

**WORLDWIDE AIR TRANSPORT CONFERENCE: CHALLENGES AND  
OPPORTUNITIES OF LIBERALIZATION**

**Montreal, 24 to 29 March 2003**

**Agenda Item 2: Examination of key regulatory issues in  
liberalization**

**2.2 Market access**

**LIBERALIZATION OF AIR FREIGHT ON A MULTILATERAL  
BASIS**

(Presented by Singapore)

**SUMMARY**

This paper highlights the benefits of the liberalization of airfreight services, and proposes elements of airfreight liberalization at multilateral or plurilateral forums. Presented for the Conference's consideration

Action by the Conference is in paragraph 4.1.

**1. INTRODUCTION**

1.1 This paper highlights for discussion the benefits of the liberalization of airfreight services in the air transport industry and proposes the continuation of progressive air freight liberalization on a bilateral and/or multilateral basis among ICAO members.

1.2 During the last decade, the average annual growth of global airfreight in freight-tonne kilometres on international scheduled services was 7.9 %. Global freight traffic for the month of August 2002 grew by 10.6 % over the corresponding month of the previous year, with all major regions recording positive growth rates. Moreover, annual growth in the international express cargo market has averaged nearly 24% since 1992. In addition, with the increasingly widespread use of e-commerce all over the world, it is expected that this will generate further demand for air cargo, particularly in the express market.

## 2. MOVING TOWARDS THE LIBERALIZATION OF AIR FREIGHT

2.1 There are several factors contributing to the trend towards liberalization of airfreight services. First, most countries recognize that efficient airfreight services promote economic growth and trade development by facilitating the movement of goods, thereby producing favourable multiplier effects that serve the wider interest of national economies. In addition, countries without all-cargo carriers tend to be more prepared to liberalize such services, so as to compensate for lack of the airfreight services by their national carriers.

2.2 Second, air cargo has features that are distinct from passenger services. Human air travelers prefer to fly directly to their destination in the shortest available time whenever possible. They also prefer an attractive airport environment that is rich in diversions, or endowed with facilities that enable them to work, to make the waiting time as productive and enjoyable as possible. In contrast, the needs for the passage of air cargo are relatively different from those of passengers mentioned above. Whether cargo travels direct, or hubs through one or more airports, is of lesser consequence than for passengers. Cargo is also less sensitive to transfer times, flight synchronization and airport amenities and services. However, air cargo is sensitive to other factors, including whether a change of aircraft is required, whether pallets need to be broken down and rebuilt, and the cost of trans-shipment handling.

2.3 Third, unlike passenger traffic, air cargo flows tend to be unbalanced, or “uni-directional”: cargo tends to move from manufacturing to distribution centers, or from production to consumption centers. Furthermore, such imbalances can be endemic, because they are also fundamentally influenced by import/export imbalances between countries or regions. In contrast, passenger air travel is much more balanced: passengers in general tend to make a two-way journey (from home to the destination and back again). As a result, air cargo rates vary greatly according to the direction of travel, with all-cargo carriers sometimes planning their networks with “big circle” routes, whilst passenger carriers tend to fly along the same linear route linking two cities.

2.4 Fourth, there is growing realization that the notion of “national” traffic - where air services are supposed to cater primarily for traffic originating from or destined for their “own” countries - which forms the basis of traditional bilateral ASA negotiations has become particularly irrelevant for air cargo traffic. This is in large part due to the increasing globalization of the manufacturing process, and the progressive lifting of import barriers for the movement of goods in many countries. As such, the means for transporting these goods by air should be simultaneously liberalized to meet producer and consumer demands.

2.5 Finally, the relative importance of airfreight to passenger services has increased. Today, a growing proportion of low-weight, high-value cargo, such as computer parts, is being transported by air. This has changed past perceptions of air cargo as a mere by-product filling up the unused passenger capacity of aircraft.

2.6 Recognizing the benefits of the liberalization of airfreight services, the International Chamber of Commerce’s (ICC) Committee on Air Cargo Transport, for example, had called for “all interested parties to actively pursue the liberalization of air cargo services at national, regional and international level”. Liberalization of airfreight services could be achieved within the framework of bilateral agreements, plurilateral agreements or multilateral agreements. Possible measures for liberalization include de-linking

freighter provisions from those of passenger services, having an open route schedule, and lifting restrictions on 3rd/4th/5th freedom traffic rights.

2.7 Deregulation, along with the use of just-in-time production, can stimulate air cargo growth to create a win-win situation for both airlines and shippers through lower rates and improved service to shippers. Liberal air policies, for example, have helped to boost cargo carrier services and airport revenues, bringing more and better shipping options for businesses around the Pacific Rim.

2.8 In the World Trade Organisation (WTO), several countries have proposed including airfreight services in the General Agreement on Trade in Services Annex on Air Transport Services. Asia Pacific Economic Cooperation (APEC) economies have also tagged airfreight for priority action among eight options for the liberalization of international aviation. The European Common Aviation Area, which came into effect in 1997, allows any European Union (EU) carrier (passenger or cargo) to operate anywhere in the EU that it wishes, including on domestic routes within any other member State.

2.9 Singapore's proposal for the liberalization of airfreight services, first presented during the 4th Association of South-East Asian Nations (ASEAN) Transport Ministers Meeting in September 1998, was positively received by the ASEAN Transport Ministers. This has culminated in the adoption by the ASEAN air transport authorities of the ASEAN Memorandum of Understanding (MOU) on Air Freight Services on 19 September 2002 in Jakarta, Indonesia. The MOU was seen as a significant milestone in ASEAN as it was the first ASEAN multilateral agreement on air services jointly accepted by and adopted by all ASEAN members.

### 3. **RECOMMENDATION**

3.1 Singapore recognizes the benefits of air freight liberalization, and has actively supported such a trend bilaterally and in various multilateral fora, such as ASEAN and APEC. For the reasons enunciated above, Singapore proposes that ICAO members accelerate the pace of liberalization of air freight, particularly all-cargo services, multilaterally or plurilaterally on a reciprocal basis to the greatest extent possible. Such multilateral or plurilateral air freight liberalization could comprise the following elements:

- a) Phased approach to allowing the designated carriers of member countries to exercise third through the seventh freedoms of the air for all-cargo services operated on a scheduled or non-scheduled basis with maximum operational flexibility;
- b) Non-discriminatory treatment of carriers with respect to access to ground facilities, clearance and other services; possibilities for cooperative arrangements such as code-sharing to take place among carriers; and
- c) A definitive timeline for the phased and progressive multilateral liberalization of air freight, taking into account the varying circumstances and levels of development of various economies.

3.2 Singapore further recommends that such multilateral air freight liberalization be achieved independently of the liberalization of passenger services upon which many countries are not yet ready to embark.

4. **ACTION BY THE CONFERENCE**

4.1 The Conference is invited to take these views and recommendations into account in its consideration of this item.

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