



## WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

### SIXTH MEETING

Montréal, 18 to 22 March 2013

**Agenda Item 2: Examination of key issues and related regulatory framework**

**Agenda Item 2.1 : Market access**

**Agenda Item 2.4: Fair competition**

### **CHANGES IN THE AIR TRANSPORT MARKET AND REGULATORY POLICIES BY LOW COST CARRIERS (LCCs) PARTICIPATION**

(Presented by the Republic of Korea)

#### 1. INTRODUCTION

1.1 The worldwide deregulation of the air transport market started in the United States in 1978. This worldwide deregulation has allowed many new airlines to participate in the market, resulting in the expansion of the air transport market. It has also led to the improvement of services, reduction in freight charges and increase in the employment opportunities.

1.2 The issue of deregulation of the air transport market and the entry of Low Cost Carriers (LCCs) into the market was discussed at the 5th Worldwide Air Transport Conference held in 2003 (ATConf/5-WP/67) and the 36th Session of the ICAO Assembly held in 2007 (A36-WP/79). Each State induced competition between airlines by encouraging the participation of various airlines in the market which raised the level of services they provided while lowering freight cost, all resulting in improved consumer convenience.

1.3 The entry of LCCs into the air transport market, which started in the United States and Europe, has led to deregulation which eventually brought many new airlines into the market. The ROK is also promoting deregulation and expanding market access. In this paper, the ROK will share its cases with Member States and present agendas that can be discussed within ICAO in the future.

#### 2. MARKET ACCESS

2.1 Like many other countries, the ROK's air transport industry was started by the foundation of a state-owned airline. Structural changes took place in the industry due to privatization of the airline in 1969 and because of permission being granted to allow many other airlines to participate in the market in 1988. Until then, Korean Air, which had transitioned from a state-owned company to a private company, had monopolized the air transport market. In 1988, Asiana Airlines entered the market laying the

foundation for an oligopoly. This eventually led to competition between airlines resulting in improved services and a variety of choices to passengers.

2.2 In the 2000s, in order to meet air transport demand, the existing air transport industry was diversified. Also, to balance out aviation safety and service improvement, entrance into the market was made easier. Accordingly, five LCCs have been founded since 2005, and there are currently seven airlines in the market. In the beginning, they operated domestic flights, but since 2008 they have been operating international flights and offering various services.

2.3 A timeline covering the deregulation of the ROK’s Air Transport Industry License is as follows:

Date	Main Points
Feb. 1969	The privatization of Korean National Airlines (KNA)
Feb. 1988	Permission granted to a number of airlines to participate in the market
Jan. 2001	Non-scheduled services with less than 50 seats changed from a licensing system to a registration system
Second half of 2003	The registration criterion for non-scheduled services registration criteria increased from 50 seats to 80 seats
Sep. 2009	Classification of transportation business shifted from schedule/non-schedule to domestic/international/small
Nov. 2011	Aircraft under 50 seats are considered small aircraft, while those over 51 seats are classified domestic/international
Mar. 2013	Increased the number of air transport businesses from seven to nine

2.4 The crucial elements of the deregulation of the air transport industry in the ROK have been to facilitate market access for new airlines and at the same time to intensify aviation safety. The goal of the ROK is to promote fair competition while maximizing passenger convenience.

### 3. CHANGES AFTER LCC’S ENTRANCE IN THE MARKET

3.1 The effects of LCCs’ participation in the air transport market in the ROK are as follows:

3.1.1 After the entry of LCCs into the air transport market in 2005, from 2006 to 2012, the number of air passengers increased by 3.89 per cent annually.

3.1.2 Convenience for air passengers was increased due to competition amongst airlines. That is, after the genuine participation of LCCs in the air transport market in 2005, domestic flights increased by up to 14.7 per cent by 2011. There was a significant increase in air routes by Jeju Air, which stands at the core of the domestic flight market in the ROK. In addition, as the system shifted from an oligopoly to a competition system of seven different airlines, major airlines instituted new aircraft and started providing differentiated services, while LCCs started flying into regional airports that major airlines do not prefer. This has provided air passengers with a variety of choices.

3.1.3 With the start of LCCs’ operation, freight charges dropped and passenger convenience increased. In the case of domestic flights, LCCs provided 80% per cent of the reduction in freight charges compared to major airlines which called for a 9 per cent reduction in freight charges. Also, the freight

charges of major airlines, which have been increasing 8 per cent annually before LCCs' participation in the market, have frozen after LCCs entered the market, leading to a decrease in freight charges due to competition.

3.1.4 New jobs were created and aviation professionals were fostered. After LCCs entered the market, they employed about 2,000 people until 2012. Moreover, along with the expansion of the LCC market, employment opportunities for aviation specialists such as pilots and mechanics increased which enabled people engaged in the aviation business to gain more experience and cultivate their specialties.

#### **4. FUTURE PLAN OF THE AIR TRANSPORT INDUSTRY OF THE ROK**

4.1 Based on the continuous expansion of air transport industry deregulation, the participation of LCCs in the market is actively expanding, taking up 43.8 per cent of the domestic flight market.

4.2 However, due to the small size of the domestic flight market in the ROK, LCCs are trying to participate in the international flight market for their future growth. This is not easy because LCCs are latecomers and are relatively weak compared to major airlines in terms of international flight service.

4.3 LCCs are capable of flying to countries on short-medium routes, such as China and Southeast Asian countries; however, due to the restricted traffic rights and the market entry barriers, the chances of LCCs to enter the international market are limited.

4.4 The ROK is making efforts to ensure passenger convenience and the LCCs' liberal participation in the market by doing its best to deregulate market entrance in neighbouring countries and by supporting pilot training and safety oversight for LCCs.

#### **5. CONCLUSIONS**

5.1 Due to the deregulation of air transport business licensing in the ROK, five new LCCs entered the market which led to competition between airlines and the provision of cheaper fares and improved services. Moreover, airlines have the opportunity to push ahead with various marketing plans and expand their business which may improve competitiveness.

5.2 New demand was created by the entry of LCCs into the air transport market. Various low-priced services have been provided to a diverse range of passengers, resulting in the popularization of aviation.

5.3 The participation of LCCs in the air transport market not only provides benefits to the growth of the air transport industry but also has a positive effect on air passenger convenience. States in Europe and the United States, where LCC markets matured, and the ROK where the LCC market is growing, should share their deregulation precedents with other ICAO Member States so that the market for LCCs can develop continuously. It is necessary that this information be shared in order to form a consensus about LCC's entry into the market and growth of the overall air transport market.

5.4 The ROK suggests that ICAO should evaluate the cases and effects of each country that has deregulated their market and allowed LCCs to participate in their markets, and share such information.