



**WORKING PAPER**

**ASSEMBLY — 41ST SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 35: Economic Regulation of International Air Transport — Policy**

**STUDY OF THE IMPACT OF THE CONCLUSION OF LIBERALIZED AIR SERVICES AGREEMENTS**

(Presented by Chile with the support of 18 Member States of the Latin American Civil Aviation Commission (LACAC)<sup>2</sup>)

**EXECUTIVE SUMMARY**

Considering the importance of signing air services agreements (ASAs) for global connectivity and the development of air passenger and cargo transport, this paper sets out approaches to evaluating the impact of signing new ASAs under the policy of liberalization, as reflected in the increase in traffic demand and economic gains for air transport and related markets, explained in terms of gross domestic product (GDP), employment and tourism.

**Action:** The Assembly is invited to instruct the Council to develop methodological guidance on the potential benefits of signing liberalized ASAs that also makes it possible to quantify their effects on air transport and related markets.

<i>Strategic Objectives:</i>	This working paper relates to the Strategic Objective — <i>Economic Development of Air Transport</i>
<i>Financial implications:</i>	
<i>References:</i>	Resolution A40-9, <i>Consolidated statement of continuing ICAO policies in the air transport field</i> (Appendix A – Economic regulation of international air transport)

<sup>1</sup> Spanish version provided by Chile

<sup>2</sup> Aruba, Belize, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Uruguay and Venezuela (Bolivarian Republic of).

## 1. INTRODUCTION

1.1 At the 40th Session of the Assembly, Resolution A40-9, “Consolidated statement of continuing ICAO policies in the air transport field” was adopted, which in paragraph 12 of Appendix A – Economic regulation of international air transport, Section I, Basic principles and long-term vision, requested the Council to “undertake further work to build a better understanding of the benefits and challenges of liberalization and barriers to opening market access, so that further consideration could be given to the development of a multilateral approach at the appropriate time.”

1.2 In paragraph 13 of the same resolution, the Council was requested to “continue to enhance dialogue and exchange of information with Member States and industry, taking into account the goals of the ICAO Long-term Vision for International Air Transport Liberalization, concerning the past experience and achievements of States, including existing liberalization agreements”...“as well as the applicability and relevance of the existing multilateral treaties, and the various proposals presented during the Sixth Worldwide Air Transport Conference (ATConf/6).”

1.3 Considering the contribution to global connectivity generated by air transport and the growing demand for passenger and cargo services, many States have entered into ASAs geared towards liberalization and in some cases granting fully open skies. These agreements could generate different benefits in air transport and other related markets, such as an increase in passenger and cargo traffic, more competitive routes, entry of new air operators, lower prices for air travel, greater inputs to GDP, increased incoming tourism and higher revenues, among others.

1.4 It would therefore be highly appropriate to study the benefits of ASAs that include terms on liberalization or open skies, and to develop standardized methodological guidance that would enable States to evaluate the advantages of signing further agreements of this type.

## 2. STUDY REFERENCES

2.1 There are studies<sup>3</sup> that have quantified the effects of liberalizing air cargo transport markets on airline costs, in the context of agreements signed by the United States. The authors found that agreements with greater levels of openness reduced air transport costs by 9 per cent and increased by 7 per cent the share of imported products brought into the country by airplane.

2.2 Another set of analyses<sup>4</sup> studied the average effects of the open skies agreement signed by Morocco with twelve European Union (EU) countries in 2006 and found that there was an increase of 20 to 35 per cent in the number of seats offered and a significant increase in the probability of new destinations being served.

2.3 In 2017, the National Civil Aviation Agency (ANAC) of Brazil and the Inter-American Development Bank (IADB)<sup>5</sup> sought to determine the impact of the liberalization of the air passenger market undertaken by Brazil since 2009 and found that, thanks to new agreements, the number of passengers who

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<sup>3</sup> Micco, A., and Serebrisky, T. (2006). Competition regimes and air transport costs: The effects of open skies agreements. *Journal of International Economics*, 70 (1), 25–51.

<sup>4</sup> Bernardo, V., and Fageda, X. (2017). The effects of the Morocco-European Union open skies agreement: A difference-in-differences analysis. *Transportation Research Part E: Logistics and Transportation Review*, 98, 24–41.

<sup>5</sup> Fioravanti, R., et al. (2017). *Análise de impacto regulatório dos acordos de serviços aéreos do Brasil*. Inter-American Development Bank.

travelled from or to Brazil had increased by some 3.76 million between 2009 and 2014, around 4.3 per cent more than had been projected for that period.

2.4 Some studies<sup>6</sup> have estimated the impact of open skies agreements in order to determine whether countries could have benefited from greater liberalization. The authors found that such agreements led to an average 10 per cent increase in the number of passengers carried on transatlantic flights.

2.5 Moreover, a group of distinguished authors<sup>7</sup> using a regression model in 2007 found that, on average, the agreements signed by the United States in 1995 with Austria, Belgium, the Czechia, Denmark, Finland, Iceland, the Netherlands, Norway, Sweden and Switzerland led to a 6.4 per cent increase in passenger traffic between those countries.

### 3. **METHODOLOGIES FOR EVALUATING THE IMPACT OF LIBERALIZED ASAs**

3.1 The literature on the economic impacts of the liberalization of air transport has found that it has generally had positive effects virtually everywhere across the globe. In particular, the evidence indicates that this type of agreement helps to increase the flow of passengers and cargo transported, reduce fares, broaden the availability of air services and lower the costs of providing them. In addition, the opening of the skies has boosted countries' GDP and job creation.

3.2 Various sources have used econometric methodologies to evaluate the impact of ASAs on the growth of demand for air transport, such as auto-regressive integrated moving average (ARIMA) models, the synthetic control method or ordinary least squares (OLS) analysis, among others, but the results differ depending on the methodology used.

3.3 As an international civil aviation organization, ICAO prepares handbooks with recommendations or methodological guidance on various topics in air transport; however, it does not currently have a tool that enables States to quantify the effect of ASAs on their air traffic demand or produce a report on the potential benefits of liberalized ASAs.

3.4 Considering the diversity of methodologies for studying the effects of ASAs on growth in air traffic, and given that ICAO has a mandate to assist States in the various specialized areas of air transport by generating reliable, accurate and sound information, it is highly appropriate for ICAO to prepare standardized guidance that would enable States to quantify the benefits of signing new agreements aimed at opening markets.

3.5 As there are States with more restrictive commercial air policies, this tool would make it possible to generate impact assessments for those countries and thereby advance the liberalization of international air transport.

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<sup>6</sup> Moselle, B., Reitzes, J., Robyn, D., Horn, J., Caldwell, R., Church, B., Schumacher, A. (2002). *The Economic Impact of an EU-US Open Aviation Area*. Washington DC: The Brattle Group.

<sup>7</sup> Booz Allen Hamilton Ltd., Cambridge Hill Aviation Group, von den Steinen, E., Joerss, I., and Mendes de Leon, P. (2007). *The Economic Impacts of an Open Aviation Area between the EU and the US* (Final Report). London: Booz Allen Hamilton Ltd.

4. **EXPECTED OUTCOME AND PROPOSAL TO THE ASSEMBLY**

4.1 We therefore propose that the Assembly instruct the Council to prepare methodological guidance on the potential benefits of signing liberalized ASAs that also makes it possible to quantify their effects on air transport and related markets.

4.2 This methodological guidance should serve as a tool that will enable States to estimate those effects for themselves using an ICAO standardized methodology that is universal, objective and replicable by different States. This will provide States with a specific tool with which to determine the benefits of signing liberalized agreements and gradually move closer to the vision promoted by ICAO.

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