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**SYMPOSIUM ON THE LIBERALIZATION OF AIR TRANSPORT IN ASIA/PACIFIC
A GOVERNMENT AND INDUSTRY DIALOGUE**

(Shanghai, China, 25-27 May 2005)

REGULATORY AND INDUSTRY OVERVIEW

(Presented by ICAO)

1. INTRODUCTION

1.1 For the past decade, there have been significant developments in the air transport regulatory scene and in the airline industry. Much progress has been made in the liberalization of international air transport regulation with an increasing number of States being parties to arrangements towards full market access. At the same time, the airline industry has witnessed major structural transformation, inter alia, through alliances, mergers and acquisitions in order to cope with an increasingly competitive environment. This paper provides a brief global overview of regulatory and industry trends and developments that have taken place in recent years, primarily in the context of market access. The **Appendix** summarizes the air passenger traffic links in the region as well as bilateral air services agreements registered with ICAO.

2. REGULATORY DEVELOPMENTS

2.1 **International Air Services Transit Agreement**. Although most international air services operate under bilateral or regional regimes, the International Air Services Transit Agreement (IASTA), which provides for the multilateral exchange of rights of overflight and non-traffic stop for scheduled air services among its Contracting States, has made an important contribution to the development of international air transport. The Agreement is a cornerstone of multilateralism in air transport. The number of Contracting States which are parties to the IASTA increased from 99 in 1994 to 122 as of May 2005, but more than one-third of ICAO Contracting States, including several with large land masses, remain outside the Agreement. Assembly Resolution A35-18 Appendix A "Urges Contracting States that have not yet become parties to the International Air Services Transit Agreement (IASTA) to give urgent consideration to so doing". The fifth Worldwide Air Transport Conference (ATConf/5) recognized IASTA's contribution to the sound and economic development of air transport to the States which are parties to it and reaffirmed its importance for liberalization and for multilaterally developing the air transport system.

2.2 **Bilateral liberalization**. Bilateral air services agreements are still the prevailing approach used by States in expanding international air transport services. During the period from 1995 to 2004, about 800 bilateral air service agreements (including amendments or memoranda of understanding) were reportedly concluded. Over 70 per cent of these agreements and amendments contained some form of liberalized arrangements such as unrestricted traffic rights (covering Third, Fourth and in some cases Fifth Freedom rights), multiple designation with or without route limitations, free determination of capacity, a double disapproval or country-of-origin tariff regime, and broadened criteria of air carrier ownership and control. As the airline business evolves, some of the more recent bilateral air service agreements have included provisions dealing with new types of commercial activities, some of which have market access implications, such as computer reservation systems (CRSs), airline codesharing, leasing of aircraft and intermodal transport.

2.3 One notable development is the considerable increase in the number of "open skies" agreements, which provide for full market access without restrictions on designations, route rights, capacity, frequencies, codesharing and tariffs. The first such agreement was concluded in 1992 between the Netherlands and the United States. Since then, 102 "open skies" agreements were concluded, involving 79 States, with the United States being one of the partners in 65 cases. These agreements involve not only developed countries but also an increasing number of developing countries (about 65 per cent). In addition to the basic market access elements, 63 agreements also grant "Seventh Freedom" rights for all-cargo services (five agreements also granting this right for passenger services). Twenty-five of the "open skies" agreements concluded by the United States have a transition annex that places limits on or provides for the phase-in of, inter alia, frequencies, Fifth Freedom rights, Seventh Freedom rights for all-cargo, third-country codesharing, charter services, and ground handling, some of which are applied only to United States carriers.

2.4 **Regional and plurilateral liberalization**. Some agreements negotiated in recent years have sought to liberalize air transport services on a regional or sub-regional basis or amongst a group of like-minded States. The regional and/or plurilateral liberalization arrangements have the basic objective of providing greater market access and improving services amongst the member States concerned. Small groups of States of comparable size and development would find it easier to agree on market access than larger, diverse groups of States. The small groups would also provide a more manageable environment to test liberalized air transport policies.

2.5 Before the fourth Worldwide Air Transport Conference (ATConf/4) in 1994, there were just two such regional arrangements, namely the European Union (EU) — single market completed by 1997 with 15 member States and three States belonging to the European Economic Area (EEA), joined by Switzerland through bilateral agreements in 2002, and expanded to include another ten member States in Central, Eastern and Southern Europe in 2004 — and the Andean Pact involving five States in South America. Since 1995, eight more regional arrangements have emerged with a worldwide dispersion. They include:

a) the Caribbean Community (CARICOM) Air Service Agreement amongst 15 States in the Caribbean (1996, entry into force in 1998 for nine States);

b) the Fortaleza Agreement amongst six States in South America (1997);

c) the Banjul Accord amongst six States in Western Africa (1997, a separate more liberal multilateral agreement was signed among seven States in 2004);

d) the CLMV Agreement by Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam (1998, a formal multilateral agreement was signed in 2003);

e) the Intra-Arab Freedoms of the Air Programme amongst 16 States of the Arab Civil Aviation Commission (ACAC) in the Middle East and Northern Africa (1999);

f) an agreement amongst the six States of the Economic and Monetary Community of Central Africa (CEMAC) (1999);

g) an agreement amongst the 20 States of the Common Market for Eastern and Southern Africa (COMESA) (1999); and

h) the Yamoussoukro II Ministerial Decision amongst 53 African Union States (1999, entry into force in 2000).

Of these ten agreements, seven provide for instant or phased-in liberalization leading to full market access. In addition, there are two area-specific agreements covering IMT-Growth Triangle region by Indonesia, Malaysia and Thailand (1999), and BIMP-East ASEAN Growth Area region by Brunei, Indonesia, Malaysia and Philippines (1999).

2.6 At the plurilateral level, the Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) known as the "Kona" open skies agreement was signed in 2001 by five like-minded members of the Asia-Pacific Economic Cooperation (APEC) (i.e. Brunei, Chile, New Zealand, Singapore and the United States). It is open for adherence by other members of APEC as well as non-member States. Peru, Samoa and Tonga subsequently joined the agreement (Peru withdrew in 2005). In 2004, Brunei, Singapore and Thailand signed two Multilateral Agreement — one on the Full Liberalization of All-Cargo Services and the other on the Liberalization of Passenger Air Services — both of which are open to other member States of the Association of South East Asian Nations (ASEAN).

2.7 Several potential arrangements are also in the pipeline, for example, a common air transport programme amongst eight States of the Economic and Monetary Union of West Africa (WAEMU); a Pacific Islands Air Services Agreement (PIASA) amongst 16 States of the Pacific Islands Forum; an ASEAN Economic Community amongst ten member States of the ASEAN; an Open Aviation Area (OAA) between the EU and the United States as well as a Common Aviation Area between the EU and its neighbouring countries[1]; and an air transport agreement for a Common Aviation Area, which is open to 24 member States and three associate members of the Association of Caribbean States (ACS).

2.8 **Trade in services**. At the multilateral level, the World Trade Organization (WTO-OMC) came into being on 1 January 1995, and along with it, the entering into force of the General Agreement on Trade in Services (GATS). The GATS Annex on Air Transport Services applies trade rules and principles such as most-favoured nation (MFN) treatment and national treatment to three specific so-called "soft" rights, namely, aircraft repair and maintenance, selling and marketing of air transport, and CRS services. It excludes from the application of the GATS "services directly related to the exercise of traffic rights". Pursuant to an earlier ministerial decision, the WTO-OMC launched in 2000 the first review of the operation of this Annex with a view to considering a possible extension of its coverage in this sector. During the review, there was some

[1] There was a development affecting a common EU policy with third countries. In November 2002, the European Court of Justice (ECJ) ruled on a case brought, in 1998, by the European Commission against eight member States which have concluded or amended bilateral air services agreements (seven of them "open skies" agreements) with the United States. The judgement affirmed the ability of the member States to enter into bilateral agreements with third countries to the extent that these do not affect Community rules on air transport, but found that some of the provisions in these bilateral agreements infringed the Community's exclusive external competence, as regards air fares and CRSs. The Court also found that the clause regarding ownership and control of airlines infringed Community law on freedom of establishment. Following the Court's judgement, in June 2003, the Council of the EU conferred on the Commission a mandate to negotiate air services agreements on behalf of all member States with the United States for creation of an OAA between the two territories, as well as a so-called "horizontal" mandate to negotiate with third countries on the replacement of certain specific provisions in the existing agreements. In April 2004, the Council of the EU and the European Parliament also adopted a regulation on the negotiations and implementation of air services agreements between member States and third countries. While the OAA negotiations with the United States have been ongoing, the Commission has so far initialled "horizontal" agreements with Chile, Georgia, Lebanon, Azerbaijan, Croatia, and Bulgaria . In addition, the Commission has been proposing the creation of a Common Aviation Area with neighbouring countries, as well as a framework for negotiations with other regions in a targeted fashion.

support to extend the Annex to include some additional "soft" rights (for example, ground handling) as well as some aspects of "hard rights" (for example, air cargo, non-scheduled and multi-modal transport), but there was no global consensus on whether or how this would be pursued. In 2003, the WTO-OMC decided to end a first review process of the Annex as well as any further discussions on its expansion. The result of this review was that the Annex remains unchanged and continues to cover the existing three "soft" rights. The second review of the Annex will formally be launched in December 2005.

3. INDUSTRY DEVELOPMENTS

3.1 **Airline alliances and codesharing**. A relatively recent and rapidly evolving global phenomenon is the formation by airlines of alliances, i.e. voluntary unions of airlines held together by various commercial cooperative arrangements. There are now over 600 such alliance agreements in the world which contain a variety of elements, such as codesharing, blocked space, cooperation in marketing, pricing, inventory control and frequent flyer programmes, coordination in scheduling, sharing of offices and airport facilities, joint ventures and franchising. Intermodal alliances with railways have also grown in Europe and North America. The steady expansion of transnational alliances for strategic purposes and to achieve market access and synergies are a consequence of air carriers' response to, *inter alia*, perceived regulatory constraints (for example, bilateral restrictions on market access, ownership and control), a need to reduce their costs through economies of scope and scale; and a more globalized and increasingly competitive environment.

3.2 While numerous agreements concern cooperation on a limited scale (for example, codesharing on certain routes), the number of wide-ranging strategic alliances has been on the rise. Most notable was the emergence of several competing "global alliance" groupings. Each group is composed of some major airline members having different geographical coverage with fairly extensive networks. Through the alliances, these carriers have combined their route networks which extend to most parts of the world, and carried together over 50 per cent of the worldwide scheduled passenger traffic. Three existing global alliance groupings are:

a) "Star Alliance" founded in 1997 (Air Canada, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi British Midland, LOT Polish Airlines, Lufthansa, SAS, Singapore Airlines, Spanair, TAP Air Portugal, Thai Airways International, United Airlines, US Airways and Varig; to be joined by South African Airways);

b) "oneworld" founded in 1998 (Aer Lingus, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Lan Airlines, and Qantas);

c) "SkyTeam" founded in 2000 (AeroMexico, Air France, Alitalia, Continental Airlines, CSA Czech, Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air, and Northwest Airlines; to be joined by Aeroflot and China Southern Airlines).

The fourth global alliance group dubbed "Wings" was absorbed into the SkyTeam group in 2004 when Continental Airlines, KLM, and Northwest Airlines joined in the latter group. The Swissair-led European alliance group "Qualiflyer" was dismantled in 2001 following the demise of Swissair and Sabena.

3.3 The partnership of each global alliance group, however, remains unstable. For instance, a trans-Tasman alliance was proposed in 2002, which involved Qantas (oneworld member)'s equity investment in Air New Zealand (Star Alliance). In 2004, Mexicana withdrew from Star Alliance and switched its codeshare partner from United Airlines (Star Alliance) to American Airlines (oneworld). In 2004, Cathay Pacific (oneworld) acquired a 10 per cent stake in Air China, which has a close relationship with Star Alliance members.

3.4 The shifting development and marketing power of global alliances, together with their competitive consequences, including their dominance at some hubs, have caused concerns to small and medium-sized airlines regarding their survival and have prompted efforts by these airlines to either develop a particular segment of a market or to compete as low-cost, point-to-point airlines. Some small airlines also moved to become affiliate or regional members of global alliances (for example, Adria Airways, Blue 1 and Croatia Airlines joined in Star Alliance as regional members in 2004), and to enter into franchise agreements with major airlines (for example, Comair of South Africa has been operating as British Airways' franchise carrier since 1996). Overall, airline alliances are widespread but still evolving, with partnership relations becoming more intertwined and complex.

3.5 Airline alliances and codesharing have regulatory implications because of their potential effect on market access, competition and consumer interest. In 1997, ICAO released a major study of the *Implications of Airline Codesharing* (Circ 269) and has since produced recommendatory guidance on the consumer protection aspects of codesharing (see Doc 9587). In practice, there has been no systematic regulatory treatment of these arrangements but rather on an *ad hoc* basis, often dictated by general aero-political considerations of the States concerned. Nevertheless, it has now become a general practice that international codesharing is treated within the context of bilateral air services agreements and that underlying traffic rights are required for codesharing services. Some major alliances have also been examined closely by relevant national and regional regulatory bodies (notably, the United States Department of Transportation, the European Commission and the Australian Competition and Consumer Commission); and, in some cases, certain regulatory measures were introduced to ameliorate the anti-competitive aspects of the arrangements.

3.6 **Mergers and acquisitions**. Airlines in many parts of the world continued the pursuit of the perceived advantages of enhanced market strength through mergers, acquisitions or operational integration under a single holding company. The common thread of this trend is the continuing development of growth strategies designed to hold and expand the existing market shares, gain access to new markets, achieve unit cost reduction, shield themselves against fierce competition, and increase the scale of operations in order to attain a critical market position. Most mergers or acquisitions have been achieved within the same country, as were the cases of Air Canada's acquisition of Canadian Airlines in 2000; American Airlines's bankruptcy buyout of Trans World Airlines in 2001; Alianza Summa jointly established by Avianca, Aces (liquidated in 2003) and SAM Columbia in 2002; Japan Airlines System (now Japan Airlines Corporation) jointly established by Japan Airlines and Japan Air System in 2002; and the creation of three Chinese airline groups headed by Air China, China Eastern Airlines and China Southern Airlines through mergers with other smaller State-owned airlines in 2003-04. Against the industry consolidation, however, quite a few States expressed their concerns, and scrutinized proposed mergers with great caution. For example, the United Airlines – US Airways merger plan was blocked by the United States Department of Justice in 2001.

3.7 The opportunity for cross-border mergers and acquisitions has increased as many States adopted a new policy or amended existing rules on foreign investment or control in national carriers (for example, Australia, Brazil, China, India, and Malaysia), and relaxed the air carrier ownership and control conditions in the air services agreements. For example, in 2004, Air France and KLM Royal Dutch Airlines created a cross-border European airline group under a single holding company through a share exchange offer by Air France for KLM's shares. In 2005, Lufthansa commenced a takeover and integration of Swiss International Air Lines, which will be completed with a phase-in period. Most attempts to initiate cross-border mergers or acquisitions, however, have been abandoned owing to the aero-political, economical and regulatory complexity (for example, Alitalia - KLM and British Airways - KLM merger plans in 2000). Even in the successful cases, the control and management of foreign carriers was not financially risk-free (for example, Iberia and its parent company SEPI's majority control of Aerolineas Argentinas, and Air New Zealand's acquisition of Ansett, both of which fell through in 2001). Because of the difficulties in implementing cross-border mergers and acquisitions with success, most foreign investments in the airline industry have been made in a limited scale, instead of taking a majority stake or pursuing a full-scale merger, and often as part of a strategy to forge or strengthen alliances. Nevertheless, foreign investments have sometimes been short-lived (for example, Singapore Airlines' minority shareholdings in Air New Zealand from 2000 to 2004). As of February 2005, about 65 carriers had shareholdings in foreign airlines while about 230 airlines had equity owned by foreign investors in various degrees.

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APPENDIX
PASSENGER TRAFFIC LINKS IN THE ASIA/PACIFIC REGION

STATE-PAIRS (including dependencies/overseas territories)	Bangladesh	Bhutan	Brunei Darussalam	Cambodia	China (excluding Hong Kong & Macao SAR)	Hong Kong SAR, China	Macao SAR, China	Democratic People's Republic of Korea	India	Indonesia	Japan	Lao People's Democratic Republic	Malaysia	Maldives	Mongolia	Myanmar	Nepal	Pakistan	Philippines	Republic of Korea	Singapore	Sri Lanka	Taiwan, Province of China	Thailand	Timor-Leste	Viet Nam
WITHIN THE ASIA/PACIFIC REGION																										
Bangladesh	*A*	E				C			A (F)		D		B (C)			D (E)	B	C (F)	(F)		B	(F)		A (E)		
Bhutan	E								C							C	C							C		
Brunei Darussalam					C	C			D	B			A						C (F)	F	A		C	B		
Cambodia				*A (C)*	B	B					F	B (C)	A							E	A		C	A		A (E)
China (excl. HKG & Macao SAR)			C	B	*A (F)*	*A*	*A*	C	B (D)	A	A (A)	C	A		B	C	C	B	A	A (F)	A (C)			A (C)		A
Hong Kong SAR, China	C		C	B	*A*				A	A (B)	A (A)		A (B)			D	C	C	A (E)	A (B)	A (A)	B	A (A)	A (A)		A (F)
Macao SAR, China					*A*			F											C	D	C		A	B		
Dem. Peop. Rep. of Korea					C		F																	F		
India	A (F)	C	D		B (D)	A			*A*	C	A		A	B (D)		C (D)	A (C)	B		C	A (D)	A	C	A (B)		
Indonesia			B		A	A (B)			C	*A (B)*	A		A (A)						C (F)	A	A (A, C*)	(C)	A	A (D)	B	C
Japan	D			F	A (A)	A (A)			A	A	*A (A, D+)*		A	(C)	C		D	C	A (A)	A (A)	A (A)	C	A (A)	A (A)		A
Lao Peop. Dem. Rep.				B (C)	C							*A*												A		A (E)
Malaysia	B (C)		A	A	A	A (B)			A	A (A)	A		*A (A)*	C		C	D (C)	C	A (C)	A	A (A)	B (F+)	A (F)	A (B)		A
Maldives									B (D)		(C)		C								C (F)	A (B, F+)		E		
Mongolia					B						C				*A*					B						
Myanmar	D (E)	C			C	D			C (D)				C			*A*					B		C	A (C)		
Nepal	B	C			C	C			A (C)		D		D (C)				*A*	C			D			B		
Pakistan	C (F)				B	C			B		C		C				C	*A*				C (F)		B (C)		
Philippines	(F)		C (F)		A	A (E)	C			C (F)	A (A)		A (C)						*A (C)*	A	A (C)		A	A (A)		C
Republic of Korea			F	E	A (F)	A (B)	D		C	A	A (A)		A		B				A	*A*	A		A (A)	A (C)		A
Singapore	B		A	A	A (C)	A (A)	C		A (D)	A (A, C*)	A (A+)		A (A)	C (F)		B	D		A (C)	A		A (C, C+)	A	A (A)		A (B)
Sri Lanka	(F)					B			A	(C)	C		B (F+)	A (B, F+)				C (F)			A (C, C+)	*A*		B (C)		
Taiwan, Province of China			C	C		A (A)	A		C	A	A (A)		A (F)			C			A	A (A)	A		*A*	A (B, F+)		A
Thailand	A (E)	C	B	A	A (C)	A (A)	B	F	A (B)	A (D)	A (A)	A	A (B)	E		A (C)	B	B (C)	A (A)	A (C)	A (A)	B (C)	A (B, F+)	*A (F)*		A (C)
Timor-Leste										B																
Viet Nam				A (E)	A	A (F)				C	A	A (E)	A						C	A	A (B)		A	A (C)		*A (B*)*
Australia			B		A	A (E)			D	A	A		A (C)						B	A	A (A)		B	A (B)	B	A
Cook Islands																										
Fiji											C									C						
Kiribati																										
Marshall Islands																										
Micronesia, Fed. States of																			(D)							
Nauru																										
New Zealand			C			A				C	A		B							B	A (B)		C	B		
Palau																			E (C)	E			C			
Papua New Guinea										E	D								D		C					
Samoa																										
Solomon Islands																										
Tonga																										
Tuvalu																										
Vanuatu																										
American Samoa (US)																										
Christmas Islands (AU)																										
Cocos/Keeling Islands (AU)																										
French Polynesia (FR)											C															
Futuna Island (FR)																										
Guam (US)						C				C	A								A	B			C			
Northern Mariana Islands (US)					E	D					A								C	B			F			
New Caledonia (FR)											B															
Niue (NZ)																										
Norfolk Island (AU)																										

STATE-PAIRS (including dependencies/overseas territories)	Bangladesh	Bhutan	Brunei Darussalam	Cambodia	China (excluding Hong Kong & Macao SAR)	Hong Kong SAR, China	Macao SAR, China	Democratic People's Republic of Korea	India	Indonesia	Japan	Lao People's Democratic Republic	Malaysia	Maldives	Mongolia	Myanmar	Nepal	Pakistan	Philippines	Republic of Korea	Singapore	Sri Lanka	Taiwan, Province of China	Thailand	Timor-Leste	Viet Nam
MIDDLE EAST (including rest of Asia)																										
Afghanistan					D				B									C								
Bahrain	C					B			A				C					B	C		B	C		B		
Iran, Islamic Republic of	D				D				C		C		D					C		D		F		C		
Iraq																										
Israel					D	C			C															C		
Jordan									B				E					C				C		C		
Kuwait	B				D				A	C								A (D)	C		C	B		B		
Lebanon													C													
Oman	B								A				C					A (C)	D			C		C (F)		
Qatar	B				C				A	C			B	B			B	A	B	C	C (F)	A		B		
Saudi Arabia	A		C			C			A	A			C	F			(C, F*)	A (D)	A		C	B		(F)		
Syrian Arab Republic									C									D								
United Arab Emirates	A (C)		B		B	A			A (A)	A (C)	C		A (C)	B (D)			B (E)	A (B)	A (F)	C	A (D)	A (C)		A (C)		F
Yemen	E								C	C			C													
AFRICA																										
Algeria										F																
Egypt									C		C		C					F	E	C	C			C		
Libyan Arab Jamahiriya																		D								
Morocco																										
Sudan																										
Tunisia																										
Congo																										
Dem. Rep. of the Congo																										
Djibouti					(F)																			(F)		
Eritrea									(F)																	
Ethiopia					C	C			C									E						C		
Ghana																										
Kenya						C			B															C		
Lesotho																										
Liberia																										
Madagascar																								D		
Mauritius						C			B				C								D (D*)					
Niger																										
Seychelles									D					C							E					
South Africa						B			C				C								B					
Togo																								F		
Uganda																										
United Republic of Tanzania									C																	
Zambia																										
Zimbabwe					F																F					
EUROPE																										
Albania																										
Austria					C				C		B		B	C		F	E				D	D	C	B (C)		
Belgium	C				(F)																					
Bulgaria																										
Croatia																										
Cyprus																						E				
Czech Republic														F						D		C		F		
Denmark					B						B							C			B			B		
Estonia																										
Finland					B	C					C										C			B		
France	E				A	A			A (B)	C	A (C)		C (C)	(F)				C	C	B	A (C)	C	C	A		B
Germany	E		C		A	A			A (E)	B	A		B	C	C			C	B	A	A (B)	B	C	A (C)		C
Greece																		D		F	C (F)			C		

Appendix

STATE-PAIRS (including dependencies/overseas territories)	Bangladesh	Bhutan	Brunei Darussalam	Cambodia	China (excluding Hong Kong & Macao SAR)	Hong Kong SAR, China	Macao SAR, China	Democratic People's Republic of Korea	India	Indonesia	Japan	Lao People's Democratic Republic	Malaysia	Maldives	Mongolia	Myanmar	Nepal	Pakistan	Philippines	Republic of Korea	Singapore	Sri Lanka	Taiwan, Province of China	Thailand	Timor-Leste	Viet Nam
Hungary					D																					
Iceland																										
Ireland																										
Italy	C				B	C			B		A (D)		C	D (F*)		F		C		C	C	E (F*)	C	B (D, F*)		
Latvia																										
Lithuania																										
Luxembourg																										
Malta																										
Netherlands					A	B			B (B)	B	A		B (F)				E	C	C	B	B (C)	E	A	B (B)		
Norway																		C								
Poland																										
Portugal																										
Romania																										
Serbia & Montenegro																										
Slovenia																										
Spain																				F	C			C		
Sweden					C								E											C		
Switzerland						C			B		B		C	(D)				C	E	C	B	C		A		
Turkey					B	C			C		C		C					C		C	B			B (F)		
United Kingdom	B		B		A	A (E)			A		A (C)		A (D)	(D)				A		B	A (A)	B	C	A (B)		
Armenia																										
Azerbaijan					D																					
Belarus																										
Kazakhstan					C				D				F		E			D		C				F		
Kyrgyzstan					C				D									E (D)								
Republic of Moldova																										
Russian Federation					A	C		C	B		A			E	B			E		A	F	F	E	C		C
Turkmenistan					F				B															C		
Ukraine					D				C															D		
Uzbekistan	C				C				B		C		C					E		C				C		C
LATIN AMERICA AND CARIBBEAN																										
Argentina													C													
Brazil											B															
Chile																										
Cuba																										
Mexico											C															
Panama																										
Peru																										
NORTH AMERICA																										
Canada					A	A			C		A							C	C	A (C)	C		B			
United States (excl. Hawaii)	C				A	A (B)			A		A (A)		B					B	A	A (B)	A		A (B, F+)	A		E
Hawaii (US)					C						A (C)								C	C			B			
Grand Total (International only)	21,624	1,712	12,672	29,862	172,707	157,843	21,274	887	141,328	95,440	307,331	7,511	120,662	8,717	2,981	8,918	10,506	48,410	65,141	156,471	201,751	33,329	199,146	202,070	1,743	56,208

STATE-PAIRS (including dependencies/overseas territories)	Australia	Cook Islands	Fiji	Kiribati	Marshall Islands	Micronesia, Federated States of	Nauru	New Zealand	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Tuvalu	Vanuatu	American Samoa (US)	Christmas Islands (AU)	Cocos/Keeling Islands (AU)	French Polynesia (FR)	Futuna Island (FR)	Guam (US)	Northern Mariana Islands (US)	New Caledonia (FR)	Niue (NZ)	Norfolk Island (AU)
WITHIN THE ASIA/PACIFIC REGION																									
Bangladesh																									
Bhutan																									
Brunei Darussalam	B							C																	
Cambodia																									
China (excl. HKG & Macao SAR)	A																				C	C			
Hong Kong SAR, China	A (E)							A																	
Macao SAR, China																									
Dem. Peop. Rep. of Korea																									
India	D																								
Indonesia	A							C		E											C				
Japan	A		C					A		D									C		A	A	B		
Lao Peop. Dem. Rep.																									
Malaysia	A (C)							B																	
Maldives																									
Mongolia																									
Myanmar																									
Nepal																									
Pakistan																									
Philippines	B					(D)			E (C)	D											A	C			
Republic of Korea	A		C					B	E												B	B			
Singapore	A (A)							A (B)		C															
Sri Lanka																									
Taiwan, Province of China	B							C	C												C	F			
Thailand	A (B)							B																	
Timor-Leste	B																								
Viet Nam	A																								
Australia	*A (A, F*)*		A				C	A (A, F+)	E	A	C		E (D)		B (E*)		*C*	*D*			C		B (F)	(F)	*B*
Cook Islands		*A*	(D)					B (F)								D			(C)						
Fiji	A	(D)	*A*	C	F		D	A			C	F (F)	C	C	C					D			D		
Kiribati			(C)		E (E)		C																		
Marshall Islands			(F)	E (E)	*A (C)*	(A)	E														C				
Micronesia, Fed. States of					(A)	*A (C)*			C (C)												A (D)				
Nauru	C		D	C	E							C													
New Zealand	A (A, F+)	B (F)	A					*A (A, A+)*			B	F	B (C)		C (F*)	(F)			B				C	*(D)*	C
Palau	E					C (C)															B	F			
Papua New Guinea	A									*A (C)*		C													
Samoa	C		C					B			*A*		C (D)			A								D	
Solomon Islands			F (F)				C	F		C		*A*			D (F)										
Tonga	E (D)		C					B (C)			C (D)		*A (E)*			(F)									
Tuvalu			C																						
Vanuatu	B (F*)		C					C (F*)				D (F)			*A*								C		
American Samoa (US)		D						(F)			A		(F)			*B*								(F)	
Christmas Islands (AU)	*C*																	*D*							
Cocos/Keeling Islands (AU)	*D*																*D*								
French Polynesia (FR)		(C)						B											*A*				*D*		
Futuna Island (FR)			D																	*A*			*C*		
Guam (US)	C				C	A (D)			B													*A*	F		
Northern Mariana Islands (US)									F												*A*	*A*	F		
New Caledonia (FR)	B (F)		D					C							C				*D*	*C*	F	F	*A*		
Niue (NZ)	(F)							*(D)*			D					(F)									
Norfolk Island (AU)	*B*							C																	

Australia	Cook Islands	Fiji	Kiribati	Marshall Islands	Micronesia, Federated States of	Nauru	New Zealand	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Tuvalu	Vanuatu	American Samoa (US)	Christmas Islands (AU)	Cocos/Keeling Islands (AU)	French Polynesia (FR)	Futuna Island (FR)	Guam (US)	Northern Mariana Islands (US)	New Caledonia (FR)	Niue (NZ)	Norfolk Island (AU)	STATE-PAIRS (including dependencies/overseas territories)
																									MIDDLE EAST (including rest of Asia)
																									Afghanistan
B																									Bahrain
																									Iran, Islamic Republic of
																									Iraq
																									Israel
(F)																									Jordan
																									Kuwait
																									Lebanon
																									Oman
																									Qatar
																									Saudi Arabia
																									Syrian Arab Republic
A							A																		United Arab Emirates
																									Yemen
																									AFRICA
																									Algeria
																									Egypt
																									Libyan Arab Jamahiriya
																									Morocco
																									Sudan
																									Tunisia
																									Congo
																									Dem. Rep. of the Congo
																									Djibouti
																									Eritrea
																									Ethiopia
																									Ghana
																									Kenya
																									Lesotho
																									Liberia
																									Madagascar
C																									Mauritius
																									Niger
																									Seychelles
B																									South Africa
																									Togo
D																									Uganda
																									United Republic of Tanzania
																									Zambia
																									Zimbabwe
																									EUROPE
																									Albania
B																									Austria
																									Belgium
																									Bulgaria
																									Croatia
																									Cyprus
																									Czech Republic
																									Denmark
																									Estonia
																									Finland
C																		*B*							France
B																									Germany
F (E)																									Greece

Australia	Cook Islands	Fiji	Kiribati	Marshall Islands	Micronesia, Federated States of	Nauru	New Zealand	Palau	Papua New Guinea	Samoa	Solomon Islands	Tonga	Tuvalu	Vanuatu	American Samoa (US)	Christmas Islands (AU)	Cocos/Keeling Islands (AU)	French Polynesia (FR)	Futuna Island (FR)	Guam (US)	Northern Mariana Islands (US)	New Caledonia (FR)	Niue (NZ)	Norfolk Island (AU)	STATE-PAIRS (including dependencies/overseas territories)
																									Hungary
																									Iceland
																									Ireland
																									Italy
																									Latvia
																									Lithuania
																									Luxembourg
																									Malta
																									Netherlands
																									Norway
																									Poland
																									Portugal
																									Romania
																									Serbia & Montenegro
																									Slovenia
																									Spain
																									Sweden
																									Switzerland
																									Turkey
A							B																		United Kingdom
																									Armenia
																									Azerbaijan
																									Belarus
																									Kazakhstan
																									Kyrgyzstan
																									Republic of Moldova
																		F							Russian Federation
																									Turkmenistan
																									Ukraine
																									Uzbekistan
																									LATIN AMERICA AND CARIBBEAN
C							C																		Argentina
																									Brazil
C							C											C							Chile
																									Cuba
																									Mexico
																									Panama
																									Peru
																									NORTH AMERICA
B	(D)	C								(F)					D										Canada
A	(C)	C (C)					A (B)			(D)		(D)						A (C)		*A*					United States (excl. Hawaii)
B (B)	D	C		B	B		C			D (E)		F			*C*			D		*B*					Hawaii (US)
136,897	2,205	8,465	548	3,912	5,270	933	59,358	2,641	2,805	9,116	649	2,455	283	2,151	6,908	0	0	4,013	158	17,253	5,328	2,937	144	278	Grand Total (International only)

Note: Above table shows scales of annual flight frequencies (total outbound and inbound) on respective State-pair routes in 2004.

- A, B, C, D, E and F denote 1 400 or more, 700 - 1 399, 200 - 699, 100 - 199, 50 - 99, 1 - 49 frequencies of Third/Fourth Freedom carriers (as well as domestic carriers) respectively;
- Frequencies of non-Third/Fourth Freedom carriers operating with or without traffic rights are shown by the same codes in parenthesis;
  * indicates frequencies operated by non-Third/Fourth Freedom carriers but published by Third/Four Freedom carriers' codes;
  + indicates frequencies operated by Third/Fourth Freedom carriers but published by non-Third/Fourth Freedom carriers' codes;
- Frequencies in italics show domestic services including between homeland States and their dependencies, and between dependencies in the same States;
- Cells with dark-gray shade denote that bilateral air services agreements between the States are registered with ICAO;
- Cells with light-gray shade denote that bilateral air services agreements between the States are not registered with ICAO but included in the database as non-registered agreements.

Source: BACK Aviation Solutions OAG Database, and Database of the World's Air Services Agreements (ICAO Doc 9511)

— END —

ICAO symposium on
Liberalization of Air Transport in Asia/Pacific

(Shanghai, China, 25 to 27 May 2005)

Title: Suggestions on Air Transport Liberalization in Asia Pacific Regions

(Presented by Yang Jin Oh, Vice Director, International Air Transport Division, Ministry of Construction and Transportation, the Republic of Korea)
- Telephone: 82-2-504-9187, Email : ohjy@moct.go.kr

INFORMATION PAPER

SUMMARY

This paper provides comments and suggestions on the issues which have been raised through the past experience of air transport liberalization in the world.

1. Introduction

International air transportation has recently shown a rapid change in economic regulatory regime on a worldwide scale.

As everybody knows very well, air transport liberalization has been developed by way of two schemes, bilateralism and regionalism.

Air transport liberalization at the bilateral level has mainly been led by the United States and its number of bilateral Open Skies Agreements well exceeds 70 recently.

Differently from bilateralism, air transport liberalization at the regional level has been evolved in a parallel manner in many regions. But in reality, European region has led the liberalization, and more than 10 regions have followed the European example.

In some sense, Asia Pacific regions have been a relatively exceptional area for liberalizing trend until today. At this moment, however, the liberalizing trend does not make any exception any more even in the Asia Pacific region and becomes irreversible.

Asia Pacific regions have recently shown some signs for change. CLMV countries already opened their air transport markets each other and ASEAN agreed to open their markets until 2010. Korea and China also agreed to implement gradual air transport liberalization at the summit talks on 9 July 2003.

At this time of turning age, we need to review our past experience and grope a better path to the liberalization. In this context, I would like to make some comments and suggestions on the major issues which have been raised through the past experiences of air transport liberalization.

2. Comments and suggestions on air transport liberalization

The air transport liberalization should be based on a fair and equal opportunity principles and the participation of all countries and carriers. However, looking back to the past experiences of liberalization, I feel a need to address some issues first before we move forward to air transport liberalization.

First issue is bilateral regime. The regime brings about a sort of distortions in the distribution of resources in economic sense. Therefore the involved countries tend to agree on operating capacity in a restrictive manner.

However, I believe we can improve the situation by introducing regional regime. A region has usually larger capital resources and larger capacity for traffic rights in the relatively wider area. Therefore, there will be less distortion than the bilateral regime. So I think the liberalization arrangements should be considered at the sub-regional level first and then to the Asia-Pacific regional level on a gradual basis.

Second issue is imbalance in the exchange of traffic rights. In general, the traffic rights should be established with the principles of equal and fair opportunity. However, every country has different market value for every route, and it is difficult to exchange traffic rights with those principles. When country A feels less competitive than country B, it will be difficult to set up the desirable amount of traffic rights. Especially for the 5th freedom traffic rights, when country A does not have opportunity to operate 5th freedom in country B, where country B has much more opportunity to operate 5th freedom in country A, then the exchange of traffic rights will be very much imbalanced. The operation of 5th freedom by country B will not incur any additional cost, while the operation on the same route by country A will incur full cost. Therefore unfair and unequal situation will occur and it will be difficult to exchange traffic rights or country A will be reluctant to adopt liberalization regime.

In this case, I also suggest some safeguard regulations which have been adopted by European countries or cooperative arrangements among airlines to solve the problems. Applying the tariffs no less than that of country A carriers on the 5th freedom route can be one of the safeguard regulations to ease the imbalanced exchange of 5th freedom traffic rights. Cooperative arrangements like code-sharing arrangements or joint marketing would also be the good schemes to mitigate the unfair situation.

Third issue is airport congestion. Airport congestion in major countries is the main obstacle to the air transport liberalization. I understand that construction of airport in a short time is a difficult matter, and so is to solve the congestion. However, the more serious problem is the slot coordination system. The main principles of slot coordination are the "grand father right" and the "first come, first served". In other word, the slot is given for free or not in an economic way, so the coordination system also brings about distortion in the distribution of resources.

In this case, I suggest again to adopt more transparent, fair and economic way of slot coordination system. Construction of airport is important, but I believe the improvement measure for slot coordination is more important.

Fourth issue is over capacity or less capacity phenomenon. In regulated bilateral regime, the two bilateral Parties tend to establish capacity entitlements on all the routes even for the remote local cities, airlines tend to operate full capacity entitlements and therefore the regime shows over capacity. On the other hand, for the liberalized regime, airlines tend to omit operation on the local route and concentrate on the trunk route, thus the regime shows less capacity on the local route.

Therefore, we should take into consideration the real operation when we establish the capacity entitlements whether it is restrictive bilateral regime or liberalized regime. And if it is possible, we need to establish some safeguard regulation for this phenomenon in the future.

3. Conclusion

In conclusion, there are some issues to be considered first before we move forward to air transport liberalization regime. Current bilateral system, the exchange of traffic rights, slot coordination or over capacity may be the issues to be considered beforehand. Some safeguard regulations, improvement measure for airport congestion and means to secure appropriate level of capacity are required prior to the liberalization arrangements.

As a methodology, I suggest to adopt a regional or sub-regional regime for air transport liberalization. Regional regime will be more useful than bilateral regime in this rapidly changing world and especially for Asia-Pacific regions where market power is less strong than Europe or the US.

I also suggest to take a leading sector methodology for air transport liberalization. Air cargo transport is more deregulated and liberalized on a worldwide scale. Therefore, air cargo can play as a leading sector for liberalization. We can also take many deregulation approaches like multiple designation, free pricing or cooperative arrangements among airlines as leading sectors.

Lastly, I suggest to hold many regional meetings in high level and working level. The minister level meeting who has decision power is most important. In EU's experience, we find that Minister's Meeting has made every important decision and working level meeting has completed every follow-up measures. So we need to follow EU's example on this matter. End.

ICAO symposium on
Liberalization of Air Transport in Asia/Pacific

(Shanghai, China, 25 to 27 May 2005)

Title: The Role of Infrastructure Service Providers in a Liberalized Environment

(Presented by Mina Choi, Manager of Airline Marketing Team,
Incheon International Airport Corporation, the Republic of Korea)
- Telephone: +82 32 741 2406, E-mail: mchoi@airport.or.kr

INFORMATION PAPER

SUMMARY

This paper provides information on the role of infrastructure service providers in a liberalized environment based on the readiness for airport facility, managing customer's needs and satisfaction and connectivity increase by cooperating airlines, who are main drivers of hub airport.

1. Introduction

Environment around the air transport industry is rapidly changing especially toward liberalization. Liberalization of all industrial areas are increasing customer's needs and satisfaction and making them diversified. The industry leaders like airports, airlines and freighters are continually trying to keep up with the changes in order to survive.

Liberalization of Air Transport has a positive influence on Airport. The new type of airlines like Low Cost Carriers (LCCs) will appear and create new type of service, which is mainly cost effective, to attract new passengers who has never taken flight. In Europe, LCCs has shown good examples creating new routes and customers. Apparently it has increased the number of flights and revenue to the airport.

As an infrastructure service provider, airport considers Liberalization of Air Transport beneficial and shall not be just an infrastructure manager of old times, but aggressive business developer in order to be primary hub airport in the region or to survive.

Regarding the airport's role as a hub airport, the environmental changes and things to develop will be discussed followed preliminary conclusion.

2. Environmental Change of Air Transport around Korea

2-1. Political and Economical Change

Korean Government is trying to increase the number of countries entering into Free Trade Agreement (FTA) in order to keep up with global trade demand. Korea has agreed with Chile and Singapore on FTA and also working on with Japan. The government's policy on expansion of FTA will definitely have influence on air transport in Korea.

The countries in Northeast Asia have shown better economical increase rate than the other region. China 7.7%, Hongkong 3.3%, Taiwan 3.2%, Japan 3.1% and Korea has increased by 4.7% as of 2004. China is growing rapidly which has tremendous influences on neighboring countries including Korea.

Most of all the new air service agreement of China-U.S. signed in July 2004 has a meaning of drastic change in the future of air transport industry in the Northeast Asian region. According to the new agreement, the flight capacity will be increased five fold to 249 flights per week by 2010 from 54 current. This will pose a threat to Incheon in the respect of possible and clear route change from U.S-Incheon-China to U.S-China directly.

2-2. Social Change

The fast-developed "aged society" of Korea has already passed over the UN's average level. Approximately 47% of the aged want to have outdoor life. It will make an effect on the air transportation. The introduction of five-day workweek and the "Hallyu", the "Korean Wave" are very important change, which will have very important effect on air transport industry.

2-3. Environment Change of Transportation

Reorganization of the air transport industry in Korea is required due to development of new and better highways and High-speed Train (KTX).

The advent of Low Cost Carriers (LCC) is asking to change and restructure the airline industry. LCCs with low fare, point-to-point and short time turn-around strategy are actively operating in North America, Europe, Australia and Southeast Asia. LCCs are taking about 20% of total market share. 60% of LCC users are newly created by LCCs and 40% are shifted from the legacy carriers. LCCs' are not active in Northeast Asia compared to the other region, due to the slow liberalization policy. However the liberalization issue is under discussion among the countries in the region and it will not take long to agree on open skies.

3. The Role of Airport in a Liberalized Environment

As mentioned above, the air transport industry is being affected by the changes and experiencing changes itself as well. Airport shall analyze the market and keep up with market needs in order to be a Hub airport or to survive. Airport needs react aggressively to the liberalized airline market with competitive business strategy. It has to be ready with updated airport facility, customer's needs and satisfaction, and most of all airport connectivity management by making good relationship with airlines, government and related industry cooperators.

3-1. Airport Facilities

As an infrastructure service provider, airport needs to develop and maintain the facility in order to attract the globally networking airlines as well as passengers. Several key factors will be discussed on readiness of an airport facility.

3-1-1. Peak-hour Capacity

Peak-hour capacity is one of factor for an airport wishing to be Hub to develop the optimum level of. In order to increase peak-hour capacity, all the airports around the world are trying to construct new facility or renew them. London-Heathrow developed the 5^{th} runways to prepare for its enough capacity for peak hours making it distinguished from the others in the region. They are even considering construction of 6^{th} and 7^{th} runway to keep the attractive hub airport in the region even for the future. The airports in Northeast Asia such as Hong kong, Kansai, Shanghai, Beijing are also expanding or has expanded capacity to be competitive.

Incheon is also constructing the 2^{nd} phase project, which includes the 3^{rd} runway, new concourse, 64 more aircraft stands and more cargo terminals. With the 2^{nd} phase construction, the annual flight capacity will increase 240,000 to 410,000. Passengers will be to 44million from 30million and the cargo capacity will be from 2.7million tons to 4.5million tons. The peak-hour capacity of check-in-counters will be able to process 9,000 passengers per hour from 6,000 currently.

Terminal design, which is also under renovation, will handle 44million passengers from 30million passenger now. BHS of 32,000 bags per hour capacity, 270 check-in-counters, commercial facilities with more than 200 shops including duty-free shops, restaurants, transit hotels and convenience stores will be all ready for the customers.

3-1-2. Logistics

Logistics has a great portion in Northeast Asian airports. Incheon was ranked the 3^{rd} in the world for cargo traffic with 1.8million tons according to ACI statistics in 2003. In 2004, 2.1million tons of cargo was processed, which is 16% increased from the previous year.

Development of the Free Trade Zone (FTZ), a business area exempt from duties, is currently under way as a part of the plan to strengthen Incheon’s logistics capability. The 99.2–hectare site has been completely prepared for construction. With the construction of support buildings in 2005, the area will be in full operation by 2006. The FTZ will eventually be expanded to about 200 hectares, and the current 105-hectare cargo terminal area has been designated a part of the FTZ.

The creation of the Incheon Free Economic Zone (IFEZ) will raise the already high status of Incheon as Northeast Asia's logistical hub. The IFEZ is actually a part of the Korean government's grand plan to transform Korea into the economic center of Northeast Asia, a strategy that places Incheon at the center and forefront. It specializes in airfreight, leisure activities and tourism.

Free Trade Zone and the Incheon Free Economic Zone will cooperate in a mutually beneficial relationship that will advance Incheon International Airport to the leading position in the world logistics market.

3-1-3. Airport Access

Easy access to the airport is one of the strength to be a hub. Railway linking the airport with the Seoul subway will be completed in early 2007 and the High-speed Rail network in 2008.
A second bridge as well as the current bridge will be completed in 2008, providing easier access from the southern parts of the Seoul Metropolitan Area.

3-1-4. Area Developments

Futuristic airport is not a just another place to catch a flight. It shall be a city that satisfies with the needs of all travelers, whether it be for business, shopping, pleasure, or otherwise.

A case in point is the International Business Center (IBC) of Incheon, a sprawling 16.5-hectare zone that boasts two five-star hotels and four office complexes, with a shopping mall to be completed in 2005. The area will eventually encompass 33-hectares and will provide a convenient and refreshing environment for business. 9-hole golf course, 72-hole public golf practice area will allow businessmen and women to hone their golf skills.

The area around the Incheon Airport is being transformed into a massive complex with all the aspects of a regular city: housing, lodging, commercial areas, recreation, and city administration.

3-1-5. Strategies to Attract LCCs

LCCs ask airports to provide more simplified airport system for cost-effective. VIP lounges, loading bridges, complicated BHS are not necessary for them. Airports like Singapore Changi, Malaysia Kuala Lumpur are constructing or plan to construct LCCs only terminal in order to satisfy LCCs needs.

Incheon is also discussing the need of new terminal or incentives for airport user charge to attract LCCs. It is not LCCs are not active in Northeast Asia rather than the other region but there will be a big change in the near future. Incheon has to be ready for the foreseeable change in the air transport industry.

3-2. User's Needs and Satisfaction

Airport needs to increase level of service for various airport users such as passengers, visitors to the airport, cargo transporters in order to satisfy them and go to higher level of airport. For passengers, airport should satisfy their needs for airport access, boarding, waiting, connect, subordinate activities. Visitors must feel comfortable and convenient for airport access and sightseeing. Freighters care for access, logistics, and distribution.

Incheon is operating customer center, and listen and try to help customer's complaints, questions and suggestions in a real time base. Incheon is discussing the one-day settlement policy of customer complaints from 3-day policy current.

Incheon is also monitoring concession operators in regular base and estimates their business operations in a point of customer's view. If it does harm airport image or customer's satisfaction, the results will be reflected to the next contract by giving them penalty points.

3-3. User Charge Policy

Airport is not just infrastructure to service to the public for nothing. It is transforming into a revenue-oriented enterprise. In order to be a successful enterprise, it has to follow the market principle. Airline industry is rapidly changing due to increase in competition, and advent of new type airlines. Airports are also under a severe competition due to supply surplus especially in the region. Most countries around the region are struggling to make their airports a primary hub. Of course the competition causes competitive market price for customers.

Thus, airport needs to plug with user charges to make it attractive for airlines to come. Incentives to the customers, and price differentiation according to the customer's accomplishments shall be considered for airport to make attractive, which will be beneficial for those who have good business record in the airport.

Incheon is giving incentives of 50% of landing fee to the airline that is newly starting service at Incheon or newly developing an air route to/from Incheon. And Incheon is attracting late night flight by giving special discount in order to fertilize and activate 24 hour operational strength.

3-4. Networking

Connectivity in the airport is the vital issue for airlines to choose a hub airport. Airlines are networking on regional basis to keep up with industry needs. Global alliances like Skyteam, Star Alliance and One-world are representative airline networking examples. The main drivers of hub airport, i.e. the home-based national carriers, are assumed to be replaced by a global airline network. And this global network will make a choice of the most attractive hubs per continent. Therefore Incheon Airport will try to make an attractive and competitive hub, so the main drivers can choose Incheon as the main hub in the region.

Incheon has connectivity strength with two mega global airlines alliances based on two national carriers. Especially the routes to China with 26 cities, 731 flights per week and Japan with 23 cities, 624 flights per week have competitiveness compared to the other airports in the region. However it is severely centralized to just two peak hours and negatively affects general connectivity in Incheon. It is most important issue for Incheon to manage their efficiency for airport development and eventually increase the number of peak hours.

Airport can give benefits and penalty to the airlines by appropriate management of check in counters (CIC). The location and time can be economically negotiable with airlines according to the allocation of CIC. Airport can give benefits to the airline that use at non-peak time or decides to use somewhat slow location.

SLOT can be also economically negotiable with airlines. SLOT coordination rights seem to be a shifting form airline-oriented to airport operator now. And it does not seem to be easy but it shall be discussed and managed by airport operator eventually.

3-5. Other Issues to Consider

Other issues for airport to make it attractive can be potential catchment area, location in the core region, intercontinental location.

Incheon is luckily located in the core of Northeast Asia. It covers more than 42 cities, which have over 100 million populations. The Korean peninsula has a better condition than any other region by bridging America and China, Australia and China, Europe and Australia and etc.

4. Conclusions

Political and economical changes as well as air transport change around the world are influencing air transport industry in a way or another. Especially liberalization of air transport is spurring airport to be an aggressive business operator rather than infrastructure manager.

Thus as an infrastructure service provider, airport needs to develop airport facility more aggressively, manage customer's needs and satisfaction, and try to increase airport connectivity to network with airlines in order to be a primary hub in the region. The airports should prepare and strengthen themselves in anticipation of the changes in the near future.

However it is not easy for airport to be a business developer or aggressive manager within the current regulations or liberalization status. The liberalization of Air Transport in Northeast Asia of China, Japan and Korea has to be made first in order to make Incheon a hub airport.   - End -

ICAO symposium on
Liberalization of Air Transport in Asia/Pacific

(Shanghai, China, 25 to 27 May 2005)

Title : Safety and Security System Harmonized with Liberalization

(Presented by Sang-il Lee of Korea Civil Aviation Development Association of the Republic of Korea)
- Telephone: 82-2-2662-6271, E-mail : lsi@airtransport.or.kr

INFORMATION PAPER

SUMMARY

The Republic of Korea recognizes the critical importance of safety and security system harmonized with liberalization in international air transport.

This paper is to present "The aviation security system enhancement of the Republic of Korea and whose ICAO evaluation" and to express our opinion in regard of "The system which maintains harmonization between security and liberalization without conflict".

1. Introduction

1.1 Recalling the DECLARATION derived from The Worldwide Air Transport Conference on Challenges and Opportunities of Liberalization, convened in Montreal from 24 to 28 March 2003 ;

1.2 The Republic of Korea recognizes the critical importance of safety and security system harmonized with liberalization in international air transport.

1.3 The followings are the summary of "The aviation security system enhancement of the Republic of Korea and whose ICAO evaluation" and our opinion in regard of "The system which maintains harmonization between security and liberalization without conflict".

2. Aviation Security System Enhancement and ICAO Evaluation

2.1 In the legal aspect, "Aviation Safety and Security Act" was established in

August 2002 and enacted. The executive organization is Civil Aviation Safety Authority (CASA), which has been enlarged and restructured from Civil Aviation Bureau. Aviation Security Division under the CASA is responsible for practical affairs and “National Aviation Security Committee" is responsible for highest decision making.

2.2 For the international cooperation in activities related to aviation security, most of bilateral agreements concluded by Korea have introduced international cooperation system recommended by ICAO in Appendix 3 of ICAO Doc 8973. We also establish and operate case-by-case procedures for international cooperation.

2.3 In addition to such system restructuring, "National Aviation Security Training Program" was established for the qualification of security screening personnel who perform the security screening of passengers, baggage, cargo and mail, taking the lead in practical affairs. All recommended items of Annex 17 are introduced into this training program and it consists of initial training, OJT and recurrent training.

2.4 ICAO security audit, which is to verify national implementation status of the ICAO standard practices and recommendations, was performed by ICAO evaluation representatives from 1 to 10 November 2004 in Korea. Recommendations included in evaluation report were already taken proper steps and the report describing corrective actions was submitted to ICAO. The evaluation was finalized by this reporting.

3. Safety and Security System Harmonized with Liberalization

3.1 In the methodical aspect to facilitate liberalization, the Republic of Korea will seek for the harmonization of security and liberalization in implementation while maintaining enhanced security system.

3.2 Practical use of advanced technology such as biometric recognition etc. might be effective way to secure safety and security while dealing with airtransport demand trend. Certain biometric recognition method is not quite satisfied in technical completeness level, however, it will be the most efficient idea with the consideration of current movement of technical development.

3.3 For the adoption of advanced technologies, a project is being launched to replace existing identification card system to restricted area with biometric identification system such as "Fingerprint Recognition" or "Hand Vascular Pattern Person Identification Technology" for the resident staffs of airports. This project is experimentally significant for verification prior to expanding biometric technology into passengers and will be continued to the end of year 2006. Also these system themselves will greatly contribute to the prevention of counterfeit or forgery of passes which can be a high threat to the security.

4. Conclusions

4.1 The Republic of Korea proposes that the Contracting states share information, which can greatly contribute to the liberalized environment, related to security systems utilizing various advanced technologies and hold periodic meetings for information sharing.

4.2 The Republic of Korea will continuously make efforts to promote a liberalized environment in which international air transport may develop and flourish in a stable manner without compromising safety and security while utilizing advanced technology practically in the safety and security system. - End -

ICAO symposium on
Liberalization of Air Transport in Asia/Pacific

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Title: Multilateral Approach to Forming more Liberalized Air Logistics' Market on Northeast Asia Region

(Presented by **Seock-Jin HONG**, Professor of Univ of Incheon, Republic of Korea
Telephone: 82 32 770 8875, Email : sjhong@incheon.ac.kr)

INFORMATION PAPER

SUMMARY

This paper provides information on alternatives which can be applied to the Northeast Asian airlines industry so as to bring about the integration of regional air transport. The Northeast Asian countries will be able to establish regular venues through which to exchange opinions on the integration and liberalization of the air cargo market so as to induce the gradual liberalization of the actual market.

The liberalization of the air transport in Northeast Asia will prove to be a daunting task in the short term. Over the last twenty five years the air transport has undergone tremendous changes. The most important factor behind these changes has been the increased liberalization of the market. As a result, rates have decreased while demand has increased. This has resulted in turning the air transport industry, which was long perceived as an industry in decline, into a high-growth industry. The only method of increasing regional exchanges in the air transport is to pursue further liberalization. The country which implements this liberalization process at the earliest date may very well emerge as a leading force within the air transport industry.

1. Introduction

The Northeast Asian air cargo market has expanded tremendously as a result of the opening up of the Chinese market. The importance of the Asia-Pacific region in the global air transport market has also increased. Especially impressive has been the growth of the Korea-China route opened in 1994, which has increased by an average of 24.2% a year (in terms of the number of air passengers flying per year since 1997), thus exhibiting the highest growth rate of all international air transportation markets.

In addition to this, gradual increase in exchanges of human resources, materials, services and information, further liberalization of passenger connections and air cargo transportation will be required in Northeast Asia. With this in mind, this paper suggest the process through which air transportation markets are being integrated through regional agreements, while also searching for measures which could feasibly be applied to the case of the Northeast Asian air transportation market. Furthermore, as far as the manner in which the air cargo sector should be integrated is concerned, I attempt to suggest alternative measures which could be rapidly implemented at the policymaking level.

2. Preconditions to the Establishment of a Air Logistics Hub in Northeast Asia

The increasing liquidity of capital markets as a result of globalization has in turn resulted in further invigorating the competition to attract foreign capital between countries. As a result, many countries have come to regard the attraction of foreign capital as one of the central tenets of their national policies. In order to cope with the new international economic environment, Korea has adopted a logistics hub strategy which has involved it, in order to attain these goals, attempting to become the regional logistics center for multinational corporations, as well as their regional headquarters and call centers, while also further opening up the country and upgrading its infrastructure. A logistics hub can be regarded as the foundation which links different economic blocs within a specific region, and as a place where comprehensive services pertaining to information on the flow of human and material resources within a specified regional economic bloc are provided. To establish the above-mentioned logistics hub, the necessary human and material factors must be secured, with the liberalization of services also brought about. To this end, it is primordial that international airports and harbors capable of taking on the role of a regional hub be created.

With regards to the liberalization of human and material resources, as well as services, there is a need to ease the regulatory policies currently serving as obstacles to the conducting of economic activities in each country, and to establish a liberalized environment between the countries. More to the point, as the air transportation sector has long been governed by bilateral regulations, with this being especially true in Northeast Asia, a region that has put in place more conservative policies regarding air transportation than any other- it is necessary to activate the flow of human and material resources in the region by implementing regional integration and liberalization policies centered around the air transportation industry. Furthermore, the rapidly growing air cargo sector has been widely expected to become the future engine of the air transportation industry. The world's two largest producers of passenger airplanes, Boeing and Airbus, have estimated that the air cargo sector will increase by 0.8-1% more than the expected growth in passengers. Meanwhile, inter-regional air cargo transportation in Asia and domestic air cargo in China are expected to lead the way in terms of the global air cargo market. In 2003, China recorded a 9.4% growth in air cargo, which was more than twice the size of the global average of 3.9%. This growth even outstripped the rugged 6.7% growth rate posted by the entire Asian region. In this regards, Chinese air cargo transportation is expected to continue to exhibit high growth in the future. Based on this high growth rate in Northeast Asia, it can be surmised that once the regional market is increasingly liberalized inter-regional exchanges will gradually increase.

In places such as North America and Europe, the liberalization of the air transportation market has facilitated the movement of goods by increasing competition while decreasing rates. There is also a clear pattern evolving in which those nations that have implemented liberalization policies are emerging as logistics hubs in their particular regions.

3. The Alternative Measures to Forming more Liberalized Air Logistics' Market on Northeast Asia Region

I would like to suggest alternatives which can be applied to the Northeast Asian airlines industry so as to bring about the integration of regional air transport while also searching for measures which could feasibly be applied: First, It is necessary a need for individual Northeast Asian nations to alter their policies towards the airlines industry. Second, each country should further liberalize their respective domestic air transport. Third, there is a need for freer air service agreements to be signed between the nations of Northeast Asia. Fourth, the strategic alliances between the airlines operating in Northeast Asia should be further strengthened. Fifth, this liberalization process should be carried out in an incremental manner, beginning with more competitive airports and routes, or with less-in-demand routes. Sixth these three nations jointly develop aviation safety and security systems that are in accordance with international standards. Seventh, the liberalization process of the aviation industry should be undertaken in conjunction with other related fields. Eighth, organizations linking together civil aviation organization in the Asia-Pacific area should be formed, as should each government linking together. By doing so, these countries will be able to establish regular venues through which to exchange opinions on the integration and liberalization of the air cargo market so as to induce the gradual liberalization of the actual market.

The liberalization of the air transport in Northeast Asia will prove to be a daunting task in the short term. Over the last twenty five years the air transport has undergone tremendous changes. The most important factor behind these changes has been the increased liberalization of the market. As a result, rates have decreased while demand has increased. This has resulted in turning the air transport industry, which was long perceived as an industry in decline, into a high-growth industry. The only method of increasing regional exchanges in the air transport is to pursue further liberalization. The country which implements this liberalization process at the earliest date may very well emerge as a leading force within the air transport industry. - End -

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