



ASSEMBLY — 42ND SESSION

ECONOMIC COMMISSION

Agenda Item 26: Economic Development of Air Transport

NEED TO DEVELOP A TOOL OR METHODOLOGY FOR THE EQUITABLE
LIBERALIZATION OF AIR TRANSPORT

(Presented by Venezuela (Bolivarian Republic of) and supported by 9 Member States² of the Latin American Civil Aviation Commission (LACAC))

EXECUTIVE SUMMARY

This Working paper emphasizes the need for the International Civil Aviation Organization (ICAO) to develop tools and methodologies to ensure that air transport liberalization, while seeking to achieve equal opportunity, does not deepen existing economic and technological inequalities between States. It is important that ICAO exhaustively analyse the levels of development of each country's aviation sector, in order to identify and mitigate the negative impacts, promoting fair competition and ensuring that open skies agreements are equitable and contribute to sustainable development for all nations, in line with the principles of the *Convention on International Civil Aviation* (Chicago Convention).

Action: The Assembly is invited to:

- a) note the contents of this Working paper; and
- b) delegate responsibility to the Council in order for ICAO to adopt measures and tools to keep track of and promote the equitable, non-discriminatory growth of the global air navigation industry within the framework of air transport liberalization.

<i>Strategic Goals:</i>	This working paper relates to Strategic Goal: <i>The Economic Development of Air Transport Assures the Delivery of Economic Prosperity and Societal Well-Being for All</i>
<i>Financial implications:</i>	
<i>References:</i>	Doc 7300, <i>Convention on International Civil Aviation</i> (Chicago Convention)

¹ Spanish version provided by Venezuela (Bolivarian Republic of).

² Belize, Bolivia (Plurinational State of), Cuba, Ecuador, El Salvador, Guatemala, Honduras, Jamaica and Nicaragua.

1. INTRODUCTION

1.1 Article 44 of the Chicago Convention (and specifically subparagraphs (d), (e), (f), (g) and (i)), provides that the aims and objectives of the Organization include the following: meet the needs of the peoples of the world for safe, regular, efficient and economical air transport; prevent economic waste caused by unreasonable competition; and ensure that the rights of contracting States are fully respected and that every contracting State has a fair opportunity to operate international airlines.

1.2 Open skies agreements, both multilateral and bilateral, have enormous potential to boost the commercial development of Member States. In reality, however, not all States benefit in the same way. Although the preamble to the Chicago Convention provides that international air transport creates a basis of equality of opportunity and opens new ways for trade, we are concerned at the lack of studies assessing the real impacts of this process. Failing to apply an adequate methodology to analyse these agreements could transform an open skies policy into a potential threat with harmful results for certain States. This concern is intensified by the observation that, even though this policy has been developed over more than twenty years, some countries have made significant progress towards their objectives, whereas others are still in process, largely owing to the lack of tools enabling air transport to be consolidated under the conditions established by the International Civil Aviation Organization (ICAO).

1.3 Accordingly, this Working paper intends to discuss how ICAO could develop in-depth analyses or a methodological guide to ensure fair competition between countries with major economic and technological disparities in the aviation sector, so that all parties can benefit from a liberalization policy.

2. DISCUSSION

2.1. ICAO should weigh the expectations of States, industry and users, without losing sight of their diverse realities. Although the liberalization process seeks to create equality of opportunity for the sound and cost-effective development of air transport, as laid down in the preamble to the Chicago Convention, it is crucial to acknowledge the inequality of conditions between the different actors. This disparity is an inherent limitation to achieving equality of opportunity. For example, a State with an embryonic aviation industry, may in theory have the same opportunities but will not compete on an equal footing with one that already occupies a dominant position. This reality may hamper the optimum development of the liberalization process.

2.2. Besides general economic disparities, the competition inherent in air transport liberalization does not play out on equitable terms among States. Countries with more developed aviation industries, fleets of modern and efficient aircraft and a broad network of pre-established routes have an overwhelming competitive advantage. This translates into lower operating costs per seat/kilometre, greater capacity to offer competitive prices and greater capacity for expansion. On the other hand, States with start-up airlines, older fleets or less developed infrastructures find themselves at a structural disadvantage. These stark differences in operating and technological capabilities may lead to a concentration of air traffic in the hands of a few dominant airlines, limiting the ability of smaller airlines to grow and compete successfully.

2.3 Some very important aspects have to be considered when promoting air transport liberalization, including the following in particular:

- (a) Balancing interests and realities: It is crucial to balance the expectations of States, industry and users, while taking account of the realities of the world market, various regulatory perspectives and available resources.
- (b) Aviation sector development: A thorough understanding of the different levels of development of each country's aviation sector is essential, as these differences may act as barriers or catalysts having a negative or positive impact on the flexibilization of air traffic services. To that end, it is crucial to analyse variables such as aeronautical infrastructure, traffic volumes (passengers, freight and mail), geographical location, population, income, travel capacity, economic relations, gross domestic product (GDP) and domestic policies concerning enterprises in the sector. Furthermore, the analysis of air transport connectivity (measured by number of routes and frequency), volume of air freight and air fare trends in liberalized versus non-liberalized markets will facilitate precise monitoring of benefits and challenges, identifying where liberalization really boosts growth and where it could be causing imbalances.
- (c) Absence of specialized studies to help understand the impact of air services liberalization on traffic. We are unaware of the existence of studies, based on adequate algorithms or statistical techniques, that reliably demonstrate that the increase in passengers, air traffic, and consequent benefits to the development of civil aviation are the result of air transport liberalization. Unequal condition and the absence of scientific information on the subject are *de facto* limitations on equality of opportunity, create false expectations and/or misgivings about competing under the conditions predicated in the Chicago Convention, and conspire to prevent a smooth, effective and efficient process that will yield benefits to all the actors and interests involved. Studies have been conducted that indicate the advantages of liberalization, but they are limited and are not useful for the purpose of measuring the scale of the process. Moreover, this type of study would in turn bring to light the causes and effects of unfair competition among system stakeholders and enable States to gradually open up their air transport services, preventing a scenario of increasing inequality of opportunity.

3. CONCLUSION

3.1 States need adequate information, tools and guidance in order for ICAO to fulfill its mandate, namely: to promote the safe and orderly growth of international air transport, to ensure that all stakeholders may derive equal benefit, and to ensure that air transport becomes a tool for the sustainable development of States.

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