LIBERALIZATION

The Issue

Aviation, the most international of businesses, is not free to operate like other transnational industries. Restrictions built into current bilateral air service agreements, in areas such as national ownership and control, access, capacity, frequency, and pricing reduce the contributions of international aviation to trade, tourism, job creation and economic growth. In most cases airlines are not free to merge and acquire airlines across borders, nor are they free to fly to destinations which represent the greatest market opportunity.

IATA’s Position

- IATA supports ICAO’s leadership role in the area of liberalization and acknowledges the considerable ICAO policy and guidance material that has been developed in the areas of market access and foreign ownership and control. ICAO is the right forum to lead air transport to a more liberalized environment.

- While IATA believes that liberalization is the right path to follow, we recognize that a global liberalized regime will take years to achieve. While pursuing such a regime under the auspices of ICAO, we ask governments to consider implementing the following policy options, which would enhance connectivity, and therefore the economic and social benefits of aviation, in the short-term. None of the proposals below require reform of the 1944 Chicago Convention:
  - States who maintain national ownership and control restrictions are encouraged to remove any obstacles in existing bilateral agreements that would hinder service from an airline of the other party who is not majority-owned or controlled by nationals or the government of that party. Airlines domiciled in States who have removed national ownership and control restrictions should be able to operate under existing bilateral air services agreements of the State in which the carrier is domiciled. This proposal was first put forward as part of the Agenda for Freedom initiative, signed by 11 States and endorsed by the European Commission. The Statement of Policy Principles of the Agenda for Freedom remains open for States to endorse on a voluntary basis.
  - In the absence of a fully liberalized regime, alliances, code sharing and joint ventures, subject to strict compliance with applicable competition laws, have become a feature of the industry, acting as a substitute for mergers and acquisitions. They represent a second-best alternative for airlines to offer a consistent travel experience to customers and benefit from economies of scale where possible, given the current restrictive bilateral air service agreements. However, the lack of coordination among competition authorities around the world presents a challenge to the establishment of such arrangements. Competition authorities are encouraged to take a coordinated approach to approval and/or enforcement of existing laws when examining such cross-border joint ventures.
Air cargo plays an increasingly important role in the global economy. By value, 35% of goods traded internationally travel by air, representing US$5.2 trillion worth of products. IATA supports the development of a specific international agreement focused on liberalizing cargo services, as it would facilitate the growth of air cargo and international trade and investment flows. Any such agreement should cover all cargo operations, including combination cargo services, as increasing the scope in this manner would generate greater benefits to the global economy.

- Before a fully liberalized regime is in place, varying levels of regulation will inevitably exist around the world, creating market distortions. IATA supports steps towards liberalization in such a manner that provides airlines with a fair and equal opportunity to compete in the global market. In this regard, governments should take transparent and effective measures, in line with prevailing ICAO guidance on fair competition and safeguards, which do not adversely impact on competition in the marketplace.

The Benefits

- The benefits of liberalization demonstrate that it is the right path to pursue. Liberalization can bring benefit to consumers through lower prices, increased choice and improved product and service quality. For airlines, liberalization can promote cost efficiency, increase access to capital, and improve profitability and market value.

- Providing the airline industry with commercial freedoms that other global industries enjoy would result in positive implications for trade, job creation, and tax revenue generation. For example, liberalizing only 320 of the existing thousands of bilateral agreements would create 24.1 million jobs and generate an additional US$490 billion of GDP.

- The experience of regions and countries that have liberalized demonstrate that liberalization can result in improved connectivity, with corresponding benefits for the global economy and society.
  
  o The European Union saw a 310% increase in intra-EU routes with more than two carriers between 1992, when the EU common aviation market make into effect, and 2009.
  
  o Once Malaysia and Thailand liberalized their bilateral air service agreement, the two countries saw an increase of 370,000 passengers and added 4,300 jobs as well as US$114 million in GDP.
  
  o Within two years of the 1995 US-Canada Open Skies Agreement, a total of 79 new routes were established between the countries.

- Improved connectivity brought about by aviation opens up new trade markets, and encourages innovation, competition and more choice. Economic studies show that a 10% increase in global connectivity relative to GDP would see a 0.07% per annum increase in long-run GDP\(^1\). Aviation also provides significant social benefits; uniting people and facilitating cultural understanding as well as exchange of ideas.

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