



**WORKING PAPER**

**ASSEMBLY — 39TH SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 39: Economic Regulation of International Air Transport — Policy**

**GROWTH OF LOW COST CARRIERS AND ITS IMPACT ON THE AIR SERVICES  
INDUSTRY – BENEFIT OF REPUBLIC OF KOREA**

(Presented by the Republic of Korea)

**EXECUTIVE SUMMARY**

As is evident from the case of the Republic of Korea (ROK), Low Cost Carriers (LCCs) have created more demand in the air services market, and now serve as a key player in promoting growth of the air services industry and improving consumers benefits by supplying diverse and more affordable air services. The Member States sharing growth examples and political and institutional initiatives regarding LCCs will serve as a key driver for LCCs to continue its growth to a major player which contributes to economic growth and consumer benefit improvements.

**Action:** The Assembly is invited to:

- a) encourage ICAO to assume a greater role in facilitating information sharing on political and institutional initiatives as well as examples of growth of LCCs of the Member States; and
- b) encourage the Member States to actively cooperate with ICAO regarding procedures for sharing initiatives and experiences.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective D – <i>Economic Development of Air Transport.</i>
<i>Financial implications:</i>	Not applicable
<i>References:</i>	A39-WP/4, <i>Implementation of Recommendations of the ATConf/6</i>

## 1. INTRODUCTION

1.1 Low Cost Carriers (LCCs), which have emerged as a result of deregulation of the air services industry, have been quickly growing with their price competitiveness and distinctive marketing strategies, and have been restructuring the global air services market. LCCs now play a key role in the growth of the air services industry, handling around 28% of the global air carrier passengers in 2015.

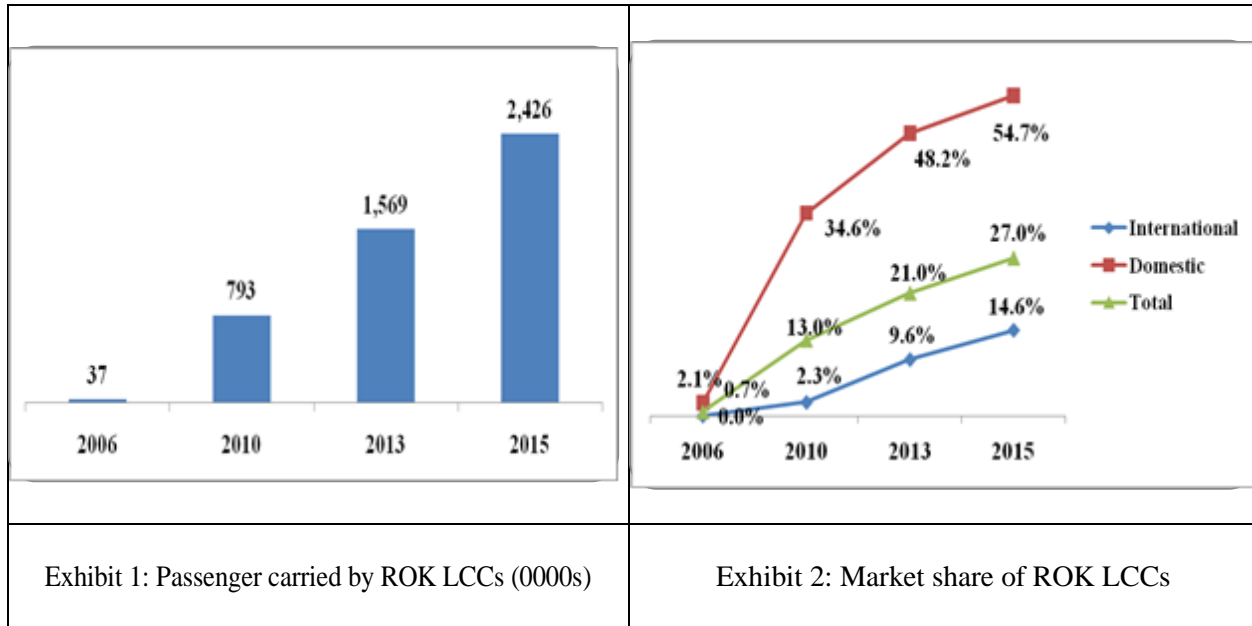
1.2 LCCs were introduced in the Republic of Korea (ROK) market in 2005, which came late compared to the European and the U.S. markets. The ROK LCCs supply affordable air services by offering lower airfares and diverse city pairs compared to the Full Service Carriers (FSC), and consequently now play a key role in the growth of the air services industry.

## 2. EMERGENCE OF LCC IN THE ROK AND MARKET IMPACT THEREOF

2.1 Since the first LCC began its operation in 2005, the number of LCCs operating in the ROK has increased to six (6) in 2016, and three (3) of which are subsidiaries of incumbent market participants, Korean Air and Asiana Airlines, and the other three (3) are independent LCCs. LCCs first began with providing domestic route services, and started providing international route services especially with those countries which the ROK has concluded the Open Skies Agreement with.

2.2 The launch of LCCs has changed the landscape of the ROK's air services industry. The number of passengers carried by LCCs has been growing at an average of 59% per annum, which shows that LCCs have been leading the growth of the air services market. LCCs now play a key role in growth of the air services industry of which market share reaches to 27% in 2015 when only 10 years after the first LCC's launch.

2.3 The start of LCCs, rather than simply absorbing the existing demand in the air services industry, has created new demand in the airline market. The number of air passengers in the ROK had been growing at an average of 2.66% per annum; but after the launch of the first LCC in 2006, it began growing at an average of 6.7% per annum. Especially, since LCCs began actively supplying international route services in 2009, the average growth rate has been 9.6% per annum. In particular, the regional airports, which suffered from lower market demand with competition from the express rail services, have seen a positive turnaround in the number of airport passengers directly as a result of LCCs operation in such airports. This also created more benefit to local residents and consumers throughout the nation since it provided access to air services.



2.4 The ROK is doing much effort to establish fair market conditions in a circumstance that diverse air carriers enter into the market while LCCs can form itself as a stable factor for the growth of the ROK’s air services market. First and foremost, the competent authorities have been providing consultation services to reinforce the LCC’s safety capabilities (*e.g.* maintenance capability, etc.), and have been offering the Consumer Management Manual for LCCs. Further, the competent authorities have implemented the Consumer Protection Notification for the purpose of providing guidelines for consumer protection to LCCs, thereby helping LCCs to become a safer and more convenient air carrier. Furthermore, we have worked closely with the Korean Fair Trade Commission to prevent any unfair market/business practices that may harm the air services industry.

2.5 LCCs, with their successful landing in the air services market in the ROK, have been contemplating new business models which require new policy directions and institutional grounds. LCCs have been strengthening their marketing network and capacity to conclude agreements with other airlines, including alliances agreements, interlining agreements, and codeshare agreements. Jeju Air and Eastar Jet which are the ROK LCCs have announced their enrolment in the alliances of LCCs in the Asia Pacific region for the purpose of improving their competitiveness through joint operation with other Member States. Jin Air and Air Busan, which are subsidiaries of the existing air carriers, are expanding their coverage by entering into a codeshare arrangement with their parent air carriers.

### 3. SHARING EXPERIENCES AND POLITICAL INITIATIVES AMONG THE MEMBER STATES

3.1 The rise of LCCs is not limited in the ROK. Although being late in their arrival compared to those in Europe and the U.S., the LCC markets in Asia including the North East Asia have seen an impressive growth in the recent years. The coming of LCCs and their new alliances call for the sharing of information and experiences about LCCs and the joint efforts to implement appropriate political and institutional initiatives among the Member States.

3.2 Such sharing of their experience and perspective among the Member States and joint efforts will help LCCs continue to lead the market growth and allow LCCs to become key players in the market that supply safe and competitive air services to the consumers.

#### 4. **CONCLUSION**

4.1 As is evident from the case in the ROK, LCCs play a key role in creating more market demand and improving consumers benefits by supplying more diverse and affordable air services.

4.2 The sharing of their respective growth examples and political and institutional efforts regarding LCCs among the Member States will help LCCs continue to grow as the major player leading economic growth and consumer convenience.

4.3 The ROK proposes that ICAO establish a platform to facilitate such sharing of experiences and efforts of Member States, and hereby encourages Member States to fully engage in such efforts of ICAO.

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