

## **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 2.5: Product distribution**

#### **PRODUCT DISTRIBUTION**

(Presented by Bahrain, Egypt, Iraq, Jordan, Lebanon, Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen and the Observer from Palestine)<sup>2</sup>

#### **SUMMARY**

This paper reviews the issue of airline product distribution, focussing on the sale and marketing of air transport services over the Internet and computer reservation systems (CRSs), and efforts in the Arab area.

Action by the Conference is in paragraph 4.1.

### **1. INTRODUCTION**

1.1 We may start by asking whether air transport is an industry, and if so, whether this industry has a product, and what is the economic value and nature of that product. In fact, the answer to these questions will help us to identify the types and features of air transport products and eventually to develop optimal methods for their distribution. An industry is a production process of transforming an item of a lesser value to one of a greater value. In applying this definition to air transport, we find that airlines carry passengers and goods from one place to another, i.e. the transformation process takes place through a process of transport. At the time of carriage, the place of origin represents a lesser value for passengers and goods and the destination represents a greater value. The evidence of this is that the value of goods in the country of destination will certainly be greater than that at the country of production.

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<sup>1</sup> Arabic version provided by Members of the Arab Civil Aviation Commission (ACAC).

<sup>2</sup> Members of the Arab Civil Aviation Commission (ACAC)

1.2 According to this definition, air transport may be considered an industry; its product being the passenger seat or cargo space. This product has the characteristics of economic products, namely scarcity and benefit. All air carriers are similar in that they produce a service, i.e. the element of competition among these airlines in the air transport market must be related to this element, assuming price stability, thus every carrier tries to satisfy their users and attract new ones. No one can impose regulatory restrictions to limit the efforts of air carriers to satisfy their users. Yet, aviation authorities worldwide do establish regulations to insure fair and equal competition among air carriers in the air transport market. To accomplish this, a distinction must be made between product distribution in the following cases:

- a) International scheduled flights;
- b) Additional flights; and
- c) Charter or non-scheduled flights.

1.3 **Scheduled Flights:** The prevailing trend in product distribution, in respect of scheduled flights, is the direct sale to customers by allowing airlines to open sales outlets for the direct sale of their products to customers, without intermediary agents. The Kingdom of Bahrain had an initiative in this regard when Decision No. (1) of 1999 was issued allowing airlines to sell directly to the public without an agent. The Sultanate of Oman also allowed foreign airlines the choice of either direct sale or sale through a local agent. But many states still have reservations in this regard, and still require the presence of an agent to undertake this role and do not allow direct sale by airlines.

1.4 **Additional Flights:** It is well known that additional traffic is the result of increased demand on a scheduled route, thus is subject to the same requirements as scheduled traffic.

1.5 **Charter or Non-Scheduled Flights:** Although some States do not have any impediments to distribution of non-scheduled flights, the majority of States worldwide still require that role be undertaken by a travel agent or a charterer who would sell all-inclusive flights and be the link between the operator and aviation authorities. This usually takes the form of tourist programs.

## 2. MARKETING AND TECHNOLOGICAL PROGRESS

2.1 Technological progress in the area of product distribution has played a major role in opening options for air transport users by making it possible to reserve a seat or reserve a cargo space on a flight over the Internet. The latter has become a tool that poses another challenge to the states imposing restrictions on the right of air carriers for direct product distribution.

2.2 In addition, we witness complex relations among air carriers, through marketing alliances, code sharing,...etc. In such situations, air carriers' liability for passengers and cargo would be lost if not clearly defined, which may cause the loss of passengers' rights. Thus it is necessary to clarify the relations between passengers and the companies that participate in transportation of passengers in printed form, i.e. on the ticket or any other transport document in paper or electronic form.

2.3 Equally important is for States to insure that those responsible for CRSs follow honest and neutral methods in displaying data to air transport users without favouring one company over another, and directing customers to using the services of one carrier and not another, which would have a negative impact on the product distribution of that carrier, and that the CRS Code of Conduct, approved by ICAO, is the

regulating tool approved for the control of CRS process and is the guidance reference for any other code of conduct.

### **3. THE ARAB POSITION**

3.1 Arab Civil Aviation Commission (ACAC) has developed a program for the gradual liberalization of air transport services among its Member States, starting with traffic rights for cargo and unscheduled operations to be followed by traffic rights under Third, Fourth and Fifth Freedom rights, and is currently developing a multilateral agreement for the liberalization of air transport among Arab States (traffic rights, market access, capacity and rates) to be implemented in the final stage. It should be recalled that the discussion which took place during the Arab Air Transport Liberalization Conference (Dubai, 21-23 October 2002) resulted in support for the ICAO initiative regarding the Template Air Services Agreement (TASA). In order to protect the interests of Arab passengers and airlines in the field of reservations, access to information and other rights related to contracts, fees and purchase, ACAC, in cooperation with the Arab Air Carrier Organization (AACO), developed the Arab Code of Conduct for Computer Reservation Systems (CRSs) which draws its principles and goals from the ICAO CRS Code of Conduct.

### **4. ACTION BY THE CONFERENCE**

4.1 In view of the above and in the light of current technological progress, the Conference is invited to:

- a) request ICAO to continue to monitor the current developments concerning the distribution of products related to the Internet and CRSs, and to disseminate the relevant information;
- b) emphasize that vendors and distributors of air transport services must maintain neutrality in dealing with all airlines;
- c) emphasize the importance of respecting the principle of non-discrimination in any regional CRS code of conduct;
- d) urge the Contracting States to grant airlines the right to sell their products directly;
- e) airline obligations towards Air Transport Services users must be clearly established when more than one carrier participates in the transport process;
- f) emphasize that the principles of ICAO CRS Code of Conduct is the guidance reference for the regulation of computer reservation systems in Contracting States or any other Code of Conduct of a regional nature.

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