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FOOTSCRAY INSTITUTE OF TECHNOLOGY
FACULTY OF BUSINESS

**AIRLINE DEVELOPMENT IN THE SOUTH PACIFIC:
A TURNING POINT**

A MINOR THESIS SUBMITTED TO THE
FACULTY OF BUSINESS IN CANDIDACY
FOR THE DEGREE OF MASTER OF BUSINESS
IN TOURISM DEVELOPMENT

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AIRLINE DEVELOPMENT IN THE SOUTH PACIFIC:

A TURNING POINT.

ABSTRACT

The civil aviation industry in the South Pacific is experiencing a period of rapid change. A turning point for the industry has arrived in the form of new generation, long range aircraft used by Pacific Rim airlines. These aircraft have the propensity to overfly the South Pacific. This means reduced access to stop-over traffic for the small South Pacific nations who have traditionally relied on business associated with stop-over tourism. A consequence of over-flying the South Pacific is an increasing dependence on national flag carriers to provide island dedicated services.

Other catalysts for change in airline development are provided by the trends in global alliances between carriers, and the need to more fully utilise scarce human, financial and operational resources.

There are compounded problems for tourism in the South Pacific region. Political instability and low government priority towards tourism and aviation policy impede strong and constant growth patterns in tourism arrivals. Many flag carriers have sustained long periods of operating losses, and the cross-subsidisation of island government or foreign funds can artificially support the continued operation of some airlines. Major Pacific Rim carriers are focusing on high yield routes operated in regions other than the South Pacific. The critical position for Pacific nations is to maintain a transport link with tourism markets in view of these changes and challenges in the aviation industry.

Civil aviation in the South Pacific is no longer isolated from world wide trends. Some of the trends identified by the research include overflying,

changes in airline ownership and control, environmental impact, and changes in consumer demand. The major issues of concern for island carriers include privatisation, liberalisation, revenue control, profitability measures, and access to aircraft and equipment.

The focus of the thesis is on the ability of the South Pacific civil aviation industry to adopt forward planning measures and co-operative resource sharing. A professional approach to co-operation between tourism and civil aviation organisations will be critical for tourism development.

A strategic vision for the future must now be addressed by the Pacific Island nations at a governmental level in order to identify a direction for tourism planning and the role of the flag carrier. Long term development of civil aviation must not be sacrificed for short term band-aid solutions. Co-operation between carriers and governments must transcend traditional parochialism.

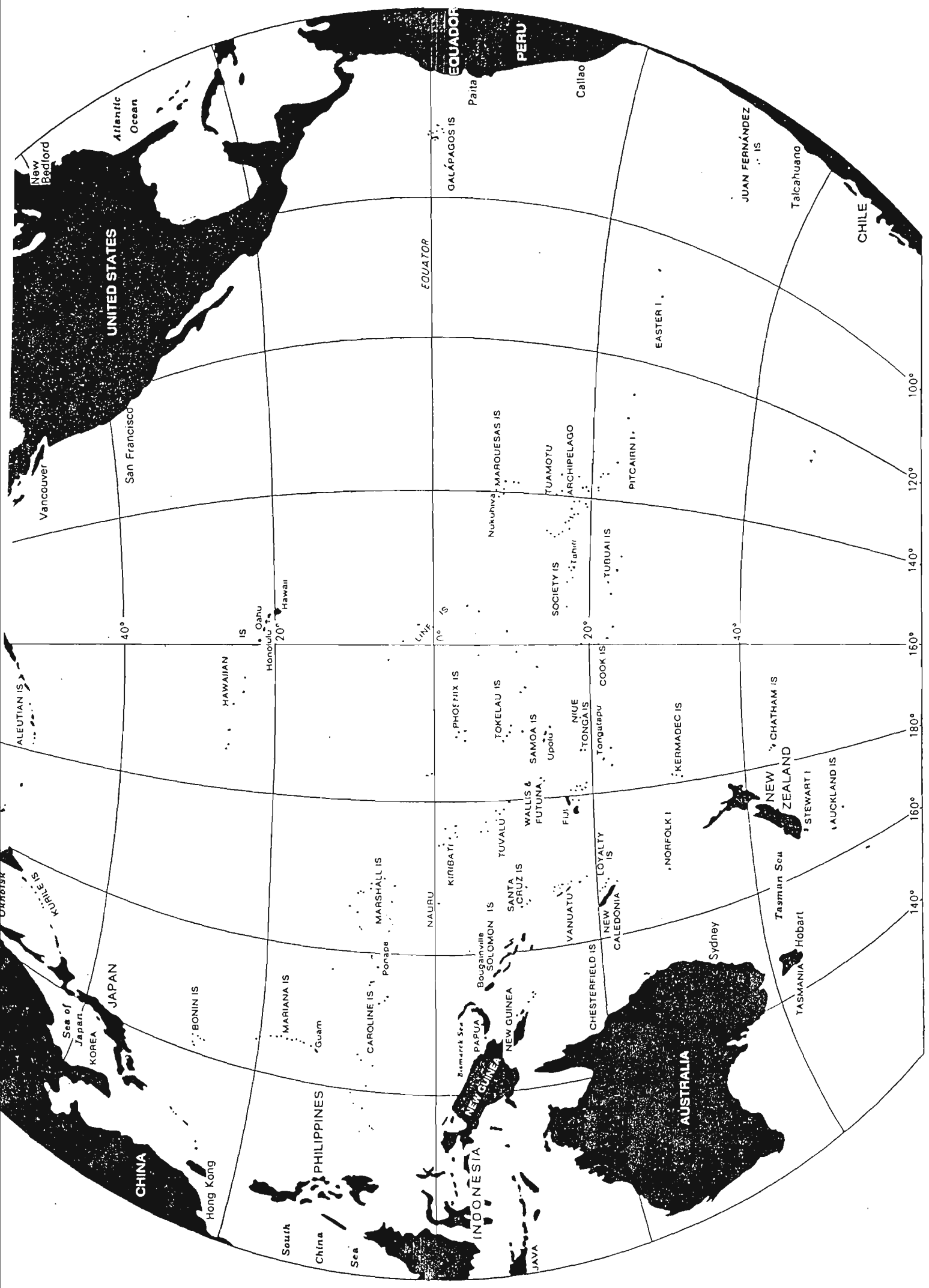
The major conclusion drawn from this study is a group airline alliance strategy offers the most practical alternative for the majority of flag carriers.

Commercial alliances in the future will be of mutually beneficial value to all parties if the alliances are based on South Pacific carriers joining with major Pacific Rim airline groupings. This strategy should provide access to larger tourism markets, more consistent volumes of traffic, and opportunities for economies of scale through resource sharing.

An emphasis needs to be placed on strategies that are consumer driven, including practices for adding customer value to tourism products and services.

Co-operation will be the fuel for thrust, efficient resource use will sustain the flight path of the civil aviation industry in the South Pacific, and critical forward planning will navigate the airlines to a future safe landing.

MAP ONE. Geographical area of study.



CHAPTER ONE

INTRODUCTION

1.1 Background

Tourism development in the South Pacific has been the focus of many Government generated reports, private industry feasibility studies, research articles, debates and conferences.

There is a common theme that runs through the length and breadth of the prolific interest in the South Pacific. Namely, the strong link and growing dependency between the airline industry and the direction of future tourism development.

The question then arises as to what direction the civil aviation industry itself is going to progress.

The motivations in the South Pacific in the past for the development of air services have resulted from strategic military bases, and the dominance of the United States and Britain controlling civil aviation links through their own flag carrier airlines.

The present environment is one of recent independence, in terms of world history, of many of the island nations. The formation of each nation's flag carrier demonstrates the desire to gain access to and market share of the tourism industry, as well as a national identity in the international arena.

The future must be viewed in terms of the South Pacific forming part of, and being influenced by, a wider geographical area including Pacific Rim countries.

The future of tourism development in the South Pacific is determined by

political, social, economic and technological factors. The effect of major tourism development factors and world wide airline industry trends on South Pacific carriers are examined by this research.

A computer analysis model for project management is included in the thesis. This helps to define the alternative strategies available for South Pacific airlines. " Critical paths " that need to be followed are highlighted for the focus of attention by management.

Recommendations will be made concerning inherent business and social responsibilities that the South Pacific aviation industry must address in order to make critical decisions on the future direction of civil aviation.

1.2 Purpose of the study

This is a minor thesis and seeks to satisfy the requirements of the Master of Business Degree in Tourism Development. The study follows the guidelines established by the Faculty of Business at Footscray Institute of Technology.

The major research objective is to investigate the major issues and trends in the South Pacific civil aviation industry. The subsequent documented research findings will help to clarify the strategic options the industry should consider for future development.

It is intended for the data base on tourism and aviation trends, and relative strategies to be used as a working document . It should help to provide input for planning, decision making and actions by: the sponsors of this thesis; member airlines of the Association of South Pacific Airlines; and other individuals and organisations involved in managing the direction of South Pacific tourism development.

1.3 Hypothesis

The introduction of new generation aircraft by the airlines of Pacific Rim countries, the trend in global airline strategies , and rapid alliances through marketing agreements and Computer Reservation Systems technology will have a profound impact on tourism and civil aviation development in the South Pacific region.

This will necessitate increased multilateral organisational co-operation within the region, renewed emphasis on the allocation and distribution of resources in transportation networks, and a focus on strategic paths in forward planning.

1.4 Scope and Limitations

There are many island states and nations in the Pacific Ocean. The Pacific Ocean covers approximately one third of the earth's surface. ¹

To include every Pacific island nation, and address the specific tourism trends or the particular aviation problems of every country is not within the scope of this study.

The geographical area of study is outlined in Map One. This area of study is based on the " South Eastern " sub region defined by the International Civil Aviation Organisation (I.C.A.O). A list of the countries is in Appendix One.

The focus of research is on the international airlines based in the South Pacific islands. Most of these airlines are members of the Association of South Pacific Airlines (A.S.P.A.). A list of these member airlines is included as Appendix Two. A.S.P.A. was formed, among other reasons, to unite the smaller carriers of the South Pacific on airline developmental issues.

This thesis will be limited to generally addressing these developmental issues and proposing broad strategies for consideration.

Individual readers of the study with specific requirements will need to relate their particular airline operational differences to the overall findings and recommendations.

1. Freda Rajotte(ed). Pacific Tourism as Islanders see it, p. 1.

1.5 Methodology

The research is based on the following techniques:

- A) The collation of secondary information in published reports, media articles industry magazines, and reference material. Information has been sourced from the libraries of the University of Auckland, University of the South Pacific - Fiji, University of Hawaii at Manoa, and the Australian National University.

- B) Material gathered on a field trip by the author in March / April 1989 to New Zealand, Fiji and Hawaii. Interviewing techniques were used with key tourism and airline industry leaders during field research. A qualitative approach of a judgement-aided model was used in generating debate on key issues.

- C) Correspondence with flag carrier management of A.S.P.A. member airlines, and the National Tourism Offices of selected South Pacific countries.

- D) A strategic planning computer modelling software package is used. This technique prepares network diagrams over a period of time to illustrate the sequence of independent activities involved in strategy formulation . The diagrams show the relationships between these activities. A critical path is determined through the network to highlight the key areas for management attention .

1.6 Content

Chapter One has provided an introduction to the thesis topic , and background details on the nature of the research.

Chapter Two outlines the basic framework of tourism development in the South Pacific highlighting the recent trends and challenges facing the civil aviation industry. Depth of this chapter has been limited to a basic framework due to the major topics having been well researched and covered by other studies.

Chapter Three examines world-wide issues in the Civil Aviation Industry and relates these issues to the concerns of the South Pacific carriers.

Chapter Four provides cynosure for the debate on Pacific regional co-operation in the tourism and civil aviation industry. Both positive and negative forces are considered with a view to achieving marketing alliances, operational economies of scale, and the sharing of scarce resources .

Chapter Five analyses the strategic alternatives available to regional carriers in the South Pacific. A value added philosophy towards service and product development is highlighted as a concept that should be adopted regardless of the most feasible strategy alternative for the future of a carrier.

Chapter Six contains the conclusions of the research and the relevance of the research to the hypothesis. Recommendations by the author will be based on the research findings, and provide an opinion for consideration.

TOURISM DEVELOPMENT IN THE SOUTH PACIFIC

2.1 A brief history

Traditionally, the shipping industry has provided the transport links between developed nations around the world and the developing nations of the South Pacific. The tourism industry grew with the spread of trade links and the expansion of cargo routes into passenger markets.

Fiji can be highlighted as a model of tourism development. Other countries in the South Pacific have followed similar trends in the nature of development , although the source tourism markets may be different. Tourism in Fiji originated in the early twentieth century when United States and Australian based shipping lines made Suva a port on their trans-Pacific shipping routes. The hotel infrastructure was built close to the Suva port area to accommodate passengers changing ship or disembarking. A local tourist organisation was developed in 1922 to cater for the enquiries of new arrivals from Australia, New Zealand and the United States.

In the 1930's, some South Pacific nations (Fiji, Phoenix Islands, New Caledonia) were designated as refuelling stops on the trans Pacific routes either by Britain's Imperial Airways or the United States based Pan American .

" It was not until the 1940's that the foundations were laid for the development of the modern tourist industry ".² The basis for modernisation of tourism in Fiji was the building of Nadi International airport in 1941. At the

2. Stephen Britton, Tourism and Underdevelopment in Fiji, p. 27.

same time there was expansion in the building of hotels and the road network around Viti Levu. In 1948 and 1950 respectively, Qantas Empire Airways and Air New Zealand (formerly TEAL) commenced flying boat services into Fiji. In the late 1950's and early 1960's sectional interests developed among the airlines serving the South Pacific. Qantas dominated in the the New Hebrides , Papua New Guinea, and Fiji. Air New Zealand developed interest in Western Samoa , the Cook Islands and Norfolk Island . The French controlled New Caledonia and French Polynesia, and the United States controlled Pago Pago. ³

In the 1960's, new technology aircraft used by the airlines allowed greater range, pay loads, and flexibility. Air New Zealand replaced the flying boat services with DC-6's on the Coral Route (from Auckland to Tahiti via Suva and via Aitutaki). Trans Australian Airlines and Ansett ANA introduced the DC-6B's on the Australia - Papua New Guinea route. ⁴ Progressively, the use of the Boeing 707 and Douglas DC-8 aircraft into Fiji encouraged further expansion at Nadi airport to cater for the jet aircraft age. Nadi soon became the " principal airport of the South Pacific ". ⁵

Passenger arrivals by cruise ship to destinations in the South Pacific peaked in the late 1970's and early 1980's. It is the decade of the 1970's where the most profound changes in South Pacific civil aviation history have occurred. These changes can be pin-pointed to three major areas:

1) The independence of many of the island states from colonial control, and the subsequent focus on national identity through bilateral rights for flag carrier services.

3. C. Kissling and M. Taylor, " National Sovereignty and Corporate Dependence in South Pacific Aviation " in C. Kissling (ed.), Transport and Communications for Pacific Microstates, Issues in Organisation and Management. p. 101.

4. Pacific Aviation Yearbook, 10th ed. 1989. p. 39.

5. R. J. Scott. The Development of Tourism in Fiji since 1923. p.7.

2) The recognition of the value of the tourism dollar as a major financial source, if not the primary source of income, to support the growth of island economies. At the same time, major Pacific Rim airlines like Qantas and Air New Zealand acknowledged the greater yield to be gained from markets other than intermediate point to point traffic in the South Pacific. Traffic growth created the demand for aircraft types and passenger business that could sustain more direct trans-Pacific services. Concurrently, there was little originating traffic from the Pacific Islands.

3) The advance in technology to wide bodied jets (DC-10's, B747's). There was increased need for airport services, runways, and tourism infrastructure to handle the landing of these jets and disembarkation of passengers "en mass". Qantas Airways ordered four Boeing 747's in November 1967, and had the first delivery in September 1971. The airline recognised the greater revenue generating potential in long haul services and introduced B747-SP's in the early 1970's on Australia / USA non stop routes.

The 1980's continued the trends of the 1970's in a more volatile environment. These trends included : political crisis, cyclone devastation, currency fluctuations impacting on island nations foreign debts, many small flag carriers sustaining operating losses, a collapse in the sugar and copra commodities market, changes in aid schemes by Pacific Rim countries to South Pacific countries, and the increasingly difficult task of positioning the South Pacific islands as having unique selling points against destinations in Asia, the Great Barrier Reef islands, Indonesia and other island locations.

What will the 1990's hold for tourism development in the South Pacific ?
Past, present and future tourism trends will now be analysed in more detail.

2.2 South Pacific travel trends

Trends in travel and tourism can be studied either on a quantitative or qualitative basis. A purely quantitative approach can present statistical data for analysis which illustrates trends such as the peaks and troughs in tourist arrivals, departures, accommodation used, flight schedules, and purpose and length of stay. A qualitative analysis explores the reasons why certain trends are occurring and the implications for the future.

Many sources of data on the South Pacific are available from different organisations . For example, the World Tourism Organisation or the Pacific Asia Travel Association. It must be noted that these organisations collect data according to different guidelines and definitions, and present them for different purposes. Therefore the type, quality and reliability of data varies between organisations and between countries, making it particularly difficult for cross-referencing purposes.

For an effective analysis both quantitative and qualitative data will be used to pin-point some of the main trends relevant to the focus of this study. The major trends identified have been categorised into the following sections: Major tourism markets to and within the South Pacific ; type of traffic (stop-over / dedicated) ; overflying trends ; the effect on tourism of political upheaval ; airline ownership , management and control.

2.2.1 Major tourism markets to and within the South Pacific.

PAST TRENDS

Strong consistent growth patterns have not been experienced by many countries in the South Pacific. As a region, Central and South Pacific from the 1970's to the 1980's has averaged an annual growth rate in tourism of around 5% .

Viewed in perspective with the growth in tourism arrivals to other Pacific Rim countries in Table 2.1, the Pacific Island share of the market has maintained the lowest growth rate and smallest total in tourism arrivals.

TABLE 2.1

PATTERNS OF TRAVEL GROWTH TO ASIA / PACIFIC

	Arrivals (000's)			Av. Annual Growth (%)	
	1975	1985	1987	1975-85	1977-87
South/Central Pacific	683	1,070	1,248	4.6	5.1
Australia / New Zealand	894	1,819	2,629	7.4	10.7
South Asia	897	1,828	2,134	7.4	6.0
East Asia	4,009	9,387	11,201	8.9	7.6
Southeast Asia	4,401	8,074	10,152	6.3	6.9
TOTAL	10,883	22,178	27,364	6.9	7.3

Source : Pacific Asia Travel Association
Annual Statistical Reports, 1975 - 1987

The South Pacific tourism flows were interrupted in the 1970's by a recession in the major tourism generating markets of Australia and New Zealand, a world-wide oil crisis, inflation increases, and the revaluation of many currencies in the money market. The 1980's held increased competition for the South Pacific islands by " Sun, sand, surf " destinations in Asia, airfare discounting on the long haul routes to Europe and the United States, cyclone devastation, and a shifting emphasis away from Pacific Rim airline schedules for short-haul holiday traffic to long-haul business markets.

A closer focus on individual countries in the South Pacific will highlight some specific trends in major markets and share of total visitor arrivals in the islands.

Appendix Three details the visitor arrivals to the Pacific Islands between 1980 and 1988. Appendix Four contains information on the major tourism generating markets to each country in the South Pacific over the same time period.

Visitor arrivals to American Samoa (Appendix Three) have increased dramatically since 1985. The first reason for the increase is the trend by wholesale companies to include both Western and American Samoa in tour packages from Pacific Rim countries. Secondly, there are now strong air linkages between the two countries by Polynesian Airlines and Hawaiian Airlines. Western Samoan residents are the largest source of the visitor market (for motivations of VFR and shopping trips) to American Samoa. This highlights the importance of inter-island travel between countries in the South Pacific, and a source of visitor arrivals that is often overlooked in airline marketing initiatives.

The importance of Japan as a market has increased in the last five years. There has been increased Japanese investment in tourism plant in the South Pacific and the commencement of direct services from Japan to Fiji and other nations. The Japanese arrivals in New Caledonia (Appendix Four) shows this trend away from the traditional market of Australia. UTA intend to capitalise on a twice weekly service from Tokyo to " allow Noumea to increase its Japanese arrival figure from its present capacity...level of around 15,000 per year. " ⁶

Although not shown in the table, tourism arrivals to Vanuatu in 1986/87 decreased to 9000. The main causes of the downturn were the suspension of Air Vanuatu services between late 1986 and December 1987 , continued political

6. Alisdair McIntyre, ASMAL Pacific Report, 3rd Quarter 1988, p. 65

problems, and Cyclone Uma in February 1987 which caused widespread damage.

Papua New Guinea has been faced with the difficulties of " poor access blamed as an impediment to the development of tourism and the high value of the kina making PNG prohibitively expensive for international visitors ." ⁷

PRESENT TRENDS

A good indication of present major markets served in the South Pacific is to view the routing structures of the A.S.P.A. member airlines (Appendix Five). Access from European markets is also provided through gateways in Asia, U.S.A, Australia and New Zealand . There are some limitations in relying on routing structures for information as scheduling and routes do change, and A.S.P.A member carriers are not the only airlines that provide transportation links.

Particular countries have been chosen to represent a cross sectional analysis of present trends. Current targets in visitor arrivals are sourced from the National Tourism Offices of each country.

VANUATU

Ansett terminated its services to Vanuatu from Australia at the end of May 1989 due to volatility in load factors, very low fares, high operating costs and lack of profits on the route. Air Vanuatu has purchased, on a lease back arrangement from Australian Airlines, a Boeing 727-200. Direct access from Melbourne to Port Vila is planned to supplement the current Sydney / Port Vila route. New Zealand markets may soon have direct access for the first time with a Port Vila / Auckland service under discussion. Visitor arrivals are targeted by the government at 21,500 in 1989 and 27,000 for 1990.

7. Dianne Armstrong, Pacific Islands Monthly, February 1988, p. 47

GUAM

Continental Airlines currently operates daily flights to Guam from Nagoya, Fukuoka and Tokyo. Statistically, 9 out of every 10 visitors to Micronesia are Japanese and predominantly under 30 years old. The new Continental Airlines service from Sydney / Brisbane to Guam provides direct access for the first time from Australia. The Guam Visitors Bureau are targeting the Australian market for up to 8000 Australians in 1989.

NEW CALEDONIA

The New Caledonian Tourism Office is forecasting 1989 to bring an increase of 20% in visitors over 1988 - a total target of 75,000 for this year. Japan is deemed to still hold the major share of visitor arrivals hoped to be 21,000 for 1989, Australian arrivals at 17,000 and New Zealand targeted at 7500. Air Caledonie intend to fly the Noumea / Papeete route with a new Boeing 737-300. To be profitable, the plane will need the additional 1000 hours of commercial flying time per year availed by the route .⁸

KIRIBATI

Air Tungaru is intending to negotiating to extend access to the island. Air Tungaru's General Manager Matee Moanisa said " the plan is to charter an Aloha Airlines B737 which already flies between Honolulu and Christmas Island to carry on to Tarawa and Nadi. " ⁹

8. Islands Business, Fiji, February 1989, p. 48

9. Construction and Commercial Trade News of Fiji, No. 48, February 1989, p.37

NAURU

Air Nauru's operating certificate has been suspended by Australia and New Zealand. Air Samoa is temporarily serving Niue from Pago Pago, but Nauru faces a severe economic future where it cannot afford to operate an international airline on low yield routes even if the certification is restored.

COOK ISLANDS

A 10% increase in visitor numbers to 6000 from Australia is aimed for in 1989 to bring Australia up to the second major market behind New Zealand. Last year, Cook Islands International suspended the 767 service between Rarotonga and Auckland on the grounds that there was poor traffic growth. Australia is seen as providing relatively steady visitor flows while the markets from Europe and U.S.A. are more volatile. ¹⁰

FIJI

The Fiji Visitors Bureau Draft Strategic Plan for Promoting Tourism Growth to Fiji 1989 - 1991 has projected visitor trends for 1989. These expected targets are documented on the next page in Table 2.2.

10. Traveltrade, Australia, April 17, 1989. p. 15

TABLE 2.2

TARGET VISITOR ARRIVALS TO FIJI 1989

<u>AREA OF RESIDENCE</u>	<u>TREND OVER LAST YEAR</u>	<u>SUGGESTED TARGET</u>
AUSTRALIA	IMPROVEMENT	(Revised) 90,000
NEW ZEALAND	EASING BACK	24,000
UNITED STATES	SLUGGISH	50,000
CANADA	IMPROVING	20,000
JAPAN	RECOVERING	15,000
UNITED KINGDOM	IMPROVEMENT	9,000
CONTINENTAL EUROPE	IMPROVEMENT	22,000
PACIFIC ISLANDS	GRADUAL IMPROVEMENT	14,000
OTHER AREAS	GRADUAL IMPROVEMENT	6,000
	TOTAL	<u>250,000</u>

Source: Fiji Visitors Bureau Draft Strategic Plan 1989 - 1991, page 13.

With Electronic Industrial Enterprise (EIE), a Japanese company, investing as a minority shareholding in Air Pacific, the emphasis on the Japanese market will become stronger. Air Pacific is considering an increase in services from Tokyo to Fiji . 11

Direct access from the United States to Fiji is as at June, 1989 limited to two airlines via Honolulu (Air New Zealand's twice week service with one 747 and one 767, and Canadian Airlines twice week service with a DC10). Qantas has re-routed its services from Los Angeles through Tahiti (three times a week with a 747 aircraft).

11. Islands Business, Fiji, March / April 1989, p. 52

An actual determination of seat capacity to Fiji from the U.S.A. is difficult due to priority allocation of seats for " end to end " passengers with through journey / long haul tickets ie. Sydney - Los Angeles. Andrew Drysdale, Managing Director and Chief Executive Officer of Air Pacific , has dismissed calls for the flag carrier to reinstate direct services to the United States . " Based on Air Pacific's reviews of the North American market every quarter, the route will prove uneconomical because of low commercial pricing. " 12

FUTURE TRENDS

The Asia - Pacific market has been forecasted to account for about 21 % of passenger kilometres flown by the mid 1990's, and by 23.4% by the year 2005. 13 Japan, South Korea and Taiwan are seen as leading the Asia / Pacific Rim countries in passenger growth for the next several years according to figures presented at the 1989 Federal Aviation Administration (U.S.A) Forecast Conference. The number of outbound passengers from the three countries combined will likely increase from 10.7 million in 1988 to at least 15 million in 1991.

Japan is targeted at 10 million departures, South Korea and Taiwan at 2.5 million each . The target figures of the later two countries are based on a relaxation of outbound travel restrictions on residents. 14

What do these future trends indicate for the South Pacific Islands ?

Potential new markets with potential new access links if the island nations can compete successfully with Australia, New Zealand and the U.S.A for a share of the forecasted market. Pacific Rim countries have a lead with stronger tourism infrastructure and existing business, investment and transport links with Asia.

12. Construction and Commercial Trade News of Fiji, No. 48, February 1989, p. 1

13. South Magazine, England , April 1989 p. 12.

14. Airnewz, New Zealand, Volume 5, No. 5, May 22nd, 1989. p. 2.

A study by the School of Travel Industry Management , University of Hawaii at Manoa, (Tourism Development in the Pacific Islands : Trends, Impacts, Options 1987) has projected future travel trends to 1990 for the Pacific Islands. The study assumes the region (excluding Hawaii, Australia, and New Zealand) can maintain their market share of total travel to Asia and the Pacific. However, they note, Pacific Island travel comprises only a small portion of the total air transportation system in the Pacific Basin, and markets are competitive .

There is a trend to increase direct travel between major Pacific Rim countries in priority over expanding capacity to South Pacific countries. Economically, the emphasis must be where the volume of traffic can at least be sustained and where revenue through yield management can be increased.

Some South Pacific approaches to Japanese and Asian markets will occur in the future particularly from the countries who have obtained loans, funding or investment confidence from the neighbouring markets. Fiji has already sent trade delegations to Seoul and Taipei to discuss possible tourism and investment joint ventures . Fiji is also seeking representation in these countries by travel agents and tour wholesalers.

Air Vanuatu's chief executive, Peter Roberts has noted the commencement of services to Japan are a " certainty in the long term " when the extension of the runway at Bauerfield is completed. ¹⁵

The Papua New Guinea Government is considering opening a trade office in Taiwan fueling speculation that Air Niugini may fly the route. The airline is also assessing the markets of Tokyo, Bangkok and Auckland for the future. ¹⁶

15. Travelweek, Australia, April 26, 1989. p. 5

16. Tony Harrington, "Growth through Cooperation" Airline Business, May 1989, p.68

Ansett is forward planning for a greater presence in the South Pacific. Pending the granting of a permanent licence and satisfying New Zealand ownership criteria, Ansett New Zealand can become an International carrier based in Auckland . The new company (Ansett New Zealand International) will be able to fly unused capacity on any routes that Air New Zealand had the rights to under New Zealand Government bilateral agreements. The company may also have the right to bid for flights to serve any increased traffic on any New Zealand route in the future. There is potential to link up the Ansett domestic Australian traffic, domestic New Zealand and international New Zealand traffic. This potential within the South Pacific has strategic implications that may generate many changes in the existing airline network.

European markets will be one stop closer to the South Pacific with the new generation aircraft , particularly the B747-400 , enabling quick and easy access to the gateways of Australia, New Zealand, Asia and North America.

Time and distance will be reduced as a deterrent to travel. The South Pacific can easily become an extension beyond the perceptual block of the Pacific Rim .

To conclude this section on trends, the future will not only depend on air service agreements and the desire to tap new markets, but particularly on aircraft availability and flying range, time slots at airports and measures to ease airport congestion. Airport and tourism industry infrastructure must be able to support new markets. Political decisions will continue to influence transport and trade links with other countries. Profitability positions of routes and airlines need to be a high priority in strategic planning for the future.

2.2.2 Type of Traffic

Pacific Rim airlines operate on the strategy of using long range aircraft on end - point services across the Pacific where there is volume of demand . Very few of a company's total aircraft and seats are allocated to stop-overs in the South Pacific where " costs of visiting many stopover destinations has increased in per kilometre travel than to long haul destinations ." ¹⁷

These costs include landing fees, refueling, crew repositioning, and passenger handling. There is an opportunity costs of having the aircraft on the ground during stopover instead of fully utilising its revenue earning capacity.

The type of traffic to the South Pacific has changed in nature from stop-over and multi destinational traffic, to Pacific Island dedicated travel. Fostering this trend is the decreasing reliance on Pacific Rim airlines to service the South Pacific. Airlines like Air Vanuatu and Air Pacific are positioning for control of their own aircraft and to tap the markets of Australia , New Zealand and Japan with direct point to point services.

Current promotional airfares are constructed to encourage direct travel. It can be an added cost rather than an extra option to stop-over on a trans Pacific trip. For example the popular Value Pac airfares offered by the major airlines from Australia to the United States only allow one stop-over, rather than six stop-overs in addition to point of turnaround as on an excursion fare. The differential between these two fares is significant towards encouraging more direct travel. For example, a Sydney to Los Angeles return economy fare in high season allowing six stopovers costs \$350 more (as at July 1989) than a one stop Value Pac fare for the same season.

ASMAL Pacific Report, third quarter 1988 , notes a 75% drop in Australians visiting Fiji as a secondary destination (at the same time Australians visiting Fiji as a main destination rose 20% over a seven month period.)

17. Steve Britton, Tourism In Small Developing Countries, p. 169

The U.S.A. market has also reflected a reduction in multi-destination visits to the South Pacific .

The accommodation industry in Fiji and Tahiti have experienced increased average length of stay from 2 - 3 days in the 1970's at the time of peak stop-overs to 8.2 days in Fiji (March 1989) and nearly 10 nights in Tahiti (1988).

Marketing and promotional campaigns reflect the change in type of traffic and tourism by focusing on the islands as destinations in their own right.

Effective marketing strategies have combined airfares, accommodation and attractions in one and two week packages using a point to point airfare basis. These packages are not available to use as a stop-over on a through airfare construction.

2.2.3 Overflying trends

In 1975, only one direct Sydney / Honolulu flight existed on a Pan American service and three direct Auckland / Honolulu flights were scheduled by Air New Zealand and Pan American.

By 1989, the trans Pacific overflying trend on aircraft with more capacity has increased dramatically to 109 direct non-stop flights per week as outlined in Appendix Six.

The down side for the South Pacific islands is that the trend for overflying means reduced access to passenger flows between major Pacific rim countries and reduced opportunity to depend on Pacific rim carriers to service island traffic.

The upside is the opportunity to substitute services now overflying the Pacific with island dedicated services from major markets. This allows the island to be marketed as a singular destination . There is an added opportunity to try and tap tourism markets that will extend into the islands once having arrived in a Pacific Rim country.

The propensity to overfly the Pacific in the future can be seen by the sheer number of orders and options held by the Pacific Rim neighbouring airlines for the long-range B747-400 aircraft. (See Appendix Seven for aircraft order and option details).

Not all of these aircraft will be used on the Trans Pacific route, and some of the existing non-stop services will be replaced by the new aircraft. The fact remains that the aircraft is going to be used on the premium high yield, and long haul routes for which it was designed, including trans Pacific.

Design specifications for the B747-400 and technical details are in Appendix Eight.

United Airways intend to operate two of the aircraft on the Los Angeles / Sydney / Melbourne route by the end of this year increasing capacity on its trans Pacific route by up to 22 %.

Air New Zealand will eventually use their new aircraft on the Auckland / Los Angeles and Sydney / Los Angeles non-stop routes.

Qantas plans to increase seat capacity trans Pacific by December 1989 and " subject to the (planned) arrival of the 747-400 aircraft...we are looking at daily non-stops between Sydney and Los Angeles. " 18

18.Quote:Ron Rosalky, Qantas Sales Director, Traveltrade, February 20 1989 p.22

The above statistics do not even include possible future utilisation of other long-range wide-bodied aircraft on trans Pacific routes like the McDonnell Douglas MD11 or the Airbus A340.

2.2.4 The effect on tourism of political upheaval.

Many islands in the South Pacific are experiencing a period of social change and political instability which inevitably effects tourism to the islands . The repercussions even extend to neighbouring countries when the travelling public confuse problems in New Caledonia , for example , with Vanuatu.

The most graphic example of the vulnerability of tourism is portrayed by Fiji's series of political events in mid 1987, and the lag time well into 1988 before the tourism arrivals recover to an upward trend again.

Appendix Nine shows the flow of visitor arrivals into Fiji over a three year period and the effects of a political crisis on visitor arrival numbers.

As seen in Appendix Nine, the general election in Fiji in April 1987 triggered the series of events shaping the subsequent trends in tourism to the country.

After the first coup on May 14, travel advisory warnings were issued from the Governments of Australia, New Zealand, Canada ,the U.S.A. and Japan . Union bans prevented some of the airlines from disembarking passengers in Fiji. Although Qantas, Air Pacific and Canadian International continued to service Fiji, Air New Zealand suspended its flights to Nadi after an attempted hijacking. Air New Zealand flights to Fiji resumed in December, 1987.

A Tourism Action Group, acted as a taskforce to rescue the failing industry. It concentrated on direct communication with agents in key markets and initiated promotional airfares from Australia, Canada and New Zealand. These airfares and

associated cheap land packages stimulated a solid increase in demand until the end of September when the promotional airfare expired. Unfortunately at the same time, a second coup again severely reduced tourism arrivals.

The lesson to be learnt from Fiji's political turmoil is that security of travellers is vital to maintain a stable tourism industry. Remedial cheap airfares can temporarily re-stimulate interest in a destination. It is the long term viability of a Pacific Island's economy through tourism that needs to be sustained. A political crisis (violent or otherwise) can do untold damage to destroy any consumer perception of a destination as being safe and peaceful, two major factors in attracting visitors to island nations.

2.2.5 Airline ownership, management and control.

The above three issues are not synonymous with each other.

OWNERSHIP of airlines in the South Pacific is undergoing structural changes in two opposite directions. One trend started in Pacific Rim countries is privatisation from 100% government ownership to shareholdings by institutional and private investors. The other trend is for the island based governments to purchase back shares from outside investors to gain national airline ownership.

Appendix Ten shows the results of a study determining shareholding relationships between the major carriers in the 1970's and early 1980's. 19
In the past, government and foreign airline shares in South Pacific carriers were dominant - particularly with Qantas shares in Air Pacific, and Ansett in

19. Christopher Kissling /Michael Taylor, " National Sovereignty and Corporate Dependence in South Pacific Aviation " in C. Kissling (ed) Transport and Communications For Pacific Microstates, p. 103.

Air Vanuatu.

Appendix Eleven indicates the changing nature of shareholding relationships as the airlines enter the 1990's . It highlights examples of airline privatisation in the Pacific Rim airlines of Air New Zealand and Canadian Airlines - a worldwide trend for the future that may find strength in the South Pacific as governments seek new financing measures to ease debt burdens that strangle island economies.

Air Pacific continues to reduce the Fijian government majority shareholding. The government has recently opened up Air Pacific to a 5% shareholding investment by the Japanese company E.I.E .

Appendix Eleven also shows the return by Air Vanuatu and Solomon Airlines to complete ownership of their flag carriers in order to control the country's future direction in tourism and aviation.

MANAGEMENT trends are to use outside expertise for specific purposes ie: the financial restructuring by Geoff Olsson (ex Air Niugini) of Solomon Airlines, or general management agreements on airline operations for a fixed period. This latter category includes:

AIR NIUGINI signing a management contract with KLM for a three year period from 1983 - 1986. The thrust of the agreement was to return the airline to profitability. Major strategy included staff and management restructuring, the sale of some excess aircraft, and the reduction of training costs.

AIR VANUATU commencing in 1981 as a joint venture between the Vanuatu Government and Ansett Airlines. A five year contract was signed with ANSETT to provide personnel and aircraft to operate the airline. In March 1986 this

contract expired and was not renewed. Air Vanuatu temporarily ceased services, although the country was still serviced by Ansett under a Qantas licence. Air Vanuatu resumed operations under self management in December 1987.

COOK ISLANDS INTERNATIONAL commenced operations in 1986 with the assistance of ANSETT. The agreement is for Ansett to provide marketing, management, engineering and operational support. This includes the supply of a 727-277 aircraft painted in the dual colours of Cook Islands International on the starboard side and Polynesian Airlines on the port side.

POLYNESIAN AIRLINES signed a five year contract in 1982 with ANSETT to provide equipment and similar support as with the Pacific Airlines Division above. In February 1987, a new agreement was reached between Polynesian and Ansett for a ten year contract to continue the provision of aircraft and management expertise.

AIR PACIFIC has a Support Agreement with QANTAS that was re-negotiated in 1988. The current agreement is for the indemnity provision by Qantas to extend the underwriting of any provisional losses through until March 1990. Qantas has restructured a loan to Air Pacific, and the provision of training strategies and management assistance will be extended until March 1995.

With limited island expertise it has been necessary for many of the South Pacific airlines to recruit or contract expatriate staff from other airlines like Qantas, Air New Zealand and Ansett . This has been done in order to pilot the airline back on course with sound business strategies , and to ensure satisfactory operational standards are maintained. A key responsibility of outside management contracts / consultancy is to train and nurture nationals. Local staff must reach a level of proficiency that will allow confidence for a national based management team, and ultimately a reduction of the high labour

costs associated with expatriate management.

CONTROL of an airline and its operations depends on the critical constituencies of the airline and which groupings hold the dominant coalition of power.

Critical constituencies are defined as "those individuals, groups and institutions upon which the organisation depends for its continued operation " . 20

Dominant coalitions (groupings) gain the centralisation of power within an organisation through the ability to influence or control important strategies.

For example:

Solomon Airlines growth in the past has been restricted by a dispute over terms for a full government shareholding take over of the airline , and indecisive government policies on tourism development. (Island Business, February'89 p.50)

Air Niugini suffered from political interference with every new aviation minister directly involving himself in airline management.(Harrington p. 69)

Passengers exert considerable influence in a market driven environment, particularly where issues of safety are concerned. United Airlines has experienced passenger resistance after a spate of aircraft incidents.

Flight crew and pilots are a critical constituency often flexing industrial muscle to achieve the power for change in organisation policies.

Management of privately owned companies are accountable to shareholders and from a commercial perspective, business efficiency is encouraged to increase the return on shareholders funds.

20. S. Robbins, Organisation Theory, p. 50

The Board of Directors can be a dominant coalition . It is yet to be established at Air New Zealand how much control the new board will have with representation from Qantas and Japan Airlines.

State-owned and privatised airlines can give management freedom and autonomy in decision making . This allows the airline to operate with the commercial strategy of long-term profitability for expansion and possibly diversification.

The church can have a strong sphere of power, and influence the restriction of flights and tourism activities on a Sunday. For example, the Cook Islands currently restricts Sunday operations until after church services.

Essentially, each airline will differ in the structure of ownership, the form of management and the nature of power and control the critical constituencies have. In terms of service philosophies, it must be remembered that the passengers are the dominant coalition most critical to the airline's survival.

2.3 Religious influences

A growing strength in South Pacific tourism is the influence of the church and religion.

In the past, the church has often been understated or unacknowledged as important in the tourist system. More recently, this influence has formed vocal opinions and viewpoints on the benefits or otherwise of tourism.

In 1981, the Pacific Conference of Churches undertook research on the issue of tourism development and its affect on the native population in the Pacific Islands. Cynthia Z. Biddlecomb published the internal document " Pacific Tourism: Contrasts in Values and Expectations ". This document highlighted one

of the concerns in tourism - does the tourist industry benefit local cultures ? Or does tourism destroy local traditional values and cultures.

This document does not address the crucial issue of Pacific Tourism : Contrast in **Religious** values and **Tourism Industry** expectations. Sunday activities are a prime example of the contrast. In Tonga, arrival and departure of aircraft on a Sunday are not permitted. In the Cook Islands, aircraft do not operate during church meetings. The Cook Islands and Fiji also had restricted tourist activities (shopping, sporting activities, restaurants) on Sunday. Until recently, church leaders in Vanuatu were totally opposed to tourism due to its perceived negative effect on local culture. It may also be relevant to note that some groups view the church itself and missionary zealots from foreign countries as having a perceived negative effect on local culture.

Transport scheduling difficulties, restricted emergency repairs, and restricted tourism activities are currently in disharmony with observance of the Sabbath. Negotiations to achieve harmony and allow cultural/ religious values to coexist with tourism expectations must continue through forums and government facilitation.

2.4 Economic Challenges

The economic impact of tourism combined with the need for future development to strengthen an island economy often leads to an island nation and its residents symbolising tourism as the panacea to cure all problems. Realistically, tourism brings its own unique problems. A balance sheet must be achieved where economic benefits exceed the costs and liabilities associated with the industry.

Freda Rajotte has studied the economic impact of tourism in the Pacific in a book titled Pacific Tourism as Islanders see it. The book provides a focus on

how tourism presents a conflict of interest to island nations. The major points are summarised in Appendix Twelve.

It is important to understand the conflict of interest that occurs from the point of view of the island nation . Tracing the economic path of tourism from the local people who are supposed to receive the end benefits, back to the the infrastructure supporting the source of tourism income (tourist spending) helps to give insight to the arguments aimed by local residents and tourist operators at the airlines. Strongly featured in these arguments are the following issues :

- tourism leakages from the economy back to Pacific Rim countries particularly in tourism infrastructure support services (eg. building materials, catering goods, and shareholder profits), aircraft purchases and maintenance contracts.
- the use of foreign staff and competitive practices for attracting the labour (ie. wage differentials between local and expatriate staff).
- scheduling to smooth out the peaks and troughs of seasonal tourism flows. To local business, their own country is the focus of tourism flows. To an airline with a wide route network, many other countries and factors of seasonality have to be considered. It is a fine line to balance schedules and aircraft utilisation to achieve the best economic results.
- access to major lucrative Pacific Rim markets . An example is the pressure on Air Pacific to access United States markets with direct flights.

The economic challenges facing an airline in the South Pacific are to address the above issues with empathy and understanding. At the same time, foremost consideration must be given to the airline's own operating economies and these are the same challenges facing the industry world wide.

Airlines must maximise flight revenues through profitable routes, yield management on the mix of airfares charged , the optimisation of the mix of short-haul and long-haul passengers, and by controlling load capacity and oversell factors.

Equipment financing, low maintenance costs, replacement of ageing aircraft, airport charges and capacity problems, competitive pressures on volumes and margins, marketing costs and employee productivity all effect bottom line performance. Sound economic planning and policies in aviation and the continued investment of funds in an airline are important for sustaining a viable business entity.

2.5. Environmental Impact

Tourism development can be planned and structured to be in harmony with the surrounding environment. Particularly when impact studies are required by governments of Pacific nations prior to development projects, and where the investors are aware of the need to minimise negative impact on the environment.

Some of the potential environmental advantages tourism can bring to an island if the industry is CONTROLLED rather than left free to its own devices are: the promotion of places of natural beauty and aesthetic value ; the demand by tourists to preserve and conserve the attraction for future generations; and a catalyst for small scale regional development where the type, spread, and pace of development are maintained at a low level of resource use.

With higher levels of awareness by the public, media and governments on environmental issues, the airline industry is also experiencing environmental controls.

Noise and air pollution emissions are constantly being monitored with approved levels set by the civil aviation authorities in most countries including Australia and the United States. Technological innovations are reducing engine noise levels particularly in the new B747-400. " Hush kit " and other innovations are gradually being introduced in all aircraft.

The use of runways on the Pacific Rim are often restricted in direction of approach and departure to minimise the effects on local residents and sensitive land use areas. These same restrictions should be considered for the South Pacific Islands. Curfews due to lack of or inadequate radar available to air traffic controllers, restrictions on early and late departures over residential areas, and other measures to relieve congestion at peak periods are the controlling factors of airport capacity. Capacity controls also help to avoid the environmentally damaging problem of overcrowding at tourist destinations.

One last thought for the future will be the implications of the Greenhouse Effect on the low atoll islands of the South Pacific . The expected increase in temperatures will raise sea levels, hasten coastal erosion and shrink ground water supplies. The nations of the Marshall Islands, Kiribati, Tokelau and Tuvalu have been the focus of a study which warns that a rise by over one metre in sea level will swamp the low atolls of these islands completely. ²¹

The other islands in the South Pacific will logically experience similar symptoms perceived as a threat to local populations and a deterrent to the tourism industry.

21. " The Greenhouse Effect, Where have all the islands gone? " Pacific Islands Monthly, April / May, 1989.

2.6 Social Implications

The pros and cons of the effect of tourism on the social structure of developing cultures and nations have been well documented.

The issues of host - guest social interaction, demonstration effects (where the host desires the tourists material wealth and standard of living), ethnic and class relations, colonialism, enclavism (the segregation of tourist and host), and the commercialisation of cultural values and artefacts are acknowledged as important. They are issues that go beyond the basic business focus of supply and demand, and profitability.

A higher level of social awareness and responsibility needs to be observed by operators in the tourism industry . It is the operators who provide the infrastructure (and often the first point of contact) for cultural links between the values of local residents and the outside influences of foreign visitors.

The point could be argued that " the responsibility for cultural preservation rests solely on the host society " and with the government that opened up its country to tourism and the changes it brings. ²²

Closer consultation between governments, social groups, small business tourism and hotel operators, feeder airlines and international carriers is needed. This will help to ensure airline operating decisions can be made with an optimum level of information. Open channels of communication should allow a mutual exchange of information prior to a major change taking place.

22. Prem Presad, "The impact of tourism on small developing countries" in S. Britton and W. Clarke (ed) , Ambiguous Alternative : Tourism in Small Developing Countries. p. 10.

Open channels of communication should also ensure valuable input in the direction of both social and practical skills training for local staff. As a consequence, there will be pressure for the airlines to accept a greater responsibility for the effect on access dependent host societies of decisions to suspend or cancel routes.

Airlines do not need to be benevolent institutions, they should be considerate facilitators of tourism development.

In conclusion, this chapter has highlighted the major roles and responsibilities of South Pacific and Pacific Rim carriers in tourism development. Future trends will be effected by the operating strategies put in place today. These strategies should be based on sound economic, environmental, social and cultural information gained through open channels of communication with constituencies critical to the success of the airline.

CIVIL AVIATION INDUSTRY

3.1 Introduction to transport studies.

A transport study in civil aviation is concerned with the transportation of goods and passengers between a selection of origin markets and destination countries. It examines the structure of existing and potential aviation links within a region.

The purpose of a transport study is to " describe and explain the present (issues), identify problems (and opportunities), determine relations.... and permit projections. " 23

Chapter Two established the trends in major tourism markets to the South Pacific region and the major tourist markets . Issues investigated were the ownership, management and control structure of aviation links, and the challenges that face aviation development in the future.

With reference to the purpose of a transport study, Chapter Three examines the current issues in the aviation industry world-wide, and identifies relevant problems and opportunities for aviation in the South Pacific arising from these issues.

Chapter Four determines the extent and effectiveness of co-operative relationships in Pacific Rim and South Pacific airlines. Chapter Five projects alternative strategies for the future of civil aviation in the South Pacific.

23. P.T.R.C. " Transportation Planning in Developing Countries ; Proceedings of Seminar G ." University of Warwick, U.K, July 1979, p. 2.

3.2 Industry Issues.

The following factors represent the key points of concern in the civil aviation industry . They have been chosen as the most relevant issues for South Pacific airlines and are drawn from the summary in Appendix Thirteen on factors effecting regional carriers over the next ten years. The key issues are : national aviation plans; privatisation; liberalisation of the skies; capacity control and congestion ; computer reservation systems; commercial alliances; and financing of operations.

3.2.1 National Aviation Plans.

A national aviation plan is theoretically a product of legislation, public pressure and finance to allocate scarce aviation resources. These resources should be in optimum combination for the most efficient carriage of goods and people.

Developing nations are particularly concerned with the distribution of the scarce resources of funding, labour and materials among competing demands. Often the capital intensive aviation industry takes a lower priority in planning and development compared to labour intensive agriculture or local manufacturing industries. It must be noted that " no country has reached a developed economic state without an efficient transportation system ".²⁴

South Pacific countries often have difficulty in drafting and updating national aviation plans due to lack of skilled personnel, lack of quality technical and technological prowess, political differences among lobby organisations, and inadequate statistical data on peak period and seasonal traffic flows.

24. Colin Everard , ICAO Bulletin , November 1988, p. 16.

Assistance in structuring , developing and the continual modification of national aviation plans is available. The International Civil Aviation Organisation (I.C.A.O) Standards and Recommended Practices , and I.C.A.O. Regional Air Navigation Plans provide guidelines .

Financial assistance for master planning and the drafting of civil aviation legislation and regulations is given by the I.C.A.O. and the United Nations Development Programme (U.N.D.P.) . At a seminar organised by I.C.A.O in Canberra in 1988, it was disclosed that many states and nations were not even aware of the I.C.A.O Regional Navigation Plan or the types of assistance available.

In the South Pacific as with all regions, it cannot be overly stressed on the " need for proper air route planning and urging of greater bilateral and multi-lateral planning to ensure the safe, efficient and orderly flow of traffic between countries. " 25

3.3.2 Privatisation.

Privatisation is the strategy to reduce government ownership of the airlines. It opens investment opportunities to the private sector under the influence of market forces rather than political protectionism.

Recently, the South Pacific has seen more smaller carriers becoming partially or wholly owned by island governments. Predominantly, it has been convenient for governments to directly own the national airline as a primary vehicle of international communication or symbol of international strength. National security and safety issues may also have driven the need for a government to

25. " New Highways in the Skies ", PATA Travel News, April 1989, p. 27.

have the ability to secure the aircraft for defence purposes. " Part of this argument implies that the national carrier must be state owned because it cannot be allowed to go out of business ... and that the continuing provision of such vital services cannot be left entirely to the private sector".²⁶

Air transport industries world-wide are slowly being deregulated, governing regulations relaxed, and liberalised competition in the skies encouraged by many geographic regions close to the South Pacific. With these changes, the benefits of privatisation increases. Privatisation can help to effectively prepare an airline for a competitive future with the focus on efficiency. It opens new financial sources in the world's capital markets.

Privatisation could eventually lead to alliances and merger opportunities making it probable that some flag carriers will no longer exist. This can be controlled by the government maintaining a majority shareholding through partial privatisation. It is possible to " retain the core identity of the flag carrier, while effecting the consolidation of other elements of the airline necessary for economic survival. "²⁷ Another alternative to partial or complete privatisation is for the government to maintain ownership of the flag carrier (as with Polynesian Airlines and Cook Islands International), but contract management and control to a company (Ansett in this case). This way, the airline is operated as a distinct business unit . There are similar benefits as with privatisation and the airline is subject to market forces.

3.3.3 Liberalisation

Liberalisation in the form of an " open skies policy " means a more relaxed and dispassionate view by governments controlling airspace. This has occurred in the U.S.A, Canada, New Zealand and some parts of Asia. It will occur in the

26. Paul Deighton, " Privatisation ", Airline Business, June 1989, p. 43

27. Paul Deighton, p. 44.

domestic Australian industry in 1990, and in Europe with the Generalised Agreement on Tariffs and Trade (GATT) common market in 1992. Fiji is a more liberal country in favour of routes and capacity for foreign airlines if they desire to fly into Fiji. Liberalisation should be viewed in perspective of the air service agreements on each route, market realities and competitive gains.

A deregulated policy reduces the protection of the national carrier and encourages direct competition. In the South Pacific, this could mean the end of smaller carriers unable to operate competitively. Depending on which economic perspective is followed, if competition cause the elimination of a flag carrier, then true market forces will have realistically shaped the industry. Alternatively, these consequences will be viewed as socially and politically unacceptable by the island nations and steps taken to keep a carrier in operation at any cost. Here, the issue of national sovereignty would overrule.

As industry regulations become more liberated in the Pacific Rim countries the key issue for the South Pacific airlines must be how the carriers will perform in more open markets (other than home markets).

What may be the attitude and reaction of small airlines that are already facing financial and competitive survival difficulties? " Either they will have to refuse any review that will distort the balance of economic benefits in favour of the foreign carriers, or they will ask for compensating rights of at least similar economic value, assuming that such rights could be identified ." ²⁸

As an overall observation without examining each air service agreement, South Pacific nations usually prefer to negotiate routes and agreements on the principles of reciprocity. That is, a balanced agreement for meeting the demands of the market.

28. Anthony Vandyk, " Carriers express concern over European Liberalisation " Air Transport World , January, 1989, p. 87.

There is a viewpoint that liberal aviation policies are only sustainable in affluent societies where there is a need for alternative service / price and routing options. " In developing countries, however, the resources are barely adequate to provide the service, so that providing consumer options might be considered a luxury ", and an economically unsustainable policy. ²⁹

The pressures on South Pacific skies to become more liberalised and in tune with surrounding Pacific Rim policies will only increase over time.

It may be the case that liberalisation will occur for many countries in the future and it will only then be a question of whether it occurs by design or default.

3.2.4 Capacity control and congestion.

Airline capacity planning must take into account, among other considerations: the restrictions imposed by government policies with air service agreements; the available equipment, finance and maintenance for expanding capacity with additional aircraft; and the co-ordination of supply of capacity to meet consumer needs and demands.

Most nations in the South Pacific prefer to negotiate capacity through periodic talks on air service agreements. The negotiations are related to perceived growth in the market. Australia's air service agreements generally outline guidelines on capacity and frequency levels prior to new or additional flights.

Devices to help control capacity are often used. The " trigger mechanism " is used on the Australia - US route where " all carriers can add at least two services per week regardless of their market performance even if such action is

29. Nawal Taneja, Airline Planning: Corporate, Financial and Marketing. p. 119.

It should be a combination of load factors, volume of flows, and yields that are used in capacity control decisions in the South Pacific. This is discussed further in section 3.3 on revenue management.

Airport congestion may not yet be experienced by most of the home bases of Pacific Island carriers. It is experienced at key strategic points around the Pacific Rim where some of the island airlines have access. Particularly in Sydney , Melbourne, Auckland, and Tokyo (Air Pacific).

Limited access at major gateways around the Pacific hamper growth opportunities for increased frequency by South Pacific carriers. It can also be a significant deterrent to any new entrants. Measures to relieve some of the congestion problems can be achieved, but these measures usually increase airport landing charges for airlines. This can flow on as a cost to passengers through increased airfares.

As an example, congestion at Sydney's Kingsford-Smith airport has received considerable industry , political and media attention. It is currently used by Air Caledonie International, Air Niugini, Air Pacific, Cook Island International / Polynesian Airlines, Norfolk Airlines, and Air Vanuatu.

The Australian Government has announced that a third runway will be built at Kingsford-Smith, subject to an environmental impact statement, and there will be longer term construction of an airport at Badgery's Creek. A recent Industries Assistance Commission draft report on travel and tourism in Australia has outlined greater scope for higher charges in landing slots at

30. Qantas Airways Limited Response to the Industries Assistance Commission, p.21

peak times. According to the report, this will allocate scarce airport capacity more efficiently.

These actions would encourage a smoothing of the peaks and troughs, but would also impact negatively on scheduling for those airlines in the South Pacific unable to afford the peak surcharges on top of existing charges.

There could be additional compounded effects for the airlines if other congested airports follow the same control measures in future.

3.2.5 Computer Reservations Systems. (CRS)

Airlines in the South Pacific have traditionally used fares, schedules and route networks to compete in the marketplace. There must now also be consideration of competition through effective world-wide technological distribution systems.

CRS can be used as a reservation system for tourism products ranging from hotels and hire car companies to direct access into detailed information on airline seat availability. It is used by an airline as a tool for marketing its services world-wide.

Appendix Fourteen is a summary of the links between airlines and the various CRS systems available.

At the time of writing ASPA is under advanced discussion (as a central co-ordinating body for its member airlines) with Qantas Distribution System on joining the Sabre based network called FANTASIA. ³¹

31. Traveltrade, April 17, 1989, p. 1.

It is anticipated that not all members of ASPA will consent to a Qantas based system. The smaller carriers currently hosted by airline systems other than Qantas will likely follow the CRS choice of their host airline. The probable result will be for most members of ASPA to develop a regional CRS hosted by Fantasia and then distribute the CRS sub-system throughout the South Pacific . This should still allow independent identity to be kept by South Pacific Airlines with their own in-house reservations and inventory control systems.

The key issues for the airlines to consider with CRS are:

- The need to appear on foreign CRS screens for easier access and market information for foreign bookings. A spread across the major CRS networks through mobile groupings and hosted airline systems is important rather than depending on one major system for distribution.
- The principle of acting as one group through ASPA in order to have centralised negotiations, spread the installation and operating costs, and have credibility through strength in numbers of participating carriers.
- Maintain the strong relationship between the national carrier and supportive travel agents through automation.
- The negotiation of adequate placing of airline schedules and all routes in the system. An adequate method of obtaining the travel agents booking fee for using the CRS system is required.
- Planning and training for the development of South Pacific carrier CRS expertise in order to gain experience and technical capacity in this vital field.

As with other regions in the world including the Arabian countries, airlines in the South Pacific " do not have any indigenous CRS system, therefore we must establish that the foreign systems have fair treatment in our markets, and we are ensured fair treatment instead of being dominated by them." 32

3.2.6 Commercial Alliances.

A global trend is for airlines to form commercial alliances and co-operative partnerships with other carriers for mutually beneficial reasons.

Alliances are formed for strategic growth opportunities outside the home markets. There is an ability to tap into the specialist operations of a complimentary, and not necessarily competitive, airline that has a strong presence in another region. This avoids the need to enter a new market as an unknown competitor, and depending on the nature of the alliance can allow economies of scale through the sharing of resources .

An alliance can be feeder-based like the alliance between Air New Zealand and Australian Airlines. Both companies agree to prioritise the carriage of each airline's passengers where possible rather than feeding their passengers into a competitive network.

A data-link based agreement can be similar to the joint venture between Qantas and Thai International. They have linked passenger service computer systems through EDIFACT in order to exchange passenger and service data between the two airline home systems.

Maintenance based alliances occur where particular carriers are specialists in a certain airframe or engine type. A possible future scenario could show Air New Zealand maintaining the B767 aircraft and Qantas maintaining the B747

32. Amer Sharif, " Computing the Arab market ", Airline Business, May 1989 p.66

aircraft of the two fleets combined. This would rationalise the scarce skills and high costs involved. The separate companies would not need to operate dual maintenance bases.

Marketing alliances and joint purchasing of supplies allows two carriers to co-ordinate their schedules and connections to feed into combined networks, and share marketing and distribution facilities for their products. This can even extend as far as code-sharing, and the combined use of terminals and check-in facilities when possible. Qantas and Air Pacific already share many of these features. Joint promotions and shared strategic marketing helps to increase airline exposure and sales opportunities.

Alliances between different carriers on different continents are more likely to succeed smoothly and be effective because there are fewer competitive differences to work through. There are less overlaps in routing structure and operations to resolve. Intra-regional alliances within the South Pacific already exist in many forms. A concern that faces most of the carriers is that they may have more to lose by reducing routing and scheduling overlaps in an alliance than they stand to gain .

Commercial agreements may extend to an exchange of equity between airlines, but the dominance of a larger partner should not be assumed.

The crux of the issue of commercial alliances for South Pacific carriers is to have operational and financial leverage for negotiating fair agreements with other interested parties. Opportunities for negotiation and success in an agreement depend on the size of fleet, routes and market reach. By the nature of their limited size, small market base and consequent lack of leverage, many of the South Pacific airlines are in less than desirable positions for consideration by other carriers of an alliance.

3.3.7 Financing Operations

The airlines of the South Pacific can only benefit from the upsurge in aircraft manufacturing and financing developments if they have a solid financial background . A sound financial basis is needed to attract investment funds for new aircraft orders.

Financial support is available from many sources including :

- export credit agencies through asset based financing (borrowing tied to specific aircraft assets).
- the aircraft manufacturing companies through purchasing packages including "rebates" on parts and equipment.
- leasing companies when the backlog for new aircraft restricts purchasing plans and where many of the smaller airlines cannot afford to purchase new aircraft. Financial strength is hard to achieve particularly when an airline has a high political risk factor and low cash flows. Leasing companies can provide an opportunity to obtain aircraft without showing the debt on the airline's balance sheet and without effecting cash flows. ³³ Ultimately, the cost of leasing would need to be funded from a stronger level of earnings.
- Sale and lease-back refinancing technique. This technique has been used by Qantas on seven of its oldest 747-200 aircraft to raise capital for financing new aircraft purchases and to meet progress payments on existing aircraft. (Financial Review, Tuesday April 11th, p. 34). The maximum benefits of this strategy for South Pacific airlines is when the balance sheet values of their aircraft are priced at well below their current market value.

The upside of sale and lease-back is the raising of cash. The downside is reduced flexibility in fleet changes if the sale and lease-back is a long term arrangement. It also diminishes the asset value of the fleet. ³⁴

33." Finance and Leasing Report " , Air Transport World, November 1988, p. 46
34. " Financial Interests ", Airline Business, June, 1989. p. 40

- Aid and remittances from foreign governments and aid agencies. As Chris Kissling detailed at the Islands '88 Conference in Hobart (p.10), aid agencies do not place the airline industry in the South Pacific in a high category for assistance. However, " aid assistance that both facilitates trade in airline services and encourages the build-up in local skills to participate in all facets of the industry, is undoubtedly the type of development assistance these nations require ".

Financial restructuring must be an issue for consideration in the aviation industry. No government or private company can sustain losses of a flag carrier indefinitely. With new methods of financing being developed and used in other parts of the world, it should be easier to find a method of restructuring that is compatible with future operational and fleet requirements.

Air Pacific used innovative financing methods to make a positive impact on their debt servicing in 1987/88. This was done through a share issue equity injection, and a restructuring of the long-term loans with Qantas for principal repayments to commence in 1991.

3.3 Revenue Management

Revenue management is the art of striking a balance between yield and load factor to maximise net revenue.

Airlines around the world are having to develop strategies aimed at improving the mix of fares available by squeezing incremental revenue from seats at their disposal. Airbus Industries has estimated that 1% of extra revenue on its A310 (currently in use by Air Niugini) is worth a reduction of : 4.5% in investment cost; 10.6% in fuel burn; 12.1% in maintenance cost; or 12.8% in flight crew cost. 35

35. Trevor French, " Flying for Profit", *Airline Business*, February, 1989, p.56

In order to make real gains in aircraft utilisation and capacity management, airlines in the South Pacific must know of the basic revenue measurement tools and strategies available to them.

The major measures of revenue include hours per day of aircraft utilisation, revenue per passenger kilometre, revenue per flight hour, revenue tonne kilometres, rate of return on aircraft assets and hours per occupied seat.

As a comparison, Air Pacific had an average of 4.9 hours per day use of their B747-100 in the 1988 financial year. Air New Zealand currently operates their B747-200 in excess of 16 block hours per day as one of the highest aircraft utilisations internationally. (Jim Scott, " Air New Zealand in the South Pacific ", 1989 Airline Industry Seminar, 10 February, Florida U.S.A., p. 3)

It may also be noted that on the July 1989 schedule for Air Pacific on the Nadi - Tokyo route, their 747 aircraft sits on the ground after a Sunday 1955 arrival for nearly 24 hours until returning to Fiji.

Air Vanuatu has solved low aircraft utilisation after the weekend peaks by leasing their 727 back to Australian Airlines for use on Australian domestic runs during the week.

In Europe, another technique for efficient use of aircraft is the plan for International Leisure Group to establish six charter / schedule airlines to operate flights by drawing equipment from a proposed central pool of 70 aircraft owned by the Group. In the future, this pooling technique may even extend to the South Pacific as Ansett Worldwide Aviation Services continues to build up its business of aircraft (particularly the B767-300ERs and B757's) and equipment leasing.

Strategies for incremental revenue by striking an improved balance between yield and load factors include:

- Effectively control overbookings through accurate post-departure information, cancellation rates, and final booking positions of flights. Overbooked flights should compensate any late cancellations and no-show factors without risking denied passenger boarding and any subsequent costly claims.
- Increased marketing incentives to reach higher load factors on off-peak flights and to off-season destinations.
- Ensure that peak flights include the maximum number of high yield passengers.
- Manage the flight network as a whole rather than just the legs the aircraft flies on. Passengers book their trips in segments or a combination of legs and flights should be controlled by the segments a passenger books. Particular attention needs to be paid to restrict popular flights and booking classes to passengers who require an on-line connection on higher yield through-fares.

There are quality computer systems to help achieve sound revenue management. Qantas has recently sold their MIDAS yield management system to Japan Airlines. The program is designed to " help the airlines maximise flight revenues through computer monitoring booking profiles, the mix of fares charged, and the optimisation of the mix of short-haul and long-haul passengers." ³⁶

Unfortunately for the South Pacific, yield management computer systems are too expensive to be justified in markets where most of the traffic is for purposes of holiday and V.F.R. These are low yield markets, and there is only limited scope for revenue maximisation .

In conclusion, revenue management must include measures for efficient aircraft utilisation that incorporates quality passenger service levels. Neglecting the customer by ignoring the consequences of purely revenue based strategies will have longer term implications on the bottom line.

3.4 Aircraft types and usage.

It is not within the scope of this paper to be able to discuss every aircraft type available for use in the South Pacific, or to make recommendations about the suitability of particular aircraft for particular airlines.

However, two trends will be considered as relevant for airline operations in the South Pacific. These are : Fleet rationalisation; and the change in minimum time for twin engine jets in over-water extended range operations.

3.4.1 Fleet Rationalisation

The fleets of most of the airlines in the South Pacific encompass a wide range and mixture of equipment. Usually with increased scope of an airline's activity comes the necessary diversity of aircraft types to match expanded needs. The problem then becomes one of higher costs in the mix of skilled personnel required for maintenance. There are expensive inventories of spare parts, and an inability to achieve strong economies of scale.

Rationalising and standardisation of aircraft fleet helps to develop synergy throughout the individual airline's network and throughout the region.

The benefits of maximum practical fleet commonalty can include: specialist functions of staff within the organisation, particularly in the training of pilots and in the field of maintenance; the standardisation of customer service through the development of efficient ground and air passenger handling systems; aircraft sharing opportunities similar to the Air Vanuatu aircraft lease-back arrangement with Australian Airlines, and the aircraft used by Cook Islands International / Polynesian Airlines; and a common aircraft may " tend to stay in the fleets for an even longer period giving rise to a far

36. David Miers, The Herald, Wednesday June 14th, 1989 p. 18

longer depreciation periods for the aircraft ... and a diminished willingness for a carrier to take on new aircraft so frequently ". 37

3.4.2 Extended Range Operations

EROPS is an acronym for Extended Range Operations. Various strict rules and standards are laid down by aviation regulatory authorities to allow twin engine jets to fly non-stop distances over the ocean. Originally in Australia, all twin engine jets were restricted to routes which passed no more than 90 minutes away from a suitable airport . This ensured certain landing if one of the engines had to be shut down because of a malfunction. The ruling did not take into account the flying capabilities and potential use of the long range 767 aircraft or the Airbus A-300.

Geographically, this ruling placed many islands in the South Pacific in an inaccessible position other than with the long range - wide bodied aircraft . Many nations surrounded by water are isolated further than 90 minutes away from any neighbouring airstrip.

Early in 1989 the United States F.A.A changed the limitations of EROPS to 180 minutes over water for specific aircraft / engine type. Air New Zealand has been successful in applying for approval and has now replaced a B747 aircraft on the Auckland - Nadi - Honolulu route with a more cost effective B767 aircraft. In April 1989, American Airlines became the first U.S. carrier to receive certification to fly from the mainland U.S.A. to Hawaii with a B767 aircraft. This paves the way for opening up the South Pacific to efficient use of B767 aircraft to fly between east coast U.S. and the South Pacific.

37. Aaron Gellman " Fleet planning - plane thinking " Airline Business, February 1988, p. 38.

Qantas is believed to have applied to the C.A.A. for 180 minute approval as an extension to the current 120 minute ruling. As a side note, Boeing is working on a new aircraft (B787) to fill the gap between the B767 and B747. It would be ready for design certification by 1995, and is likely to be of interest for the future use of medium - long range aircraft in the South Pacific.

The fleet requirements of individual airlines in the South Pacific depend on several factors. These factors include : available funds; government purchase and maintenance contracts; government bilateral agreements; international trade ties; and the location, size and disposable income of the markets.

Many of the facets discussed in this chapter are important considerations for any airline whether it operates in the South Pacific or any other region. Airline management must be aware of the external influences and trends that effect the world aviation industry as well as the internal day - to - day operational concerns.

The South Pacific may be insulated by its own unique civil aviation operating environment, but it is not isolated from the critical issues facing the world civil aviation industry at present and in the future.

CHAPTER FOUR

PACIFIC REGIONAL CO-OPERATION IN CIVIL AVIATION

4.1 Overview

A singular South Pacific identity has been reinforced in the last decade.

Three main contributing factors of reinforcement have been achieved through:

- trade ties (linked by the South Pacific Commission);
- political agreements encouraged through the South Pacific Forum ;
- and through organisational structures or projects based on strategic co-operation . These include : Forum Secretariat (Formerly South Pacific Bureau for Economic Co-operation); South Pacific Regional Tourism Development Planning and Training Project (joint World Tourism Organisation and United Nations Development Program initiative) and the University of the South Pacific.

Ideally, " there is no necessary conflict between a realistic (South) Pacific identity and the separate national identities. " 38

Unfortunately, regional organisations and their co-operative agreements are often swathed in tension and conflict.

When individual countries in the South Pacific " assess the advantages one country may be enjoying because of its possession of a university, an airline, a shipping company, or headquarters of a regional agency awash with aid money,... aggravations can be acute ." 39

38. "Regional Cooperation in the Pacific Islands" paper Western Samoa, 1983 p. 13
39. Robert Keith-Reid, " Viewpoint ", Island Business , February, 1989. p. 7

Despite many years of aviation in the region, the South Pacific still lacks a single, cohesive aviation policy. In the past, it has been left to the individual airlines and governments to form their own co-operative alliances.

Recently, aviation and tourism bodies have gained strength and momentum by adopting comprehensive regional projects . These include the 1988 South Pacific Civil Aviation Council (14 member countries) proposal covering improvements in service and facilities in the civil aviation industry ; ASPA's agreement for add-on fares to be integrated by member airlines and negotiation on CRS proposals; and the Tourism Council of the South Pacific (9 countries) standardisation of visitor arrival data collection forms and methods, and marketing publications.

This chapter will seek to address the major issues and concerns of regional co-operation in the South Pacific as a foundation for building the future direction of civil aviation.

4.2 Political Considerations

Air rights are a strong consideration by national governments in the economic health of a country . Foreign policy direction is often exemplified by the route structures and commercial agreements of the flag carrier.

What must be determined is the priority that each government places on tourism and civil aviation among the other portfolios. Controlled tourism development balanced with sound aviation policies must be a high priority in order to provide stability to the industry. Once stability has been achieved in the home market, governments then have the confidence and integrity to look to other nations for co-operative arrangements, investment and growth opportunities.

The interim Fijian government has identified tourism as an industry needing

priority attention to help rebuild the economy and establish a stable image to attract investment finance for development. The commitment to the industry is reflected in the joint Fiji government / Asian Development Bank drafting of a tourism master plan for short and long term development of the country. David Pickering, Fiji Minister for Tourism, Civil Aviation and Energy has reinforced his governments involvement in tourism at the 1989 Fiji Tourism Convention with these keynote words ." Tourism is such a complex business, with such far reaching consequences, that government must take the lead in creating and maintaining a framework for orderly growth. "

There are major barriers experienced by governments when considering co-operative relationships. These negative influences include:

- Frequent changes of power in ruling political parties. For example, last year in the Cook Islands, a major tourism industry seminar involving operators, accommodation interests, the tourist authority and carriers from other nations formed several recommendations and policies for the government to act on . Implementation of these new policies has since been delayed due to the installation of a new government with new portfolio ministers. ⁴⁰

- Changes in government policy in the aviation industry. An example is the French Government decision to favour its own airline, Air France , over the privately owned french carrier UTA in the allocation of the Tokyo - Papeete route. This favouritism towards Air France will be extended to all new routes involving French bilateral agreements. The French Government formerly encouraged open competition between the airlines. ⁴¹

- A reluctance by governments to give up self-reliance. Many government leaders

40. TravelTrade, April 17th, 1989. p. 7.

41. Islands Business magazine, February, 1989. p. 48

in the past have emphasised their paramount goal of self-reliance, the importance of self control of resources, and aims to correct trade imbalances. Hence the thrust by Solomon Islands Government to purchase back 100% of their flag carrier Solomon Island Air. Where equal participation and control are unlikely, South Pacific Governments will value their political independence to the detriment of discussions on co-operation. ⁴²

- The choice of governments on whether to combine their tourism industries to promote the whole of the South Pacific as a single destination or whether to maintain niche marketing strategies to compete with the other South Pacific countries for a larger slice of the tourism market. Benefits of combined funding and joint promotion opportunities are attractive for co-operative marketing of the South Pacific as a single entity. There is a strong risk any country can be negatively perceived along with other countries in political turmoil.

- Insurmountable cultural and attitudinal differences between ethnic sections in the region. Fragmentation of nations in the South Pacific has lead to the formation of a Melanesian Spearhead group consisting of Papua New Guinea, Solomon Islands and Vanuatu (with Fiji currently blocked from participation by the Solomon Islands). " Their proposed agreement covers economic, trade and cultural co-operation among the Spearhead group ". ⁴³

Last year Father Walter Lini, Vanuatu's prime minister, indicated that advanced discussions had been held by the leaders of the spearhead group to form a sub-regional airline for Melanesia . ⁴⁴ This type of co-operative venture was attempted in the past by R.D. Buchanan (managing director of Talair, Papua New Guinea) in forming a single airline called MACAIR - Melanesian Airline

42. New Zealand Institute of International Affairs, "Linking the Pacific" p. 14

43. Pacific Islands Monthly, February, 1988. p. 29

44. David Knibb, "Trouble in Paradise", Airline Business, September 1988. p. 67

Company. This was to integrate Talair (PNG), Solair (Solomon Islands) and Air Melanesiae (Vanuatu). The single airline was not viable for the operating environment at that time. The recent financial success of the single shipping company Pacific Forum Line shows an ability to serve its joint country owners and prove that co-operative transport ventures can work. The difference for a single airline is strong national sovereignty held by each country.

In the current environment, Polynesian and Micronesian countries are now considering similar regional spearhead groups. It may be inevitable that eventually the South Pacific will polarise into three distinct groupings in the form of Melanesia, Polynesia and Micronesia. Unfortunately, these regional groupings can " create a you-and-us situation and provides a vehicle for behind the scene politicking " 45

The concept of South Pacific spearhead groupings can be extended to the aviation industry where it becomes possible to have a trio of consortium airlines similar to the Scandinavian Airlines System agreement. This concept is projected in Chapter Five, section 5.5 on group airline alliances.

The International Civil Aviation Organisation has recognised the need for a greater degree of willingness on the part of governments to consider the sharing of responsibility in aviation. The issue of co-operation in developing countries was researched by the organisation. In 1982, Resolution 18/2 (Appendix Eighteen) was adopted by ICAO to help give practical measures to the aviation industry to achieve regional economic groupings . The South Pacific was identified as a priority area for these measures. The UNDP / ICAO has since streamlined funding support for regional rather than individual projects. 46

45. Pacific Islands Monthly, July, 1989. p. 23

46. John King, " The Air Traffic Market and Tourism ", Transport and Communications for Pacific Microstates. p. 117.

4.3 Bilateral Agreements and Multilateral Co-operation

It is not within the scope of research to detail the complexities of bilateral agreements. The history and purposes of these have been documented elsewhere.

Fundamental to international aviation services between countries are bilateral air service agreements, or at minimum, an exchange of letters of intent.

These bilateral agreements are usually strictly controlled by a government.

The agreements cover critical issues of the carrier or carriers to be designated by the terms of agreement, traffic and route rights, the determination of frequency of service and capacity, and airfare rates.

Australia to date has 34 air service agreements. (Qantas Airways Limited, International Aviation Regulatory Framework Document, p. 9 / 10).

Essential elements in bilateral agreements are the rights given for the operation of air services. These rights are known as " Freedoms of the Air ". Appendix Fifteen shows each of the freedoms including the sixth freedom which has no legal status but is overtly recognised by the aviation industry.

Historically, South Pacific nations have usually negotiated air rights through exchanges of letters of intent that are unequally slanted towards Pacific Rim nations. Most Pacific Rim countries have formalised their bilateral agreements and " been granted fifth freedom rights to island states for trans-pacific flights between major traffic generating points. Island states have not enjoyed similar benefits of " beyond " rights ".⁴⁷

The U.S. - Tahiti bilateral in Appendix Sixteen shows the inequalities that can sometimes exist in an agreement. The island carriers are confined to terminating services on the U.S. West Coast and only have behind fifth freedom rights. The U.S. carrier has behind and beyond fifth freedom rights to Tahiti

47. C. Kissling. Islands '88 Conference paper, May, 1988. P. 7.

and can fly via intermediate points on to Australasia - a very lucrative route.

The New Zealand - Western Samoa bilateral agreement (Appendix Seventeen) favours the New Zealand carrier with beyond fifth freedom rights to the U.S.A , while restricting the Western Samoan airline to only Auckland and Rarotonga. The route from New Zealand to Western Samoa is thin in terms of market demand, so the gaining of fifth freedom rights beyond Western Samoa to the U.S.A. is where high yields and profits can be gained.

The bilateral agreements are negotiated as reciprocal arrangements between two countries, and are designed to exclude a third country from using the rights and conditions of the agreement. Constraints in ownership and control clauses limit purchasing of airline rights.

In this operating environment, how do airlines in the South Pacific achieve a degree of multilateral and mutually beneficial co-operation ?

Consideration should be given to the benefits that can be achieved by adopting a regional approach to aviation agreements as suggested by the ICAO Resolution 18/2 (Appendix Eighteen).

This Resolution highlights the fact that strict adherence to ownership and control criteria in air rights could deny many developing nations equal and fair opportunity in achieving aviation economic objectives. The ICAO General Assembly urges the South Pacific contracting states to allow an airline from within an economic grouping to exercise the route rights and conditions of an agreement by other states in the same economic grouping. This can not be a unilateral decision and would involve negotiation of reciprocity with other countries involved in bilateral agreements.

The spearhead groupings discussed earlier are acting on the economic needs of regional communities and could develop towards facilitating the resolution recommendations. " Developed states with whom (the South Pacific nations) interact ... must recognise this need and help facilitate the process ". 48

A regional approach requires co-ordination of government policies at the upper level of integrated civil aviation agreements. Co-ordination at the ground level needs to be examined to achieve more market responsive strategies and well educated decisions concerning aviation agreements.

There must be more input by the critical constituencies in the aviation and tourism industry into negotiations on Air Service Agreements. Co-operation with aviation forward planning departments and capacity management is necessary. Stronger recognition of regional representation by the Tourism Council of the South Pacific and A.S.P.A must be given. Report recommendations and requests for action by these organisations should be addressed with a view to implementation where possible. Rather than setting up more bureaucratic structures to channel communication from the ground level , existing South Pacific organisations should be more fully developed and utilised.

Governments need to understand that there is a direct relationship between aviation agreements and tourism development. Infrastructure must be able to support aviation capacity. Without input from the accommodation, retail, and travel agent sectors as well as other interested parties, synergy in overall tourism development cannot be achieved.

It should be noted that any proposed policy changes to tourism policy or the negotiation of air service agreements should bring net benefits to each country. (Qantas, Response to Industries Assistance Commission , p. 29.)

48. John King, p. 117.

The Pacific Asia Travel Association has called on governments in the region to consult their National Tourism Offices before decisions are taken on aviation policy. " National Tourism Offices should have a say in the negotiation of international air rights to ensure route structures and capacity restrictions did not limit the potential of tourism ". 49

Multilateral co-operation can only be achieved on the basis of co-ordinated input from representatives involved in the development of the national tourism and aviation industry. There needs to be cognate government philosophies working towards a common direction in regional aviation policy. Co-operating airlines must have complementary route networks and commercial agreements that can be operationally viable. Above all, service and safety standards must be of the highest priority at all levels of negotiation.

4.4 Resource sharing

Indication for future strength in South Pacific aviation are the growth in operational resource sharing among the airlines, and an increase in the number of strategic joint ventures.

The types of resource sharing that will be briefly discussed extend to inter-airline pooling agreements, aircraft sharing, maintenance agreements, and wet and dry leasing of aircraft.

There are major advantages in co-operating through resource sharing. Scarce resources (financial, human and equipment) can be utilised more efficiently and effectively by introducing productivity measures and pooling agreements.

49. Traveltrade . June 13th, 1989. p. 31.

Economies of scale can be achieved where the strength of airline economies combined are greater than the sum of individual operations.

Heavy financial costs can be spread between the companies involved rather than one company carrying the burden alone. There is opportunity for the integration of airline systems for operating continuity, particularly where smooth interline passenger bookings and transfers are necessary.

There are major problems to overcome in resource sharing. Agreement has to be reached on the country in which to locate for the shared facility. For example, the location of a shared maintenance base. There are formidable legal, social, political and industrial relations issues to address as well as the nature of division of costs and profits. A cost-benefit analysis will determine which country stands to lose or gain in the natural rationalisation process of sharing resources. Subsequent compensation negotiations will be necessary.

4.4.1. Inter-airline Pooling Agreements

In commercial alliances, airlines can contract revenue-sharing pools whereby " all revenue on a route or sector is shared by the participating airlines in proportion to the capacity they offer on the route ".⁵⁰ On a single sector route, capacity is usually defined as the number of seats available .

Air Niugini, for example, operates pooled services with Qantas between Cairns, Brisbane and Sydney to Port Moresby.

In 1988, Air Pacific was contracted to operate three times weekly between Brisbane and Honiara on behalf of Qantas and Solomon Islands Airways. This is an example of a revenue/cost pool where " one airline alone operates operates

50.R. Doganis, Flying off Course: the Economics of International Airlines, p.30

the services on behalf of all the airlines in the pool, but costs and revenues are shared between them on a prearranged basis. " 51

Without a pooling agreements, the routes given as examples above would face overcapacity and bunching of services at peak times. The smaller airlines would struggle to achieve a share of capacity and revenue in the face of frequency competition on the route.

Pooling agreements for the future in the South Pacific must be extended to strategies other than just scheduling and capacity. These include: common tariff policies to be negotiated with IATA approval; joint marketing initiatives to expand airline exposure and sales opportunities (as discussed in section 3.2.6 on commercial alliances); and cohesively linked initiatives in strategic planning for the development of aviation and tourism .

4.4.2 Aircraft Sharing

This form of co-operation in the South Pacific eliminates duplication in expensive purchases or leasing of aircraft equipment , eliminates the separate implementation of supporting service systems (ie. ground handling, catering, maintenance). There can be rationalising of routing structures through schedule co-ordination by the airlines involved in sharing of the aircraft. If unexpected technical problems cause a potential scheduling crisis, the companies involved in a common aircraft agreement are more likely to have the ability to use the other airlines available equipment to cover the downtime period.

An example of the most obvious kind is the sharing of an Ansett leased B727-277 aircraft by Polynesian Airlines and Cook Islands International. The aircraft is painted in a split colour scheme with Polynesian on the port side and Cook

51. R. Doganis. p. 30.

Islands on the starboard. As well as high identity profiles shared on each service when the aircraft is flying, an added benefit has been the ability by agents to package complementary tour programmes from Australia based around the shared service to the Cook Islands via Western Samoa.

Another aircraft sharing scheme has been adopted by Air Vanuatu to lease back its B727-276 to Australian Airlines to use during the week. The aircraft is currently painted in combination colours of Air Vanuatu and Australian Airlines. The benefit to Air Vanuatu will be higher image profiled by the use of the aircraft on domestic Australian routes as well as increased revenue from extra utilisation of the aircraft .

Air Caledonie and UTA have formed a co-operative relationship by using the Air Caledonie B737-300 on the route from Noumea to Papeete via Wallis. " In this co-operative venture, both airlines are looking to achieve greater profitability and quality of service ... (the strategy) will lead to commercial and marketing agreements on a long term basis. " 52

A negative side effect from sharing aircraft that must be recognised and addressed is the trade and consumer confusion on which airline the customer is actually flying with. Particular attention must be paid to informing the agent or passenger at the time of booking and check-in that it is a shared aircraft (particularly if it is a shared flight code). This would avoid shocked reaction when passengers board an aircraft believing they had been booked and ticketed on a Qantas plane (hypothetically) with a Qantas backed reputation, to find they are serviced by an aircraft and flight attendants in another carriers colours.

52. " South Pacific Focus " Travelweek, May 24, 1989. p. 24.

4.4.3 Wet and dry leasing of aircraft

Dry leasing of an aircraft refers to an arrangement to lease the aircraft only, and may include maintenance support as with Air Pacific's leased aircraft from Qantas.

Wet leasing can cover many optional combinations, but extends past the basic lease of the aircraft. In the case of Air Pacific in May 1989, the company contracted Air New Zealand to provide two wet lease charter flights. Air New Zealand provided the aircraft, fuel, operational services, catering, technical staff and cabin crew. Air Pacific were responsible for passenger check-in services. ⁵³

Co-operation of this kind is commercially based, but can provide the operational support needed by smaller carriers with limited resources.

4.4.4 Maintenance Agreements

This is a common form of commercial alliance whereby the maintenance base of an airline is contracted to perform structural checks and conduct maintenance programs on another carriers aircraft.

In 1988, Air Pacific renegotiated a Heavy Maintenance Agreement with Air New Zealand for their B737 type of aircraft. Qantas currently maintain the Air Pacific B747 as part of the leasing agreement. The interweaving maintenance relationship continues where Qantas is currently unable to sustain full maintenance programs on its own aircraft (due to lack of trained and skilled maintenance staff). This has forced the airline to contract six other

53. Sourced from Air New Zealand interview.

international carriers for heavy maintenance programmes. As part of the Qantas maintenance crisis, Air New Zealand will overhaul the Rolls-Royce engines on the B747's.

Forward planning in an airline's maintenance department must be co-ordinated with proposed future aircraft purchase or leasing decisions. Consideration must be given to the economic advantages of fleet rationalisation to common fleet types, and specialisation of skills in maintenance departments. This allows a focus on quality maintenance programs , rather than quantity.

In an era of ageing aircraft problems, equipment failures, and negative publicity regarding maintenance shortcuts in deregulated operating environments, the maintenance agreements must reflect quality servicing standards and a commitment to the ongoing training of skilled maintenance staff.

4.5 Training and Development

This is usually the first area that faces cut-backs in times of economic downturn.

Qantas are facing the repercussions of shortages in qualified maintenance staff with the winding down of their apprenticeship programme in the early 1980's.

Air New Guinea was forced to suspended staff training in order to cut costs and return to profitability . " At the moment, we've got quite a gap in experienced management personnel because there was no training for four years ". 54

54. Dieter Seefeld, " Growth through cooperation " by T. Harrington. p. 69.

A.S.P.A. has made co-ordinated and co-operative human resource training a high priority in the field of aviation. This follows the generally recognised dearth of professionally skilled and trained people in the tourism industry from ground level through to management.

Long term planning and forward thinking are needed to achieve a commitment to regional co-ordination of training in the aviation industry. Initial problems that have to be overcome are :

- lack of communication from the staff to management on staff needs in training and personal skills development,
- lack of communication from management back to staff on current position descriptions and changing job requirements anticipated for the future,
- unclear decisions on which organisations in which countries are responsible for human resource training and development.
- how to use best co-ordinate existing facilities (training bases, education institutions, training programmes). Rationalisation and co-ordination of resources and organisations as they now exist is recommended rather than the establishment of other diversified programmes and facilities. Then modification and adapting to future needs can occur.
- inadequate training methods. Pacific Rim countries offer assistance with trainers and training methods as well as access to courses they run, but recognition is not often given to the special training and teaching needs of local participants. Courses can be of little benefit when they are too advanced or assume a particular level of base knowledge that is not indigenous to South Pacific cultures.

A successful training program that has addressed all these problems has been achieved by Scandinavian Airline Systems. The company has broken down the cross country and cross cultural borders by implementing training programmes common to the three country consortium. The common factor is to train staff to be

multi-functional and have the skills to be able to work in at least one other area or department. " Employees acquire a scope of knowledge that is not limited to a single function " . 55

The foundation has already been laid for combining resources in the South Pacific through fares and ticketing and skill training by ASPA in association with the UNDP, IATA, and ICAO. Air New Zealand has provided training staff for these programmes, and Qantas has provided Japanese language courses and training in the use of Neutral Currency Units. There is scope for increased commitment by airlines for training programmes to be implemented on a company wide basis. Barriers to overcome prior to training are staff shortages for reallocating the workload of those on training courses, and the lack of financial resources available for staff development.

Historically, training may have been viewed as a short term solution for immediate problems. In the long run, investment in training programmes tailored to the needs of the individual and the requirements of the company becomes an asset rather than a cost.

The greatest asset an airline in the South Pacific has are its people. There is added value in having competent and confident staff who have job satisfaction and are achieving the companies operational goals and objectives.

This chapter on regional co-operation in civil aviation in the South Pacific addresses some of the benefits and problems associated with sharing resources and facilities. Eventually, South Pacific airlines may be forced to follow the example of African carrier where economic realities and operating threats by larger foreign carriers are forcing co-operation on a regional basis . At least

55. " Making capital from labour ", Airline Business, February, 1989, p. 41.

in Africa's case, there has been political willingness by the civil aviation ministers to sign a declaration of intent for airline integration over the next eight years. In the South Pacific, it has been extremely difficult to get proactive governmental discussion on co-operation. Declarations of intent may not overcome the basic problems that have forced the African airlines to this point of action, but positive forward thinking is providing the option for alternatives in the future.

The concept of networking and combining resources with a common aim cannot be generated from outside the region, but must be self generated. If the gains to be made through a strategy of co-operation and co-ordination are not fully realised by every participant to the concept, then weak links will develop. Co-operative efforts can only be as strong and successful as the weakest link allows and this applies to the nations and airlines in the South Pacific.

CHAPTER FIVE

ALTERNATIVE STRATEGIES FOR THE FUTURE

5.1 Introduction

The management of current and future strategies are traditionally achieved through the process of forecasting, planning , organising and controlling activities critical to the function of the organisation.

Each of these processes are linked, with many activities in a strategy contingent on other activities being completed before the next stage can occur.

There are examples of this contingency in the airline industry. Air Niugini has a pooling agreement with Qantas on some services between Australia and Papua New Guinea (section 4.4.1). Working backwards, this commercial agreement would have likely been contingent on the competitive gains and operating advantages assessed by both airlines. A comparative S.W.O.T. analysis (strengths, weaknesses, opportunities and threats) of pooling the services by both airlines would have forecasted the benefits of this strategy.

A computer modelling technique has helped to form the basis of the strategic alternatives for flag carriers in the South Pacific. The PERT technique (Project Evaluation and Review Technique) is used in this document as an information technology tool for management. ⁵⁶ Attention should primarily focus on the significant points or critical activities of the strategy alternatives . Detailed computer generated reports supporting each strategy can be examined as a supplement to this chapter. Section 5.8 explains the purpose of each detailed report and how to interpret them. It is recommended to read this section prior to further investigation of the detailed computer reports.

56. D. Lange, Critical Path Analysis, p. 5.

5.2 Maintain flag carrier competition strategy

Basis

This strategy is based on the current South Pacific aviation system dominated by flag carriers.

Assumptions

The strategy is common to all successive strategies in the assumption that some basic background work has been done by airlines in strategic planning.

Corporate mission statements, goals and objectives for the future should be easy to identify. The significant points outlined may be more critical to some organisations than others. A management function is to consider what activities are or are not vital to the survival of an individual organisation.

Significant points

Strategic planning is based on outlining past methods of operation, a current company mission statement, and the future company goals and objectives.

Critical to all strategies will be the market conditions for aircraft equipment - whether purchasing, leasing or sharing. The development rates of tourism infrastructure and airport facilities also influence the structure and growth of civil aviation. Input from tourism infrastructure is needed to help a flag carrier plan for the future (section 2.6).

The direction of government tourism and aviation policy can either be complementary or counteractive to the strategic direction of an airline. As addressed in section 4.3, aviation officials must openly communicate with the government. This helps to ensure bilateral agreements provide direction, purpose and stability for future strategies.

Financial considerations are critical for the realistic ability of an airline to maintain their present level of operations, or adopt another strategy alternative . A trial balance and profit / loss calculations in the planning stage gives a clear indication of the current position of an airline. Financial analysis should be an underlying consideration through to the final point of adopting a niche action plan.

There are market and physical limitations to be anticipated in strategy development. These need to be addressed in the context of the operating environment (regulated or deregulated) forecasted for the future. A secondary set of strategies should be forecasted at this stage to be ready for implementation if the option of liberalisation is likely to occur. (Section 3.3.3)

Maintaining a flag carrier strategy does not inherently mean maintaining status quo. Action plans can be developed for a blend of new markets and new fleets or standard of service if this is viable with resources available. The action plans should also be compatible with the company objectives established in the beginning of the process. New markets with new fleets would obviously be the most complex and critical path to consider, and take the longest time for developing appropriate strategies.

Assessment of the strategies and action plans will require corporate approval. If the basic strategy options are against company policy or do not address the needs of the dominant coalitions (Section 2.2.5 - Control), the strategy options may have to be modified.

Choice of a niche strategy and positioning for the future direction of the company must reflect a commitment and dedication to the market served - the customer. Decisions should not be directed from the corporate level to satisfy

internal needs , but must be driven by consumer needs.

Once the strategy is in action, continuous feedback from all relevant sources is required for monitoring the progress of the strategy. The first progress review should include all parties effected by the strategy (clients, staff, management etc.). Successive weekly reviews undertaken by management are necessary for control and future modifications for maintaining a flag carrier.

Conclusion

The strategy for maintaining a flag carrier does not limit the options available for improved future performance. Stronger identification of the processes and critical paths in forward planning is encouraged. The planning framework for allocating resources needs to achieve a close fit between company objectives and market demands.

Airlines choosing to continue flag carrier services should explicitly adopt a structured approach for planning and achieving future objectives. Otherwise, haphazard reactions to major events will cloud the ability of the airline to identify and respond quickly to market conditions.

The index to the computer application of this strategy is on page 86.

5.3 Single South Pacific carrier strategy

Basis

The basis for this strategy is the historical attempts by governments to create a single South Pacific carrier in Air Pacific. The current trends in Africa may hold future precedent for reshaping this strategy in the South Pacific. Africa is a continent that can no longer support small, loss making flag carriers. Zambia, Tanzania and Uganda are three countries who have signed an accord for one third ownership each of the newly formed African Joint Air Services. They intend to jointly use wide-bodied aircraft to service their countries. (Airline Business, August, 1988, p.28.)

Assumptions

An underlying assumption is a changed attitude by South Pacific Governments (for example Tonga, Vanuatu, New Caledonia) away from independence in air transport networks. There needs to be a willingness for open dialogue on the economic and practical option of supporting a single carrier.

Cultural and national barriers would need to be overcome, and a regional approach to aviation plans and bilateral agreements would have to be credible (Section 4.3). An assumption is made that existing flag carriers would require rationalisation for the strategy to be effective.

Significant points

A summit would be necessary to form the background strength and momentum to the strategy. A task force would be needed to oversee the process of merging to a single carrier.

Once the goals and objectives have been defined, thorough research should be undertaken on the current resources of each airline . The existing management and operational structures of each company will need modification to fit the new organisation requirements. A route analysis of each airline highlights

overlaps and inadequacies in combining services for a single carrier.

A focus is on the strengths and opportunities of the single carrier (economies of scale, efficient resource use, and the opportunity to expand into Pacific Rim markets). The present market conditions for disposing of excess equipment and attracting finance can effect operations in the future.

The combined government tourism and aviation policy direction will be important in the planning stage. The effect of industrial relations and labour demands when adopting the strategy needs to be addressed. Shareholding decisions must be made on exact percentages to be held by governments or companies.

Two strategy options are : the use of rationalised service and equipment for the same markets as presently served by flag carriers; or rationalised equipment for new markets is the other option. The benefits of fleet rationalisation are discussed in Section 3.4.1.

The decision on a niche strategy must take into account the financial position that each strategy would place the single carrier in. Another important consideration is the impact and future ramifications of the single South Pacific carrier strategy options on staff and customers.

Conclusion

The major factors of success for a single South Pacific carrier are: Common management and government aims, an absence of corruption and greed, political stability, rationalisation of resources, economies of scale, and clear strategic planning .

These elements are easy to theorise with, but often impractical to implement. Traditional roots in the South Pacific have historically linked flag carriers with profile and prestige for governments. The value of independence and a reluctance for dialogue on a single carrier are strong barriers to overcome. The index to the computer application for this strategy is on page 86.

5.4 Franchise operation strategy

Basis

The basis for this strategy is the common system in other industries of a franchisor and franchisee forming a mutually beneficial relationship. A franchise provides a common product , equipment and support services for local markets. An example of a franchise operation strategy in the aviation industry is Harry Goodman's Airlines of Europe. The holding company intends to cross international borders and markets with a franchise charter operation. The company plans to emphasise brand awareness and standardised service. (Airline Business, September, 1989. p. 26)

Assumptions

Commonalty of product will have to be achieved across international markets. The strategy assumes the lifting of current restrictions in regulated operating environments or protected markets.

An assumption is made that an existing flag carrier is considering the franchise arrangement .

Significant points

A comparison of franchisor companies outlines initial opportunities for a franchise arrangement. Up-front cost of joining the system are to be considered. It is important to establish that corporate philosophies are common, and that the objectives of the franchisor company fit with those of the flag carrier.

In the research stage, a critical activity is the SWOT analysis of the franchisor company and its position in the market place. If there are inherent weaknesses that cannot be counteracted by strengths of a franchise operation, then reconsideration of the proposal is necessary. The resources offered by the franchisor must be of benefit and value to a flag carrier airline. (Section 4.4)

The structure of the airline will be influenced by the surrounding tourism infrastructure, and may also be influenced by the structure of the franchisor company, depending on the contractual arrangements.

The strategy formulation stage will critically consider the best use for a franchised fleet - whether in the existing markets of the flag carrier or new markets.

An impact assessment determines the extent that franchising will effect staff and customers. The airline will need to establish a strong marketing identity, and the brand awareness of consumers should be measurable.

A best fit niche strategy both achieves the company objectives and satisfies consumer demands. Approval from the board and government is necessary for negotiating the franchise agreement. A contract will outline the responsibilities of each party to the agreement, and review of the agreement should be conducted with the franchisor after the project has been implemented.

Conclusion

The future for franchise arrangements is only now being acknowledged in European and American markets. It will take more time for the South Pacific to become accustom to the potential benefits available with this type of an arrangement.

The transfer of new ideas into operating realities is not difficult. Vision and determination are necessary to make the franchise concept workable.

Synergy between the franchisor and franchisee companies must be the basis of the relationship. Above all, a franchise arrangement requires controlled standards of service and a high profile product.

The index to the computer application of this strategy is on page 86.

5.5 Group airline alliance strategy

Basis

The basis for this strategy is the economic spearhead groupings under formation in the regions of Melanesia, Polynesia and Micronesia. Concurrently, commercial alliances are being formed between South Pacific carriers and Pacific Rim airlines . It is anticipated that an extension of these base alliances could widen to include other carrier groupings. For example, the commercial alliance between Qantas and Air Pacific (section 3.2.6) could possibly be linked in the future with the commercial relationship between Qantas and American Airlines.

Assumptions

An assumption of the group alliance is that there is a common basis to work from . Consensus must be attained between members of an airline grouping on strategic directions for the future.

Significant points

As with a single carrier strategy, a summit meeting of Heads of States / aviation officials is required. The task force will work towards generating the strategies of a group airline alliance . Central to an alliance is an economic and consumer driven basis on which to build. The roles of each party to the grouping must be clearly defined and adhered to.

In an extreme case, as with Scandinavian Air Services, the grouping will possibly require a new alliance identity, brand name, and centralised administrative location.

A resource analysis determines the quantity and quality of combined resources for the alliance. Structural adjustments may have to be made to accommodate fluid management practices for controlling the alliance. Cultural issues will need to be addressed and political differences resolved. It is the element of

politics that can make or break an alliance (Section 4.2).

A focus will be on the change agents that are necessary for successful alliances . The areas for change would include marketing, operations, ground handling, and passenger service.

The tourism infrastructure development rate and input from the industry will be particularly relevant through the planning stage to support the growth anticipated by the alliance.

Uniformity in staff training methods will be necessary. The implementation of common training programmes should help to develop multi-functional skills (Section 4.5).

A consensus by the allied countries on planning details will help progression towards a refocus on relevant future strategies.

The strategy alternatives explore a combination of current or new markets with current or new standards of service and equipment. An assessment of the alternatives include the rationalisation processes to occur, the cost and benefits of each strategy, and action plans that best fit the group objectives.

The choice of niche positioning will require approval and consensus from the group members for it to be successfully implemented. Review and modification processes should be continual.

Conclusion

The nature and extent of the group airline alliance will be an important factor in the strength of the end product. The agreement can cover the basic sharing of marketing techniques and complementary products. An alliance can extend into equity purchases and equipment sharing, or even develop into a long term joint ventures in management and equipment purchases.

Basic operating philosophies must be compatible in a group alliance. Standards

of service and safety must be of the same high priority for each airline . A group airline alliance can only achieve viable operating levels (or economies of scale) when the strength of airline economies combined are greater than the sum of individual operations. If the individual operations are weakly positioned in the first place or have sub standard service and equipment, the alliance can be dragged down to the same unacceptable standard.

Each party to the alliance must have some point of leverage and contribution. The benefits to be gained through the alliance need to outweigh any costs of the strategy. There should be an underlying atmosphere of equal co-operation rather than dominance of more powerful partners.

Emphasis must be placed on alliances that are consumer driven . The levels of service and safety , and value added benefits of an alliance should satisfy customer needs.

The issue of spearhead economic groupings has been addressed in section 4.2. The ultimate alliance of an economic grouping of airlines within the South Pacific has major political and financial obstacles to overcome. Financial and operating leverage for group alliances between South Pacific carriers is unlikely to be achieved . The markets served are too thin to bring high level benefits of economies of scale.

Alliances of South Pacific flag carriers with Pacific Rim carriers can bring greater international market access to feed the regional routes. High profile marketing initiatives can be tapped into by smaller carriers. Joint promotions will be possible in countries previously ignored by carriers with limited advertising budgets.

The index to the computer application of this strategy is on page 86.

5.6 Boutique carrier strategy

Basis

The basis of this strategy is the marketing emphasis of providing a unique selling proposition (USP). The USP is targeted at individual consumer markets. Attention to detail is central for service, routes, scheduling, and equipment. An example of this strategy is with the Alaska Airlines focus on Californian suburban routes. (Airline Business, September, 1989. p. 55.)

Assumptions

There is management commitment and resources available to cater for niche markets. A consistent focus on the customer is paramount.

Significant points

The research stage for a boutique carrier strategy is a significant base from which to develop niche products. The market conditions for using equipment most efficiently , and the resources available at this point in time influence the planning for strategy options in the future. Market research and testing will determine customer segmentation. There is a need for product differentiation from other similar products and services, and an attractive USP.

In the planning stage, the desired quality and standards in service ethic will be an important consideration for satisfying consumer needs and wants. Planned quality control measures help to ensure the desired standards are maintained .

Strategy and action plan formulation will be focused on four major areas of: the market; structure of routes; fleet; and product. A marketing emphasis is required to direct the strategies with the consumer in mind.

Niche market segment alternatives will determine the exact consumer groupings targeted. A niche routing structure should provide route and schedule benefits

that are outstanding from competitors. The type of fleet will be an important for image and operation. Critically, service standards and value added products must elevate the airline to a unique or niche position.

An assessment of the strategy options and action plans should achieve best fit with company objectives. The choice of a niche strategy combination needs to fit within the service ethic of the airline.

Constant review and modification will help ensure strategies are kept in line with the changing nature of consumer demands.

Conclusions

Attention to detail in service and operations is paramount for sustaining a boutique carrier. With the basic airline product so similar to competitive airlines, creativity is needed to generate product differentiation.

Particularly when dealing with intangible products in the tourism industry, and fluctuating consumer tastes.

Once a strategy is designed within the suggested framework, perseverance will help to build the reputation and image of the boutique carrier.

Service standards in South Pacific aviation should incorporate more outstanding cultural qualities in the air and on the ground. Airline staff are often the first point of contact with the race and culture of the destination. Service training for airline staff, and pre-departure education of tourists are areas to target for representation of the South Pacific culture (Section 2.6).

There may be unexplored opportunities for boutique or niche carriers in the region. It will be up to entrepreneurs to target defined market segments with the right product, and financially support this product through its infancy stage.

The index to the computer application of this strategy is on page 86.

5.7 Value added strategies

Basis

The basis of this strategy is an overall philosophy rather than a set of tasks and events sequenced in a flow chart. Adding service value to the organisation must be developed with the customer in mind. Product and service enhancement is the responsibility of every department and every staff member of an airline.

" The primary, absolute focus for manufacturing and distribution of travel products must be to add value. The industry can add value by providing a level of service not otherwise available to a consumer, or by providing a range or combination of products not otherwise easily accessed. " 56

Significant areas for adding value

Organisational culture should reflect a philosophy that relates specifically to customer. This philosophy is focused on service and a commitment to success. If a strong service ethic is a part of the organisation's culture , " it will penetrate to the point where service becomes a unique product that is fundamental to the organisation ." 57

Customer needs in aviation are specific to the factors of safety, security, on time performance, frequency and timing of schedules, comfort, service, and minimum congestion. Satisfying these factors and producing customised service will create value in goods and services more obvious than the goods and services provided by other domestic or international competitors.

Marketing needs to have a niche focus. Innovation based on thorough knowledge of markets should be encouraged. Strong promotion of product differentiation is required and strategic marketing alliances can be beneficial.

56. David Clarke, Tourism and Travel Management, July-August, 1989 p. 21

57. Management magazine, " Strategy : Service driven ", October, 1988. p. 60

Levels of service should reflect a drive for excellence. Quality service, when measured against competitors, need to be " high enough in the customer's eyes to warrant a higher price for the product, so gaining an unnaturally large market share and / or enjoying a higher profit margin than competitors ." 58

Leadership qualities can provide the vision and strategic path for an airline to meet future challenges. Flexibility in leadership will help the airline to adapt to changing environments. Pro-active vision and the capacity to extend beyond the " tried and tested operational parameters of the organisation creates value for the multiplicity of stakeholders to whom (leaders) are accountable : shareholders, owners, the public and their own employees . " 59

Employees are a prime source of value added service. They can never be over trained or too involved. Employees can have the responsibility and inspiration to transmit to the customer a sense of being wanted , important and valued. 60

Measures for productivity increases in labour should be value added to reduce historical demarcation barriers and foster multi-functional skills and abilities.

Innovation and creativity needs impetus from every person involved in the network of influence extended in the aviation industry (from suppliers to catering and maintenance). Even minor improvements in the product and service that can be recognised by the customer are worth analysing.

Technological development with Management Information Systems and C.R.S. helps to simplify and expedite the links between the customer and the airline.

Measures to improve yields on flights, and matching seat capacity with demand are areas for added value. Simplification in the distribution network, reservations, purchasing of the airline product, and ticketing need targeting.

58. Karl Albrecht, Management , October, 1988. p. 53

59. Doug Stace, "Value Added Organisation" Human Resource Management, Nov'87 p.54

60. Jan Carlzon, Moments of Truth, 1987.

Core business focus is the strategy to get back to the basics of what business the airline is in, and the activities a company does best. An airline has the means and technology to give the passenger elements of the total travel product - from accommodation to financial services. Future trends are anticipated for " airlines to attach travel related businesses to their core to give added value . " 61

This does not mean that every airline need follow the example of Japan Airlines where ownership and management of travel related products has been paramount.

Rather, establishing links or networking with preferred companies who remain autonomous and independent from airlines is a viable option for South Pacific carriers. Networking allows access to value added products like retail travel, accommodation, banking services, ground handling companies, car rental, and entertainment. At the same time, each related business can concentrate on their core operations and aim for controlled growth.

Conclusions

Value added strategies should not be considered just another management buzz word. It should be a philosophy that underlies all aviation planning and development.

Turning the concept into creative and positive additions to the basic airline product needs to satisfy consumer driven requirements . Challenges to management and staff are: change attitudes to job responsibilities ; contribute innovative ideas ; and give importance to the quality of excellent service as perceived by the customer.

Value can only be realised when the return on investment in strategic planning is self perpetuating.

61. " Value Added Strategies ", Airline Business, April, 1989, p. 62.

5.8 In-depth examination of computer modelling

Each strategy alternative put forward in this chapter (apart from the philosophy of value added strategies) is supported by two reports as generated by the PERT computer analysis. Table 5.1 is the index to these reports.

TABLE 5.1

INDEX OF COMPUTER GENERATED STRATEGIES

<u>Strategy</u>	<u>Network Diagram</u>	<u>Calendar Schedule</u>	<u>Master list Resources</u>
	APPENDIX NUMBER		
5.2 Maintain flag carrier competition	19	20	21
5.3 Single South Pacific carrier	22	23	
5.4 Franchise operation	24	25	
5.5 Group airline alliance	26	27	
5.6 Boutique carrier	28	29	

Each report follows a similar format.

A limitation of the reports is their generalised nature and theoretical time frame that cannot not take into account local operating conditions or specific airline requirements.

The first type of report is a network diagram or flow chart showing the sequence of strategic planning. The report has a beginning and ending event, and a series of other coded events in a boxed diagram. These events are known as milestones and are not allocated a time frame . The events are a heading for each section of related activities.

The activities are known as tasks. The tasks are coded and a full explanation of the codes can be found in the second report (calendar schedule). Each task is allocated a time frame in working days underneath the coded tasks.

The activities critical to the completion of the project and for the focus of management attention are shown by a double connecting line . The path of double lines through the network diagram is known as the critical path.

The full terminology of the codes in the network diagram, is shown in the second report . This is the **calendar schedule** showing dates for implementing each strategy. The calendar year has a hypothetical starting date of 01-January-1990, and graphically plots the dates and length of every activity.

The heading events for each section of the strategy are not allocated a time frame and are therefore only shown on the calendar schedule as a diamond symbol. The thick line plotted in the schedule corresponds with an activity and indicates the full time span needed to carry out the activity. Any lag time available to complete the activity is indicated by the thin line at the end.

A third report that can be generated is the **project resource list**. Appendix Twenty One is a master copy of this report. Other strategies would have slight modifications to this framework. Each task or activity has the starting and finishing date shown, as well as the department or personpower resource allocated to completing the task. Expenditure amounts can also be allocated. The report is valuable for efficient time management, quick identification of responsibilities, and to show any over-allocation of responsibilities in a particular department.

In conclusion, these reports should be read in conjunction with each strategy section for thorough understanding. The reports are a framework only, and indicate basic strategy alternatives as viewed by the author.

CONCLUSIONS AND RECOMMENDATIONS

Hypothesis

The original hypothesis of the research is as follows.

The introduction of new generation aircraft by the airlines of Pacific Rim countries, the trend in global airline strategies, and rapid alliances through marketing agreements and Computer Reservation Systems technology will have a profound impact on tourism and civil aviation development in the South Pacific region.

This will necessitate increased multilateral organisational co-operation within the region, renewed emphasis on the allocation and distribution of resources in transportation networks, and a focus on the critical paths in forward planning.

It can now be concluded that the hypothesis is consistent with the research findings.

The positive result of the hypothesis is based on : the structure of the civil aviation industry in the South Pacific; the problems the industry is currently experiencing as outlined by the thesis; the major issues of concern pin-pointed by the research for viable airline operations; the trends for airline development the form of global airline alliances; and the increasing use of new generation long range aircraft.

Consequently, the general conclusions are : co-operation between tourism and civil aviation organisations is necessary for the imminent survival of smaller carriers in the South Pacific ; infrastructural resources as well as financial and human resources must be managed more productively ; strategic planning alternatives require a focus on critical paths in the flowchart of forward planning; and the future of civil aviation in the South Pacific should be viewed in the broader context of influence by Pacific Rim aviation trends.

Limitations

The thesis is limited to generally addressing airline development issues and proposing overall strategies. Therefore the conclusions and recommendations made on specific issues must be perceived in the same generalised nature. Individuals and companies have particular requirements and will need to modify the opinions put forward in this chapter to their own environment and needs.

The following conclusions and recommendations are drawn from the research findings (page numbers indicate location). Included are inherent business and social responsibilities airlines in the South Pacific should address in order to make critical decisions on the direction of civil aviation in the future.

Data information

p.10

Conclusion:

Organisations and individuals involved in tourism data collection and dissemination have differing base guidelines and definitions. As a result the type, quality and reliability of data varies between organisations and countries.

Recommendation:

Standardisation of data collection methods, presentation format and basic definitions is needed. The Tourism Council of the South Pacific is currently

involved in standardisation of visitor arrival data. Commonalty should be extended into tourism economic statistics (eg. tourism spending and receipts) and into aviation data (eg. actual aircraft hours per aircraft instead of averaged aircraft hours per fleet type).

Stopover traffic

p.20 - 21

Conclusion:

South Pacific countries must strategically choose to decrease historical reliance on access to stopover traffic on Trans Pacific services . This decision should be taken before the choice no longer exists and the issue is forced on island nations by a Pacific Rim trend. The trend is to decrease stopover routes and increase overflying services.

Recommendation:

The focus should be on direct flights from major markets where economically feasible, or at least plan for direct access to Pacific Rim gateways. If this access cannot be provided by the flag carrier of the country concerned, an option is to pool or share services with another flag or Pacific Rim carrier.

Overflying

p.21 - 23

Conclusion:

Overflying of island nations in the South Pacific is a business fact of life. The thrust by Pacific Rim countries towards converting options into orders for the long range B747-400 aircraft indicates the future will be focused on premium high yield and long haul routes where volume of demand can be sustained and revenue through yield management can be increased.

Recommendation:

South Pacific airlines should continue to provide their own direct access as outlined in the previous recommendation. Pacific Rim airlines, specifically Qantas and Air New Zealand, should continue to replace aircraft now used for

overflying services (eg. B747's) with direct services to the island nations. The use of aircraft better suited to this routing structure and the volume of tourism in the South Pacific can be found with B767 aircraft. Accordingly, promotional through fares to Pacific Islands must be available from countries beyond Pacific Rim gateways rather than full-fare add-ons from Pacific Rim countries.

Safety and security

p.24

Conclusion:

Safety and security in airline operating procedures are essential elements in helping to provide long term viability. Without these elements in transportation or at the destination, negative influences that deter visitors will erode any plans for a stable tourism economy.

Recommendation:

Marketing island destinations should change its focus from the passe four "S's" - the attractor factors of Sun, Sand, Surf, and Smiles.

The airlines and National Tourist Offices could concentrate on the elements that become detractor factors if missing from the tourism equation. The potent four "S's" are - Safety, Security, Service and Self-esteem (inherent value in people and goods and services). It can never be assumed to take these factors for granted. Once lacking, there can be serious consequences for the industry. The potent four "S's" are strong motivators and when combined, are a marketable commodity.

Privatisation

p.37 - 38

Conclusion:

Privatisation of an airline allows an injection of new funds and encourages foreign currency investment. This helps to ease the debt burdens built up over the years by many South Pacific carriers with operating losses, loans and

costly equipment purchases.

Recommendation:

The privatisation issue should be recognised as an alternative to heavy cross-subsidisation by governments in their flag carriers. Action is needed to stop any uneconomic shoring up of an airline.

Liberalisation of the skies

p.38 - 40

Conclusion:

Carriers and governments need to address the issue of liberalisation of the skies. The pressure on South Pacific skies to become more liberated and in tune with surrounding Pacific Rim policies will only increase with time.

Recommendation:

There should be contingency strategies ready for implementation in anticipation of any option for liberalisation by design, rather than being forced into the environment by default.

Expatriate staff

p.26

Conclusion:

The use of expatriate staff and foreign contract workers for management positions has been necessary for some airlines due to lack of skilled local human resources. High wage costs are associated with high foreign staffing levels.

Recommendation:

There should be a recognised productivity responsibility of contract and expatriate staff to train and nurture local staff for replacement positions. A level of local proficiency needs to be achieved to allow confidence in a locally based management team.

Conclusion:

Central to strategic planning in the civil aviation industry are the spheres of influence extended by critical constituencies (individuals, groups and institutions critical to the organisations survival) and dominant coalition (groupings) who have the locus of power.

Recommendation:

Airlines are urged to identify their critical constituencies and dominant coalitions, know how far the network of power and control extends, and ensure that planning and strategy formulation incorporates the steps necessary to address the needs of these groups.

Ownership, management and control

Conclusion:

Essentially, each airline will differ in the structure of ownership, the form of management, and the nature of power and control over the company.

Recommendation:

The research has focused on passengers as the dominant coalition most critical to the airline's survival. A high priority is for the establishment of a service philosophy that reflects consumer driven standards rather than management or ownership directed benefits.

Religious influence

Conclusion:

The church is a powerful influence in the tourism development system. The institution often shapes perceived negative effects of tourism on locals particularly with aircraft activity and the use of tourist facilities on a Sunday.

Recommendation:

The airlines should treat Church groups as lobbyists with important ideas

and needs, and in conjunction with government officials, open dialogue with the goal of mutually accommodating aviation and religious requirements. The Church should also be lobbied by aviation officials to ensure that the benefits of tourism development and aviation activities are clearly understood by this group.

Economic understanding

p.29 - 31

Conclusion:

An airline with a wide route network needs to consider the economic conditions of many routes, many origin and destination countries, and different combinations of operating strategies in order to achieve the best financial results.

Recommendation:

Empathy and understanding can be given to local business, governments and nationals in the South Pacific who focus only on the economics of tourism flows to and from their country alone. The operating challenges facing an airline cannot be viewed solely from the country of home base, but needs to be viewed in perspective of the economic challenges facing the South Pacific countries and its peoples.

Social responsibilities

p.33 - 34

Conclusion:

A higher level of social awareness and responsibility must exist for all operators in the tourism industry, and particularly for aviation officials. The responsibility for cultural preservation and social change does not only rest with the host society or government.

Airlines do not have to be benevolent institutions, but they should be considerate facilitators of tourism development.

Recommendation:

The research pinpoints the need for closer consultation by the airlines with feeder airlines, social groups, governments, small business operators, and other interested parties. Airlines need to ensure their operating decisions are made with input from these parties through open channels of communication and mutual exchanges of information prior to any major strategic changes taking place. Airline companies must accept a greater responsibility for the effect on access dependent host societies of decisions to suspend or cancel routes.

Aviation plans

p.36 - 37

Conclusion:

There is a need for structured and consistent aviation planning for effective, efficient and safe tourism flows.

Recommendation:

National aviation and tourism planning must be given the highest priority by the government of each country in order to provide a direction, purpose, stability and confidence for tourism and aviation investment and development. Aviation officials are able to lobby government bodies to ensure high priority in aviation planning.

Regional approach to air service agreements

p.58 - 60

Conclusion:

Stronger consideration can be given to regional approaches to air service agreements as suggested by ICAO resolution 18/2. Particularly the thrust towards economic groupings with the possibility of support from Pacific Rim countries as facilitators for the groupings.

Recommendation:

Any regional approach to change the traditionally protective perspectives on bilateral agreements needs to give value to a national carrier, and needs to have the consent of other parties to a bilateral. Open dialogue with other

governments and flag carriers will help to determine multilateral and mutually beneficial co-operation in the South Pacific region.

A regional approach can only come through co-ordinating policies at the upper level of air service agreements. Ground level input through consultation with airline forward planning and capacity management divisions is important. Input should be obtained from critical constituencies in order to incorporate market responsive strategies in air service agreements.

Infrastructure communication

p.60

Conclusion:

Government and airline officials need to understand that there is a direct relationship between aviation agreements and tourism development. Airport, accommodation and other infrastructure must be able to support aviation capacity to achieve synergy in overall tourism development. Therefore it is important to communicate with all sectors in tourism on aviation agreements.

Recommendation:

The established organisations in the South Pacific should be used to channel communication from the ground level up. For example, the Tourism Council of the South Pacific, A.S.P.A., P.A.T.A, National tourism offices and Hotel groups.

Bottom line performance

p.31

Conclusion:

Equipment financing, low maintenance costs, replacement of ageing aircraft, airport charges and congestion problems, capacity control, competitive pressures on volumes and margins, marketing costs and employee productivity are just some of the major factors effecting bottom line performance.

Recommendation:

Specific factors that effect bottom line performance need to be identified and incorporated into strategic forward planning. A sound economic basis for

aviation policies and the accountable investment of funds into the airline are necessary for sustaining a viable business entity.

Low aircraft utilisation

p.62 - 65

Conclusion:

Low aircraft utilisation is a common problem with many flag carriers in the South Pacific, particularly on thin routes and where capacity constraints at foreign airports prevent efficient scheduling.

Recommendation:

Investigate future partnership agreements and opportunities for leasing out unused aircraft for charters or regular scheduled services by another carrier, and assess the advantages to be gained by drawing equipment from another company with a pool of aircraft for lease. This would help to alleviate the opportunity cost of having underutilised aircraft with high fixed overheads.

Yield management

p.47 - 49

Conclusion:

Revenue and yield management must include measures for efficient aircraft and seat utilisation, and the optimum combination of load factors, volumes of traffic flows, and desired yield levels.

Recommendation:

Investigate commercial alliances that will help with accessing quality computer information systems for yield and revenue management. Particular attention should be paid to restricting popular flights and booking classes to passengers who require an on-line connection on higher yield through fares.

C.R.S. and Management Information Systems

p.42 - 44

Conclusion:

Advanced information technology through C.R.S. and M.I.S. are necessary, albeit expensive, tools in the planning and distribution network.

Recommendation:

Airlines in the South Pacific need to ensure that : the systems are credible and user friendly; the systems are fair and equitable in content and presentation of information; service fees and payments are easily accounted for; and there is planning for adequate training of staff for the carriers to develop their own information technology expertise in this vital field.

Commercial alliances

p.44 - 45

Conclusion:

Commercial alliances, joint ventures, and shared strategic marketing help to expand airline exposure and sales opportunities in regions outside the home markets.

Recommendation:

Groundwork to ensure an airline has operational and financial leverage for bargaining power will help to avoid the dominance of a larger, more powerful partner. A position to target in an alliance is where there are more benefits to be gained by the alliance than the carrier stands to lose through financial expenses or the rationalisation of routes and schedules.

Economies of scale

p.61 - 62

Conclusion:

Resource sharing can only contribute towards achieving economies of scale where the strength of airline economies combined are greater than the sum of individual operations.

Recommendation:

Airlines co-operating through resource sharing should have complementary route networks and commercial agreements that can be operationally viable. Strategic measures to achieve economies of scale must not undermine the priority of service and safety standards at any level of negotiation.

Conclusion:

Forward planning in an aviation maintenance department will help to co-ordinate levels of skill and productivity with proposed future aircraft purchases or leasing decisions. Outside maintenance contracts are necessary when home markets cannot sustain an acceptable level of maintenance.

Recommendation:

Outside maintenance agreements need to reflect quality servicing standards. The commitment to ongoing training of specialist skilled maintenance staff is essential.

Co-operative marketing Vs. individual identity

Conclusion:

Perceived benefits of self-reliance, and a reluctance to merge country and flag carrier identities are two major barriers to co-operation in combined marketing initiatives.

Recommendation:

Governments, national tourism offices and flag carriers require confidence in funding for the strength of a singular South Pacific identity. For many smaller organisations, combined marketing is often the only method of gaining credible exposure. At the same time, it is important to have the means and methods to maintain individual niche marketing strategies as an organisation or country distinct from other South Pacific countries. This would help to isolate political turmoil or aircraft incidents to the country of origin.

Staff training and development

Conclusion:

Historically, staff training has been viewed as a short term solution for immediate problems. It is only in recent times that many airline organisations

have realised that there is added value in having competent and confident staff who have job satisfaction and are achieving company goals and objectives.

Recommendation:

Training and development should not be the first area to face cut-backs in times of economic downturn. A longer term perspective must view training programs that are tailored to the needs of the individual and the company as an investment in an asset rather than an expense. Training programs in the South Pacific need to have measures implemented to ensure that local input screens the relevance of the course content. Teaching methods have to be localised to the social environment and level of skill of participants.

Future influences

p.19

Conclusion:

Future trends will not only depend on bilateral agreements and the desire to tap new markets, but factors of aircraft availability and flying range, time slots at airports, measures to ease airport congestion, and the operating strategies put in place today.

Recommendation:

Priority consideration when developing new markets should be given to the rate of airport growth and tourism infrastructure capacity. Focus needs to centre on the profitability positions of each airline on individual routes .

Future strategies should be based on sound economic, environmental, social and cultural information gained through open channels of communication with constituencies critical to the success of the airline. Commitment to a future strategic focus requires decisions now, even when the operational benefits may not be realised until the next generation.

Conclusion:

The management process of strategic planning is necessary for forecasting, planning, organising and controlling of critical activities. The structure of forward planning can follow methods like Project Evaluation and Review Techniques. These methods help in analysing strategic alternatives available to the organisation and clarify the processes involved in implementing a niche strategy.

Recommendation:

Strategy options should address the needs of the organisation's dominant coalitions. Otherwise power struggles may overshadow the intentions and success of the niche strategy.

The choice of a niche strategy and the positioning of the company for future challenges must reflect dedication and commitment to the passenger. Strategic decisions are best when driven by consumer needs rather than internal company directives.

Strategic planning for the most efficient allocation of resources needs to achieve a best fit between company objectives and market demands.

Specialist consultants trained in the art of forward planning should be used where management lacks the necessary skills or confidence.

Maintain flag carrier strategy

Conclusion:

This strategy does not inherently mean maintaining the status quo of an airline. New opportunities in markets, fleets and standards of service can be explored depending on how viable the opportunities are.

Recommendation:

The adoption of the strategic plan for maintaining a flag carrier will be most commonly considered. The circumstances for this will be : reluctance for any major structural or operating changes put forward by the other strategies; dominance by government and bureaucracy forcing the continuation of individual flag carriers ; the lack of financial resources or leverage to elevate the flag carrier beyond practices steeped in traditional policies, cross subsidisation and political interference; and a lack of vision for the direction of the civil aviation industry in the South Pacific.

Single South Pacific carrier strategy

p.74 - 75

Conclusion:

Based on pure economics, this would be the most logical strategy to adopt. Economies of scale would be achieved through the rationalisation of existing airlines. Financial strength would be gained by the operation of a South Pacific dedicated single carrier.

Recommendation:

This strategy is unlikely to be adopted now or in the near future. The basic underlying assumption of a willingness by governments for open dialogue on the economic and practical benefits of a single carrier cannot be fulfilled. Historical political, cultural and identity barriers are too deeply ingrained in aviation. A declaration of intent for co-operation similar to African Joint Air Services is unlikely to be as achievable in the South Pacific.

Any long term plans for the strategy will need some basic change agents implemented NOW. This should help foster common management aims, alleviate corruption and greed, target political and financial stability in the industry, and determine suitable resource rationalisation .

Conclusion:

This strategy provides opportunities for brand awareness and a global service that has yet to be fully recognised in the aviation industry. For a franchise arrangement to be effective, there must be controllable standards of service strong product identity, and synergy between the two companies involved as franchisor and franchisee.

Recommendation:

It will be extremely difficult to gauge the value of this type of an arrangement in the South Pacific. Particularly when frontiers in franchising are only now being explored in the more liberal and innovative markets of Europe.

Traditionally, island populations are sensitive towards companies outside the South Pacific. There will be resistance against the companies who have the potential to franchise their airline product . Island governments will also be reluctant to involve flag carriers, or conform to standards and practices in a franchise that will mean any loss of local autonomy / self determination.

Group airline alliance strategy

Conclusion:

Based on the current South Pacific operating environment, and with a view to the future, this strategy is deemed by the author as the most practical. The success of each alliance will have to be judged on the merits of the parties involved. Market strength gained through co-operative ventures are the prime motivator for a flag carrier to join a group airline alliance.

Recommendation:

Group airline alliances within the South Pacific based on Melanesian / Polynesian / Micronesian spearhead economic groupings presently have strong political differences . These differences cannot be overcome for a successful formation of three distinct airline alliances. As the spearhead groupings gain

future strength, there will be reduced flexibility in reaching out to the other economic groupings for co-operation.

Airline alliances that will prove to be the most successful in the future are South Pacific carriers joining with Pacific Rim airline groupings. Market strength and access to Pacific Rim carrier traffic flows need to be gained. Thin regional routes in the South Pacific require more consistent patterns of passenger demand - a demand that alliances should serve to increase in the long run.

Boutique carrier strategy

p.81 - 82

Conclusion:

This strategy may not be within the financial scope of many airlines in the South Pacific. Heavy investment and time is required to support the high quality of product demanded by consumers. Individual markets need to be targeted with a unique selling proposition that is flexible with consumer tastes.

Recommendation:

The complete strategy will have limited appeal to an airline. Strong volumes of traffic and access to large markets is required. A niche concept must have consistent attraction to passengers. Otherwise the fashionable tastes of consumers will quickly change to a competing product and spell the demise of a boutique carrier.

The marketing ideas central to this strategy can be modified by all carriers. These include : target marketing, attention to service detail, consumer orientation, and the promotion of cultural qualities in the air and on the ground. Unique selling propositions are essential to differentiate an airline from its competitors, and targeting the right market segments with the right product should always be a high priority.

Conclusion:

Regardless of the options and choices in strategic planning for the future, the underlying philosophy for airline operations in the South Pacific should be for value added measures in the development and delivery of service to customers.

Recommendation:

The most viable option for South Pacific carriers is to network and establish co-operative links with other elements in the tourism product. A focus on the core operating business of an airline must not be distracted by the ownership of peripheral activities. These activities may cause a financial drain on the airline or a spread of operations that cannot be adequately controlled.

The organisational culture of an airline in the South Pacific will trend in the future towards a commitment to excellence in standards of customer service. A responsibility for airline employees and management is to respect the customer as important, needed and valued.

Future prospects

The future for the civil aviation industry in the South Pacific lies in achieving a high level of professionalism . Developing a sound strategic planning framework will be more widely adopted by the smaller carriers.

Commitment to satisfying the needs of the critical constituencies of a carrier is of paramount importance.

Management should view the civil aviation industry in the South Pacific as not isolated, but integrated with the world wide trends and issues put forward by the hypothesis central to this research.

Co-operation will be the fuel for thrust, efficient resource use will sustain the flight path of the civil aviation industry in the South Pacific, and critical forward planning will navigate the airlines to a safe landing in the future.

GLOSSARY OF TERMS AND ABBREVIATIONS

A.S.P.A.	Association of South Pacific Airlines
C.A.A.	Civil Aviation Authority (Australia)
C.R.S	Computer Reservations Systems
E.R.O.P.S	Extended Range Operations
F.A.A.	Federal Aviation Authority
I.A.T.A	International Air Transport Association
I.C.A.O	International Civil Aviation Organisation
P.A.T.A	Pacific Asia Travel Association
U.N.D.P	United Nations Development Programme
V.F.R.	Visiting Friends and Relations
W.T.O.	World Tourism Organisation

Aircraft hours : The cumulative time that each aircraft is in use calculated usually from the block times.

Aircraft utilisation : The average number of block hours that each aircraft is in use measured on a daily or annual basis.

Air service agreements : (Bilaterals) A two country agreement covering airlines, routes, capacities, and, sometimes, fares.

Block time : This is the time for each stage between engines being switched on at departure and off on arrival.

Capacity or available seat-kilometres flown : This is the number of seats offered for sale multiplied by the kilometres flown.

Disembark : To leave an aircraft.

Embark : To board an aircraft.

End to end : Travel between origin and destination of the flight.

End point services : Terminating services.

Intermediate point to point : Two locations visited between the origin and destination of the flight.

Length of passenger haul : The average distance flown by passengers. The total passenger kilometres are divided by the total number of passengers.

Long haul : Normally a distance of over 10,000 kilometres.

Multi destination : Many destinations

Multilateral : An agreement between many countries.

No show : Passenger who fails to board a designated flight.

On-line connection : Voluntary change of aircraft with the same carrier.

Oversell : Value judgement of selling more seats to a predetermined level than the actual capacity of the aircraft.

Passenger kilometres flown : The number of revenue passengers carried multiplied by the kilometres flown.

Passenger yield : The average revenue per passenger - kilometre.

Payload capacity : Total of aircraft capacity available for the carriage of passengers, freight, baggage and other goods.

Point to point : Travel from point A to point B.

Revenue load factor : The ratio of revenue tonne kilometres to capacity tonne kilometres.

Revenue passenger load factor : The ratio of passenger kilometres flown to seat kilometres available.

Revenue tonne kilometres : The revenue load carried in tonnes multiplied by the kilometres flown.

Seat factor or passenger load factor : The passengers carried as a percentage of the seats available for sale.

Short haul : Usually short range within eight flying hours.

Stopover : Short stay at minor destination en route to major destination.

Through fare : Fare from origin to destination through intermediate points.

APPENDIX ONE

Countries / Territories in International Civil Aviation Organisation

Sub Region " SOUTH EASTERN ".

Two Letter Country Code	Country
AS	American Samoa
AU	Australia
CK	Cook Islands
FJ	Fiji
GU	Guam
KI	Kiribati
NR	Nauru
NC	New Caledonia
NZ	New Zealand
NU	Niue
NF	Norfolk Island
PG	Papua New Guinea
SB	Solomon Islands
PF	French Polynesia
MP/FM/MH	Trust Territory of the Pacific Islands
TV	Tuvalu
VU	Vanuatu
WF	Wallis and Futana Islands
WS	Western Samoa

Source : International Air Transport Association
International Civil Aviation Organisation

APPENDIX TWO

List of member airlines of Association of South Pacific Airlines as at 06/04/89

Code	Airline	Country
TY	Air Caledonie	New Caledonia
SB	Air Caledonie International	New Caledonia
HB	Air Melanesie	Vanuatu
ON	Air Nauru	Nauru
PX	Air Niugini	Papua New Guinea
FJ	Air Pacific	Fiji
VT	Air Polynesie	French Polynesia
VK	Air Tungaru Corp.	Kiribati
CW	Airline of the Marshall Islands	Marshall Islands
KC	Cook Island International	Cook Islands
PC	Fiji Air	Fiji
HR	Friendly Island Airways	Tonga
UG	Norfolk Airlines	Norfolk Island
PH	Polynesian Airlines	Western Samoa
IE	Solomon Airlines	Solomon Islands
2S	Sunflower Airlines	Fiji
GV	Talair	Papua New Guinea

Associate Members

TE	Air New Zealand	New Zealand
QF	Qantas Airways	Australia
CP	Canadian Airlines International	Canada

APPENDIX THREE

VISITOR ARRIVALS TO THE PACIFIC ISLANDS 1980/85/88.

Country	Year	Share Total	Year	Share Total	Year
	1980	(%)	1985	(%)	1988
American Samoa +	40,430	(4.32)	12,513	(1.17)	61,144 - June
Cook Islands	21,050	(2.25)	28,782	(2.68)	33,886
Fiji	190,000	(20.28)	228,175	(21.25)	208,155
Guam	291,660	(31.13)	365,246	(34.02)	576,170
New Caledonia	65,510	(6.99)	51,190	(4.77)	60,502
Northern Marianas	117,150	(12.50)	141,879	(13.22)	u/a
Papua New Guinea	38,700	(4.13)	30,391	(2.83)	36,543 - June
Solomon Islands	10,520	(1.12)	11,974	(1.12)	u/a
French Polynesia	94,330	(10.07)	122,086	(11.37)	135,387
Tonga	12,480	(1.33)	17,534	(1.63)	17,729
Vanuatu	21,970	(2.35)	24,521	(2.28)	17,544
Western Samoa	33,070	(3.53)	39,301	(3.66)	46,341
TOTAL	936,870	100.00%	1,073,592	100.00%	

+ Western Samoa arrivals not included in figures beyond 1980.

Source : Pacific Asia Travel Association , Annual Statistical Reports 1980-87
 ASMAL Pacific Reports, Third and Fourth Quarter, 1988.
 National Tourism Offices of individual countries.

APPENDIX FOUR

MAJOR TOURIST MARKETS TO THE PACIFIC ISLANDS 1980/85/88.

Country	Major Generating Market	Share of Visitor Arrivals	Major Generating Market	Share of Visitor Arrivals	Major Generating Market	Share of Visitor Arrivals
	1980	(%)	1985	(%)	1988	(%)
American Samoa	U.S.A.	(37)	U.S.A	(49)		
Cook Islands	New Zealand	(49)	New Zealand	(49)	New Zealand	(46)
Fiji	Australia	(38)	Australia	(39)	Australia	(36)
Guam	Japan	(76)	Japan	(83)	Japan	(86)
New Caledonia	Australia	(29)	Japan	(34)	Japan	(26)
Northern Marianas	Japan	(68)	Japan	(76)	u/a	
Papua New Guinea	Australia	(48)	Australia	(48)	Australia	(49)
Solomon Islands	Australia	(37)	Australia	(33)	u/a	
French Polynesia	U.S.A.	(44)	U.S.A.	(49)	U.S.A.	(47)
Tonga	New Zealand	(27)	U.S.A.	(23)	New Zealand	(27)
Vanuatu	Australia	(33)	Australia	(69)	Australia	(55)
Western Samoa	Other Pacific	(30)	Other Pacific	(47)	American Samoa	(34)

Source : Pacific Asia Travel Association , Annual Statistical Reports 1980-87
 ASMAL Pacific Reports, Thrid and Fourth Quarter, 1988.
 National Tourism Offices of individual countries.

APPENDIX FIVE

list of A.S.P.A carriers and major route structures as at May, 1989.

Airline	Main airport base	Cities served (designated flight number)	
		International	Domestic
Air Caledonie	Najenta		Koumac, Belap, Mare, Tiga, Lifou, Ouvea, Ile Des Pines, Touho
Air Caledonie International	Noumea	Auckland, Brisbane, Melbourne, Nadi, Port Vila, Sydney, Wallis Isl.	
Air Melanesie	Port Vila		Aniwa, Craig Cove, Dillons Bay, Emae, Espiritu Santo, Ipota, Lamien Bay, Longana, Lonorore, Norsup, South West Bay, Tanna Island, Tongoa, Ulei, Valesdir, Walaha
Air Nauru	Nauru	All routes currently suspended.	
Air Niugini	Port Moresby	Brisbane, Cairns, Hong Kong, Honiara, Jagapura, Manila, Port Vila, Singapore, Sydney, Townsville,	Alotau, Daru, Goroka, Hoskins, Kavieng, Kieta, Kundiawa, Lae, Madang, Manus Island, Mendi, Misima Mt. Hagen, Popondetta, Rabaul, Tabubil, Tari, Vanimo, Wapenamanda, Wewak,
Air Pacific	Nadi	Apia, Auckland, Brisbane, Honiara, Melbourne, Port Vila, Sydney, Tokyo, Tongatapu,	Suva, Labasa,
Air Polynesie	Papeete		Anaa, Apataki, Bora Bora, Gambier Is., Hao Is., Huahine Isl., Makemo, Maiana, Makin, Marakei, Nikunau, Mahini, Mataiva, Maupiti, Moorea, Nuku Hiva, Nukutavake, Raiatea, Raingiroa, Rurutu, Takapoto, Takaroa, Tikehau, Tubuai, Tureira,
Air Tuarua Corp.	Tarawa	Funafuti Atol.	Abaiang, Abemama, Aranuka, Arorae Is., Beru, Butaritari, Kuria, Maiana, Makin, Marakei, Nikunau, Nonouti, Onotoa, Tabiteuea, Tamana
Airline of the Marshall Islands	Majuro	Nadi, Tarawa,	Ailuk, Airok, Aur, Eniwetok, Ine, Jabat, Jaluit, Kaben, Kili, Kwajalein, Lae, Likiep, Loen, Majkin, Maloelap, Megit Is., Mili, Namcrik, Tinak, Ujae Is., Utirik, Woja, Wotho, Wotje
Cook Islands International	Rarotonga	Sydney, Apia	

APPENDIX FIVE CONTINUED

Fiji Air	Suva	Funafuti Atol	Malololailai, Bureta, Cicia. Kandavu, Lakeba, Moala, Rabi, Rotuma Savusavu, Taveuni, Vanuabalavu
Friendly Island Airways	Tongatapu	Pago Pago	Eua, Ha'apai, Niua, Vava'u
Norfolk Airlines	Norfolk Island	Brisbane, Lord Howe Is., Port Vila (susp), Sydney	
Polynesian Airlines	Apia	Auckland, Nadi, Pago Pago Rarotonga, Suva, Sydney, Tongatapu	Asau, Maota,
Solomon Airlines	Honiara	Brisbane, Kieta, Nadi Port Vila,	Auki, Avu Avu, Bellona Is., Choiseul Bay, Pera Is., Gizo, Kirakira, Marau, Mono Is., Munda, Parasi, Rennell Is., Santa Ana Santa Cruz, Sege, Yandina
Sunflower Airlines	Nadi		Kandavu, Labasa, Malololailai, Pacific Harbour, Savusavu, Taveuni
Talair	Goroka		130 domestic destinations in PNG

Source: Official Airline Guide, May, 1989

APPENDIX SIX

VOLUME OF NON-STOP TRANS PACIFIC AIRCRAFT PER WEEK AS AT JUNE 1989.

ROUTE	AIRLINES SERVING	AIRCRAFT	# FLTS PER WEEK
Sydney / Honolulu	Canadian Airlines	DC10	2
	Continental	DC10	7
	Air New Zealand	B747	2
Honolulu / Sydney	Canadian Airlines	DC10	2
	Continental	DC10	4
	Continental	B747	3
	Air New Zealand	B747	2
	Qantas	B747	3
	Qantas	B74M	2
Brisbane / Honolulu	Qantas	B747	1
	Continental	DC10	2
Cairns / Honolulu	Qantas	B747	1
Honolulu / Cairns	Qantas	B747	2
	Continental	DC10	2
Sydney / Los Angeles	Qantas	B74L	6
	United Airlines	B74L	7
Los Angeles / Sydney	Qantas	B74L	6
	United Airlines	B74L	7
Auckland / Honolulu	Canadian Airlines	DC10	1
	Continental	DC10	3
	Continental	B747	4
	Air New Zealand	B747	3
	Qantas	B74M	1
	United Airlines	B747	7
Honolulu / Auckland	Canadian Airlines	DC10	1
	Continental	DC10	7
	Air New Zealand	B747	2
	Qantas	B747	1
	United Airlines	B747	7
Auckland / Los Angeles	Air New Zealand	B747	4
	Qantas	B747	2
Los Angeles / Auckland	Air New Zealand	B747	3
	Qantas	B747	2
		TOTAL	109

Source: June 1989 Official Airline Guide and Carina Reservation System.

APPENDIX SEVEN

BOEING 747-400 ORDERS FOR ASIAN / AMERICAN / PACIFIC AIRLINES.

<u>Airline</u>	<u>Number Ordered</u>	<u>Options</u>
Air New Zealand	3	
All Nippon Airways	26	
CAAC	30	
Cathay Pacific Airways	2	22
China Airlines	5	
Japan Airlines	20	
Korean Airlines	9	
Malaysia Airlines	6	
Northwest Airlines	10	
Qantas Airways	10	18
Singapore Airlines	14	6
Thai International	2	
United Airlines	15	
Japan Government	2	
	<u>154</u>	<u>46</u>
TOTAL AIRCRAFT		

NB: 22 companies worldwide have ordered a total of 172 B747-400 series aircraft as at June, 1989.

Source: PATA Travelnews, Singapore, April 1989.
The Age, Melbourne , 6th May, 1989 p. 15.

APPENDIX EIGHT

DESIGN SPECIFICATIONS FOR THE B 747-400 SERIES AIRCRAFT.

747 performance summary

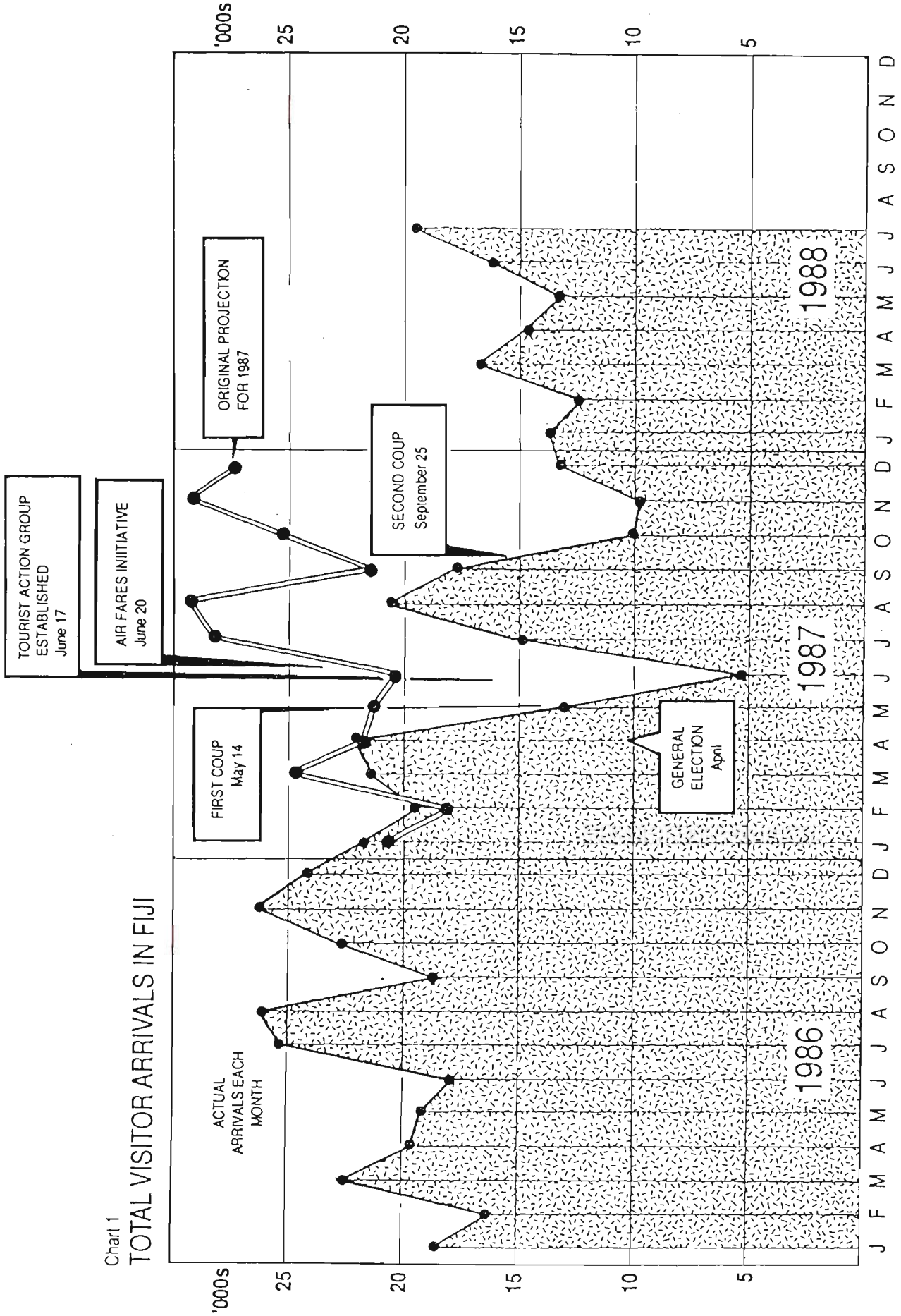
Typical international rules, three-class interiors

Engines	Rolls-Royce RB.211-524G			General Electric CF6-80C2			Pratt & Whitney PW4056		
Passengers (First class/Business/ Tourist)	412 (34/76/302)			412 (34/76/302)			412 (34/76/302)		
Cargo (pallets/cont.)	5/14			5/14			5/14		
SLST/F.R.temp (lb/°F)	58,000/86			57,900/90			56,750/86		
Fuel capacity (US gal)	53,985	57,285	57,285	53,711	57,011	57,011	53,985	57,285	57,285
Weights (lb)	Basic	Option	Option	Basic	Option	Option	Basic	Option	Option
Max takeoff	800,000	850,000	870,000	800,000	850,000	870,000	800,000	850,000	870,000
Max landing	574,000	630,000	630,000	574,000	630,000	630,000	574,000	630,000	630,000
Max zero fuel	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000	535,000
Operating empty	393,000	393,700	393,800	389,400	390,100	390,200	390,200	390,900	391,000
Design range (n.m.)	6,300	7,110	7,370*	6,320	7,130	7,290*	6,320	7,120	7,340*
Takeoff field length (ft)	9,200	10,800	11,450	9,200	10,800	11,450	9,150	10,700	11,400
Init. cruise altitude (MTOW) (ft)	34,000	32,800	32,100	34,100	32,800	32,300	34,100	32,800	32,300
Landing field length (MLW) (ft)	6,250	6,950	6,950	6,250	6,950	6,950	6,450	7,000	7,000
Approach speed (MLW) (kt)	143	152	152	143	152	152	143	152	152
Block fuel/passenger, 3,000 n.m. mission (lb)	303.2	303.5	303.5	305.5	305.9	305.9	304.4	304.8	304.8

* Fuel capacity limit

Source: Flight International Magazine, 12 November, 1988. p. 30

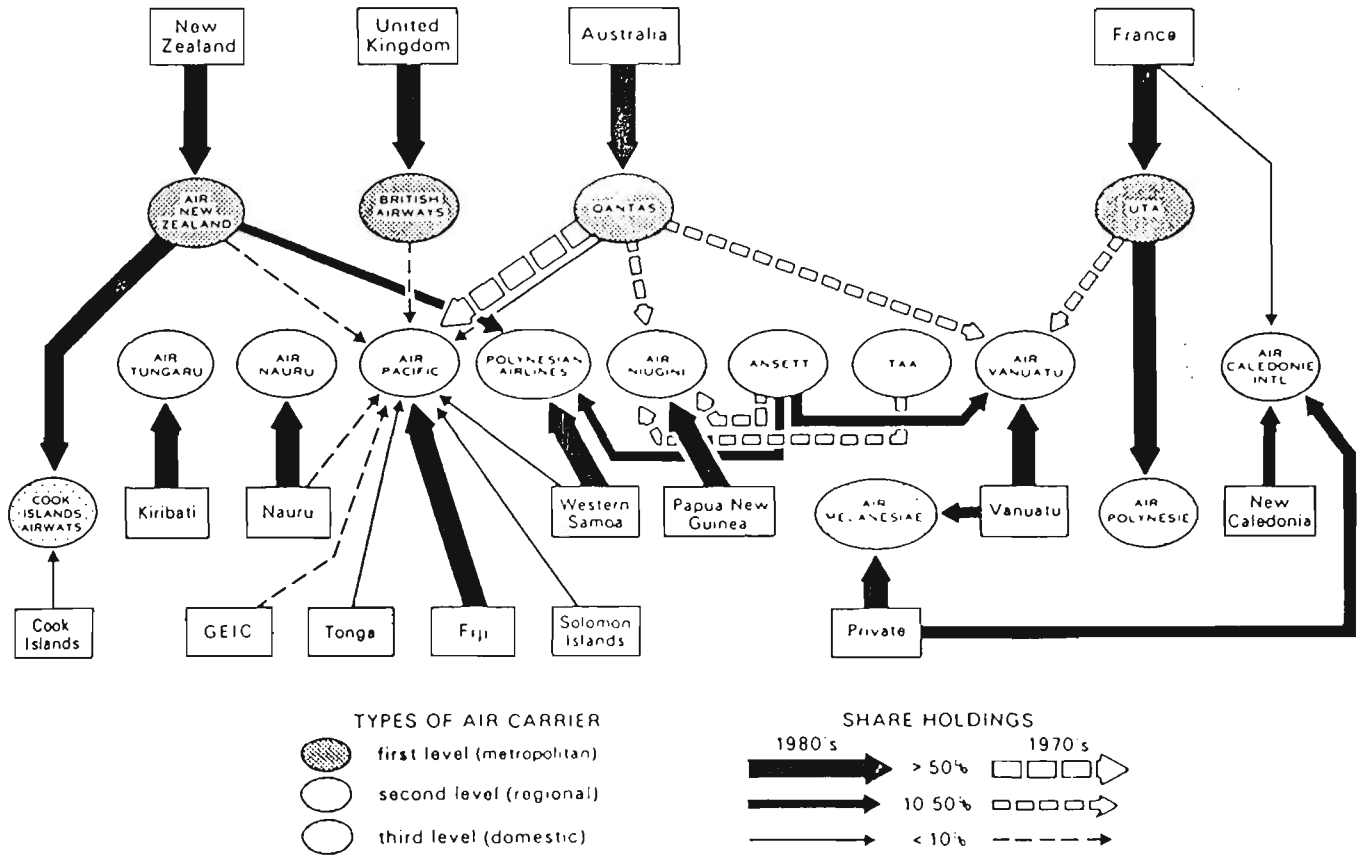
TOTAL VISITOR ARRIVALS IN FIJI 1986 - 1988



Source: Fiji Visitors Bureau

APPENDIX TEN

SHAREHOLDING INTERLOCKS AMONGST THE INTERNATIONAL AIRLINES OF THE SOUTH PACIFIC



Source: Kissling, C. (ed). Transport and Communications for Pacific Microstates, p. 103.

APPENDIX ELEVEN

SHAREHOLDING LINKS IN MAJOR AIRLINES IN THE SOUTH PACIFIC AS AT JUNE 1989

<u>Airline</u>	<u>Shareholder</u>	<u>% Shares Held</u>
Qantas Airways	Australian Government	100%
Air New Zealand	New Zealand Government	.1%
	Brierley Investment	65.0% of which 30% goes to NZ public
	Japan Airlines	7.5%
	American Airlines	7.5%
	Qantas Airways	<u>19.9%</u>
		100.0%
Ansett Airlines	TNT Group	50%
	News Corp	<u>50%</u>
		100%
Ansett New Zealand	Ansett Transp. Industries	100% and possibly soon a 65% equity by the N.Z public
Canadian Airlines International	Pacific Western Airlines	100%
Air Pacific	Qantas Airways	19.17%
	Air New Zealand	1.94%
	Fijian Government	77.88% of which 5%
	Gvts. of: Kiribati	.27% has been approved for E.I.E.
	Tonga	.27%
	Solomon Isls.	.27%
	W. Samoa	.12%
	Nauru	<u>.08%</u>
		100.00%
Cook Island Airways	Air New Zealand	90%
Polynesian Airlines	Samoaan Government	70%
	Niue Government	?
Air Vanuatu	Vanuatu Government	100%
Solomon Islands Airlines	Solomon Isls. Government	100%
Air Niugini	Papua New Guinea Gvt.	100%
Air Tuarua Corp.	Kiribati Government	100%
Cook Islands International	Cook Islands Gvt	100%
Talair	Private ownership	100%
Air Rarotonga	Private ownership	100%

Source: Airline Annual Reports, Interavia Magazine Switzerland. Vol 23 October 1988.

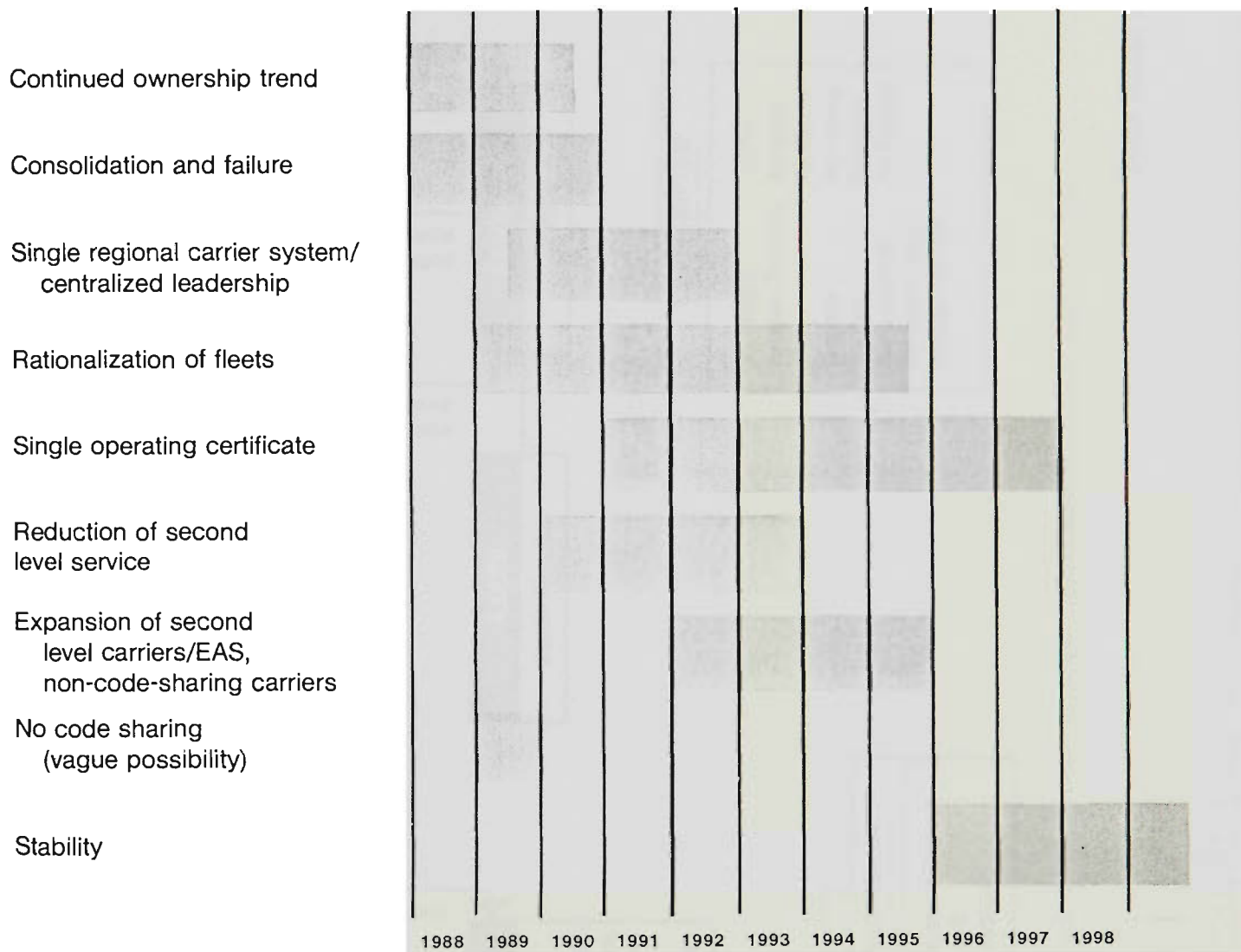
The Economic Balance Sheet

1. The most evident impact of tourism is in intensifying the change from a primarily non-monetary, subsistence agricultural economy to wage based, profit motivated tertiary activity. The profit, accumulation and investment motivation of large scale tourism development is in radical conflict with the kinship based, sharing ethic of many Pacific islanders.
2. As a means of economic development, tourism contains inherent contradictions. The tourist industry is not structured to achieve the development goals of the host country, but to increase the profits made on large scale metropolitan business investment. Advantages for the host nation generally remain peripheral.
3. The ability of tourism to earn foreign exchange and help to overcome deficits in the balance of payments is often less than might be expected from a study of tourist receipts or tourist numbers, because of a large outflow in loan payments, extradited profits, expatriate wages and imported purchases.
4. The hoped-for investment capital in the hotel and resort sector may be provided by metropolitan sources, but this involves the repatriation of a large part of the profits. More seriously, management decisions and control of the industry pass out of domestic hands and strong backwards linkages are invariably formed.
5. Tourism expands employment opportunities, although the jobs are largely unskilled and semi-skilled. This brings obvious benefits, but the relatively good wages offered in tourism, together with the escalation in land prices that accompanies resort development, tempt many small farmers to abandon the land and move into the wage sector.
6. Not only the life styles of the tourists, but the expatriate nature of the senior executive and managerial positions reinforce the demonstration effect generated in the local economy and raise the expectation and demands of the local population.

7. The growth impact of tourism receipts on the general economy may be disappointingly low. Certainly tourism helps to overcome the small market size restraint by expanding internal demand, but not sufficiently to permit the establishment of a manufacturing sector. Gross tourism earnings include a large import component, estimated in Fiji (where there is a significant development of secondary industry) to be approximately 70% (Le Fevre, p. 5). Construction materials, furnishings, duty free goods for re-sale must almost all be imported. Even in catering, most food and drinks consumed by tourists are imported. On the other hand, the local souvenir and handicraft industries generally expand considerably.
8. Large-scale investment by multinational firms with their strong transportation and package tour linkages, forces the small-scale local hotel out of a competitive position. It may provide openings for local expansion into guided tours, rental cars, boats etc., but generally, if the provision of these services is profitable, they will be supplied by the large hotel or resort.
9. Tourism is often proposed as a means of equalising regional differences and providing growth poles in peripheral areas. On a world scale this may be true, but within a small Pacific country tourism is of necessity tied to transportation facilities, so hotels and resorts cluster close to major airports. This leads to certain benefits in the supply of services and entertainment, but increases the speed of urbanization. The intensified urbanization stresses may create additional costs in the provision of extra police, welfare and social services.
10. Last but not least, tourism necessitates expensive infrastructure. The improved transportation network and provision of electricity, water, sewerage and other services benefits at least the wealthier section of the local population — but these facilities cost the developing nation dearly, and yield no direct return.

The benefits from tourism include foreign earnings, employment and general economic growth, though these are often far smaller than those envisioned or assumed, while the costs are real enough, and must invariably be borne entirely by the host nation.

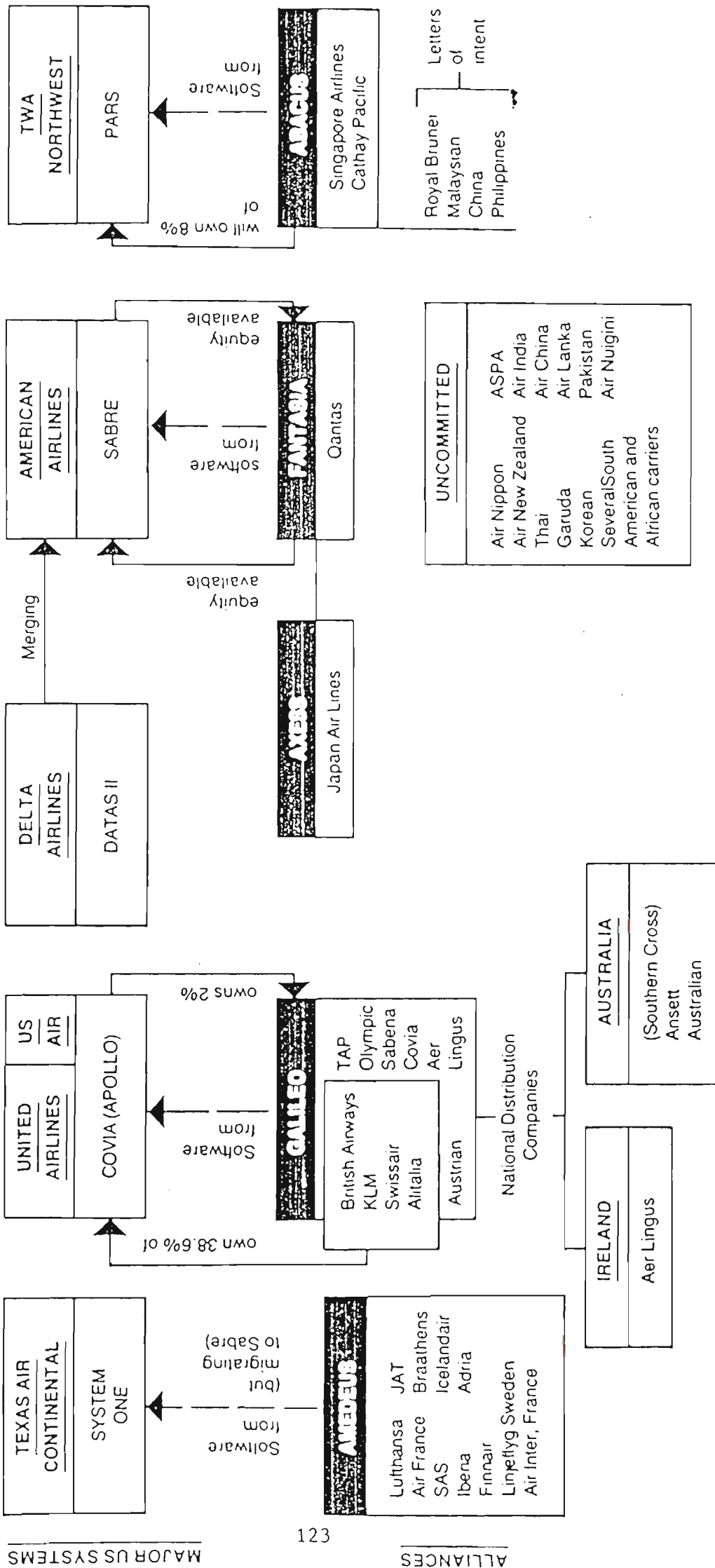
Factors influencing regional airline industry



Source: Avmark Inc.

Air Transport World 12/88

WORLD CRS MAP (Subject to change)

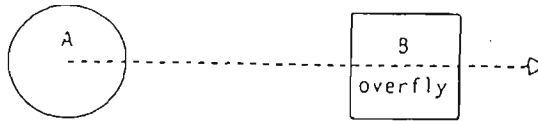


FREEDOMS OF THE AIR

These rights (together with rights to overfly and make stops to refuel) are often referred to as 'Freedsoms of the Air'.

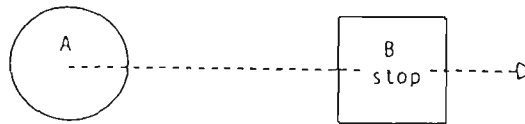
First Freedom

The right of an airline of a country (country "A") to fly across the territory of another country (country "B") without landing:



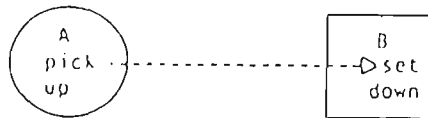
Second Freedom

The right of an airline of a country (country "A") to land in the territory of another country (country "B") for non-traffic purposes, for instance for re-fuelling:



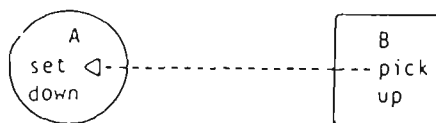
Third Freedom

The right of an airline of a country (country "A") to set down in another country (country "B") passengers, mail and cargo coming from the home country of the airline (country "A"):



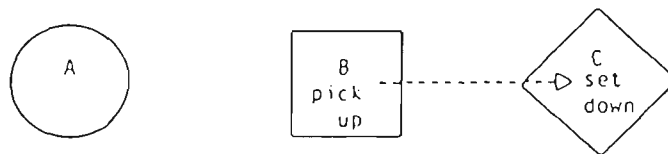
Fourth Freedom

The right of an airline of a country (country "A") to pick up in another country (country "B") passengers mail and cargo destined for the home country of the airline (country "A"):



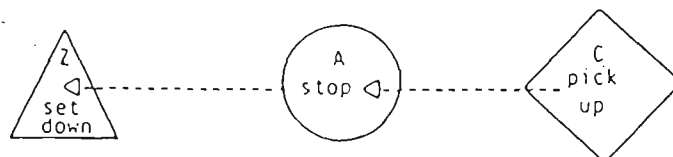
Fifth Freedom

The right of an airline of a country (country "A") to carry passengers, mail and cargo from a point of origin in a foreign country (country "B") to a point of destination in another foreign country (country "C"):



Sixth Freedom

A term sometimes applied to the type of Fifth Freedom traffic carried from a point of origin in a foreign country (country "C") to a point of destination in another foreign country (country "Z") via the home country of the airline (country "A"):



U.S. - TAHITI BILATERAL AGREEMENT

CAPACITY	Must be related to the volume of traffic, including local, regional, and area service(s)
FREQUENCY	Not stated specifically
NUMBER OF CARRIERS	Not limited, but with reciprocity applicable
ROUTES/POINTS SERVED	<p>French Airline(s) Route including New Caledonia, Tahiti, and Bora Bora to Honolulu and the terminal point on the U.S. West Coast, in both directions A route including New Caledonia via intermediate points Nadi, Pago Pago, Tahiti, and Bora Bora to Honolulu and to a terminal point on the U.S. West Coast, in both directions Tahiti and Bora Bora to Honolulu and to a terminal point on the U.S. West Coast, in both directions</p> <p>U.S. Airline(s) From the U.S. via intermediate points to Tahiti, Bora Bora, and New Caledonia, and thence via intermediate points on one or more routes to Australasia, in both directions</p>
CHANGE OF EQUIPMENT	Yes, consistent with long range character of operations
BASIC ROUTE RIGHTS	
FIRST	Yes
SECOND	Yes
THIRD	Yes, as specified
FOURTH	Yes, as specified
FIFTH	Yes, as specified; behind rights for French carrier(s); behind and beyond rights for the U.S. carrier(s)

Source: University of Hawaii, "Emerging Trends in Trans-Pacific Air Routes and their Implications for Hawaii".

APPENDIX SEVENTEEN

Bilateral Provisions For Australia – Western Samoa / Australia – Nauru

PROVISION	NEW ZEALAND – WESTERN SAMOA	AUSTRALIA – NAURU
Routes/Points Served	<p>New Zealand Airline New Zealand via Tonga and Niue to any one point in Western Samoa beyond to points in the U.S. (except American Samoa), in both directions.</p> <p>Points in the Cook Islands via Tonga and Niue to any one point in Western Samoa, in both directions.</p> <p>Points in Western Samoa via Niue and Tonga To Auckland, in both directions.</p> <p>Points in Western Samoa via Niue and Tonga to Rarotonga, in both directions</p>	<p>Australian Airline Australia, including Papua New Guinea, to Honiara, Noumea, and Nauru, in both directions.</p> <p>Nauruan Airline Nauru to Brisbane in both directions.</p>
Frequencies	Not stated	Not explicitly stated
Capacities	Not stated	Must be related to the volume of traffic including that originating in/destined for the home country and also beyond traffic.
Number of Carriers	One airline from each country	One airline from each country
Change of Equipment	Allowed, with restrictions	Not stated
Basic Route Rights		
First Freedom	Yes	Yes
Second Freedom	Yes	Yes
Third Freedom	Yes, on specified routes	Yes, on specified routes
Fourth Freedom	Yes, on specified routes	Yes, on specified routs
Fifth Freedom	Yes – beyond and behind rights for New Zealand carrier, as specified; behind rights for Western Samoa carrier, as specified	Yes – behind rights for Australian carrier, as specified

Source: University of Hawaii, *Tourism Development in the South Pacific*, p. 49

I.C.A.O.

RESOLUTION 18/2

Practical measures to provide an enhanced opportunity for developing States with community of interest to operate international air transport services

WHEREAS it is one of the purposes of ICAO to support principles and arrangements in order that international air transport services may be established on the basis of equality of opportunity and operated soundly and economically;

WHEREAS the provision of regular and reliable air transport services is of fundamental importance to the development of the economies of many developing States, including those dependent upon tourism;

WHEREAS the strict application of the criterion of substantial ownership and effective control for the authorization of an airline to exercise route and other air transport rights could deny to many developing States a fair and equal opportunity to operate international air services and to optimise the benefits to be derived therefrom;

Transport & Communications

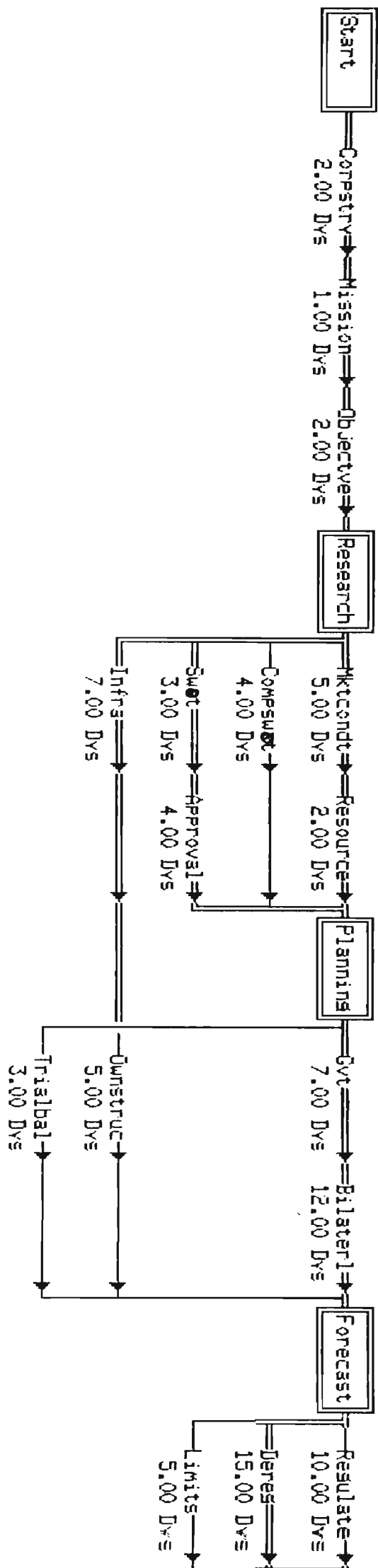
WHEREAS the realisation of developmental objectives among such States is increasingly being promoted by cooperative arrangements among such States in the form of regional economic groupings, and functional cooperation symbolic of the affinity and community of interest existing among those States;

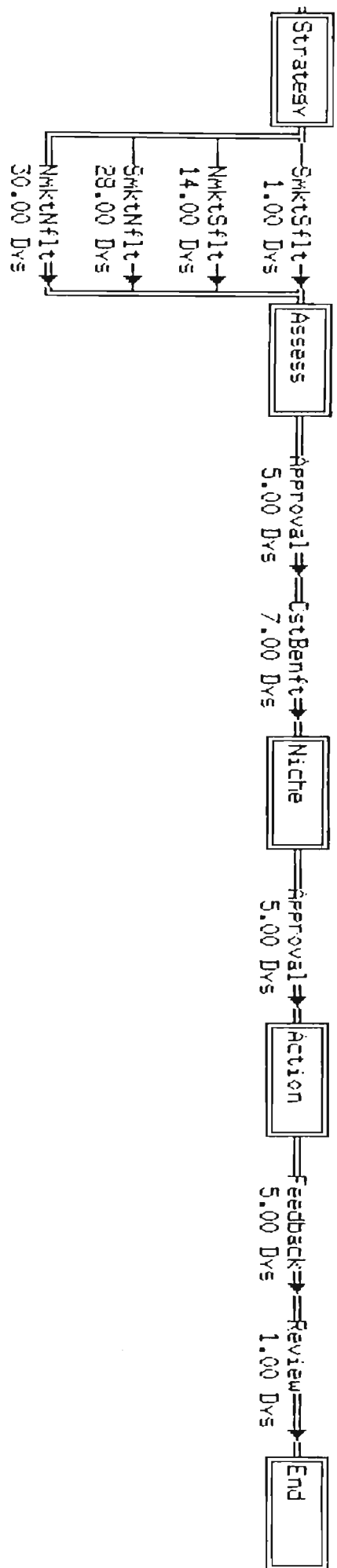
WHEREAS such community of interest is particularly shared among developing States belonging to such regional economic integration movements; and

WHEREAS the exercise of route and other air transport rights of a developing State having such community of interest by an airline substantially owned and effectively controlled by another developing Member State or States or its or their nationals sharing the same community of interests will serve to promote such interests, further national development and provide an enhanced opportunity to such developing States to operate international air services and to optimise the benefits to be derived therefrom;

THE ASSEMBLY:

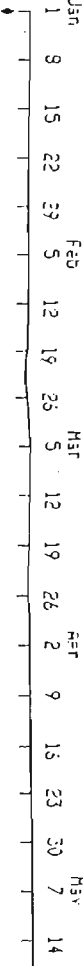
1. **CALLS** upon Contracting States to recognize the concept of community of interest within regional economic groupings as a valid basis for the designation by one developing State or States of an airline of another developing State or States within the same regional economic grouping where such airline is substantially owned and effectively controlled by such other developing State or States or its or their nationals;
2. **URGES** Contracting States to accept the designation of and allow an airline substantially owned and effectively controlled by one or more developing State or States (or its or their nationals) belonging to a regional economic grouping to exercise the route rights and other air transport rights of any developing State or States within the same grouping; under mutually acceptable terms and conditions including air transport agreements negotiated or to be negotiated by the parties concerned; and
3. **DIRECTS** the Council when and if requested to render all feasible assistance to States wishing to enter such regional arrangements.





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Start



Subject: FLAG

- * Corporate Strategy defining past actions to Current Position
- * Mission Statement on what business we are in
- * Objective: Company Objectives for the future e.g. specific quantifiable goals
- * Research on current market situation
- * Company
- * SWOT analysis of competitive positions in the marketplace
- * Market conditions for leasing, purchase, pooling etc
- * Infra
- * Tourism infrastructure input and development rate including airport
- * SWOT
- * SWOT analysis on the company strengths, weaknesses, opportunities and threats
- * Approval
- * Corporate approval to go beyond planning stage
- * Resource
- * Resources available at this point in time e.g. financial, human, fleet
- * Planning
- * Planning for the future based on thorough knowledge of the present
- * Gov
- * Government tourism and aviation policy direction
- * Quasitric
- * Can company infrastructure and the changes desired
- * Trialbal
- * Trial Profit and Loss statement and balance sheet prior to strategies
- * Bilateral
- * Explanation of existing used/unused and potential bilateralis
- * Forecast
- * Forecasting future events anticipated
- * Limits
- * Market and physical limitations on strategy formulation
- * Dereg
- * Assess operating conditions anticipated in a deregulated environment
- * Regulate
- * Assessment of regulated operating environment conditions
- * Strategy
- * Formulation of maintain flag carrier strategies and action plans
- * Market
- * New markers for the Same fleet and standard of service
- * Market
- * New markers with New Fleets and standards of service
- * Market
- * New markers with New Fleets and standards of service
- * Market
- * Same market New fleet and style / standard of service
- * Market
- * Same market with the Same fleet and standard of service ie. strategy for no change
- * Assess
- * Assessment of strategy options and action plans for best fit with objectives
- * Approval
- * Approval from corporate to assess particular strategy alternatives
- * Cost/benefit
- * Cost benefit analysis of niche positioning
- * Niche
- * Determine best fit niche strategy for market
- * Approval
- * Approval from the board and government officials
- * Action
- * Action on strategy
- * Feedback
- * Obtain continuous feedback from the field and staff
- * Review
- * Review with management, board, government and industry groups

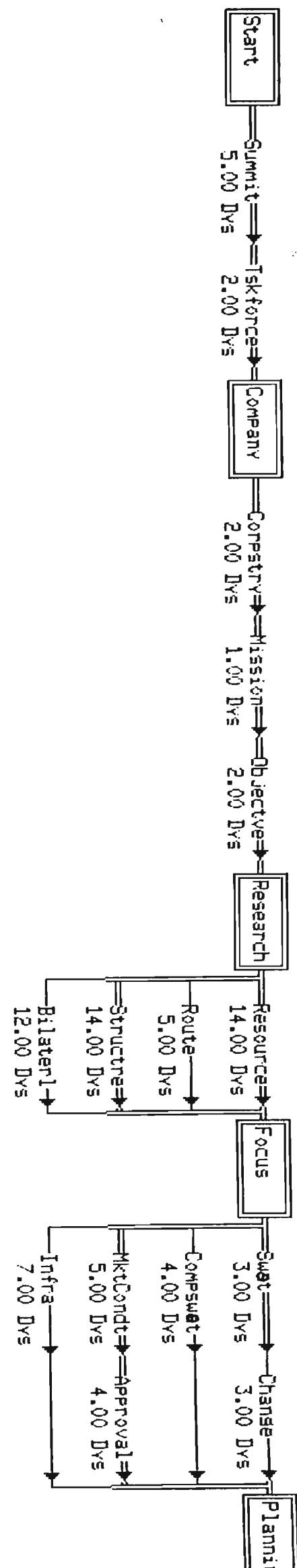
APPENDIX TWENTY ONE
 MAINTAIN FLAG CARRIER COMPETITION STRATEGY

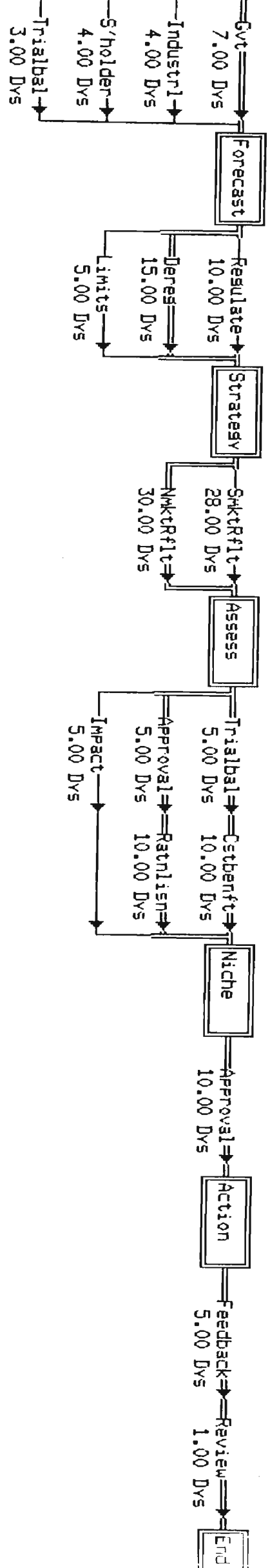
Project resource list

Project Name	Task Name	Start	Finish	Resource	Quantity	Planned Duration Planned Cost	Actual Duration Actual Cost
FLAG	Corpstry	1-Jan-1990	3-Jan-1990	PLANNING	1.000	2.00 Dys W 0.00	0.00
FLAG	Mission	3-Jan-1990	4-Jan-1990	PLANNING	1.000	1.00 Dys W 0.00	0.00
FLAG	Objective	4-Jan-1990	8-Jan-1990	PLANNING	1.000	2.00 Dys W 0.00	0.00
FLAG	Compswet	8-Jan-1990	12-Jan-1990	MARKETING	1.000	4.00 Dys W 0.00	0.00
FLAG	Infra	8-Jan-1990	17-Jan-1990	MARKETING	1.000	7.00 Dys W 0.00	0.00
FLAG	Mktcondt	8-Jan-1990	15-Jan-1990	MARKETING	1.000	5.00 Dys W 0.00	0.00
				OPERATNS	1.000	0.00	0.00
				PLANNING	1.000	0.00	0.00
FLAG	Swet	8-Jan-1990	11-Jan-1990	MARKETING	1.000	3.00 Dys W 0.00	0.00
				PLANNING	1.000	0.00	0.00
				OPERATNS	1.000	0.00	0.00
FLAG	Approval	11-Jan-1990	17-Jan-1990	PLANNING	1.000	4.00 Dys W 0.00	0.00
FLAG	Resource	15-Jan-1990	17-Jan-1990	OPERATNS	1.000	2.00 Dys W 0.00	0.00
				PLANNING	1.000	0.00	0.00
				FINANCE	1.000	0.00	0.00
FLAG	Gvt	17-Jan-1990	26-Jan-1990	PLANNING	1.000	7.00 Dys W 0.00	0.00
FLAG	Ownstruc	17-Jan-1990	24-Jan-1990	PLANNING	1.000	5.00 Dys W 0.00	0.00
				OPERATNS	1.000	0.00	0.00
FLAG	Trialbal	17-Jan-1990	22-Jan-1990	FINANCE	1.000	3.00 Dys W 0.00	0.00
FLAG	Bilaterl	26-Jan-1990	13-Feb-1990	OPERATNS	1.000	12.00 Dys W 0.00	0.00
				PLANNING	1.000	0.00	0.00
FLAG	Dereg	13-Feb-1990	6-Mar-1990	OPERATNS	1.000	15.00 Dys W 0.00	0.00

Project Name	Task Name	Start	Finish	Resource	Quantity	Planned Duration	Planned Cost	Actual Duration	Actual Cost
FLAG	Limits	13-Feb-1990	20-Feb-1990			5.00 Dys W			
				FINANCE	1.000		0.00		0.00
				OPERATNS	1.000		0.00		0.00
FLAG	Regulate	13-Feb-1990	27-Feb-1990			10.00 Dys W			
				OPERATNS	1.000		0.00		0.00
FLAG	NmktNflt	6-Mar-1990	17-Apr-1990			30.00 Dys W			
				MARKETNG	1.000		0.00		0.00
				OPERATNS	1.000		0.00		0.00
				FINANCE	1.000		0.00		0.00
				PLANNING	1.000		0.00		0.00
FLAG	NmktSflt	6-Mar-1990	26-Mar-1990			14.00 Dys W			
				MARKETNG	1.000		0.00		0.00
				PLANNING	1.000		0.00		0.00
FLAG	SmktNflt	6-Mar-1990	13-Apr-1990			28.00 Dys W			
				MARKETNG	1.000		0.00		0.00
				OPERATNS	1.000		0.00		0.00
				PLANNING	1.000		0.00		0.00
				FINANCE	1.000		0.00		0.00
FLAG	SmktSflt	6-Mar-1990	7-Mar-1990			1.00 Dys W			
				MARKETNG	1.000		0.00		0.00
				PLANNING	1.000		0.00		0.00
FLAG	Approval	17-Apr-1990	24-Apr-1990			5.00 Dys W			
				PLANNING	1.000		0.00		0.00
FLAG	CstBenft	24-Apr-1990	3-May-1990			7.00 Dys W			
				FINANCE	1.000		0.00		0.00
FLAG	Approval	3-May-1990	10-May-1990			5.00 Dys W			
				PLANNING	1.000		0.00		0.00
FLAG	Feedback	10-May-1990	17-May-1990			5.00 Dys W			
				HUMAN	1.000		0.00		0.00
FLAG	Review	17-May-1990	18-May-1990			1.00 Dys W			
				HUMAN	1.000		0.00		0.00

APPENDIX TWENTY TWO



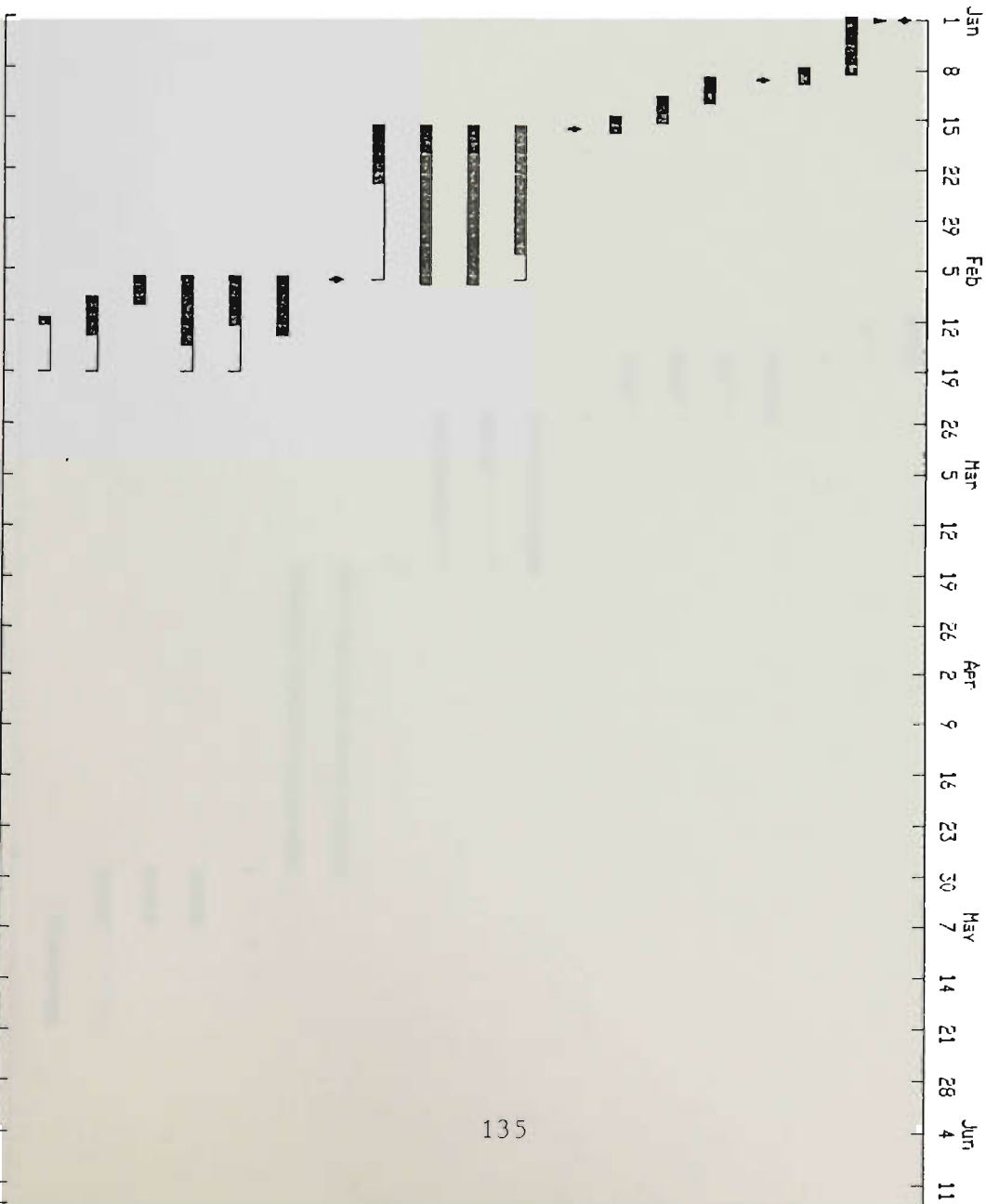


Project: SINGLE

Page 1

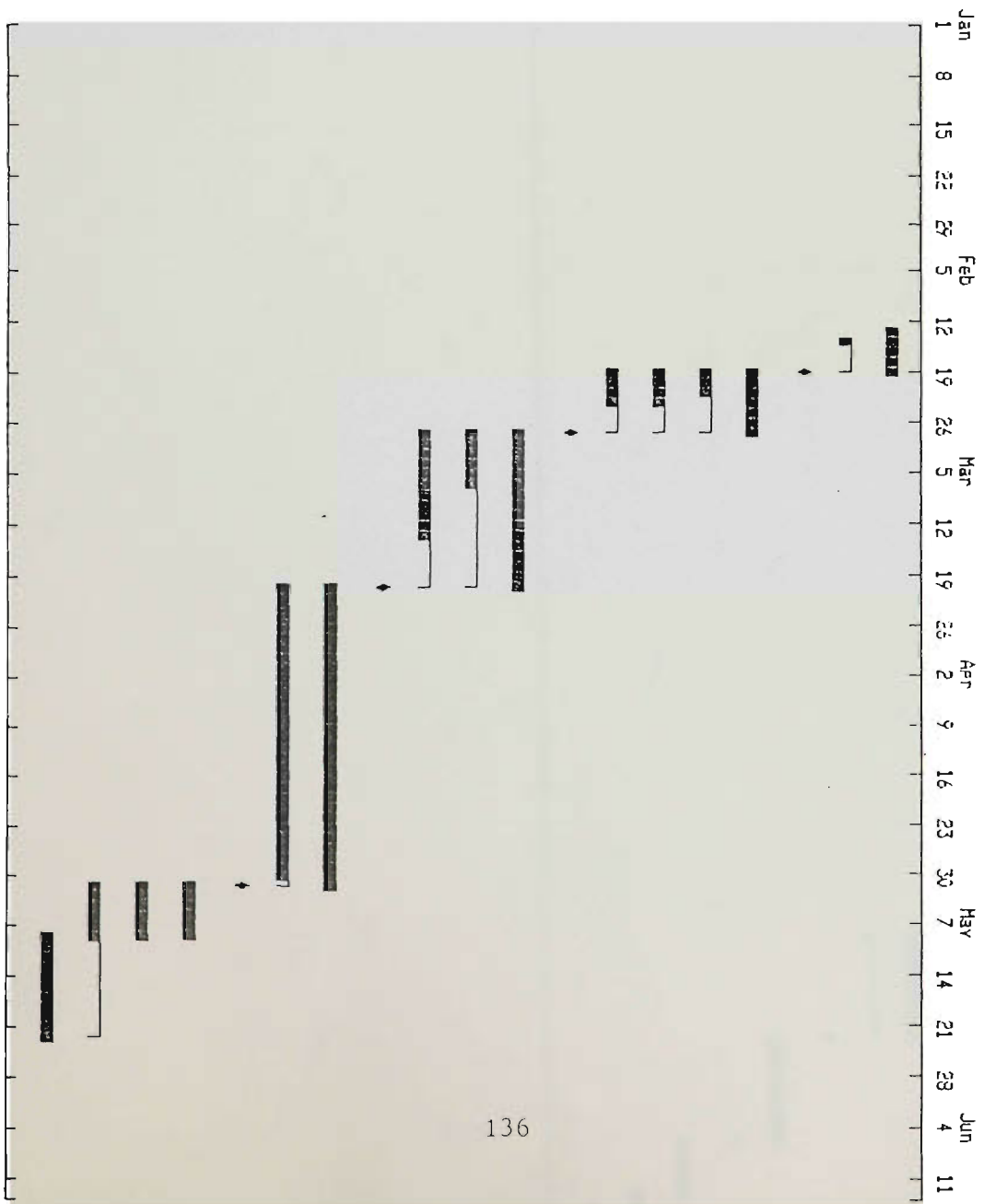
- Summit
- Meeting of heads of states and aviation officials
- * Taskforce
- Nominate task force representatives from each country
- Company
- Head Office location and register co. name
- * Country
- Corporate Strategy defining past actions to current position
- * Mission
- Mission statement on what business we are in
- * Objective
- Company objectives for the future eg. specific quantifiable goals
- Research
- Research on current market situation
- * Bilateral
- Examination of existing used, unused and potential bilaterals
- * Resource
- Resource analysis of existing airlines eg. human, financial, fleet
- * Structure
- Analysis of existing airline management and operational structures
- * Route
- Route analysis of existing airlines
- Focus
- Focus on vision of developing a single carrier
- * MktCond
- Market conditions for leasing, purchase, pooling etc
- * CompSWOT
- SWOT analysis of competitive positions in the marketplace
- * Infra
- Tourism infrastructural input and development rate including airport
- * SSWOT
- SWOT analysis on company strengths, weaknesses, opportunities and threats
- * Change
- Analysis of basic change agents needed to implement strategy

Start



Project: SINGLE

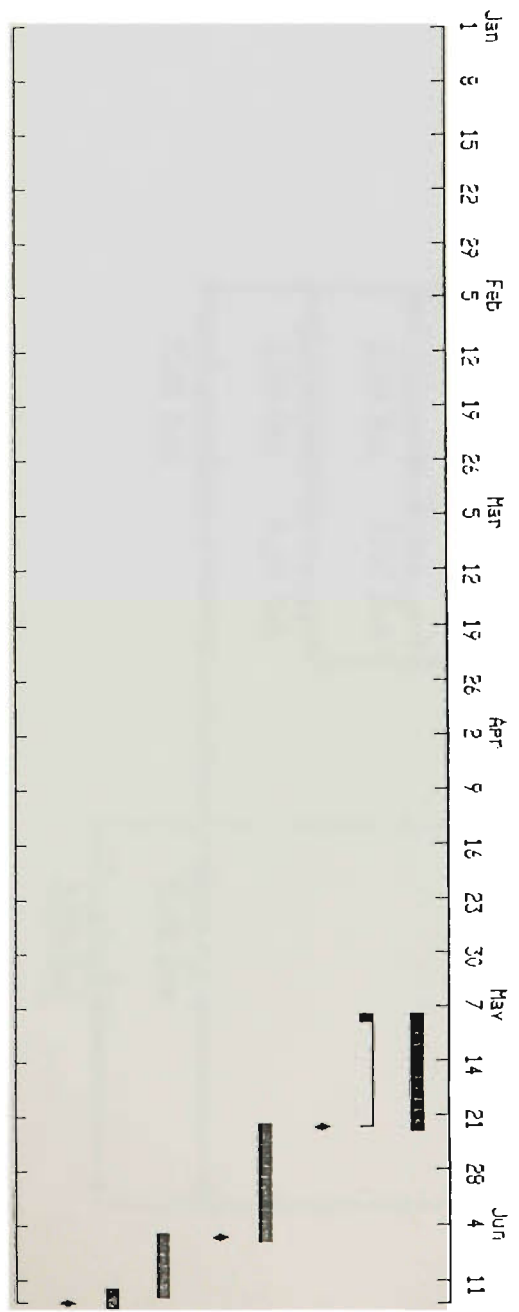
- * Approval
 - Corporate approval to go beyond planning stage
-
- Planning
 - * Govt
 - Government tourism and aviation policy direction
 - * Trialbal
 - Trial profit and loss statement and balance sheet prior to strategies
 - * S'holder
 - Ownership decisions on shareholdings percentages
 - Industrnl
 - Industrial relations and labour demands
 - Forecast
 - Forecasting future events anticipated
 - * Deres
 - Assessment of deregulated operating environment conditions
 - * Limits
 - Market and physical limitations on strategy formulation
 - * Regulate
 - Assessment of regulated operating environment conditions
 - Strategy
 - Formulation of single flag carrier strategies and action plans
 - * NKKRRII
 - New markets for Rationalised fleet
 - * SKKRRII
 - Same markets with a Rationalised fleet and standard of service
 - Assess
 - Assessment of strategy options and action plans for best fit with objectives
 - * Trialbal
 - Trial profit and loss statement and balance sheet after strategies
 - * Approval
 - Approval from corporate to assess particular strategy alternatives
 - * Impact
 - Impact and ramifications of action plans on staff and customers
 - * Ratinlism
 - Structure of fleet and resource rationalisation for each strat.

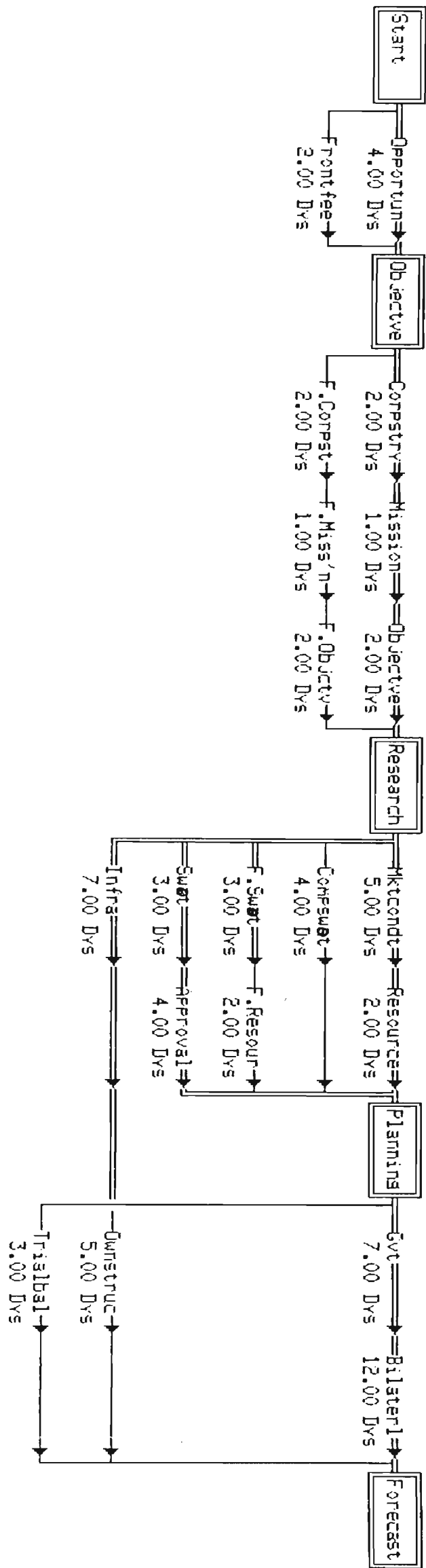


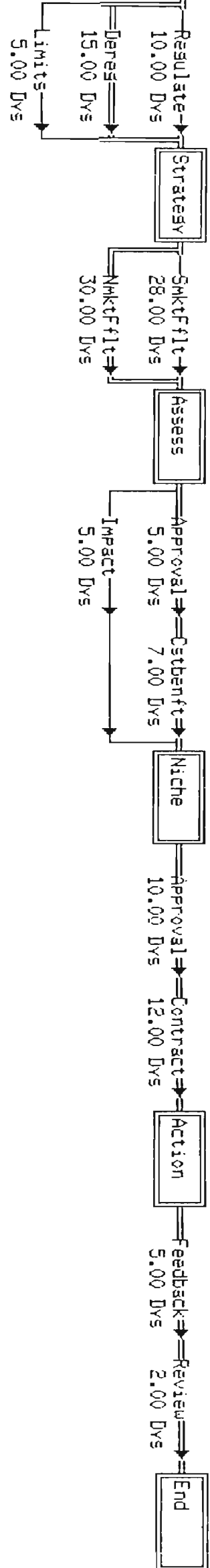
Project: SINGLE

Page 3

- * Cost/benefit analysis of single class carrier strategy, fleet rationalization position.
-
- Niche
- Determine best fit niche strategy for market
- * Approval
- Approval from the board and government officials
- Action
- Action on strategy
- * Feedback
- Obtain continuous feedback from the field and staff
- * Review
- Review of strategy with management, board, government and industry groups
- End
- End single class carrier strategy with continual review and modification

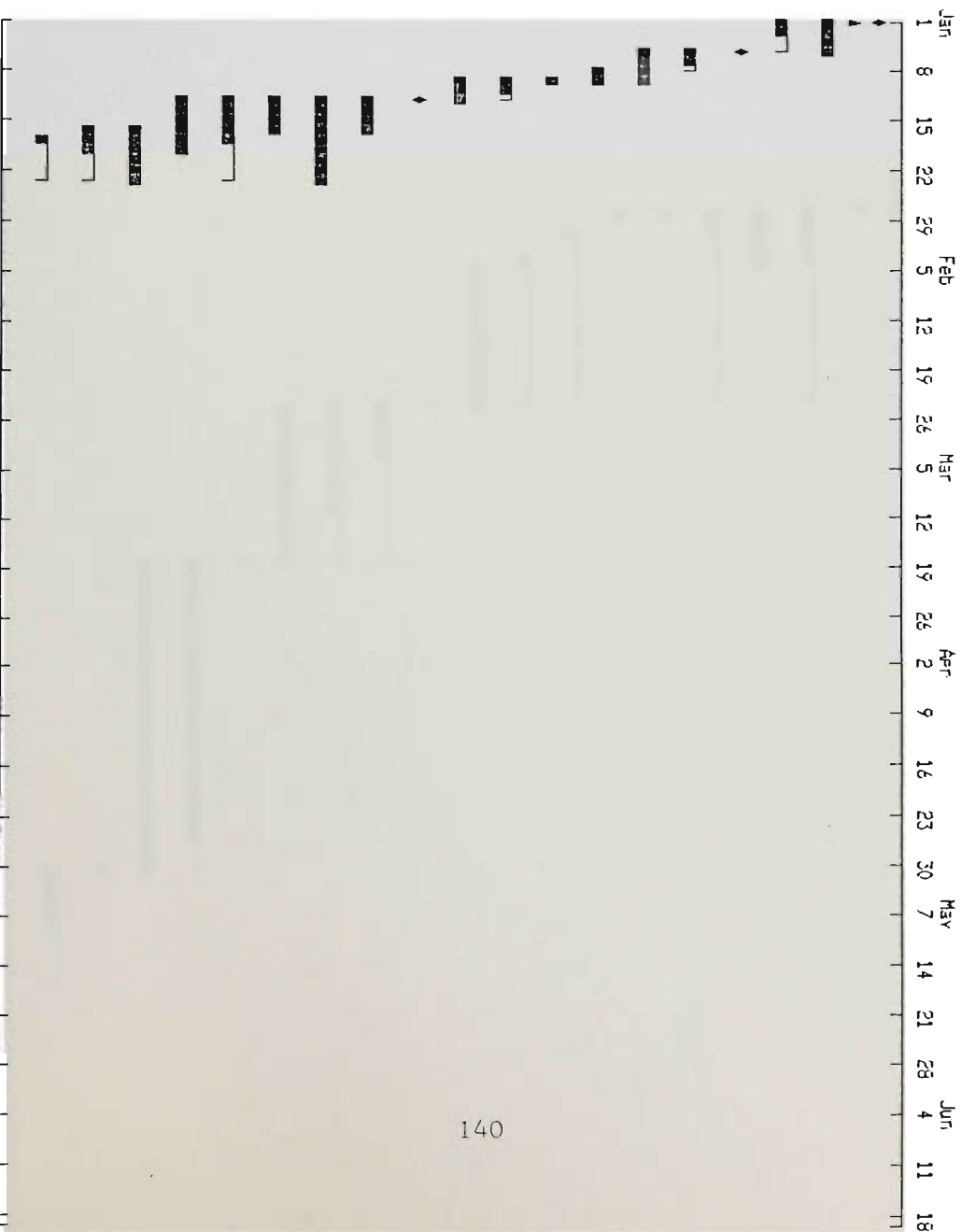






- * Departun
- * Investigate opportunities for franchise ead. Ansatz, Continental
- * Frontfee
- * Establish cost of up-front fee for joining franchise
- Objective
- Define objectives of company
- * F.Corpst
- Alternative franchisor corporate strategy for best fit to own objectives
- * Corpstury
- Corporate strategy defining fast actions to current position
- * F.Miss'n
- Alternative franchisor mission statements for best fit
- * Mission
- Mission statement on what business we are in
- * F.Objectv
- Franchisor objectives and future directions.
- * Objective
- Company objectives for the future ead. Specific quantifiable goals
- Research
- Research on current market situation
- * F.Swat
- SWOT analysis of franchisors position in the marketplace
- * Infra
- Tourism infrastructural input and development rate including airport
- * Swat
- SWAT analysis on company strengths, weaknesses, opportunities and threats
- * CompSwat
- SWOT of competitive positions in the marketplace
- * Mktcondi
- Market conditions for leasing, purchase, feeding etc
- * Approval
- Corporate approval to go beyond planning stage
- * F.Resour
- Resources offered by franchisor alternatives

Start



Project: FRANCHISE

- * Resource
 - Resource available at this point in time eg. financial, human, fleet
- Planning
 - Planning for the future based on thorough knowledge of the present
- * Construct
 - Own company infrastructure and the changes desired
- * Govt
 - Government tourism and aviation policy direction
- * Trial/bal
 - Trial Profit and loss statement and balance sheet prior to strategies
-
-
-
- * Bilateral
 - Examination of existings used, unused and potential bilaterals
- Forecast
 - Forecasting future events anticipated
- * Limits
 - Market and physical limits on strategy formulation
- * Regulate
 - Assessment of regulated operating environment conditions
- * Deres
 - Assessment of operating conditions anticipated in a deregulated environment
- Strategy
 - Formulation of franchise operation strategies and action plans
- * Shift/fit
 - Same market with a franchised fleet and standard of service
- * Make/fit
 - New Markets for Franchised fleet
- Assess
 - Assess strategy options and action plans for best fit with objectives
- * Impact
 - Impact and rationalisation of decisions on management, staff, customers

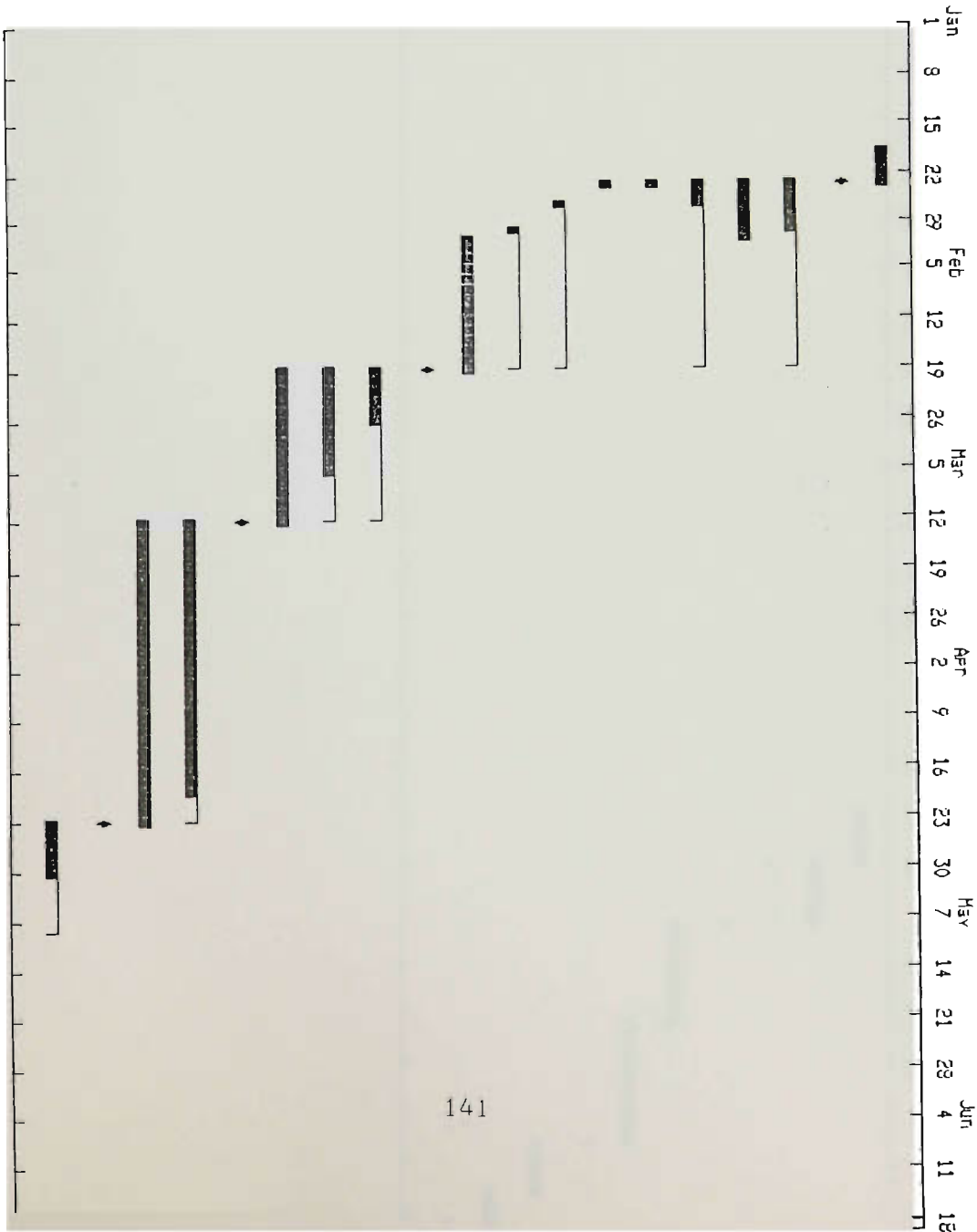
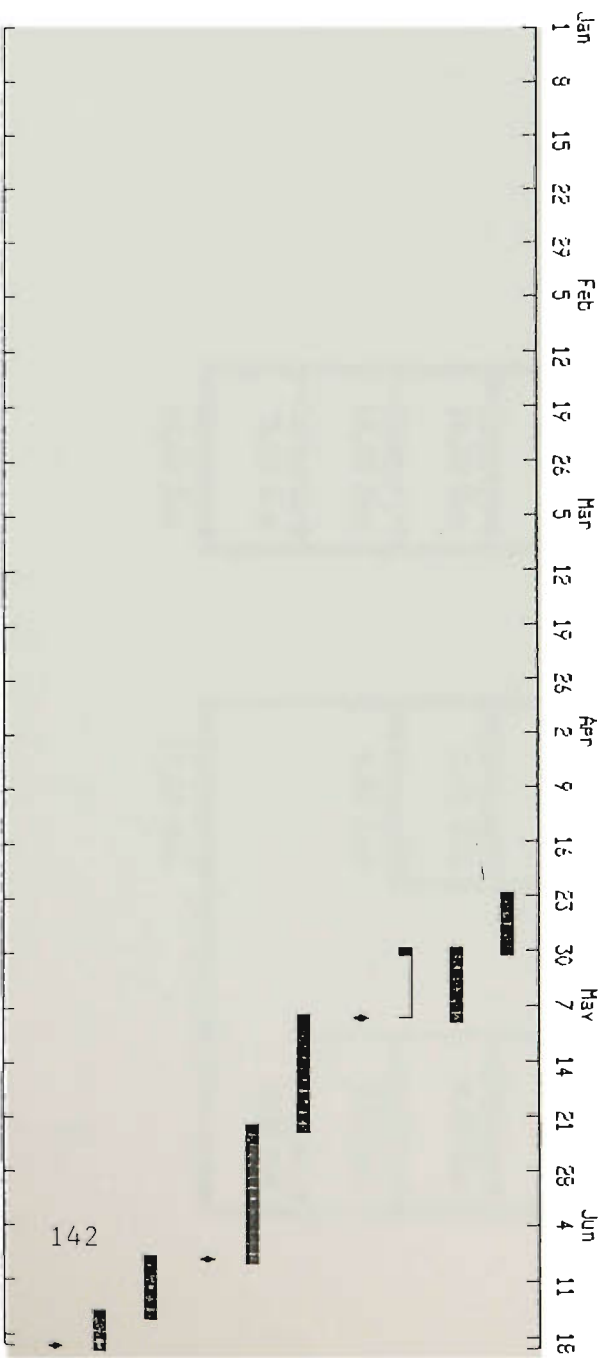
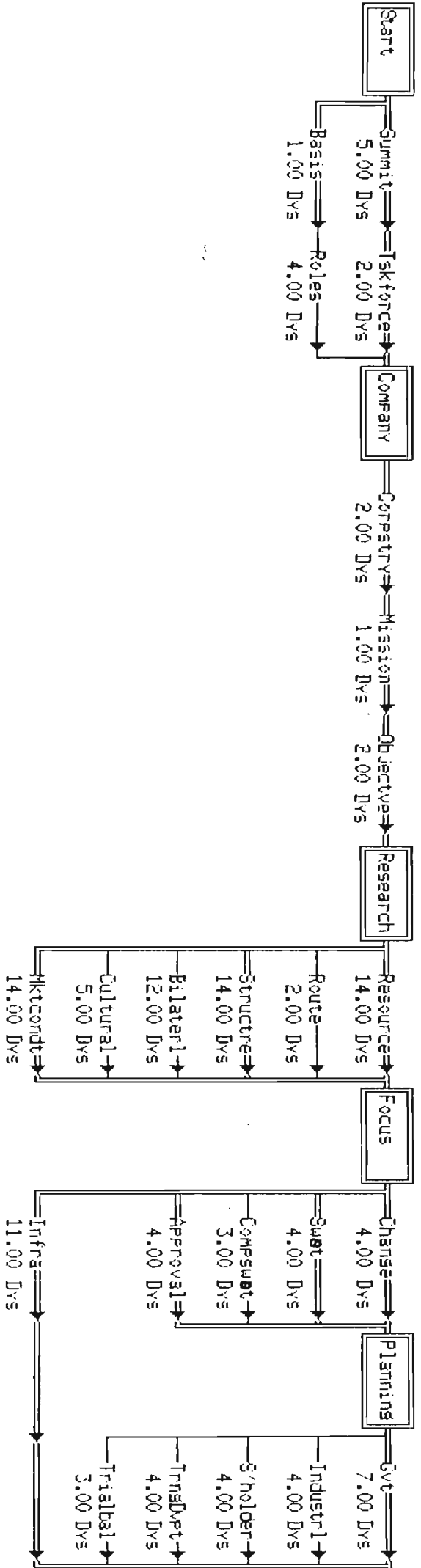


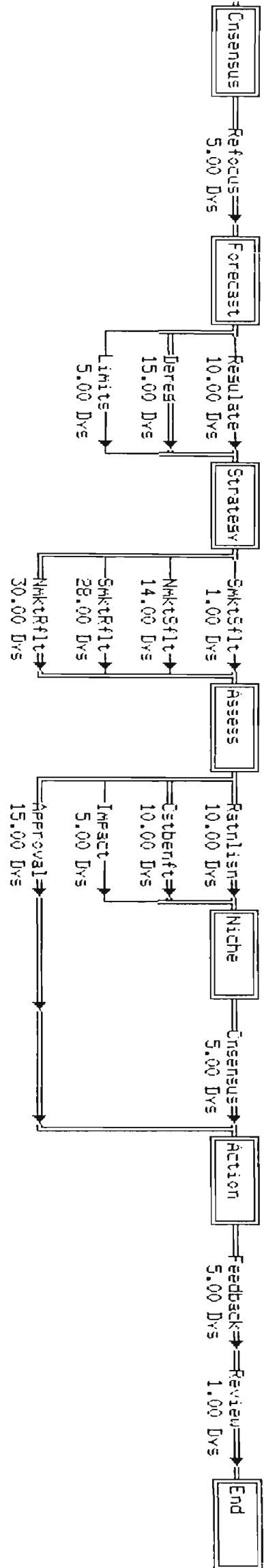
Table 3

- * Approval from corporate to assess particular strategy alternatives
- * Identify
- Cost benefit analysis of adopting franchise strategy and niche position

- Niche
- Determine best fit niche strategy for market
- * Approval
- Approval from board and government authorities on franchise
- * Contract
- Sign the contracting franchise agreement
- Action
- Action on strategy
- * Feedback
- Obtain continuous feedback from the field and staff
- Review
- Conduct review with franchisor, management, board, government and industry
- End
- End franchise operation strategy with continual review and modification





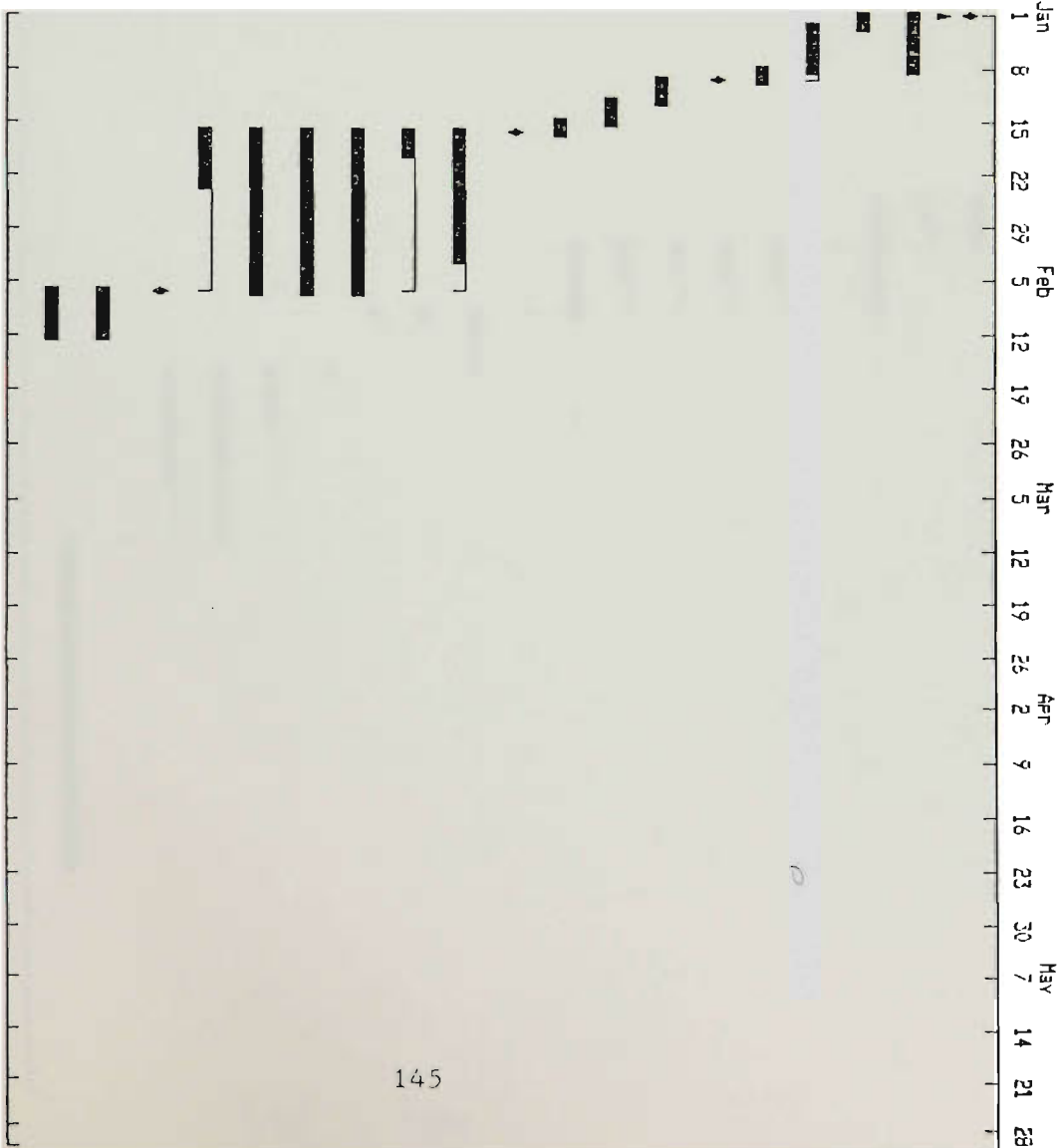


ALTERNATIVE B.5 GROUP AIRLINE ALLIANCE STRATEGY

Project: GROUP

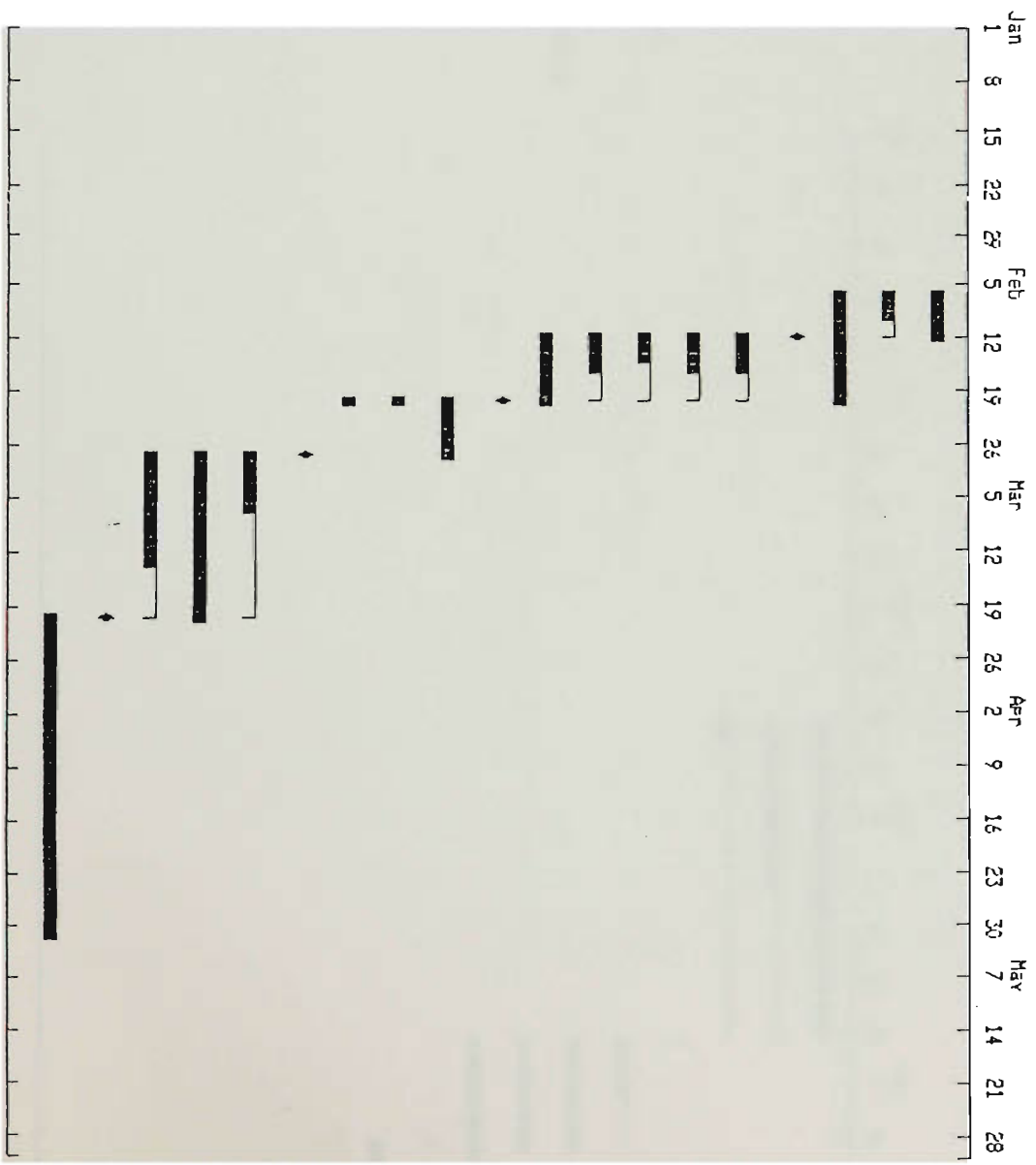
Start

- * Summit
- Meeting of Heads of States and aviation officials
- * Basis
- Foundation and basis on which to build i.e. economic groupings
- * Roles
- Define roles and extent of participation of each country
- * Taskforce
- Nominate taskforce representatives from each country
- Company
- New group alliance identity, name, centralised location etc.
- * Country
- Corporate strategy defining past actions to current position
- * Mission
- Mission statement on what business we are in
- * Objective
- Company objectives for the future ed. specific quantifiable goals
- Research
- Research on current market situation
- * Bilateral
- Examination of existing unused and potential bilaterals
- * Route
- Route analysis of previous individual airlines
- * Structure
- Analysis of existing individual operational structures
- * Resource
- Analysis of current existing resources ed. financial, human fleet
- * Kuccondt
- Market conditions for leasing, purchase, pooling, finance etc.
- * Cultural
- Address cultural and political differences that will need to be overcome
- Focus
- Focus on vision of group airline alliance
- * Change
- Analysis of basic change agents needed to implement strategy
- * SWOT
- SWOT analysis of company strengths, weaknesses, opportunities, threats



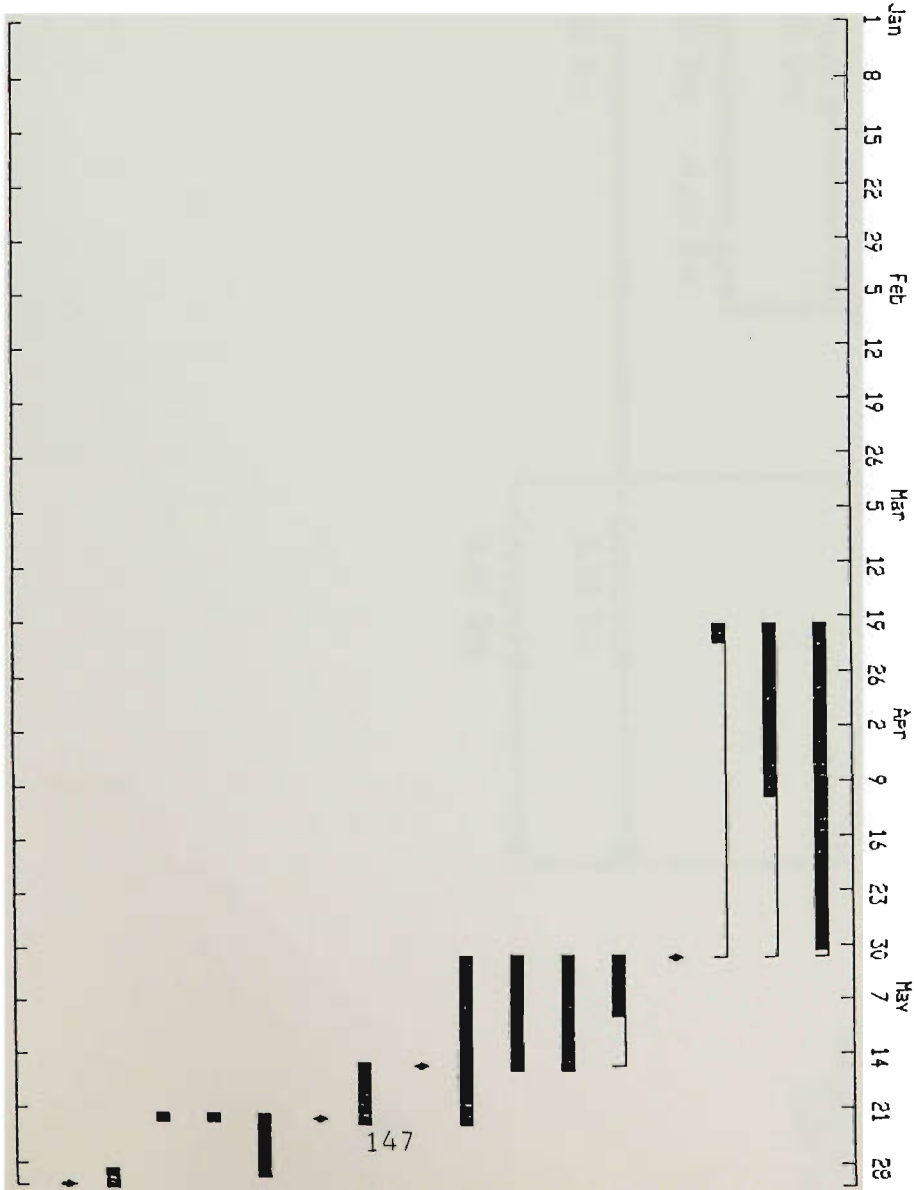
Project: GROUP

- * Approval
 - Corporate approval to go beyond planning stage
 - * Commitment
 - Swot analysis of competitive positions in the marketplace
 - * Infra
 - Tourism infrastructural development rate and input including airport
 - Planning
 - Planning for the future based on thorough knowledge of the present
 - * Industrl
 - Industrial relations and labour demands
 - * S'holder
 - Ownership decisions on shareholding percentages
 - * Trialbal
 - Trial profit and loss statement and balance sheet prior to strategies
 - * TrndDvpt
 - Training and development considerations eg. location and new methods
 - * Gvt
 - Government tourism and aviation policy direction
 - Consensus
 - Agreement by grouped countries on planning details
 - * Refocus
 - Refocus on future direction
-
- Forecast
 - Forecasting future events anticipated
 - * Limits
 - Markets and physical limitations on strategy formulation
 - * Dereg
 - Assessment of deregulated operating environment conditions
 - * Regulate
 - Assessment of regulated environment operating conditions
 - Strategy
 - Group airline alliance strategies and action plans
 - * NWKRFile
 - New markets with a Rationalised fleet

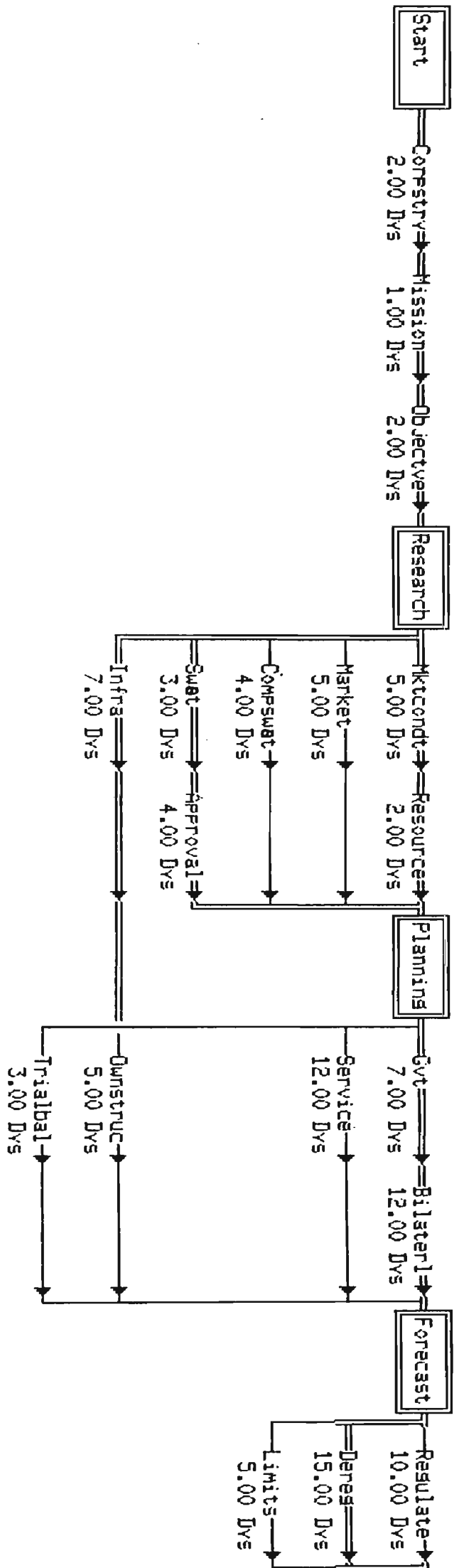


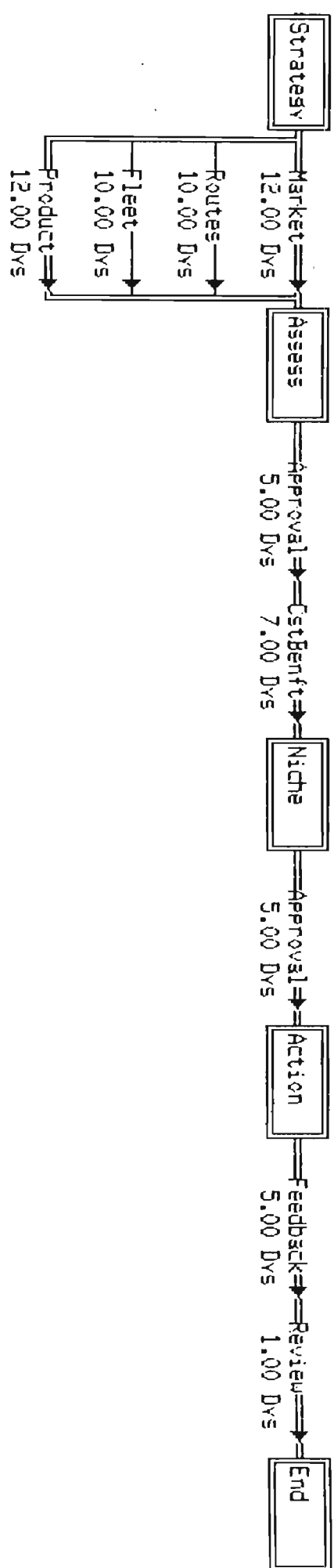
Project: GROUP

- * SaktS1t
- Same market with a Rationalised fleet and standard of service
- * NktS1t
- New markets for the Same fleet (identity changed)
- * SaktS1t
- Same market with Same fleet (changed identity) and standard of service
- Assess
- Assessment of strategy options and action plans for best fit with objectives
- * Impact
- Impact and ramifications of action plans on staff and customers
- * Cstbenft
- Cost benefit analysis of group airline alliance strategy/fleet rationalisation
- * Ratnlisn
- Structure of fleet and resource rationalisation involved
- * Approval
- Approval from corporate to assess strategy alternatives and niche choice
- Niche
- Determine best fit niche strategy for market
- * Cnsensus
- Consensus on niche decision
- Action
- Action on strategy
- Feedback
- Obtain continuous feedback from field and staff
-
- Review
- Review with Management, board, government and industry groups
- End
- End group airline alliance strategy with continual review and modification



sect: BOUTIQUE





Project: ROUTIQUE

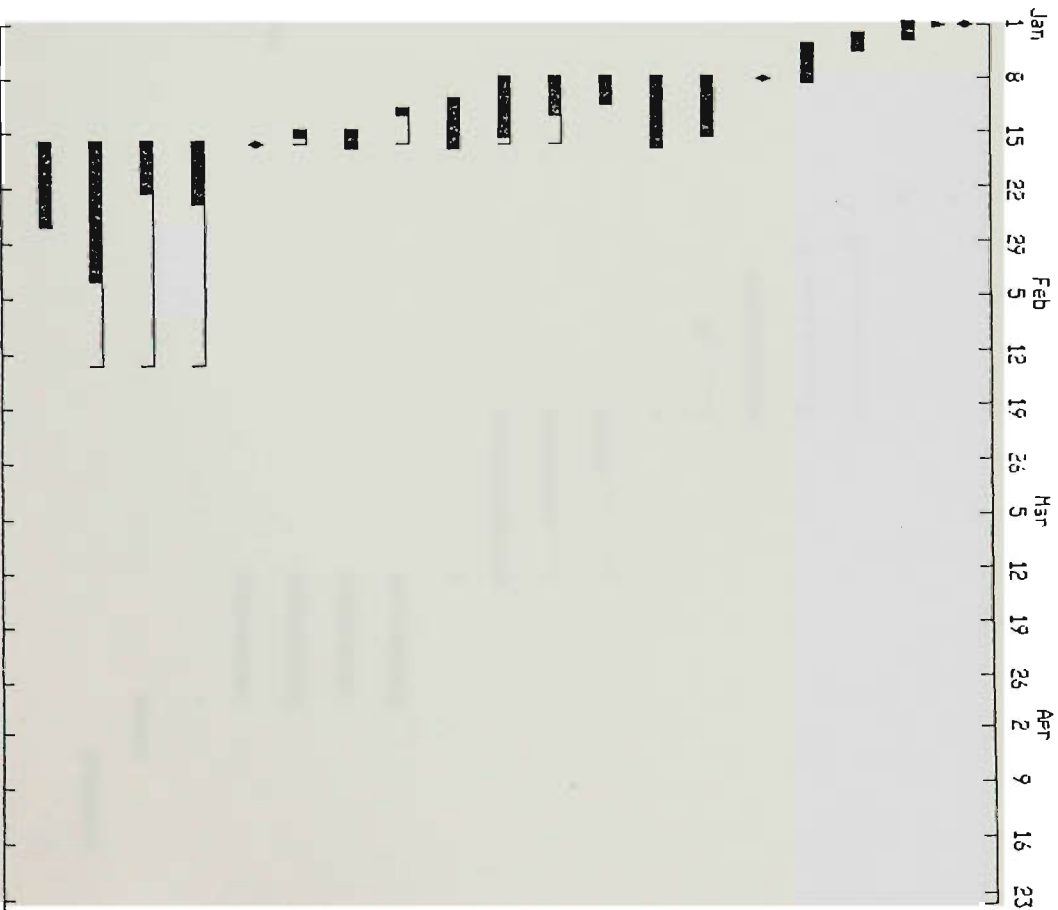
Start

- * Company
- Corporate strategy defining past actions to current position
- * Mission
- Mission statement on what business we are in
- * Objective
- Company objectives for the future eg. specific quantifiable goals
- Research
- Research on current market situation
- * Market
- Market conditions for leasing, purchase, pooling etc.
- * Infra
- Tourism infrastructural development rate and input including airport dept
- * SWOT
- SWOT analysis on company strengths, weaknesses, opportunities and threats
- * Competitor
- SWOT analysis of competitive positions in the marketplace
- * Market
- Market research: customer segments, market differentiation, U.S.P
- * Approval
- Corporate approval to go beyond planning stage

- * Resource
- Resources available at this point in time eg. financial, fleet, human

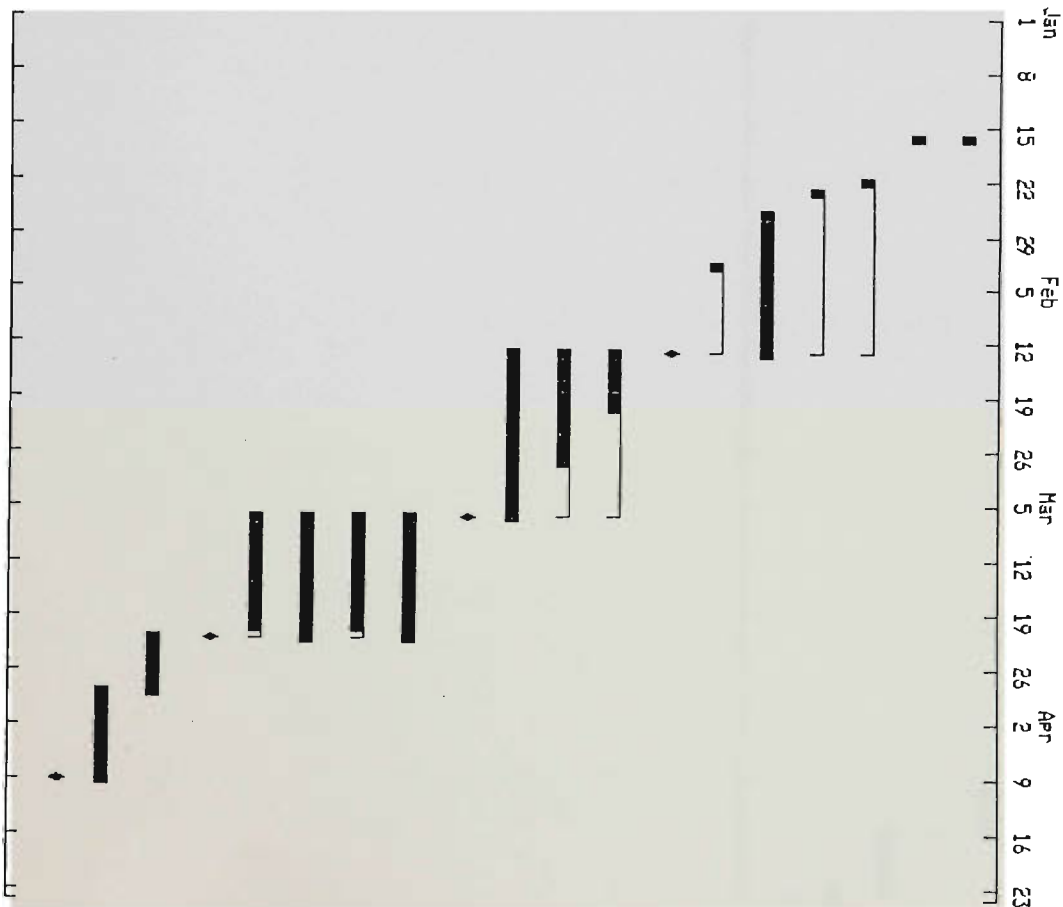
Planning

- Planning for the future based on thorough knowledge of the present
- * Construct
- Own company infrastructure and the changes desired
- * Trialbal
- Trial profit and loss statement and balance sheet prior to strategies
- * Service
- Planning for desired level and quality of service ethic
- * Govt
- Government tourism and aviation policy direction

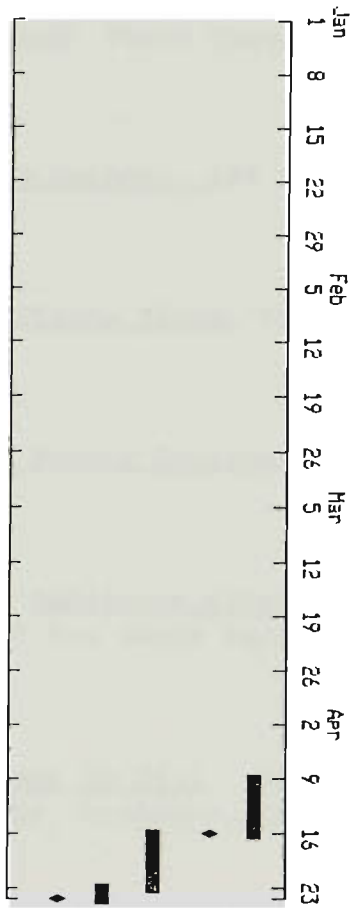


Project: BOUTIQUE

- * Bilateral
Examination of existing used, unused and potential bilaterals
- Forecast
Forecasting future events anticipated
- * Limits
Market and physical limitations on strategy formulation
- * Regulate
Assessment of regulated operations environment conditions
- * Deres
Assess operating conditions anticipated in a deregulated environment
- Strategy
Formulation of boutique flight carrier strategies and action plans
- * Market
Niche market segmentation alternatives est: retirees
- * Routes
Niche routing structure est. dedicated services between Hawaii and Fiji
- * Product
Service standards/value added products est. onboard amenities/foreign currency exchange
- * Fleet
Type of fleet for niche service i.e. B737 configured for all business class
- Assess
Assessment of strategy options and action plans for best fit with objectives
- * Approval
Approval from corporate to assess particular strategy alternatives
- * Cost/Benefit
Cost Benefit analysis of niche positioning
- Niche
Determine best mix of strategy for best fit with service ethic



* Approval
 Approval from the board and government officials
 Action
 Action on strategy
 Feedback
 Obtain continuous feedback from field and staff
 * Review
 Review with management, board, government and industry groups
 End
 End boutique carrier strategy with continual review and modification



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