

**ARAB CIVIL AVIATION COMMISSION SEMINAR
ON ACCOMPANIMENT OF AIR TRANSPORT
LIBERALISATION BY NATIONAL
LEGISLATIONS
RABAT, DECEMBER 21-22, 2005**

**Third Session:
The Regional Experiences**

**The role and experience of ECAC as a regional
organisation in setting up a legal and regulatory
framework of air transport liberalisation**

**by Mr Raymond Benjamin
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INTRODUCTION

Distinguished delegates,

Ladies and gentlemen,

1. I was very happy to receive your kind invitation and it is a pleasure for me to be here in Rabat to address a gathering of friends, colleagues and air transport experts on an interesting topic.
2. I intend to approach the subject by first of all discussing *why* in my view we have liberalised air transport in Europe, in particular in the European Union. I

will then to go on to take a look at deregulation in the United States, followed by an outline of some of the effects of liberalisation in Europe. I will then address what is happening now in the field of liberalisation and what is likely to happen in the future and finally will say a few words about the ECAC/Morocco relationship in the context of air transport liberalisation.

WHY DID WE LIBERALISE THE INTRA-EUROPEAN AIR TRANSPORT MARKET?

3. There are of course a number of reasons, not all of which apply to all ECAC Member States. Let me outline, in no particular order, some of these reasons:

- In 1978 the United States Congress deregulated the US domestic air transport market virtually overnight by abolishing the Civil Aeronautics Board. Deregulation was expected to result in lower fares and in general more vigorous competition throughout the US internal market. Over a period of time, as deregulation worked its way through the United States domestic system, it forced market structure changes on European airlines operating on the North Atlantic and serving United States destinations. This, in retrospect, was probably inevitable i.e. once a market the size of the United States domestic market deregulated there was bound to be a spillover into the international arena.
- In the case of some ECAC Member States, there were entirely practical reasons for viewing liberalisation or deregulation as a positive thing, providing benefits to their economies. For example, almost two decades ago, the Irish government, which like most ECAC Member States operated a strict policy of designating only the national carrier, Air Lingus, on bilateral routes to and from Ireland, broke with this policy by authorising and designating a second airline, Ryanair, to serve the London/Dublin market. The market expanded, both carriers profited, as did Irish tourism revenues. As you probably saw, Ryanair recently stated that at the end of this year it is likely to be the biggest scheduled international airline in the world. It is already one of the most successful.
- For a number of our Member States their restrictive policy towards civil aviation and in particular designation of a single carrier on bilateral routes went against the grain of their overall economic policies. In other economic fields, these States had

long since accepted what were in their views the benefits of looser state controls in the regulation of other economic sectors. They had little, if any, objection in principle to considering the liberalisation of the air transport market.

- Finally, and this in many respects is the most important reason, the results of a number of legal decisions in the European Union clarified that the competition laws of the Treaty of Rome applied to air transport. Once that had been accepted, with some reluctance by a number of EU Member States it should be said, liberalisation was probably inevitable. The question was rather how was it to be managed? The difference in Europe when compared to the United States' approach was that Europe took a conscious decision to liberalise on a gradual basis and did so over several years by implementing what we called the first, second and third packages. The first package was adopted in December 1987, the second in June 1990 and the third in July 1992.

4. Given the number of EU Member States and their different approaches to regulating air transport, it's my personal view that without the intervention of the European Commission and European Union and the imposition of a series of liberalising rules applicable in all Member States, the air transport liberalisation of Europe would not have been the success it undoubtedly has been and could certainly not have been accomplished in a homogeneous fashion.

A LOOK AT US DEREGULATION

5. Deregulation in the United States is now over 25 years old but its effects were so fundamental and far-reaching that we continue to study them. As I said earlier, the United States government took a decision to deregulate from one day to the next and while this might look, and did at the time, extreme to us in Europe, it was after all a single market. In addition, the notion of deregulation had been flagged up for some time beforehand (all of you will I am sure remember the CAB Sunset Act) and the consensus in the United States Administration was that it was not only possible to do it in this fashion, but preferable. The intention in deregulating was to free up airlines to focus on their own markets, costs, operations and business decisions. One of the results was the development of a complex hub and spoke route system in the United States market, which with increasing competition in recent years from low cost point-to-point carriers, is under critical focus. Some of the more important strategic developments

under US deregulation were quickly shared on a worldwide basis. These included computer reservations systems and extremely sophisticated yield management systems. Both expanded airlines' capabilities to offer a range of services, fares and destinations to their clients, while allowing better capacity utilisation and control of costs.

6. US deregulation resulted immediately in a gradual and sustained decline in average airfares and an improvement in the overall quality of services, measured by both quantitative and qualitative factors. Numerous new airlines started operations while established airlines expanded into new markets. Of course, and as you would expect, there have been a large number of airlines leaving the market and a number of mergers and acquisitions.

7. This is merely a very brief picture of the United States' experience and I offer to you just to set the scene for what came next, which was liberalisation in the European market. In Europe, and before the European Union became actively and irrevocably involved, ECAC had decided to conduct a detailed study on competition in air services. The group charged with this task was called "Compas" and it was chaired by a colleague of mine, a member of the ECAC Secretariat, who was in the Irish Aviation Administration at the time. The seminal work produced by this group - the Compas report - was probably the main influence in subsequent liberalisation on a legal basis in the European Union. As I've outlined earlier, full liberalisation in the European Union was accomplished gradually and although the Third Package was adopted in July 1992, most of the measures in it were phased in over a period of four years. That meant, for example, that cabotage inside the Community was not liberalised until April 1997.

8. The feeling in the European Union is that air transport liberalisation has largely been successful, allowing unprecedented expansion of air transport in Europe. I should stress that this view does not come merely from the European Commission but is shared by EU Member States. Monopolies that we took for granted before liberalisation have been virtually swept away and greatly increased competition has reduced airfares to the benefit of consumers. What we have seen in brief is a move from a very tightly regulated market based on bilateral agreements, under most of which a single, so-called flag carrier on either side, was designated and had exclusive route rights, to a highly competitive single market. The discretionary powers of the EU Member States have been greatly curbed and airlines have been set free to establish

their own fares, open new routes and decide themselves what capacity they should offer.

9. As a direct result, the number of airlines grew enormously inside the European Union. I think at the last count there were about 150 companies offering scheduled flights, but that figure may now well be higher. There has been a big increase in the amount of traffic and more competition on routes, which formerly were the preserve of two national carriers. New routes have been opened up and since 1998, traffic on intra-Community routes has been greater than the combined traffic on domestic routes. We are all aware that there has been a great increase in promotional fares in Europe and one of the most startling innovations has probably been the emergence of low cost carriers. Every fourth seat in Europe is now offered by these low cost or no frills airlines. They continue to grow.

10. At the moment, the European Commission is in the process of revising the third package but that is a matter for my colleague from the Commission, who I am quite confident will address this issue.

11. I am not of course claiming that everything about liberalisation or deregulation was necessarily seen as beneficial by all involved in it. It has always been accepted, both in Europe and the United States, that in liberalising or deregulating, regulators must take the rough with the smooth. By that I mean that once the emphasis is on allowing the free play of market forces, we are bound to see, and indeed have seen, an increase in bankruptcies and a sharp decline on occasions (particularly in the United States) in the number of carriers through mergers and acquisitions. This pattern has not yet firmly established itself in Europe where liberalisation, compared to deregulation in the States, is not yet fully mature. On the other hand, the market place is supposed to punish poor management, and maybe that's what we have seen in the aviation industry. The reality probably is that failure of airlines means that market forces are working.

RECENT DEVELOPMENTS AND A LOOK AT THE FUTURE

12. Those of you, who like me, attended the ICAO Fifth Worldwide Air Transport Conference in Montreal may have been struck, as I certainly was, by the evolution in attitudes across the spectrum of Member States towards a greater emphasis

on liberalising the international air transport market. I would suggest, for your consideration, that this trend to increasing liberalisation is now well established. The question now facing us is whether further moves in this direction take place on a bilateral, inter-regional, multilateral or even ICAO-wide level. One example of recent developments that illustrates the possibilities for regional co-operation on liberalisation is the recent talks between the European Union and the United States Authorities on liberalising the North Atlantic market. My colleague from the Commission is very likely to develop this theme so I will not go into any more detail. Nevertheless, should the result of these talks prove to be acceptable to both sides, we will see developing a whole new era on the North Atlantic which is a logical extension of the deregulation in the United States on the one hand and the liberalisation of air transport in Europe on the other.

CONCLUSION

13. Decisions as to future policy on liberalisation of its air transport relations with other countries, in particular with the European Union as a bloc, are entirely a matter for the Moroccan Authorities and I have no comments to offer in that regard. What I would like to say however is that it is obvious that tourism related passenger transport is of particular importance to Morocco and in that context, the competitive advantage of aviation over maritime or land-based transport mode is obvious. Most tourists to Morocco, if my understanding is correct, arrive by air and these air passengers expect high standards in terms of service, flexibility, safety etc and Morocco, I believe, has proved its ability to deliver these high standards. As a job intensive service industry, tourism is of particular importance to Morocco, and competitive air transport, given the increasingly global nature of the tourism industry, will play an important role in maintaining Morocco's market share in this economic sector. I believe that this factor - the importance of tourism to the national economy - will be one of the main considerations that the Moroccan Authorities will take into account when they look at the relative merits of increased liberalisation of the air transport market.

14. The message I would like to leave with you today is that ECAC's air transport relations with Morocco are of particular importance to us. The close link between our aviation security training institute in Brussels and your equivalent school are evidence of this. Should the civil aviation administration in Morocco think it useful,

ECAC would be prepared to organise in the coming year, an appropriate forum, whether it be a workshop or a training course on the issue of air transport liberalisation, with particular reference to the Morocco/ECAC relationship. I leave you to reflect on that suggestion, which I would be only too delighted to act on.

15. Again, thank you for inviting me to address you. It has been a pleasure and I am of course more than willing to take questions.
