

ABAC 1999 – Background Papers

AIR SERVICES

APEC99: CONNECTING WITH COMMUNITIES

In today's global economy, rapidly expanding international airline alliances that connect local communities to each other and to the international marketplace provide the critical infrastructure for economic development: a strong international air services network.

Global telecommunication networks started this process by transforming the nature and pace of international business. The growing interdependence of global markets and communities now demands comparable aviation networks to facilitate business and leisure travel and enhance the flow of goods, services and people. We have opportunity to move this goal forward in APEC this year.

APEC's Commitment to Aviation

The enhancement of aviation services has been a significant goal of APEC throughout the organization's history and was the focus of the first APEC Transportation Ministerial Conference in June, 1995. At that time, APEC's ministers clearly recognized that it is in the economic interest of countries and regions around the world to develop air transportation links that support the economic development of their communities to the fullest extent. For this reason, ministers agreed to create a special "Air Services Group" to develop options for "more competitive air services with fair and equitable opportunity" for all APEC member economies.

On February 26, 1998, The Air Services group completed this task with the submission of its "Comprehensive Report on Options" to APEC's Transportation Working Group, which subsequently endorsed the Comprehensive Report's recommendations in April 1998 and further recommended the member economies provide voluntary "progress reports" on implementation of the options. Following the Working Group's endorsement, The Singapore Transport Minister, as minister of the "lead shepherd economy," invited his colleagues "to endorse the recommendations made" by the two groups.

Consensus" High Priority" Aviation Recommendations

The "Comprehensive Report" now pending before the APEC Transport Ministers recommends treating three of the endorsed options as "high priority." 1) facilitating cooperative arrangements or code-sharing between air carries, 2) minimizing discriminatory "doing business" practices and 3) including multiple carries in bilateral agreements. In addition, the Report list a fourth option as deserving of priority consideration: liberalizing air freight operations.

1. Facilitating Cooperative Arrangements or Code-Sharing

Code-sharing is a mechanism that enables air carries to work together to expand their international route networks without the risk and expenses of operating new or additional

services themselves. As such, code-sharing forms the basis of comprehensive international airline alliances that allow carriers from various countries to link their existing individual networks together to create one integrated international network.

Through global alliances, passengers are now able to fly to virtually any point on the globe while enjoying a travel experience that is the equivalent of traveling on the same airline. En route, they can enjoy the benefits of coordinated schedules and closer connections, more convenient gate locations, integrated "through" baggage handling, joint ticketing, seat selection, one-stop check-in, common use lounges and joint frequent flyer programs. They also benefit from the fact that international alliance fares are generally considerably lower than those charged by non-allied carriers carrying passengers on connecting journeys.

Global alliances also offer real benefits for cities and communities, not just air travelers and passengers. For communities attempting to attract foreign investment, trade and tourism, convenient air services - with a wide range of flight and schedule options - is critical: Companies prefer to locate in communities that are connected to destinations around the world; business travelers prefer to do business in locations that offer flight, flexibility and frequency; and leisure passengers prefer to travel to destinations that are easy to reach.

Communities that enjoy the benefits of international alliances are in the best position to stimulate tourism, create jobs and attract investment in the global economy. Consequently, exposure to the globalizing effects of code-sharing networks will give every APEC community, including more remote and less developed cities, an equal opportunity to access the international marketplace and strengthen opportunities for economic development. Moreover, it will do so without the prohibitive investment and risk inherent in a carrier expanding its own direct service.

2. Minimizing Discriminatory "Doing Business" Practices

The Comprehensive Report also identifies removing "doing business" impediments that impose unproductive cost and delay in aviation operations, giving specific examples of discriminatory practices. The Report recommends using as guidance internationally-endorsed ICAO "model" provisions and provide for: 1) authorizing broader options for air carriers to perform or obtain ground handling services, 2) allowing prompt and non-discriminatory currency conversion and remittance of earnings, 3) allowing expense payments in local or freely convertible currency, 4) permitting the use of non-national employees in specialist duties and 5) permitting unrestricted sales and marketing of international air services. Provisions regarding these "doing business" issues represent a set of specific recommended actions that APEC members can take to ensure a maximally efficient regional aviation system.

3. Including Multiple Carriers in Bilateral Agreements

In addition, the Comprehensive Report recommends that APEC economies should not limit the opportunities provided to the carrier of a foreign country to a single foreign "flag" carrier. Many APEC economies already provide for "multiple" airline designations or have eliminated limitations all together. Nevertheless, region-wide adoption of multiple designation provisions would remove government restrictions to market entry and provide APEC consumers with enhanced competition and choice.

4. Liberalizing Air Freight Operations

Finally, the Comprehensive Report recommends that the APEC economies "progressively remove restrictions in the operations of air freight services while ensuring fair and equitable opportunities for the economies involved." This recommendation underscores the importance of maintaining momentum toward further liberalization of this important segment of international aviation and applying the other priorities to air freight. Moreover, it also recognizes the importance of free and flexible air freight services in expanding and promoting trade within the APEC member economies.

Conclusion

The economic downturn of the last two years has placed severe hardship on individuals and communities throughout the APEC region. To enable APEC economies to recover and develop to their full potential, APEC ministers are faced with the task of implementing economic policies to foster economic growth and prosperity. APEC 1999 must be remembered as the APEC year that promoted concrete, delivered initiatives that bring significant economic and social benefits to consumers and communities throughout the region.

APEC's success over the last three years in developing and prioritizing "consensus options" for aviation provides a sound and realistic foundation for moving forward with progressive, practical aviation initiatives that will further these goals. Because of the extensive consideration and consensus-building that has already occurred within APEC, there is little need for further debate on the substance and importance of "high priority" recommendations. Moreover, the relative specificity of these recommendations should improve the likelihood of their implementation.

Widespread and contemporaneous implementation of "high priority" recommendations would provide APEC an extraordinary and concrete opportunity this year to demonstrate world leadership in opening services markets generally and in adapting to the new global reality of the aviation industry, in particular. In just a few short years, global airline alliances have become the model for international aviation. With specific consensus recommendations for liberalization and facilitation of alliances in place, APEC is in a position to lead the way in implementing improvements in aviation trade that will bring immediate, tangible and recognizable benefits to the economies and peoples of the APEC region.