
Challenges and Opportunities: Toward Sustainable Aviation Market in the NEA

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Challenges and Opportunities We Face

- “Open skies” triggered by US and EU begin liberalizing other regional blocks (“regulatory convergence”)
 - Increasing competitive environments outside the NEA will emerge as competitive threats to the NEA aviation market.
 - The bilateral ASA scheme may become a bottleneck to further economic growth in NEA countries.
- ➔ We should take these challenges, and turn them into opportunities to create robust and sustainable structure in the aviation market for the NEA.

Where We Stand

- The current regulatory regime:
 - Have contributed shaping the aviation market in the presence of large investment required, network externalities, and spillover effect (arguments of public goods and infant industry protection)
 - Protect national carriers from foreign competition by
 - Controlling entry, capacity, tariffs, ownership, and nationality
 - Granting immunity from competition policy
- As the aviation market matured, the regulatory regime needs to be transformed, not only for the benefit of consumers, but also for airlines (and airports).

What is Wrong with Current Regime?

- Regulation tends to create more harm than good with the maturity of the industry.
 - Pitfall of “Regulatory Capture” – regulation should be for the sake of the public interests, not for vested interests.

- Power of incentives should not be ignored.
 - New and better services come from free and competing minds; rarely from minds with constraint environments.
 - In terms of productive efficiency of Chinese airports, empirical evidence solicited by Professor Zhang is mixed.
 - Academic evidence on the effect of competition on innovation and innovation is overwhelmingly against Joseph Schumpeter.

Fear of Liberalization?

- Liberalization provides incentives with airlines to constantly improve efficiency, innovate new services, and offer diversity of choices to consumers.
 - The efficiency gain would be substantial as Professors Yamaguchi and Yoshida calibrate.
- The “downside” of liberalization, however, is that we cannot predict most of its consequences.
 - Liberalization in international aviation market may encourage low cost carriers to operate above break-even profits. This would spur competition in the domestic market as well.

How to Proceed?

- Close cooperation among China, Korea and Japan
 - Joint Study Team, proposed by Professor Oum, to help improve the predictability in the consequences of liberalization
 - Should also discuss the safeguard policy in case of emergency

- Easy things first
 - Charter and air-cargo market (and soft spots) to liberalize first, as proposed by Professor Lee; and non-congested cities

Toward Sustainable Aviation Market

- What is hoped for is that the civil aviation industry becomes a usual “service industry.”
 - Take advantages of good sides of market mechanism
 - Safety and environmental issues are important, but little related with liberalization.
 - National carriers should know better than regulators as to how to attract customers, and how to cope with various cost factors.
 - Nationality of ownership can be maintained. Encouraging code sharing and joint marketing would be a good idea to solve the problems of transfer (as long as competition authorities tolerate)

Thank you

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