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ASSEMBLY — 36TH SESSION

ECONOMIC COMMISSION

Agenda Item 40: Regulation of international air transport services

REGIONAL BLOCS AND THEIR IMPACT ON REACHING A MULTI-LATERAL AGREEMENT

(Presented by Saudi Arabia)

EXECUTIVE SUMMARY

History is repeating itself in this era witnessed by the international civil aviation community. The quest for a multi-lateral regulatory framework at the global level to replace the old bilateral regulatory system has become a realistic option. Tangible progress has been achieved since the 5th Worldwide Air Transport Conference established liberalization optimum procedure. Efforts were made to eliminate differences in the air transport regulatory environment and infrastructure. The Conference also highlighted the impact of regional blocs in global economic growth.

Action: The Assembly is invited to consider the development of a multilateral system for regulating the international air transport services.

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| <i>Strategic Objectives:</i> | This working paper relates to Strategic Objective D. |
| <i>Financial implications:</i> | Not applicable. |
| <i>References:</i> | |

1. INTRODUCTION

1.1 The idea of air transport liberalization is not a new one. Since the Chicago Conference that was convened by the United States of America in 1944 to establish air transport legal and regulatory frameworks after World War II, there were repeated calls for air transport policies liberalization and the non-intervention of governments in the regulatory frameworks.

1.2 The United States was advocating the open skies and free competition policy. However, this trend was not in line with the opinion of the United Kingdom and the majority of the developing

¹ Arabic and English versions provided by Saudi Arabia.

countries who considered this policy as a threat to their economic interests as they felt that they were not in a position to compete with the more competitive American airlines with their huge technical and human capabilities and large fleets. Furthermore, these countries were of the view that air transport is a major acquis and a state property and that the transport of passengers, goods and mail from their territories is considered as a national source of wealth that should be traded with other States as an income generating activity. At that time, no collective multilateral agreement was reached.

2. ANALYSIS

2.1 As a result of the difference of opinion between the group led by the United States of America and the group led by the United Kingdom, the Chicago Conference failed to reach solutions for air transport industry economic and regulatory issues on the basis of multilateral liberalization foundations and principles that bring together a large number of States under one umbrella. Consequently, air transport regulation among States is subject to bilateral agreements and is based on protectionism and reciprocity with any airline operating between two States having the same rights as the airline of the other party. Hence, States continued to insist on exercising ownership of airlines which fly the State flag. Airlines became State-owned institutions supervised and controlled by the State. States, therefore, harnessed all their capabilities to protect their owned airlines by all means and ways, especially in the context of bilateral agreements (more than 4000 agreements at present) on regulating air transport relations among States world-wide, particularly with regard to economic and operational issues where restriction degrees differ from one agreement to the other according to the vision of each State *vis-a-vis* air transport industry and the scope of its impact on the national economy.

2.2 Breakthrough in the air transport industry

2.2.1 At this stage, the World envisaged again a breakthrough in air transport industry commensurate with the rapid growth and advances at both the technical and technological levels. The idea of air transport liberalization emerged again when the USA eliminated restrictions on air transport industry in 1978 (Deregulation System) thus leading to the proliferation of American airlines and the emergence of alliances and blocs in Europe and elsewhere to face the fierce competition and creating consequently an environment of "let the fittest survive".

2.3 The pursuit of bloc formation

2.3.1 Before the turn of last century, many States endeavoured to form blocs in many regions of the world. At the African level, Ministers of 52 African States adopted in November 1999 the Yamoussoukro Declaration on Market Access for Air Transport in Africa. Positive results were achieved and many States adopted liberalization policies.

2.3.2 The Air Services Group of Asia-Pacific Economic Cooperation Forum (APEC) recommended to the Member States to increase market access in the framework of bilateral agreements. The Group also recommended the principle of code-sharing to make airlines more competitive and provide more options for passengers. The Group urged the Member States to facilitate the establishment of marketing alliances among air carriers of all types for the purposes of economic feasibility and benefits for both passengers and airlines. It also recommended the elimination of restrictions imposed on air transport and cargo among the Member States as well as the facilitation of operating passenger flights and air cargo charter. The following regional groupings have also regional arrangements on the liberalization of some elements of air transport:

- a) The European Civil Aviation Commission (ECAC);
- b) The Arab Civil Aviation Commission (ACAC);
- c) The Latin American Civil Aviation Commission (LACAC);
- d) The Common Market for Eastern and Southern Africa (COMESA);
- e) The arrangements of the Association of the Andean States;
- f) The arrangements of the Association of the Caribbean States;
- g) Fortaleza Convention between (Argentina, Bolivia, Brazil and Chile) of December 1997;
- h) Banjul Convention between (Cape Verde, Ghana, Guinea-Bissau, Sierra Leone, Nigeria and Gambia) in April 1997;
- i) CLM V Convention between (Cambodia, Lao People's Democratic Republic, Myanmar and Vietnam) in January 1998. All these blocs adopted different liberalization policies.

2.4 Requirements for reaching a multilateral agreement

2.4.1 It might be appropriate to review the requirements for changing the road map of the civil aviation community in order to reach a multilateral regulatory framework following States' concerted efforts to face the challenges of the 21st Century and the signature of the Chicago Convention in 1944. The purpose of these efforts is to upgrade the established operating procedures which are based on bilateral regulatory procedures and to eliminate the regulatory restrictions imposed on the economic regulation of air transport since the ultimate goal now is to serve the interests and ensure the welfare of passengers and to facilitate air travel. These requirements can be summarized as follows:

- a) formation of blocs on economic basis rather than on political basis to develop trade, the economy and tourism;
- b) abandon the traditional approach that governs the bilateral regulation procedures in order to expand the scope of market access by eliminating operational restrictions;
- c) concerted and coherent action by States to implement uniform Criteria, Standards and Practices developed by ICAO;
- d) technological advances and their impact on the aviation sector and the need to develop a framework to upgrade services and establish an efficient and secure global system;
- e) opportunities to encourage creativity, provide new jobs and promote the participation of the private sector in providing more efficient services and its involvement in infrastructure plans to develop this sector;

- f) encourage developing countries to participate in air transport markets by allowing them a transitional period to build their capacities and adapt to the environment of competitiveness and liberalization and facilitate their access to finance programmes to establish themselves in the air transport network;
- g) in the face of growing multinationalism, it becomes more and more difficult to address bilaterally the new emerging global industry challenges and other challenges facing the civil aviation community;
- h) taking into account the environmental issues that affect airfield traffic and air navigation capabilities and their impact on aviation development;
- i) promoting trade opportunities and conclude economic integration agreements to facilitate the movement of persons, goods and capital and development investments;
- j) increase marketing alliances among airlines to enhance their competitiveness, reduce cost and expand the operational network without the need for capital investment;
- k) facilitate the establishment of a comprehensive global system for compensation and passengers processing procedures;
- l) reinforce exchange in the field of security and safety while ensuring the highest level of security and safety in all aviation markets;
- m) concerted efforts among States to adopt uniform air transport policies that contribute to the satisfaction of the world's peoples needs for a safe, regular, efficient and cost-effective air transport and to the development of all aviation aspects in general.

3. CONCLUSION

3.1 It is clear from the above that the world is on the threshold of a new philosophy in the field of air transport. This philosophy is based on regional relations rather than bilateral regulation, the implementation of the principle of free competition rather than protectionism and government intervention to determine prices, the number of flights and capacity. This philosophy is now spreading in many regions of the world since many regional blocs that implement such policies already exist or are in the process of being formed. This means that the world will eventually find itself implementing a uniform policy at the regional level pending the development of standards that regulate this policy at the global level.

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