Are we there yet?

Our shiny new year has gotten off to a bad start for air travel.

The Christmas bombing attempt aboard an inbound Northwest flight prompted a wave of new security procedures, with all the accompanying confusion, anxiety and political bickering.

It wasn't long before our security systems went into hair-trigger mode and shut down airport terminals in Newark, Bakersfield, Calif., and Minneapolis over perceived security lapses and false alarms, one of which was caused by bottles of honey in a checked bag.

Welcome back to the previous decade.

And, as if we needed another reminder about the fragility of airline finances, Mesa Air Group, once regarded as a powerhouse among regional air carriers, filed for bankruptcy protection.

It's not really a "new year" after all, is it?

[EDITORIALS]

Perhaps the last year — indeed, the last decade — was such a drag that we were a bit too eager to put it behind us. Historians know well that years, decades and centuries flow into each other and that sharp breaks between historical epochs are rare.

Those with long memories will note, for example, that the first few years of the 1960s looked an awful lot like the 1950s. So it might be for the 2010s.

We're certain the new decade will bring change and, for some of us at least, change for the better.

But we're not there yet.

Unacceptable

Of all the bad news we encountered during the first days of January, the worst, and the most preventable, was the report of an accident in Amtrak's Northeast Corridor, when a 14-year old girl who had been walking on the tracks was struck and killed by a southbound train just north of Baltimore.

The news came to our attention because it led to travel delays in a busy market at a time when all news outlets were on high alert for any irregularities affecting transportation, but such accidents are far too common, and too often overlooked.

We have thousands of at-grade railroad/highway crossings in this country, where accidents claimed 204 lives during the first three quarters of 2009, according to the Federal Railroad Administration. On top of that, accidents involving people who were trespassing on the tracks claimed another 370 lives during that period.

This is a higher death toll than commercial aviation. In fact, sloppy railroad safety practices claimed more lives on U.S. soil last year than terrorists.

If 500 people had been killed last year by wandering onto airport runways, you would have heard about it, and something would have been done about it by now.

But railroads for some reason are different. People have been walking on railroad tracks, and parents have been telling their children not to, since the 19th century, and the problem persists.

In a perfect world, it would not be possible to merely stroll out onto the railroad tracks, but we'd settle for merely a better world where it would be a lot harder than it is now.

There are long stretches of track throughout the country with no pedestrian barriers at all. Fences, where they exist, are often in disrepair.

If the Obama administration still has some stimulus money to throw around, it could throw some here.

[FORUM]

Open-skies accord is license to collude

For 20 years, America's international aviation policy was based on free-market competition. Those days are over. The new U.S.-Japan bilateral agreement signals the decisive victory of the counter-revolution against liberal competition.

The original open-skies agreements were designed to erase the last vestiges of IATA-led cartel price coordination and subsidies for inefficient flag carriers.

As with domestic deregulation, governments shifted from rigging competition in favor of entrenched incumbents to ensuring an open, level playing field. This provided consumers with significantly expanded schedules at lower fares in the short run and pressured airlines to continually improve service and efficiency in the longer run.


Hubert Horan

Carriers unable to adapt were consigned to the dustbin of history, while the survivors improved productivity immensely.

The U.S.-Japan agreement represents the polar opposite of everything the original open-skies agreements sought to achieve. The competitive landscape will not be defined by consumers or investors, but by backroom deals between entrenched incumbents and government bureaucrats.

Those deals will replace seven previously independent competitors with a permanent cartel of either two or three collusive alliances, with much greater market power than the 1970s IATA fare conferences ever dreamed of.

The central objective of the agreement is to distort competition with subsidies for Japan Airlines that are orders of magnitude bigger ($7.8 billion by most press reports) than the European flag carriers ever received.

Instead of the truly open access achieved by the original open-skies accords, U.S. carrier access to new capacity at Haneda Airport is being limited to four flights on late-night timings poorly suited to transpacific markets and will make Japanese domestic connections impossible.

U.S.-Japan fares will inevitably rise, and capacity will fall. Most services in this market lose money today, and there is zero possibility of new competitive entry by more efficient carriers. Profit improvements for JAL and the other incumbents depend on sizeable yield improvements, which can only be sustained by reduced capacity or oligopoly price collusion.

Press releases claiming that the accord will reduce fares presume that the laws of supply and demand no longer apply.

Media coverage has ignored the risks to consumers from reduced competition or the JAL bailout, focusing instead on the more colorful battle between Delta and American for JAL.

A Delta-JAL alliance was always wildly improbable. A linkage that would control two-thirds of the market and force American to exit the Pacific would be politically problematic, and JAL could not afford a risky, expensive alliance shift.

But the DOT's tacit support for Delta's anti-competitive scheme forced American to raise $1 billion to help subsidize JAL's inefficiencies.

No surprise

The anti-free-market U.S.-Japan agreement should be no surprise, given the DOT's support for governmentally managed competition over the Atlantic.

The DOT worked enthusiastically with the legacy megacarriers to consolidate 26 previously independent North Atlantic carriers into a permanent cartel of three collusive alliance groups that, assuming approval of BA/AA, will control 95% of the world's largest international

Hope for the best, plan for the worst

As we enter this new decade, shivering and a bit frightened, I thought it might be beneficial to do a reality check on some of the economic assumptions behind our current pessimism. Has it gotten so bad, as Jay Leno quips, that "some Walmart executives are actually shopping at Walmart"?

Is this really such a terrible time to be in the agency business? If we own hotels, do we want to dump them? Should the airlines just fold and leave it to Amtrak to figure out how to get passengers from Denver to Tokyo?

The fact is that the agency business is in serious trouble for those whose focus is the budget to middle-range client facing the possibility of job loss. There are some agencies that are suffering because they happen to be located in areas hit hardest by this recession. Metro Detroit comes to mind.

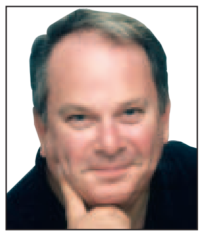
This country is going through some new ways of looking at discretionary spending, and for many, travel has moved down a peg or two on the priority list.

As a nation, we are just starting to save a bit. In the last six months, average savings have risen to 3% of income. When the recession hit, we were just about at zero, spending about what we earned. Travel was part of that spending.

But despite all that, it is still true that most of the industry is dealing with a portion of society that has the means to travel on business and for pleasure. Our reaction to the crisis has been to underestimate the recovery and the improved economics of our core clients.

For most of us, planning a really nice vacation is something we do for folks with a bit of income and savings. If I thought, for example, that clients were using mortgage or rent money to pay for a vacation, I would try to talk them out of traveling. So would you.

If our clients earned six figures and were heavily invested in the market for the past 24 months, they have seen, on average, a growth in their portfolio since last March of about 50%.



Richard Turen

Our clients are in better financial shape than we imagine.

While unemployment is now over 10%, the fact is that the folks who want us to plan their next vacation are rather optimistic. American Express Publishing and Harrison Group's recent Survey of Affluence and Wealth in America showed that confidence in the future is on the rise.

From the vantage point of their portfolios, our clients are having a good run, and their savings are way up since March. They've experienced some of the greatest gains in recent financial history, yet we keep reading reports that the bottom's falling out.

The news media call, wanting us to talk about how far the bottom has fallen out, about panic sales, about the end of luxury travel. The most requested topic is "last-minute deals."

[REALITY CHECK]

Those of us who toil in the upscale travel vineyards know that the last-minute deal is pretty much a fiction. In fact, we often advise very late bookers not to travel, because they will likely face outrageous prices. No reputable cruise line or tour operator wants to put itself in a position where those who booked earliest are penalized for their foresight and financial commitment.

We really need to take a deep breath as we examine the facts. Smith Travel Research recently reported that Q3 demand for the three highest-priced hotel segments — luxury, upper upscale and upscale — "experienced a huge jump." The Luxury Travel 360 newsletter refers to this as a "stunning development" made more amazing by the fact that much of mainstream media have ignored it.

For the real optimists out there, at least one travel think tank believes that the "newly unemployed" represent an opportunity for agents. The 2009 World Travel Market Global Trends report issued by Euromonitor International used the term "funemployment" to describe the unemployed, particularly those under 35 without children or a home mortgage, who use their time, and perhaps severance pay, to visit some of the destinations on their travel dream list.

No one can deny the economic pressures we face. But most of our clients are just fine, and they view the family vacation as both a necessity and a right. They will skip the private driver and guide abroad. But that might only serve to increase their interest in tour packages, escorted programs and cruises, the very sectors that have proven to be most supportive of agents in the past.

So I am somewhat optimistic, based on facts rather than on media frenzy. But there is pessimism as well that I must share with you. I am appalled at how many suppliers and sellers alike have absolutely no contingency marketing plan in place for a situation that would cause Americans to refuse to fly.

Looking ahead, I embrace those who look with hope to the future of our industry. But I also realize that we must plan for the worst as we hope for the best.

Contributing editor Richard Turen owns Churchill and Turen, a vacation-planning firm that has been named to Conde Nast Traveler's list of the World's Top Travel Specialists since the list began. Contact him at rturen@travelweekly.com.

[FORUM]

market.

This required willful nonenforcement of the antitrust laws, which permit reduced competition only when there is objective evidence of substantial public benefits.

As the Justice Department pointed out, the DOT's approval of Continental/Star Alliance antitrust immunity was totally unsubstantiated by any legitimate, relevant evidence.

The U.S. explicitly promised Japan that JAL and All Nippon Airways would receive antitrust immunity for alliances with U.S. partners, even though alliance terms are totally unknown and reduced competition in one of the world's most restrictive airline markets could not possibly generate significant public benefits.

Moreover, the DOT has already signaled that it would welcome the consolidation of the entire transpacific market (25 independent competitors in 2008) into two or three alliance groupings.

Thus United will not only be free to collude on prices and capacity with ANA and Continental, but with Air China, Thai, Asiana, Singapore and Air New Zealand. This would effectively eliminate all competition between Asian hubs (Tokyo vs. Seoul, Taipei vs. Hong Kong, Bangkok vs. Singapore).

The original, highly liberal 1990s open-skies accords with the Netherlands and Switzerland were used to pressure bigger, more protectionist countries like Germany and France into opening up their markets.

In an Orwellian twist, the U.S. is now using an "open skies" agreement with ultra-protectionist Japan to pressure more liberal countries like Korea and Thailand to abandon liberal competition and force their carriers to join the alliance groups.

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