

## 2<sup>nd</sup> air transport symposium

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I am speaking as former president of the Assembly as well as representative of Airbus. Airbus and more the industry are very interested in the health of their customers and more generally by air transport sustainability.

### Objectives of the symposium and the question raised by ATConf/6 and Assembly

This symposium aims at helping ICAO to identify the relevant questions and to fix its working program after ATConf/6 and Assembly. During these meetings, there were not a lot of issues which did not reach a consensus or at least some compromise. In fact there was only one question which divided strongly the States:

Concerning liberalization policy, do we continue on the existing basis or is there a usefulness, a necessity and even a possibility to harmonize more rules than today ?

#### 1- State intervention in air transport has always been an issue and it is the role of ICAO to address this issue

We celebrate this year the 100th anniversary of the opening of the first commercial air service between Saint Petersburg and Tampa in Florida. We also celebrated the 100th anniversary of the first closure of a commercial air service three months later. This could mean that air transport was not sustainable from the beginning.

A lot of airlines were born in United States and Europe just after the World War I, but their life was short. Very early European governments get involved in the creation of national airlines. 1920s and 1930 see the emergence of hundred airlines (420 airlines in the United States in 1926). American Government of President Hoover supported mergers which lead in 1934 to the birth of United Airlines, American Airlines and TWA (Transcontinental and western Air).

Whether it is in Europe or in the United States, the governments had from this time considered necessary their intervention. From the end of 1930s specific regulatory bodies were created to guarantee air transport safety, which was already considered as the condition of its development. At international level, after the Paris Conference in 1919, was created the Air Navigation International Commission which defined technical rules for aviation.

A few years later, just before the end of World War II, United States organized an international conference in Chicago to define a framework for the development of international air transport. This is how ICAO was born, after the signature of the Chicago Convention, on December 7th, 1944.

Aviation was almost always regulated, at first for safety reasons, then for reasons of economic sustainability. This context explains that we find in the preamble of the Chicago Convention (last sentence) the justification of ICAO intervention in this debate:

« Therefore, the undersigned governments having agreed on certain principles and arrangements in order that international civil aviation may be developed in a safe and orderly manner and that international air transport services may be established on the basis of equality of opportunity and operated soundly and economically “

This text is always effective, and we can assert that if something is to be made, ICAO is the best place to discuss it. It is what decided the last Assembly. For ICAO, it is also a question of credibility. Although for 70 years, the organization dedicates a lot to harmonize the technical rules to guarantee air transport safety and interoperability, it also strives hard to define and to develop rules connected to environmental protection and to safety because these externalities are also impacting its development. ICAO is not less responsible for taking care of the sustainable economic development of air transport. It is also one of its strategic priorities. Those who think that this economic reflection is secondary make a mistake and I think that it is necessary to encourage ICAO to move forward in this domain.

## 2- What is really the nature of the problem at short term?

What is liberalization, which we called originally deregulation. Very simply, it meant that certain rules were cancelled (market access, capacity and frequency and tariff agreements). Competition developed on this basis, without great consideration for the international nature of aviation. Let us remember that it is the domestic markets which were deregulated the first ones (on 1978 in the United States, 10 years later in Europe). In that case, there were no problems of rules harmonization, they were already harmonized or would become harmonized soon.

Of course deregulation does not cover safety, security or environment matters or the management of infrastructures capacities which remain public responsibility. We always consider that a public intervention is necessary to maintain the safety level, but also to guarantee that the air or ground infrastructures will offer sufficient capacities for the air transport development. One question is if sometimes some of these issues don't become barriers to liberalization and development. This is something that ICAO should clarify: from which point these rules become barriers ?

A few years after domestic liberalization, we saw open sky policy developing at international level. States supporting this open sky policy thought that it would be anyway beneficial for the market development and the access of the largest number of people to air transport. It was obvious that with economic conditions very different from a country to another one, and different fiscal and social regulations, we were going to see a redistribution of the positions within the market, to the advantage of the least constrained carriers.

Having supported the widest possible liberalization, including at ICAO, certain States realize today that the bilateral air agreements (or multilateral) do not protect any more their carriers, and wish that certain rules are reintroduced by means of these agreements. The carriers of other States, on the contrary benefit from this situation, thanks to a strategy of support for their air transport, tool essential to their economic and in particular tourist development. This brings the debate on “fair competition”.

This is a very political and sensitive question. If we stay at the level of declarations we shall not progress. ICAO has to go more in depth.

### 3 - In order to define the best regulatory policy, try to anticipate the future of aviation?

First remark: what is the dream? Point to point or hubs with connectivity ?

To which extent markets opening and competition are beneficial for the customers? Do not the air transport economic characteristics lead to a concentration which would limit the benefits of liberalization? Economies of scale and scope led to deep structural changes: big alliances and hubs. And the passenger? And freight shippers? Today, the word connectivity is fashionable. Although this notion is not still very clear, it contains a service quality notion. The more the connectivity is good, the more the passenger should be satisfied. It hides another reality: the system is not always capable of supplying the point to point service just in time expected by the passengers. The connectivity is a second level optimum; the real optimum would be to supply the service just in time in satisfactory conditions of offer and with best prices. The real ideal system for future, it is air services which take you where you want, in the shortest time, for the possible lowest price and the best quality of service.

Second remark: If liberalization is far from being the only cause of costs reduction but it is an accelerator.

We may look at the evolutions over a long period, to realize that costs decrease was permanent for more than 50 years. The factors of costs reduction were essentially the technological progress with the economies of scale they generated: turbofan engines, wide bodies, composite materials and all the evolutions which allowed lower fuel consumptions, aircraft lightening, air operations optimization, etc. When I hear people saying that liberalization is the cause of fast increase of the traffic, I wonder if it is not in reality the increase of traffic resulting from the economic growth and costs reductions that allows liberalization.

As a reaction to the liberalization, airlines tried to take the maximum of benefits from the reductions in cost which allowed the technology. The flows densification was one of main responses, and so were born hubs. Their benefit was also to multiply the city pairs which could be connected and thus to widen the market.

Another effect of liberalization in this domain was to bring in the market low-cost airlines, which invented a new model including in particular the segmentation of services. Rather than to develop the existing markets, they operated new market segments corresponding to their new offer.

Airlines invented also new management policies, with the yield management allowing to optimize the revenues (the consequence being that the same service is sold to very different prices aboard the same flight). Their management policy also aimed at filling planes as much as possible, at the risk of penalizing overbookings.

In brief, we see that all the airlines strategy in front of the liberalization consisted in using all the available ways to lower the costs. Nothing surprising. For ICAO, the question is to assess the impact of these new practices, and decide if a regulatory framework is necessary or not.

Third remark: For the future, one question is to know if, after all these structural adaptations, there are still possibilities of costs reduction to develop the market. Let us imagine that the cost in seat-km of an aircraft of small/medium capacity becomes sufficiently low to make more direct services profitable. Today, the aircraft which has most moderate cost in seat - km belongs to the range 220-250 seats. On the other hand, hubs will have difficulties to develop for reasons of sky and infrastructures congestion, but they should remain very active and the only solution for their development will be the use very high capacity aircraft.

Fourth remark: Beyond these structural savings, competition is made as in all economic activities on the basis of the cost of inputs, as the staff costs or the local tax system. It is on these issues that the difficulties are the most important. Are we going to regulate salary policies, social or fiscal policies which today depend on national governments? ICAO should objectively analyze these questions and say if common rules are desirable but also legally possible. It is questions certainly not easy. Why to regulate air transport rather than another sector? Having said that, what is the level playing field? This is on that that ICAO has to work and we have seen that our speakers had great difficulties to clarify this aspect.

In conclusion, the best advice to be given to ICAO is not to support a stronger liberalization or a soft or smart re-reregulation, it is to clarify the debate and propose policies based on clear objectives and impacts. We need some deeper analysis, taking into consideration all interests:

- At short term, have an objective picture of the situation, identify what items could be harmonized and what belongs clearly to national sovereignty today
- Anticipate the future of aviation in term of technology and economic performance in order to imagine the future economic model: shall we have a concentration or competition between lots of operators. What is the best for consumers? Anticipation for action: take today the decision which will support the best model