

THE APEC AIR TRANSPORT SCHEDULE¹

Abstract?

Introduction

The meeting of Asia Pacific Economic Cooperation (APEC) Transport Ministers in June 1995 asked a small group of members to draw up a paper to identify options for 'more competitive air services with fair and equitable opportunity for all APEC member economies'. This paper was prepared at a meeting of the Small Group in October 1995.² The paper was submitted to Transport Ministers but it was not until this year at the 1997 meeting of Transport Ministers that the issue became active again. The 1997 ministerial group asked the Small Group to reconvene to provide more advice on 'priorities' among the list of options that it had prepared. It is argued below that the original paper raised some of the important issues in this sector but that it could have gone further, and that certainly some of the ideas require elaboration before the proposals can be ordered into priorities. The aim of this paper is to present a framework in which a fuller set of options can be generated and evaluated. It is also intended to illustrate the application of this framework with a set of suggestions for an APEC agenda (see Table 3 for a summary of those suggestions).

The next section of the paper outlines the nature of the current regulatory arrangements for international aviation. There follows a discussion of some of the pressures for change in the system. The policy options suggested by APEC's Small Group and those proposed by a number of other reports are then examined in the context of this review of the features of the system and the forces for change. The paper concludes with suggestions about APEC's air transport 'schedule'.

Regulatory features

The regulation of international trade in air transport services is one of the dinosaurs of the world trading system. Its elaborate structure of bilateral agreements fixes a set of rules which:

- identify the airlines of the contracting parties with the rights to fly on each route;
- determine the capacity that can be provided by each of those designated airlines; and
- limit the capacity that can be offered by airlines from third countries.

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The system therefore imposes a set of country-specific quotas in each market, where markets are defined in terms of routes between pairs of countries and in terms of the two-way traffic flow. This structure is clearly a long way from free trade in air transport services, yet the jargon of the system implies the opposite — the rights exchanged in these bilateral agreements are called the ‘freedoms of the air’!

The origins of the system are important to consider in the process of thinking about alternatives. In the mid 1940s, when today’s regulatory structure was created, the concern was that countries’ control over entry into their air space would leave citizens of other countries ‘at their mercy’. Countries might try to extract rents from their ability to control entry into the market (Findlay, Bora and Forsyth, 1996). That ability arose from a country’s control over entry into its own air space, and from the lack of perfect substitutes for any one route. The consequence would be a non-cooperative game, in which both ends of the route tried to apply taxes of some sort (or gather rents in other ways) from the market. The players could perceivably, after the game had been played, be worse off. To avoid this outcome, countries agreed to not exploit their market power. They did so by agreeing to exchange rights of access.

In principle this exchange of rights of access could have been arranged in a multilateral fashion. It turned out that, for other competition policy reasons — such as concerns about the potential domination of the market by US carriers, who had the technological edge at the time — such an agreement was impossible (Shane, 1993, Fukui, 1993). Countries instead decided to exchange rights in a series of bilateral agreements.

The bilateralism involved in the structure introduces some special features. Since the commitments were exchanged bilaterally, some method of coping with third countries had to be considered. The purpose of the agreements was to extract some ‘concession’ from the other side, in this case, a commitment to not exploit market power. A country would not willingly give up its option to do so without some commitment by the other party. It would not therefore extend a commitment made to one party to all others on a ‘most favoured nation’ basis. The effect is that a pair of countries agree to give preferential access to each other’s airlines in particular markets. The preference system is administered by quantitative restrictions on the entry of third parties.

Markets in this case, as noted already, are defined in terms of a set of routes between two countries involved in a bilateral negotiation. This definition of the market, as it emerges from the regulatory process, is not necessarily consistent with an economic definition of the market. It is impossible to completely prohibit access by third parties

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since few routes operate in complete isolation. Substitute routing through other countries is often available. However, as also noted above, attempts are made to cap the involvement of third parties.³

Preferential trading arrangements will generally operate on the basis of some rules of origin. A decision has to be made on which items are to be given preference. The usual rule is that, in merchandise trade, the item be primarily constructed in a partner country. However, air transport is a service, and what moves across borders is not a finished product but the capacity to provide the service. A rule of origin of the type applied in merchandise trade is difficult to apply so the system relies on a rule of ownership instead. The bilateral agreements will recognise airlines of other countries as long as those airlines are substantially owned and effectively controlled by the citizens of those countries.

Forces for change⁴

There are pressures for change in the regulatory system from a number of sources including:

- the conflicts between bilateralism and the multilateral principles of the General Agreement on Trade in Services (GATS);
- the increasing weight put on consumer interests in policy making;
- the rising administrative costs of bilateralism; and
- a shift in airline attitudes to bilateralism.

The regulatory system in air transport clashes with many of the principles of multilateralism. Rights are negotiated on a reciprocal basis with the aim of achieving a 'balance of opportunities' between the two sides. It does not therefore treat all trading partners in a non-discriminatory way. It also discriminates between foreign trading partners and domestic firms in terms of market access. As a result, the current arrangements deny some of the potential gains from international trade in this service.

There were attempts to have air transport included in the agreement which emerged from the Uruguay Round of multilateral trade negotiations, but the parties agreed to include only some marketing and ground service components: namely, aircraft repair and maintenance, air travel agents and computer reservation systems. Market access questions were not included.

The multilateral system has not stopped giving air transport its attention. The World Trade Organisation is committed to reviewing the sector some time over the next five years. In anticipation, other multilateral institutions, including the Organisation for

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Economic Cooperation and Development (OECD), have worked on the issues (OECD, 1997).

Because of these multilateral forces, greater scrutiny of the regulatory system and its effects on trade can be expected. These initiatives will be strongly supported by the tourism industry — in particular, those parts of the tourism sector which rely on inbound tourists and which stand to gain from further improvements in real fares and efficiency — in many economies.

Local consumer influence, such as that of outbound passengers in highly regulated markets, is also increasing. This pressure in the Asia Pacific region is argued by Oum (Oum 1997) to have been made explicit in many economies in the region. The effects have been significant. For example, it is argued that this pressure contributed to defining the characteristics of the new United States – Canada agreement.

These forces for reform may also be supported by suppliers of other inputs into the industry, such as firms involved in the planning, construction and management of airports, and others such as aircraft suppliers.

There is also an administrative issue. The bilateral system is relatively more expensive to administer in high growth markets. Agreements have to be renegotiated frequently, which places a burden on governments and on airlines.

Findlay (Findlay 1996) argues that, among the airlines, interests in reform are mixed but the number in favour of change is increasing. The context is the rise in the intensity of competition in the market, even in the presence of regulation. Consumers, especially in rapidly growing or dense markets, such as the Asia Pacific, now have more choices. There are now more routes, and therefore more options, for travellers. There are also more operators, leading to a rise in the frequency with which countries designate more than one carrier to operate their international routes.

The bilateral system imposes constraints on airline operations. It restricts airlines' rights to enter new routes and to construct new networks. It inhibits their ability to relocate offshore to reduce costs.

Airlines try to minimise the impact of these constraints. They use marketing alliances and code-sharing, and various types of sub-contracting. For example, seats may be purchased on lower cost carriers and then sold on to travellers by the major airline which has made the bulk purchase. Detailed contracts which specify the contribution of each party to the arrangement and how each side will respond to various contingencies might be a substitute for a higher degree of ownership and control.

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Airlines incur costs in the pursuit of these strategies. These include the costs of contracting in situations which otherwise might have been managed completely within a firm. Some airlines are happy to bear those costs, since there is an offsetting benefit — the bilateral system also constrains their rivals. But, as the intensity of competition increases, the value of the protective effect of the system is expected to fall.

Oum (Oum 1997) observes some other forces which might also highlight the constraints imposed by the regulatory system. These are the challenges from:

- the change in the cost competitiveness of Asia Pacific airlines and, in particular, the diminishing input price differentials in favour of the Asian carriers, which will add to the pressure to seek more options for adjustment; and
- the global alliance airlines which are setting up networks with more than one hub spanning entire continents at the same time as acquiring ownership shares in the feeder carriers — Asian carriers by contrast have so far achieved more limited alliance networks and Oum argues the current regulatory regime in Asia fragments the region and makes it more difficult for airlines to build networks there.

Policy options

Table 1 summarises the set of policy proposals that have been recommended or considered in a series of recent reports and papers. The sources are a report by Findlay, Paredes-Molina, Kim and Raguraman (1995) of a meeting hosted by four PECC members to consider these issues, the OECD (1997) report, Findlay, Hufbauer and Jaggi (1996), Oum (1997), and the report of the APEC Small Group. The market access proposals are summarised in more detail in Table 2 (other proposals are more easily interpreted by their titles). An apparently obvious solution is to adopt what the OECD calls a 'Big Bang' (OECD p. 117); that is, to accept the relevance of the GATS principles, apply that agreement to air transport, and deal with any competition policy issues that arise using more appropriate instruments than the current regulatory system.

A feature of these tables is the wide range of suggestions. Apparently the authors of these various reports have decided that the Big Bang may not work.⁵ The OECD explains why, in terms of:

- the affect of reform on private interests — in particular, the resistance shown by some potential losers from a move to a more liberal system;
- national perceptions of airline interests and the extent to which gains are more likely under the sort of reciprocity that characterises bilateralism;

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- constraints imposed by accepting the roles of existing institutional structures; and
- an unwillingness to permit foreign establishment in this sector or to permit foreign carriers to operate on domestic routes.

The OECD identifies a number of paths of transition to air transport liberalisation which would 'avoid doctrinaire solutions (and) rather ...seek pragmatic ways forward' (OECD p. 121). While the OECD notes the benefits of grouping air transport with other services (OECD p. 120), it appears to be accepting that negotiations concerning this sector are likely to take place in isolation and that therefore rapid change is less likely (pressure from losing interests cannot be offset by gains from reforms in other sectors). Consequently change is likely to be incremental.

Policy proposals can be divided into 6 groups:

- the choice of a system of rules;
- reform within bilateralism;
- multilateral models;
- ownership;
- competition policy; and
- dispute settlement.

A system of rules

The bilateral system operates on a set of rules that are contrary to those of other aspects of the international trading system. A reiteration of the relevance of the GATS principles to air transport is valuable. It helps maintain the presumption that air transport should be covered by the GATS and assists the assessment of more 'pragmatic' proposals. A reiteration of that point within APEC would also reinforce the principle of comprehensiveness in the APEC commitment to free and open trade and investment.

Reform within bilateralism

A number of reforms have been proposed within the bilateral structure. The first of these is to grant automatic exchange of the rights of market access to carriers based in the negotiating countries (called third and fourth freedom rights). Restrictions on the number of carriers and also the capacity that each carrier could offer would be lifted. The entry of carriers from third countries would remain restricted. The APEC Small Group in its 1995 report suggested there be more consideration of the scope for achieving more open market access by reform within the bilateral system.

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An example of this approach to reform is the US Open Skies arrangement. The United States has signed these agreements in the Asia Pacific region with Singapore, Malaysia, Brunei, Taiwan and New Zealand. Negotiations are continuing with Korea. The United States has also applied this strategy in Europe and has signed an Open Skies agreement with Canada.

The nature of an Open Skies agreement can be illustrated with the use of Figure 1. Suppose the United States signs Open Skies agreements with countries A and B. Then the US airlines and those of the signatory country have free access on the route between them. These Open Skies agreements also generally provide each party with automatic beyond (as well as intermediate) rights. That is, the US airlines have the right to pick up traffic in countries A and B and carry it to other destinations, subject to the agreement of those destinations. This will be possible for US carriers on the route between A and B, in both directions, as a consequence of each of those countries signing an Open Skies agreement. That is, the US carriers have free access on all the routes in Figure 1. However, airlines of country A or B have free access only on their direct routes to the United States, and not between themselves (unless they share a similar agreement to that negotiated with the United States). The US carriers therefore have access to the whole network as a consequence of these bilateral negotiations. In order for airlines of countries A and B to have access a bilateral agreement between them would have to be negotiated as well.

Furthermore, the agreements do not cover cabotage. Therefore the US carriers have the advantage of being able to draw on their extensive domestic networks, to which Asian carriers do not have direct access. As explained, the US carriers also have the flexibility to create networks between signatories in Asia whereas, unless those Asian countries have established similar agreements, their airlines do not.

The Open Skies agreements of the United States are an example of a 'hub and spoke' approach to regulation. One criticism of that approach has been that it is inherently discriminatory. This strategy certainly maintains the discrimination against third parties that is a feature of aviation bilateralism. It is not discriminatory, however, in the sense that some countries are precluded from engaging in negotiations. Nor do the terms of the agreements differ significantly. But a consequence of signing a sequence of these agreements is that the US carriers are systematically advantaged.

The agreements will have the effect of diverting traffic to the more open routes. For example, an agreement between the United States and Korea could have the effect of diverting travellers from the Japan – United States route to travelling to the United States

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via Korea.⁶ The loss of traffic on the direct route would impose costs on the Japanese airlines and have an impact on their attitude to negotiations with the United States on the direct route. Strictly, this sort of traffic diversion is an example of the disadvantage in efficiency terms of piecemeal reform, but proponents of the strategy, such as the United States, would argue it had advantages in terms of the political economy constraints created by limiting the scope of negotiations to this sector alone.

Another example of a liberal bilateral arrangement is that between Australia and New Zealand. It differs from the US model in two ways. First, the trans-Tasman agreement includes cabotage. Airlines of either country can therefore enter the other's domestic market. Second, the agreement is quarantined beyond rights. So in one dimension the trans-Tasman agreement is more liberal, but in another it is not. Furthermore, while the negotiators may not have set out to achieve it, the interaction between the negotiations and the identities of the airlines' owners has had the effect of relaxing the limits on foreign ownership of airlines of both countries.⁷

A further option under bilateralism (which could also be dealt with using the mechanisms discussed in the next section) is to focus on the charter market. The APEC Small Group suggested this as an option. This option might be attractive in the Asia Pacific region, given the expected growth of tourist traffic, the seasonal variations in traffic volumes and the interest of some of the region's airlines in establishing and operating 'no-frills' services.

Multilateral

A preferred route to reform is to construct multilateral structures. But how could this be done? The ultimate solution is to have air transport covered by the GATS. But if it is accepted that there are constraints to reaching that outcome directly and quickly, are there alternative routes which groups of countries can pursue and which can be argued to be consistent with the GATS and therefore, ultimately, liberalising?

One model of how to proceed has been suggested by Snape (Snape 1996), who stresses the importance of the membership rule as a test of openness of regional arrangements which apply to 'deeper' forms of integration. He notes that regional arrangements may cover new measures not now covered by the General Agreement on Tariffs and Trade (GATT). Those parts of the agreements may not be inconsistent with GATT principles even if only sub-groups of the signatories to the regional agreement take

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action of this type. But this is the only case, he argues, as long as the other signatories to the regional agreement can join on comparable terms (Snape p. 52).⁸

Snape does express some concern however about industry specific approaches to reform — for example, restricting negotiations to one sector, such as transport. Other experience of such arrangements, he argues, runs a greater risk of regulatory capture by producer interests in that sector seeking to protect themselves against competition from the rest of the world. This is precisely the risk involved in retaining bilateral arrangements in the air transport. Snape concedes, however, that openness to new members offers a safeguard against this happening.

The implication of this perspective is that groups of countries could negotiate liberal arrangements for the exchange of market access in air transport. The outcome would be regarded as liberalising as long as the membership criterion — that is, new members could join on the same terms as foundation members of the group — was met.

There are a number of ways in which an arrangement consistent with this principle could be established within the APEC region. One is that those countries who have signed Open Skies agreements with the United States could agree to multilateralise them in this way. Indeed a recent seminar discussion in Washington raised the possibility that a test of the United States' intentions in negotiating the Open Skies agreements would be to work to liberalise them multilaterally by this method (McFadyen, 1997).⁹ The APEC process could be used as a venue for those discussions, in which case other economies might wish to join.

Another strategy would be to pursue air transport objectives through the agendas for the development of existing regional trading arrangements. This might mean including air transport in regional arrangements (the ASEAN Free Trade Agreement (AFTA) or North American Free Trade Agreement, for example) from which it is generally excluded, and going further than this to 'dock' the air transport provisions in one regional arrangement with those in another.¹⁰ The extension of the treatment of air transport in Closer Economic Relations to the AFTA economies is an example. APEC's role in this case would be to monitor the commitments made and to comment on their contribution to the Bogor objectives. Parties to the arrangements would list their commitments in this sector in their Individual Action Plans.

Another route to reform within this set of options is to focus on the freight sector. As illustrated in Table 1, a number of commentators have proposed liberalisation of the freight sector as a first step toward broader reform. The freight sector might attract less

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resistance than the passenger sector (because of its lesser importance to some carriers who might be greater losers from new arrangements) and experience in that sector would generate information about the effects of reform which would be useful in the debate about passenger market liberalisation. The APEC Small Group also nominated freight as a sector worth special attention and suggested the issues in that sector be examined by a group of experts. But, in some cases, freight issues have been contentious.¹¹ For this reason, the PECC has suggested that a multi-modal approach to freight sector reform would be preferable on efficiency grounds and might also generate enough support to surmount resistances from operators of some modes in some economies (Pangestu, Findlay, Intal and Parker, 1996 p. 25).

Other proposals

A series of complementary policies have also been proposed. The first concerns ownership rules. As explained above, caps on foreign ownership of airlines are a critical component of the regulatory structure. Without those caps the identity of airlines could not be determined and their eligibility for market access under the bilaterals would be undecided. However, these caps are generally rising. Already, as a consequence, the question of whose interests the protective arrangements are serving is being raised. Apart from this source of pressure, air transport will eventually be captured by the application of APEC's non-binding investment principles. Strict application of those rules would render the bilateral structure ineffective. The APEC Small Group was also concerned about the interaction between work on investment liberalisation and policy in the air transport sector.¹²

The second concerns competition policy. The argument that the current regulatory system was an early example of an attempt at a coordinated competition policy suggests that attention to competition policy issues will also be important in the transition to new arrangements. That objective of the transition is to implement a more efficient form of competition policy that does not have the protective effects of the current arrangements. Some of the original concerns about the domination of particular routes by some carriers may still be present. But more pressing current competition policy issues include:

- the market power of carriers involved in alliances or code-sharing arrangements¹³;
- the methods for adopting a multiple designation policy¹⁴;
- access to infrastructure, including airports¹⁵; and
- the extent of state aid.¹⁶

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Principles for dealing with these issues might also be examined within the APEC process. An example might be whether policies actually have to be centrally coordinated or whether the ability of regulators in one country to seek action by their counterparts in another is sufficient.¹⁷ The APEC Small Group was also concerned about the competition policy issues associated with 'doing business' matters, with multiple designation (which it wanted to encourage); about removing any residual controls on fares (minimal in any case); and about cooperative agreements between airlines (which it encouraged subject to anti-competitive effects).

The third complementary policy topic is dispute settlement. Findlay, Hufbauer and Jaggi (1996) note that civil aviation is not covered by the GATS dispute settling mechanisms and observe that while bilateral agreements have arbitration clauses those clauses are not binding. As a consequence disputes can flare into 'wars', where the combatants actually threaten each other with sanctions. They suggest that APEC consider devising its own dispute settling mechanism for this sector, incorporating the following characteristics:

- the system would be open both to APEC members and to individual carriers;
- APEC members and carriers not party to the dispute would still be able to submit briefs;
- member panels would be appointed by elements of the APEC process, not by the parties to the dispute;
- panels would have to report within a particular time period; and
- a consensus would be required to reject a panel's findings.

Conclusion: APEC schedule

The APEC Small Group in its discussion so far has examined many of the key issues in the sector. It could however go further by operating within a richer framework for considering reform in this sector. An attempt has been made here to define such a framework and the discussion of proposals and an APEC agenda of initiatives is summarised in Table 3 (the scheduling aspect is discussed below). APEC priority areas are highlighted by the shaded boxes. The table also includes some boxes which are not shaded, indicating initiatives which might be taken unilaterally or bilaterally. Some comments on the likely gains from these initiatives and their possible contribution to the liberalisation of this sector are offered in the table. The APEC priorities are divided into two groups, one

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in which APEC's contribution is to provide a framework in which regional or sub-group activities take place and the other in which APEC has a more active role.

The framework approach could include re-asserting the relevance of the GATS principles to air transport, making clear the impediments to international trade in this service, monitoring the terms of any agreements on air transport amongst its members, commenting on competition policy principles which might be applied and asserting the relevance of its investment principles to this sector.

A more active role would have APEC doing all these things plus providing a forum in which US Open Skies might be multilateralised, pursuing the PECC proposal for free freight markets amongst its members, creating the momentum for air transport to be included in the GATS, asking its Transport Ministers to coordinate the introduction of slot auctions for air space where necessary, and establishing a new dispute resolution system.

Providing a framework in which its members might pursue air transport liberalisation does not rule out APEC's also being an active participant in the process. These are not alternatives, since both can be pursued, but parts of the former are a prerequisite for the latter. Also active participation by the whole of APEC may tend to hinder any efforts at the sub-regional level, so that APEC's priority role in the short term would be to provide the framework within which those sub-regional initiatives could be evaluated.

Another point is that the timing of APEC's contributions may differ — the departure times for all these efforts could be immediate but the arrival times would vary. Factors likely to contribute to that variation are the time required to do the necessary analytical work on some topics, and the effort required to convince APEC members, or a critical mass of members, of the value of an initiative. The research community continues to play a vital role in this work, particularly in terms of measuring the costs and benefits of liberalisation options.¹⁸

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Table 1 Summary of policy proposals

Policy proposal	FPKR (1995)	OECD (1997)	FHJ (1996)	Oum (1997)	APEC (1995)
Market access issues					
rules					
Accept GATT/GATS principles					
within bilateralism					
Grant automatic 3rds and 4ths					
Open charter markets					
Permit open skies at 2nd airports					
multilateral					
Set up regional clubs					
Free freight markets					
Apply GATS					
Other issues					
Relax foreign ownership rules					
Coordinate competition policy, eg					
• review rules on alliances					
• adopt multiple designation					
• auction airport landing slots					
• limit state aid					
Revise dispute settlement process					

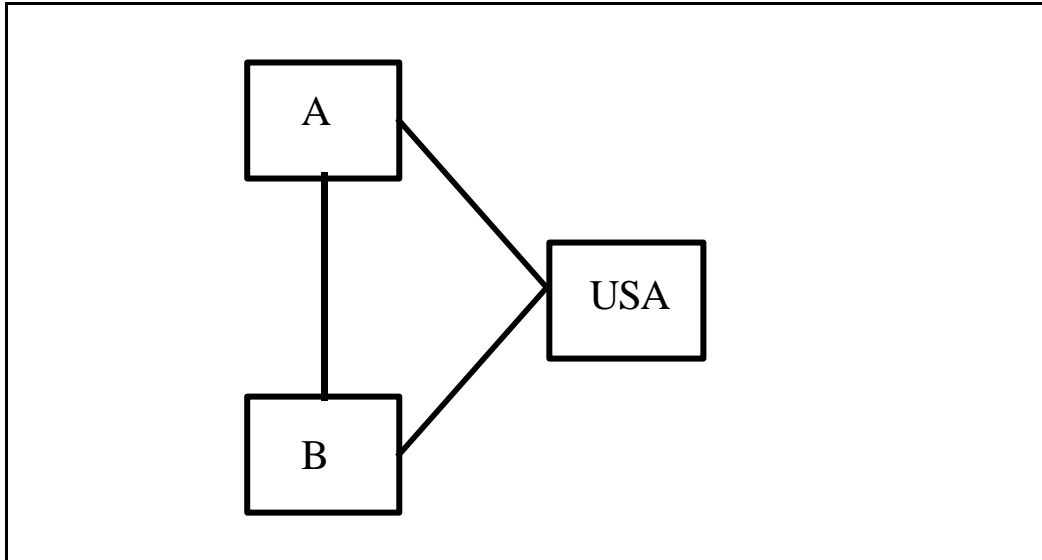
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Table 2 Outline of policy proposals on market access

rules	
Accept GATT/GATS principles	Restate the relevance of the principles of the world trading system to air transport and therefore the use of those principles as a benchmark for evaluating subsequent proposals, and also for the purpose of sustaining the pressure to include all aspects of air transport in the GATS.
<i>within bilateralism</i>	
Grant automatic 3rds and 4ths	Countries at each end of a route agree to not impose restrictions on the number or capacities of carriers based in either party - restrictions are maintained on airlines from third countries (beyond point and intermediate point rules are negotiable).
Open charter markets	Relax market access restrictions only in markets for charter flights.
Permit open skies at 2nd airports	Relax market access restrictions only on routes to secondary airports.
<i>multilateral</i>	
Set up regional clubs	Relax restrictions on market access among all club members and allow new members to join on the same basis as foundation members - applies to passengers and freight.
Free freight markets	A group of economies relax all market access rules to other members in the freight sector only.
Apply GATS	A global approach to market access in both passengers and freight.

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Figure 1 Open skies framework



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Table 3 The APEC agenda

Policy proposal	APEC framework role	APEC active role
Market access		
	<i>rules</i>	
Accept GATT/GATS principles	APEC reasserts the relevance of the GATS principles to air transport, which is put on its own services sector negative list.	
	<i>within bilateralism</i>	
Grant automatic 3rds and 4ths	Benefits in terms of competition, but has disadvantages of bilaterals.	
Open charter markets	Creates a lead sector which could have a demonstration effect.	
Permit open skies at 2nd airports	A first step, especially where hubs are congested.	
	<i>multilateral</i>	
Set up regional clubs	APEC monitors sub-group initiatives including region to region agreements.	APEC is used as a forum in which to multilateralise US Open Skies agreements or to extend other regional agreements.
Free freight markets	APEC monitors sub-group initiatives including region to region agreements.	APEC adopts a policy of free freight markets amongst its members, including modes other than air.
Apply GATS		APEC promotes a global agreement on air transport under the GATS.
Other issues		
Relax ownership rules	APEC investment principles are applied to air transport.	
Coordinate competition policy	APEC agrees on principles for the coordination of competition policy.	APEC examines in more detail specific air transport issues, eg, those associated with auctions of airport landing slots.
Revise dispute settlement process		APEC establishes an air transport dispute settlement mechanism.

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Notes

- 1 This paper was prepared for presentation to the Institute of Southeast Asian Studies APEC Roundtable 1997, 6 August, Singapore. Part of the work reported here was supported by a grant from the Australian Research Council.
- 2 The Small Group included 14 economies: Australia, Brunei Darussalam, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Philippines, Singapore, Thailand and the United States.
- 3 See Hewitt (1994), p. 15, for estimates of fifth freedom access to routes in East Asia in 1992/93, which range from 2 to 27 per cent.
- 4 This section is based on Findlay, Paredes-Molina, Kim and Raguraman (1995), a report of a meeting hosted by four Pacific Economic Cooperation Council (PECC) economies on these issues. This section also draws on the editors' overview in Findlay, Chia and Singh (1997).
- 5 This OECD report is interesting for the reason that it represents the first occasion on which an OECD report has contained a dissenting opinion. The 'Japanese view' (pp. 147-9) criticises the arguments in favour of liberalisation given in the main report, on the grounds that liberalisation may lead to lower safety levels, to the creation of monopolies, to the absence of participation in the market by some countries and to the lack of service to remote areas, while airport constraints also make it impossible to compete freely.
- 6 The current United States–Korea agreement has no capacity restrictions and accepts the designation of more than one carrier. The new agreement proposed by the United States would however give the Korean airlines unlimited access to points within the United States (although not between them) as well as beyond and intermediate rights. The capacity of the Korean and US airlines to offer this service will be increased once the new Seoul airport is completed (Dempsey and O'Connor, 1997).
- 7 Ansett's domestic Australian operation is now actually completely foreign owned by News Corporation and Air New Zealand. Ansett New Zealand is now 100% owned by News Corporation. Ansett's international operations have been placed into a separate company which is 51 per cent owned by Australian institutional investors (Findlay and Kissling, 1997)
- 8 Snape argues that there is a precedent for this principle in the GATS, Article VII of which applies to recognition of education achievements or other standards. It says that:
 - a Member may recognise the education or experience obtained, requirements met, or licenses or certifications granted in a particular country (through) harmonization or otherwise... A Member which is party to (such) an agreement shall afford adequate

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opportunity for other interested Members to negotiate their accession to such an agreement or arrangement (and a) Member shall not accord recognition in a manner which would constitute a means of discrimination between countries in the application of its standards or criteria... Recognition should be based on multilaterally agreed criteria... .

- 9 Other issues would also have to be considered in this process, beyond those rights exchanged in the current versions of US Open Skies agreements. Examples of these other issues are the competition policy questions discussed below.
- 10 Bowen (1997) reviews the options for treatment of air transport in AFTA and also outlines some of the sub-regional arrangements occurring within Southeast Asia, particularly within the 'growth triangles'.
- 11 A recent example is in the negotiations between the United States and Korea on open skies where the United States wants cargo seventh freedom rights and the Koreans have yet to agree. Cargo seventh freedom rights are those operated, for example, by a US aircraft based in Korea (these are similar to fifth freedom rights, except in that case the aircraft should originate or terminate in the airline's home country).
- 12 The privatisation of national carriers may be required as a prior step to dealing with these issues. The experience in the Asia Pacific region is reviewed by Forsyth (1997).
- 13 The Australian Productivity Commission (1997) has recently released a report on the impact of international airline alliances in which it argues that alliances could lead to lower fares and that concerns about the market power enhancing effects of alliances are greater in the presence of barriers to entry, including those which are a consequence of the regulatory system.
- 14 Findlay and Round (1997) and Kim (1997) examine some of the options for managing the transition to multiple designation, in the former case by applying the administrative methods used in Australia and in the latter by applying the formula approach used in Korea.
- 15 The importance of resolving issues of airport access, through the use of an auction mechanism which is called 'Landing Slots Plus', is stressed by Findlay, Hufbauer and Jaggi (1996).
- 16 The OECD report contains an extensive discussion of issues associated with limits to state aid, including the issue of support for remote areas. The special issues associated with the Pacific Island economies are examined by Forsyth and King (1996).
- 17 Warren and Findlay (1997) compare some of the competition policy issues in telecommunications and air transport.
- 18 The first International Air Transport Conference of the Air Transport Research Group of the World Congress on Transportation Research Society, organised by Tae Oum at University of British Columbia in June 1997, revealed a large amount of work already in progress, eg Dresner and Oum (1997), Betancour and Campos (1997), Morrell (1997), and Gillen, Harris and Oum (1997).

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