

**REGULATORY POLICY SEMINAR ON
“LIBERALISATION POLICY AND IMPLEMENTATION”**

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Agenda Item 4: National liberalisation perspectives and Experiences

**PERSPECTIVES AND EXPERIENCES OF
THE LIBERALISATION OF AIRLINE OWNERSHIP AND CONTROL
AND PRICING**

(Presented by Barbados)

SUMMARY

This paper examines Barbados' experiences with attempting to achieve acceptance of more liberalised ownership and control provisions through usage of the Community of Interest Principle and also details Barbados' perspectives with respect to liberalization of pricing.

REFERENCES

Doc 9587, Policy and Guidance Material on the Economic Regulation of International Air Transport

Report of the Air Transport Regulation Panel Working Group on Air Carrier Ownership and Control

INFORMATION PAPER

1. INTRODUCTION

1.1 For Barbados, a small island state dependent on the financial benefits to be derived from tourism, air transport is of particular importance. Accordingly the promised benefits of liberalisation, such as more operators, more routes, lower fares and greater consumer choice all hold great promise for a nation such as Barbados.

1.2 Internationally the benefits of liberalisation arise from two primary processes, firstly liberalisation of market access through open skies and relaxed ownership and control measures, and secondly liberalisation of pricing. However, Barbados has found that in many of its most important markets, access to those markets continues to be restricted due to a failure to fully accept the Community of Interest Principle. In such an environment therefore liberalisation of pricing can be a difficult and dangerous process which can threaten the ability of regional airlines to participate in existing or future market opportunities.

1.3 This paper seeks to illustrate our experiences with market access in four of Barbados' most important markets and demonstrate why, for small nations such as

Barbados total liberalisation of pricing is a dangerous process without full liberalisation of market access.

2. LIBERALISATION OF MARKET ACCESS

2.1 As a country without a national airline Barbados has always supported the Community of Interest Principle as an avenue through which we can gain access to international air services without the excessive expenses needed to start our own national airline.

2.2 However, to date Barbados has had very limited success in achieving acceptance of this principle in many of our primary source markets. Despite the wide disparity in financial resources available to Barbados as opposed to other developed nations and the existence of several large established carriers within these nations, continue to jealously secure their exploitation of the air routes and market opportunities into and out of Barbados.

2.3 For example, the United Kingdom is currently Barbados' largest market, both in terms of tourism as well as in terms of passenger traffic. It is currently served by three airlines operating on two city pair markets. Two of those airlines are United Kingdom designated carriers transporting over 90% of the traffic.

2.4 Yet the UK does not recognize the Community of Interest Principle, as a result the third carrier on the route, BWIA, while meeting all of the criteria for designation under the Community of Interest is only permitted to operate as a fifth freedom carrier. Consequently, the only regional carrier on the route is limited both in terms of frequency and the ability to compete effectively based on price. Therefore regional carriers are being denied the ability not only to access lucrative regional markets but also to effectively compete with foreign competitors in those markets.

2.5 As is the case with the UK, traffic on routes between Barbados and Canada is dominated by the designated carrier of Canada but is also further limited by a single designation clause in the Air Services Agreement.

2.6 While Canada has, in essence, accepted the Community of Interest Principle, this is not reflected in the air services agreement, which retains a more traditional Designation and Authorisation Clause. Furthermore, while BWIA is the obvious choice for a Community Carrier to exploit route opportunities under the agreement, the route schedule of the agreement places additional restrictions on BWIA, which make it operationally difficult for BWIA to do so while maintaining access to its home base. BWIA must therefore continue to operate as a fifth freedom carrier on the route thereby restricting its pricing freedom.

2.7 The US market is at present the only market into which Barbados has achieved significant market access through application of the Community of Interest Principle. In 1996 Barbados was able to designate Air Jamaica to operate under the US/Barbados bilateral air services agreement on the New York/Barbados route.

2.8 Air Jamaica has operated continuously on the route since that time and continues to be an important contributor to overall traffic from the US. In fact New York is the only international destination which is served by two regional carriers. This has provided increased competition on the route and greater choice for the consumer as well as provided an opportunity for regional airlines to participate in the financial benefits to be derived from air transport operations in the region.

2.9 Regionally, the signing of the Multilateral Air Services Agreement within CARICOM has ensured full market access of all regional airlines on regional routes. In fact the agreement through its definition of a 'CARICOM air carrier' and Article 2, Licensing Requirements essentially establishes an open skies arrangement within CARICOM which can be accessed by any carrier owned by nationals of CARICOM.

2.10 Since the signing of the agreement in 1996 and the resulting liberalisation of market access the region has seen the establishment of four regional operators, two of which have since discontinued operations.

2.11 However, while liberalisation of market access within the region has led to increased competition, capacity and traffic on many of the larger routes, it has also led to a reduction in the number of regional destinations served directly from Barbados with destinations like the French West Indies and US Virgin Islands no longer being served.

2.12 In addition concerns have been raised about over capacity, predatory pricing and other unfair competitive practices threatening the continued viability of airlines operating within the region and raising the unwanted possibility of a return to a single regional operator or possibly no regional operator.

2.13 To date therefore Barbados has experienced very limited success with the liberalisation process as it pertains to market access and ownership and control provisions.

3. LIBERALISATION OF PRICING

3.1 The barriers to market access and effective competition placed in the way of regional carriers on international routes have been detailed above. In such an environment therefore can there be proper liberalisation of pricing when all operators in the market are not allowed to compete on an equal footing.

3.2 On any route where some of the competitors on the route are barred from freely competing either in terms of routing, capacity or price to permit full liberalisation of pricing, can promote a situation in which those operators that are not so limited, can have a distinct advantage over regional competitors to their detriment or the detriment of the consumer.

3.3 It is therefore important that until such time as all barriers to market access imposed on small states such as Barbados are removed, regulatory authorities in these small states continue to retain some control over pricing. Such control is crucial in order to avoid, wherever possible, capacity dumping by carriers without limitations on

their capacity, or excessively high prices by carriers able to exploit third and fourth freedom rights on routes with only fifth freedom competition.

3.4 Furthermore, as cash strapped regional operators seek to compete it is important that regional authorities retain some degree of control in order to prevent, rather than correct after the fact, occurrences of predatory pricing. In many developing nations predatory pricing is addressed after the fact, through the courts. Corrective measures are then imposed on the offending carriers months or years after the occurrence.

3.5 In a region where many airlines are under-capitalised due to insufficient sources of capital or the urgency with which such capital is needed elsewhere it is dangerous to take this approach as the victims of the predatory pricing may have already gone bankrupt by the time corrective measures are imposed. In addition, while it can be assumed in developing nations that any opportunities which may occur in the market as a result of the loss of one carrier will quickly be filled by new operators this is not the case in the region. The barriers to market access and shortage of investment capital which make regional carriers so vulnerable to predatory pricing will also result in those market opportunities not being addressed, to the detriment of the regional public.

4. CONCLUSION

4.1 Liberalisation of market access through acceptance of the Community of Interest Principle and multiple designation could potentially lead to a significant expansion of routes serviced out of Barbados by regional operators. As a minimum it would allow improved competition on existing routes. This is important if Barbados and the region are to benefit from, and participate fully in existing and future market opportunities.

4.2 At the same time Barbados cannot, as yet, totally liberalise pricing of air transport services in an environment where all competitors are not allowed to compete equally and Barbados is prevented from fully exploiting its route opportunities. Furthermore, Barbados must maintain a preventative rather than corrective approach to unfair competitive issues in an environment with restricted market access and limited sources of investment capital.