



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

Agenda Item 2.2: Air carrier ownership and control

LIBERALIZATION: ADDRESSING RESTRICTIVE REGULATIONS

(Presented by International Air Transport Association (IATA))

EXECUTIVE SUMMARY

This paper presents information on the benefits of liberalization to national and global economies, supports ICAO's leadership role in this area, and suggests short-term policy options for States to consider, in parallel with the ICAO Secretariat's recommendations in working papers 12, 13 and 14.

Action: The Conference is invited to:

- a) review the information and assessments and proposals presented in this paper;
- b) endorse the conclusions presented in paragraph 3; and
- c) agree to the recommendations presented in paragraph 4.

References:	ATConf/6 reference material is available at www.icao.int/meetings/atconf6 .
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1. INTRODUCTION

1.1 Aviation, the most international of businesses, is not free to operate like other transnational industries. Restrictions built into current bilateral air service agreements, in areas such as national ownership and control, access, capacity, frequency, and pricing reduce the potential contribution of aviation to trade, tourism, job creation and economic growth.

1.2 Evidence demonstrates that liberalization can result in improved connectivity, with corresponding benefits for economies and societies. For example, the European Union saw a 310% increase in intra-EU routes with more than two carriers between 1992, when the EU common aviation market went into effect, and 2009. Once Malaysia and Thailand liberalized their bilateral air service agreement, the two countries saw an increase of 370,000 passengers and added 4,300 jobs as well as US\$114 million in GDP. Within two years of the 1995 US-Canada Open Skies Agreement, a total of 79 new routes were established between the countries. Based on a conservative estimate, a 10 per cent improvement in global connectivity (relative to GDP) would see a 0.07 per cent per annum increase in

long-run GDP¹. Improved connectivity historically results in lower fares, more choice and better product quality for the consumer; for businesses, it opens up new markets and facilitates increases in productivity and innovation. Better connectivity through aviation also provides significant social benefits; uniting people and facilitating cultural understanding as well as an exchange of ideas.

2. DISCUSSION

2.1 IATA supports ICAO's leadership role in the area of liberalization and acknowledges the considerable ICAO policy and guidance material that has been developed in the areas of market access and foreign ownership and control. The industry believes ICAO is the right forum to lead air transport to a more liberalized environment, along the lines of the recommendations outlined in working papers 12, 13, and 14 presented by the ICAO Secretariat. IATA also congratulates ICAO on the introduction of its Air Services Negotiation Conference (ICAN). Since its inception in 2008, ICAN has facilitated the signature of over 300 air service agreements and arrangements by 107 countries.

2.2 While IATA believes that liberalization is the right path to follow, we recognize that a global liberalized regime will take years to achieve. While pursuing such a regime under the auspices of ICAO, we ask States to consider implementing the following policy options, which would enhance connectivity, and therefore the economic and social benefits of aviation, in the short-term:

- a) States who maintain national ownership and control restrictions are encouraged to remove any obstacles in existing bilateral agreements that would hinder service from an airline of the other party who is not majority-owned or controlled by nationals or the government of that party. Airlines domiciled in States who have removed national ownership and control restrictions should be able to operate under existing bilateral air services agreements of the State in which the carrier is domiciled. This proposal was first put forward as part of the Agenda for Freedom initiative, signed by 11 States and endorsed by the European Commission. The Statement of Policy Principles of the Agenda for Freedom remains open for States to endorse on a voluntary basis;
- b) in the absence of a fully liberalized regime, alliances, code sharing and joint ventures, subject to strict compliance with applicable competition laws, have become a feature of the industry, acting as a substitute for mergers and acquisitions. They represent a second-best alternative for airlines to offer a consistent travel experience to customers and benefit from economies of scale where possible, given the current restrictive bilateral air service agreements. However, the lack of coordination among competition authorities around the world presents a challenge to the establishment of such arrangements. Competition authorities are encouraged to take a coordinated approach to approval and/or enforcement of existing laws when examining such cross-border joint ventures.

2.3 Air cargo plays an increasingly important role in the global economy. By value, 35% of goods traded internationally travel by air, representing US\$5.2 trillion worth of products. It is therefore critical to the economic development of many States, in particular landlocked and island nations and countries whose main exports are high-value or perishable items. IATA supports the development of a specific international agreement focused on liberalizing cargo services, as proposed by the ICAO

¹ "Aviation: Benefits Beyond Borders," Air Transport Action Group, March 2012.

Secretariat², as it would facilitate the growth of air cargo and international trade and investment flows. However, in addition to the liberalization of cargo only services, IATA requests that States take this opportunity to look at liberalizing all cargo operations, including combination cargo services, as increasing the scope in this manner would generate greater benefits to the global economy.

2.4 Before a fully liberalized regime is in place, varying levels of regulation will inevitably exist around the world, creating market distortions. IATA supports steps towards liberalization in such a manner that provides airlines with a fair and equal opportunity to compete in the global market. In this regard, States should take transparent and effective measures, in line with ICAO guidance, that do not adversely impact on competition in the marketplace.

3. CONCLUSION

3.1 The industry, consumers and businesses benefit from government policies that liberalize air transport.

3.2 While the path to a fully liberalized regime is a long one, interim steps, such as those outlined in 2.2, should be considered to provide shorter-term benefits to the users of air transport and the industry itself.

3.3 Given the importance of cargo in facilitating international trade and investment, an international agreement liberalizing air cargo transport, encompassing both combination services and all cargo services and in line with the point of view articulated in 2.6, would generate benefits to the global economy.

4. RECOMMENDATIONS

4.1 The Conference is invited to:

- a) request ICAO to facilitate the implementation of the short-term policy options outlined in 2.2;
- b) request ICAO to consider an international agreement for liberalized air cargo transport, as outlined in 3.3; and
- c) request ICAO to establish a multidisciplinary group with the participation of States and industry in order to facilitate the aforementioned task.

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² ATConf/6-WP/14 refers