

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 CARGO SERVICES

(Presented by Republic of Korea)

SUMMARY

The Republic of Korea underlines the necessity for balanced liberalization of air cargo services. The liberalization should be considered preferentially to the passenger sector. For the scope and range of liberalization, the 3rd and 4th freedom traffic rights would be included at first to keep balance between/among involved States. If the 5th and 7th freedom traffic rights are to be liberalized in the cargo sector, the 8th freedom should also be included for balance between/among States involved.

Action by the Conference is in paragraph 4.1.

1. INTRODUCTION

1.1 Liberalization of the air cargo sector is more feasible than the passenger sector because air cargo service is less regulated in many countries and is less restricted by time than the passenger sector. Moreover, there are many countries that have already liberalized air cargo services at bilateral or regional levels. In addition, air cargo liberalization has been more actively debated at international organizations such as the World Trade Organization (WTO), Organisation for Economic Co-operation and Development (OECD) and Asia Pacific Economic Cooperation Council (APEC).

1.2 Furthermore, the fact that air cargo traffic has increased more rapidly than passenger traffic and successful experiences of liberalization in the air cargo sector provide solid grounds for the necessity and rationale of air cargo liberalization.

1.3 However, there are several issues, for example, the discord between passenger and cargo sectors, traffic rights and operational flexibility, for which a conformed resolution will not be easily reached and therefore should be reviewed beforehand.

2. DISCUSSION

2.1 Concerning the issue of discord between passenger and cargo sectors, problems may arise for air carriers that operate both pure freighters and combination aircraft. In this case, the provisions on passenger services are more likely to be applied, especially to the combined services.

2.2 Usually, provisions on cargo services are included in passenger service provisions or sometimes most States simply do not include the provisions on the cargo services in their air services agreements. Therefore, sole liberalization of cargo may bring about duality problems with passenger services.

2.3 Balance of traffic rights among States that are involved is essential. The 3rd and 4th freedom traffic rights are usually exchanged bilaterally on the principle of reciprocity, whereas the 5th freedom traffic right is granted on a case-by-case situation and 7th freedom traffic right is usually not allowed because the service is not from the originating State. Allowing 5th and 7th freedom traffic rights without restriction(s) would seriously infringe upon both domestic and bilateral markets and will bring about a great imbalance among States involved.

2.4 Liberalization of 5th and 7th freedom traffic rights in the air cargo sector would place a State with lesser negotiation power at a weaker position than a State with greater negotiation power because the first State will have less opportunities than the second for exercising those traffic rights with the neighboring States.

2.5 If the 5th and 7th freedom traffic rights are to be liberalized in air cargo sector, the 8th freedom traffic right should also be liberalized in order to maintain balance between/among States involved. This would enable a certain compensation for the States with lesser negotiation power for some of the disadvantages arising from the liberalization of 5th and 7th freedom cargo traffic rights.

2.6 The 8th freedom traffic does not only apply to the cargo sector. It can also be applied to the passenger sector in the same manner.

2.7 The liberalization of air cargo services, therefore, should be limited to 3rd and 4th freedom traffic rights only, or be expanded to include up to 8th freedom traffic right to ensure balance between/among States involved.

3. CONCLUSION

3.1 The Conference is invited to conclude that:

- a) the liberalization of air cargo services be considered preferentially to the passenger sector;
- b) the liberalization of air cargo services should preferably be limited to the 3rd and 4th freedom traffic rights at first to maintain balance between/among States involved;

- c) the 8th freedom traffic should also be included to keep a balance between/among States involved if the 5th and 7th freedom traffic rights are to be liberalized in air cargo services; and
- d) the separate Annex on air cargo services or a separate air cargo framework should be adopted to ensure stable operation of air cargo services including pure freighters and combined services.

4. **ACTION BY THE CONFERENCE**

4.1 The Conference is invited to take these views and conclusions into account for consideration of this item.

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