controversial, has helped to build momentum behind discussions of ways to bring the regulation of international aviation more into line with other goods and services.

59. The GATS agreement created an “umbrella” agreement under which sectoral agreements can be slotted. While air transport, in the shape of traffic rights, was explicitly excluded from the purview of the agreement, the mere existence of the agreement and its review process provides opportunities for debate and fact-finding about the possibility of including air transport. The establishment of the GATS also developed some important principles for services trade which can be extended on a sectoral basis. The forum and the mechanisms thus exist for concrete discussions on liberalizing international aviation.

60. The gradual liberalization of national and regional air transport systems has also had a significant effect on the shape of the aviation market and the attitudes of players within it. The liberalization process began in the United States in 1978, which led to the deregulation of the United States market, has been replicated in the EU over a longer period. The result has generally been more efficient airlines, lower fares and a considerably improved market for aviation services. The process that participant airlines have had to go through has altered the strategic thinking of those

airlines. This is particularly true of national flag carriers in Europe who have had to adapt to a considerably more difficult operating environment. While this change has been gradual and far from aggressive, it has had noticeable effects on the strategic thinking and planning of airlines in the United States and Europe. The changing regulatory and economic environment has also increasingly led to the emergence of aviation alliances.

61. The recent emergence of the “mega-alliances” in international air transport is a result of the interplay of factors that tend to be termed “globalization”. Of course, aviation is a peculiar sector in many ways, given the fact that it is both driving globalization, by transporting increasing numbers of people and amounts of cargo, and being driven by it. The forces that have led to firms in other sectors increasingly operating abroad, deepening their internal integration processes and engaging increasingly in outsourcing, technological investment and cross-border operations, are just as prevalent in the aviation sector. The growth of these alliances has posed a number of problems for domestic regulatory agencies.

62. The growth in alliances is not unique to aviation; however, there are a number of salient factors in aviation that make the alliance issue considerably more important than it is elsewhere. John Dunning[6] indicates that alliances tend to be found primarily in high-technology industries. In particular, he notes that information technology firms accounted for 40 per cent of alliances, with biotechnology representing 20 per cent, new materials development a further 10 per cent and chemicals, 10 per cent. The main drivers behind alliance formation in these industries were said to be improved market access and structuring (32 per cent of cases), creating technological complementarities (31 per cent) and reducing innovation time (28 per cent). Alliances were thus seen to be occurring primarily in fast-moving and complex high-technology industries where the cost of research was high and increasing, the speed of scientific change was accelerating and cutting-edge technologies were cited in multiple locations. The likelihood of significant new entry was also a factor in alliance formation.

63. Within aviation the rationale for alliance formation is different, and importantly so. The industry is indeed fast-moving; however, the main rationale for aviation alliances lies in creating complementary networks of airlines that can deliver a more seamless service, to business-class customers in particular. The urge to form alliances is predicated on the fact that the aviation industry suffers from its own version of the Pareto 80/20 rule, where 80 per cent of the revenue for a firm is provided by just 20 per cent of its customers. In the case of aviation an Air Transport Association study

found that, in 1993, 44 per cent of trips on United States carriers were taken by just 8 per cent of airline passengers. The proliferation of aviation alliances can thus be seen as a strategic response to the need to create networks that enable simpler travel for passengers. Of course, in a normal market, firms would engage a range of strategic tools to enable them to carry out this function more effectively. In some cases firms would establish joint ventures with local players, and in others they would establish directly owned and controlled subsidiaries. In still other cases franchises would be awarded, or entirely new operations created. However, in international aviation one can only really operate one form of strategic response—the alliance. Even if a firm wished to establish a branch of its own operation in a foreign country, it would not be able to do so under existing bilateral traffic rights and ownership rules.

64. The final element of the international aviation debate is the fact that the issue of aviation regulation has become an anomaly, rather than an accepted part of the regulatory menu. As mentioned before, OECD has undertaken studies of aviation regulation with a view to framing possible alternative routes. At conferences of aviation specialists, the multilateralization of aviation rules is no longer a whispered conversation but has become a real topic of conversation. Similarly, a number of airlines have begun to look to scenario planning to enable them to comprehend what a truly global market may look like in the future.

Aviation alliances, competition and developing countries

65. The importance of alliances cannot be underestimated as a force shaping the future of the air transport sector. However, to comprehend properly the impact that these alliances will have on the shape of global commercial transport one has to view them from two very different angles. On the one hand, one has to view alliances from a macro perspective, mapping their development and their impact on competition and firm behaviour. On the other hand, one has to comprehend how the traveller interacts with these alliances and how they view the developments in aviation. Both points of view will throw up potential impacts for developing countries.

66. From a macro perspective, one can see that the alliance network is not an isolated phenomenon. This is to be expected, as it in fact represents a large number of potential strategic responses being shoehorned into a

single form of behaviour. Tae H Oum and Jong-Hun Park[7] have managed to boil down the array of alliances into three broad categories:

I. Simple route cooperation/code-sharing alliances;

II. Broad commercial alliances without equity investment; and

III. Commercial alliance supported by equity investment.

67. In their study Oum and Park found that of the 46 alliances operated among the world's top 30 carriers in the mid-1990s, 28 were Type I alliances, nine were Type II alliances and a further nine were Type III alliances. The fact that the majority of alliances were of the "weakest" kind indicates that the alliance development is still very much in its infancy. This has important implications for future industry direction, particularly if there is any significant change to the "rules of the game".

68. Another paper delivered to the ATRG conference by Park and Zhang took a different approach to alliance categorization, this time mainly from the point of view of competition. They divided airline alliances between those that were "complementary" and those that were "parallel". The complementary alliances were those that involved second-string operatives uniting to challenge a dominant player on a route or an alliance with non-competing airlines merging their route networks. The parallel alliances were more likely to contain a dominant carrier on a route and involved merging otherwise competing airlines on a route basis. Their study indicated that complementary alliances raised traffic on routes by 10-15 per cent and parallel alliances reduced traffic by around the same amount. The implications of this study for alliances in developing countries are important if traffic generation is an issue.

69. Airline alliances can thus be considered to be in a rather ill-formed stage at present. If significant changes were made to the regulation of aviation ownership and to traffic rights one would expect these alliances to change nature quite radically. Aviation would probably revert to more normal patterns of behaviour for a mature industry.

70. If one looks at aviation alliances from the perspective of the passenger, one gets a different perspective, one that also has important implications for future airline travel. For the passenger the airline alliance offers some potential benefits as well as potential drawbacks. On the plus side, there are better connections between flights operated by alliance partners and the service improvements so often promised with such firm responses.

These can include better lounge access (for frequent flyers), smoother connections and potentially time-savings from schedule coordination and on-lining of passengers. For those who benefit from these improvements, alliances represent a plus, particularly if fare increases either do not take place or are very small.

71. On the downside of alliances for passengers there are a number of tangible problems, most of which tie back in with the categorization of Park and Zhang of alliances as being either complementary or parallel. If parallel alliances dominate routes then fares can increase quite markedly. Such increases will differ on almost a route-by-route basis. A large number of studies have been carried out of airline entry and exit and the effect this has on fares. As a general rule of thumb, the exit of an airline from a route (the forming of a parallel alliance) can lead to fare rises of between 10 and 20 per cent. The importance of the dominant carrier in this equation cannot be underestimated. For example, British Airways recently announced that it was replacing its Boeing 747 fleet on transatlantic routes with the considerably smaller Boeing 777s. The immediate effect of this will be to reduce capacity on these routes, particularly in economy class. If fewer economy class seats are available, the opportunity for consumers to take advantage of discount tickets will be lessened. British Airways will thus be able to increase its yield per passenger. However, the only reason that the dominant carrier on a route can undertake this is that it faces very limited competition from other carriers. It also knows that entry to the route is restricted by bilateral agreement.

72. There are also significant problems for displays on CRS and GDS screens. A significant element of the recent arguments in the European Commission about airline alliances centred on the ability of alliances to flood the first screen of a GDS/CRS with their own codes. This is particularly important when one considers the oft-cited series of statistics that indicate that 80 per cent of tickets are sold through a travel agent using a CRS, of which 75 per cent will be sold from the first screen and 50 per cent from the first line. The proliferation of alliances is not just a problem in the filling up of screens, but in the ability globally to brand flights that will help to create loyalty of consumers to that brand.

73. The tying-up of hub airports is also a significant problem with alliances, as most studies indicate that consumers pay a premium on their fares when they fly through a hub airport. The estimates of this hub premium vary between an additional 10 per cent on a ticket price to an additional 35 per cent. The other problem that alliances can entrench in hub

dominance is that of gate access. Consumers naturally like to be able to walk straight from their aeroplane through a covered walkway into an airport terminal. If gate access is a problem for a non-alliance airline, it might end up having to bus passengers from a stand some distance from the terminal. This reduces the quality of the service experience enjoyed by the consumer.

74. A further problem with airline dominance, which is enhanced by alliance formation, is the ability of airlines in some jurisdictions to offer travel agents volume bonuses and loyalty rewards. Again, this creates a hurdle over which rival airlines have to vault before they can reach the consumer.

Merging the approaches

75. If one merges the two views of airline alliances one can identify some specific problems that may be faced in the coming years. A distinct subset of these provides particular problems for developing country airlines and Governments. The fact that both threats and opportunities arise from this development springs from the fact that economic globalization creates two very distinct sets of forces: centrifugal forces that throw competition ever more broadly, often breaking it into its constituent parts in the process, and centripetal forces that pull competition inwards, concentrating it ever more tightly on individual country markets and sub-markets. Such forces are unleashed differently for factors as diverse as cultural preferences, branding issues, cost allocation and network choice. Both sets of forces are evident in the alliance process. The emergence of alliances presents a particular problem for developing countries, but also a number of rather specific opportunities.

76. The emergence and shaping of global alliances corresponds quite closely to the centrifugal forces outlined above. Because of the nature of aviation, the scope of competition can be very broad indeed, if it is allowed to be. The alliance process allows airlines to maximize cost-cutting opportunities through a merger of such activities as maintenance and service provision to aircraft. One study indicates that cost savings for such alliances can be quite significant.[8]

77. Cost-saving is almost always a stated aim in airline alliances. However, such savings can often be difficult to obtain due to the sometimes exaggerated degree of harmony among alliance partners and due to the fact that some major cost savings often involve shedding staff. It is notable that

aviation unionization is some way ahead of unionization in other industries. While cost savings can be illusory, the revenue and passenger gains afforded by alliance formation can be very real. As tables 11 and 12 below indicate, revenue and traffic increases (both actual and expected) can be quite significant.

TABLE 11

Impact of alliances on revenue

Alliance	*Period*	*Impact on $ revenue*
Northwest	1994	Increase of 125-175 million
KLM	1994	Increase of 100 million
British Airways	April 1994-March 1995	Increase of 100 million
USAir	1994	Increase of 20 million
Varig	per year (not specified)	Expected increase of 44 million
Delta Airlines	na	na
Varig	per year (not specified)	Expected increase of 21 million
Japan Airlines	na	na
American Airlines	per year (not specified)	Increase of 2 million
South African Airways	per year (not specified)	Increase of 2 million
United Airlines	not specified	Increase of 14 million
Ansett Australia	na	na
Delta Airlines	1995	Increase of 100 million (shared)
Virgin Atlantic Airways	1995	

Sources: General Accounting Office, 1995. *International Aviation: Airline Alliances Produce Benefits, but Effect on Competition is Uncertain*, Washington, GAO. International Civil Aviation Organization, 1996. *Study on the Implications of Airline Code Sharing.* Working paper 10155, Montreal. Compiled and quoted in Productivity Commission report footnoted above.

TABLE 12

Impact of alliances on traffic

Alliance partners	*Time period*	*Traffic change*
KLM	1994	Increase of 350,000
Northwest		(Northwest 200,000; KLM 150,000)
USAir	1994	Increase of 150,000
British Airways		
Lufthansa	June 1994-June 1995	Increase of 219,000
United Airlines		
British Midland Airways	per year (year not specified)	Increase of 100,000
9 airlines		
British Midland Airways	per year (year not specified)	Increase of 22,000
United Airlines		
Delta Airlines	1995	Increase of 250,000
Virgin Atlantic Airways		

Sources: Boston Consulting Group, 1995. *The Role of Alliances in the Strategy of Airlines*, London, General Accounting Office, 1995. *International Aviation: Airline Alliances Produce Benefits, but Effect on Competition is Uncertain*, Washington, GAO. International Civil Aviation Organization, 1996. *Study on the Implications of Airline Code Sharing*. Working paper 10155, Montreal. Compiled and quoted in Productivity Commission report footnoted above.

78. Alliance networks theoretically place competition between airlines on a new footing. In reality such competition actually only exists for a relatively small number of passengers. Very few passengers are likely to benefit significantly from global networks, as relatively few passengers fly on routes/journeys that involve a large number of changes and connections. Most passengers either fly point to point, or connect once to carry their journey to its end. What airline alliances do is allow all of these smaller point-to-point, or one-connection, journeys to be made with more ease by business passengers in particular. It should be noted that business passengers value their time more highly than leisure passengers.

79. The centrifugal forces that appear to be throwing aviation competition onto a more global basis are countered by some major centripetal forces that are starting to feed through in a number of industries. The specific centripetal forces applicable in services trade are particularly interesting. Consumers are, at one and the same time, seeking a degree of uniformity in service provision as well as seeking something that is culturally resonant and unique for them. This need not be a contradictory process; after all, it is behind many of the manufacturing platforms in the car industry, for example. The tension between standardization and customization had led to the emergence of "flexible standardization" in that industry, and it is starting to appear in aviation as well. However, with a few exceptions, it is not being done in a particularly conscious manner.

Box 2

MTV: global-local-glocal?

The strategic response of the MTV group of companies has indicated the complexity of competitive responses to the centrifugal/centripetal forces that are pushing and pulling competition. The original MTV strategy was based on the view that non-United States teenagers had a desire to view the same format of television as their United States counterparts. There was a somewhat justified belief that teenagers aspired to the "American Dream" and wished to watch the same programmes and consume the same goods as United States consumers. This approach underlined the belief in the "global teenager". However, during the late 1980s, and following the collapse of the Berlin Wall, there were some significant shifts in cultural norms. The resurgence of an identity of difference was one of the most notable elements of this shift. In response, MTV localized a good deal of its broadcast material, in the first stage opting for regional broadcasting in Europe for example, and then moving to a nationally based broadcast strategy. MTV is now a truly "glocal" company broadcasting a core of uniform material tailored for local tastes, with a significant element of entirely local content. The manner in which MTV has adapted as a cultural entity to these shifts offers lessons for all service firms.

80. In aviation terms the tension lies between wanting to have the uniformity of safety and service provision and the flexibility/customization of the national culture of the airline being flown. The development of alliances introduces a further challenge for airlines in serving this consumer. This added challenge provides an opportunity for smaller carriers outside alliances and for niche players within alliances. The airline alliance is a good opportunity for airlines to tap into a network of airlines that will allow them to agree to common standards of service provision. If an airline

forms an alliance with a leader in this field, such as Swissair, it can gain a good deal, both in terms of information cross-fertilization from the airline partner and of boosting the image of the airline by association. Such an alliance can help to provide travellers with the first half of their needs—the uniformly high standards of service and the expectation of that high standard. However, the alliance does pose a problem for the provision of the latter half of the consumer demand—the customization of the service. Just as the hotel sector is finding that consumers do not always want a totally uniform product wherever they go, so the airline industry has to recognize the desire for cultural diversity. The challenge is to create a service offering that does both—that provides comfort through high standardization, but that customizes this service offering to reflect the cultural diversity of the countries' airlines.

81. If the latter part of the offering is handled badly, the particular image of the airline will suffer. Centripetal forces require an emphasis of diversity on a base of uniformity. A number of airlines have managed to achieve this heady mix, most notably Singapore Airlines and Emirates. Both have managed to offer that basic level of customer service, in terms of aircraft provision, airport management and punctuality, while boasting a distinct, culturally-specific service offering. While the Singapore Airlines offering may have been clumsy in its pandering to the fantasies of Western business travellers, it has recently relaxed into a flagship example of how to handle the cultural contradictions in airline travel.

82. There are several potential lessons from this analysis:

- Use an alliance to capture major carrier credibility;
- Negotiate that alliance to avoid losing cultural identity; and
- Avoid alliances and develop a niche market.

83. All of these strategic responses can be aided by Governments tying tourism promotion efforts more closely into airline marketing behaviour. Both mechanisms should try to reinforce cultural messages and offerings that seek to differentiate the airline from others while assuring travellers that it is just as safe as all the others.

Lessons from recent attempts to regulate alliances

84. The proliferation of airline alliances has placed the structures charged with regulating them under severe strain. This strain has fallen most clearly on those competition agencies with most alliances on their "patch". The most important regulatory systems in dealing with alliances in recent years are those in the United States and the EU.

85. The EU system of alliance regulation was effectively kicked into life following the proposal to ally the services of British Airways (BA) and American Airlines (AA) on the transatlantic routes in summer 1996. The EU claimed competency to look at the alliance under article 89 of the Treaty of Rome, under which the European Commission (EC) can express a Community interest in an existing national competition investigation, and duly carried out an investigation of the alliance, the results of which are still pending implementation. The core issue for the EC investigation was possible breaches of both article 85 (governing horizontal agreements between firms that might lead to dominance of a market) and article 86 (which governs the abuse of a dominant position). In the end the Commission found that the agreement between the two airlines constituted a breach of both articles and needed to be blocked if the proposed remedies were not accepted.

86. At the same time as the Commission was starting its analysis of the BA/AA tie-up, it reopened, most importantly, the case of the United Airlines/Lufthansa transatlantic deal. The key problem for the Commission was on which market to base their analysis. The core of the analysis was an adapted model of competition that recognized a twofold division of consumers between those who were time-sensitive and those who were not. It also recognized that point-to-point competition was likely to be the fiercest competition and that alliances could harm this by entrenching market power.

87. The Commission looked only at those routes where there was sufficient traffic on which to expect competition. Such a route density reliance is a notoriously difficult argument to maintain. However, the Commission was explicit about the "line in the sand" that it had drawn, a move that at least ensured transparency and the opportunity for debate.

88. The expression of interest by the Commission in the proposed BA/AA tie-up drew howls of protest from the parties and an accusation of

bias by the regulators, given the fact that the Commission had not examined the similar transatlantic activities of Lufthansa et al. with the same precision. This prompted the inquiry into the alliance being widened into an overall analysis of all of the EU-transatlantic tie-ups. It has to be noted that the BA/AA alliance was by far the biggest on the Europe-United States market.

89. The resulting EU analysis focused on the broad range of barriers to competition that an alliance might cause. The central element of the analysis was that, for an alliance of the magnitude of BA/AA, or Lufthansa/ United, to proceed, a divestiture of slots would need to take place and a divestiture that was targeted at creating effective competition for the incumbent carrier. In both cases the Commission effectively capped the possible market share for each alliance. For BA/AA it was stated that the alliance would not be allowed to hold more than 45 per cent of the available slots on any one route, unless the divestiture of slots would lead to another carrier/alliance gaining such a dominant position.

90. The timing of the slots needed to be given up was also an important factor in the Commission's findings. The alliances were to give up slots to newcomers within a 60-minute period of the requested time. This was designed to stop the alliances merely giving up slots at "bad" times of the day and thereby limiting the likelihood that a new entrant would survive. The initial basis on which divested slots were to be redistributed to rival airlines indicated the thinking of the Commission as to the nature of airline competition. The initial key criteria were listed in the BA/AA cases as follows:

- An airline in a position to develop competition on a route-by-route basis, without a large network;
- Slots linked to reductions in frequencies;
- The existence of an airline already present on the route, on which it wishes to increase the number of its frequencies;
- An airline which holds slots in London, allowing it to operate a significant number of frequencies combining the slots provided by the alliance with the slots it holds already;
- An airline which has a hub, alone or in cooperation with another airline, at both ends or at one end of the route it wishes to enter.

91. These stated criteria indicated that the Commission took a largely pragmatic view of airline competition. While recognizing that point-

to-point carriers were often very good at creating competition (à la Virgin Atlantic at Heathrow), the most likely beneficiaries of a market opening would be carriers with a hub airport at either end of the route.

92. The EU analysis also rested on the need to restrain the power of alliance carriers' frequent-flyer programmes by either opening them up to all comers or restricting their applicability. The Commission was not dogmatic on either option, but both indicated the degree of seriousness with which it viewed the anticompetitive effects of airline alliances.

93. There was also a recognition of the power of CRS displays to restrict competition in air services. The Commission explicitly stated that it was concerned about the possibility of an alliance being able to fill the first screen of a display with double lines for each flight. While not stating exactly what it proposed to do about the situation, it did indicate a desire to limit the display problem. The Commission also showed its concern about the ability of an alliance grouping to skew travel agent recommendations through generous reward and loyalty schemes. The Commission, in responding to a previous complaint by Virgin Atlantic against British Airways, had registered its displeasure with loyalty schemes operated by dominant incumbents. Given the architectural bias problems set out below in relation to computerized reservation systems, the possibility that such a bias could be enhanced further by loyalty bias (beyond the "halo effect" afforded to the supplier of a system) on the part of a travel agent has serious implications for retail competition.

94. While the analysis of the anticompetitive effects of alliances was based on a clear understanding of the market, the proposed solutions were primarily regulatory in nature. Given the Herculean nature of the task, this was neither surprising nor particularly troubling. This twofold approach of a market-based analysis underpinning regulatory solutions is likely to be at the heart of future investigations as well.

95. The United States approach to international alliances has been much more clearly embedded in a view of international relations and negotiations and centres on the country's desire to negotiate "open skies" agreements. Such agreements effectively deregulate access for carriers from the United States and the other party to the negotiations on international routes. Thus, any carrier can fly to and from destinations in either country. The United States, it should be noted, does not allow any discussions on cabotage for foreign carriers within its own borders. The requirement that a country negotiate an open skies agreement with the United States before

antitrust immunity is granted to an alliance is the cornerstone of the approach, which seems to assume that open skies agreements are enough to satisfy competition concerns. The United States approach, firmly grounded in international relations and the demands of its national carriers, is unlikely to change in the near future. What may force some change is the pace of change in the country's domestic aviation industry. In contrast to the use of alliances as a mechanism for forcing bilateral openness, United States competition authorities take a much more traditional approach to domestic airline mergers and alliances and have sought to limit their potential effects on domestic markets and consumers.

96. The approach adopted by United States regulators has been neatly summed up by John Anderson,[9] as follows:

> "In the United States, DOT [the Department of Transportation] has the authority not only for approving airline alliances, but also for granting those alliances immunity from the antitrust laws. In determining whether to grant approval and antitrust immunity for an airline alliance, DOT must find that the alliance is not adverse to the public interest. DOT cannot approve an agreement that substantially reduces or eliminates competition unless the agreement is necessary to meet a serious transportation need or to achieve important public benefits that cannot be met or that cannot be achieved by reasonably available alternatives that are materially less anticompetitive. Public benefits include considerations of foreign policy concerns. In general, DOT has found code-sharing arrangements to be pro-competitive and therefore consistent with the public interest because they create new services, improve existing services, lower costs, and increase efficiency for the benefit of the travelling and shipping public. As with the other international code-sharing alliances that the United States has approved, DOT officials explained that they will not approve AA and BA's proposed code-sharing alliance with antitrust immunity unless the United States has reached an open skies agreement with the United Kingdom."

97. The effect of these recent developments on alliances has been to encourage greater scrutiny and public debate on their effects and developments. The general effect in Europe has been to encourage a broader debate about the power of international airlines and to take these views more clearly into account in regulatory debates. In the case of the United States there appears to have been a bifurcation between the treatment of

national mergers and alliances, which have been subject to very tight regulatory overview, and international alliances, which have been treated much more as a tool of international relations to encourage more open skies negotiations, while leaving United States cabotage off the table.

98. For developing country interventions the EU process would thus appear to be the more welcoming. The United States approach would appear to make market power considerations subordinate to opening up of market access.

Slot allocation: procedures and competition concerns

99. One of the key impediments to an airline operating a service to and from a developing country rests on the ability to access airport take-off and landing slots. The central issue raised by slot distribution is how to divide a scarce resource for which, in a large number of cases, demand has outstripped supply. For example, access to London Heathrow and Gatwick and to New York JFK and Frankfurt is severely constrained by demand exceeding supply at peak times of the day.

100. The manner in which this problem has been dealt with has differed between countries. The effect on developing country airlines has not necessarily been as one would expect, with European airports actually seeing greater entry by developing country airlines. It is important to note, however, that the manner of distribution developed in Europe is currently under review by the European Commission. A public consultation on the matter will occur in the reasonably near future.

101. In the United States the airline industry, with the acquiescence of all competition and industry regulators, established scheduling committees for all three New York airports—La Guardia, John F. Kennedy and Newark—Chicago's O'Hare and Washington National. This allowed the Federal Aviation Authority to define the number of slots that were to be allocated under the High Density Rule (HDR) at four of the airports (JFK, O'Hare, La Guardia and National) and allocate them through the scheduling committee. The system operated from 1969 to 1985.

102. The scheduling committees at the four HDR airports met on a semi-annual basis and divided up the slots at each airport. The committees were made up of each of the existing carriers and were chaired by a representative from the United States airline industry group, the Air Transport

Association. Observers from the airline regulators attended the meetings and decisions were made on the basis of unanimity.

103. The system started to creak under the strain caused by the need for unanimity and collapsed completely with the 1981 air traffic controllers' strike. The strike effectively limited the number of slots that were available to be flown. A number of solutions were tried, including bimonthly lotteries of slots and secondary trading of slots. However, none of them worked particularly effectively, for two reasons. Firstly, incumbent carriers were granted "grandfather rights" for their existing slots. Such rights, enshrined in IATA protocols, meant that an airline that operates a particular time slot has a right to use that slot in perpetuity, provided that it uses it for the majority of the time for which it is allocated. This second factor, known as the "use it or lose it" rule, encouraged airlines to hang on to all of their slots and, in some cases, fly uneconomical routes.

104. The collapse of the 1969 system under the strain on increased post-deregulation demand for slots and the artificial scarcity problem brought on by the 1981 strike led to an increasing demand for a market in airport slots. Unlike the auction system, the buy/sell experiment, carried out during the 1981 strike and its aftermath, had been a guarded success. The gradual conversion of airlines to the buy/sell option, prompted largely by the guaranteeing of grandfather rights, allowed the then Secretary of Transportation, Elizabeth Dole, to propose a rule (50 FR 52180-52201, 20/12/1985) establishing a system of slot trading at high-density airports.

The rule had two important starting points:

- Grandfather rights for slots held on 16 December 1985;
- Slot trading to begin on 4 January 1986.

105. The mechanics of the system were based on the following rules:

- "Use-it-or-lose-it" rule to be applied to slots not used more than 65 per cent of the time during any two-month period. All slots failing this test were to be returned to the Federal Aviation Administration (FAA);
- Lotteries for new and returned slots;
- Differentiated lottery pools for passenger carriers, freight, commuter aircraft and others to be dealt with as separate pools for slot allocation and auction;

- Ring-fencing: slots were to be assigned (by lottery) as being capable of recall to satisfy the essential air service requirement to small communities and for international flights into and out of JFK.

106. The effect of the United States High-Density Rule has important implications for developing country airlines. Of course one has to separate flights by developed country airlines to developing countries, from flights to a developed country by developing country airlines. If the former increase, but the latter decrease, the overall impact on the tourism market of the developing country may be positive. For example, the decision by Virgin Atlantic to fly to a number of Caribbean destinations has not enhanced access to major United Kingdom airports for developing country airlines, but has enhanced access by developed country consumers to developing country tourism markets.

107. As table 13 indicates, the degree of concentration at HDR airports has increased quite markedly since the rule was introduced. There have been a number of effects brought about by this increase in concentration. For example, the "hub premium" payable by consumers to fly from concentrated airports has become more noticeable. The potential competition problem for developing country airlines, however, has been the erection of significant barriers to entry at such concentrated airports. The most immediate barrier to entry has become the cost of owning a slot. The General Accounting Office (GAO)[10] has estimated that in 1996 the cost of a peak time slot at an HDR airport totalled $2 million, and an off-peak slot, $500,000.

108. Of course the picture for existing carriers is different from that of new entrants. If a slot costs $2 million at an HDR airport that means that any developing country carrier owning a slot on a "grandfathered" basis can sell it and recoup the money. As most developing country capitals, at least, are served from such constrained airports, the potential earnings from slot sales are considerable. The incentive for a developing country airline to sell a valuable slot is a factor that will need to be taken into account in the planning of transport and tourism policies, particularly following the Asian economic crisis.

TABLE 13

Percentage of United States domestic air carrier slots held by selected groups

Airport	*Holding entity*	*1986*	*1991*	*1996*
Chicago O'Hare	American and United	66	83	87
	Other established airlines	28	13	9
	Financial institutions	0	3	2
	Post-deregulation airlines	6	1	1
New York-JFK	Shawmut Bank, American, and Delta	43	60	75
	Other established airlines	49	18	13
	Other financial institutions	0	19	6
	Post-deregulation airlines	9	3	7
New York, La Guardia	American, Delta, and USAir	27	43	64
	Other established airlines	58	39	14
	Financial institutions	0	7	20
	Post-deregulation airlines	15	12	2
Washington National	American, Delta, and USAir	25	43	59
	Other established airlines	58	42	20
	Financial institutions	0	7	19
	Post-deregulation airlines	17	8	3

Source: GAO's analysis of data from the Federal Aviation Administration. GAO Testimony Before the Subcommittee on Transportation, Committee on Appropriations, United States Senate. March 1998. Airline Competition: Barriers to Entry Continue in Some Domestic Markets. Statement by John H. Anderson, Jr., Director, Transportation Issues, Resources, Community, and Economic Development Division.

NOTE: Numbers may not add up to 100 per cent because of rounding. Some airlines that held slots have gone bankrupt, and as a result, financial institutions have acquired slots.

109. The experience of TWA at Heathrow is an indication of what may happen to an airline facing severe financial problems. The TWA slot holding was effectively sold upon bankruptcy to rival airlines. When TWA regained financial security it was unable to get back into Heathrow as it

was effectively full. A recent High Court case in which the sale of slots to British Airways by a small carrier flying to the Channel Islands has had a major impact on the likely future shape of slot holdings in London. The judge in the case has effectively legalized slot trading at London airports by sanctioning the move in this particular case. The impact on competition is unclear at the moment, as the ruling has not properly sunk into the aviation community.

The European solution

110. The European Commission dealt with the issue of slot-constrained airports in a very different manner from the United States. Regulation 95/93 came into force in February 1993 and was due for review in July 1997. The need to clear the backlog of major alliance investigations has delayed the review of the regulation to date. The main object of the regulation was the allocation of slots at “fully coordinated” airports—those airports where demand exceeded supply. Such airports include Heathrow and Gatwick, Manchester, Frankfurt, Dusseldorf, Madrid and Munich. The main elements of the regulation are:

- Grandfather rights: an airline using a slot in one summer or winter season has first claim on that slot in the next equivalent season;
- The creation of the “slot pool”: new slots and those lost under the use-it-or-lose-it rule (in the EU, an 80 per cent usage rate) are placed in a pool from which they are administratively allocated;
- Priority for new entrants in slot pool access: 50 per cent of slots placed in the pool are to be allocated to new entrants unless those new entrants decide otherwise;
- Restrictive definition of new entrants: the definitions of new entrants for priority use of the slot pool are extremely limited. A new entrant is:

  —An airline with under four slots for any route on the day the slot is requested; or

  —An airline requesting a slot for a direct flight between two EC airports where the route is a duopoly and where the airline holds less than four slots for that specific route;

—An airline with less than 3 per cent of all slots at an airport, or 2 per cent at an airport system;

- Recognition of IATA secondary rules for slots: the regulation accepts as valid the IATA rules on the time period for use of slots and, more importantly, the prioritization of requests for the retiming of slots over the allocation of new slots.

111. The EU rules have largely fallen between the aims of the regulation. On the one hand, the regulation was designed to help to open up competition on intra-European routes through slot-controlled airports, the most important airports in Europe. On the other hand, they were designed not to totally shake up the system of slot distribution that existed previously, nor the system that was operated through the slot conferences of IATA. What the slot regulation did do rather effectively was to encourage entry by carriers from outside the EU, from transition and developing country airlines in particular.

112. As mentioned above, the EU slot distribution regulation is currently under review. The debate about distribution is polarized by those who see slot sales through secondary trading as a route forward (most notably Directorate General VII-Transport) and those who see slot sales as a route to greater concentration and limitation of competition (most notably Directorate General IV-Competition). The alliance issue has also introduced a "wild card" into the debate, with British Airways in particular wanting to receive payment for any slots it is forced to divest itself of. This added complication has slowed down the introduction of a new amended regulation.

113. The challenge for developing country airlines, and Governments, is twofold. As discussed in relation to the different distribution mechanisms for reaching consumers, Europe has a thriving and very large charter airline market that serves large, vertically integrated tour operators. The tour operators use charter aircraft to ferry their consumers to destinations that increasingly include developing countries. The growth of charter routes to Goa in India and the Gambia attests to this. However, it appears that in the United Kingdom in particular, charter airlines are not able to hold on to their entire slot pool, and particularly to expand that slot pool to allow them to fly to new destinations. This poses a problem for developing country destinations wishing to see an increase in charter traffic. Here is a reasonably clear case of destinations, and destinations that aspire to receive significant tour operator traffic in future, having a common interest with

charter carriers to ensure that any review of distribution regulations takes into account the interests of charter carriers and does not freeze them out of the market.

114. The second problem is actually to do with the fact that the existing slot regulation has actually done developing and transition country carriers a favour. Because many routes to transition and developing countries are reasonably limited in traffic volume, they can often enter high-density airports as new entrants. Existing scheduled carriers from developing countries that may wish to expand and those that may wish to enter should keep a close eye on the review of the regulation. This is particularly the case as the regulation was primarily aimed at increasing competition within the EU, an aim it has singularly failed to achieve. The fact that it has, instead, improved access for non-EU carriers has rankled a bit with regulators. They may wish to skew the process more toward an EU bias. This is something that developing country Governments will need to ensure they are closely involved with.

III. Dealing with travellers while they are in the country: the hotel sector

115. As we can see from the preceding sections, the competition problems facing the travel and tourism sector are numerous and complex. The competitive environment facing destinations is a complex array of factors derived from the nature of the tourist decision, the mode of choice and the mode of travel. The complex interplay of factors in the travel agency market differs from those in the airline alliance scenario. However, they do share the result that competition among players in those markets is changing significantly as the number of players decreases. This has important implications for developing country destinations, although the exact nature of the response is not always clear. Given that the competition concerns relating to getting tourists into the country make the position of developing country destinations a complex one, we must now turn to the international hotel sector.

116. Globally, the international hotel sector is characterized by an enormous diversity in provision. There is, as table 14 below indicates, a small number of large hotel groups. However their scope and focus is very often limited, either by a focus on home markets (in the case of Hospitality Franchise Systems) or by a concentration on business travel and destinations.

117. The terrain of the hotel sector is difficult to separate from two important drivers of tourism—the position of the supplier of tourists, and the strategic intent of the authority governing hotel construction. In the case of the former, the travel agency in Europe, for example, contracts with a multitude of hotels in each destination, negotiates rates for a room and then supplies tourists. Contractually the agency is responsible for the performance of the hotelier and so has some degree of interest in ensuring that standards are met in hotel provision. This acts as a control mechanism on performance. What it does not allow for is the development of strong branding by the hotel chains in destination countries, as they are effectively subcontractees of developed country travel agencies.

118. The importance of planning policies in the development of the hotel sector cannot be overestimated. The pattern of hotel provision will have a significant influence over the development and future of a resort. For example, a resort that is awash with hotel rooms and on which almost all land is built will, of necessity, be a mass market resort which will receive a large number of tourists. It will, however, likely become a mass market for relatively middle- to lower-income travellers. If hotel development is too tightly controlled, the sector may be starved of resources and the optimal level of travellers may not be reached. Limiting development does have the advantage of limiting numbers and possibly allowing the development of a niche, high-income tourist sector. This has certainly been behind the strategy of a number of Caribbean destinations.

TABLE 14

Leading international hotel groups, 1997

(*thousands of rooms*)

Chain	*Rooms*
Hospitality Franchise Systems	510
Holiday Inn Worldwide	370
Best Western International	285
Accor	270
Choice Hotels International	250
Marriott International	200
ITT Sheraton	130
Hilton Hotels	90

Source: Hotels International.

119. The distribution issues that affect airlines in relation to GDSs is replicated in the hotel sector but in a more extreme way. This is simply because the number of hotels is vastly greater than the number of airlines. The number of these hotels that are involved in one of the technical booking systems is thus much smaller. There are essentially three routes by which a consumer can access a hotel in a destination country:

- A hotel distribution system (HDS) tied into a GDS: this allows a hotel booking to be made in the same way as an airline reservation. Most hotels in HDS/GDS links are established international chains. The customer thus chooses a brand;
- A package holiday in which class and associated cost of hotel are the primary factors in making a decision. The actual hotel choice is largely predetermined by the tour operator bulk buying rooms;
- Direct purchase of rooms by individual consumers or through travel agents under direction of the consumer. Such purchases tend to require prior knowledge of a hotel.

120. Hotel distribution systems come in two main types. Firstly, there is the HDS that is linked directly to the hotel's own booking system and tied into a GDS that can be accessed by booking agents the world over. The second type is a similar system that is one step removed from the actual reservation system but is still linked to the airline GDSs. The main hotel industry switching system is called Pegasus, which was created in 1995 by a number of the largest players in the hotel sector.

TABLE 15

Shareholders of Pegasus Systems Inc., 1997

Anasazi Inc.	ITT Sheraton
Best Western	La Quinta Inns
Choice Hotels	Marriott International
Forte Hotels	Promus Hotel Corporation
Hilton Hotels	Reed Travel Group
Hospitality Franchise Systems Inc.	Utell International
Hyatt Hotels	Westin Hotels and Resorts
Inter-Continental Hotels	

Source: Gary Inkpen, 1998, *Information Technology for Travel and Tourism*, 2nd edition (Addison Wesley Longman, Harlow).

121. The involvement of HDSs is important, but not as pivotal as the GDS in aviation. Travel agencies account for only 30 per cent of all hotel bookings globally. Individuals and companies drive the remainder. However, the 30 per cent figure underplays the importance of the travel agent for tourism-related bookings. For leisure travel one can discount most company bookings (although a fair number of holidays follow from business meetings). This leaves a greater importance for travel agents than the initial figure supposes. The HDS/GDS is also used almost entirely by 200 chains of hotels, although not as effectively as they might.

122. The fact that a large part of the hotel market is not accessible via established distribution networks again raises the issue of alternative distribution, most particularly through the Internet and via digital interactive TV. Again, there appears to be a very good case for developing countries to try and corral their independent hotel sector into participating in a central booking system supplied with consumers via the Internet. The potential cost savings of this route are remarkable. As one authoritative source puts it: “The cost of obtaining a booking via a telephone service centre is around US$ 10, to receive a booking via a GDS costs US$ 3.50, but to capture that same booking via the Internet costs only 25 cents.”[11]

123. The key problem for the smaller industry player is the asymmetry in information between the hotel and the target consumer. This is analogous to the problem in the proliferation of holiday destinations. In both cases the destination/hotel has an offer to make to a consumer, but no clear way to make that offer known. The key issue is how to unlock that barrier and allow freer communication, or more effective targeting. Within that issue is the central problem of market structure and from that, anticompetitive behaviour.

124. For any resort there is a matrix of issues surrounding the decision about hotel strategy and about the sort of competitive barriers, both real barriers and constructed anticompetitive barriers, which may be placed in their way. The matrix is based on relationships among four key variables. The first two variables relate to the demand side of the issue. Firstly, on the demand side the country needs to identify whether the destination is a mixed one, catering for both business and leisure travellers (any major capital), or just a leisure destination (few are just business destinations). The destination then needs to identify from whence their visitors come. This is important to tie into the first question. The reason for this is the need to identify the distribution channel from whence the visitor came and

the power relationships that operate in that distribution channel. For example, if the traveller is a United States citizen, then the CRS/GDS/HDS relationship is the central problem for the hotel sector, particularly for the independent one. If, however, the traveller is a European package traveller, then the distribution channel is much more likely to have been a travel agent/tour operator system, encountering the competition problems inherent in those systems.

125. The third and fourth issues relate to the supply side of the industry. The third factor for a hotel strategy is to look at the balance of offerings in the destination. Is the destination primarily a tourist destination or a business one, and what scope is there for expanding either type of destination, or for persuading business travellers to become leisure travellers. The final element of the matrix is the already existing balance of hotel offerings. Are the hotels primarily tourist hotels, or are they business hotels? The key question is the balance between the two and the possibility of transferring one to the other. This is particularly important for the encouragement of short-break holidays among developed country consumers, a sector that has seen remarkable growth in the past few years.

126. The important competition issues that stem from this matrix again flow primarily through the distribution mechanisms. The anticompetitive behaviour in those mechanisms is thus most likely to have a significant effect on the ability of destinations, and of their hotel sectors, to compete effectively and to gain a fair share of the rewards of attracting tourists and travellers.

127. The response from developing countries and their hotel sectors must be the same as for their airlines and destination marketers. Consumers in developed countries, and those increasingly coming from developed countries, are at the wrong end of an information asymmetry. They are largely ignorant of the destinations to which they wish to travel. They are unlikely to have much knowledge of the airline they fly. They may not know much about the destination or its hotels.

128. Most importantly, the consumer is looking for someone they trust to provide the information they need, and for a guarantee about expected performance standards. Currently two signifiers largely provide that trust. The first is the brand offered for sale. One of the central elements of a brand is its ability to offer assurance of performance to the consumer. In the hotel sector, where service is the most important factor, the brand takes on an important strength. This brand can take the form of the specific hotel

brand or the through-brand of the tour operator. The latter type of brand is the more commonly associated in the all-in-one package holiday market. The often-unstated assumption is that the travel agent/tour operator would not contract with a hotel unless it met certain performance standards. It is this that the consumer relies upon to assess likely performance. There is an ideal opportunity here for developing countries alternatively to rate and brand their own services. This need for direct branding can be done for reasons of newness (a new resort or expanded tourism sector) or can be part of a wider strategic effort to garner more of the revenue from the travel system. In either case the developing country needs to establish credibility, or borrow it, from a third party. On the Internet this can be done through linking up with established sites and signing up for certain consumer protection systems. In the non-Internet world it can be done by signing up with established distribution channels. However, this will be done from a position of weakness and may involve significant cost. A possible way around this would be for a number of developing countries in a region to establish their own hotel booking system. For example, India possesses a world-famous core of information technology specialists, a remarkable diversity of hotel offerings and relatively few outlets to reach consumers. Neighbouring countries also possess a remarkable array of hotel offerings, but have even fewer outlets for their product. If, through the South Asian Association for Regional Co-operation, the member countries agreed to establish (and wire) the infrastructure necessary for an independent HDS, they would have a product that other HDSs would be eager to have access to. An independent HDS could then link South Asia hotels to booking agents and to the Internet as a means of bypassing the established channels, capturing a significantly greater share of the revenue generated. If such a venture involved cooperation with recognized players in the Internet industry who signed up for consumer protection measures as well, it might even be able to charge a premium for holiday bookings.

129. The second signifier that offers assurance of performance is the distribution channel that the consumer currently sees embodied in the travel agent. This relationship is the one that provides the information to the consumer, filters the offerings down and provides associated information that the consumer may want. While this channel will remain the dominant form of booking, one should not discount the above scenario, at least for information-gathering. There is growing evidence, from the United States in particular, that consumers are using the Internet as a research tool prior to entering the established distribution and sales channels. They are thus attempting to redress the information asymmetry that is common in many

retail sectors. Developing countries should do their best to help the consumers correct this asymmetry so that they might be more willing to try new destinations.

130. Between them, these two factors enshrine the claim to credibility of the established travel sector. They also act to mask the reality of competition in the sector from the eyes of the consumer.

IV. Conclusions and recommendations

131. The importance of competition and anticompetitive behaviour in the travel trade and in the airline and hotel industries cannot be underestimated. However, they have a rather peculiar effect on developing countries. The ability of these countries to counter them is also problematic. Firstly, the problems of competition and anticompetitive behaviour occur largely in the developed countries, rather than in developing countries. What the developing country travel industry experiences is the effect of the industry structure and patterns of anticompetitive behaviour in the developed countries. What often appears simply as the exercising of power in a normal commercial relationship in a developing country may actually be the result of a network of anticompetitive practices in a developed country. However, it may also be the result of non-behaviour-related industry structure issues. Separating the two is extremely difficult to do and should be done with care.

132. The other key problem facing developing country Governments is the pattern of globalization that is driving many of the developments in the travel and aviation industries. That pattern is important in travel and aviation largely because the sectors are both drivers of, and being driven by, the same forces. In aviation matters, the trend toward greater concentration is ameliorated by the cumbersome, bilaterally-based industry regulatory structure. This structure is increasingly being seen as an anomaly and will come under growing strain in the years to come. Developing country Governments need to plan for the future and identify potential risks and benefits of a changed regulatory environment. In travel, the good news is that developed country consumers are taking longer and more frequent holidays. The bad news is that the rest of their time is taken up almost entirely with work and they are finding it more difficult to research their likely holiday destination. A further problem for developing countries is the number of them vying for the attention of the developed country consumer. The consumer is thus faced with more holiday time, less time to choose it and more possible destinations to choose it from. Looking at any brochure in a travel agency will provide the consumer with information overload. This problem will only become worse. The developing country destination

thus faces the challenge of reaching the consumers and doing so in a way that will capture their attention and their spending.

133. The key to capture is a largely commercial, practical decision based on an assessment of the strengths and weaknesses of a particular resort. For simple beach holidays, the likely competitive advantage will lie in price. Using established tour operators and carriers will probably be the most sensible approach. However, here the resort is faced with the market power of the travel/tour operator, a market power that is being enhanced by increased merger in the industry in Europe and by the technology of distribution that allows for directional selling (pushing consumers down one particular route, usually without them being aware of the commercial links involved). If the resort is less beach-based and more culturally endowed, then the most likely route is through a specialist tour operator with an established clientele and a niche market. Here again, however, the destination is faced with the result of market power, in that the niche operators may not be able to get their brochures “racked” by a vertically controlled tour operator, particularly if the tour operator already serves the destination with a competing sub-brand.

134. The solutions to the problems outlined above lie in both the “push” and the “pull” of the destination on the consumer. The key problems in anticompetitive behaviour terms lie in the “push” element of the relationship. Consumers with a general desire to visit a country have a “type” of holiday “pushed” down certain channels and routes that lead them to taking certain decisions. The key anticompetitive problems occur in these distribution channels and in the manner of the push that occurs. The “pull” aspect of the relationship has been relatively poorly analysed in the travel industry, although more clearly developed in the aviation industry. The “pull” relationship centres on providing the consumer with the information, or incentive, to “pull” the consumer in the direction of making a decision. Such “pull” tactics in aviation have most clearly been evidenced in the development of the frequent-flyer programmes, whose very essence is to incentivize loyalty to a particular airline. The development of the Internet and the approaching growth in interactive digital television provide developing country Governments and their destinations with an opportunity to create a “pull” relationship with consumers in developed countries. If developing countries and their destinations can start to control the information that is offered to consumers and direct them toward information sources and booking channels (for independent hotels, for example) that

are controlled by developing countries, then the balance of power in relationships between destinations and tour operators may start to shift.

135. The two responses that are needed from developing country Governments centre on:

- Reactive measures: countering anticompetitive practices in developed countries; and
- Proactive measures: developing alternative means of getting information to the consumer.

Countering anticompetitive practices in developed countries

136. There are three key areas in which developing country Governments and their travel sectors need to get involved:

1. Airline competition

137. The aviation industry is attempting to establish a global environment foisted on a system of bilateral and national regulations that stop such an industry developing. This move forces all countries to ask themselves some basic questions about their own airline provision. Firstly, they are forced to ask themselves why they have, and whether they need to have, a national carrier. Can provision be better offered by a third carrier that is not owned inside the country? Secondly, the question arises as to whether, in the absence of such a carrier, an air service to major destinations would survive. Thirdly, the practical issue arises as to which of the major airline groupings will best serve the needs of the national airline and how that airline can gain from such a relationship.

138. The key responses to these issues should be:

- Monitoring developments in the globalization of the industry and in alliance formation to assess the likely impact on their country. This is probably best coordinated by an organization such as UNCTAD, which is not tied into the industry but is there to represent the interests of the developing countries themselves;
- Domestic airline restructuring to make sure that the carrier can respond to any significant change in operating environment.

Useful case studies are available from academic departments and regulators as to how this can be approached;

- Scenario planning to identify likely national, regional and global developments in the industry. This is probably best done through regional cooperation organizations and through the participation of national regulatory and airline authorities. Facilitation can be provided at an international level by a number of bodies, such as IATA, or academics.

2. Airport access issues

139. In the coming few years the issue of airport access will face some important challenges, most notably in Europe. Developing country airlines have been minor beneficiaries from the current systems of slot distribution, which have favoured incumbent airlines and small carriers. A gradual move to slot trading will likely have two effects. Firstly, it will potentially enrich incumbent carriers in congested airports, including many developing country airlines, by placing a monetary value on those slots. Secondly, it will make market entry difficult for smaller carriers as the cost of market entry increases. The potential responses will vary from carrier to carrier. For example, should trading become legalized, a carrier at Heathrow may be able to realize a significant amount of revenue for a slot. It may make sense to operate from a smaller airport and realize the value of the slot. The other key problem for developing country destinations is the increasing trend toward charter airlines not finding slots at major airports. If the strategy of a destination is to utilize charter carriers, then this development may prove extremely damaging.

140. The key responses on this issue should be:

- Engage in discussions with Directorate Generals VII (transport) and IV (competition) on the likely shape of the long-awaited Directive on slots, and commission studies of the likely developments and their impacts on developing country carriers;
- Engage in discussions with other stakeholders in the issue, most notably charter carriers. Destinations need to form alliances with their suppliers to ensure that their interests are represented;
- Clarify the effect of slot trading in the United States and the implications of it for access by existing developing country carriers.

3. Distribution channels

141. There are two sets of conclusions contained within this section, relating firstly to the current system and secondly to possible ways around it.

142. Existing distribution channels have a number of key competition problems contained within them. The importance of the system varies between regions. In Europe, the main competition problem arises from the power of the travel agent/tour operator relationship and the lack of transparency in the process for the consumer. This places enormous market power in the hands of the agent/operator, power which can then be used to bid down the margins of supplier destinations unfairly.

143. In the United States, by contrast, the key problem is the bias in the computerized reservation systems and the tied-in biases in hotel distribution systems. These problems link up a panoply of issues around competition problems in frequent-flyer programmes and directed selling. The market power relationship here is a slightly different one, one that centres on CRS display, airline alliances and competition and access to distribution systems and computer displays.

144. Developing countries need to engage in debates about the biases in CRS/GDS/HDS systems and should do so at the international level through IATA and the World Tourism Organization. They should also engage with regional and national regulators in the EU and the United States to see if they can deal more effectively with the issue at those levels. Given that such efforts thus far have not been overly successful, a new approach may be needed which seeks to incorporate display systems within a truly multilateral trading framework at the World Trade Organization under a general negotiation on extending the General Agreement on Trade in Services.

145. On the proactive side, there are a number of opportunities for developing countries to seek both more effectively to utilize existing distribution channels and bypass established distribution mechanisms and reach the consumer directly with offers and information. Developing countries should consider the benefits of establishing their own computerized booking and hotel systems and linking these to the major systems available in developed countries. Alternatively, developing countries should seek to establish alternative means of reaching consumers in developed countries through the exploitation of new technologies. Such mechanisms should

enhance the negotiating power of developing country destinations and would introduce an element of balance into future negotiations between travel and hotel firms from developed countries and developing country destinations.

4. General conclusions

146. Much of the preceding analysis has focused on the peculiar nature and regulation of the travel and aviation sector with much of the regulatory system operating on a national and regional basis. Most of the issues around anticompetitive behaviour and practices in the sector stem from the fact that the country in which the main anticompetitive behaviour occurs is not necessarily the same as the country in which the side effects are felt. For example, the directional selling and vertical integration problems seen in the European travel industry create market power problems for Europe's consumers and also for developing country destinations. For consumers, the problems of non-transparency and choice restriction are mirrored in developing countries by hoteliers and other travel firms facing an ever-thinning field of potential tour operator customers. The bodies capable of regulating this problem are all located in the developed countries and are not necessarily capable of dealing with the problems identified in developing countries. Indeed, it is unlikely that, under their terms of reference, they would be able to take notice of these problems.

147. When one strips away what appears to be the peculiarity of the sector one is struck by its similarity with other services. This would indicate that what we have with travel and tourism is a multilateralizing industry regulated on a national and regional basis. The key problems for developing countries relate to market access and to acts of private competitive restraints. The negative externalities generated by the creation of market power in tour operation or essential facility control in computerized reservation systems are generated in developed countries but felt in developing countries. This situation appears to be a classic case of a sector that needs to be subjected to truly multilateral regulation and liberalization. The incorporation of some elements of the system into the GATS needs to be extended and the sector also needs to be looked at in relation to the negotiations on the relationship between competition policy and trade policy.

148. The service sectors of special interest to developing countries have tended to take a back seat in recent trade liberalization efforts. As part of the process for building an agenda for the Seattle Ministerial Conference,

developing countries, through UNCTAD, should seek to establish a list of sectors of special interest to them. Such a list should seek to identify the important barriers, be they private or governmental, that restrict the ability of developing country markets to be accessed by developed country consumers (the targeting of computerized reservation systems might be a useful area of study).

149. The processes by which these services in developed countries are regulated should also be assessed to identify specific weaknesses and developed country protectionist biases that restrict the ability of developing country firms to operate. For example, why should Singapore International Airways be denied the opportunity to carry passengers between New York and San Francisco?

Notes

[1] Quoted in Theodore Zeldin, 1994. *An Intimate History of Humanity.* Sinclair-Stevenson. London, p. 303.

[2] Consumers' Association's evidence to the Monopoly and Merger Commission's investigation into competition within the travel industry, 13 March 1997. Consumers' Association, London.

[3] *The Guardian*, 23 October 1998, p. 21.

[4] Case No. IV/M.1341—Westdeutsche Landesbank, Carlson and Thomas Cook, Directorate General IV, Brussels.

[5] OECD, 1993. *International Air Transport: The Challenges Ahead*. OECD, Paris and OECD, 1997. *The Future of International Air Transport Policy.* OECD, Paris.

[6] John H. Dunning, 1993. *The Globalization of Business*. Routledge, London, chapter 8.

[7] Tae H. Oum and Jung-Hun Park. Paper presented to Air Transport Research Group (ATRG) meeting in Dublin, summer 1998.

[8] The Productivity Commission. *The Economic Impact of International Airline Alliances*. Productivity Commission. Commonwealth of Australia, 1997, http://www.indcom.gov.au/research/other/aircraft/

[9] John H. Anderson. *Aviation Competition: International Aviation Alliances and the Influence of Airline Marketing Practices*. Before the Subcommittee on Antitrust, Business Rights, and Competition, Committee on the Judiciary, United States Senate, 19 March 1998. General Accounting Office, Washington, D.C.

[10] GAO, 1996. *Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Domestic Markets*. GAO, Washington, D.C., p. 5.

[11] Gary Inkpen, 1998. *Information Technology for Travel and Tourism*. 2nd edition, Longman.