

# Regional Liberalization Initiatives

ICAO Global Symposium On Air  
Transport Liberalization

Dubai, U.A.E.

18-19 September 2006

Aviation and Tourism Management Pty Ltd

John M. C. King



# Background To Paper

---

- Extensive involvements in South Pacific aviation as airline developer, consultant and director, on an individual country basis and on a regional basis
- Conducted a major study of Air Transport Liberalization within ASEAN for ASEAN Secretariat, with Prof. Peter Forsyth of Monash University and Prof. Cherry Lyn Rodolfo of the University of Asia Pacific (Manila), in 2003
- Visited Central Asia for World Bank looking at individual countries and potential regional opportunities, 2005
- Lead a small team revisiting the ASEAN Roadmap for Liberalization of the Air Transport Sector, for the World Bank, 2005
- A substantial part of the analytic effort was derived from Peter Forsyth's paper to the ICAO-IATA Dialogue in Shanghai 2005 entitled 'Impact of Sub-Regional and Plurilateral Air Services Agreement Initiatives'

Aviation and Tourism Management Pty Ltd

**John M. C. King**

aviatour@ihug.com.au

2



# The Idea for this Paper

---

- Current state of Regional Agreements
- Role of Regional Agreements
- Benefits and disbenefits
- Implementation
- Impediments to implementation



# Current State Of Liberalized Regional Agreements

---

- Emphasis
  - ASEAN
  - South Pacific – PIASA
- Brief Treatment
  - Andean States
  - Latin America
  - Africa
  - the Plurilateral MALIAT Agreement



# ASEAN – Open Sky

---

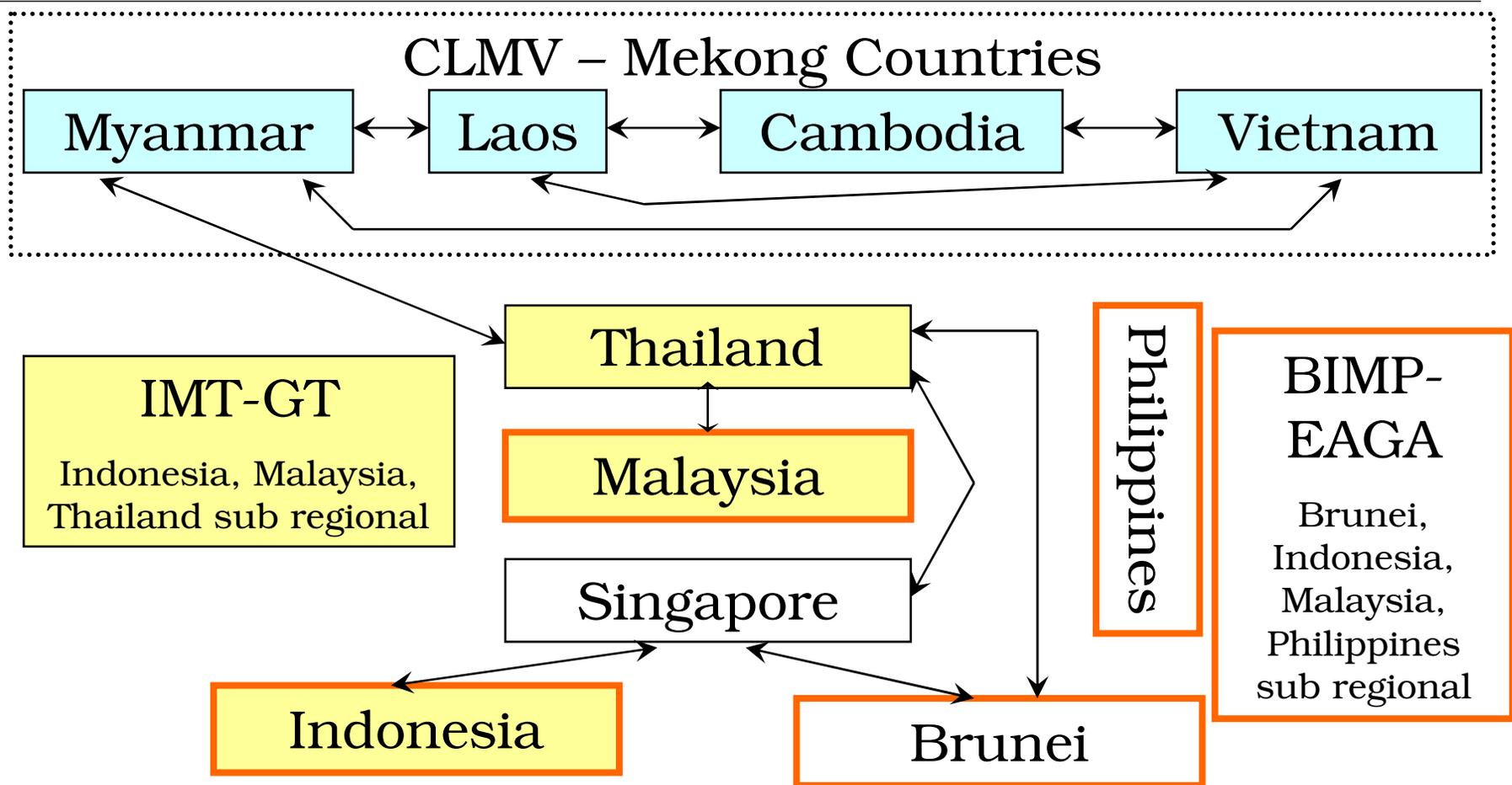
- Progress
  - Liberalization is largely bi-lateral

But

- 1 tri-lateral & 1 quadri-lateral
- Plus Singapore and Brunei in MALIAT



# The ASEAN Situation



# But There Are Problems

---

- Lack of centralised, up-to-date information
- In theory – 10 countries, 45 bi-lateral agreements
  - Only 34 registered with ICAO
  - Several with no changes since 1970s or earlier
- And where the real information is, in CMUs and MOUs, they are not ICAO filed at all
- Imbalance in economy and aviation size



# Singapore and Laos

---

	Singapore	Laos PDR
<b>Economy</b>		
GNI per capita	21,230	340
GNS as % of GNI	44%	19%
<b>Social</b>		
Under 5 mortality rate (per 1000)	5	91
<b>Aviation</b>		
Passenger airlines	5	1
Fleets	SQ: 100 jets MI: 11 Jets + Valuair / Jetstar Asia + Tiger	1 jet, 1 turbo-prop

Aviation and Tourism Management Pty Ltd

**John M. C. King**

aviatour@ihug.com.au



# Where to for ASEAN?

---

- Roadmap is only good when you know where you wish to go
- ASEAN countries still have to determine speed and direction of liberalization, as the destination seems decided, but can they reach it?
- Encouraging bi-lateral signs: Malaysia and Singapore
- However, not all agreements are liberal as to key elements
  - e.g. CLMV adopts an ownership and control regime, NOT Principal Place of Business test



# Two points to keep in mind re ASEAN

---

- Build a structure of liberal bi-laterals and it can be easily converted to a multi-lateral regional agreement
- One of the key drivers for liberality in ASEAN is rapid rise of low cost carriers (LCCs)



# CLMV – a sub-regional initiative

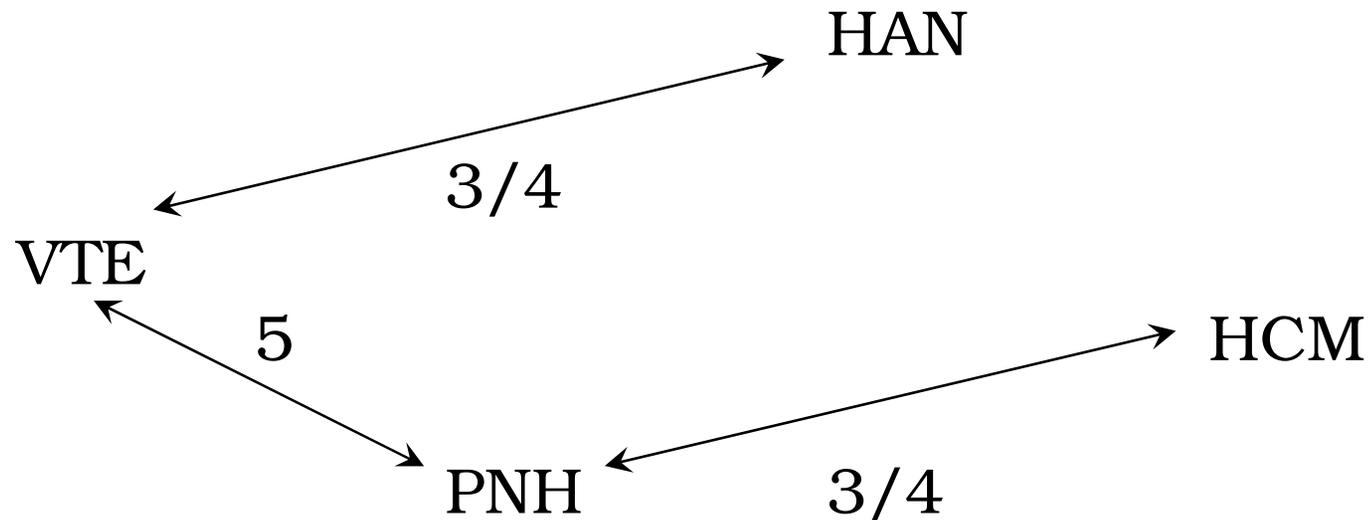
---

- The four countries have a regional agreement
- Liberality is limited – mainly 5<sup>th</sup> freedom rights
- Ownership and control is traditional
- 5th freedom rights, little used
  - Note: Geographical centrality of Thailand: it is not a party to the agreement



# CLMV 5<sup>th</sup> Freedoms

---



Air Vietnam, F70, Daily

Plus seasonal operations by Bangkok Airways -  
BKK-REP-HCM vv



# PIASA – Pacific Islands Air Service Agreement

---

- Staged, progressively liberalised multi-lateral agreement
- One major problem!
  - Biggest player will NOT play - Fiji abstains



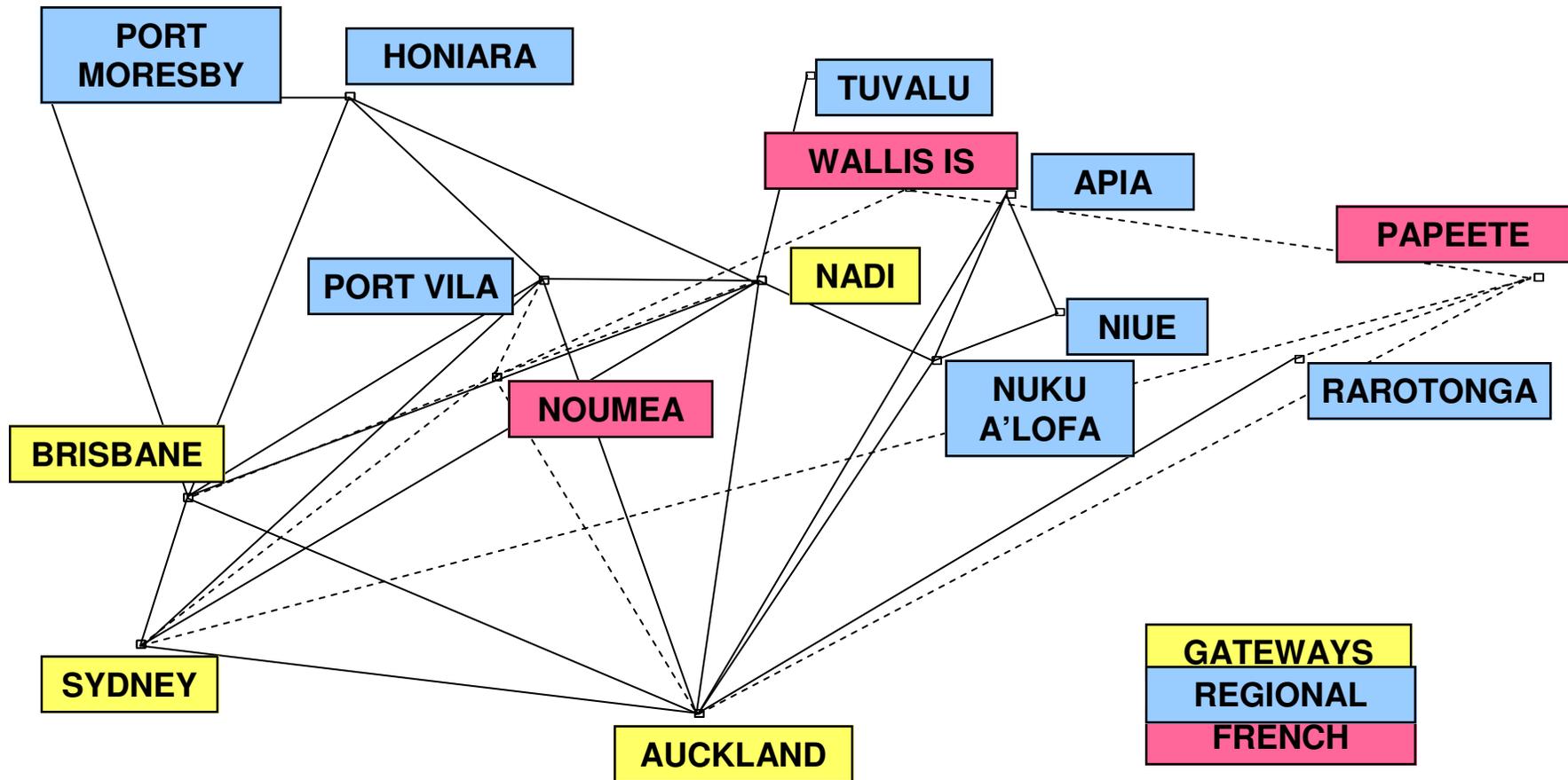
# PIASA – Pacific Islands Air Service Agreement

---

- Why Important - Geography and Markets
- Actual Participants: Cook Islands, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tuvalu, Vanuatu
- Potential Participants: Fiji + 3 others
- Only two have ratified, Tonga to ratify in October, requires 6 ratifications
- Excluded: New Caledonia, Wallis and Futuna, French Polynesia
- In future: Australia, New Zealand in third phase



# South Pacific Route Geography



Aviation and Tourism Management Pty Ltd

John M. C. King

aviatour@ihug.com.au

15



# Geography and Markets

<b>From</b>	<b>To</b>	<b>Inter Island one-way market</b>	<b>Weekly Jet Frequencies Operated August 2006</b>	<b>Total Visitors to dest'n</b>
Tonga	Nadi (Fiji)	2,012	2	550,000
Nadi	Apia, Samoa	2,184	2	101,807
Honiara	Port Moresby	313	2	69,250
Noumea	Port Vila	6,815	2	125,636
Honiara	Port Vila	80	1	125,636

Aviation and Tourism Management Pty Ltd

**John M. C. King**

Data source: PATA Annual Statistical Report and OAG

aviatour@ihug.com.au



# The PIASA Problem

---

- PIASA highlights a problem of voluntary regional liberalization
  - If a well located, important market and/or destination is excluded, by choice or by non-inclusion, the agreement becomes commercially ineffective
  - Fiji – outside of PIASA: no impact from PIASA
  - Thailand – outside of CLMV: some impact from CLMV



# Other Regional Situations

---

- MALIAT
- Central America
- Latin America – Andean Open Skies
- Africa
- Central Asia
- Europe



# MALIAT – Multilateral Agreement on the Liberalization of International Air Transport

---

- Participants – Brunei, Singapore, New Zealand, Samoa, Chile & formerly Peru
- Brunei and Singapore – participants in a liberalized capacity tri-lateral with Thailand and participants in ASEAN process, as well
- Ironic Outcome - Brunei and New Zealand have signed up to cabotage with each other
  - Brunei has 1 airport
  - New Zealand carriers do not operate to any ASEAN country
- Shortcomings of MALIAT
  - Major Pacific Aviation nations are not participants – where are Australia / China / Korea / Japan and a growing Vietnam?



# Central America

---

- Central American States have USA as major market
- Central American states have ‘open skies’ agreements with USA

BUT

- The Central American response has been ‘Grupo TACA’ – a kind of co-operative regional airline
- The driver for this successful co-operation venture is geography, demography, economics and size disparity between Central America and USA



# Latin America – Andean Open Skies

---

- Dates from 1990 decision to form a Free Trade Area to be effective in 1993
- Key elements
  - Unrestricted 3rd, 4th and 5th freedoms
  - Unrestricted carriers, capacity and frequency
  - Non-scheduled liberalization
- Impact: From 1989 – 2001, scheduled international links up 325, domestic ASKs – 12%, world average 103%
- Issue: demise of several private carriers



# Africa

---

- Liberalization is based on ‘Yamoussoukro Decision’ of ‘99
- Gradual elimination of barriers to
  - 5th freedom rights - African carrier capacity
  - Pricing regulation
  - Multiple designation
  - Fully open cargo
- Results
  - New routes and increased frequencies
  - Tariffs reduced – up to 30%
  - Improved revenues
  - Competition increased
- Issues
  - Safety
  - Economic viability



# Central Asia

---

- No regional agreement
- Economic and political tensions
- Considerable geographic, economic and demographic disparities, eg 

	POP	GNI per capita	Land Area
Kazakhstan	14.9	US\$1780	2,700,000 sq miles
Tajikistan	6.3	US\$210	141,000 sq miles
- Some adjacent states have no direct air service e.g. Tashkent – Dushanbe vv
- Soviet model of integration exists, but World Bank and EBRD are trying to unwind it in Tajikistan.

Data source: World Bank Green Book 2005



# Europe as a region

---

European story is well known, except to note:

- Most extensive regional liberalization
- It was **not** a voluntary agreement but an imposed regime
- It is a single internal market, with few exceptions but with some attempts to restrict domestic access (Italy)
- Winners are not necessarily major strong carriers
  - Rise of LCCs – carriers never heard of 10 years ago
- Success of BA, LH and AF/KL jv is international NOT European
- Liberalization is reflective of a higher degree of economic integration than exists elsewhere



# Why Regional Liberalization?

---

- Reduces distortion in market driven flows
- Enables network optimization for airline
- Enables airline specific optimization
  - e.g. SQ likes business travel (3 classes, even on short sectors such as SIN – JKT)
  - AK likes discretionary (leisure) travel (LCC)



# Who wins from regional liberalization?

---

- Net benefits may accrue to the whole region

BUT

- Individual countries may suffer

THUS

- Agreement is difficult when one country perceives itself as a loser
  - Fiji in PIASA
  - Laos in CLMV re: Thailand



# Regional Liberalization Options

---

- Issues are those in bi-lateral liberalization  
BUT
- Size is important
  - Sub-regional groups – CLMV
  - Regional groupings – ASEAN
  - Plurilateral – ‘like minded but lacking geographical continuity’
  - Multilateral – larger numbers may be through a WTO/ICAO type structure



# Why Plurilateral?

---

- Expands network options
- Expands level of competition

BUT

- Geographical dispersion of, say MALIAT, leads to minimal gains

HOWEVER

- Easier to conclude



# The Content of a Regional Agreement

---

- Series of liberal bi-laterals in a regional framework
- Including
  - 5<sup>ths</sup> – internal and/or external
  - Open access to internal and/or external markets, but query, cabotage?
  - Commonality of ownership: removal of barriers
  - Multiple designation
  - Multiple access points
  - Pricing freedoms



# Making the Change

---

- It is easier where trade and political links are strong
- Can aviation be a sub-set of a 'broad package'?
  - Might bigger economy gains be offset against aviation losses?
  - A hard sell to the airlines!
- Economic integration and political union do drive change.



# Who wants change?

---

- Legacy carriers seeking network expansion
- LCCs wanting expansion
- Consumers chasing low fares
- The tourism industry, in the belief that the markets will be expanded
- In the ASEAN case, a general policy driven initiative towards closer economic integration



# Impediments

---

- A strong carrier may favour status quo (e.g. Air Pacific of Fiji)
- There may be issues of national identity
- The weak will be fearful of the strong
- The strong may withdraw from cross-subsidized routes, yet a weak 5<sup>th</sup> freedom carrier may be unable to sustain the route
- Infrastructure is a real but declining issue



# Factors Impacting on Size and Speed of Change

---

- Economic imbalances e.g. Laos - Singapore
- Carrier financial and human resources
- Access to capital
- Relative extent of regional economic integration
- Route densities (some very low in South Pacific and Central Asia)
- The existence of competition policy (Australia – New Zealand)



# The Consolidation/Ownership Issue

---

- Ownership restrictions may be a constraint
- Traditional ‘ownerships control’ rule is restrictive
- Whereas
  - Principal Place of Business (PPB) test allows consolidation
  - Change in ownership rules may open-up competition within a regional framework
- Problem is one of non-regional routes and achieving bi-lateral recognition of PPB test



# Competition Policy and Regional Agreements

---

- Who polices anti-competitive behaviour?
- Australia/New Zealand have strong generic competition regulators – with different policies and legal bases – hence, in a so-called Single Aviation Market (SAM), consolidation is unachievable
- Part of success of deregulation in US/Europe has been competition policy.



# An Ongoing Issue – External Operations and Relations

---

- How to handle 5<sup>th</sup> Freedom for regional countries beyond the region both from the region and wholly outside the region?
- Within Region 5<sup>th</sup>s for extra-region carriers
  - Very few 5<sup>th</sup>s flown within ASEAN by ASEAN carriers. Extensive 5<sup>th</sup>s by non-ASEAN carriers
- In the short term, external relations will be on a bi-lateral basis
- In the long term can external aviation relations be handled centrally?
- What chance do lowly resourced secretariats such as ASEAN have?



# Subsidies and Infrastructure: Use and Price Preference

---

- The nationalist desire to be in aviation often leads to subsidies to maintain an airline even when it may be better not to have one.
- Even in the EU, this has been an recent issue – Greece & Olympic (clearly subsidised) and Italy & Alitalia (beneficiary of creative accounting)
- Infrastructure can be used (and priced) to favour home country carriers



# How to Liberalize Regionally

---

- Gradualism
- Capacity / designation / gateways / pricing / ownership / intermediates and beyonds rights
- Simultaneously, expand liberal bi-laterals and work towards regional multi-laterals



# Review

---

- Regional (including plurilateral) agreements have the potential to deliver benefits
- Such agreements enable market driven networks and capacities, not historic political boundary driven outcomes
- Lots of implementation issues with multiple success/failure factors
- The key is not ‘a big bang’ – but gradualism
- Trade integration is a facilitator not an inhibitor



# Thank you

---

- I will be in the subsequent discussion and around the symposium
- I welcome your observations
- Contact number 61- 2 - 9360 2113

Aviation and Tourism Management Pty Ltd

**John M. C. King**

[aviatour@ihug.com.au](mailto:aviatour@ihug.com.au)

40

