



**WORKING PAPER**

**WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)**

**SIXTH MEETING**

**Montréal, 18 to 22 March 2013**

**Agenda Item 2: Examination of key issues and related regulatory framework**

**Agenda Item 2.1 : Market access**

**NEEDED: RAPID LIBERALIZATION OF AIR CARGO SERVICES THROUGH A NEW  
MULTILATERAL APPROACH**

(Presented by The International Air Cargo Association (TIACA))

**EXECUTIVE SUMMARY**

The International Air Cargo Association (TIACA) believes that liberalization of air cargo services should be a high priority for global policymakers, to allow air carriers to provide air cargo services between two points anywhere in the world. Under a fully liberalized aviation environment, many new international “highways in the sky” would be created, which would markedly expand the linkages between global suppliers and customers. Competitiveness would improve, foreign direct investment would increase, and economic development would accelerate.

**Action:** The Conference is invited to agree to the recommendations presented in paragraph 4.

**References:** ATConf/6 reference material is available at [www.icao.int/meetings/atconf6](http://www.icao.int/meetings/atconf6).

**1. INTRODUCTION**

1.1 Air cargo is a catalyst for economic growth. Roughly 35% of global trade by value is transported via air, representing over \$5 trillion in goods annually. Airfreight and integrated air express services are critical to the just-in-time practices that undergird globally competitive companies. Additionally, air cargo has allowed otherwise remote regions to access world markets for agricultural and other products. The success of these operations depends on rapid and reliable delivery in the best possible condition, with minimum loss or damage – and airfreight is often the only transport means to fulfil these requirements.

1.2 Air cargo routes provide countries with quick and efficient access to worldwide supply chains and markets. Simply put, air cargo routes are a public good every bit as important as surface transportation infrastructure. However, too often, these “highways in the sky” are constrained and fail to enable growth.

## 2. DISCUSSION

2.1 The transportation of air cargo is still regulated by rules established 70 years ago. At that time, almost all airlines were national flag carriers and the air cargo industry was in its infancy. The rules established then were mainly focused on passenger carriage and driven by the desire to control competition in the post-war environment. They effectively confined carriers to routes going to and from their home country. Today, the global economy is dramatically different, but the framework remains the same.

2.2 Bilateral aviation agreements were an important facilitator of globalization during the second half of the 20<sup>th</sup> century. However, now that globalization is a reality, an updated approach would better address the realities of today's interconnected economy and promote the growth of air cargo services. Transportation between points A and B is not the way modern supply chains work. They involve multiple points that shift with global conditions and market demand. Supply chains react to seasonalities, and to industry and event-specific needs. This in turn results in geographically unbalanced airfreight flows, and demands utmost flexibility in air cargo routing. We live in a world in which the components of a product might be manufactured in, for example, Malaysia, China and Mexico, then assembled in the United States, for shipment to markets in Europe. Production or assembly facilities are built or relocated at short notice to those countries with the lowest costs and best access to the most efficient transportation options.

2.3 Most parts of the freight transportation industry can respond to such shifts without restriction. Cargo ships sail to many ports. Freight forwarders have also grown into global enterprises, operating with little restriction in all parts of the world. Air carriers, however, cannot.

2.4 Liberalization of air cargo routes would allow the more efficient use of air carrier resources. Rather than being forced to operate with less than profitable backhauls, carriers should be free to fly to second or third countries, carrying cargo picked up along the way. This would benefit everyone from manufacturers and growers through to the consumer. In instances where air traffic rights have been liberalized, the results have been impressive:

- a) In the United States domestic market, express carriers such as FedEx and UPS have developed hub and spoke systems that set the standard for all other document, small package and freight operations;
- b) Under the European Union's Common Aviation Market, completed in 1997, Member States have mutual cabotage rights. This has produced new air carriers, shipping systems, and logistics solutions; and
- c) Dubai Airports and Emirates Airline has proven that unfettered inter-carrier competition within a liberalized environment is beneficial for both airlines and customers, and of course, Dubai. In 2000, 72 scheduled airlines operated to Dubai. Today, more than 150 airlines do. Cargo traffic growth has been equally impressive, with freight tonnage more than quadrupling. The liberal aviation policy adopted by the United Arab Emirates and the government of Dubai directly contributes to expanded consumer choice and the fair and equal treatment of all airlines that wish to fly there.

### 3. CONCLUSIONS

3.1 Air cargo is fundamentally different from passenger air traffic, and has very different needs. Unlike people, very few products fly round trip. In a cargo airline's network, fifth freedom traffic is key to a viable route structures.

3.2 MALIAT offers an existing framework for liberalizing air cargo services. However, it does not include all elements that are needed for a fully liberalized regime. While additional accessions on a cargo-only basis would be an improvement from the current baseline, it is insufficient over the longer-term.

3.3 TIACA believes it is time for a modified approach to aviation negotiations and freedoms for air cargo services, to better account for the realities of a globalized economy and unleash the potential of air cargo services as a trade facilitator. To do so, we need a fully liberalized air cargo services sector. Air cargo is a trade creator that enhances the competitiveness of companies and nations. The benefits and cost savings from liberalization of air cargo services would create new markets that boost international trade, foreign direct investment, and national GDP.

3.4 It is time to adopt a new approach to air cargo services negotiations.

### 4. RECOMMENDATIONS

4.1 The Conference is invited to:

- a) urge ICAO Member States to accede on a cargo-only basis to the Multilateral Agreement on the Liberalization of Air Transportation (MALIAT), as a first step towards market liberalization and openness. Member States may be reluctant to accede to MALIAT on a comprehensive basis, but acceding for cargo only should be a relatively straightforward step for many countries;
- b) call upon ICAO Member States to develop a new generic agreement for air cargo services that would grant the same rights and privileges, on a reciprocal basis, to all signatories, as the second critical step towards achieving liberalization;
- c) call for the immediate formation of a joint government/industry Task Force that should be responsible for developing this draft agreement while ensuring appropriate consideration of all relevant regulatory and commercial issues. This Task Force should create a new approach under which a multilateral group of countries could permit full cargo freedom rights and privileges to each other – that is, permitting reciprocal fifth, sixth and seventh freedom rights. TIACA believes there is significant potential support for such an approach, particularly from countries that already operate 'open skies' as well as those that have no existing national air carrier to protect. The benefits of liberalized agreements would be open to all carriers, irrespective of national ownership; and
- d) set ambitious, realistic targets for the completion of the Task Force's work. TIACA recommends that the Task Force commence its discussions as soon as feasible after the conclusion of the Conference. We understand that negotiating a comprehensive new agreement will be a major undertaking.

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