

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

**Montreal, 24 to 29 March 2003**

**Agenda Item 1: Preview**

**1.1: Background to and experience of liberalization**

**FIJI'S POSITION ON MULTILATERAL AIR SERVICE AGREEMENTS:  
PACIFIC ISLANDS AIR SERVICES AGREEMENT (PIASA)**

(Presented by Fiji)

***INFORMATION PAPER***

**SUMMARY**

Fiji recognizes that its participation in an ever increasingly open and competitive global market depended upon the efficiency, effectiveness and reliability of its air transport infrastructure and services. A prerequisite to the above need, is Fiji's ability and capacity in terms of available resources to ensure and enhance Fiji's effective and sustainable participation in the global air transport market. In this context, Fiji believes that, in order to maintain a meaningful participation in a liberalized or open trade environment, the most ideal and realistic method of liberalization of Fiji's international air services is through bilateral basis in lieu of multilateral basis.

Fiji further recognizes the crucial role of its international air services in the economic and trade development of other Pacific island countries and, in this regard, Fiji acknowledges the strategic role of the Pacific Islands Forum Secretariat in facilitating and promoting the broader economic interest of the entire region. Notwithstanding this, however, Fiji places more priority on the national economy and this effectively means promoting, not protecting, the interest of its international carrier, Air Pacific, as the appropriate vehicle for ensuring Fiji's sustained participation in the supply of trade and communication lifelines of the country. In this connection, the interest of the national-owned carrier remains an imperative consideration for Fiji when air market access becomes a potential issue in the context of the Pacific Islands Air Services Agreement (PIASA).

## 1. INTRODUCTION

1.1 In view of the emerging multilateral air service regulation in the Pacific Island region and in other parts of the world it is essential for a developing country like Fiji with relatively small aviation resources to reassess the current economic regulatory framework for its international air services. The increasingly worldwide trends towards liberalization, globalization, integration, multinational ownership of airlines and profound advancement of code sharing are merely economic forces fuelled by developed countries with matured economies and therefore must not be imposed on developing countries because of inherent economic disparities.

1.2 The intent of this presentation is to highlight Fiji's policy position on the liberalization of air services in the Pacific region as coordinated by the Pacific Islands Forum Secretariat. The paper has been prepared by the Ministry of Transport and Civil Aviation of Fiji to inform the current Fifth Worldwide Air Transport Conference about Fiji's experience, perception and concern about the liberalized or free aviation market particularly for a developing country like Fiji with a fragile economy.

## 2. BACKGROUND

2.1 The PIASA is one of the profound initiatives of the Pacific Islands Forum (PIF) Secretariat (formerly the South Pacific Forum Secretariat) aimed at preparing Pacific Islands countries to adapt to new trade rules of the World Trade Organization (WTO) by gradually adopting an "open skies" regime within the region. The key to this proposed new change is for the Forum Secretariat to provide a multilateral basis for opening international air services between the Forum island countries. As this is an initiative of the regional body (PIF Secretariat), it is worth highlighting some of its pertinent background and also providing an overview of its stated objectives and what it is envisaged to achieve.

2.2 In 1998, the PIF Secretariat conceptualized a multilateral approach towards liberalizing the PIF countries' international air services. The PIF was of the view that a multilateral agreement operating on a single aviation market would be an effective means of facilitating the perceived need for PIF countries to adapt to a changing world situation for trade in services developments consistent with the new world trading system adopted by the WTO. According to the Forum Secretariat, the PIASA is an equivalent of the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Island Countries Agreement on Closer Economic Relations (PACER). These are trade in goods agreements, which are oriented towards free trade where everyone should compete on an equal footing with one another within the region and the Pacific Rim as well. The underlying objectives of establishing a free trade zone within the Pacific region is to prepare the island economies to be more responsive to the rigours of full global competition.

2.3 Against this background, the first Aviation Policy Ministerial Meeting in May 1998 provided the impetus behind the multilateral air services agreement. In that first meeting the Pacific Islands aviation ministers agreed in principle to move towards the liberalization of regional air services agreements. At a subsequent ministerial meeting in September 1999, they agreed on the concept of a single Pacific Islands aviation market, with the drafting of a multilateral agreement to be organized by the Forum Secretariat.

2.4 According to the Forum Secretariat, the Pacific civil aviation ministers recognized the need for adaptation of island countries air transport regulation to a gradual approach to liberalization, which would inevitably involve some structural and economic reforms of the aviation sector. The ministerial meeting further acknowledged that current bilateral agreements were too rigid and restrictive in terms of market access within the region and therefore felt that they impede the growth and development of the region's air transport activities. Notwithstanding the influence exerted by the PIF on such ministerial meeting, there were other

subsidiary reasons attached to the multilateral approach, notably the need to assist the forum countries in the development of the so-called east-west air services across the region for the promotion of island hopping-type tourism development of the internal market, and the promotion of other efficiency principles or arguments associated with a competitive air travel market. It is to be noted, however, that the key imperatives for introducing a multilateral arrangement are to assist and prepare the forum island countries, particularly the regional carriers, to meet the challenges and opportunities that would be brought about by liberalization and/or free trade environment consistent with emerging WTO aviation policy.

2.5 As envisaged by the Forum Secretariat, the anticipated benefits of a multilateral agreement are:

- a) increased air services;
- b) reduced freight rates and passenger airfares;
- c) increased access for forum island countries;
- d) improved efficiency and expansion of island airlines;
- e) expanded inter-island tourism;
- f) reinforced thinner regional air routes;
- g) maintenance and improvement in safety standards;
- h) greater use of code sharing and alliances;
- i) encouragement of investment in island airlines; and
- j) more cargo options for exporters and importers and cost savings for island airlines.

As regards its implementation, the multilateral agreement will be introduced gradually in three (3) phases over a three- to five-year period depending on the prevailing circumstances:

- a) First phase – the granting of Fifth Freedom rights to new Forum island countries currently without international services;
- b) Second phase – the extension of Fifth Freedom rights to all countries to operate within the region; and
- c) Third phase – the extension of Fifth Freedom rights to Forum island countries outside the region.

### 3. ASPA's VIEW

3.1 From an airline perspective, the voice of the Pacific island carriers through the Association of the South Pacific Airlines (ASPA), cannot be ignored because in the final analysis the airline operators will be directly affected by any radical changes to the economic regulatory framework for air services in the region. As such, the Fiji Government equally shares the concern of ASPA as it also mirrors the position of its substantively owned carrier, Air Pacific.

3.2 Basically, ASPA has some legitimate concern about liberalizing the region's air services on a multilateral basis. It argues that the national carriers of the region warrant relative protection from “unnecessary” competition on some profitable routes which have been developed by and invested in by Pacific island carriers, especially those routes where the Fifth Freedom rights will be introduced under the multilateral agreement. Some national carriers in the region are currently operating in high-cost circumstances in thin markets and are being faced with difficulties in flying profitably within the regional routes. By its very nature, some national airlines would not be able to cope with competition amongst the region's carriers, let alone from bigger carriers outside the region. In general, the potential risk of over-exploitation of the Fifth Freedom rights within the region would undoubtedly expose all the Pacific island carriers to a danger zone with high commercial risk.

3.3 ASPA has cited a few examples of what would happen in an open market environment like in the domestic aviation industry in Australia and New Zealand. The collapse of three domestic carriers: Impulse and Flight West in Australia and Qantas in New Zealand, not to mention Ansett in the international arena, are profound manifestations of what could potentially emerge if the Pacific moves towards an internal or single open skies arrangement. The carriers themselves are predominantly victims of such drastic regulatory change and, as a result, competition in the domestic aviation markets of Australia and New Zealand have virtually diminished. Of concern and equally of importance to ASPA is the fundamental need to ensure the sustained viability of Pacific carriers in an “open skies” environment where they will compete amongst themselves. ASPA believes that any proposed change in the regulatory framework has to be appropriately triggered by the carriers according to their level of development and maturity and also in terms of their preparedness or readiness to expose them to the risk of open and “uncontrolled” competition. ASPA therefore fears that the argument for competition would likely lead to an undesirable situation whereby some small Pacific carriers would not be able to cope with the internal competition, and thus could potentially vanish. The “survival of the fittest” scenario is not compatible with the financial health of most Pacific carriers who are operating in thin markets characterized with fragile economies.

3.4 ASPA is therefore of the view that national carriers of most PIF countries are entitled to an appropriate level of protection on their main catchment routes within the region to enable them to sustain air services, the Third and Fourth Freedoms traffic being the lifeline of their operation. Any change to the current situation, particularly unrestricted access to the Fifth Freedom traffic between island countries, would only bring more commercial damage to these developing carriers. At present, most Pacific island countries have Third and Fourth Freedom rights with one another. However, with the introduction of a multilateral agreement, each Pacific country is obliged to grant Fifth Freedom rights amongst themselves. There is potential therefore that an open-oriented air services arrangement would easily entice Pacific island carriers (after Third and Fourth Freedom) to fly to a second country picking up Fifth Freedom traffic on an already thin market.

3.5 Furthermore, ASPA asserts that the Forum Secretariat is yet to provide a convincing economic rationale behind this free trade of Fifth Freedom traffic within the region. The Forum Secretariat knows that not every Pacific carrier will be able to compete on an equal basis with others because of the inherent inequalities that exist in Pacific carriers or even will have the capacity to fully utilize these Fifth Freedom opportunities.

#### **4. AIR PACIFIC'S VIEW**

4.1 ASPA's concern is well founded and should be accepted because it equally reflects the position of Fiji's national-owned carrier, Air Pacific. The Government has taken on board the concern of Air Pacific with the view that the interest or future viability of Air Pacific will be accorded high priority in any discussions on any proposed air transport economic regulation. The favoured position of Air Pacific is that bilateral arrangements have been, and will always be, facilitating and enhancing Fiji's international profile as an attractive tourist destination, as opposed to multi-tourist destination in a multilateral arrangement or PIASA. Air Pacific believes that bilateral arrangements are still appropriate for Fiji as an effective means of specifically tailoring its bargaining power to meet national interests in free or open market.

#### **5. WHY BILATERAL IS STILL THE BEST ALTERNATIVE FOR FIJI**

5.1 The perspectives provided by the ASPA as well as Air Pacific have, to some degree, complimented the position adopted by the Fiji Government with respect to the multilateral instrument (PIASA). Having said that, the Fiji Government has made an explicit undertaking not to accede nor sign the new multilateral air service agreement until further review, when considered appropriate by the Government.

5.2 The main premise for introducing multilateral "open skies" in the region is the adaptation of Pacific island countries international air services to the new economic realities of the global trade market which covers the broader economic interests notably intra-island tourism. The fundamental question that arises for Fiji is whether it should go forward to an "open skies" regime within the region or maintain the present bilateral approach in the context of ensuring the survival of its nationally-controlled airline in the regional aviation market. The current thinking of the Fiji Government is that the national airline concept is still appropriate in the current context of liberalization of air services and, for Fiji, this would literally mean the continuation of its bilateral negotiation and discussion as opposed to the multilateral arrangement.

5.3 Fiji has been closely following the aviation industry events in the neighbouring countries of Australia and New Zealand, notably the collapse of Ansett and the financially-ailing Air New Zealand. All these happenings on both sides of the Tasman region suggest the vulnerability of small island carriers in a free market and with "open skies" environment. There is no direct impact of these events on Fiji's national carrier, Air Pacific, because there are no commercial arrangements with these troubled airlines. Because of these proven cases of air services liberalization, Fiji will exercise a cautious approach and will smartly apply open market principles, if it is for its national interest. As a consequence, Fiji will not be a party to any regional undertaking on any air service regulation matters that would unnecessarily pose new problems to the growth and development of its aviation institutions, particularly Air Pacific.

5.4 Furthermore, Fiji attaches importance to the recognition of the principle of national sovereignty over airspace and also the profound failure of the 1944 Chicago Convention to reach a multilateral agreement on the exchange of air traffic rights, hence the continued negotiation and discussion of "open skies" agreements on a bilateral basis. The current practice of USA, Australia and New Zealand in each employing a unilateral approach to their bilateral negotiation and discussion on "open skies" arrangements with their aviation partners clearly reinforces the position taken by Fiji not to give in easily to multilateral pressure as it is against its national interest.

5.5 Accordingly in that context, Fiji will continue to pursue or negotiate for the most liberal air service arrangements with its bilateral aviation partners for the strategic reason that bilateral agreements

generally resulted in greater benefit for the national interest. It may also be worth mentioning that there has been no proven or compelling quantitative assessment of the efficiency, or otherwise, aspect of the current bilateral arrangements.

## 6. CONCLUSION

6.1 The real challenge for Fiji in the current face of contemporary changes in the regulatory scene for international aviation activities is not WHY, but rather HOW to respond appropriately and accordingly to these global changes. For Fiji, this would essentially require some smart or extraordinary thinking in terms of the applicability, validity and perhaps suitability of an “open skies” arrangement on its still developing economy. In this context, the need to adapt to free or open aviation trade market would be an inevitable necessity for Fiji only if it is for the national interest. In other words, Fiji is prepared to adapt to the changing global commercial air transport environment IF CONSIDERED NECESSARY, and NOT NECESSARILY ADAPT TO it because of the prevailing orthodoxy of global economic phenomena on open market fundamentalism.

6.2 All in all, the current bilateral agreements have not in any way inhibited technological and marketing innovation or inter-airline commercial arrangements and, on this basis, Fiji will continue to use its current bilateral agreements as an instrument for adaptation of its international air services to the rules and principles of the WTO.

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