

Departures

Opinions On Current Issues In Aviation

U.S.-To-China Market Needs More Competition

By Kevin Mitchell, Chairman, Business Travel Coalition

The U.S. Dept. of Transportation faces a decision that will benefit either passengers or a duopoly. This federal agency has to determine in the next few months which of four U.S. airlines will be awarded a highly coveted daily frequency to China. Increased competition from new competitors is paramount to achieving lower fares for business travelers and incentives for improved airline customer service.

If DOT wants to promote competition and offer travelers more flying opportunities, it should not award additional frequencies to the two largest carriers in the market that have also served this market for the longest period. United Airlines and Northwest Airlines have enjoyed a duopoly for over 20 years, exclusively serving China from the U.S. and preventing necessary competition that benefits the traveling public.

United is the dominant carrier among U.S. airlines that fly between the U.S. and Beijing, enplaning some 35% of all passengers carried by U.S. airlines. United's U.S.-to-Beijing market share is an even larger 70% when code-share partner Air China is taken into account. This market dominance took decades to build and should not be reinforced with new authorities. That would be akin to awarding additional landing slots to British Airways at London Heathrow.

Since United was first awarded China route authorities in 1986, it has grown its market presence to 28 weekly frequencies. This 20-year head start on new entrants Continental and American allowed United to build a well-fortified position, serving Beijing and Shanghai from its Chicago and San Francisco hubs. Awarding United more frequencies would increase market concentration and contravene the DOT's own competition guidelines, without sufficient offsetting benefits.

The centerpiece of United's application is a claim that its proposed new service would link the two countries' political capitals on a nonstop basis; however, United currently has the authority and frequencies to fly from Washington Dulles to Beijing by simply redeploying services from other U.S.-to-China markets. What's more, of 192 countries in the world (excluding Vatican City), there are only 17 foreign capitals to which there is nonstop service from Washington.

Just like United's two-decade-plus dominance of the U.S.-to-China market, Northwest has been serving China since 1984. Northwest already has 21 weekly frequencies to China. This is 300% more frequencies than new-entrant carriers to China, American and Continental, currently possess.

Unfortunately for business travelers, all of Northwest's China flights require stopping at Tokyo Narita. Northwest has 65 weekly frequencies from seven U.S. points to Tokyo. By having the ability to essentially subsidize its Japan-China market with other passengers from Tokyo, Northwest hasn't used the frequencies it has already been awarded to the highest and best use on behalf of the American public.

Northwest already endeavored to fly the Detroit-Shanghai route within the last five years and pulled out of the market after only 16 months. If it didn't work the first time, what has changed in this short period of time that would make this a permanent route and not a wasted choice by the DOT, especially with the reduction in business travel by the automakers and their suppliers? What's more, Northwest could already serve this route and doesn't need additional frequencies.

To the DOT's great credit, it has over the years established an impressive pro-competition track record in decisions involving both the domestic and international marketplace. For instance, the department recently issued an order placing a priority on new entrants receiving new airside capacity at Chicago O'Hare in order to inject competition into a market dominated by United and American. The same fundamental principle applies in the China route case.

Increasing airline competition in a market dominated by one or two players should remain DOT's highest priority. In doing so, consumers will be the winners receiving lower fares, better service and more options. In contrast, awarding more China frequencies to incumbents would only serve to further entrench the dominant players in the market and reduce competition.

In such an inconceivable outcome, consumers and the businesses that BTC represents would be the losers.

Founded in 1994, the mission of the Business Travel Coalition is to lower the long-term cost structure of business travel.

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