 Outline of presentation

1 - The regulated period
   1-1 International traffic
   1-2 The domestic US market
   1-3 Europe

2 - The deregulation years
   2-1 The US deregulation
   2-2 International traffic
   2-3 The European single market

3 - An evolving situation
1- The regulated period: a historically regulated industry

- Domestic traffic in the USA regulated until 1978
- European “Domestic” traffic liberalized between 1987 and 1997
- International traffic still regulated by bilateral agreements between countries
  - limited competition: some freedom in prices and frequencies but limitations in numbers of airlines

1-1 International traffic

- 1918-1939: the era of absolute national sovereignty
- 1944-1978: the era of regulation: the Chicago-Bermudas organization
- 1978 …: gradual liberalization of international relations
The era of absolute national sovereignty (1918 – 1939)

- Paris conference in 1919: principle of national sovereignty
  - airspace above a country belongs to that country
- International relations based on reciprocity
  - much haggling (commercial bargaining)
  - much distrust and political considerations
  - little efficiency
- System not favorable to the development of international trade

The era of regulation: 1939–1978

- The Chicago conference (November 1944)
  - organized a standard framework for international aviation
- The bilateral agreements
  - The UK-US agreement “Bermuda” in 1946
  - How it worked until 1978
- IATA and the price fixing conferences
  - International Air Transport Association (IATA) created in 1945
The Chicago conference: conflicting positions

- The USA propose a bilateral framework for negotiations
  - in a liberal context (prices, frequencies…)
- The UK proposes a world authority to allocate traffic rights and manage all regulations
  - economic regulation (prices, frequencies…)
  - other areas (security, standards…)
- Choice made of a bilateral framework
  - with possibilities of regulating prices and capacities

The results of the Chicago conference

- Creation of ICAO
  - world authority, establishing standards in terms of transport, security, air traffic control…
  - no powers of economic regulation
- Definition of “freedoms of the air”
  - “exhaustive” list of what kind of routes an airline can do
  - definition of 5 “freedoms”
- Framework of bilateral agreements
The technical freedoms

- **First freedom:** right to fly over a territory
  - The British carrier BA overflies France
- **Second freedom:** right to make technical stops in a foreign country
  - BA stops in France without taking passengers

The commercial air freedoms

- **3rd freedom:** right to disembark passengers in a foreign country when coming from home state
  - Air China flying from Beijing to Tokyo (3rd), and taking passengers in Tokyo back to China (4th)
- **4th freedom:** right to embark passengers in a foreign country and take them to home country
  - Home country
The commercial air freedoms

- 5th freedom: Continue service of 3rd or 4th freedom to third country.
  - Air China flying from Beijing to Tokyo and then on to Los Angeles and taking passengers in Tokyo

The additional freedoms

- 6th freedom*: combine 3rd and 4th freedom rights, to open a service between two foreign countries
  - Example: Air China flying from Paris to Tokyo through Beijing
The additional freedoms

- 7th freedom: 5th freedom without restrictions
  - Air China flying from Japan to the USA

- 8th and 9th freedom: "cabotage" with or without restrictions: right to fly inside a foreign country
  - British Airways flies inside France
  - Air China flies inside Japan
The Agreements

The Transit Agreement: 97 countries over 159 in Chicago, agree to sign this agreement to exchange technical freedoms. Many signed later on.

The Transport Agreement: a second agreement was proposed in Chicago, to exchange commercial freedoms. It was however not signed, and never came into effect.

Framework of bilateral agreements

Points of entry between countries
- Different from routes opened!

Freedom exchanged (3-4-5)

Designated carrier(s) for each country
- carriers designated by name

Capacities (fixed or not)
- 50/50 if fixed

Pricing rules
IATA: International Air Transport Association

Created in 1945 as an association of airlines

Role of IATA:
- Organize price fixing conferences
- Organize cooperation between airlines: interlining, pooling agreements.
- Counter-power to the governments
- Today most major airlines and others...
  - about 230 members worldwide

IATA members: North America

- Air Canada
- Air Transat
- Alaska Airlines
- American Airlines
- Atlas Air
- Cargojet Airways
- Continental Airlines
- Delta Air Lines
- FedEx
- Hawaiian Airlines
- JetBlue
- United Airlines
- UPS
- US Airways

Who is missing?
The bilateral agreements

- First agreement signed between the US and the UK in 1946: The Bermuda I agreement
- How it worked until 1978: principle of reciprocity
  - Exchange of entry points (3rd and 4th freedom) and fifth freedom
  - Mono-designation
  - Equal share of capacity
  - Very restrictive rule until 1978: double approval rule
- No competition on international routes!

1-2 The domestic US market

- 1925 - 1938: Beginnings of commercial aviation with the Air mail Act
- 1938 - 1978: The era of regulation under the Civil Aeronautics Board
- 1978 … : liberalization of domestic aviation with the “Airline Deregulation Act”
The beginnings: 1925 – 1938

- Air Mail Act signed in 1925
  - Postal service entrusted to private carriers
  - Generous contracts from federal government: efforts to develop postal air services
- Important development of air transport even for passengers
  - In 1926, 13 airlines, 2 millions of RPKs
  - In 1930, 38 airlines, 137 millions of RPKs

1934 – 1938: Crisis years

- In 1934 federal subsidies are questioned and contracts cancelled
  - The Post Office Department (POD) and the airlines are under suspicion of “complicity”
  - The POD is accused of protecting the airlines
- The system is not economically sound
  - Airlines use subsidies for mail to transport passengers
  - Prices are linked to costs neither for post nor for passengers
  - Bankruptcies and incidents are multiplying
1938: A global regulation (1)

- **Aim:**
  - promote development of air transport: air transport seems particularly promising in this large territory
  - protect the industry from bankruptcy and the public against abusive prices

- **Tool:** government agency regulating the market
  - as exists in other transport industries (railroads, 1887, roads: “motor carrier act” 1935)
  - In the USA public services regulation began with transport modes

**Global networks and cross subsidies**

- In a global network, some routes are more profitable than others
- One means of developing such a global network is to use cross-subsidies:
  - use profits from profitable routes to subsidize non-profitable ones
  - possible only if there is no price competition on routes, when airline is in monopoly situation on the network or when prices are regulated
1938: A global regulation (2)

Why use regulation of the market?
- there seems to be economies of scales: no competition possible
- Fragile industry: protection from destructive competition
- the objective is to develop a small number of large airlines and a global US network covering many cities

How to do it:
- by protecting airlines from competition,
- by subsidizing them
- by promoting cross subsidies

1938: The civil Aeronautics Act

- Creation of CAB: Civil Aeronautics Board
  - Federal agency (at first Civil Aeronautics Authority)
- CAB regulates all economic aspects of air transport
  - Entry on the market: certification of trunks, locals
  - Traffic rights on each route
  - Tariffs
  - Agreements and mergers between airlines
  - Subsidies for small routes
- After 1940, the CAB regulates also safety aspects
The policies of CAB (1)

- Allow very little or no entry on the markets
  - by certification of airlines: certification of trunk airlines in 1938 (19 trunks), no certifications of trunks thereafter. Certification of local airlines (23 locals) in 1940

- Allow little or no competition on routes
  - by restricting routes to one or two airlines (depending on traffic)
  - by forbidding price competition: CAB regulates prices
  - but no control over frequencies or capacities

The policies of CAB (2)

- Regulates mergers
  - prevents bankruptcies by allowing some mergers
  - try to prevent monopolization of markets by preventing others

- Subsidizes small routes
  - in 1938 subsidies are one third of revenues for airlines
  - later CAB encourages cross-subsidies (by authorizing high prices on profitable routes): after 1959 no subsidies for trunks
  - until 1978 still some subsidies for small routes
The effects of regulation: the US air transport system

Important development of traffic
- x 300 between 1938 and 1978

Services to medium sized markets
- Thanks to CAB subsidies and cross subsidies
- the longest routes subsidize the shortest in the sixties (CAB study)

Development of large (profitable) airlines
- 11 trunks in 1978 dealing with all continental traffic, 13 locals, many smaller airlines (the commuters)

Safe activity

The effects of regulation: the perverse effects

No price competition, but frequency competition
- too many flights, bad load factors (50% in 1976)
- high costs (flying empty costs the same as flying full!)
- high tariffs (airlines asked CAB for higher prices)

Airlines are too well protected:
- no incentives to reduce costs: at the end of the seventies, the trunks are called “the dinosaurs”

The public is faced with too high prices
- air transport still largely reserved to business travelers
1-3 Europe before liberalization

- Until the mid 80th, international traffic is ruled by (non liberalized) bilateral agreements
  - no competition: the aim is to protect the national airlines
- The canvas:
  - one "main" airline for each country
  - capacity is shared equally (and revenues can be shared)
  - prices are fixed by IATA
  - double approval rule

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2 - The deregulation years: from 1978 until today

- Domestic traffic in the USA deregulated in 1978

- International agreements evolve towards more competition since 1978 between the USA and the rest of the world
  - gradually more price freedom since 1978
  - new “open skies” agreements proposed since 1992

- European “Domestic” traffic liberalized between 1987 and 1997
  - a largely free European market

2-1 The US deregulation

- Context and objectives
- The Airline Deregulation Act
- What happened?
  - Market structure
  - Networks
  - Prices
  - Airlines
- The results
The US deregulation: the context

Politic context
- Liberal policies: “Markets do better than the government”
- Many deregulations to come in all sectors of the economy (the Reagan era: 1980-1988)

Economic context
- Profitable industry (very few subsidized routes)
- Large (and inefficient) airlines
- Potential oligopolistic competition
- Skepticism about economies of scales

Returns to scale

Average cost

Increasing returns to scales (economies of scale)

Decreasing returns to scale

Critical Q

Production
The objectives of the US deregulation

- The first step is to introduce more competition by deregulating.
- Competitive pressure will then give airlines incentives to lower their costs.
- More competition and lower costs should result in lower prices and better services.
- Lower prices will then lead to a faster development of traffic and a higher social welfare.
- More people will have access to air transport.

The Airline Deregulation Act
(Oct. 1978)

- After a short transitory period, the market becomes «free» for all airlines (old and new) to access and serve.
- Access to the market.
- Traffic rights (after 3 years).
- Prices (after 4 years).
- Mergers and agreements ruled by the Department of Justice (DOJ).
- Subsidies allocated by auctions (Essential Air Services).
What happened?

- Difficult to really know the pure effects of deregulation!
  - The industry would also have evolved without deregulation
  - It is very sensitive to the economic environment
- Short term and long term effects on:
  - The structure of the market
  - Networks: development of the hub and spoke
  - Prices
  - Airlines

The structure of the market: 1978 - 1983

- The first post deregulation period is one of intense competition
  - New airlines are created (about 120)
  - Existing small airlines (commuters) enter the nationwide market (about 80)
- Severe competition between new and old airlines
  - Price competition (price wars)
  - Aggravated by the 1981 crisis of overcapacity (oil shock)
  - In 1983 bankruptcy of Branif, ending this period
The structure of the market: 1983 - 2007

- Progressive concentration of the market
  - Bankruptcies and mergers, few new entrants

- Development of « mega carriers » with an extensive network, owning smaller subsidiaries
  - The large 1978 airlines have either disappeared (Pan Am, TWA, Eastern Airlines, Branif…)
  - Or they have turned into « mega carriers » (American Airlines, United, Delta, Continental)

- A new model of airline has been developing: the low-cost airline (following Southwest)

The US majors: from 1978 to 1998

### 1978

<table>
<thead>
<tr>
<th>Airline</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>United</td>
<td>21,9%</td>
</tr>
<tr>
<td>American</td>
<td>13,6%</td>
</tr>
<tr>
<td>Eastern</td>
<td>12,2%</td>
</tr>
<tr>
<td>Delta</td>
<td>11,0%</td>
</tr>
<tr>
<td>TWA</td>
<td>9,6%</td>
</tr>
<tr>
<td>Western A.L.</td>
<td>5,2%</td>
</tr>
<tr>
<td>Continental</td>
<td>4,6%</td>
</tr>
<tr>
<td>Braniff</td>
<td>3,9%</td>
</tr>
<tr>
<td>National</td>
<td>3,6%</td>
</tr>
<tr>
<td>Northwest</td>
<td>2,7%</td>
</tr>
<tr>
<td>Pan Am</td>
<td>1,2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89,4%</strong></td>
</tr>
</tbody>
</table>

### 1998

<table>
<thead>
<tr>
<th>Airline</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delta</td>
<td>17,1%</td>
</tr>
<tr>
<td>United</td>
<td>17,0%</td>
</tr>
<tr>
<td>American</td>
<td>16,1%</td>
</tr>
<tr>
<td>Northwest</td>
<td>8,2%</td>
</tr>
<tr>
<td>USAir</td>
<td>7,9%</td>
</tr>
<tr>
<td>Continental</td>
<td>7,8%</td>
</tr>
<tr>
<td>Southwest</td>
<td>6,8%</td>
</tr>
<tr>
<td>TWA</td>
<td>4,3%</td>
</tr>
<tr>
<td>America West</td>
<td>3,4%</td>
</tr>
<tr>
<td>Alaska</td>
<td>2,2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>91,0%</strong></td>
</tr>
</tbody>
</table>
The US market in 2011

- From the post deregulation new actors, only 2 large remain (Southwest, US Airways)
- The market is more concentrated than in 1978
  - Several mega-carriers have been merging
    - US Airways + America West
    - Delta + Northwest
    - United + Continental
- The low-cost market is a dynamic and profitable «niche»
  - And another merger : Southwest + Airtran

Networks : the hub and spoke system

- Looking at the European airlines, the US airlines invent the hub and spoke network :
  - Network centered on a main airport : the hub,
  - With routes (nearly) all going to and from the hub
  - Add the idea of optimizing the connection times (banks of arrivals and departures)
- They choose hubs in un-congested airports, in large cities (Denver, Atlanta, Dallas…)
- All large airlines choose this type of network and abandon the point to point network
The effects of deregulation on prices

- Old price structure:
  - 2 prices + 2 discount prices
  - Prices based on distance: \( p = a \times \text{distance} + b \)

- New prices:
  - Several discount prices with restrictions
  - Prices based on competition and revenue optimizing (development of revenue management)
  - Price wars

Have prices gone down?

- A sure decrease in prices on average
  - A study (G. William) concludes that prices are 15% lower than they would have been without deregulation

- But differences due to competition level
  - Other studies (GAO) show that prices are higher (+30%) on non-competitive routes than on others
The effects of deregulation on airlines

- Restructuring of existing airlines
  - costs reductions
  - productivity increases
  - fleet restructuring (hubs !)
- Development of new management and commercial tools:
  - Computerized reservation systems (CRS)
  - Frequent Flyers Programs (FFP)
  - Revenue (or Yield) management
- New concept of airline: the low-cost airline
The results: 30 years later

- Important increase of traffic
  - larger access to air transport
  - better services, lower prices
  - with the negative effect of congestion
- No safety problems
- Concentration of the market and profitability problem for majors
  - competition from “low cost” airlines
  - Majors too dependent on the domestic market

Results of deregulation in the USA

Source: Air Transport Association
2-2 Deregulation of International traffic

- Trend initiated by the USA
  - liberal context
  - “bad” re-negotiation of the Bermuda agreement (Bermuda II, 1977)
  - domestic deregulation in 1978
- The USA will try to impose more competition between airlines in all their bilateral agreements
  - they think that competition is better for everybody
  - but especially for the US airlines

Re-negotiation of bilateral agreements 1978 -1985

- Agreement in 1978 between The USA and the Netherlands
  - Double disapproval rule: free prices (or nearly free)
  - In exchange for the Netherlands cooperation: 2 new entry points in the USA for KLM
- The result is diversion of European traffic towards the Netherlands
  - The other European countries are obliged to renegotiate (1978 -1985)
  - Same strategy in the Pacific area (with Singapore)
The traffic diversion of 1978

The effects of the first steps of liberalization

- Traffic growth: x3 between France and the USA between 1982 and 1994!
  - Falls in prices
- Disappearance of charter traffic on the North Atlantic routes
- The US airlines increase their traffic shares on some markets (France, Germany, …) but loose on others
  - Overall the market is divided rather equally
- Price wars
The North Atlantic market 1982-1993

<table>
<thead>
<tr>
<th>Compagnies :</th>
<th>1993</th>
<th>1982</th>
<th>% croissance du trafic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US</td>
<td>Europe</td>
<td>US</td>
</tr>
<tr>
<td>USA/France</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passagers (000)</td>
<td>2419,6</td>
<td>1176,9</td>
<td>675,9</td>
</tr>
<tr>
<td>Part de marché</td>
<td>67,3%</td>
<td>32,7%</td>
<td>50,4%</td>
</tr>
<tr>
<td>USA/Royaume-Uni</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passagers (000)</td>
<td>4995,2</td>
<td>6563,8</td>
<td>3090,6</td>
</tr>
<tr>
<td>Part de marché</td>
<td>43,2%</td>
<td>56,8%</td>
<td>58,3%</td>
</tr>
<tr>
<td>USA/Allemagne</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passagers (000)</td>
<td>3289,7</td>
<td>2369,1</td>
<td>1103,2</td>
</tr>
<tr>
<td>Part de marché</td>
<td>58,1%</td>
<td>41,9%</td>
<td>47,2%</td>
</tr>
<tr>
<td>USA/Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passagers (000)</td>
<td>14519,27</td>
<td>16867,6</td>
<td>6815,9</td>
</tr>
<tr>
<td>Part de marché</td>
<td>46,3%</td>
<td>53,7%</td>
<td>45,1%</td>
</tr>
</tbody>
</table>

1991, a difficult year

- The Gulf war, and its effects on air transport:
  - higher fuel prices,
  - economic slowdown,
  - reductions in demand
- Over-capacity on the markets
  - Aircraft deliveries
  - American, United and Delta arrive in Europe
  - Leading to new price wars on the North Atlantic
- The USA want to review their bilateral agreements
1992, the "open skies" agreements

- The USA want more competition on the markets
  - no limits on capacity
  - no restrictions on price
  - more 5th freedom rights
- They need to give something in exchange
  - entry points!
- New type of agreement “proposed” by the USA
  - same strategy as in 1978 to impose their view
  - first country to sign agreement: the Netherlands in 1992

Structure of an "open skies" agreements

- No restrictions on frequencies and capacities
- Permission to operate between all points of both countries without restrictions
- No restrictions on price
- All possible 5th freedom rights are automatically granted
- Possibility of signing code sharing agreements with US airlines
  - a compensation for the absence of cabotage rights in the USA
2-3 The European single market

- Steps of European liberalization
  - The three packages
- Consequences of liberalization
  - Airlines
  - Infrastructure
  - Passengers
  - International traffic

The steps of the European liberalization

- 1957: Treaty of Rome
- 1986: Single European Act
- 1987: first package of European liberalization
- 1990: second package of European liberalization
- 1992: third package of European liberalization
- April 1997: end of transitory period, full effects of liberalization laws
1957: Treaty of Rome

- Creates the European Economic Community
  - ...to promote... a harmonious and balanced development of economic activities... the raising of the standard of living and quality of life...
- The means (among others):
  - the abolition of obstacles to the free movement of goods, persons, services and capital
  - a common policy in the sphere of transport
  - a system ensuring that competition in the common market is not distorted

The first steps

- 1983: inter-regional air services liberalized
- 1986: single European Act
  - creation of the single European market (01/01/1993)
  - decision to include air transport in the common market
- 1986: the "Nouvelles Frontières" ruling
  - decision of the European court of justice in favor of "Nouvelles Frontières"
  - The European commission encourages competition
The first package (1987)

- Extension of 1983 law on regional services
- Prices: 2 pricing areas
  - reduced prices: between 65 and 90% of full fare
  - very reduced price: between 45 and 65% of full fare
- Routes: Multi-designation on routes of more than 250,000 passengers
- Capacity shares: from 50/50 to 60/40
- Limited 5th freedom rights
  - with restrictions: one airport is not a first category airport

The second package (1990)

- Final extension of 1983 law
  - all 3rd and 4th freedom right liberalized
- Prices: 2 pricing areas
  - reduced prices: between 80 and 94% of full fare
  - very reduced price: between 30 and 79% of full fare
- Routes: Multi-designation on routes of more than 140,000 passengers
- Capacity shares: from 60/40 to 25/75
- More 5th freedom rights and limited cabotage rights
The third package (1992)

- Free prices (01/01/1996)
- Capacity shares: no limitations
- 5th and 7th freedom rights liberalized (01/01/1995)
- Cabotage liberalized (01/04/1997)
- Free access to the market for all airlines from the community
  - new legal concept

Consequences of liberalization: the airlines

- Restructuring of major European airlines
  - privatization of most public national airlines
  - costs reductions, search for efficiency
  - more cross-border restructuring to come...due to new bilaterals
- New entrants: the low-cost
  - Following the model designed by Southwest
  - Main ones are: Ryanair, Easyjet
  - low-cost, low fares
Consequences of liberalization: infrastructures

- Old and new hubs
  - large hubs have been re-organized: scheduling of flights more efficient in order to minimize connection time
  - new hubs are appearing: medium size hubs mostly
- Traffic increase and smaller planes
  - pressure on airports and airspace
  - problem of the slot allocation on major airports: barrier to entry for competitors

Consequences of liberalization: the passenger

- More frequencies and more destinations
  - consequence of the increase in traffic
  - and of the shuttle system
  - and of the new organization of hubs
- Lowered fares
  - more competition on domestic routes
  - but most international routes are still operated by only 2 carriers
  - Fares difficult to measure (lack of statistics)
Consequences of liberalization: International traffic

- International traffic inside Europe liberalized for European airlines
  - New routes opened, new airlines operating them
  - Only restrictions are airports slots at busy airports
- International traffic with the rest of the world
  - Old bilateral agreements challenged by EC
  - Nov. 2002 ruling by European Court of Justice: “the open skies judgments”
  - It led to new rules and new agreements

New routes opened!

Number of routes (city to city EU-27)

- Domestic
- Intra-EU

Source: OAG schedules, European Commission
The open skies judgments

- With old bilaterals, European carriers had only access to international routes from their home countries.
- The EC considered this as a distortion of competition between EU airlines and went to court over 8 agreements with the USA.
- The ruling stated that these agreements were contrary to the EU Treaty.
- As a consequence, all of the bilateral agreements between EU Member States and other countries contained illegal elements and had to be modified.

International traffic: new rules

Two options:

- Let countries revise bilateral to include non-discrimination
  - 114 agreements corrected*
- The European Commission negotiates new “horizontal agreements” with foreign countries
  - changes with 35 partner states and one regional organization with 8 member states*, representing formerly 615 bilateral agreements
  - Australia, Canada, India, New Zealand, Singapore, USA...

*Source European Commission, May 2008
International traffic: the case of US-EU negotiations

Negotiations June 2003-march 2007
- Several conflicting points
- Agreement reached in march 2007: new agreement came into force in march 2008

Three problems to address:
- European airlines have international access only from their home country
- US airlines can only be owned by foreigners up to 25% (49.9% for European airlines)
- No access to the US market for European airlines (US airlines do have a large access to the European market!)

The European Common Aviation Area (ECAA)

Integrate neighbor countries inside European aviation area
- 8 countries from south east Europe (Balkans)+ Iceland and Norway have signed
- Second group : Mediterranean countries
  - Morocco has signed
- Third group : Russia and neighbors

Benefits:
- Same market operation rules, improving security, safety, air traffic, environmental protection
- Development of markets: economic benefits
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3 - An evolving situation

3- An evolving situation today (1)

For better or for worse, air transport has been largely deregulated
   - USA
   - Europe
   - International markets

This trend will go on, and more markets will become deregulated, or more lightly regulated
   - Trend strongly encouraged by the USA except on domestic market, and by Europe (ECAA)
An evolving situation today (2)

- As a result, more and more competitive markets
  - Inside deregulated areas (US market, Europe)
  - Between those areas: North Atlantic market, US-Pacific market
- At odds with an old regulatory structure which limits airlines freedom
  - The bilateral system still holds
  - Ownership restrictions: system of national airlines in a world of multinational companies because of bilateral agreements

The “old” bilateral system

- Prevents airlines from restructuring over borders, for fear of losing traffic rights
  - Maintains small, unprofitable “national” airlines (Asia)
  - Partly solved in Europe by the new rules at European level
- Leads them to an alliance policy, inadequate substitute to restructuring
  - Is questioned by IATA and ICAO
  - Evolutions in the years to come
Possible evolution of bilaterals

- The ownership clause could be replaced by an activity clause
  - an airline having its operations in one country (airport base, employees, management) instead of having its capital owned by nationals, would be considered as a “national airline” in bilateral agreements
  - this airline would be controlled by the country’s authorities (to prevent flags of convenience)
- This would enable cross border restructuring
  - and maintain high level of control (safety, finances…)

Or no bilaterals?

- Creation of large « free » area like ECAA: important degree of freedom inside those areas
  - No need of bilaterals inside
- If ECAA is successful, it could be enlarged, or copied elsewhere…
Remaining role of the Authorities

- Monitor the markets:
  - traffics, prices, airlines financial situation…
  - give actors in the industry a fair access to information
- Look for anti-competitive practices and prevent them as far as possible
  - monitor competition conditions
  - make sure airlines have access to the markets
- Monitor partnerships and mergers
  - in order to avoid monopolization

Remaining questions

- Internationalization of airlines
  - On what conditions: safety and security aspects, social aspects…
- What Authorities?
  - In a global airline industry, there is a need for a “global” Authority, even if local ones remain useful: ICAO?
- Some countries may want to stay aside
  - In order to “keep” the domestic market for national airlines (China?)