

**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**

**THE CASE FOR ALL-CARGO LIBERALIZATION**

(Presented by The International Air Cargo Association (TIACA))

**SUMMARY**

The widening of market access by removing or reducing the constraints imposed on all-cargo carriers by the current regime of bilateral agreements is an urgent requirement for the air cargo industry. Air cargo should be placed at the leading edge of liberalization of air transport, independent of proposals to liberalize passenger movements, which are likely to be more complex and take longer to implement.

All-cargo liberalization should be pursued on a fast track basis because it represents a different set of economics from passenger services and can have positive benefits on the world economy.

It is proposed that combination carriers would automatically retain the right to carry cargo with passengers.

It is anticipated that the proposed liberalization of all-cargo flights would provide a template for the future liberalization of combination traffic rights.

Action by the conference is in paragraph 4.1.

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<sup>1</sup> French and Spanish versions provided by The International Air Cargo Association (TIACA).

## 1. INTRODUCTION

1.1 Although smaller than the passenger business, air cargo contributes significantly towards the world economy. It has annual sales of approximately US\$225 billion, which represents approximately 27 million tons of cargo annually. Even though this is only 2% of world trade by weight, it represents 40% of world trade by value. It is projected to continue growing at 6.5 % for the next 20 years or 2% faster than passenger traffic. It is a major employer worldwide and a vital component of world trade.

## 2. DISCUSSION

2.1 Most air cargo has already gone through a production process or will be used in a production process, making it essentially a production industry as opposed to a consumption industry. It is, therefore, a job creator and has become a major locomotive for economic growth. Perhaps its greatest contribution has been its ability to foster trade with the developing world.

2.2 Air cargo is now an integral and irreplaceable element in a whole range of activities from the most modern global trade processes to the basic economic needs of many developing economies. According to the World Bank, since 1985, the share of world trade with developing nations has gone from 25% to 35%. Although much of this is perishables - fresh fruit, flowers and vegetables - a significant amount of this improvement has been in manufactured goods. Trading with the developing world is good, some would say essential, to foster peace in the world.

2.3 Fast-cycle logistics chains are becoming more reliant on the movement of high value goods on high capacity freighter aircraft. TIACA believes that if individual countries wish to take advantage of the economic and job development opportunities this demand is creating, and attract additional inward investment, this can be facilitated by allowing greater market access for freighter aircraft.

2.4 A successful air cargo industry is vital to world trade. Useful insight into this situation is afforded in a recent World Bank publication (Technical Paper 527) in which Daniel Muller-Jentsch notes: "Speed, flexibility and reliability are service characteristics that add real value to users. If they are unable to deliver on time, manufacturers may be forced to pay contract fines or risk losing orders. Slow or unpredictable delivery induces customers to hold costly buffer stocks. Inflexibility and long lead times delay the response to market opportunities and result in rapidly changing demand patterns. Poorly performed transport services increase the proportion of cargo that is lost or damaged. Much of the added value of logistics arises from the fact that transport services are not a homogeneous commodity but a highly differentiated product. Some of the main parameters defining a particular transport service are the routing (origin and destination); the timing (date, transit time); the technical characteristics of the shipment (cargo type, size, fragility) and the flexibility of the service (lead time, frequency)."

2.4.1 "Trends like global sourcing, just-in time production, ever shorter product and time-to-market cycles and the outsourcing of individual production stages have created a 'global conveyor belt'. Supply chain management permits extended supply and distribution networks to be organized as 'virtual companies'. The increasing sophistication of these systems and the elimination of buffer stocks have allowed leading companies to reduce total logistics costs by about 50% in less than a decade." The part played by finely timed air - and associated road - transport services is self-evident.

2.5 The current rules don't suit the air cargo business. Combination carriers and all-cargo carriers share the air cargo business roughly 50:50. They are both governed by the same ICAO rules, use the same bilaterals and have the same safety and environmental regulations. But that's where the similarity ends.

2.5.1 All-cargo carriers have to pay for the flight with cargo revenues alone. Combination carriers often can treat cargo as a zero marginal cost because even without cargo they would still operate passenger services. More and more large passenger aircraft like the B777 and A340 can carry huge amounts of cargo - they are more like lower deck combination aircraft than passenger aircraft and as such are able to spread the risk over both the cargo and passenger business.

2.6 There is another fundamental difference between the two parts of the industry. Passengers usually return to their starting point, providing two-way business for carriers. However, for freight, there is no guarantee of any back load and many carriers find themselves flying to a third destination to find a load to avoid empty legs. With the current bilateral system, this is very difficult for all-cargo operators and is one reason why TIACA is calling for separation of traffic rights for all-cargo operators.

2.7 The current system of bilaterals also aggravates the overcapacity problem because it provides a form of protection for inefficient carriers against more efficient competition. And the array of artificial devices such as slots, fuel and handling then can be used to give the favored operator an edge. This often encourages them to acquire capacity that they could never justify in an open market situation. The system dictates that if you don't have a 4th freedom flight to take return cargo, you fly empty unless the operator is fortunate enough to find a fifth, sixth or seventh freedom opportunity.

2.8 TIACA also believes that when traffic rights are granted to a combination carrier, they should automatically include the right to carry cargo. We are opposed to the current practice in some countries where these rights are withheld.

2.9 All-cargo liberalization would also permit the optimal use of scarce airport capacity.

### 3. CONCLUSIONS

3.1 A successful air cargo industry is vital to the continued growth and vitality of world trade. The current system allocates traffic rights primarily on the needs of the passenger industry and is inconsistent with the needs of the air cargo industry. The separation of passenger and all-cargo traffic rights opens worldwide opportunities for economic development, creates optimal use of limited airport resources and alleviates overcapacity problems.

### 4. ACTION BY CONFERENCE

4.1 The conference is invited to urge ICAO member States to implement as soon as possible the reduction or elimination of constraints imposed on all-cargo carriers by their current regime of bilateral agreements. Member states should, as a minimum first step, separate all-cargo from passenger and cargo rights, leading to a multilateral approach for like-minded states.

4.2 The ultimate goal is to achieve total liberalization of access to all markets for all-cargo operations.