

# Impact of Sub Regional and Plurilateral Air Services Agreement Initiatives

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# Theme

**The role of sub regional and plurilateral agreements- what they can achieve, what the impediments to them are, and how they can be implemented**

# Specific Issues

- **What options are there?**
- **Why regional/plurilateral agreements?**
- **What has been the experience with them?**
- **What are the individual country interests and impediments?**
- **What pressures for them are there?**
- **What other aspects are relevant?**
- **How can they be facilitated?**

# Options



# Liberalisation Options

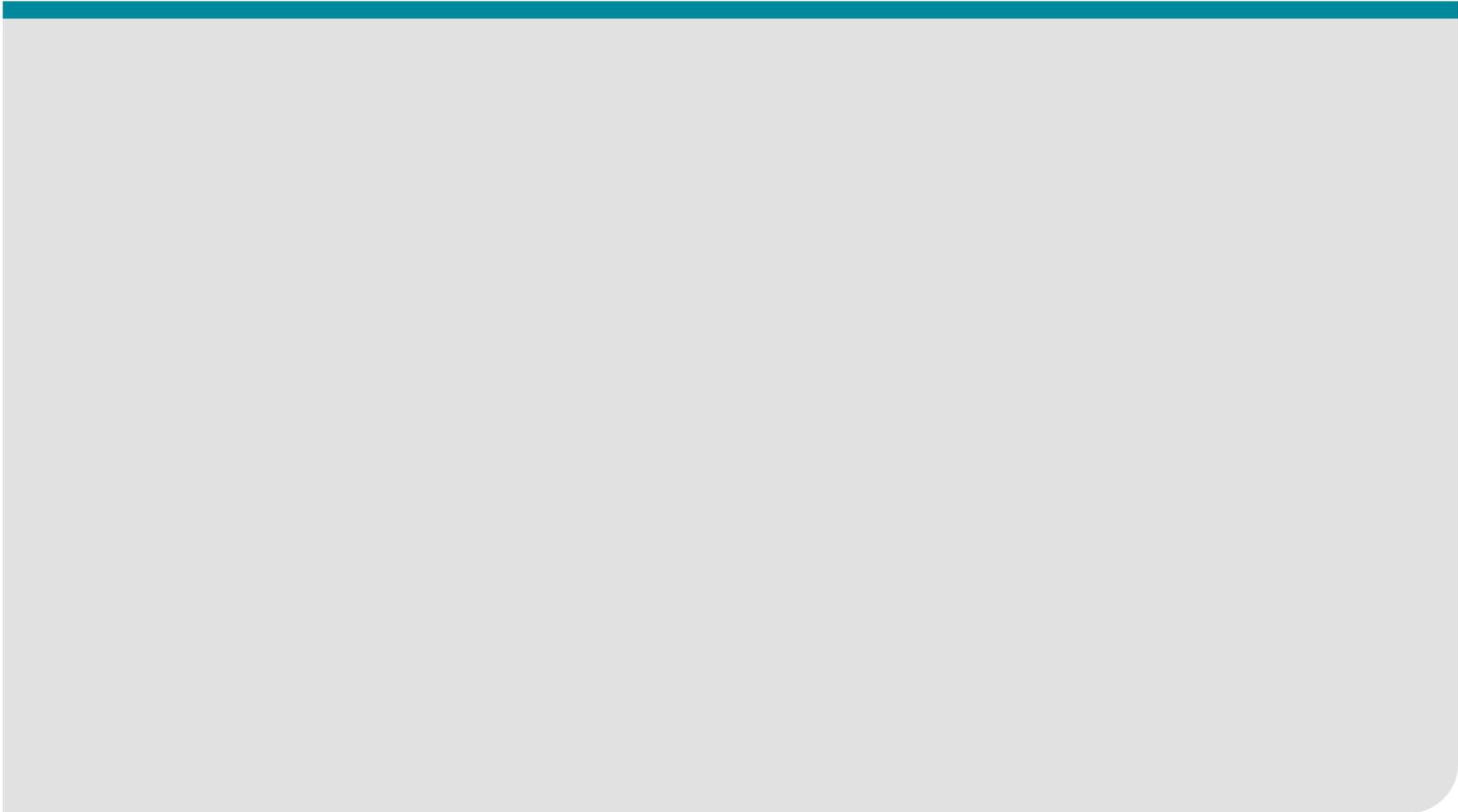
- **Unilateral liberalisation**
- **Bilateral- basis for most regulation, and liberalisation, so far**
- **Sub Regional- groups of close countries agreeing to liberalise**
- **Plurilateral- groups of like minded countries, not necessarily close, agreeing to liberalise**
- **Multilateral- large numbers of countries agreeing to liberalise, perhaps through the WTO: Limited progress so far**
- **Focus here on sub regional and plurilateral**



# Regional Agreements: Could Include:

- **Agreement to achieve a set of liberal bilaterals and no more**
- **Could add 5<sup>th</sup> freedom**
- **Open access to all regional airlines to internal regional international (and domestic?) routes-  
open internal market**
- **Access to all regional airlines to external routes**
- **Regionalisation of ownership restrictions**

# Rationales



# The Rationale for Regional Agreements

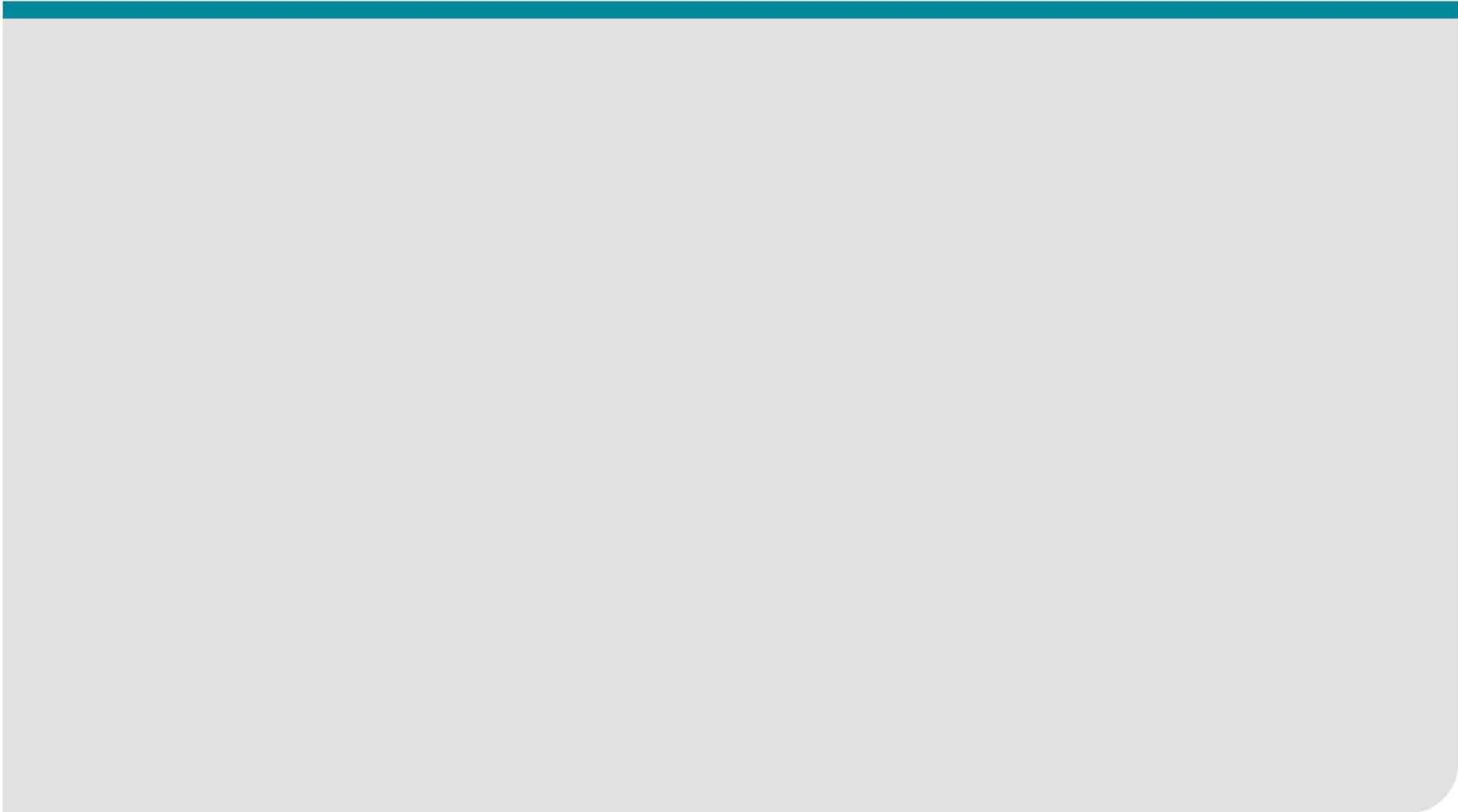
- **More comprehensive pattern of liberal bilaterals leads to less distorted passenger/freight flows in region**
- **More open market enables airlines to develop their preferred networks- networks can be designed to serve demands for travel, not around country borders**
- **More flexible network structures facilitate travel around the region**
- **Open arrangements facilitate competition on routes**
- **More open arrangements enable airlines best suited to markets to serve them**



# Rationale for Plurilateral Agreements

- **Individual countries can have liberal bilateral arrangements**
- **Going beyond bilaterals enables more network options**
- **Open market enables more competition and service by the best suited carrier, regardless of its origin**
- **For regionally dispersed countries, the gains will be limited**
- **Agreements between like minded countries are easier to conclude than regional agreements, though the gains may be smaller**

# Experiences



# Agreements- Asia Pacific

- **CLMV (Cambodia, Laos, Vietnam, Myanmar)**
- **ASEAN Open Sky**
- **PIASA (Pacific Islands Air Services Agreement)**
- **MALIAT (Multilateral Agreement on the Liberalization of International Air Transport) -Brunei, Singapore, NZ, US, Samoa, Chile, Peru (for a period)**



# Other Regional Agreements

- **Fortaleza- Latin America**
- **CARICOM- Caribbean**
- **ANDEAN- regional South America**
- **Yamoussoukro-Africa**
- **Europe**
- **And others**
- **Easy to sign, difficult to implement**
- **Only Europe has been substantially implemented**



# European Liberalisation

- **Most extensive example of regional liberalisation, by far**
- **Single internal aviation market, with few restrictions**
- **Eg, and Irish owned airline substantially based in the UK can fly from Germany to Italy**
- **Some countries occasionally seek to restrict – Italy recently**

# European Outcomes

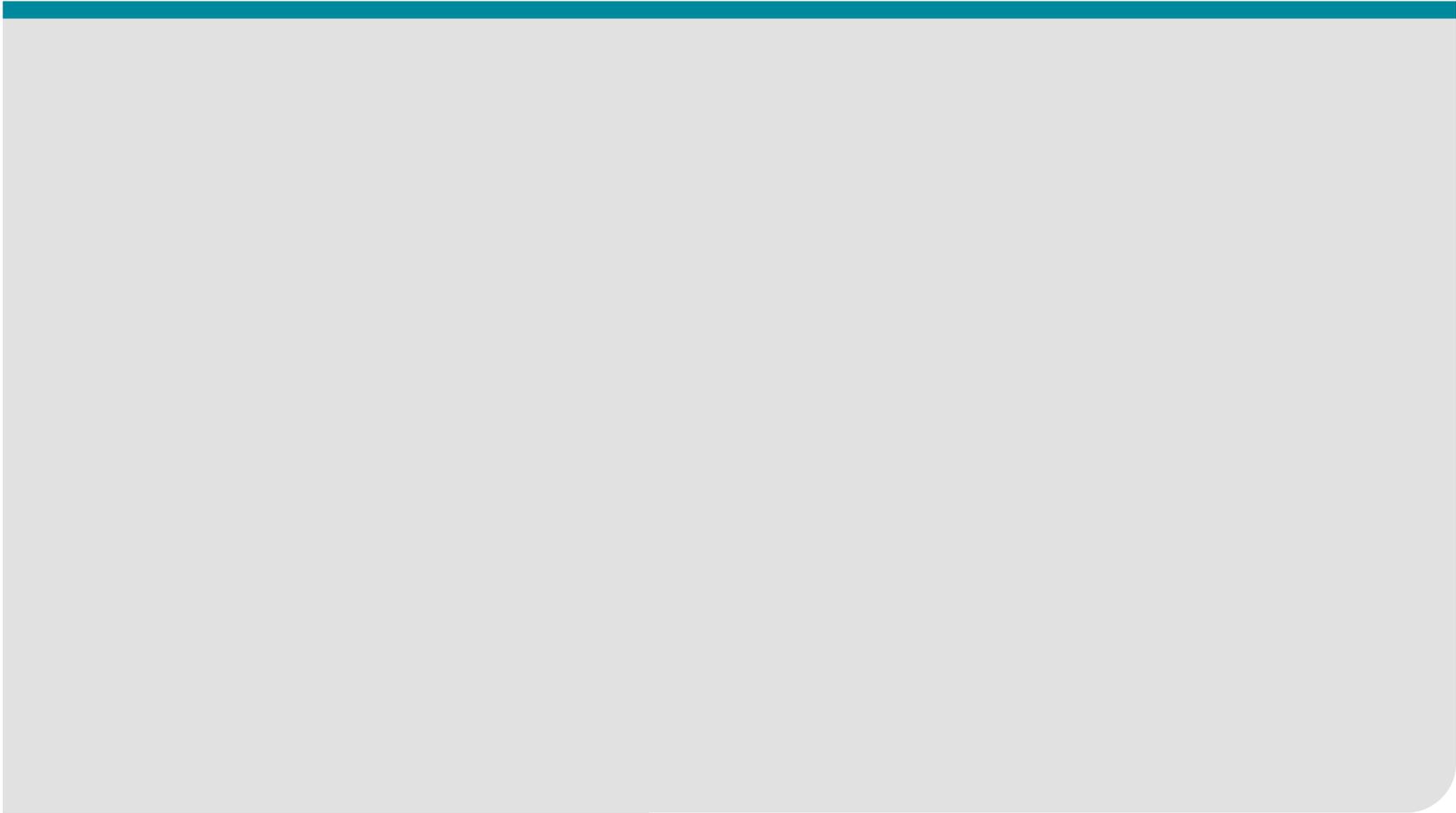
- **Generally regarded as very successful**
- **Costs and fares falling, even before the Low Cost Carrier (LCC) boom**
- **LCC boom- partly enabled by regional liberalisation, and partly a factor in its success**
- **Legacy carriers have had some difficulties in adapting, but most are succeeding**
- **Initially strong carriers not necessarily the big winners**

# Implementation of European Liberalisation

- **Was not the result of countries agreeing to liberalise air transport**
- **Was imposed by courts- as a requirement of being a member of EU**
- **Not anticipated?**
- **Aviation region correlates, though imperfectly, with a political/economic union (some non-EC countries like Switzerland are members)**
- **Europe already strongly integrated economically**



# Country Interests and Impediments



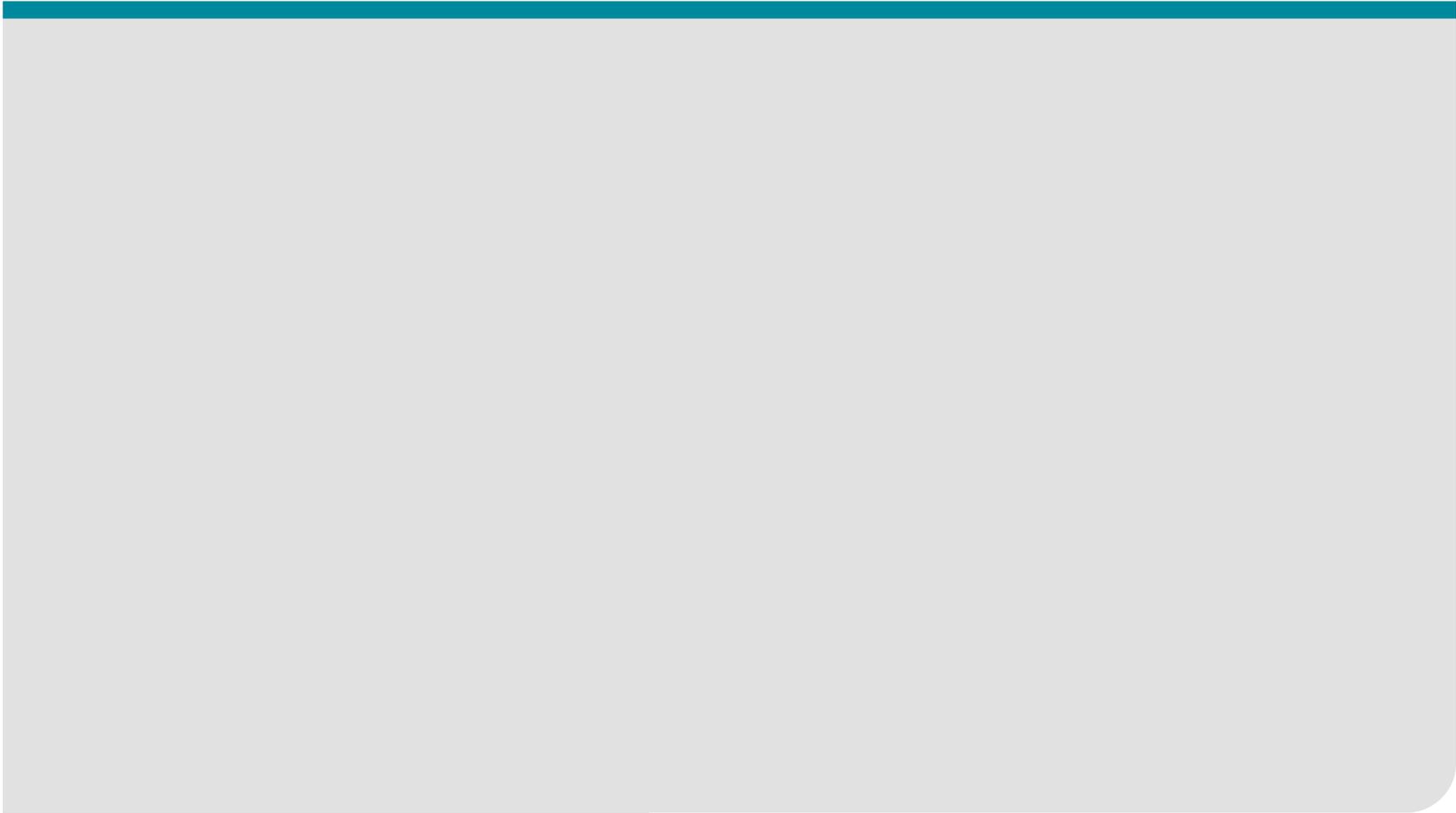
# Individual Country Interests

- **Very likely that regional liberalisation brings net benefits to the region as a whole**
- **But, as with bilateral liberalisation, a particular country could lose out**
- **Whether it does depends on the balance between effects on home country travellers, airline profits and jobs, tourism gains and losses**
- **Possible loser: a country which has large airline share in traffic, but few home travellers**
- **Majority of countries likely to gain, but a few could lose, making agreement difficult**

# Impediments

- **Producer interests may be strong and favour the status quo**
- **Countries concerned about their participation in the air transport industry**
- **Fear of dominance by successful carriers**
- **Tourism industry may not be well informed about its prospects or articulate**
- **Concerns that some routes will not be served- less cross subsidisation**
- **Infrastructure limitations**

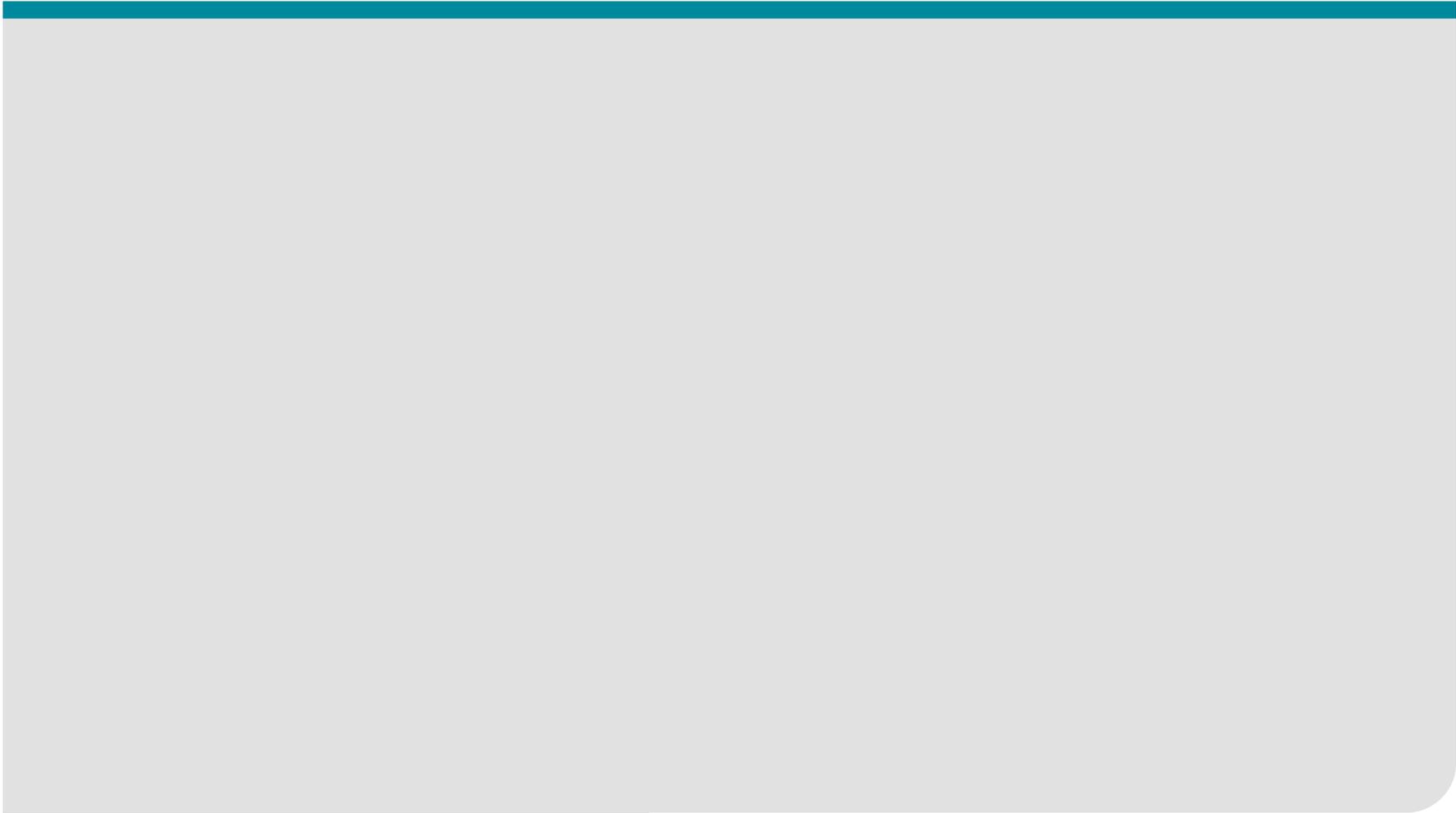
# Pressures for Change



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- **Established airlines seeking to develop regional networks**
- **LCCs seeking opportunities for expansion**
- **Consumer interests seeking lower fares**
- **Tourism industries seeking more business**
- **General pressure within a group of countries for closer economic integration**

# Other Factors



# Broader Factors Affecting Change

- **Countries in a region may have widely differing incomes, labour skills and managerial expertise**
- **Financial stability of carriers in smaller, poorer countries**
- **Access to capital differs amongst countries**
- **Extent of regional economic integration differs between regions**
- **Some routes have low densities (South Pacific)**
- **The existence or otherwise of competition policy**



# Ownership

- **Liberal arrangements at the route/operational level and the ownership level- substitutes or complements?**
- **Ownership restrictions can be constraints on the development of regional competition**
- **Substantially owned and controlled rule is restrictive**
- **Principal place of business opens up opportunities for more cooperation**
- **Regional ownership model- opens up competition within the region**
- **Ownership rules are still relevant for external bilaterals**
- **Share profits of a successful airline, or fund all of the losses of an unsuccessful one?**

# Competition Policy

- **Effectiveness of regional aviation liberalisation depends on competition policy**
- **Who polices anti competitive practices, such as predation?**
- **Can airlines form a cartel and fix prices?**
- **Are mergers between large and dominant airlines to be permitted?**
- **Airline competition works well in North America and Europe partly because there is a strong foundation of competition policy**



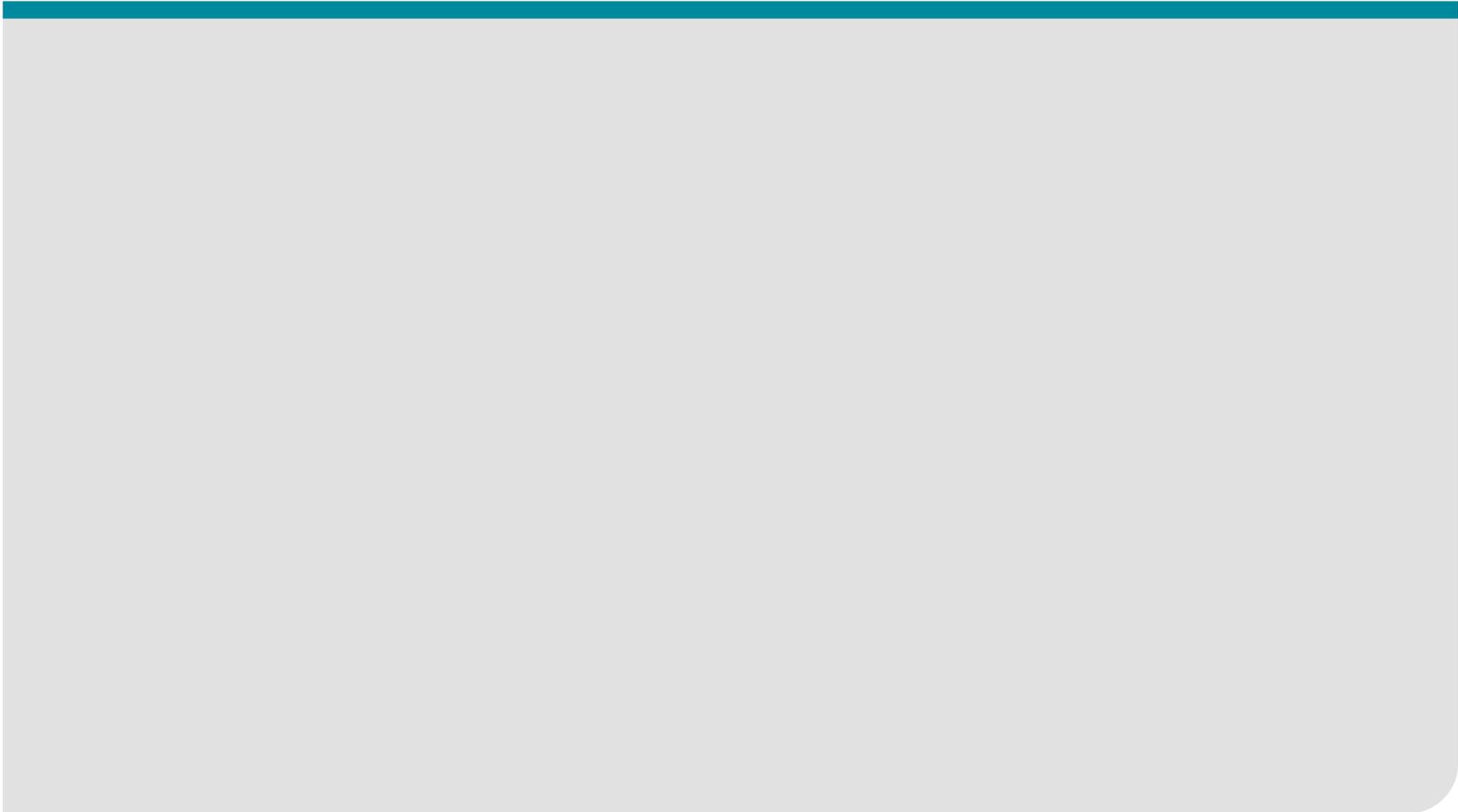
# Relations Beyond the Region

- **Internal liberalisation consistent with a range of differing external arrangements**
- **Restrictive external agreements will distort the patterns of traffic, making the region too inward looking**
- **Opening up opportunities on external routes to within-region carriers will tilt the competitive balance towards them, vis a vis non-region carriers**
- **Within region rights for non-region carriers? Will be an issue**

# Other Issues

- **Carrier viability and subsidies- financial support makes competition more difficult to achieve**
- **Preference for home country carriers in use of infrastructure**

# Facilitating Liberalisation



# Achieving Regional Liberalisation

- **Even comprehensive regional bilateral liberalisation often difficult given country interests**
- **Gradual approaches possible**
- **Open up bilaterals- capacity, designation, gateways**
- **Liberalise ownership restrictions**
- **Need to go beyond regional bilateral liberalisation- move towards the region as a single market**

# Facilitating Change

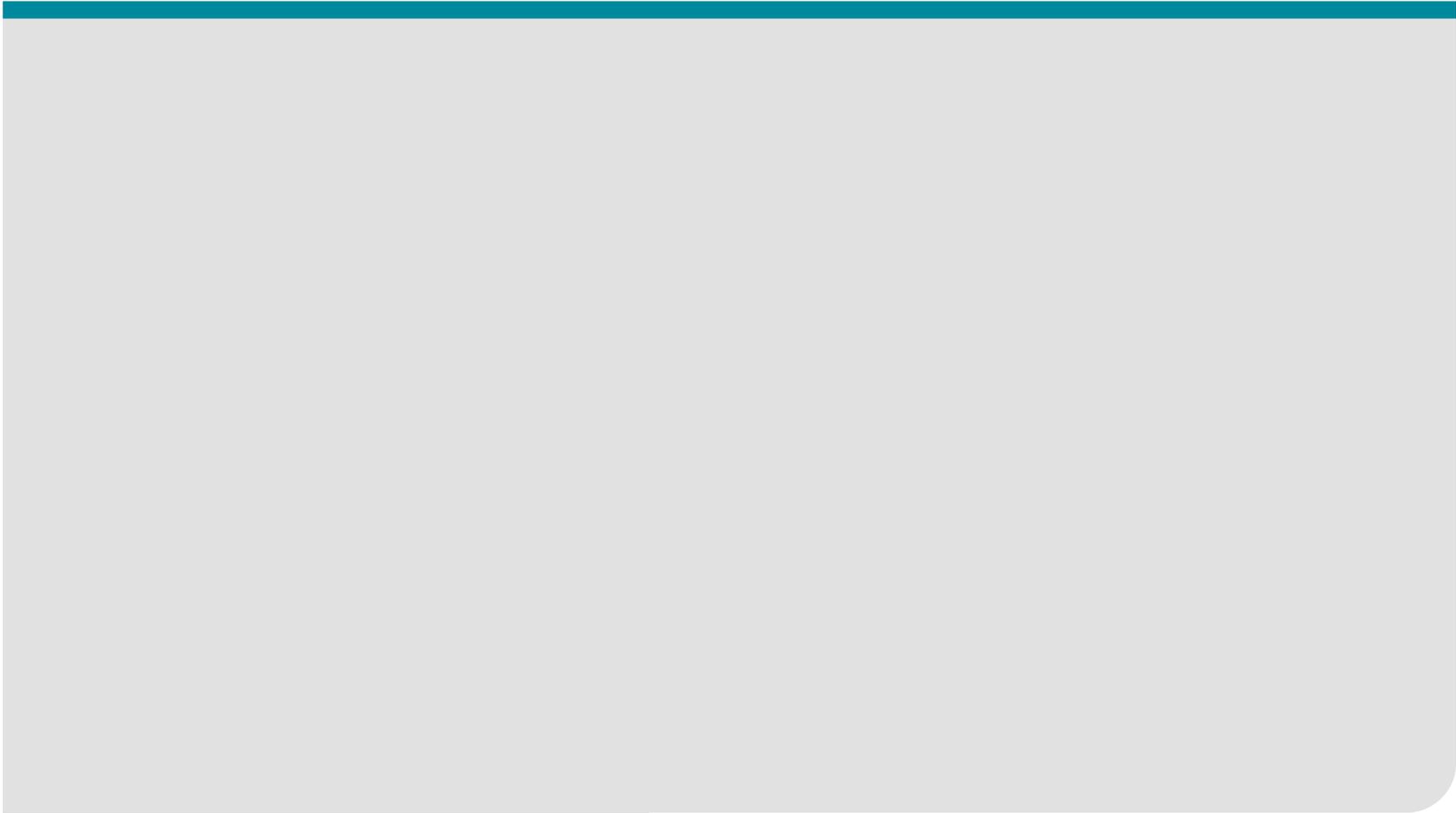
- **Groups of countries which have political, economic or trade links can move faster**
- **Aviation can be seen as part of a broader package**
- **All countries will gain something, even when they lose at the aviation level**
- **Economic or political unions create ongoing pressure for something to happen**
- **What would have happened to aviation in Europe without the EU?**



# Informing Aviation Policy

- **Country perceptions of the costs of liberalisation are not all well informed**
- **Can assess the economic and other costs and benefits of change much more rigorously than is often done**
- **If there are costs to a country, how big are they, and can they be overcome?**
- **Just how big are tourism benefits?- not often documented**
- **Several countries are now assessing benefits and costs of policy changes as a guide to negotiations**
- **Better knowledge of the consequences can facilitate agreements**

# Conclusions



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- **Regional and plurilateral agreements in aviation have the potential to bring significant benefits**
- **Enable air transport services designed to serve demand for travel, not constrained by country borders**
- **Countries can lose from regional liberalisation, though some winners will perceive they lose**
- **Easy to sign an agreement, but difficult to implement**
- **Many factors will impact on the success of regional liberalisation**
- **Gradual approaches are probably the most feasible**
- **Some factors (eg trade integration) make regional liberalisation easier to achieve**

# Thank You!

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