Aviation in Transition: Challenges & Opportunities of Liberalization

Session 1: The Liberalization Experience

Lebanon’s Experience in Air Transport
Liberalization in The Middle East

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1. INTRODUCTION

Liberalization, by all means, is an important tool for an efficient air transport system which has become a critical factor in the development of the world economy. The efficiency of air transport would be greatly enhanced by moving forwards towards more liberal and open markets and by lifting all possible obstacles that were usually considered by many countries as protection barriers. The 4th ICAO worldwide Air Transport Conference 8 years ago had already set the seen for working towards liberalized air transport environment but it is hoped that the coming 5th ICAO Conference on the subject would result in developing a framework for the progressive liberalization of international air transport, with safeguards to ensure fair competition, safety and security. This seminar which comes prior to the 5th ICAO Conference and by exploring various liberalization models and experiences should pave the way for a greater consensus on how liberalization, as a strategy, should be implemented for a better aviation world.

2. LIBERALIZATION DEVELOPMENTS

Due to the rapidly changing world economy, as a result of globalization and technology advancement and due to the greater realization and global understanding of these issues, much has been achieved worldwide:

a. Middle East:

Due to international developments and the various world challenges, the Arab Civil Aviation Commission (ACAC) and the Arab Air Carrier Organization (AACO) have joined hands in meeting these challenges in a manner where compromises, between quick liberalization advocates and supporters of gradual approach to liberalization, would not undermine the air transport system in the region. ACAC has decided on a liberalization mechanism that calls on all Arab countries to adopt open skies policies based on gradual basis starting year 2002. Full open sky between Arab countries should be implemented in year 2006. Various liberalization mechanisms have already been adopted by Lebanon, Dubai, Egypt, Tunis and Morocco while other states are in the process of formulating their course of actions. ACAC has fully supported the introduction of necessary safeguard measures to ensure sustained participation of all air carriers in the global market. It has also called for the quick development of an efficient dispute mechanism.
Moreover, ACAC stressed the importance of strengthening all laws and regulations regarding consumer protection and the gradual lift of ownership and control conditions in air transport agreements. AACO has proved very strong advocate towards global approach to this issue. It has supported fully the lift of ownership and control conditions and differentiated between regulation control and the control on commercial and operational grounds.

B. Worldwide

- Many open skies agreements have been signed, (85 involving 70 countries). Bilateral to multilaterals, limited to fully open, and involving fully liberalized system and unlimited access to the market.
- Many international organizations have either shown interests or directly committed themselves in air transport. WTO and the review of their annexes to cover air transport. OECD and the development of bilateral protocol and multilateral agreement on the liberalization of air cargo transport. World Tourism Organization and the United Nations Conference on Trade & development (UNCTAD) have supported a proposal for a new tourism annex to be included in the GATS. The International Labor Organization (ILO) has already studied the impact of air transport liberalization on employment and social policies.
- The emergence of low cost airlines and their successes.
- The emergence of competing Airline Alliances that influenced the market structure and competition.
- The advancement in aviation technology with respect to aircraft design and airline operation.
- The escalation in the number of challenges associated with; capacity constraints in airports and airspace, environmental issues, the various non harmonized competitive laws, security challenges, national ownership and control, consumer protection and others.

3. LEBANON LIBERALIZATION EXPERIENCE

3.1 Previous status

Civil Aviation was administered fully by the Directorate General of Civil Aviation which acted as a policy authority, regulator and operator at the same time and it formed an integral part of the government’s public sector. Lebanon was the first country in the Middle East that experienced the taste of aviation when a French pilot landed in 1913. In 1943 Lebanon hosted the only and first aircraft building facility in the region when the French built the one sitter tail wheel aircraft (RYACK43) at Ryack airport. Lebanon has two airlines; Middle East Airline (MEA) as a regular passenger airline and Trans Mediterranean Airline (TMA) as a pure cargo airline. Both are private and operate on
commercial basis. The country has three airports out of which Beirut International Airport is the main and currently only active airport.

3.2 Current and future development

The Lebanese government has taken this issue very seriously two years ago when it identified through its economic planning strategy the importance of air transport and the role it can play in the development of the country. It highlighted the country’s capabilities through its history, geography and culture and instructed the Ministry of Transport to develop a long term vision for air transport that would achieve the growth required to make Lebanon once again the tourist, cultural, financial, educational, and medical centre of the Arab world.

The Government has then decided on the following:

- Liberalization of air transport
- Total restructuring of the Civil Aviation Administration
- Privatization of all airports
- Redevelopments of all safety and security bills

However, as in all countries, national airlines or flag carriers are usually reluctant to accept easily the principle of liberalization with regard to open sky agreements. When national airlines are considered as symbols of sovereignty or national heritages and when the subjects of defence, tourism, trade, and employment are considered as priorities by governments, air transport liberalization and economic development would not prosper. For this reason, Lebanon has decided to move forwards on liberalization by:

- Approving the restructuring and reforming plan of the Middle East Airline (MEA), two years ago, stressing at the same time its intention to immediately approve the open sky policy. Through this process, MEA was able to cut its manpower to almost half, paid completely its debts, and transferred all of its non core activities to private companies.
- Approving the implementation of open sky policy, at the end of year 2000, which includes the fifth freedom right without reciprocity.
- Approving market access to all airlines and the licensing of new charter airlines. Thus eliminating all monopolies gradually.
- Approving the new Civil Aviation Bill that separates between regulatory authority and operation authority. This Bill calls for the establishment of an Autonomous Civil Aviation Authority (CAA), that acts a pure regulator, and for privatizing all airports. Thus paving the way for the involvement of the private sector in airport operations.
- Rewriting the Civil Aviation Safety act and all associated Safety regulations and procedures in order to ensure compliance with ICAO standards.
- Eliminating all undue obstacles confronting administrative and operational activities and reducing all airport charges by a third.
Eliminating access barrier to the country by providing visas to all world citizens at the airport and for low visa charges. Charges for some countries were completely eliminated during last summer season.

The above was fully applied last year and has resulted in the followings:

- Sharp increase in the number of airlines using Beirut Airport, for the first time, as a hub in the region. (13 new airlines in one year)
- Sharp growth in the number of passenger and cargo movements at the most difficult time last year of about 15% compared with previous years. The growth in the transit movement reached 57% of earlier years.
- Fair market competition that resulted in price reduction on sectors enjoying open sky agreements. This has resulted in sharp increase of passenger movements among those countries.
- Higher operating standards and the offering of attractive customer schemes and services.
- Higher financial return as a result of traffic growth and privatized activities at the airport.
- Licensing of eight new local charter airlines without restrictions or undue conditions.
- Additional finance for various airport projects such as VIP terminal, maintenance facilities, Cargo village, Free Zone, Catering, Ground handling, and others.
- Renegotiation of almost all old bilateral agreements to include the liberal open sky initiatives without any conditions on designation, pricing, slots, type of aircraft and ownership and control.

Future developments will include:

- Further improvements in open sky agreements to include more liberalized prospects.
- The reduction of all charges at the airport and the implementation of incentive schemes for airlines using BIA as a hub.
- Eliminating all monopolies in the airport and airline operations.
- Improving the quality and standard in all customer services.
- Eliminating all undue operational constraints in cargo customs areas and improving cargo handling services by the use of a fully computerized handling system.
- Introducing biometrics and global network security system as well as a complete computerized management system that links all activities and functions at the airport.
- Establishing cargo and charter airport with links to other cargo airport network and secondary airports in the region.
3.3 Influence on Middle East Airlines

Contrary to what one might think, MEA has not been adversely influenced by the liberalization plan. The Country’s Flag Carrier which once was a losing airline has made nearly 5% growths last year and it is expected to make a profit next year. MEA has benefited from the government only and last support in order to strengthen its position in the market. MEA has approved a plan for replacing all of its (9 aircrafts) fleet with new zero hour Airbus aircrafts in order to offer the best services. It is very evident that good, competitive, and stable airlines would benefit from liberalization and open sky environment.

4. CONCLUSION

No country can shield itself from the effects of liberalization that are transforming the air transport industry. Virtual protections to national airline would not lead to real economic improvements and development. Airlines must possess efficient management and financial systems that are capable of competing on their core routes. Airlines must quickly find solutions to internal problems in order for them to survive market forces and competitions. Open skies are never the main factor for the losses in airline operations. There is no doubt that the international community must assist countries facing economic, political, social or financial difficulties in order for these countries to put in place workable economic strategy where air transport can play an important productive role.

There is surely a need for greater liberalization but it is understandable that gradual approach may be adopted to ensure fair involvement of those countries willing to liberalize but require breathing time. Ownership and control must be liberalized, but governments should liberalize their relationships with their national airlines at first and then restructure their aviation authorities in order to meet world challenges. ICAO must remain always the sole aviation international regulator and should work with all international organizations in order to protect the aviation movement towards liberalization. Lebanon’s approach to liberalization proved very successful. Stronger airline, successful liberalization experience and profitable air transport system are just the normal consequences. Lebanon will always be a strong liberalization advocator in the Middle East and will always dare to take courageous decision at the most difficult times. We invite all countries to do the same. The cost, if exist, of liberalization today will certainly be less than the price we may have to pay tomorrow.