

IATS/4 Session 5

Promoting Cross-Border Investment in Airlines



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Motivation behind cross-border airline investment

➤ Airline's motivation of cross-border investment

- i. Network expansion through cross-shareholding or unilateral investment
 - Alliance is not good enough
- ii. National and regional consolidation of airlines
 - Pursuit of economies of scale, organizational efficiency & knowledge
 - Mostly limited within national or regional bloc boundary due to O&C
- iii. Common branding and franchising
 - Trans-national development of a brand
 - Issue of who has effective control
- iv. Diversifying resources
 - Locate in the best region for capital, labor, regulation, etc.

➤ Government's motivation to liberalize O&C

i. Improve connectivity

- Positive impact on business and tourism
- Improve competitiveness of global cities

iv. Increase service variety

- New service attracts new demand

ii. Enhance efficiency

- Cheaper fares
- Revamp under-performing domestic airlines

iii. Align with regional integration

- Aviation is an important part of the story e.g. EU and ECAA

Concerns over liberalizing O&C

i. National sovereignty

→ Who's right is it to fly?

→ Why so different from *mare liberum* - freedom of the high seas?

ii. National security

→ Is it a real threat? Can civil aviation turn into something menace?

→ Are foreign aircrafts unreliable for military programs?

iii. Political economy

→ Who's lobbying?

→ For protection or liberalization?

→ Distortion by state-owned airlines?

iv. Exploited by foreign capital

→ Nationalism for who's benefit?

→ Who owns a firm?

v. Flag of convenience

→ Safety? Security? Labor concerns? Environmental issues?

→ Aren't there ways to mitigate the risk?

vi. Bilateral ASAs

→ Reciprocity?

→ Balance of benefits?

→ Prevent free rider?

Charting the way forward

- i. Transforming the mind-set
 - Change from a “non-cooperative game” to a “cooperative game”
 - Abandon protectionism, let the market decide

- ii. Finding the “soft spot”
 - Traffic right liberalization first
 - Transparency on how O&C is handled (criteria, waivers)
 - Avoid jumping into flag of convenience

- iii. Leadership
 - Like-minded heads of state and industry leaders making coalition
 - Align with a larger policy objective such as regional integration
 - ICAO as a facilitator

Thank you for your attention



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