

tourism boom isn't the only reason flight and passenger numbers are on the rise. According to Guam Airport Authority statistics, about 50,000 transiting passengers will go through Guam's airport in fiscal 1988, up 46% from last year. The number of transiting passengers was higher, though, when Pan American World Airways was flying through Guam because more frequent stops were necessary, but longer-range aircraft have changed that. In 1976 almost 20% of all passengers who came through the airport were transit passengers, compared to less than 5% in 1988.

Continental added two spokes to its Guam hub in the last year with the addition of non-stop service to Okinawa three times a week as of April 22 and flights twice a week to Port Moresby, Papua New Guinea. The addition of these flights shows how Guam is being used as a hub and not just for tourist traffic, says Daniel H. Purse, vice president and general manager of Continental.

The addition of three flights per week from Guam to Brisbane and Sydney and one non-stop flight per week to Sydney is a big step in making Guam a hub for international traffic because it connects Asia to Australia through Guam, says Purse. "Come April, everything will connect through Guam," he says. "If you can drive enough equipment to cross-feed here, that's the key."

Hubbing has proven to be the most economical and practical way to move people from city to city and maximize use of the aircraft and personnel because the airline uses smaller planes to bring passengers into the hub and larger planes to fly to larger cities from the hub. In Micronesia, Continental's small planes fly between Yap, Pohnpei, Palau, Saipan, Rota and the Marshall Islands, while larger planes are used for long-distance traveling from Guam, Purse says.

"Guam International Airport will be a major hub of Pacific travel because of the opening of Guam to Australia," says Lt. Gov. Frank F. Blas, chairman of an aviation task force established in May to establish direction and policies on aviation in Guam. Guam's airport is attractive as a transit hub because it isn't saturated in terms of slots like Narita International Airport and can be flexible, so airlines that were using Hawaii and Narita to connect to Australia may choose to use Guam instead, he says. "The problem with Narita is that even if you get the route, you may not get a slot because slots are tight."

In addition to more transiting passengers, the Australia flights are expected to bring more tourists to Guam, Blas says, and both mean more money for the region. "We want to make Guam a transit hub for a few

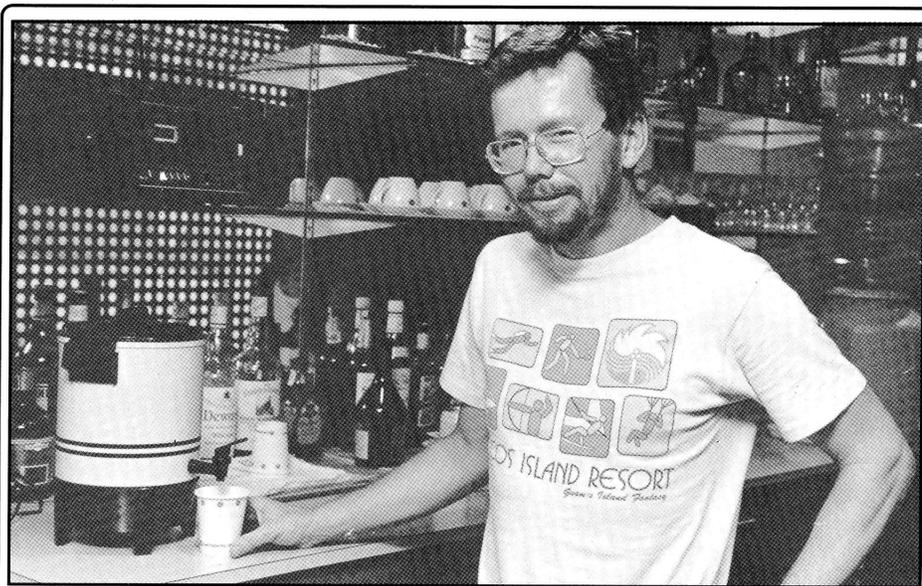


Photo by Eduardo C. Siguenza

Larry Hillblom has been a key figure in the establishment of a new joint-venture agreement between United Micronesia Development Association, Air Micronesia Inc. and Continental Airlines.

A Marriage Made in Micronesia

It's taken about a decade, but it seems that, for richer or poorer, United Micronesia Development Association, Air Micronesia Inc. and Continental Airlines have settled in for a 25-year marriage.

The courtship between the companies began with the start of the two Micronesian companies, UMDA and Air Micronesia, in the late '60s. Continental/Air Micronesia was born in 1968 when Carlton Skinner, generally recognized as the grandfather of Air Micronesia, founded the concept of a joint venture where Continental Airlines would serve as a tutor for Air Micronesia until the local company was ready to go on its own. Continental/Air Micronesia was awarded the exclusive rights to fly in Micronesia under a five-year agreement with the Trust Territory government.

Everything went smoothly until about five years ago, when Continental Airlines filed for Chapter 11 bankruptcy and bought about 18,000 shares of UMDA stock at about \$60 per share. Larry Hillblom, founder of DHL Courier Service Inc. who now owns 32% of UMDA, entered the picture, and Continental Airlines sued him for interference with its attempt to purchase more stock. Hillblom filed a countersuit in district court in Saipan, which led to a settlement on Feb. 5, 1987.

A formal joint-venture agreement to reorganize Continental/Air Micronesia was completed earlier this year between UMDA and Continental as a result of the settlement. Prior to the agreement, Continental/Air Micronesia was 60% owned by UMDA, 10% owned by Aloha Airlines, and 30% owned by Continental Airlines. Continental Airlines

also owned part of UMDA's stock. The settlement requires that Continental Airlines divest itself of stock in Continental/Air Micronesia and UMDA. UMDA now owns almost all of Air Micronesia.

In addition, the settlement requires that Continental Airlines pay UMDA \$856,000 a year and pay Aloha \$114,000 a year for the next 25 years. In addition, Air Micronesia received a one-time payment of \$961,000, and will receive 1% of Continental/Air Micronesia's gross revenue exceeding \$100 million, except on the Guam-Honolulu route, which will give them 0.35% of the gross revenue exceeding \$100 million. Continental/Air Micronesia flies under Continental Airlines' operating certificate and uses its equipment.

With the first payment in hand, UMDA purchased \$1 million of stock in Texas Air Corp., parent company of Continental Airlines.

In addition, five members of Air Micronesia and six members of Continental Airlines have been appointed to the membership of Continental/Air Micronesia's management committee to oversee the operation of the airline. UMDA President Manuel A. Tenorio heads up the Air Micronesia representatives, and Dan Purse, Continental/Air Micronesia vice president and general manager, heads up the Continental Airlines representatives.

Jose C. Tenorio, UMDA's first president, sums up the story of UMDA and Air Micronesia by saying, "It is beyond our wildest dreams."

— Don A. Farrell
reporting from San Jose,
Tinian, and Garapan, Saipan.