



Session 2 – The Role of Government in a Liberalized Environment

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General Questions for Panel

- What are government policy goals or objectives concerning competition?
- To what extent, and under which circumstances, is State support desirable or acceptable?
- Should airlines necessarily be economically disassociated from States?



Advantages of a Liberal (Competitive) Air Transport Industry

- Public welfare is maximized; i.e., society as a whole is better off.
- Airfares and shipping costs are reduced (compared to non-competitive situations).
- Airlines are encouraged (forced) to become more efficient.
- Inefficient airlines (should) exit the market freeing up capacity and capital for more efficient carriers.

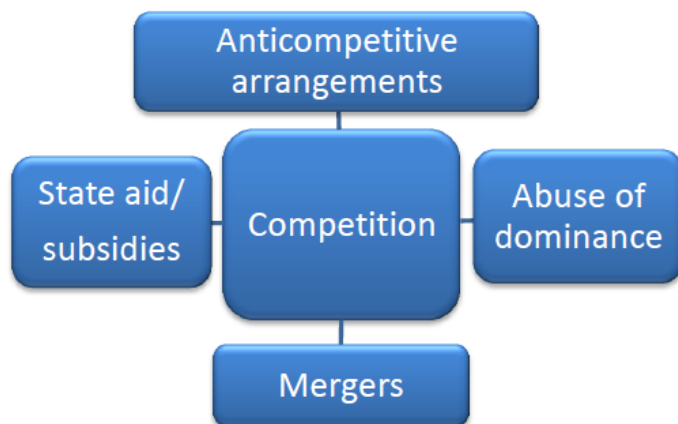


But States May Have Other Agendas ...

- Maintaining routes to “remote” regions, even if flights are not economical at “reasonable” fares.
- Increasing employment in the aviation industry.
- Promoting travel and tourism (e.g., by expanding hub capacity).
- As a result, states may feel that it is in their best policy interest to provide aid/subsidies to the aviation industry.



But State Aid Can Distort the Competitive Environment



In a highly regulated environment; for example where capacity levels are predetermined and fares are collectively set, aid by State A may have little effect on State B's carrier operations. However, in a competitive environment, aid by State A may distort the marketplace and even drive a carrier from State B out of the market.

Source: ICAO, Air Transport Regulatory Panel, ATRP/13-IP/3, 2015.



Liberal Environments Create Tensions and Conflicts

- When should a State be allowed to pursue the aid policies it believes are in its best interest?
- According to ICAO (ATRP/13-IP/1), in a liberalizing or liberalized market:
 - *States may wish to continue providing some form of assistance to their airlines. However ... State aids/subsidies ... may distort trade in international air services and may constitute unfair competitive practices.*



When is State Aid / Intervention Warranted and When is it Unfair?

- Here are some of what the US carriers allege comprise the “\$42 Billion in quantifiable subsidies” to the Gulf carriers...



US Carrier Allegations (1)

- *\$8.4 billion in government “loans” and “shareholder advances” with no repayment obligation to Qatar Airways.*
 - But if the airline is State owned, how else should the airline be capitalized?
 - Is State ownership *per se*, a subsidy?



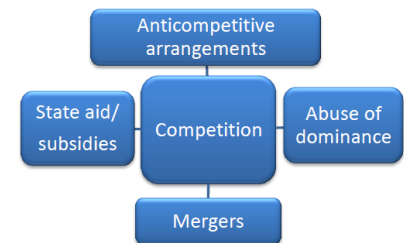
US Carrier Allegations (2)

- *\$6.3 billion in government capital injections to Etihad Airways.*
 - Again, if the airline is State-owned, how else should the airline be capitalized?
- *\$2.3 billion from subsidized airport infrastructure to Emirates Airline.*
 - Is State investment in infrastructure a subsidy?
 - What about the tax-free bonds used to finance airport infrastructure in the US?
 - What about government ownership of air traffic control?



Other Potential Roles for Governments in a Liberalized Environment

- Aside from State aid, governments may intervene in the aviation industry in other ways:
 - Prevent abuse of dominance (e.g., prevent predatory pricing used to keep out competitors; prevent monopolization of slots or gates).
 - Regulate (potential) anticompetitive arrangements (e.g., alliances that restrict competition).
- As with the use of State aid, these other government interventions become more likely in a liberalized environment.





Relationship Between Liberalization and State Action

States feel that they must take actions to safeguard competition and preserve liberalization.



Source: ICAO, Air Transport Regulatory Panel, ATRP/13-IP/3, 2015.



Summary: The Role of Government in a Liberalized Environment

- Liberalization can cause conflicts between State goals for improving the welfare of its citizens and the goal of maintaining a competitive marketplace.
- This conflict leads to a number of important questions:
 - When is it okay for States to intervene in a liberal market?
 - What interventions constitute unfair competitive-distorting subsidies and what interventions should be viewed as positive, welfare-enhancing?
 - Is government ownership of an airline or of aviation infrastructure a *per se* subsidy or can government ownership exist in a fair, competitive, liberal market?