



WORKING PAPER

WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

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Agenda Item 1: Global overview of trends and developments

Agenda Item 1.1: Industry and regulatory developments

MARKET LIBERALIZATION AND ITS EFFECT ON NATIONAL AND REGIONAL ECONOMIES, CONSUMERS AND COMMUNITIES

(Presented by the Airports Council International (ACI))

EXECUTIVE SUMMARY

Numerous studies have demonstrated the benefits to economies, consumers and communities from market liberalisation of the air transport sector: and air traffic growth is directly correlated with liberalization. The proximity to an airport and good air traffic services is frequently a deciding factor for companies wishing to locate or expand their businesses. There are many examples of regional and local authorities having developed business parks or hosting research centres around airports, and are thus using them part of a growth strategy. Aviation markets to, from and between emerging economies tend to remain subject to restrictive bilateral air service agreements and have not benefited from the dynamics of a liberalisation process. This slows route development, aviation growth and hence the economic growth in these States. This paper recommends that ICAO develop policies and guidance to States that recognise that market liberalization and the development of well-placed airports can be instruments of a comprehensive economic strategy that connects their regions, and serves their communities, citizens and businesses.

Action: The Conference is invited to agree to the recommendations presented in paragraph 3.

References: ATConf/6 reference material is available at www.icao.int/meetings/atconf6.

1. INTRODUCTION

1.1 Air transport facilitates world trade, helping countries participate in the global economy by increasing access to international markets and allowing globalisation of production. The total value of goods transported by air represents 35 per cent of all international trade.

1.2 Aviation is indispensable for tourism, which is a major engine of economic growth, particularly in developing economies.

1.3 Globally, 35 per cent of international tourists travel by air. Connectivity contributes to improved productivity by encouraging investment and innovation; improving business operations and efficiency; and allowing companies to attract high quality employees.

1.4 Aviation's global economic impact (direct, indirect, induced and tourism catalytic) is estimated at \$2.2 trillion, equivalent to 3.5 per cent of world gross domestic product (GDP). And of the 8.3 million direct jobs generated by the industry, 64 per cent of these, that is 5.3 million jobs, are on airport jobs.

1.5 According to the study "The Economic Impact of Air Service Liberalization", partially sponsored by ACI North America, there is significant evidence to support that liberalization of air services between countries generates significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities and individuals affected by such liberalization. Conversely, it is also evident that restrictive bilateral air services agreements between countries stifle air travel, tourism and business, and, consequently, economic growth and job creation.

1.6 Traffic growth subsequent to liberalization of air services agreements between countries typically averaged between 12 per cent and 35 per cent, significantly greater than during years preceding liberalization. In a number of situations, growth was at rates exceeding 50 per cent, and in some cases reached almost 100 per cent of the pre-liberalization rates.

1.7 The creation of the Single European Aviation Market in 1993 led to an average annual growth rate in traffic between 1995 and 2004 that was almost double the rate of growth in the years 1990 to 1994. This produced about 1.4 million new jobs.

1.8 An examination of 190 countries and 2,000 bilateral air service agreements suggests that there are still a number of countries that place a priority on protecting their flag carrier(s), rather than enhancing the overall welfare of the broader public interest.

1.9 According to ACI-EUROPE's study "Expanding Europe's Aviation Market" in the most ambitious emerging countries, aviation growth is a key priority for national economic policy. Contrary to what increasingly happens in Europe, aviation in these countries is considered as a strategic sector – an indispensable asset for boosting the competitiveness of their economies and reaching their development goals. This means that Governments in emerging countries are usually supporting their airlines and heavily investing in airport infrastructure.

1.10 Europe, by removing all restrictions on air services within the EU, including those on destinations, capacity, frequency and pricing, created the largest liberalized international aviation market in the world. Today – 20 years on – it is clear that the impact has been phenomenal, with positive outcomes for all stakeholders: citizens, airlines, airports and their communities – not to mention the European economy.

1.11 Being more flexible and free to start (or cease) air services between the airport of their choice, European airlines now have access to a virtual "airport superstore" to choose from. They have been able to grow and merge, gaining market share both within Europe and beyond, often acting as leaders in the development of worldwide alliances. This situation has considerably increased competitive pressures on Europe' airports. It has been instrumental to their business transformation – with airports having evolved from mere infrastructure providers into fully fledged and diversified businesses.

1.12 The strong position of European aviation – including its hub positioning – would not have been possible without the Single European aviation market. This is a unique asset which has fully

served its purpose, allowing aviation to provide optimum connectivity for Europe, with a contribution of more than €120 billion to its economy and 3 million jobs.

1.13 Aviation markets between emerging economies tend to remain subject to restrictive bilateral air service agreements. The fact that they have not yet benefited from the dynamics of a liberalization process is slowing route development and potential aviation growth.

1.14 In today's globalised world, social cohesion, trade and ultimately the economic relevance of a region are dictated by its infrastructure for reaching national, international and intercontinental destinations.

1.15 For the past decade, the fastest growth in air traffic has been at regional airports and there is every indication that this trend will continue for the next one.

1.16 In many regions, few efficient alternatives to air travel are available, due to a combination of factors including distance, low population density, geographic and/or climatic constraints. Airports in these regions have traditionally provided access to essential services such as health (e.g. air ambulances) and education for the local population. They also support economic and social integration, allowing businesses to be connected and citizens to travel for work but also leisure (e.g. take part in cultural and sporting activities). Regional airports and the air services they facilitate are thus extremely relevant when looking at local development and the retention of residents, especially where the risk of outward migration might be important.

1.17 The traffic growth and diversification of regional airports demonstrate their increasing relevance for the mobility of businesses and citizens. In a multipolar world where businesses need to look beyond their immediate vicinity for opportunities, access to hub airports remains vital for the global connectivity of any region. In addition, providing direct accessibility to a wider range of destinations has become a key competitive asset for any region.

1.18 As a result, along with their larger counterparts, airports in the regions are now defining the economies of their communities. This is not only about driving tourism development, but more generally about using airports as catalysts for economic regeneration and growth. According to the study by ACI EUROPE "How Regional Airports Link People, Places and Products", while regional airports have a positive impact for companies already established locally, they are essential to attracting new companies and diversifying economic activity. All business surveys indicate that the vicinity of an airport is one of the key company location factors and there are successful examples of regional airports having developed business parks or hosting research centres. It is therefore no surprise that regional airports are now considered prime assets by regional and local authorities. As such, they are not only an essential part of the national and European transport network, they are vital part of any region's strategy to attract and retain investment and growth.

1.19 While the impact of aviation liberalization has clearly allowed many regional airports to grow their traffic, this has not necessarily ensured a matching level of revenues. Indeed, airlines never pay for the full cost of the infrastructure they use. Many regional airports would simply have to close their doors if they had to recover their full costs from their users.

1.20 Regional airports are especially interested in a liberalization of traffic rights with all EU neighbouring countries across the Mediterranean and to the East of our continent. The creation of an integrated Pan-European/ Mediterranean Aviation Area comprising 58 countries and 1 billion consumers would allow new direct air routes from regional airports to a range of new markets that are in our vicinity. The results already achieved through the EU-Morocco Aviation Agreement speak

volumes for the market development potential that only needs to be unleashed through the removal of existing regulatory barriers. Beyond these markets, regional airports are also calling for aviation liberalization between the EU and its main trading partners worldwide – in particular the BRIC countries, Mexico and ASEAN countries.

2. CONCLUSIONS

2.1 Liberalization and deregulation of international trade and investment have fundamentally changed the dynamics of global competition and contributed to the growth of global production networks. Liberalised aviation markets have produced significant growth, development and social benefits for those States that have embraced them. The sheer scale of the largest airports, and the global reach of the industry, and its technological innovation, support the often cited statistic that the travel and tourism industry drive 12 per cent to 15 per cent of the world output of goods and services.

2.2 For many global enterprises, air travel is fundamental to the development of new markets and business relations, and recognising this many national and regional governments use the development of airports as drivers of growth.

2.3 States that have not liberalized should recognise that to do so would promote traffic growth, and with a well-designed airport infrastructure, would stimulate growth in non-aviation sectors.

3. RECOMMENDATION

3.1 The Conference is invited to request ICAO to develop policies and guidance to States that recognize that airports can be instruments of a well-developed economic strategy, and demonstrates that with the right policy and regulatory approach, they can do more to connect their regions, and serve their communities, citizens and businesses.

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