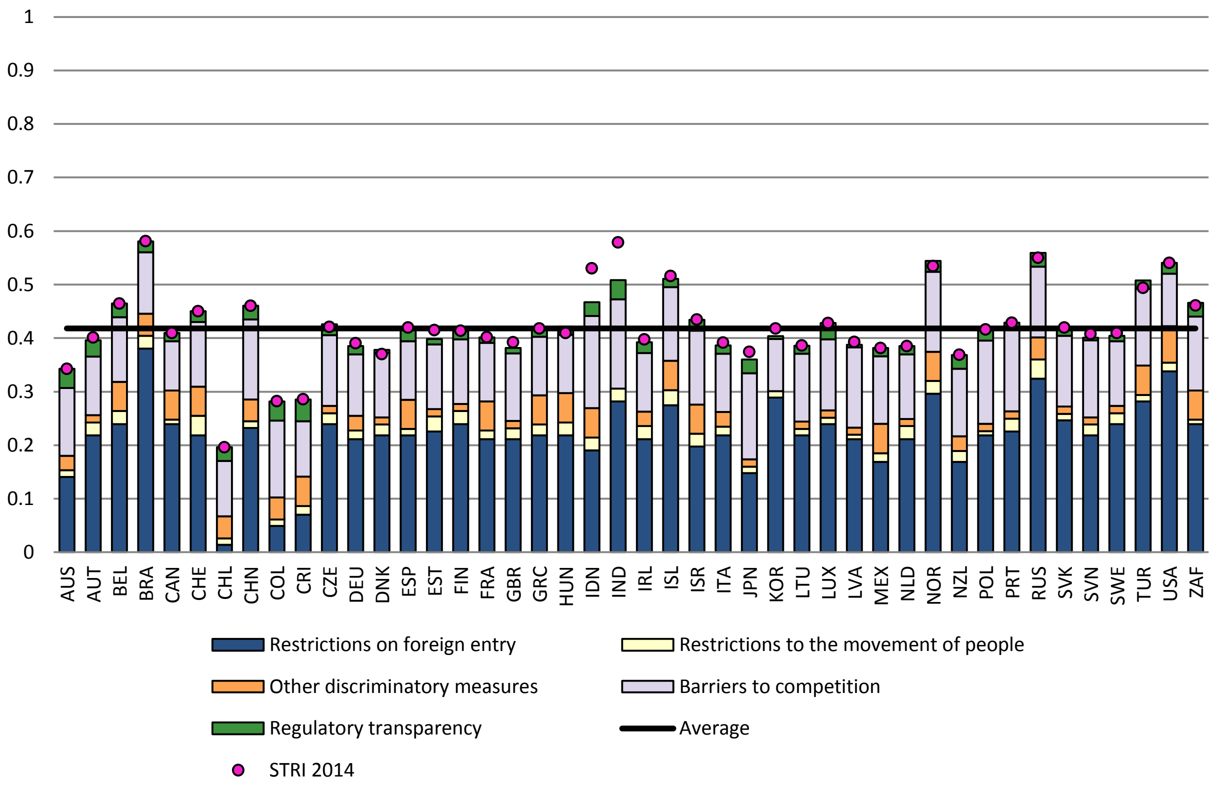
STRI Sector Brief: Air transport services

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 35 OECD countries and Brazil, the People's Republic of China, Colombia, Costa Rica, India, Indonesia, Lithuania, the Russian Federation and South Africa for air transport services in 2016.

Air transport services comprise both passenger and cargo traffic carried domestically or internationally, and so far covers commercial establishment abroad only. Air transport services play an important role in the integration of the world economy. These services are not only significantly traded in their own right but are an intermediate service for other kinds of trade. International air transport is considered a prerequisite for the development of tourism. Although it accounts for around 2% of all cargo moved worldwide in terms of tonnage, air freight represents over one third of the value of world merchandise trade. Air cargo transport is also a key determinant in meeting demand for time sensitive products, such as perishable goods, textiles and clothing, and often represents the only viable means of transport to remote, peripheral regions and landlocked countries. Major exporters of air transport services are the European Union and the United States.

STRI by policy area: Air transport services (2016)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account.

The 2016 scores in the air transport services sector range between 0.20 and 0.58 with an average of 0.42. There are 25 countries below and 19 countries above the average. Apart from a few exceptions, there is limited variation across countries.

The measures in the STRI database are organised under five policy categories as indicated in the figure above. The index goes beyond discriminatory measures and includes domestic regulations that are important for effective market access and the creation of competitive markets. These include impediments to competition and technical standards, as well as a range of measures related to regulatory transparency and administrative requirements.

Restrictions on foreign entry feature prominently in the results. A large number of countries (40) restrict foreign equity participation in the sector to (at least) less than 50%. In most cases, the limitations affect airlines in both domestic and international traffic. Notable exceptions include Chile, Colombia, and Costa Rica which do not apply any limitations on foreign ownership of domestic airlines. India allows foreigners to invest up to 100% in domestic airlines but a 49% limitation remains in place for investments made by foreign *airlines.* Australia (with the exception of Qantas) and New Zealand also allow 100% foreign ownership in domestic airlines for the purpose of carrying domestic traffic only, whereas Mexico and Japan allow complete foreign ownership in domestic airlines carrying international traffic only. Indonesia allows foreign participation of 67% in cargo airlines. Ownership restrictions are often coupled with specific limitations on the nationality of board members and managers of air carriers. The lease of foreign aircrafts with crew (wet lease) or without crew (dry lease) is subject to prior authorisation in 37 countries.

The other main category that influences the degree of restrictiveness concerns *Barriers to competition.* Several countries maintain public ownership in aviation, usually also restricting foreign ownership in these firms. Non-competitive slot allocation is common as well, with most countries assigning slots in high demand airports based on historical rights, typically forbidding the commercial exchange of slots. However, in 34 countries, after the allocation of historic slots, half of the remaining slot pool is allocated to new entrants.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 23 countries, 14 have a lower (less restrictive) score, and 7 record a higher value of the STRI index (more restrictive) in 2016. The country that reduced the STRI index the most was India where the index went down by about 7 basis points. In 2016, the Government of India raised the threshold on foreign investment in domestic airlines from 49% to 100%. Investments above 49% remain, however, subject to Government approval. Indonesia has introduced reforms in 2016 under the new Negative Investment List. One of the reforms was to raise the foreign equity cap in air cargo companies from 49% to 67%.

Changes in the other countries' STRI scores are the result of changes in measures that apply across the economy.

Transport and courier services are not only extensively traded they are also intermediate services at the core of recent developments in global value chains and just-in-time inventory management, with the related demand for door-to-door services. Reducing unnecessary restrictions and improving productivity in the various sub-sectors can be expected to have significant benefits in downstream industries as well as in the sub-sectors themselves.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org