

Impact of globalization and deregulation on air lines tourism essay

[Environment](#), [Air](#)



Air transport is a major industry by its own right and it is a source of very important inputs into wider political, economic and social processes. The demand for air transport has created global effects which in return have affected its supply both locally and internationally.

This paper will provide an insight to the effects of globalization, the results of deregulation and privatization on the airlines and airport sector. It will also provide information concerning the main revenue sources within airports and techniques used to measure performance.

In addition it will address issues concerned with safety in airports and measures for dealing with the security issues.

Summary

Globalization has an adverse effect on the demand and supply of services in the air transport sector which in return leads to adjustment of both the local and international prices, air trade policies and the consumption rate.

Consequently the increased geographical coverage leads to increased concentration of traffic in the international hub airport. There is an argument that globalization results to increase in income and consumption on monthly basis as a result of overall increase in economic activities. In addition the profits achieved by air lines are highly affected by globalization since the competing airlines have to vary their prices in order to compete in the international markets, this could lead to some competitors to lower their prices or even increase according to the demand and supply in a given periods of the year.

Deregulation resulted to both short and long term effects in the air industry. It made some airlines to cancel their services to some places since after deregulation the companies were running on losses. It also allowed new airline companies to enter into the market without following the already established rules by the bigger and already exiting companies.

Privatization has led to increased charges in the airports as a result of lack of enough economic regulations and failure to apply the principles of ICAO in calculating tariffs and fees. The airport has two main revenue streams which are the aeronautical stream and the non-aeronautical stream. Both of these streams act as revenue sources with the latter doing better than the former. There are a number of safety and security problems that need to be addressed in most airport and they include the population of people living near the airports, wind, vortex constraints and the increased number of buildings in the airports.

Airport Management

From a general perspective, globalization can be referred to as the process through which people from all corners of the world are brought together to be members of a common society and work together. This process entails a combination of technological, socio-cultural, economic and political forces. Barret states that there are many implications manifested as a result of globalization which are very significant for the international air transport industry (229).

Globalization therefore affects the demand and supply for air services leading to adjustments to air trade policies which in return have greatly changed the air trade: For instance the open sky police have affected the demand for air lines so much as result of allowing more efficient feed to the long-haul stage of transatlantic operations (Barret 235). Consequently the increased geographical market coverage has led to increased concentration of the traffic in the international hub airports. Large physical market demand coupled with increased integrated services such as common lounge, code sharing and excellent baggage checking have led to increased demand for international air services (Barret 235).

Ashford, argues that globalization results to increased income and consumption in every month due to increase in overall economic activity, though the affluence is not evenly spread (67) . Several consumptions are facilitated by air transport, in larger nations a rise in income leads to many people spending more in internal vacations and having increased visits to friends and family. It is therefore evident that the competition for domestic services is affected by change in international demand.

Globalization affects the profits gained by airlines, for example the early 1990s international financial crisis led to downturns in the market. Similarly other factors such as the New York and Washington terrorist attacks have demonstrated to have resulted to very bad moments in the industry. In contrast the returns achieved during the good times always fail to compensate for the bad times. Alderighi also argues that the key players in international market operate regular flier programs that honor frequent

clients with bonuses and free flights, the bonuses include higher classes of services, up-grades and permission to have access to airport lounge (567).

Many airlines have turned to reducing the cost in order to have an advantage over other stake holders. In case the competing carriers fail to match the reduced prices, then both fares maintain the competitive level of expensive-cost airlines, allowing the cheap-cost carrier to receive a margin toward fixed costs, alternatively the expensive-cost airline might quit the market. This strategy has been highly applied by the low-cost international airlines such as Ryanair in Europe, it helps the low-cost airlines to undercut their rivals and then obtain the market power. The market has been highly dominated by the low-cost carriers but as they expand they have shifted to more thinner and less suitable markets that fit their operation styles.

Deregulation had both long and short term effects; first a bigger number of airlines stopped using routes with fewer profits that were used by passengers to travel to small cities. For instance, until 1978, the united airlines which previously had flown to Bakersfield, a thriving oil town in California with a population of 225, 000 people stopped flight to the town, hence depriving the city dwellers flights to developed cities like Las Vegas . Secondly deregulation led to development of ' hub- and-spoke' routes. The leading airlines centered their operations in the key cities which acted as the stops for many flights, even in cases where the flights were not in direct routes.

Deregulations allowed the up-coming airlines to enter the market without agreeing with the demands of the bigger and well established airlines . A good example was the people's Express, an airlines company which came up with unconventional management methods like fewer managers, low salaries and multiple job performance by employees. The company applied exceedingly tight operations in which passengers were responsible with paying for meals on plane and paid for baggage that they had checked- in. The company used very low fares that could be compared with the electricity bus lines. The revenues for peoples express increased dramatically all through 1980s, increasing up to a billion dollars in a day. Later in 1986 the company was sold after reaching its peak due to increased losses and complains of dissatisfaction by the passengers. Generally after deregulation of the CAB rules the result was that airlines competed within un-restricted ground for passengers hence a rise in revenue for the bigger international and national airlines. Consequently it led to low fares.

In a broad view privatization can be referred to as the process of reducing the involvement of the government in service provision. The result product of privatization of airlines and airports has been increased charges of services offered in airports, with some places recording drastic increases. This increase in charges is due to lack of sufficient economic regulations and failure to apply the ICAO principles in calculating tariffs and fees. The investors are also to be blamed for the increased charges due to their thirst to gain excess profits. In this effect some organizations have moved forward to control the entire process of privatization, for instance the AITAL which is

a Latin American Transport Association states that it is not against privatization although it has fears that privatization will result to increase in tariff and fees which in turn will lead to increased airlines operating cost. The AITAL bases its argument on the view that the airports remain to be pure monopolies which inflict unilateral criteria. Another possible reason for increase in the operating cost is due to the fact that in current market fees and tariffs highly depend on competitive situation of the concerned markets, direct relation with operating cost is also lacking. It is therefore obvious that increased airport charges will lead to increases in costs of airlines, which cannot be indemnified by increase in fares.

Question 2.

The main revenue streams in an airport can be divided into two categories: The aeronautical and the non-aeronautical. Generally the aeronautical source is composed of fees towards the traditional basis of airport-related ventures like the provisions of runways, facilitation, aircraft stands, security and more importantly the staff undertaking such activities (342). On the other hand the non-aeronautical revenues are gained by undertaking activities such as offering parking, retail businesses, operating restaurants, advertising and provision of accommodation facilities. Interestingly the non-aeronautical income is growing so rapidly compared to the aeronautical revenues hence providing greater profit margins.

In order to ensure that all the activities within an airport occur following the prescribed time and with low cost one needs to come up with good

performance evaluation techniques. Therefore using an airport scorecard helps so much in ensuring that all activities in an airstrip are done correctly. To have excellent performance the crew members should receive good care and total attention so that they can perform to achieve excellent performance. In addition of more importance is security issues within the airport, this should be handled with utmost power and interest. One way of ensuring that an airport has good security network is by installing the relevant technological gadgets in order to keep away all the intruders (Barrett 535)

The major performance indicators can be used as key factors to show the performance of a business and help in filling in the gaps between the real performance and standard performance. Another technique used in airports to establish their performance entails use of airport management KPIS which is divided into four perspectives-passenger relation perspective, financial perspective, social consideration and flight related services.

The financial perspective gives an explanation concerning the sources of revenues and expenditures within an airport. These include the operating expenses, aircraft parking fees and passenger charges. The passenger related operations point at the operations in the airport that directly affect passengers. These operations include baggage, number of security checks, check-in time, number of available trolleys for the clients and the immigration time. The flight related operations include checking delays in the National airspace system, delays caused by weather and Air carrier delays (Barrett, 458). This is indicators are very important in analyzing

different flight delay factors. The social consideration is concerned with ensuring that the social responsibility and accountability within a business are achieved.

Question 3.

Cooper, states that the safety and security issues in and around the airports need to be addressed in a very serious matter (712). The safety problems arise as a result of interaction of various factors like traffic, environment and technology. Another reason why the safety issues in most airports needs to be addressed lies in the available evidence, basically provided by the 747 crash in 1992 in Amsterdam. The 1992 crash showed that people living around the airports are exposed to high risks which are comparable to the strictly regulated risks found around chemical plants. Therefore with traffic volumes rapidly increasing there is a prediction that continued growth in the coming years will put a strain on airport capacity. For example the airbus industries predict that there will be an average yearly passenger traffic increase of 5.0 per cent before the next 20 years, which will have an impact of increasing the traffic to 168 per cent.

Another safety concern is presented through a dimension concerned with third party risk as seen in increasing number of countries in Europe. Way states that the air transport system relies on airports as hubs hence their presence leads to a convergence of air traffic around the airports (72-73). In addition many accidents occur at the times of take-off and when landing and hence this happens near airports.

The critical issues that need to be addressed in order to prevent an increase in safety problems related to the airport include having control over turbulence environments and wind at airports; these are area of great concern. Airports are a major attraction for corporate real estates and therefore buildings are increasingly being erected next to the runways (Wells 459). In return this buildings cause wind turbulence that in some cases make the aircrew to temporarily loss control over the aircraft immediately before the touchdown or immediately after lift-off hence resulting to very serious accidents. As a result of the great monetary value gained from the building spaces in the airports, the pressure to authorize the building activities to continue will definitely grow. A current ICAO criterion on obstacle clearance does not provide enough protection.

The wake vortex constraints is another issue that needs to be addressed since it governs the distance that should be maintained between aircraft lined in sequence while making an approach to the runway. The distance determines the capacity at the runways during peak moments and therefore the general airport capacity. Another aspect that is increasingly becoming a limiting factor to airport capacity is environmental constraints and in particular noise pollution. To solve this issue the ATC organizations have developed advanced departure and arrival procedures like Continuous Descent.

In conclusion, the airport department has been seen to face certain challenges such as deregulation, globalization and privatization. Despite this, this department has been a key contribution to the economic growth

throughout the world. The management has set certain measures to fight these challenges and improve the airport sector. Due to the increased air transport system, the sector is also expected to gain more profits and improvements hence fighting to increase the growth of the economy. The management should hence be made tough and competent enough to achieve the set goals.

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