

ANDEAN OPEN SKIES PACT

(Submitted by the ICAO Secretariat)

1. BACKGROUND

1.1 The “Andean Group” was founded by five South American States in 1969 under the Cartagena Agreement (more often called “Andean Pact”). The original Member States were Bolivia, Chile, Colombia, Ecuador and Peru. Venezuela joined the Group in 1973, while Chile withdrew in 1976. The objectives of the Group were, *inter alia*, to promote balanced and harmonious development among them through wider-ranging economic integration and cooperation. In the aviation field, major airlines operating international scheduled services had been all State-owned (except ones in Columbia) and tightly regulated by their respective governments. Since the late 1980s, moves toward privatization of State-owned national airlines had proliferated in this subregion, and had a significant impetus on the liberalization progress.

2. LIBERALIZATION OF REGULATORY FRAMEWORK

2.1 In 1990, the Presidents of five States agreed to move ahead the deadline for forming the Free Trade Area within the subregion, which would come into effect in 1993. As part of this process, in 1991, the Andean Commission adopted Decision 297, “Integration of Air Transport in the Andean subregion”, which established an “open skies” air transport policy on a subregional basis. As regards scheduled passenger and cargo services and non-scheduled cargo operations, exercise of unrestricted Third, Fourth and Fifth Freedom Rights was permitted without limitation on the number of airlines, capacity and frequency¹. Airlines’ pricing activity was also liberalized by introducing a country of origin tariff regime. Non-scheduled passenger services were authorized automatically between points without scheduled services. On scheduled services routes, the authorization would be granted provided that the non-scheduled services did not jeopardize the economic stability of existing scheduled services.

3. EFFECTS AND DEVELOPMENTS

3.1 The Andean “open skies” policy created favourable conditions to stimulate economic activity and expand commercial opportunities for the airlines. According to OAG data, scheduled international seat-kilometres available (ASK) within this subregion increased by 325 per cent from 1989 to 2001 (754 million in 1989; 1,970 million in 1995; 2,804 million in 1998; 3,201 million in 2001). This stood in marked contrast to a 12 per cent increase in scheduled domestic ASK within the subregion and also to a world average scheduled international ASK increase of 103 per cent.

¹ Multiple designation for scheduled passenger and cargo services was added by the Decision 320 in 1992. Decision 297 and 320 were amended for clarification in 1994 by Decision 360 and 361, respectively.

3.2 Despite a legally-binding commitment to an “open skies” policy, however, the pace of the liberalization actually adopted by each State has varied considerably because of the different economic situations and privatization progress. Columbia (in which all the major airlines including AVIANCA were privately-owned) and Venezuela (which completed partial privatization of VIASA in 1991) were willing to advance the liberalization process, while Peru sought to protect AeroPeru from competition in the run-up to privatization. In 1992, Peru suspended all the commitments to the liberalization programmes. Although AeroPeru was partially privatized in 1993, the suspension continued until 1997 when Peru agreed to gradual incorporation of the country into the Free Trade Area. Bolivia and Ecuador completed the partial privatization of LAB and Ecuatoriana in 1995.

3.3 Behind the experience of a strong traffic growth, there has been the demise of several privatized national airlines in the subregion. There has also been strong competitive pressure from the United States and European carriers. VIASA and AeroPeru ceased operations in 1997 and 1999, respectively. The vacuum was filled with new private entrants such as Servivensa, Aero Continente and Aeropostal Alas de Venezuela (reestablished by private interests in 1997). AVIANCA has steadily increased its market share within the subregion, but faced financial problems due to stiff competition on the United States routes. In 2002, AVIANCA, ACES (Columbia’s second largest carrier) and SAM Columbia (a subsidiary of AVIANCA) integrated their operations under a holding company named Alianza Summa to strengthen its competitiveness and financial basis.

— END —