

Session 4

Liberalization of Airline Ownership and Control: Addressing Social and Labour Concerns

Air transport promotes freedom of movement and brings people closer together

One of these complexities is the “ownership and control clause” found in international air services agreements and most national

Ownership and Control (O&C) restrictions:

-First, the restrictions prevent cross-border mergers which are an important component to expansion, consolidation of operations and growth in any other industry.

-Second, the airline industry is highly cost intensive, characterised by cyclical demands, vulnerability to external shocks, and very low profit margins compared to other industries.

- Why stick to the O&C restrictions?
- What purpose do they still serve today?
- And what impact would their removal or liberalisation have on the industry, workers and consumers?

Some of the arguments put forward in favour of maintaining O&C restrictions are:

- the maintenance of traffic rights under bilateral air service agreements*
- providing a clear identity and link to a regime of national labour law and safety and security oversight*
- preventing “abuse” of traffic rights by nationals of States that do not have rights under the governing air services agreement.*

Securing airline financing is faced by severe difficulties

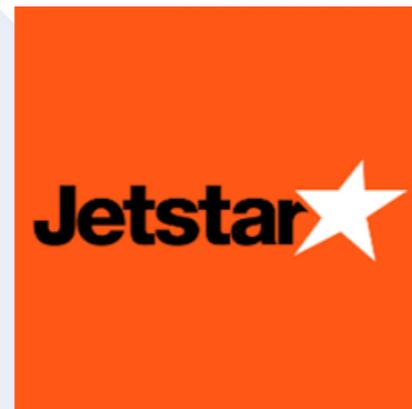
- Investors balance expected returns against undertaken risks
- Small markets and inability to reap economies of scale and scope discourage investors
- Complexities in the regulatory environment and legal uncertainties create further disincentives for investment
- Barriers may limit market size
- Barriers may significantly inhibit financial/portfolio investors
- Securing financing from governmental sources is also a difficult issue
- Governments have other priority sectors to finance rather than aviation

Current attempts to circumvent the regulatory restrictions are not allowing the industry to realise its full potential

Effectively dealing with ownership and control clauses may have a positive impact for the airline sector

The European Union has created new industry dynamics by substituting national with community ownership and control clauses



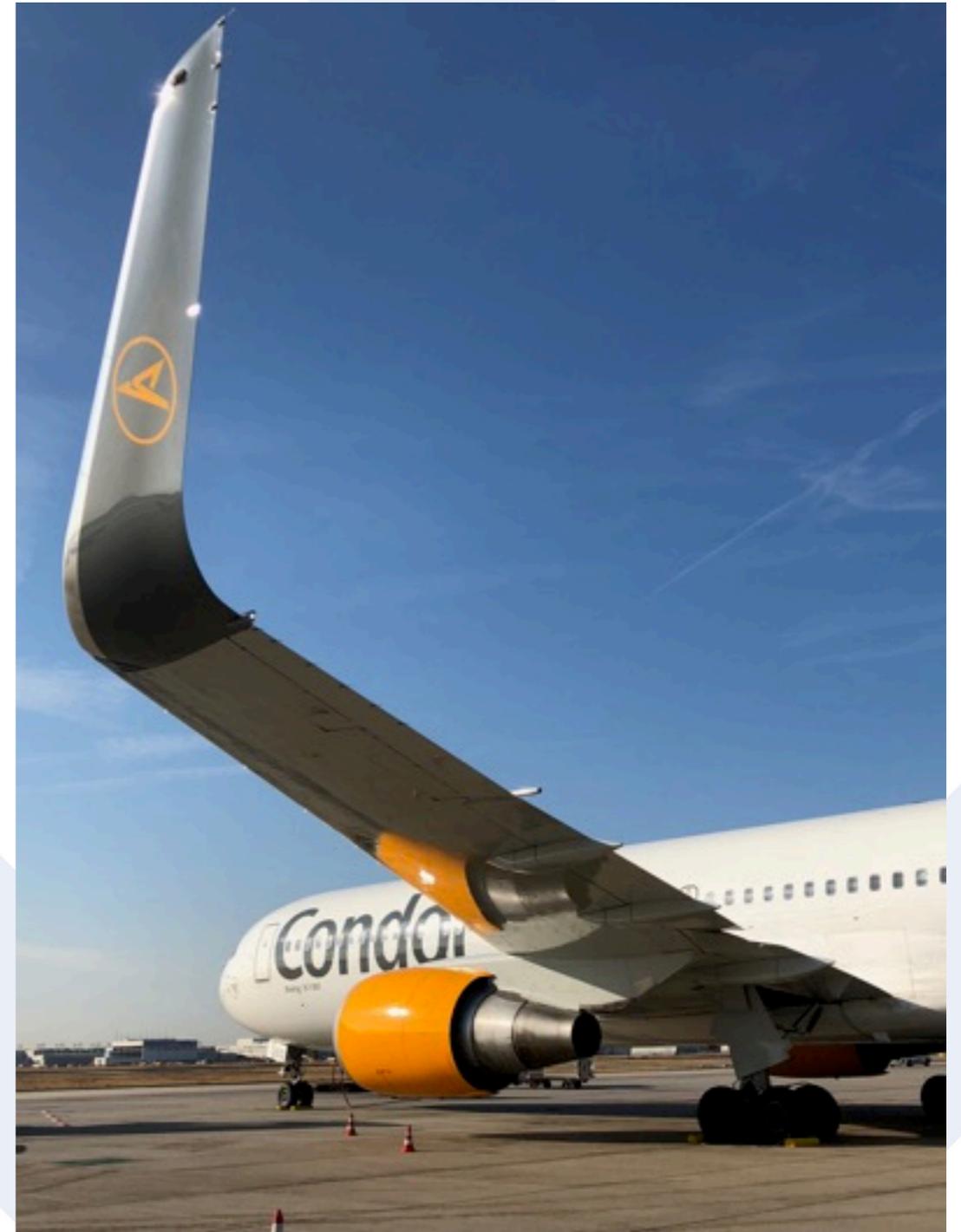


Circumvention efforts add costs; raise complexity; and create legal uncertainties.

They fall short of achieving the benefits of full integration offered by a relaxation of ownership and control clauses

Financing will flow to the airlines that investors believe are most likely to be successful

Successful airlines will be the carriers that have the lowest operating costs and/or the greatest ability to generate revenues



Future industry will be dominated by carriers pursuing cost leadership and/or revenue generation models that extend beyond national boundaries

These carriers will have the access to private financing and will be able to gain market share

The industry will require a market that better allows for international growth

Individual states to recognize community-wide ownership and control of carriers domiciled in the community of states

Other regional blocs could adopt similar approaches to facilitate the creation of successful carriers

The successful airline industry that will emerge will be well-managed, attract investments, benefit travellers and drive GDP growth

Regulatory barriers are obstacles to the movement towards this emerging industry

The barriers can be lifted by governments or circumvented by airlines

A new multilateral approach to airline regulation will only emerge under the auspices of ICAO



ICAO

Conclusions

- Decision makers should consider the benefits of being proactive in creating the environment that will allow airlines access to the capital necessary to effectively compete in the industry
- This may include relaxing ownership and control restrictions within a regional context. States should consider acting in concert with like-minded states to seek regional solutions to develop the environment needed to support aviation growth
- Moreover, regional blocks should develop a dialogue with other regional blocs to facilitate aviation growth for the benefit of their populations and economies
- Although ownership and control may not be seen as a major problem to some governments and airlines given the advent of alliances and the other workarounds employed to facilitate air transport, it may be the case that the states that are proactive in developing policies that facilitate aviation growth will produce the winning airlines in the long run