

OECD Workshop on

REGULATORY REFORM IN INTERNATIONAL AIR CARGO TRANSPORTATION

Paris, 5-6 July 1999

Chairman's Summary

Discussions on Regulatory Reform in International Air Cargo Transportation took place in Paris on 5-6th July 1999. Participants agreed that an open international air cargo market would be beneficial to both users and providers of air cargo transport services and that continued efforts should be made to achieve this goal.

Participants in the workshop were air transport policy makers from OECD Member countries, representatives of the air cargo industry, air shippers, and international governmental and non-governmental organisations involved in air transportation. Mr. Hans de Jong (Netherlands) chaired the meeting, assisted by Mr. F. Bachelet (France) Mr. J. Kerr (Australia) and Mr. J. Shane (United States).

The Workshop provided a timely opportunity to review the functioning of the air cargo market and its surrounding web of regulatory measures in view of the forthcoming GATS 2000 discussions. The Workshop participants also noted that the OECD Secretariat report (Regulatory Reform in International Air Cargo Transportation) was very comprehensive.

The Delegation of Japan noted that there was no clear mandate for this report nor for any further work that may be recommended at the end of this meeting. This point was recognised by other Delegations, and there was a clear understanding that this was an informal meeting and that any recommendations for further work that may be arrived at would eventually have to be considered by the relevant bodies of the Organisation.

Participants discussed the structure, performance and long-term outlook of the air cargo industry. They drew upon OECD economies' experience of the existing legal, economic and technical regulations as they apply to air cargo transportation, and examined their effects on performance. Delegates also explored governmental policy options to improve economic performance and to enhance consumer benefits through

The air cargo industry: current situation and long-term outlook

Participants agreed that the air cargo industry is now more akin to logistical services, driven more by the needs of shippers and cargo owners than those of the service providers and a need to be able to move with the market. This implied that service providers face increased demand for door-to-door transportation services which ensure timely delivery.

Participants stressed that air cargo transportation was an integral part of the transport chain and should therefore not be viewed in isolation. While the differentiation between the types of air cargo service providers (combined carriers, all cargo and integrated carriers) was appropriate in general discussion

of the industry, all competed for the same market and were all similarly affected by access issues, including access to the principal airports.

However, it was pointed out that the three categories of service providers operated under different regulatory mechanisms. Any regulatory reform should take into account the need to establish a regime which enables all categories of service providers to respond to the needs of the market, which is increasingly driven by shippers and cargo owners.

Traffic forecasts highlighted that air cargo carried in dedicated aircraft was growing faster than that carried in combined cargo/passenger aircraft. The growth in the total air cargo market is expected to be around 5 to 7%, with the highest growth likely to be in Latin America and to a lesser degree in the Pacific, Asia and Europe/North America.

The trend towards alliances in the aviation sector was at least in part attributed to the lack of freedom for carriers to provide services of their choice to meet the needs of their customers. This was one area of regulation which would benefit from attention in order to facilitate the provision of seamless, one-stop, door-to-door services. Participants noted the usefulness of eventual convergence of competition policy in this area.

In addressing multimodal transport issues, shippers voiced the need for carriers to be able to provide a broad choice of transport services designed to meet their needs, and without encumbrance from unnecessary regulations.

Legal, economic and technical regulations applied to air cargo service providers

The meeting reviewed *inter alia* the effects of market/infrastructure access, pricing, and customs/documentation issues and safety aspects on performance and competition in the sector.

There was agreement that pricing had been substantially liberalised, and therefore did not constitute a major issue. However, ownership and control questions were considered to be obstacles to new entries and competition in the sector, and was an area where additional investigation may be fruitful.

The wet leasing of aircraft was still considered as important and should not be ignored in a continuing review of the regulatory frameworks.

In respect of multimodal transport operations, there were still significant barriers to the licensing of such activities, principally because separate licences are required for each transport mode. Some concerns were expressed that these barriers create undue constraints for the provision of services combining air transport with trucking, shipping and rail services. Participants considered that an intermodal licence was not appropriate.

Customs procedures and documentation was considered to be a serious regulatory barrier. Participants noted that actions such as the Express Guidelines, established recently by the World Customs Organisation and incorporated into the draft revised Kyoto Convention, and consideration of the possibility of including a facilitation package in the next round of WTO negotiations represented a significant step forward.

Ground handling services (as one of a range of "doing business" activities) was identified as a crucial element to the provision of quality services. One Delegation noted that in various investigations on

barriers to the provision of ground handling services no arguments had ever been found to support those restrictions, and this appeared to be one area which could be addressed by the OECD.

Safety, security and environmental standards are clearly issues which were the province of ICAO and duplication of work on these aspects has to be avoided. Participants strongly supported ICAO to further strengthen its successful work in these areas.

Participants noted the existing market access regulations and the still predominant bilateral system in the air cargo sector. While questions were raised as to whether this regime was still sustainable because of its potential drawbacks on the effective and efficient provision of air cargo services, there was general agreement that regulatory improvements, whether gained through bilateral or multilateral arrangements were preferable to a standstill. It was observed that the growing prevalence of regional "open sky" agreements would eventually reach a critical mass that would force change.

While some concerns were expressed regarding the differentiation of regulatory frameworks for the three types of service providers, a number of delegations noted that recent reviews of aviation policy had resulted in simple and effective differentiated policies to cover all cargo, combined and integrated operations.

A possible way forward for government policies

Participants took note of the web of legal, economic and technical regulations applied to air service providers described in the OECD Secretariat report on Regulatory Reform in International Air Cargo Transportation. Participants encouraged the OECD to draw on the findings of this report to better inform the policy debate on the impact of regulatory, structural and technical change in the air cargo industry.

Given the specificities of air cargo transportation there was agreement that the international regulatory framework for air cargo transportation, at present closely linked with passenger transportation, may need a review in order to see how best to arrange matters in order to make it better for service providers to effectively respond to newly emerging commercial practices. Participants reiterated that any change resulting from the review had to apply to all industry players. The ultimate objective should be to develop a regime which would be multilateral in scope.

It was noted that while combination carrier operations are predominant in all OECD Member countries, only certain countries also operate strong all-cargo and integrated services. Therefore, participants were concerned that all-cargo and integrated services would be the only or major beneficiaries from any regulatory reform process, and combi aircraft (both belly cargo and main deck) would not benefit appropriately. However, it was noted that capacity liberalisation would also benefit combination carriers. There was broad agreement that any regulatory reform process would have to be beneficial to all participants in the logistical chain.

It was noted that these investigations, of which the most important one is the one related to market access, had not necessarily to end up with the recommendation /elaboration of a total package but, as long as there was a clear commitment for further development, could be undertaken step by step.

The Japanese Delegation expressed its view that, in addition to the discussion as in this document, serious concern has to be raised over the possibility of adverse effects including oligopoly resulting from liberalisation as described in the OECD Secretariat report when liberalisation is promoted

without safeguards under the constraints of infrastructure. This view was shared by some of the participants.

Special attention was devoted upon the division of labour among the institutions dealing with air transport. It was stressed that ICAO's expertise in the area of setting safety, security and environmental standards should be fully recognised.

The OECD's involvement in air cargo was referred to as setting the stage for like-minded countries to go ahead with their reform of the air cargo regime. Moreover, the OECD's work could prepare the groundwork for an initiative in the WTO framework. At the same time participants noted that GATS will most likely leave certain questions affecting traffic rights and certain services directly related to the exercise of traffic rights unanswered. These questions may need work within the OECD.

In conclusion, the Workshop on Regulatory Reform in International Air Cargo Transportation recommended to the Secretary General to examine how the OECD, while safeguarding existing liberalisation, could provide momentum to the ongoing discussions on regulatory reform in international air cargo transportation through:

- Studying how to expand liberalisation in scale and scope in particular in respect to market access, including ownership, and ancillary services.
- Determining which aspects of facilitation should be pursued as a matter of priority.
- Looking at appropriate competition regimes.
- Considering an outline of draft arrangements to achieve the above on a multilateral basis.
- Considering in which forum such ideas can best be advanced.

Participants in the Workshop agreed to inform their governments about the outcome of the meeting and invited the Secretary-General to present such work, in the not-too-distant future, to another workshop for consideration by governments, industry and transport users.

Participants at the 5-6 July meeting on Regulatory Reform in International Air Cargo Transportation

COUNTRIES

Australia
Belgium (Permanent Representation to the OECD)
Canada (Permanent Delegation to the OECD)
Czech Republic
France
Germany
Greece
Hungary
Ireland
Italy (Permanent Delegation to the OECD)
Japan
Korea
Mexico
Netherlands
New Zealand (Permanent Mission to the OECD)
Poland (Polish Airlines)
Portugal
Sweden
Switzerland
Turkey
United Kingdom
United States
European Commission

INTERNATIONAL GOVERNMENTAL and NON-GOVERNMENTAL ORGANISATIONS

Association of European Airlines (AEA)
European Civil Aviation Conference (ECAC)
European Shippers' Council (ESC)
International Air Transport Association (IATA)
International Chamber of Commerce (ICC)
International Civil Aviation Organization (ICAO)
International Express Carriers Conference (IECC)
International Federation of Freight Forwarders Associations (FIATA)
World Trade Organisation (WTO)
BIAC
TUAC

AIRLINES

Air-France

All Nippon Airways

Asiana Airlines

Cargolux

Czech Airlines

Federal Express (Fedex)

Japan Airlines

KLM Cargo

Korean Air

Lufthansa Cargo

Malév Hungarian Airlines

MNG Airlines

Nippon Cargo Airlines

Olympic Airways

Qantas Airways

SAS Cargo

Swissair

TNT (Thomas Nationwide Transport) Post Group

United Parcel Service (UPS)