

CENTRAL AMERICAN STATES' OPEN SKIES AGREEMENTS WITH THE UNITED STATES

(Submitted by the ICAO Secretariat)

1. BACKGROUND

1.1 For most Central American States, their bilateral relationship with the United States is a central issue in their aviation policy, since the US is a major market for these States. However, there exists a major disparity between the two sides in their market size, carriers' competitiveness and travel propensity. Before liberalizing their air services agreements with the United States, therefore, it was considered necessary to integrate the small airlines of the sub-region, in order to increase their competitiveness through the exploitation of economies of scale and scope.

1.2 The consolidation exercise was approached cautiously because of varying national circumstances: Aviateca (Guatemala) and AeroNica (Nicaragua) were 100 per cent State-owned and in the process of privatization, while LACSA (Costa Rica), TACA International (El Salvador) and SAHSA (Honduras) were private. During 1989 - 1992, TACA International acquired minority equity shares in the other four carriers. Based on these shareholdings together with a series of separate commercial agreements, the Grupo TACA was launched in mid-1990s¹. COPA (Panama) also became a marketing partner of the group. All the carriers in the group have kept their separate identities, but all the commercial and operational activities (such as purchases, maintenance, insurance, marketing and sales) were pooled. In 1996, the Grupo TACA concluded a reciprocal codesharing agreement with American Airlines, the largest US carrier operating on Central American routes, which would be implemented after governmental approval.

2. LIBERALIZATION OF REGULATORY FRAMEWORK

2.1 The creation of the Grupo TACA has given the Central American States involved a measure of confidence and comfort in opening up their markets. The liberalization of bilateral air services agreements with the United States was also necessary to ensure the approval of the Grupo TACA's codesharing agreement with American Airlines by the US Department of Transportation (DOT). In 1997, Panama, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua separately concluded "open skies" agreements with the United States. The agreements were virtually identical and provided for full market access without restrictions on designations, route rights, capacity, frequencies, codesharing and tariffs. Four of the six agreements also granted Seventh Freedom rights for all-cargo services, and further agreement granted Seventh Freedom rights for charter all-cargo services.

¹ Now the Grupo TACA is comprised of Aviateca, LACSA, NICA (ex-AeroNica), TACA de Honduras (ex-SAHSA) and TACA International, as well as TACA Peru. Its international network is complemented by TACA Regional Airlines, which consists of Aeroperlas (Panama), Inter (Guatemala), Islena (Honduras), La Costena (Nicaragua) and SANSA (Costa Rica).

3. **Effects and developments**

3.1 The group approach has enabled smaller States and their carriers to consolidate their efforts so that they can continue to participate in the competitive marketplace as a strong regional representative with collective bargaining power. The Grupo TACA has also played an important role in promoting Central America as an integrated multinational tourism destination. According to the US DOT data, Grupo TACA (including COPA) carried 1.62 million passengers between Central America and the United States in 2000, compared to 1.39 million in 1994 and 1.34 million in 1997. This strong increase was achieved mainly by expanding the network through the codesharing operation with American Airlines, which was officially approved by the US DOT in 1998.

3.2 Such demand growth has also been stimulated by a significant increase in competition under the “open skies” agreements. Continental Airlines, Delta Air Lines and United Airlines each made substantial gains in Central American markets, resulting in gradual decline of market shares for Grupo TACA and its allied American Airlines. In particular, the strength of Continental Airlines was raised by the alliance agreement with COPA, in which Continental acquired 49 per cent stake in 1998. The US DOT granted antitrust immunity to the Continental-COPA alliance in 2001. By way of contrast, the application of antitrust immunity by American Airlines and Grupo TACA provoked opposition from competing carriers because of its potential market dominance, and resulted in its voluntary withdrawal in 2002.

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