50th Conference of Directors General of Civil Aviation
Asia and Pacific Regions

Economic development of air transport
Current Challenges

2 July 2013
Boubacar Djibo, Director, Air Transport Bureau (ATB)
Preamble

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;
Nine Freedoms of the Air – Doc 9626

1. Overtly
   - A

2. Technical stop
   - A
   - B

3. Set down traffic
   - A
   - B

4. Pick up traffic
   - A
   - B

5. Carry traffic to/from third State
   - A
   - B

6. Carry traffic via Home State
   - A
   - B

7. Operate from second State to/from third State
   - A
   - B

8. Carry traffic between two points in a foreign State
   - A

9. Operate only in a foreign State
   - A

Home State
Nine Freedoms of the Air – Doc 9626

2 Technical and 7 Commercial

- 1) the right to fly over a foreign country, without landing there
- 2) the right to refuel or carry out maintenance in a foreign country on the way to another country
- 3) the right to fly from one's own country to another
- 4) the right to fly from another country to one's own
- 5) the right to fly between two foreign countries during flights while the flight originates or ends in one's own country
- 6) the right to fly from a foreign country to another one while stopping in one's own country for non-technical reasons
- 7) the right to fly between two foreign countries while not offering flights to one's own country
- 8) the right to fly between two or more airports in a foreign country while continuing service to one's own country (referred to as Consecutive Cabotage).
- 9) the right to fly inside a foreign country without continuing service to one's own country (referred to as Stand Alone Cabotage).
**ICAO Air Services Negotiation Conference (ICAN)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Number of participating States</td>
<td>27</td>
<td>52</td>
<td>38</td>
<td>64</td>
<td>62</td>
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<tr>
<td>Number of meetings</td>
<td>100</td>
<td>200</td>
<td>200</td>
<td>340</td>
<td>350</td>
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<tr>
<td>Number of Bilateral Agreements</td>
<td>20</td>
<td>60</td>
<td>60</td>
<td>120</td>
<td>130</td>
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**A place to meet for multiple air services agreement talks**

2013: 9 – 13 December, Durban, South Africa

2014: to be confirmed
The three dimensions of sustainability

United Nations: "Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs."

Triple Bottom Line: In business, one approach to sustainability is focusing on the impact of decisions on the environment and the community in addition to profit (traditional single bottom line). The diagram illustrates this idea.

International Aviation
Economic:
5% Contribution to the global economy
Environment:
2% of emissions
Consistent with the goals of ICAO, as set forth in the Chicago Convention, and with ICAO’s status as a specialized agency of the United Nations, a sustainable air transport system, I suggest, is one that:

- “Allows the basic access and development needs of individuals, companies and society to be met safely and in a manner consistent with human and ecosystem health, and promotes equity within and between successive generations.

- Is affordable: operates safely, securely, fairly and efficiently, offers choices of air services and supports a competitive economy as well as balanced regional development.

- Limits emissions and waste within the planet’s ability to absorb them, uses renewable resources at or below their rates of generation and uses non-renewable resources at or below the rates of development of renewable substitutes, while minimizing the impact on the use of land and the generation of noise.”

*Mr. Raymond Benjamin, Secretary General*
ICAO’s strategic objectives
2014-2015-2016

- **Safety**: Enhance global civil aviation safety
- **Air Navigation Capacity and Efficiency**: Increase capacity and improve efficiency of the global civil aviation system
- **Security & Facilitation**: Enhance global civil aviation security and facilitation
- **Economic Development of Air Transport**: Foster the development of a sound and economically-viable civil aviation system
- **Environmental Protection**: Minimize the adverse environmental effects of civil aviation activities
Economic development of air transport

Sound and economically-viable air transport system

- Economic regulation and oversight
- Funding of air transport infrastructure and operations
- Aviation data, forecasting and analysis
Value chain of air transport

STATES
(Regulatory framework)

Airlines

ANSPs

Airports

Ground Handling

MROs

Aircraft manufacturers

Lessors

Travel agents & GDS

Fuel suppliers

Freight Forwarders

Seeks services from
Impact of Worldwide Events

The question is not **IF** the traffic will recover, But **WHEN** the traffic will recover

![Graph showing the impact of worldwide events on revenue passenger-kilometres (billion) from 1945 to 2011. Key events include: Oil crisis, Iran-Iraq war, Gulf crisis, Asian crisis, 9/11 terrorist attack, SARS, and World recession. The graph indicates a significant increase in revenue passenger-kilometres after these events.]
Need for the Economic Viability for the benefit of:

- In 2012
- 2.9 billion passengers
- 52 million ton. of freight
- 1 000 airlines
- 25 000 aircraft in service
- More than 4 000 airports
- 36 million airline routes
- 170 air navigation centers
- 1.5% Cargo Volume = 34.6% in value

...and in 2030
6 billion passengers
Look at air traffic flow...

*Based on OAG data*
Canada to Asia

**Passengers and cargo flights, all non-stop**

1990

- 2,121 flights – 8 routes

2012

- 9,058 flights – 23 routes
Regional airline traffic data

2010

- North America: 30%
- Latin America: 5%
- Africa: 3%
- Asia Pacific: 27%
- Europe: 28%
- Middle East: 7%

**Total:** 4685 billion PKP

2030

- North America: 20%
- Latin America: 6%
- Africa: 2%
- Asia Pacific: 36%
- Europe: 23%
- Middle East: 13%
- Latin America: 5%

**Total:** 11579 billion PKP

* Data submitted by regional airlines.

**Source:** ICAO

**Expressed in Passenger-Kilometres Performed (PKP)**
Look at regional level

2012 Regional distribution *(preliminary figures)*
Revenue Passenger-Kilometers

<table>
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<tr>
<th>Region</th>
<th>% world traffic</th>
<th>annual growth 2012 vs. 2011</th>
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</thead>
<tbody>
<tr>
<td>Asia and Pacific</td>
<td>30%</td>
<td>+6.9%</td>
</tr>
<tr>
<td>Europe</td>
<td>27%</td>
<td>+4.9%</td>
</tr>
<tr>
<td>North America</td>
<td>27%</td>
<td>+1.2%</td>
</tr>
<tr>
<td>Middle East</td>
<td>8%</td>
<td>+16.8%</td>
</tr>
<tr>
<td>Latin Am. &amp; Caribbean</td>
<td>5%</td>
<td>+8.4%</td>
</tr>
<tr>
<td>Africa</td>
<td>2%</td>
<td>+6.7%</td>
</tr>
</tbody>
</table>
Air traffic forecasts: “GATO” to 2030

• Past decade air transport trends

• Demand drivers analysis:
  - Economic growth
  - Liberalization
  - Low Cost Carriers
  - Improving technologies
  - ...

• Challenges for air traffic development
  - Fuel prices
  - Airport/ANSPs capacity constraints
  - Competition and inter-modality
  - ...

• Forecasts
  - Structure and methodology
  - Passenger and cargo
  - Results and analysis by route group
Aviation, Tourism and Economy

• Tourism directly represents 5% of global GDP
  – In some developing countries, tourism can account for over 25% of GDP
  – 1.2 trillion receipts generated by international tourism
  – 235 million jobs

• Aviation contributes to tourism
  – 762 billion contribution to global GDP of air transport related tourism
  – 34.5 million jobs in tourism supported by air transport
Air travellers represent 51% of international tourist

Inbound travellers by mode of transport

- Air: 51%
- Road: 41%
- Water: 6%
- Rail: 2%

Aviation and Tourism: Key figures

- Year 2010
  - Jobs linked to the catalytic impact of tourism on aviation: 34.5 million
  - Contribution to the world GDP induced by the tourism travel by air: $762 billion
  - Of international tourists travel by air: 51%

Source: UNWTO

Note: 2010 figures for international tourists
Close link between tourism and air transport: A “win-win” approach

MoC signed by Singapore Airlines with Changi Airport and South African Tourism to promote travel to South Africa (05 06 2013)

- A trade-driven MoC which includes consumer activities promoting travel to South Africa. The parties have agreed to invest more than S$1 million in cash and in-kind collectively over the next one year to support advertising and promotional campaigns.

- Promote tourist traffic to South Africa through SIA’s services to Cape Town (4 flights a week) and Johannesburg (daily flight) via Singapore’s Changi Airport.

- South Africa is an important tourism market for key Asia Pacific markets such as China, Singapore and Australia. Australasia: a fast-growing emitting market (25.1%) for South Africa attracting 541,253 tourists in 2012.

- Changi Airport is an extremely important hub in the Australasia region and will help in stimulating tourism growth to South Africa thanks to its dense connectivity to China and Australia.
Aviation and Tourism
Synergies but need for improvement

Air transport is often perceived as slowing development of travel and tourism

– Higher taxes & charges
– Lack of air connectivity
– Facilitation and border control

How to improve and balance benefits of air transport and tourism policies
Proposed joint work programme with UNWTO: 3 priorities

- T20 recognized synergies between air transport and tourism development
- ICAO and UNWTO to cooperate on matters of mutual interest:
  - Facilitation (Visa & border control)
  - Consumer protection
  - Connectivity
  - Aviation and tourism sustainability

**ICAO/UNWTO: Avoid duplication in efforts and create a greater synergy in both organizations**
Joint Statement on Aviation and Tourism signed by ICAO & UNWTO Secretaries General at ATConf/6

Objectives:

• Maximize air transport/tourism synergies
• Work together on consumer protection
• Increase connectivity (e.g. visas and travel ID documents; airport passenger flow management; essential service and tourism development route (ESTDR))
• Reduce greenhouse gas emissions
• Alleviate taxes, charges and levies on aviation and tourism
• Cooperate on the implementation of ATConf/6 recommendations
Air Cargo in 2011

182 billion
Freight Tonnes-Kilometer performed

-0.1% YoY

51 million
Freight Tonnes carried

+1.4% YoY

$5.3 billion
Air freight in the international trade
By value

34.6%

Note: Scheduled services
Value of air cargo for trade and economy

• Maintain stability of supply chain
• Support economic growth
• Enable sustainable development of air transport
• Maintain security and flight safety
• Facilitation of air cargo is essential
• Initiatives by ICAO and WCO
• A38: Joint Publication & Press Conference
Funding of Civil Aviation Activities

- **Operators:** (Airlines, airports, Air Navigation Service Providers, .....) activities are now: Autonomized, Commercialized or privatized: *Strategic Evolution*
- Need to secure appropriate funding for the industry (Airlines: Cape Town Convention on Mobile Equipment)
- **States:** Funding of Oversight responsibilities, Search and Rescue, Security, ..... 
- **Infrastructure:** Sustainable funding
Airlines and the wider air transport supply chain clearly create substantial value for consumers and the broader economy. That value creation is why, over the past forty years, air travel has expanded ten-fold and air cargo fourteen-fold, compared to a three to four fold rise in world GDP. Yet over this period airlines have only been able to generate sufficient revenues and profit to pay their suppliers and service their debt.

There has been nothing left to pay investors for providing equity capital to the airline industry. Does this matter? Well, now that 75% of the world’s airlines are at least majority owned by the private sector it should be a concern that today’s returns on invested capital do not justify retaining the existing capital invested in the airline industry.

Of even more importance is the need to attract $4-5 trillion of new capital over the next two decades to buy aircraft to meet the needs of the expansion in the Asia-Pacific and other emerging regions. Improving the efficiency of use of existing capital, and the returns it generates for investors, will be essential to attract new investment to the industry.
“Tens of millions of tourists from all over the world come and visit America every year. They stay in our hotels, they eat at our restaurants, they visit our attractions, and they help create jobs.” President Barack Obama

- Did you know:
  - that the U.S. travel and tourism industry generates more than $1.4 trillion in economic output for the U.S. economy each year?
  - that U.S. travel and tourism-related industries support nearly 7.7 million American jobs?
  - that travel and tourism exports accounted for 27% of U.S. services exports and 8% of all U.S. exports?
  - that U.S. travel and tourism exports have DOUBLED since 2002?
- **Passenger fare receipts**—fares received by U.S. carriers (and U.S. vessel operators) from international visitors—increased nearly 8 percent to $39.5 billion for the year.
US TRAVEL AND TOURISM INDUSTRY —2012

- **Industry**: 2.8% of GDP, 7.8 million jobs (5.6 million direct; 2.2 million indirect; 1.2 million total jobs supported by international travellers)
- $1.46 trillion in travel & tourism total sales ($865.4 billion direct; $591.2 billion indirect)
- **Trade**: $165.6 billion international spending $47.5 billion surplus
- Trade surplus every year since 1989, Top surplus countries—Canada, Japan, Brazil
- Travel and tourism receipts: 25% of services exports
- **Market Share**: Advanced economies are losing market share of global arrivals to emerging economies, especially China, Hong Kong, Malaysia, and Thailand.
- **Visitors to the U.S. (2012)**: Total 67.0 million
  - 1- Canada 22.7 million, 2- Mexico 14.5 million, 3- U.K. 3.8 million, 4- Japan 3.7 million, 5- Germany 1.9 million, 6- Brazil 1.8 million, 7- China 1.5 million, 8- France 1.5 million, 9- S. Korea 1.3 million, 10- Australia 1.1 million
ATConf/6 highlights & general assessment

- **Theme**: “Sustainability of air transport” provided a relevant platform for discussion
- **Objectives**: Develop guidance and action plan for a global regulatory framework
- **Preliminary steps**: Regional seminars provided a preliminary review of issues and proposals to be discussed
- **Documentation**: Substantive documentation available on website
- **Attendance**: Over 1000 participants from 131 States and 39 Observer organizations
- **69 Recommendations**: including 40 for ICAO action and 29 for States action
- **Assessment**: Successful event
Item 1: GLOBAL OVERVIEW OF TRENDS AND DEVELOPMENTS

• 1.1 Industry and regulatory developments
• 1.2 Other areas of ICAO’s work that may have economic implications

(including the economic impact pertaining to the outcome of the High-level Conference on Aviation Security (HLCAS))
Milestone results

- Stronger leadership role for ICAO in economic regulation
- ICAO leadership role in forging new regulatory tools
- Commitment of the global aviation community for increased international integration and harmonization
  - Cooperation between air transport stakeholders to avoid duplication of efforts
- Recommendation for the implementation of a voluntary air transport fund
Agenda Item 2

Item 2: EXAMINATION OF KEY ISSUES AND RELATED REGULATORY FRAMEWORK

- 2.1 Market access
- 2.2 Air carrier ownership and control
- 2.3 Consumer protection
- 2.4 Fair competition
- 2.5 Safeguards
- 2.6 Taxation & other levies on international air transport
- 2.7 Economics of airports and air navigation services
  (including outcome pertaining to economic impact of the Twelfth Air Navigation Conference (ANConf/12))
- 2.8 Implementation of ICAO policies and guidance
Market access and fair competition

Main recommendations for ICAO (market access):
- Develop international agreement to liberalize air cargo services
- Develop international agreement to liberalize market access
- Continue providing ICAN facility for further liberalization

Main recommendations for ICAO (fair competition):
- Develop a compendium of competition policies and practices by States and regional bodies
- Provide an exchange forum for States for more compatible regulatory approaches
Air carrier ownership and control

Main recommendation for ICAO - Develop international agreement to liberalize air carrier ownership and control:

- take into account safety and security concerns
- principle of reciprocity
- gradual and progressive adaptation with safeguards
- regional experiences & requirements of various States’ domestic laws & effects on all stakeholders (including labour)
Main recommendation for ICAO:

• ICAO should develop high-level, non-prescriptive core principles on consumer protection
• appropriate balance between consumers/industry competitiveness
• need for States’ flexibility (different social, political and economic characteristics)
• consistency with Montréal Convention of 1999
Main recommendations for ICAO:

• collaborate with relevant industry associations to develop analysis and guidance for use by States on the impact of taxes and other levies on air transport

• continue to take the necessary measures to enhance States’ awareness of ICAO policies on taxation and vigorously promote application
Main recommendations for ICAO:

• multidisciplinary group to develop principles on incentives in Aviation System Block Upgrades (ASBUs) modules

• new mechanisms for sustainable funding of oversight functions at State level and development of related guidance material
Continuous work on policies and guidance

Main recommendations for ICAO:

• Update and keep current ICAO policy and guidance on:
  – Regulation of international air transport (TASAs, Docs 9587 & 9626 and databases)
  – Supplement to Doc 9082 to include changes in airport & ANSP commercialization/privatization
  – Supplement to Doc 8632 – taxation policies
Continuous work on monitoring and analyzing

Main recommendations for ICAO:

• Monitor developments related to:
  – Air transport industry
  – Areas of market access, consumer protection, competition and safeguards
  – Impediments to sustainable air transport system
  – Changes in airport and ANSPs commercialization & privatization
  – Economic oversight funding situations
Promotion, awareness and implementation

Main recommendations for ICAO:

• Promote & increase awareness of ICAO policies and guidance material on:
  – Air transport regulation and liberalization
  – Funding of infrastructure
  – Policies on taxation, user charges
  – Governance, management of airports & ANSPs, aviation security related charges
  – Ratification of Montréal Convention of 1999

• Consider additional ways by which to enhance implementation
• Thank You, Merci,
• Shukran, Spasiba, Xie Xie,
• Gracias