

INFORMATION PAPER

**ICAO symposium on
Liberalization of Air Transport in Asia/Pacific**

Shanghai, China, 25 to 27 May 2005

The Republic of Korea

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Title: Suggestions on Air Transport Liberalization in Asia Pacific Regions

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SUMMARY

This paper provides comments and suggestions on the issues which have been raised
through the past experience of air transport liberalization in the world.

1. Introduction

International air transportation has recently shown a rapid change in economic regulatory regime on a worldwide scale.

As everybody knows very well, air transport liberalization has been developed by way of two schemes, bilateralism and regionalism.

Air transport liberalization at the bilateral level has mainly been led by the United States and its number of bilateral Open Skies Agreements well exceeds 70 recently.

Differently from bilateralism, air transport liberalization at the regional level has been evolved in a parallel manner in many regions. But in reality, European region has led the liberalization, and more than 10 regions have followed the European example.

In some sense, Asia Pacific regions have been a relatively exceptional area for liberalizing trend until today. At this moment, however, the liberalizing trend does not make any exception any more even in the Asia Pacific region and becomes irreversible.

Asia Pacific regions have recently shown some signs for change. CLMV countries already opened their air transport markets each other and ASEAN agreed to open their markets until 2010. Korea and China also agreed to implement gradual air transport liberalization at the summit talks on 9 July 2003.

At this time of turning age, we need to review our past experience and grope a better path to the liberalization. In this context, I would like to make some comments and suggestions on the major issues which have been raised through the past experiences of air transport liberalization.

2. Comments and suggestions on air transport liberalization

The air transport liberalization should be based on a fair and equal opportunity principles and the participation of all countries and carriers. However, looking back to the past experiences of liberalization, I feel a need to address some issues first before we move forward to air transport liberalization.

First issue is bilateral regime. The regime brings about a sort of distortions in the distribution of resources in economic sense. Therefore the involved countries tend to agree on operating capacity in a restrictive manner.

However, I believe we can improve the situation by introducing regional regime. A region has usually larger capital resources and larger capacity for traffic rights in the relatively wider area. Therefore, there will be less distortion than the bilateral regime. So I think the liberalization arrangements should be considered at the sub-regional level first and then to the Asia-Pacific regional level on a gradual basis.

Second issue is imbalance in the exchange of traffic rights. In general, the traffic rights should be established with the principles of equal and fair opportunity. However, every country has different market value for every route, and it is difficult to exchange traffic rights with those principles. When country A feels less competitive than country B, it will be difficult to set up the desirable amount of traffic rights. Especially for the 5th freedom traffic rights, when country A does not have opportunity to operate 5th freedom in country B, where country B has much more opportunity to operate 5th freedom in country A, then the exchange of traffic rights will be very much imbalanced. The operation of 5th freedom by country B will not incur any additional cost, while the operation on the same route by country A will incur full cost. Therefore unfair and unequal situation will occur and it will be difficult to exchange traffic rights or country A will be reluctant to adopt liberalization regime.

In this case, I also suggest some safeguard regulations which have been adopted by European countries or cooperative arrangements among airlines to solve the problems. Applying the tariffs no less than that of country A carriers on the 5th freedom route can be one of the safeguard regulations to ease the imbalanced exchange of 5th freedom traffic rights. Cooperative arrangements like code-sharing arrangements or joint marketing would also be the good schemes to mitigate the unfair situation.

Third issue is airport congestion. Airport congestion in major countries is the main obstacle to the air transport liberalization. I understand that construction of airport in a short time is a difficult matter, and so is to solve the congestion. However, the more serious problem is the slot coordination system. The main principles of slot coordination are the "grand father right" and the "first come, first served". In other word, the slot is

given for free or not in an economic way, so the coordination system also brings about distortion in the distribution of resources.

In this case, I suggest again to adopt more transparent, fair and economic way of slot coordination system. Construction of airport is important, but I believe the improvement measure for slot coordination is more important.

Fourth issue is over capacity or less capacity phenomenon. In regulated bilateral regime, the two bilateral Parties tend to establish capacity entitlements on all the routes even for the remote local cities, airlines tend to operate full capacity entitlements and therefore the regime shows over capacity. On the other hand, for the liberalized regime, airlines tend to omit operation on the local route and concentrate on the trunk route, thus the regime shows less capacity on the local route.

Therefore, we should take into consideration the real operation when we establish the capacity entitlements whether it is restrictive bilateral regime or liberalized regime. And if it is possible, we need to establish some safeguard regulation for this phenomenon in the future.

3. Conclusion

In conclusion, there are some issues to be considered first before we move forward to air transport liberalization regime. Current bilateral system, the exchange of traffic rights, slot coordination or over capacity may be the issues to be considered beforehand. Some safeguard regulations, improvement measure for airport congestion and means to secure appropriate level of capacity are required prior to the liberalization arrangements.

As a methodology, I suggest to adopt a regional or sub-regional regime for air transport liberalization. Regional regime will be more useful than bilateral regime in this rapidly changing world and especially for Asia-Pacific regions where market power is less strong than Europe or the US.

I also suggest to take a leading sector methodology for air transport liberalization. Air cargo transport is more deregulated and liberalized on a worldwide scale. Therefore, air cargo can play as a leading sector for liberalization. We can also take many deregulation approaches like multiple designation, free pricing or cooperative arrangements among airlines as leading sectors.

Lastly, I suggest to hold many regional meetings in high level and working level. The minister level meeting who has decision power is most important. In EU's experience, we find that Minister's Meeting has made every important decision and working level meeting has completed every follow-up measures. So we need to follow EU's example on this matter. End.