(Introduction)

A. Airline
1. United States

After forty years of tight regulation by the federal government, the airline industry was deregulated in 1978. Such a dramatic change in an industry's economic environment is bound to have significant effects and the airline industry is no exception. Airlines provide an interesting example of how an industry evolves when freed from government regulation. After more than a decade and a half of deregulation, this evolution is still not complete, although the form to which the industry is evolving is becoming clear.

This evolution has not been without controversy. Each zig and zag of the industry renews the debate about the wisdom of deregulation and the future of the industry. The industry has this high profile because many people are fascinated with aviation. Others devote attention to airlines because airline deregulation was the first of many regulatory reforms (e.g., railroads, trucking, telecommunications, banking) in the late 1970s and 1980s. As the oldest deregulated industry, analysts look to airlines for insight into other industries. Although the airline industry is a complex one, it is amenable to study because of the wealth of data---a legacy of regulation---the government continues to collect.

This paper chronicles and explains the evolution of the domestic passenger airline industry since it was deregulated in 1978. The second section presents a brief history of the industry. Following that are the two sections that constitute the core of the paper: an examination of evolution of the industry in terms of concentration, fares, etc., and an analysis of some possible trouble spots in the industry. A summary concludes the paper.

2. United Kingdom
Evaluation of changes in regulatory policy towards airlines in the UK is necessarily different from that appropriate to industries such as telecoms and electricity. Compared with British Telecom and the electricity companies, for example, the UK's leading airline, British Airways (BA), derives a large proportion of its income from international operations. In order to avoid too narrow a focus, therefore, European Community airline policy will be considered alongside British policy, although wider international issues -- such as multilateral renegotiation of air service agreements -- will not be addressed.

In practice, however, broadening the coverage of the paper to include European Community policy does not have major implications for empirical analysis. Although UK deregulation of airlines has lagged significantly behind developments in the United States, European Community (EC) reforms have lagged behind even more. Thus, whereas substantial deregulation occurred in the UK in the mid 1980s, major European Community reform in airlines is a phenomenon of the 1990s. As a consequence, evidence on the effects of EC policy reforms is still highly limited.

The UK can also be distinguished from most of the other Member States of the EC by virtue of the fact that its major national carrier is fully, privately owned. In many ways the privatization of BA at the beginning of 1987 is the decisive event in the history of the UK industry over the past twenty years, not only because of the direct impacts of the transfer of ownership but also because government policies on issues of deregulation and liberalization have been much influenced by the flotation. Arguably, privatization itself is a form of deregulation: although in principle state-owned enterprises can be required to operate as fully commercial operations, in practice they are frequently used as instruments to achieve certain types of political or public policy goals. Privatization therefore typically involves abandonment by the state of some of its very specific policy instruments. It is, of course, open to government to introduce new regulatory instruments to compensate, at least partially, for the loss, and this was the course followed in the UK in newly privatized industries such as electricity, gas, telecoms and water. Where such new regulations are substantial in scope it is, therefore, more accurate to talk of regulatory reform rather than of deregulation. In respect of airlines, however, the flotation of BA did not lead to the creation of any new agency -- the Civil Aviation Authority (CAA) continued to operate as the industry's main regulatory body in much the same way as it had previously -- and the reduction in the Department of Transport's control over the industry consequent upon BA's privatization can therefore properly be viewed as a form of deregulation.

Given these points, it is appropriate to begin an assessment of developments in UK airlines policy with a discussion of the BA privatization, and section 2 will be devoted to this task. Section 3 of the paper then outlines some of the main features of both UK and EC airlines policy. The main empirical part of the paper, section 4, examines evidence on the performance of BA and assesses the factors
that have been most influential in determining that performance. Conclusions are summarised in section 5.

3. Japan

There are presently eight scheduled airline companies in Japan. With respect to passenger transport, the big three - Japan Airlines (JAL), All Nippon Airways (ANA) and Japan Air System (JAS) - account for nearly all of the major markets; together they serve roughly 91% of the passengers on both domestic and international routes. ANA claims about 45% of the domestic market, while JAL about 76% of the international market. The other airlines are for the most part subsidiaries of the big three. The domestic air transport market, with about 70 million passengers annually (55 billion revenue-passenger kilometers), is one-sixth (one-tenth) the size of the United States' markets. Japan's airlines carry about 11 million international passengers a year, about one-quarter of that of the United States' carriers.

Japanese airlines experienced a boom during the second half of the 1980s. From 1985 to 1991, revenue passenger kilometers in the domestic market grew at the rate of 9.3% annually, and in international markets 8.0%. As a result, their operating profits also soared, and they recorded the highest profits in their company histories. These trends reversed from the beginning of 1990. The average growth rate from 1991 to 1993 fell to 3.4% and 4.8% respectively. The declining growth rate influenced the companies' operating performance. JAL, especially, operations in international markets constitute more than half of their business, has suffered huge losses since 1991. It is true that the losses of JAL were caused mainly by changing market conditions, but it should be noticed that the rapid appreciation of yen also made the situation worse.

Air transport markets in Japan have developed in a strictly regulated environment. The Civil Aeronautics Law, which governs the industry, requires that airline companies obtain government licenses to enter the market. Airlines also need government approval for setting and charging their fares, and even for their annual business plans. Naturally, international routes also require government-negotiated bilateral agreements with other countries. In this respect, Japan has been a traditionalist. Its agreements are generally modeled after the old Bermuda Agreement, concluded between the United States and the United Kingdom in 1946.

However, the world-wide policy trend to deregulate the industry reached Japan in the mid-1980s. In 1985, the United States and Japan concluded a provisional agreement on international air transport. This agreement allowed new entry into the market, but required the Japanese government to change their air transport policy, because the government had restricted its carrier in the international market to just one. The government then changed its policy not only in the international market but also in the domestic, intending to promote competition in both markets. But this policy change was not as complete as that of the U.S. government. Since the institutional framework (such as entry licensing and fare approval system) remained unchanged, whether the
competition would work effectively depends on how the regulators control markets.

The purpose of this paper is to evaluate the policy changes in the Japanese air transport industry. In sections 2 and 3, we describe the evolution of the policies, and in section 4 we sketch the domestic market structure and performance of the industry. Then, from section 5 to 7, we examine the effects of the policy change by econometric analysis, focusing on the airlines' behavior and cost structure.

B. Trucking

4. United Kingdom

This paper is in two sections. The first deals with privatisation and deregulation in freight markets (trucking), and the second with coach and bus markets. The argument which the paper develops is that privatisation and deregulation in the freight industry in the UK has generally achieved its objectives of promoting competition, but that bus deregulation and privatisation has had a number of adverse effects. In particular these include a fall in passenger trips, low profitability in large parts of the industry, and wide-spread anti-competitive behaviour. On the other hand, the opening up of the market in the long-distance coach sector has been of benefit to consumers. An increasingly important area of regulation at national and international levels, and which has important implications for the operation of both industries, is that designed to combat environmental pollution.

The key differences between the two industries can be summarised as follows

i. freight transport is much more subject to European Union (EU) regulation than the coach and bus industry. This is because the latter is primarily a domestic market and therefore has a different regulatory environment. In the freight industry, the effects of UK regulatory changes and that of the EU are inter-linked;

ii. freight, unlike passenger vehicles, has not had a system of route licensing. Route licensing was a critical component in shaping the structure of the road passenger market, hence regulatory change operates within a different pre-existing market configuration;

iii. unlike in the bus and coach industry where there were few opportunities to compete before deregulation, it had always been possible for firms to enter the freight market; and

iv. there is no evidence of restrictive practices and predatory pricing in the freight industry as in the coach and bus sector, which in the case of the latter has arisen as a direct consequence of changing regulation.

5. Japan

The trucking industry is one of the rare cases in Japan in which regulatory changes were brought about by new legislation. In 1989, the Japanese Diet passed two bills that relax the requirements for new entry and conditions of fare setting in the industry. In a sense, this was an epoch-making event, because the change was accomplished without any "foreign pressure." It is true that we experienced big institutional and regulatory changes in telecommunication and railway industries, but in these fields, changes were accompanied by
privatization of public corporations. On the other hand, in trucking industry, in which there large number of carriers and almost all are private except for very small companies owned by local authorities, the purpose of the new laws was only to relax the economic regulations.

It should be noted, however, that new enactment does not always lead to a substantial change in administrative policy. In the trucking industry, economic regulations was not as tight as in other transport fields. For example, it was much more difficult for a newcomer to enter into bus or taxi service than in the trucking industry. Thus we can say that the results of the new laws were nothing more than the ratification of the existing state of affairs before the statutory change in the market.

Needless to say, this does not mean that there was sufficient competition in the trucking industry. Many researchers and shippers insisted that there should have been and should be much more competition in the market. The recent report of the Ministry of International Trade and Industry pointed out that the high cost of freight transport including trucking caused by lack of sufficient competition is one element that is reducing the international competitiveness of Japanese manufacturing industry. And indeed, it was the political pressure from industrial consignors that lead to the new legislation.

Judging from some statistical surveys, we could not find clear evidence that the new laws made substantial impact on the trucking market, although we cannot obtain enough data. This means that there is likely to be much room for further regulatory change or deregulation; we also need to show how competition works in this market, and how we can develop it.

In this paper, we examine the contents and processes of regulatory changes in the trucking industry, try to evaluate the effects of the regulatory reform, and discuss necessary change in policy. In the next section, we describe briefly the transport markets in Japan. We the investigate and inspect the legal changes in the succeeding section. In Section 4, we examine changes in the industrial organization of trucking markets and we also try to measure the welfare changes in case competition would drive fares down. Section 5 evaluates these policy changes. The last section contains our concluding remarks.

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1 The national carriers of other member states of the EC can be divided into those that are 100% state-owned (e.g. Air France, Aer Lingus), those that are majority state-owned (e.g. Lufthansa, Alitalia) and those in which there is a substantive but minority state holding (e.g. KLM, Luxair).

2 The distinction between promoting competition and deregulation is an important one in the European context. In the UK, for example, the new regulatory agencies created during the privatization programme have been given powers and duties to
promote competition, so that in some dimensions the degree of regulation has actually increased.

3 The CAA is the body responsible for both the economic and technical regulation of the industry, including matters such as issuing domestic route licences and deciding which UK airlines to designate on particular routes under bilateral international agreements.

Structure of the whole text (PDF-Format 6file)

A. Airline

1. United States
   "The Effects of Airline Deregulation in the United States"
   Steven A. MORRISON

2. United Kingdom
   "Airline Deregulation and Privatization in the UK"
   George YARROW

3. Japan
   "Air Transport in Japan: Policy Changes and its Evaluation"
   Hirotaka YAMAUCHI, Hideki MURAKAMI

B. Trucking (excluding the USA)

4. United Kingdom
   "Deregulation and Privatization in the UK Freight, and Bus and Coach Industries"
   Helen LAWTON-SMITH

5. Japan
   "Regulatory Reform and Changes in the Japanese Trucking Industry"
   Hirotaka YAMAUCHI