

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

Montreal, 24 to 29 March 2003

DRAFT REPORT ON AGENDA ITEMS 1 & 1.1

Agenda Item 1: Preview

1.1 Documentation

Secretariat (WP/2) described briefly the administrative origins and convening of the Conference, preparations by the Secretariat and some organizational and procedural arrangements for the conduct of the Conference.

Secretariat (WP/4) provided an overview of the Conference task against the background of industry and regulatory developments and explained the main tasks under its agenda as well as its expected outcome.

1.2 Discussion

1.2.1 At the outset of the Conference, widespread support was expressed for gradual, progressive and safeguarded liberalization and for the focus of the present Conference on “how to” rather than “whether to” liberalize international air transport.

1.2.2 The meaning of the term “gradual and progressive liberalization” was clarified by reference to the Recommendation of the Fourth World Wide Air Transport Conference in 1994 wherein each State would “determine its own path and own pace of change in international air transport regulation” with “a general goal of the gradual, progressive, orderly, and safeguarded change towards market access”. Furthermore, the objective of the present Conference referred, *inter alia*, to “a framework for progressive liberalization”. It was up to each State to decide what would constitute “gradual and progressive liberalization”.

1.2.3 The liberalization process needed to take into account the differences among States, airline size and competitiveness, air transport infrastructure and financial resources to ensure the effective and sustained participation of all States in international air transport. In this context, the process should emphasize “fair competition” as opposed to “free competition”, since there were concerns that unfettered competition might lead to irreversible changes which could be detrimental to the international air transport network.

Agenda Item 1.1: Background to and experience of liberalization

1.1.1 Documentation

Secretariat (WP/5) provided several case studies, which describe in summary form liberalization experiences in the State(s) concerned, as a suitable vehicle for the analysis and dissemination of information on such experiences of States at national, sub-regional, regional or plurilateral level. The paper also proposed the further development and dissemination by ICAO of case studies to assist States in the liberalization process.

Secretariat (WP/20) provided a brief overview of commercialization developments in the airline industry, including changes in corporate structures and business models and the commercialization of airports and air navigation service providers. The paper also discussed implications arising from the commercialization of airlines, airports and air navigation service providers in the broader context of the liberalization experience.

France (WP/88) presented measures taken to accompany the liberalization of air transport in France to mitigate certain phenomena with regard to airport congestion and environmental nuisances. Based on experience, the paper recommended that it was highly desirable to anticipate, to the extent possible, certain effects that may result from the liberalization of air transport.

Georgia (WP/43) called for a study on liberalization, and requested ICAO to provide States with the most realistic and comprehensive information on the results of the liberalization that has already taken place in certain States and regions and on how the liberalization of civil aviation influences other sectors of the economy.

India (WP/86) highlighted the measures taken by India in unilaterally liberalizing air cargo and tourist charter operations, and on the basis of its experience, commended this approach to other States for these two aviation sectors.

Latin American Civil Aviation Commission (LACAC) (WP/98) presented an overview of liberalization in Latin America, which has been promoted by harmonization and coordination to permit a gradual approach through more flexible sub-regional and bilateral agreements, while safeguarding less developed countries.

International Labour Organization (ILO) (WP/31 Revised) called upon the Conference to reaffirm its 1994 recognition that labour is a major stakeholder in aviation and should be a participant in any discussions on the future economic regulation of the industry. The paper also requested the Conference to adopt recommendations about the observance of the ILO *Declaration on Fundamental Principles and Rights at Work*, the key role of labour, the employment effects, promoting social dialogue and participation, and the role of the State.

Secretariat (WP/23 - information paper) provided information linking a faster growing air transport sector with the general economy, described the industry's current state and presented an estimated global passenger traffic growth of 4.3 per cent annually until 2020.

Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam (CLMV) (WP/58 - information paper) provided an overview on CLMV sub-region and the establishment of the CLMV sub-regional cooperation on air transport including its contents and principles, and discussed the experiences and future perspectives.

China (WP/25 - information paper) provided information on the rapid growth of the aviation sector, playing an increasingly important role in the country's socio-economic development and modernization drive.

Cuba (WP/54 - information paper) explained information on Cuba's experience in the gradual development of air transport, which is an essential feature of liberalization. The paper also asked that the Template Air Services Agreements (TASAs) be based on uniform and gradual changes to regulation, taking into account the differences in aeronautical infrastructure of Member States.

Fiji (WP/45 - information paper) believed that, in order to ensure Fiji's sustained participation in a liberalized environment and to promote the interest of its national carrier, the most ideal and realistic method of liberalization of Fiji's international air services is through bilateral basis in lieu of multilateral basis.

Singapore (WP/37 - information paper) provided a brief information on air services liberalization at the APEC forum and through the Multilateral Agreement, and urged States to pursue parallel tracks for air service liberalization, and to consider a phased liberalization approach where necessary, in order to make maximum headway and encourage as many partners to come on-board the liberalization process as possible.

United States (WP/67 - information paper) presented information and conclusions from its empirical studies on the Transatlantic and Canada/US markets, which demonstrated the beneficial effect of liberalized air services agreements.

United States (WP/90 - information paper) provided its model open-skies bilateral agreement, the Multilateral Agreement on the Liberalization of International Air Transport among seven APEC States (the "MALIAT" or "Kona" agreement) and the Protocol to the Kona agreement as useful examples of recent liberalization instruments.

United States (WP/97 - information paper) presented the Model Air Commerce Act, which provided a flexible template for States to develop their own regulations regarding the economic aspects of civil aviation, and can be used by States at any level of liberalization.

European Civil Aviation Conference (ECAC), European Union (EU), and their Member States (WP/61 - information paper) outlined European experience with the liberalization of its air transport market, which has been positive with means addressing many of the concerns that were raised at the beginning of the process. The annexes contained detailed information on specific aspects of a liberalized market in different Member States.

53 African States (WP/81 - information paper) provided background information on liberalization in Africa, focussing on the implementation of the Yamoussoukro Decision

Relating to the Liberalization of Access to Air Transport Markets in Africa. The paper also referred to operational experiences as regards liberalization policies of other regions.

Asia Pacific Economic Cooperation Forum (APEC) (WP/30 - information paper) described the development, using consensus and cooperation of their Eight Options, for more competitive air service at a pace consistent with each Member's national interest, which were endorsed in 1999.

Caribbean Community Secretariat (WP/89 - information paper) highlighted the initiatives of the CARICOM to liberalize its air transport sector within the context of its commitment to the establishment of a Single Market and Economy.

Economic and Monetary Union of West Africa (WAEMU) (WP/60 - information paper) outlined its common air transport programme based on a series of integrated actions involving safety, security, and infrastructure leading to the liberalization of the air transport services provided in the eight African Member States.

International Chamber of Commerce (ICC) (WP/35 - information paper) reviewed the experience of liberalization to date at the bilateral and regional levels, which faces obstacles such as limits on foreign investment and divergent competition policies. The paper also highlighted various outstanding issues, and discussed potential paths to further liberalization as well as a pragmatic approach.

International Labour Organization (ILO) (WP/66 - information paper) provided the Executive Summary of a study by the ILO entitled, *The Impact of the Restructuring of Civil Aviation on Employment and Social Practices*.

Pacific Islands Forum Secretariat (WP/72 - information paper) explained the rationale for the initiative in developing the Pacific Islands Air Services Agreement (PIASA), outlined the expected benefits of an eventual agreement, responded to some of the issues that have been raised in other fora, and described next steps for continued development of the single aviation market for the Pacific.

1.1.2 Discussion

1.1.2.1 The Conference noted and considered useful the submissions of liberalization experiences in States and regions.

1.1.2.2 In the experience of several States, the unilateral liberalization of certain aspects of air transport, such as cargo services and tourist charters, without the necessity of a bilateral agreement, reciprocity, or change in ownership and control criteria, had proved beneficial, although other States indicated a preference to use bilateral approaches and reciprocity when liberalizing these services.

1.1.2.3 The Conference noted that several regional and subregional approaches to liberalization have proved successful while in some other regions liberalization efforts had been hampered by difficulties in obtaining the necessary resources for infrastructure, safety and security. Some States continued to prefer a pragmatic bilateral policy toward liberalization rather than a regional approach.

1.1.2.4 A number of delegates pointed out that case studies on liberalization experiences should include both positive and negative results of the process.

1.1.2.5 It was pointed out that liberalization which included the offer of cabotage raised questions concerning recognition of aircraft certification and domestic taxation with respect to foreign airlines operating domestic services.

1.1.2.6 The view was expressed that the impact of the re-structuring of civil aviation on employment and social practices indicates a need to observe relevant labour standards, and to reorganize the importance of a well-trained and motivated labour force for harmonious labour relations. It was felt that further liberalization of the industry could meet varying degrees of resistance by labour groups. It was therefore necessary to take measures to prevent disruption in the social dialogue and for labour to take an active role in the liberalization process.

1.1.3 Conclusions

1.1.3.1 From the documentation and ensuing discussion under Agenda Item 1.1 on background to and experience of liberalization, the Conference concluded that:

- a) a case study approach to liberalization experiences, while of necessity limited in scope, provides a suitable vehicle for the analysis and dissemination of information on such experiences of States at national, sub-regional, regional or plurilateral level. Case studies on liberalization may assist States to further develop their liberalization approaches and policy options;
- b) ICAO should continue to develop and disseminate by appropriate means case studies and information on liberalization experiences. States should be urged to submit such information to ICAO for general dissemination;
- c) for more than a decade, airlines, airports and air navigation service providers have become more commercialized in an increasingly competitive environment. The dynamic development of commercialization and the spread of liberalization will continue to interact and have implications on each other;
- d) while airlines and providers of airport and air navigation services are interdependent, their commercialization and privatization in a liberalized environment has a number of competitive consequences and financial implications for both sides. Long term cooperation between airlines and service providers are one means to bring stability in that environment. Furthermore, the use of consultation should be an essential part of their relationship;
- e) States should evaluate in advance and anticipate, to the extent possible, certain effects of liberalization on infrastructure and the environment that may result from the air transport liberalization process; and
- f) liberalization may have various implications for labour, which should continue to participate as an important stakeholder for the development of the air transport industry. States should observe and respect the ILO *Declaration on Fundamental Principles and*

Rights at Work and its relevant Follow-up, and take the necessary measures to promote social dialogue with the active participation of labour as a way to find innovative and socially responsible solutions.

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