

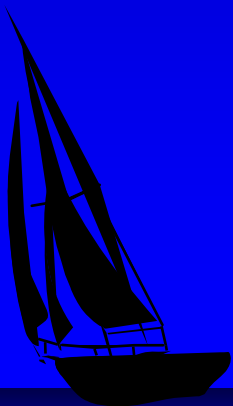


Global Trends in Air Services Agreements and Future of NEA Air Transport and Policy

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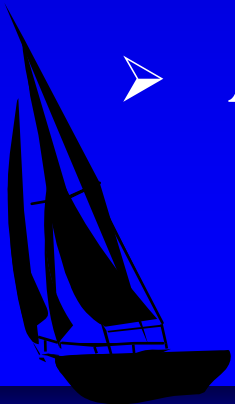
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Outline



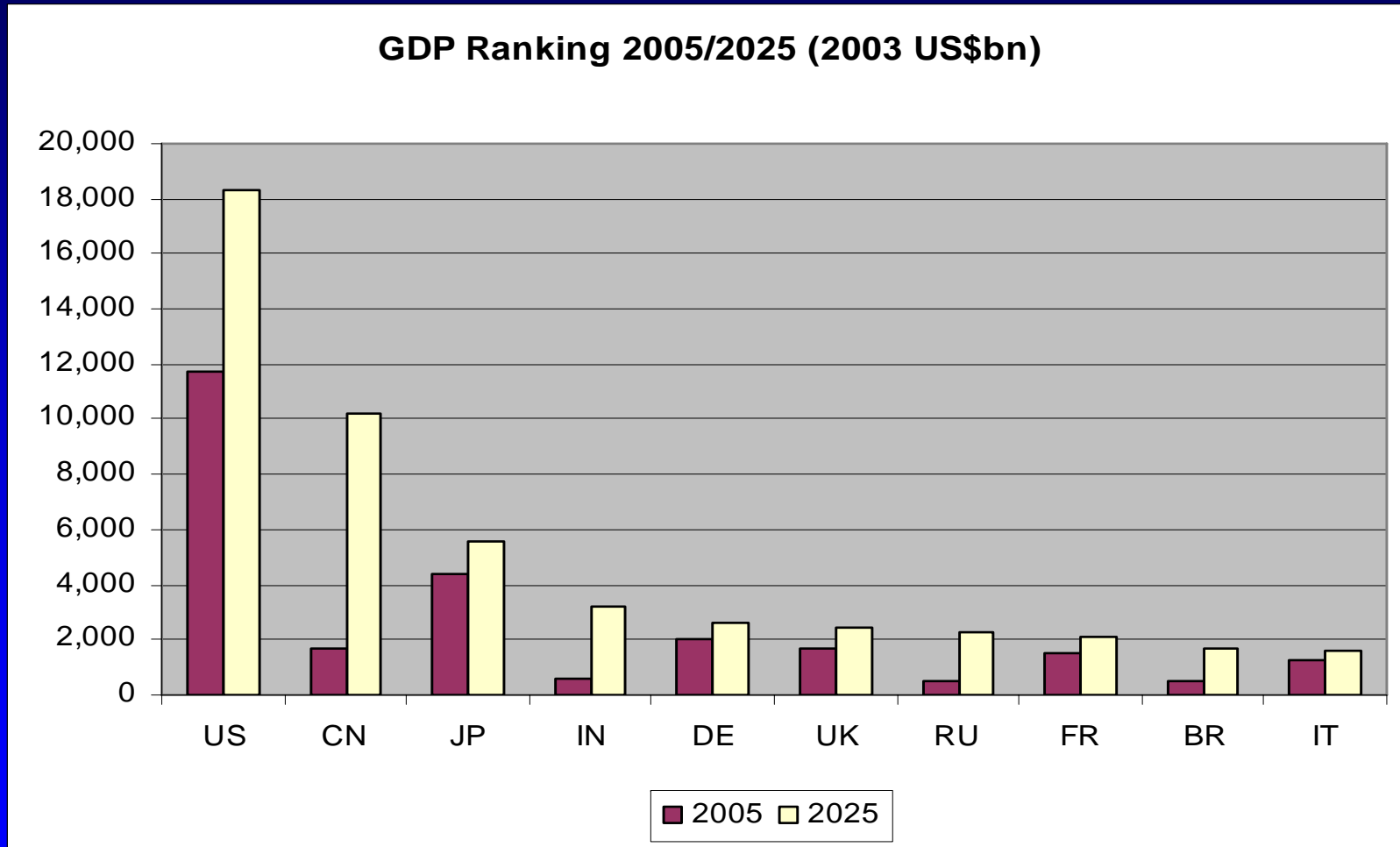
- **Shifting global economies and air transport**
- Changing patterns of int'l air transport regulation: bilateral ASAs and multilateral efforts
- Effects of Open Skies and Liberalization
- Implications on NEA Air Transport
- A Two-Parts Proposal



Shifting GDP of Major Economies:

2005-2025

Sources: World Bank & Goldman Sachs



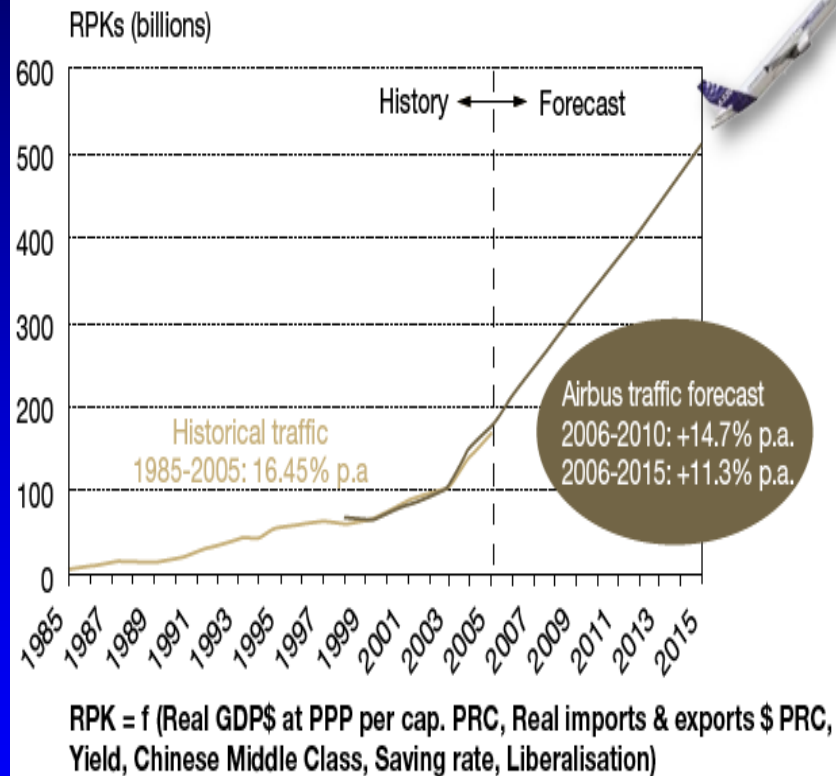
2006-2010: highest traffic growth in emerging and large population regions

*Asia excluding India and China

		Yearly traffic growth	
Expanding regions	China	+10.8%	5.4 billion people
	India	+9.8%	
	Eastern Europe	+9.7%	
	Middle East	+8.0%	
	CIS	+7.4%	
	Asia	+7.1%	
	Africa	+7.0%	
	Latin America	+6.2%	
Developed regions	Australasia	+6.6%	1 billion people
	Western Europe	+5.6%	
	Japan	+4.7%	
	North America	+4.1%	

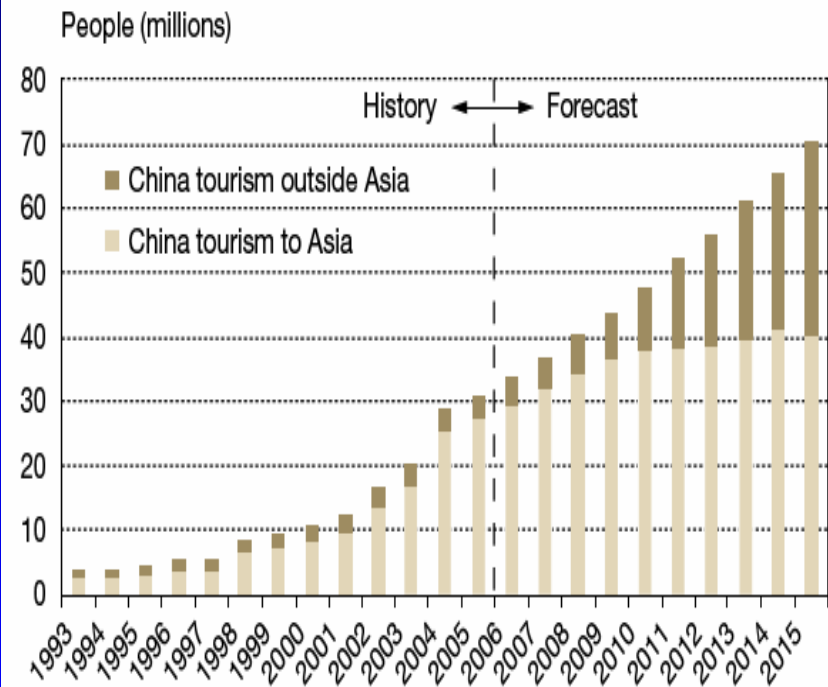
Source: Airbus – Global Market Forecast

Domestic China forecast



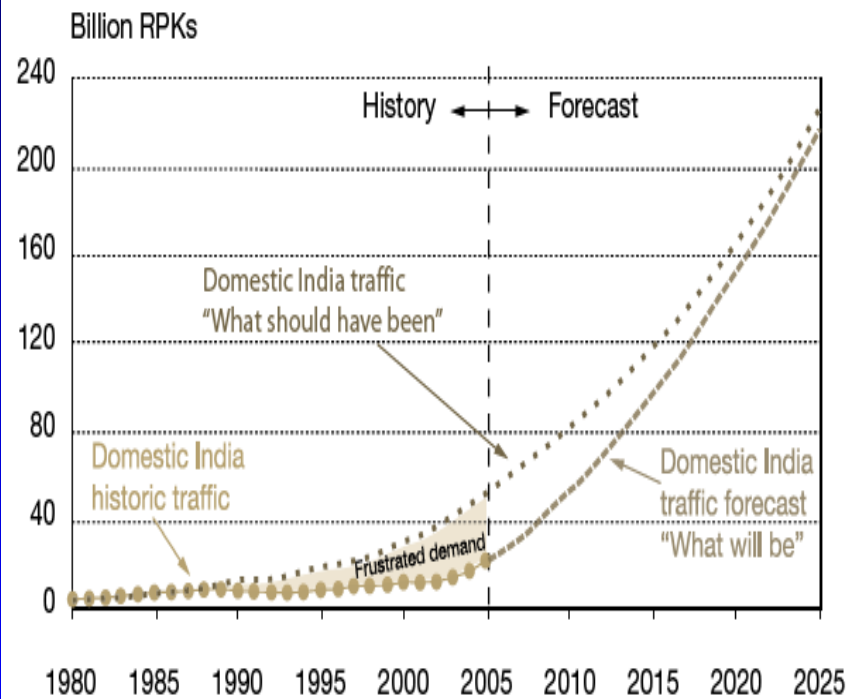
China outbound tourism: fastest air travel market segment in the world

Source: China National Tourism Administration, Airbus

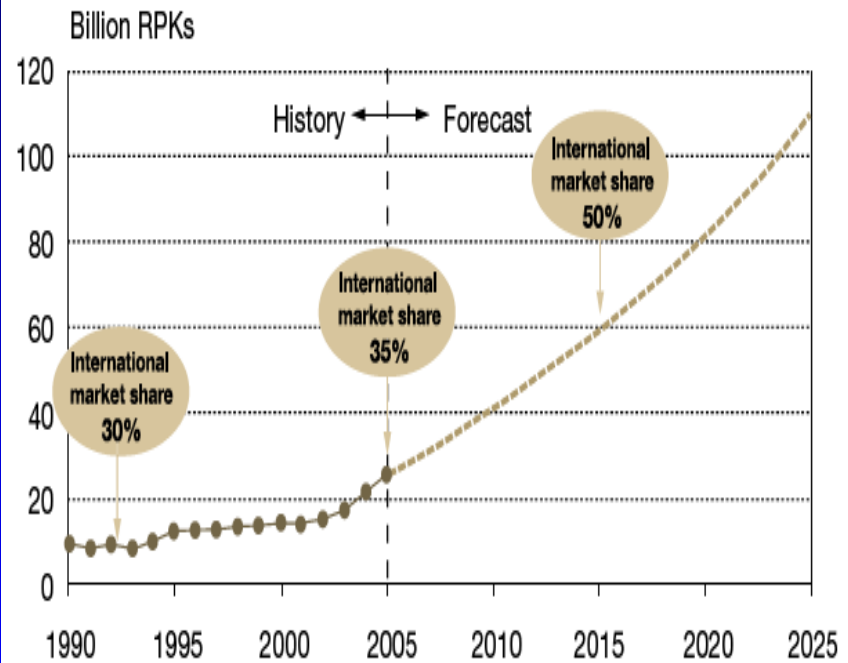


Source: Airbus – Global Market Forecast 2006-2025

Domestic India traffic: catching-up on the large frustrated domestic demand



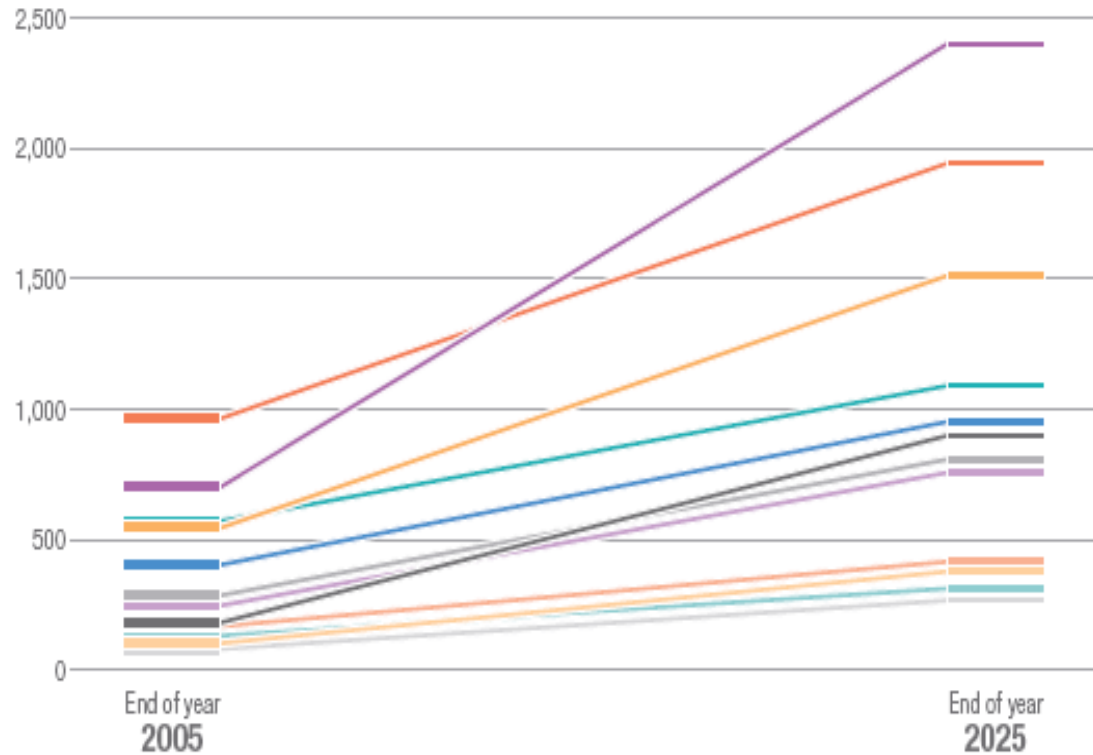
International traffic: higher share for Indian carriers in the future



Source: Airbus – Global Market Forecast 2006-2025

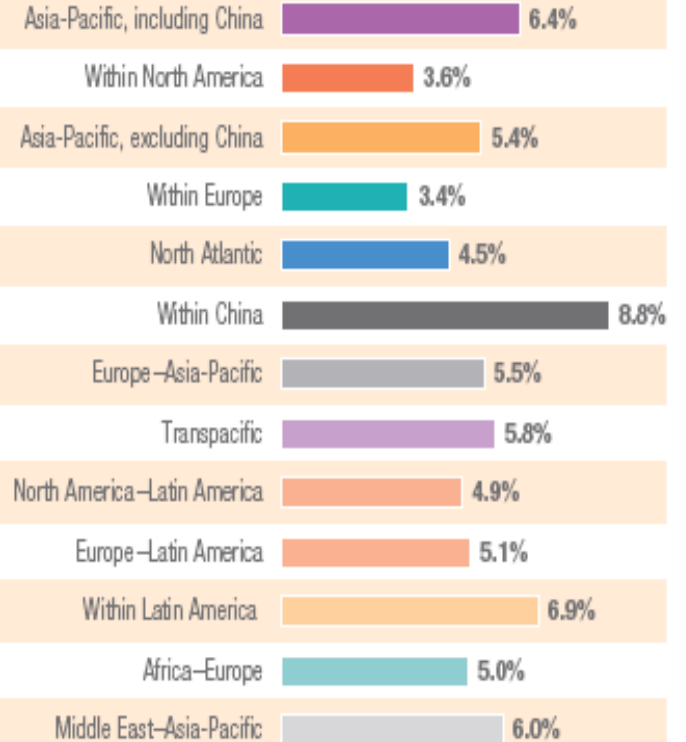
Shifting Airline Passenger Markets

PASSENGER TRAFFIC DEVELOPMENT, RPKs (BILLIONS)



ASIA-PACIFIC WILL BECOME THE LARGEST REGION >>

ANNUAL GROWTH RATE, 2005-2025



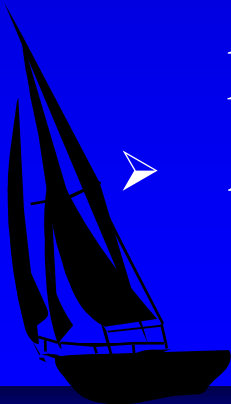
WITHIN OR BETWEEN REGIONS >>

Source: Boeing 2006 Current Market Outlook

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- Shifting global economies and air transport
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- Implications on NEA Air Transport and Related policy issues
- A Two-Part Proposal



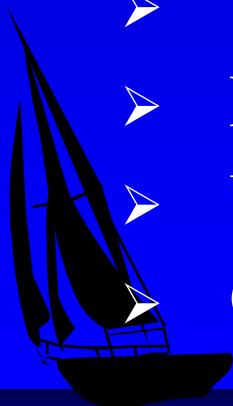
Pattern of Bilateral ASAs and Regional Blocks

Regional Bloc:

- EU Single Market
- Trans-Tasman Single Aviation Market (SAM)
- US-Canada Agreement

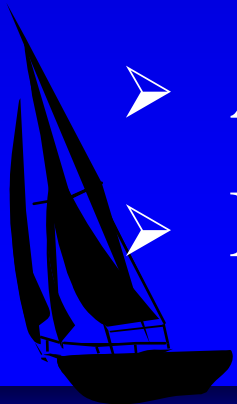
Open Skies Bilaterals:

- US Open Skies Agreements
- EU Bilateral Agreements
- US-EU Open Aviation Area proposal
- Other significant bilateral agreements

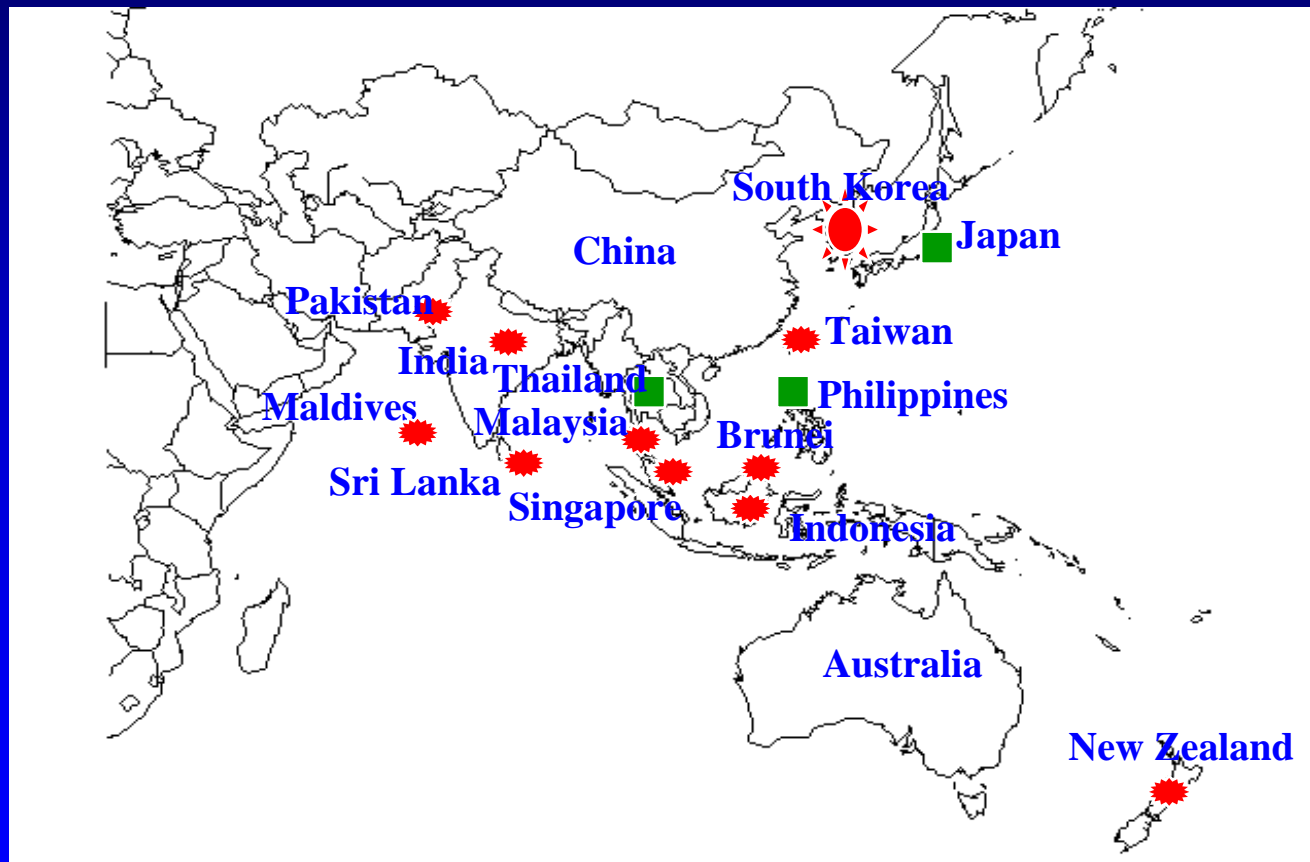


US became Open Skies hub country: signed up with 73 countries

- Europe: 23 countries
- Asia: 11 countries including NZ
- North, Central America, Caribbeans: 11 countries
- South America: 5 countries
- Africa: 17 countries
- Middle East : 5 countries



US Open Skies in Asia-Pacific



EU Bilateral Agreements (1/4)



- Three Pillars of External Aviation Agenda:
 - ensuring legal certainty of the existing bilateral ASAs between member states and third country
 - developing common aviation area with the EU's neighboring countries by 2010;
 - Negotiating comprehensive “horizontal” ASAs on EU level with certain third countries.
- As of Jan 11, 2007, A total of 66 countries in all continents have recognized EU common market in their ASAs, allowing European air carriers to operate flights between any EU member states and these countries
 - 23 countries under EC Horizontal Agreements
 - 43 countries via Member State bilaterals



EU Bilateral Agreements (2/4)



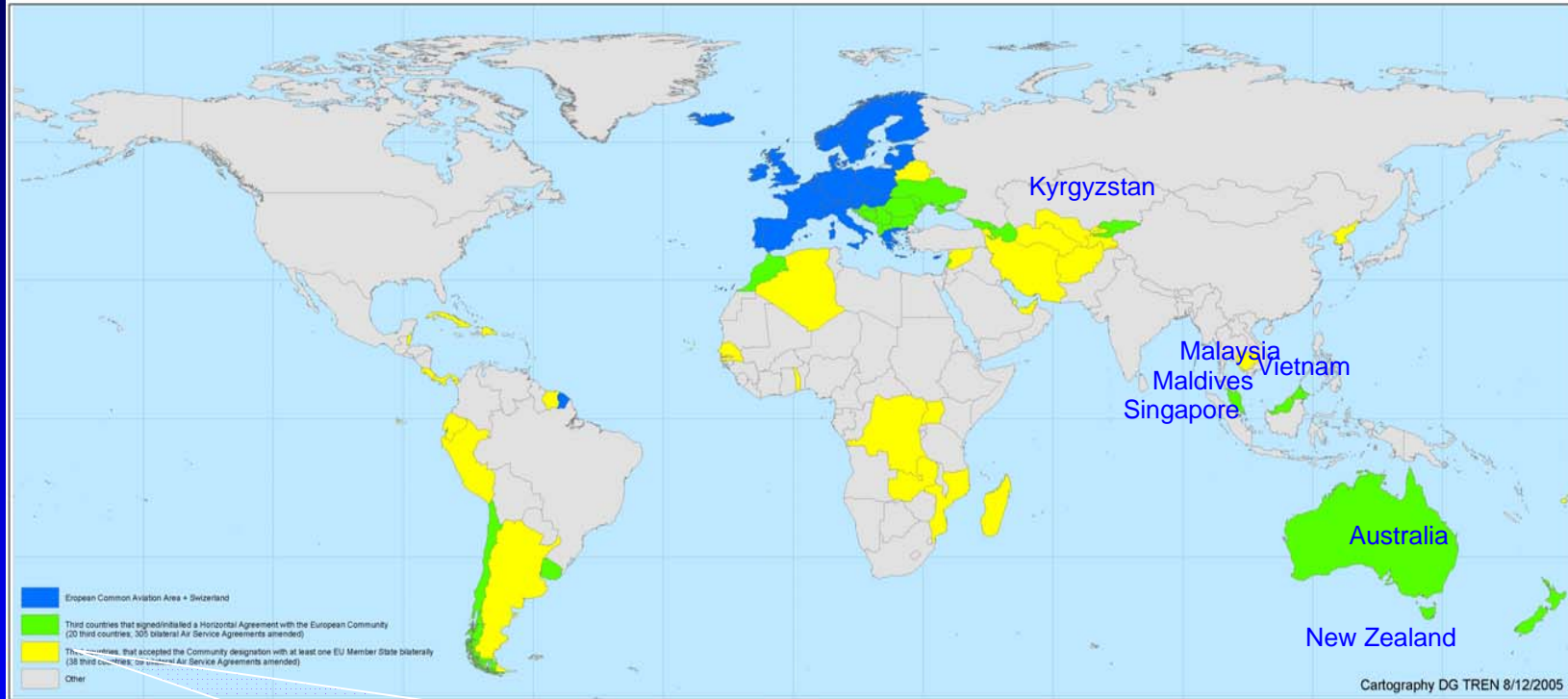
- These are in addition to negotiating for the EU-US Open Aviation Area (In Dec 2005);
- EU Transport Ministers expressed unanimous support for the EU-US Open Aviation Area draft agreement; **subject to US relaxation of foreign ownership of airlines.**
- Canada-EC has begun negotiation in January, 2007



EU bilateral ASAs (as of 8 Dec, 2005)



Community designation coverage World Map



	European Common Aviation Area + Switzerland
	Third countries that signed/initialled a Horizontal Agreement with the European Community (20 third countries; 305 bilateral Air Service Agreements amended)
	Third countries, that accepted the Community designation with at least one EU Member State bilaterally (38 third countries; 59 bilateral Air Service Agreements amended)
	Other

EU Bilateral Agreements (3/4)



Developing a wider European Common Aviation Area (ECAA):

- EC Authorized to negotiate with 8 South-East European partners: Albania, Bosnia, Herzegovina, Bulgaria, Croatia, the former Yugoslav rep. of Macedonia, Romania, Serbia, Montenegro, UN Mission in Kosovo.
- After only 9 months of negotiation, the ECAA agreement was reached between all parties in Dec, 2005;
- This created an integrated aviation market of 35 countries (EU27+ 8 above); more than 500 mm population



EU Bilateral Agreements (4/4)

- Euro-Mediterranean Aviation Agreement with Morocco initialled in Dec 2005; EU's internal air transport market will be gradually opened for Moroccan carriers in accordance with the degree of “regulatory convergence.”;
- Extending Common Aviation Area to the East by signing EU-Ukraine agreement in Dec, 2005 (again regulatory convergence conditions);
- **EU-Russian Federation:** Russia agreed to end to the current system of exorbitant over-flight charges from 2014.



EU Bilaterals with Other Key Partners

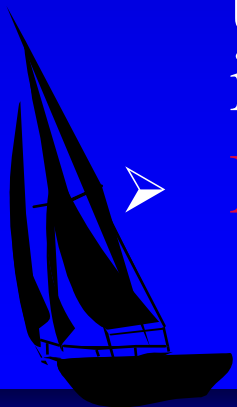
- **Australia, NZ and Chile;** exemplary agreements with these proactive countries.
- **China :** considered a strategically vital market for EU carriers; negotiation under way focusing on the process of achieving regulatory convergence, and solving “doing business” problems for EU airlines.
- **India:** EU-India summit conf in Nov 2006 – horizontal agreement:
 - Aiming at addressing political and regulatory developments in aviation in India and the EU, developments in EU-India passenger and cargo markets, infrastructure needs and investment opportunities, safety and security policies and co-operation, new challenges in commercial aircraft technology, and air traffic management and technological and industrial co-operation.



Multilateral Liberalization

Efforts

- **WTO:**
 - Efforts under way, but commercial traffic rights are not considered;
 - In the long run, MFN provision may be effective if air transport and trade are pooled together for negotiation.
- **ICAO;** may not be an effective organization to deal with liberalization or open skies issues because it is UN org.
- **Multilateral ASAs** (list next)



Multilateral ASAs



- **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)**





Multilateral ASAs - cont'd

- **Fortaleza- Latin America**
- **CARICOM- Caribbean**
- **ANDEAN- regional South America**
- **Yamoussoukro-Africa**

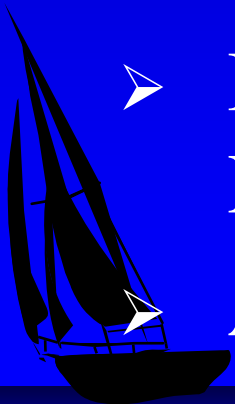


**Easy to Sign, Difficult to Implement; Largely
Political tones !**

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Effects of Air Transport Liberalization



Liberalization



New and Better Air Services



Traffic Growth



**Economic &
Employment Growth**





Documented Benefits of Regional Open Skies Market


(A) European Single Aviation Market: effect of 1992 EC 3rd Package

- Stimulated development of LCC services

Year	Low-Cost Operators' Share of Capacity ^b
1996	1.4%
1997	2.8%
1998	3.7%
1999	4.2%
2000	6.0%
2001	6.4%
2002	11.1%
2003	20.2%

Source: InterVISTAS-ga2





Benefits of Regional Open Skies Market; effect of 1992 EC 3rd Package (cont'd)

- **1992 EC 3RD Package** generated an incremental 44 million passengers, an increase in post-liberalization years of over 33 %, as contrasted with historical Intra-European market growth of between 4% and 6% per annum.
- Fully 1.4 million full-time jobs resulted from the liberalization, and the European GDP grew by \$US 85 billion (109 Euro).

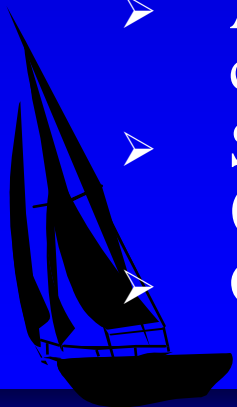


Documented Benefits of Regional Open Skies Market



(B) Canada-US Transborder Open Skies Agreement (1995)

- Significant increase in transborder traffic
 - Eg. YVR saw +64% traffic increase between 1994 & 1998
- Transborder routes expanded:
 - Air Canada has developed a major hub at YYZ; also extensive codeshare operations with UA
 - YVR scheduled routes increased from 6 in 1994 to 20 in 1999
- Airlines' Flexibility to changing economic and market conditions
- Smaller communities Services improved e.g., YLW (Kelowna)- SEA
- Greater competition and lower fares

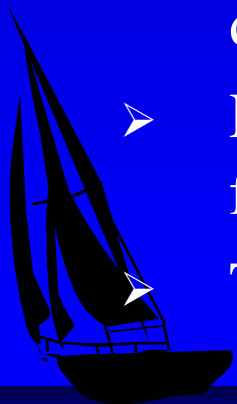


Documented Benefits of Regional Open Skies Market



(C) Trans-Tasman Single Aviation Market (SAM): Australia-NZ

- By 2005, Australia-New Zealand traffic was fully 56 percent higher than it would have been in the absence of any liberalization.
 - The relaxed market controls increased total traffic by over 1.7 million passengers per year.
 - The additional volume would require a further 27 flights daily.
 - Each nation gained more than 20,600 full-time positions from the liberalization and the ensuing traffic increase.
- The GDP of each country grew by \$726 million U.S.



Benefits of Inter-Regional or Bilateral Air Liberalization



(1) Proposed EU-US Open Aviation Area Agreement

- A 24% increase of transatlantic travel by up to 11 million pax a year; A 14% increase of intra-EU travel by up to an additional 35.7 mm
- \$8.1 billion a year increase of economic output in directly related industries
- \$5.2 billion a year in consumer benefits through lower fares and increased travel
- Cost savings for airline industry

	Flight type		
	Intra-EU	Transatlantic	All flights
Current costs (€ million/year)	39,531	28,578	68,110
Potential savings (€ million/year)	2,268	621	2,888
Percent of current costs	5.7%	2.2%	4.2%

Source: Robyn, Reitzes & Moselle *Economic Impact of a US-EU OAA*



Benefits of Bilateral Air Liberalization: Successful Financial Hub in Dubai

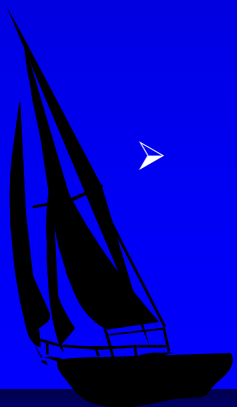


(2.a) UAE – UK

- 59% increase in total UAE – UK traffic since the liberalization in 1998
- 1.1 out of 3.2 million total country – pair traffic in 2005 could be attributed to the more liberal ASA
- In UAE, new employment: 5,300; additional GDP: over \$110 million
- In UK, new employment: 18,700; additional GDP: over 1 billion dollars

(2.b) UAE - Germany

- 19.7% increase in traffic attributed to the liberalized bilateral
- In UAE, new employment: 745; additional GDP: \$15 million
- In Germany, new employment: 2,600; additional GDP: \$152 million



Benefits of Bilateral Air Liberalization



(3) Korea-Shandong Province Open Skies (Sept 2006).

changes in capacity, freq and # carriers changed;

- Fares between Incheon airport and Shandong province reduced from **\$530** to **\$210**, and predicted to go down much further to **\$105**.



Summary Effects of ASA Liberalization



- Open Skies and Liberalization helps consumers, related industries such as tourism and FDI sectors, ie. Improves GDP of all countries including the countries whose airlines lose: lower fares, cheaper imports, competitive exports, tourism, jobs, and economic growth.
- *Studies have proven this beyond reasonable doubt*
- US has become a open skies hub nation: studies have shown tremendous benefits to US economies;



Summary Effects of ASA Liberalization

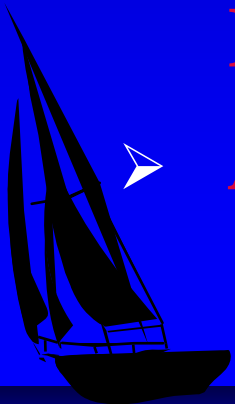
- EU has already created a single aviation market for **EU 27 countries**.
- European Commission is doing the same thing as US, but at much faster speed because they see **the benefit expanded European common aviation area to 35 countries**; while becoming the open skies hub continent;
- **EU-US Open Aviation Area** is question of time, not if.
- These reduces severely and rapidly the options for global leadership of Asian Aviation industry and its players



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US Negotiation Focus on China



- US regards China as **No.1 priority** for bilateral liberalization (Jeff Shane);
- Air liberalization is not only the right policy, but inevitable in globalized economy
- China-US trade is nearly \$500 billion; US firms invested more than \$50 billion as of 2003; Thus, need to create a framework for air services worthy of larger economic relationship.
- Proposed The “**Wright Brothers Partnership**” as a part of enhanced aviation cooperation program (for transfer of U.S. technology, product standards, and services.



EC Negotiation Focus



- Expansion of common aviation area into Mediterranean region including Morocco and North Africa;
- **Russia and CIS countries** (Ukraine, Moldavia, Belarus, Georgia, Azerbaijan, Armenia)
- **Global Partners:** US, Canada, **China**, Chile, Australia, NZ and India
- **Clear focus to become Open Skies hub like US.**

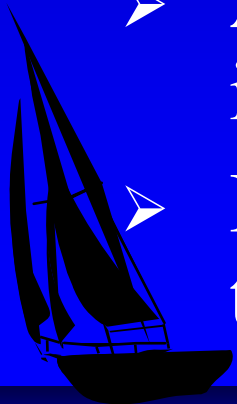


Current Status of Bilateral ASAs of China, Japan and Korea

	U.S.	China	Japan
China	<ul style="list-style-type: none"> • June 18, 2004, route access completely freed • Unlimited code-sharing • Cargo hub freedom • 5th freedom for cargo in cities such as Haikou 	--	--
Japan	<ul style="list-style-type: none"> • UA, NW & FedEx free from restrictions, plus no limit on 5th freedom since 1998 • Other carriers are restricted • Target to get open skies in 4 years 	<ul style="list-style-type: none"> • Routes, carriers, freq., and points are all restricted 	--
Korea	<ul style="list-style-type: none"> • Open Skies Aviation in Apr. 1998 	<ul style="list-style-type: none"> • Routes, carriers, freq., and points are restricted • Except for Korea – Shandong province (in Jun. 2006) • Some code-sharing and 5th freedom allowed 	<ul style="list-style-type: none"> • Routes, carriers, freq., and points are all subject to negotiations • Code-sharing with the third countries' airlines on routes between Japan and Korea is allowed

Benefits of Open Skies Bloc in NEA Region

- Efficient hub-and-spoke service network will develop in the region;
- Airlines to become more efficient and competitive
- Improved services, frequency and lower prices (consumer benefits);
- Accelerated growth in tourism, related industries and GDP (% additional growth?)
- Increased exchange of ideas, people and trade



What Problems If NEA Region Does Not Change

- We end up protecting inefficient and unfit airlines; consumers, users and national economy will suffer
- In the short run, inefficient airlines may survive. But in the long run, inefficient carriers will go bankrupt.
- Asian carriers will be prevented from taking their rightful place as world-class players in the newly emerging global market place
- Inefficient air transport networks will persist; distorting spatial distribution of economic activities

Asian airline industry is no longer “infants” who need government protection like baby. 30-year old men do not need mother’s milk.

They are grown-ups, and as such, they should be ready to compete with global carriers as soon as possible.



What must be done ? (2/1)



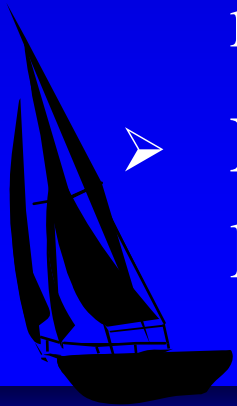
- **Efforts should be made both bilaterally and tri-laterally** in order to ease restrictions in air transport;
- **Free up easier parts first** like Canada-US had done: (a) open-skies to all markets other than major market perhaps excluding Beijing, Shanghai, Guangzhou, Tokyo, Seoul; (b) free up cargo and charter markets before passenger markets, etc.;
- (c.) service to non-congested airports - **hopefully before Beijing Olympic and Shanghai Expo.**
- **Set up a phase-in schedule** for achieving complete open skies agreement within 10 years; at first among China, Korea and Japan, and then, expand the open skies region just like the way EU is doing.



What must be done ? (2/2)



- Must create a semi-permanent institution for studying and making progress on the regional open skies bloc.
- Seriously consider linking air transport negotiations with those involving related industries such as tourism, FDI, and trade matters;
- Design a plan for gainers to compensate to losers only in a transitory period.





A Proposal – repeat on purpose

Part I: Joint Study Team

- An effective way is to set up a joint study team in which all necessarily studies are done ON VERIFIABLE DATA and in a very transparent way;
- The results are computed, verified, and tabled to all members of the three countries' negotiation teams. **This team will interact with the negotiators of each country to understand the benefits and costs to that country.**



A Proposal - (2/2)



Part II:

- Establishment of **a trans-national Committee consisting of governments, industries and academia** would go a long way to foster close relationship, creating common grounds, finding positive sum approach, and phased-in agenda for negotiation.
- This Trans-national committee would set **the research agenda for the trans-national study team** proposed above



Concluding remark



It is about time for the East Asian countries' government to **seriously consider changing approaches to air transport policy** in order to develop efficient regional air transport networks which also serves **long term interests of the region and their own nation's economic benefits** as well as of the long-term interest of **their flag carriers**





Thank You

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