# UNFAIR COMPETITION? AMERICAN AND JAPANESE AIRLINES TRANSPACIFIC ROUTE RIVALRIES, 1946–1971

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This article examines the changing nature of competition between American and Japanese airlines for transpacific passenger and cargo routes during the formative early postwar era. It focuses on the period from 1946, when the US government first certified Northwest and Pan American airlines to fly to Japan, to 1971, as the age of mass air travel took off amidst major economic changes such as the Nixon Shocks. Utilizing both American and Japanese sources, the author argues that a complex mixture of economic and diplomatic factors shaped American and Japanese airlines' transpacific route rivalries.

During the 1930s, commercial airlines slowly began to link together countries adjoining the Pacific Ocean. However, the United States and Japan, the two most powerful nations facing the Pacific, did not initiate direct air service due to deteriorating diplomatic relations.<sup>1</sup> World War II, while interrupting the creation of commercial air routes across the Pacific, ultimately accelerated this process by speeding up advances in aircraft technology and providing overseas operational experiences for the commercial airlines carrying men and material under military contract. In the quarter century after the war ended, the Pacific became an increasingly important market for civil air transport, and fierce competition erupted for routes between the United States and Japan.

This study begins in 1946 when the US government first certified Northwest and Pan American Airlines to fly to Japan. It ends in 1971 as the era of mass air travel took off amidst major economic changes. Numerous factors influenced this competition. In the United States, the Civil Aeronautics Board, the Department of State, the President, and the airline companies were among the most important actors. In Japan, the Ministry of

Foreign Affairs, the Ministry of Transportation, and Japan Air Lines played equivalent roles.<sup>2</sup> Almost from the start, American and Japanese air carriers complained about their competitors' unfair advantages—a theme that runs through most of the contemporary accounts.

While some scholars have examined important elements of this development, more work needs to be done.<sup>3</sup> By utilizing select Japanese sources, this study hopes to more fully incorporate Japanese actors and perspectives into the story.

### An Unusual, Competitive Environment, 1946-1954

After defeating Japan in the Pacific, United States military forces occupied the islands. Supreme Commander for Allied Powers (SCAP), General Douglas MacArthur, created an unusually competitive environment by eliminating Japanese airlines with several strokes of the pen. In October 1945, General MacArthur disbanded the Japanese airline Dai Nihon Koku. The following month, the Supreme Commander issued SCAPIN 301, a directive terminating all civil aviation in Japan. Occupation authorities maintained this ban until 1950 when a new order permitted the creation of a domestic airline. Initially, SCAP required that American pilots from Northwest Airlines fly the carrier's aircraft. The 1951 Peace Treaty and subsequent ending of the American occupation transformed the situation by allowing Japan to do what most independent nations could: operate their own international airline. Simultaneously, additional major developments affected Japan as the Cold War exploded on the nearby Korean peninsula and US military spending helped restart Japan's economy. It was in this rapidly changing economic and political environment that the US and Japan signed the 1952 bilateral aviation agreement. In August 1953, the Japanese Diet passed a law designating Japan Air Lines, Nihon Koku Kabushiki Kaisha, as its only international carrier. This joint government-private corporation became Japan's "chosen instrument" for worldwide routes, while All Nippon Airways developed into Japan's largest domestic airline.4

In the United States, the Civil Aeronautics Board (CAB) was already one of the most influential government agencies shaping the nature of airline competition. Established in 1940 in a reorganization of the Civil Aeronautics Authority, the CAB regulated the fares and routes of domestic and international air carriers until being phased out between 1978 and 1984 as part of the deregulation of the airline industry. Even before World War II ended, the CAB listened to arguments by American air carriers as they jockeyed for position to enter the postwar global market. Trying to preserve its prewar domination of international routes, Pan American Airways (PAA) President Juan Trippe asserted that PAA should remain America's "chosen instrument," otherwise the "government-backed monopolies of the rest of the world will out fly the US." Most airlines, however, "advocated competition in postwar international aviation." In 1945, CAB examiners undermined Pan Am's dominant position in Asia by recommending that Northwest Airlines also be allowed to serve the Far East, including Tokyo, via a North Pacific route. They also favored extending PAA's Pacific routes, adding service to Tokyo among other destinations in the region. In its weekly "Aviation" column on September 10, 1945, Time noted that Northwest's new route would be faster than PAA's mid-Pacific route.<sup>6</sup> This

issue, the comparative advantages of different routes, would form the basis of complaints about unfair competition leveled by the only two carriers authorized to serve Japan during the early postwar period.

In July 1947, Northwest Airlines (NWA) began service to Tokyo, followed by Pan Am two months later. The *New York Times* noted that the State Department granted, and General MacArthur allowed, the resumption of commercial flights that they hoped would help rebuild Japan's economy. MacArthur further regulated the carriers by approving their landing permits at the occupation-controlled airport. When NWA and PAA, in combination with the Japan Travel Bureau began offering package tours to Japan in 1948, the general continued to limit the quantity of tourists.<sup>7</sup>

The 1952 Civil Air Transport Agreement, signed by the United States and Japan, regulated aviation relations between the two countries. This agreement was based on the 1946 US-UK Air Transport Agreement which was signed at Bermuda and established the framework for most international aviation agreements that the US negotiated up to the 1970s. The 1952 Agreement stated that the US and Japan could "designate 'an airline or airlines' that were able to change capacity via flight frequencies or choice of aircraft without approval of either government." The US selected Pan American Airways and Northwest Airlines to fill this role, while the Japanese government designated JAL (Japan Air Lines). Initially, PAA and NWA were permitted to land at Tokyo and Osaka, while JAL could fly to Honolulu, San Francisco, Los Angeles, and Seattle. Significantly, PAA and NWA received unlimited "fifth freedom" rights: they could fly from any Japanese "gateway city" to any other Asian city where the US government could successfully negotiate landing rights. JAL, on the other hand, had severely circumscribed fifth freedom rights permitting them only to fly to a few Latin American or Canadian destinations. The treaty provisions, and the interpretations of these provisions, became the center of conflict that periodically erupted between the US and Japan.8

### Japan Air Lines Enters the Pacific Market, 1954-1959

As American business prospered, Japan's economic recovery accelerated, and the Korean War finally ended, more and more businessmen, politicians, and adventurous tourists flew across the Pacific. Though traffic over the Atlantic far surpassed the Pacific, the *Wall Street Journal* proclaimed in July 1953 that "planes lift a growing throng...to the Far East." By this year, the airlines carried substantially more passengers than did ships. Both PAA and NWA petitioned the CAB for more Asian routes and planned to introduce cheaper tourist fares; TWA and other carriers asked to serve Tokyo; and Japan Air Lines began preparing their first route to America. Even the JAL test flights to San Francisco in November 1953 received significant press coverage in the *Asahi Shimbun*, Japan's largest circulation daily. *Asahi* wrote that, "Japan's dream of 'establishing air routes for the airplane with the Rising Sun flag' took a first step toward its fruition." This treatment suggested the importance of these flights for Japan as it rebuilt its economy, status, and prestige in the aftermath of the Pacific War and reentered the international community. JAL emphasized this rebirth with the motto "Wings of the New Japan" emblazoned on the fuselage of its airliners when it officially began operations on February 2, 1954.9

The Department of State supported the expansion of US air service to Asia because it saw the airlines contributing to the economic development of the region, an increasingly important issue as the Cold War intensified. Herbert Hoover, Jr., the Under Secretary of State, revealed in a 1954 letter to CAB Chairman Gurney that foreign policy considerations complicated the Department's economic goals. In response to the Trans-Pacific Certificate Renewal Case, Docket 5031 et al., Hoover argued that the Department opposed Trans World Airlines and Northwest Airlines expansion plans in the Far East because "foreign relations problems" would outweigh "the value of competition between US carriers." TWA wanted to connect its proposed round-the-world route to Tokyo, and NWA sought to serve more Asian cities beyond Tokyo. Japanese opposition to an expanded US airlines presence in their country was the crux of the problem. Most likely the State Department did not want to upset the nation that had become America's key Cold War ally in Asia.

For the remainder of the 1950s, the State Department grappled with the "misunderstandings and differences of opinion" between the "US air industry and the US Government." In 1956, for example, Director of the Executive Secretariat Fisher Howe complained that U.S airlines wanted "free competition abroad" while restricting foreign airlines' entry into the American market. This "dualistic attitude" caused Department personnel headaches as some nations indicated that they might reject US demands for additional foreign routes if they did not gain greater access to US domestic routes. According to Howe, the airlines had "considerable success in influencing Congressional opinion in favor of such a restrictive policy," which made his job more difficult.<sup>11</sup>

Despite these differences of opinion, in 1959 William Patterson of the Saturday Review proclaimed, "boom is the word for the Pacific." Japan followed only Hawaii as the most popular Pacific tourist destination for Americans. Echoing the argument repeatedly made by Pan Am's Juan Trippe, Patterson asserted that since the region was vital to the US for "political, cultural and economic reasons," then "better service" and "economy fares" needed to be introduced immediately, especially considering that larger capacity jets would soon be serving the market. 12 In April, President Eisenhower approved Japan Air Lines' application to begin service to Los Angeles and Seattle. Three months later, Aviation Week ran a two-part series on Japan Air Lines' goal to develop a "world-wide role." A key part of JAL's expansion plans included obtaining permission to fly from Seattle to New York City because that city generated approximately 25 percent of their transpacific traffic.13 The following year, JAL President Seijiro Yanagita requested Minister of Transportation Minami and Ambassador to the US Asami to open negotiations with the United States. Yanagita complained that the US "had given every other international air carrier serving it the right to fly into New York." In a July 30, 1960 article, the Asahi Shimbun noted that since the US could fly to Tokyo, the political and economic heartland of Japan, then it would only be fair if Japan could fly to New York City, the political and economic heartland of the US.14

## **Intensifying Transpacific Competition, 1959-1969**

By law, US Presidents had the power to select international air routes and carriers, and

even to override Civil Aeronautics Board and State Department recommendations. In February 1959, President Eisenhower asked the CAB to review the current status of transpacific competition among US flag carriers. This led Pan American and Northwest to renew their "running legal battle of the past ten years for control of the shorter Great Circle route to the Orient." Robert Cook noted in an April 1959 *Aviation Week* article, that Pan Am complained that NWA had "failed to properly develop" this route. <sup>15</sup> Moreover, TWA applied again for Tokyo landing rights, and Flying Tiger sought permission for an all-cargo route to Japan the same time JAL began all-cargo service to the US. While President Eisenhower supported the "new air freight system" that facilitated greater "trade between Japan and her neighbors," he rejected CAB examiner William J. Madden's recommendations, and the pleas of a score of cities, for added routes to Japan. <sup>16</sup> In a confidential letter to CAB chairman Whitney Gillilland, Eisenhower argued that more US service "would unsettle our international relations, particularly with Japan."

From 1959 to 1965, passenger traffic between America and Asia more than tripled, mostly between the US and Japan. This phenomenal rate of growth, far faster than in any other region, led the CAB in 1966 to again reopen the Transpacific Route Case. During the three-year struggle, American and Japanese representatives hurled charges of unfair competition against each other. The Asahi Shimbun captured the rising tensions associated with Japan's resurging economic nationalism in a June 17, 1964 article, when they noted that JAL, the Ministry of Foreign Affairs, and the Ministry of Transportation all held a "strong attitude" toward the "unequal" 1952 US-Japan Civil Aviation Agreement. Tempers grew hotter starting in the summer of 1965 when, according to the Wall Street Journal, the "Japanese Diet threatened to tear up the existing US-Japan Air Agreement in anger over American refusal to permit Japan Air Lines to fly to New York and beyond." The Wall Street Journal blamed Japan for starting the "row," perhaps forgetting that Pan Am and Northwest had served Tokyo since 1947. In sharp contrast, the Japan Times referred to recently published editorials in the Christian Science Monitor and the Washington Post that supported JAL's efforts to serve New York. The Japan Times quoted the Christian Science Monitor directly: "New York is without a doubt the most lucrative and prestigeconferring air terminal in the US." They continued, "to keep them out of New York under the 1952 agreement perpetuates, in Japanese eyes, a tendency, less excusable in 1965 than in 1952, for Americans to treat Japan as a client or inferior state." The Post emphasized different issues, noting that Japan was America's "most important friend and ally in Asia" as well as the US airlines' fear that if they did not resist JAL's transcontinental bid, other foreign competitors could make a case for the same rights.<sup>20</sup> While the Christian Science Monitor argued for an end to America's paternalistic treatment of Japan, the Post stressed the importance of Cold War and business considerations.

In January 1966, *Time* observed that shortly after JAL obtained permission to fly to New York from Seattle, American Airlines (AAL) asked the Civil Aeronautics Board for landing rights in Tokyo. AAL was one of several airlines upset that under the new provisions JAL could retain passengers and cargo that had been transferred to domestic carriers after arriving at a west coast "gateway city." When the CAB reopened the Transpacific Case the next month, eighteen airlines applied for certification to fly the transpacific routes. During the following year *Aviation Week* carried extensive coverage of

the airlines' applications.<sup>21</sup> In July 1967, the CAB noted that "the transpacific routes are among the most sought-after in the world" because they are "among the fastest growing, most underdeveloped, least competitive, highest priced, and most profitable international air markets."<sup>22</sup> The mad scramble for Pacific routes had begun, fueled by rates that were "25 percent above the rates per mile charged on the Atlantic routes, and 30 percent over the rates charged within the United States."<sup>23</sup>

Meantime, *Asahi* marked the expansion of Japan Air Lines' routes, celebrating the first flight to New York in November 1966, and the first round-the-world trip in March 1967. The *Japan Times* also trumpeted the global route, running a full-page ad acclaiming that, "JAL becomes one of the elite four airlines to fly completely around the world." In a span of only twelve years, JAL increased its transpacific flights from two to twenty each week, and reached the lofty status of the eleventh largest airline in the world. Both newspapers portrayed these accomplishments as enhancing the status of the nation.<sup>24</sup> During this period, Pan Am possessed the largest market share of any international airline, while NWA ranked fifteenth.<sup>25</sup>

While a number of well-known economic and political challenges confronted the US-Japanese relationship in 1968, one lesser-known challenge needs further examination. Textiles, electronics, automobiles, and relations with China and Vietnam were issues that produced strains that have been well documented, but the clash over the Pacific routes was also extremely important. Tensions mounted when CAB Examiner Robert L. Park listened to sixty-eight days of oral testimony from 433 witnesses produced by seventeen airlines and twenty-five cities desperately seeking new aerial connections to the Far East, especially Japan. In April 1968, Park recommended significantly expanding service to Japan. JAL executive director Shizuo Asada feared the new routes would directly threaten his airline, since it derived approximately half its revenue from its Pacific runs. He pressured the Japanese government to revise the bilateral US-Japan agreement.<sup>26</sup>

## "Stormy Flying Ahead," 1969-1971

Shortly after being sworn in as president, Richard Nixon rescinded Johnson's route awards due to "foreign policy factors" and assured all parties that the "decision to study [the] awards didn't imply 'impropriety, illegality, [or] improper influence." While President Nixon revised the South Pacific awards, he let stand former President Johnson's decisions regarding increased service to Japan: both presidents approved Flying Tiger's all-cargo route and additional routes for PAA and NWA, but denied the CAB's recommendation that American Airlines serve Tokyo. On April 7, 1969, the Wall Street Journal predicted, "stormy flying ahead" as Pacific nations opposed the new routes for American carriers. Japan, the author asserted in language that suggested the lingering shadow of a past conflict, had the strongest reservations as "the US plans collide especially with the bold expansions being plotted by Japan Air Lines." The Asahi Shimbun provided extensive coverage of the growing dispute. According to Asahi, Japan's main argument was that now "the US has both the Central Pacific route and northern great-circle route by both Pan American Airways and Northwest Airlines. In contrast, Japan has only the Central Pacific route by JAL. This means that the US has four times more routes than

Japan, which is unequal."<sup>29</sup> The paper did note the American counterarguments "that JAL has maintained good profitability, has grown soundly, and has sufficient competitiveness against the US even without a change in the current condition."<sup>30</sup>

On September 20, 1969, *Asahi* reported that a breakthrough had been reached as the US finally "admitted" that "inequality" existed under the "current condition." Finally, on October 3, Asahi informed its readers that a compromise had been reached, allowing Japan to fly the shorter, faster, great circle route to New York. JAL could also compete with Pan Am by serving Guam, a destination that had recently "become a favorite honeymoon spot for Japanese newlyweds." In return, Japan would allow more non-scheduled tourist flights.<sup>31</sup>

Passenger data from this period helps explain why the airlines competed so intensely for transpacific routes. According to the Ministry of Transportation, airline passengers entering or leaving Japan tripled from approximately 1.2 million in 1965 to 3.5 million in 1970. JAL's portion of the traffic during this period soared from about .3 million to 1.3 million. Several factors fostered this development such as the Japanese government's "removal of travel restrictions on overseas trips" and the rising standard of living for many Japanese citizens.<sup>32</sup>

By 1970, the "mass transit era in the sky" took off with the arrival of the Boeing 747 "jumbo" jets that could carry around 350 passengers, about twice the capacity of the earlier jetliners. Reflecting the emergence of a new consciousness, the Japan Times touted the giant jet as more environmentally friendly, producing less noise and pollution. Continuing its long tradition of being the first carrier to introduce new aircraft, Pan Am initiated Boeing 747 service to Tokyo International Airport in March, just in time for the opening of Expo '70. Soon, Northwest and Japan Air Lines began flying 747s to directly compete with Pan Am.<sup>33</sup> Concurrently, JAL began painting its new Tsuru Maru emblem, "a bright red crane," on the tails of its aircraft. 34 Yet, old problems continued to fly in with the new. Members of the Emergency Committee for American Trade (ECAT), led by Donald Kendall, president of PepsiCo, Inc., held an airport news conference on March 11, 1970, at Tokyo International in which Kendall expressed the "strong dissatisfaction in the US over Japanese controls over trade and investment" which could "invite protectionist retaliation by the US."35 The ECAT's concern about trade issues worried Japanese officials because of previous American efforts to link "aviation concessions to Japan's liberalization of foreign investments in the auto industry."36 It appeared that the second generation Boeing 747 wide-body jet era was not going to be any smoother flying than the first generation Boeing 707 and Douglas DC-8 narrow-body jet age.

# **Unfair Competition?**

Unlike twenty-five years earlier, by 1971, the major economic changes that were transforming the US-Japan relationship included the competition for domination of the transpacific air routes between two of the world's largest economic powers. As the financial stakes increased and Japan took a more assertive position in the international arena, cries of unfair competition emanated from business and political leaders representing the major American airlines against each other as well as against Japan Air

Lines. These charges were complex and not easily measured. The clash between national carriers has attracted many scholars' attention. Political scientists, Christer Jonsson and Gregory Corning, argue that one significant factor in the Americans' favor was that the US domestic market was considerably larger than the Japanese domestic market. Moreover, the typical American customer had a much higher standard of living than the average Japanese citizen during this period, providing Pan Am and Northwest with yet another advantage. Jonsson and Corning also emphasize that geography coupled with "beyond rights" favored the United States.<sup>37</sup> Japan's geographical position made it an ideal springboard for flights to the rest of Asia. As other Asian countries rebuilt their economies after World War II, PAA and NWA's unlimited fifth freedom rights became increasingly valuable. In sharp contrast, the US greatly restricted Japan's fifth freedom rights to Latin America and Canada. Even obtaining rights to fly from the US to Europe had limited value for Japan Air Lines as they could reach the continent faster via Asian routes. Furthermore, Japan's population and economic centers were heavily concentrated in a few cities that American airlines could directly access. Conversely, American population and economic centers were more decentralized and it took JAL many years to be able to offer direct service to some of the most important markets such as New York and Chicago.

The periodic struggle that the US and Japan engaged in over air routes was among the most intense of the more than forty bilateral aviation agreements that America signed with other nations in the decade after World War II. It was, however, not unprecedented. While the US had sporadic conflicts with France, Mexico, and other nations, the US-Italian dispute is most instructive. During the 1960s, the US and Italy twice fought over interpretation of their 1948 Air Transport Agreement. In 1963-1964, their disagreement over whether the bilateral agreement permitted all-cargo flights led to a formal arbitration process. In 1967, they were so far apart in their attempt to renegotiate the bilateral agreement that both nations threatened to discontinue air service between the two countries. Similar to Japan, the Italians had only one flag carrier, Alitalia, and it had to compete against three American carriers. Moreover, the Italians complained that the 1948 agreement gave Alitalia no beyond rights from the US, while American carriers enjoyed considerable fifth freedom rights, making the Italians' situation even worse than the Japanese. In 1967, Italian Ambassador Egidio Ortona complained to Assistant Secretary of State for European Affairs John Leddy that the underlying reason why the Italian aviation situation was so uncompetitive was that the Italians signed an "armistice agreement" at the end of the war when they were weak and had no civil aviation. This characterization of the bilateral agreement is similar to how the Japanese perceived their 1952 agreement with the US: an agreement forced upon them by the strongest nation in the world at the conclusion of post-war occupation. From the American perspective, both countries tried to restrict capacity, and demanded too many concessions for new routes and cities served.<sup>38</sup>

As Italy and Japan rebuilt their economies from the devastation of the war, their growing strength and assertiveness clashed with America's dominant position in international aviation. Beginning in the second half of the 1950s, US airlines carried a declining percentage of international air passengers and freight. In 1959, for example, Pan Am complained that "ten years ago, US flag carriers carried nearly 91 percent of the Pacific traffic as compared with current figures of only 67 percent." Pan Am's emphasis on the

words "only 67 percent" reflected the mindset of many businessmen and policymakers who wanted to maintain America's dominance of the international air routes. Increased tensions with Japan and other nations were inevitable as they worked aggressively to reverse this relative decline.

# **NOTES**

- \* **Note:** The author wishes to thank Takako Oishi Karsner, Moeko Ota, and especially Yuki Takenaka for research in and translation of the *Asahi Shimbun*.
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