



**Destination APEC 2020:  
A Conference on Enhancing Tourism and Air  
Connectivity in the Asia-Pacific Region**

**Conference Synthesis and Proceedings  
Main Report**

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## **LIST OF ACRONYMS USED**

AAPA	Association of Asia Pacific Airlines
APEC	Asia Pacific Economic Cooperation
ASA	Air Service Agreement
ASAM	ASEAN Single Aviation Market
ASEAN	Association of Southeast Asian Nations
BAR	Board of Airline Representatives
CAAP	Civil Aviation Authority of the Philippines
CAB	Civil Aeronautics Board
CIQS	Customs, Immigration, Quarantine and Security Services
DFA	Philippine Department of Foreign Affairs
DOT	Philippine Department of Tourism
DOTC	Philippine Department of Transport and Communications
EU	European Union
EU ETS	European Union Emissions Trading Scheme
FSC	Full Service Carrier
GDP	Gross Domestic Product
LCC	Low Cost Carrier
MALIAT	Multilateral Agreement on Liberalisation of International Air Transport (APEC)
PATA	Pacific Asia Travel Association
TPT-WG	APEC Transportation Working Group
TWG	APEC Tourism Working Group
UNWTO	World Tourism Organization
WTTC	World Travel and Tourism Council

## PART I - CONFERENCE SYNTHESIS

### 1 Background

The conference is a joint initiative of the Philippines as sponsor and the economies of Indonesia, Malaysia, Peru, United States, and Viet Nam as co-sponsors launched during the 38<sup>th</sup> APEC TWG Meeting in Cebu in May 2011. Its primary objectives are:

1. To exchange information on the more recent developments and issues in both tourism and air transport among APEC member economies and promote a common understanding of these issues;
2. To exchange and share experiences on policies, practices and processes in addressing the various regulatory issues and in coping with the impacts related to air services liberalisation; and
3. To develop recommendations on joint tasks or work program for achieving greater integration and convergence of tourism and air connectivity policies for immediate and future cooperation among APEC member economies

The conference aims to closely integrate and align the tourism and air transport policies to enhance and facilitate regional integration as espoused by the APEC Leaders in Bogor as well as by the Tourism Ministers in its adoption of the APEC Tourism Charter of 2000. The Charter has four main goals, namely:

1. To promote efficiency and regional economic integration through policy alignment and structural reform;
2. To promote better understanding and recognition of tourism as an engine for growth and prosperity in the APEC region;
3. To ensure inclusive growth in the travel and tourism sector by encouraging socially and culturally responsible tourism; and
4. To develop travel and tourism businesses and destinations based on sound principles of sustainable tourism

The conference is also in support of the APEC Tourism Ministers' Agenda during their 2010 meeting under the theme "Tourism for New Strategic Growth in the Asia-Pacific Region" where tourism was recognized as an important vehicle for job creation, poverty reduction and conservation of environmental resources. The conference is likewise aligned with the initiatives of APEC to promote tourism growth in the region. Apart from the Tourism Charter of 2000, the other initiatives of APEC include the APEC Tourism Strategic Plan for 2015<sup>1</sup> and studies on impediments to tourism growth<sup>2</sup>, the eight options to air services liberalisation<sup>3</sup> and

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<sup>1</sup>Pursuant to the decisions of the 6th APEC Tourism Ministerial Meeting (TMM) in September 2010 in Nara, Japan, the APEC Tourism Working Group (TWG) undertook the formulation of an APEC Tourism Strategic Plan for 2011 to 2015 to provide the roadmap to address critical issues and concerns pertaining to tourism growth in the region.

<sup>2</sup> APEC Tourism Working Group, *Impediments to Tourism Growth in the APEC Region*, December 1997. The TWG commissioned another *APEC Tourism Impediments Study* under three stages, from 2001 to 2008. The first two stages of the project have been successfully done in 2001 and 2004 respectively. They focused on fact finding and factual elements of tourism impediments while Stage 3 focused mainly on legal analysis of tourism impediments.

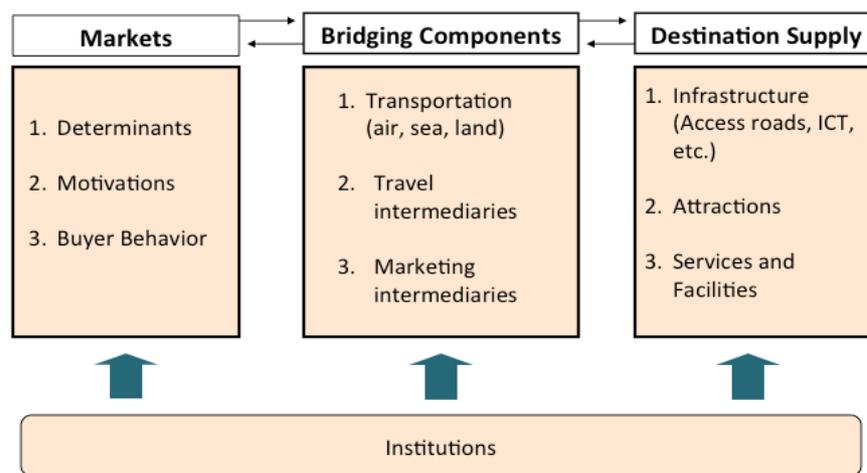
<sup>3</sup> APEC Transportation Working Group and The Australian Department of Transport and Regional Services, *Liberalisation of Air Services in the APEC Region, 1995-2005*, January 2007.

more recently the study on *Creating Business Growth Opportunities for Travel and Tourism in the New APEC Economy* by the World Travel and Tourism Council (WTTC) and Pacific Asia Travel Association (PATA)<sup>4</sup>.

### Conference Framework

To achieve the above objectives, the conference adopted the modified framework of the tourism system that defines the role of air connectivity as a bridging component between destination supply and markets and of institutions as the binding element of these first three components (see Figure 1). The availability of air connections can shape tourism destinations depending on the quality of institutions<sup>5</sup> that support it in this overall tourism system.

**Figure 1**  
**The Tourism System**



Sources: Vanhove (2005), Rodolfo (2010)

- *Liberalisation policies as institutions*

In the case of air transport as a bridging component for tourism the bilateral air service agreements (or bilaterals) and market liberalisation policies, are examples of these formal institutions that shape strategic behaviour of airlines and the users of air services, in this case enterprises like airports, hotels, tour operators, shippers.<sup>6</sup> Liberalisation of air transport services is expected to lead to new air services and lower travel costs for consumers, traffic growth, economic growth and job growth (see Figure 2). Governments have made it their mandate to protect their domestic

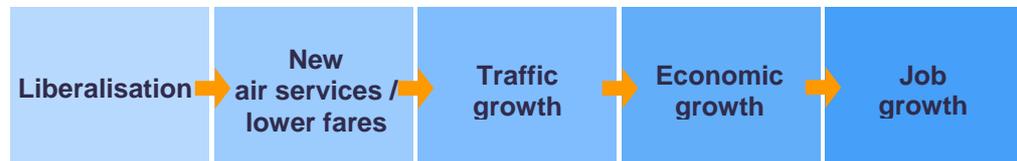
<sup>4</sup> This is an ongoing project to identify policy recommendations for APEC economies as to how to overcome the impediments to tourism growth and how to take advantage of the potential business opportunities tourism growth presents.

<sup>5</sup> According to North (1993), institutions form the incentive structure of a society, that the political and economic institutions, in consequence, are the underlying determinant of economic performance. As humanly devised formal (rules, laws, constitutions) and informal (reputation, conventions) constraints, these institutions serve to structure interaction and define the incentive structure of societies and specifically economies. These rules can influence the returns to economic activities by constraining agents' behavior and incentivizing them in different directions.

<sup>6</sup> The bilaterals, an international framework borne out of the 1944 Chicago Convention, established the rules that govern the entry of airlines in markets. Gillen (2009) further notes that the international experience in the past 60 years revealed that the property rights for market access were by default given to nations and they in turn transferred them to their 'national airlines,' thus leading to highly protectionist or 'predetermined' agreements and unproductive activities such as rent seeking that increase transaction costs.

carriers with rules and regulations that prevented and limited competition, thus generating excesses for carriers and penalizing consumer welfare. The experience of economies that liberalized over the past decades revealed that such protection accorded to the domestic carriers likewise penalized the broader national interests.

Figure 2 – Economic Impact of Air Transport Liberalisation



Source: Inter-Vistas (2005) as presented by IATA

- Given the above background, the first day of the conference was devoted to presentations and discussions on the impact of air connectivity to tourism growth and the experiences of select APEC economies (i.e. Australia; Canada; Chile; Japan; Korea; Malaysia; Philippines) in liberalizing their air transport markets. It examined the enabling factors and impediments as well as the political economy in achieving liberalisation and in realizing the expected benefits from liberalisation.
- The second day focused on presentations and discussions of the so-called chokepoints particularly in the areas of investment and business policies and infrastructure development and how to address them at the national and/or regional level.

The next sections provide a synthesis of the presentations and discussions during the 2-day Conference. See Part II for the proceedings.

## 2 Tourism and Air Connectivity in the Asia-Pacific Region

In his keynote speech, World Tourism Organization (UNWTO) Secretary-General Taleb Rifai recognized and emphasized that the conference presented the opportunity to break the silos between tourism and air transport policies. Connectivity brought by air transport is at the heart of tourism: half of all international tourists in the world arrive to their destinations by air while the majority of air transport passengers are tourists – thus, tourism and air transport are one and the same sector. He gave two major reasons for the relevance of the conference topic:

- First, because APEC has been at the forefront of tourism growth and development in the last decade and which is set to continue leading world tourism within the decades to come; and
- Second, because many critical issues rising today, including those of the fight against climate change, taxation and travel facilitation can be the levers that bring tourism and aviation to the same table.

These two points are explored in the subsequent sections.

The APEC region is expected to drive growth by 2020 and beyond as Asian regional blocks of North East Asian Economies of China, Japan and Korea seek to deepen

their integration through the aviation sectors and with another Asian block - the ASEAN where the ratifications of multilateral agreements in the full liberalisation of passenger services will create new markets in ASEAN and in APEC.

In 2011, international tourist arrivals increased by over 4 percent, reaching an all-time record of 980 million (M). APEC economies, summing up nearly 300 M international tourist arrivals in 2011, saw a growth of almost 10 percent, a clear demonstration of the power of the sector in the region; but more importantly the affirmation of a sector which today brings opportunities to millions of people in APEC, directly or indirectly, from tourism. At an annual growth rate of 3.3 percent, the next 20 years will see 43 M more tourists coming to the marketplace every year, creating immense opportunities for destinations around the world, advanced and emerging economies alike. The UNWTO estimated that the world will reach a mark of 1 billion (B) international tourists by 2012 and that long-term prospects remain rather positive. By 2020, 1.4 B people will be crossing international borders for leisure, business or other tourism purposes according to UNWTO's long term forecast, *Tourism Towards 2030*; by 2030, this number will reach 1.8 B. The International Air Transport Association (IATA) predicts that the number of air travelers around the world will grow from 2.4 B in 2010 to 16 B by 2015, with much of the growth expected to occur in the Asia-Pacific region.

Tourism's impacts cut across a broad spectrum of national and regional economies. Its impacts can hardly be captured by the standard national income accounts. The common measures used include foreign exchange contributions, job creation, and income generation among others. Some economies like the Malaysia and the Philippines have invested in the development of Tourism Satellite Accounts (TSAs) following the initiative of the WTTC. In Mexico, for example, tourism is a US\$108 B industry, generating 2.5 M direct jobs and 5 M indirect jobs. In 2011, Mexico had 74 M international visitors, however, 10.8 M were tourists by air, equivalent to 15 percent of all visitors. But these air arrivals are priority segments because they represent 75 percent of total tourism expenditure, with average spending US\$800 dollars per trip. In Malaysia, tourism contributed US\$19 B in inbound tourism expenditure. In the Philippines, tourism accounts for 5.7 percent of its Gross Domestic Product (GDP).

Similarly, the series of cross-country studies undertaken by the Oxford Economics<sup>7</sup> and presented by the IATA revealed that air transport links create direct (in terms of aviation output and employment), indirect (aviation supply chain output and employment), induced (other sector output and employment supported by spending by those directly and indirectly employed, and tourism effects (aviation sector spillover benefits in terms of spending of air visitors and related trade). While benefits are difficult to quantify, the studies revealed the positive impacts on labor productivity, foreign direct investments (including promotion of agile business models), economic growth (i.e. jobs, gross domestic product and tax revenues), and consumer benefits.

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<sup>7</sup> The Oxford Economics has undertaken a series of studies across 50 plus nations to assess the impact the aviation industry has on each economy and its residents. This study, unlike previous ones, takes into consideration the benefits of connectivity that aviation offers. In fact, this study estimates the impact that increases in connectivity could have on economic growth. As with previous studies, this research also presents the jobs and GDP impact of aviation, as well as the benefits to passengers and shippers.

### **3 Air Connectivity and Liberalisation: Effects on Tourism Growth**

#### *3.1 Scope of liberalisation*

Over the years, economies in APEC have pursued liberalisation of their air transport markets – both domestic and international. The United States led the world in shifting the rules of the game in the air transport industry in favor of market forces and the downstream industries such as tourism when it deregulated its domestic market in 1978 and when it initiated the first “open skies” with the Netherlands in 1992. To date, the US has signed “open skies” with more than 103 nations, including most of Asian economies, except China.

Across APEC, the scope of liberalisation was largely confined to enhancing market access by allowing more competitors to service domestic and international routes. At the international front, the framework of the bilateral air service agreements that embody restrictions on number of airlines, frequency of flights on a route, fare restrictions and number of points of entry continues to serve as the template for liberalizing access. As pointed out by IATA, the scope of liberalisation was largely in the area of removing operational (product) restrictions (i.e. in the carriage of point-to-point traffic and traffic to/from intermediate and beyond points). Some economies have concentrated their efforts in liberalizing market access. Such liberalisation has created 33 percent increase (median impact) in international traffic and while it has higher impact on traffic increase, the scale of impacts vary country-to-country. Economies like Brazil, India, Peru and Viet Nam are expected to post increases in international traffic higher than the median impact compared to those that have significantly liberalized market access in the past, as in the case of Chile, Singapore and the United Arab Emirates.

Only 17 percent of international traffic is conducted in an operationally liberalized environment. There are still limits on foreign ownership and control of airlines. The Oxford Economics-IATA report showed that the median impact of combined liberalisation of operational and capital restrictions is about 53 percent increase in international traffic. Economies with the most restrictive regulation would experience the biggest impacts. The likes of Chile, Morocco and Singapore have already undertaken significant liberalisation so the potential impact of further liberalisation is smaller.

The country presentations on the experiences with liberalisation and its effects on tourism showed the varying degrees of opening up and political economy involved in the liberalisation process.<sup>8</sup>

Asian economies, for example, still have restrictive ASAs among themselves while they are quite opened up with the United States. In the past five years, APEC has witnessed the change in regulatory regimes among the Northeast Asian economies. The Republic of Korea for example signed transborder “open skies” agreements with a number of economies including those under ASEAN. Japan signed “open skies” agreements with 10 economies – Macao, Sri Lanka and APEC members including Canada; China; Hong Kong, China; Korea; Malaysia; Singapore; Thailand; the United States and Viet Nam - since August 2007. China is reluctant to sign “open skies” but has pursued transborder agreement with the Republic of Korea for the Korea-Sandong route and with ASEAN (the agreement was signed in January 2011).

A major regional hub in Southeast Asia, Thailand's approach is to liberalize capacities and frequencies, route schedules and air traffic rights as these three are found to be most crucial in stimulating tourism growth. It pursues this approach with its 99 bilateral partners and is ready to implement the protocols for the ASEAN Open Sky agreement. Thailand also has a liberal stance on charter flight policy, recognizing the need to supplement scheduled services during peak seasons and to stimulate growth of new markets in new destinations. Malaysia's liberal approach in its air transport sector is highly evidenced in the opening up of the Malaysia-Thailand, Kuala Lumpur-Singapore routes as well as in its promotion of unlimited third, fourth and fifth freedoms in the bilaterals with markets such as the United States.

The Philippines has recently adopted a very liberal approach to international air services. In 2011, the government opened up its secondary gateways for unlimited third, fourth and fifth freedoms to foreign airlines within the framework of the bilaterals. In cases where foreign airlines are operating beyond their allowable capacity dictated by the agreements, they can apply for a waiver to operate more frequencies and capacities based on certain conditionalities. It also has a very liberal environment for charter flights, one where charters can operate quasi-scheduled services, the policy that enabled the entry of low cost carriers to the Philippines, specifically Clark International Airport. Peru's liberalisation of its aviation industry started in the mid 1990s with the introduction of open entry for international capital and market-based fares. In the past decade, Peru pursued bilateral open skies agreements with more 30 economies.

Two economies – Australia and Chile – present cases where liberalisation has covered removal of operational and capital restrictions. Chile has three decades of "open skies" policy providing for free market access, maximum liberty for airlines to design their air services, liberalisation of property and control (no restrictions on capital nor on administration), and minimum authority intervention. It takes a liberal approach to the granting of fifth freedom that allows airlines flexibility in their route configurations for the benefit of tourism.

Some economies moved beyond the bilateral framework and embraced the "club" concept through regional and multilateral integration. The European Union, for example, implemented its 3 packages + 1997 cabotage to create a Single Aviation Market; continuous liberalisation measures, and market expansion. The APEC's Multilateral Agreement on the Liberalisation of International Air Transportation (MALIAT) promotes up to 6th freedom of the air, and 7th for cargo competition, expansion of international air transport opportunities, enhancement of trade, promotion of economic growth and competitive prices. Other liberalisation initiatives included the Australia – New Zealand Single Aviation Market, ASEAN Open Sky, and EU-US Open Aviation Area.

**Table 1. Liberalisation Initiatives in Select APEC Member Economies**

ECONOMY	FEATURES
Australia	<ul style="list-style-type: none"> <li>• Provided airlines with the freedom to make their own commercial decisions about almost everything else.</li> <li>• Promoted multiple designation policy and “open skies” agreements as means of achieving the national interest goals.</li> <li>• Provided for the inclusion of designation criteria rule in bilateral ASAs based on incorporation and principal place of business</li> <li>• Allowed 100 percent foreign ownership of domestic carriers</li> </ul>
Chile	<ul style="list-style-type: none"> <li>• Implemented three decades of total “open skies” policy with the following features: <ul style="list-style-type: none"> <li>• Free access to market</li> <li>• No restrictions of points to be served</li> <li>• Maximum liberty for airlines to design their air services</li> <li>• Liberalisation of property and control</li> <li>• No restrictions on capital</li> <li>• Reduced administrative requirements</li> </ul> </li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• Promoted liberal/open skies aviation policies with 18 economies</li> <li>• Signed multilateral agreements among ASEAN economies to accelerate open sky arrangements for both full service carrier (FSC) and low cost carrier (LCC)</li> </ul>
Peru	<ul style="list-style-type: none"> <li>• Signed bilateral “open skies” policy with more than 30 economies</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>• Liberalized domestic and international aviation industry (1995)</li> <li>• Liberalized charter program that allows for potentially unlimited traffic rights to airports outside Manila, and for airlines to operate pre-approved charter flights with authority to issue individual tickets to gateways outside of Manila (2005)</li> <li>• Civil Aeronautics Board directed to grant entitlements to foreign carriers over and above the limitations imposed by pertinent ASAs in airports outside Manila in order to promote the developments and investments in the countryside (2011)</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Promoted gradual liberalisation policy for capacities and frequencies, route schedules and air traffic rights;</li> <li>• Signed 99 bilateral ASAs with liberal features and regional “open skies” (ASEAN 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup>s for passengers and cargo);</li> <li>• Promoted liberal charter flight policy</li> </ul>
Viet Nam <sup>9</sup>	<ul style="list-style-type: none"> <li>• Concluded ASAs with 60 economies and territories reflecting different levels of air transport liberalisation to facilitate the operation to/from Viet Nam by both local and foreign airlines.</li> <li>• Signed the Horizontal Agreement with the European Union (EU) on certain aspects of air transport, including airline designation, tariff, aviation safety to replace related provisions in the bilateral air services agreements signed with individual EU member economies, in line with the liberalisation trend in the world and the EU law recently promulgated.</li> <li>• Signed three ASEAN Multilateral Agreement on Air Services to implement the ASEAN air transport liberalisation policy and the Roadmap for ASEAN air transport integration.</li> </ul>

<sup>9</sup> See Annex 28 on the paper submitted by Viet Nam for the Conference for details on the latest developments in Viet Nam's Air Transport Industry.

### 3.2 *Effects on tourism*

The conference confirmed the positive benefits from liberalisation. The IATA-Oxford studies concluded that greater liberalisation has brought significant benefits. In 2005 alone - over 370,000 passengers attributed to liberalized regime, 4300 full-time jobs and a boost to GDP of US\$114 M.

The direct effect of liberalisation should be the availability of new air services and lower fares. The liberalisation of the air agreements enabled the rise of new carriers with new business models driven by a dynamic breed of entrepreneurs. The LCC model has been quite known in the United States for some time but this phenomenon took Southeast Asia by storm thereby changing the landscape of Asian air transport and tourism markets. The experiences of Malaysia, Philippines, Thailand, and Singapore all revealed the importance of the LCCs in creating new markets and in making travel more affordable to the tourists. These LCCs have likewise challenged the incumbents and forced the opening of new routes and markets thereby causing a surge in traffic demand and tourism flows.

The Malaysia-Thailand route used to be dominated by Malaysia Airlines and Thai Airways. Both could serve any points in each other's economy while maintaining capacity profitable for both flag carriers. In 2004, Air Asia entered the Malaysia-Thailand market causing a surge in seat capacity. The bilateral agreement between Malaysia and Thailand permitted Air Asia to expand in the market by new designations and frequency. Air Asia's low cost structure helped spur traffic while generating increased competition from the incumbent flag carriers. The opening of the Kuala Lumpur-Singapore route was viewed as a significant development in the history of ASEAN airline industry and an important first step toward the liberalisation of air services in the ASEAN region.

The Kuala Lumpur-Singapore route was dominated by the national flag carriers, Malaysia Airlines and Singapore Airlines, respectively. Passengers travelling on Air Asia from Kuala Lumpur to Singapore used to fly to Senai in Johor and take a bus into Singapore. Passengers from Singapore would travel by road to Senai to fly into Kuala Lumpur. In preparation for the Phase 1 of ASEAN for Open Sky by Dec. 31, 2007, the route was finally opened up in February 2008 to Air Asia (Malaysia), and Tiger Air and Jetstar Asia from Singapore.

Over the last 20 years the short-term arrivals into Australia have increased by 165% to around 6 M people. At the same time more and more Australians are travelling overseas with short-term departures increasing by 250 percent to 7.4 M. In the Philippines, the liberalisation of the domestic aviation industry in 1995 enabled the entry of now the 15<sup>th</sup> largest LCC in the world, Cebu Pacific. The liberalisation of the bilaterals beginning in 2007 paved the way for the expansion of Cebu Pacific, and later other Philippine carriers such as Air Philippines and SEAIR in the international markets.

During the period of 1995 to 2005, the air transport market of Viet Nam witnessed a high growth rate as compared to those of the world and regional markets, totaling 63 M passengers (at annual growth rate of nearly 11 percent), 1.39 M tons of cargo (at annual growth rate of nearly 11.4 percent), with the expanding route networks operated by the four Vietnamese carriers and 40 foreign airlines from 20 economies and territories connecting Viet Nam with 27 cities in Asia, Europe, America and Australia. To date, there are 51 foreign airlines from 22 economies/areas operating 54 international routes from 34 points to Ha Noi, Da Nang and Ho Chi Minh City. For Viet Nam, only Vietnam Airlines operates the international routes with 47 direct

routes from 3 big cities (Ha Noi, Da Nang and Ho Chi Minh City) to 28 points in 17 economies/areas, of which 12 are in Northeast Asia, 8 in Southeast Asia, 2 in Australia, 4 in Europe and 2 in North America and co-operates with foreign airlines on other 21 code-share services.

**Table 2. Impact of Liberalisation on Selected APEC Member Economies**

<b>Economies</b>	<b>Results</b>
Malaysia -Singapore	The liberalisation in 2008 resulted in 27 percent increase in aircraft movements between the two cities within 3 years, which also contributed to tourist movements between the two economies. In 2010, the number of tourists Malaysia received from Singapore rose by 24.3 percent over 2007.
Malaysia-Thailand	In 2005, 1.3 M passengers travelled between Malaysia and Thailand. Of this total, over 370,000 can be attributed to the combined liberalized regime and the entry of a new low cost carrier, causing 37 percent market expansion. Malaysia and Thailand obtained more than 4,300 full-time employment and a stimulus of over \$114 M to their GDPs.
Canada-Japan	Airfares reduced by 10 percent Traffic volume increased by 16 percent US\$55M in increased benefits to tourism
Canada-Korea	In 2009, Korean Air was allowed only 3 flights/week to Vancouver; and 4 flights/week to Toronto (a total of 7 flights each Air Canada and Korean Air between Canada and Korea). After Open Skies, Korean Air now serves 7 flights to Vancouver and 7 flights to Toronto. Korean tourists to Canada increased from 131,000 in 2009 to 157,500 in 2010, an increase of 20 percent Most of these Koreans now come directly to Canada instead of coming to Canada via USA airports

#### **4 Enabling Factors, Impediments and Weak Links**

Achieving liberalisation in the air transport has been enabled by crucial factors such as the inclusion of tourism in the national development agenda, political will, representation of consumer interests in the aviation policy formulation and the pressure from the LCCs to open up markets.

##### **4.1 Enabling Factors**

- *Inclusion in the national agenda* – The experience of Malaysia, Philippines and Thailand revealed that the inclusion of tourism as priority sector in the national development agenda expedited the liberalisation process.
- *Political will* – This was instrumental in enabling the liberal regimes of Australia, Chile, Malaysia and the Philippines. These governments have looked at national interest to include the interest of the users of air services and not just of the carriers. Among these economies, Australia exercised very strong political will when it opened up its domestic aviation market to 100 percent foreign

ownership. Chile has a very liberal international aviation policy, one that removes restrictions in traffic routes where Chile's carriers do not have interests to fly to. This was true also in the case of the "open skies agreement" between the United States and Canada. The Philippines, under the new Aquino administration, demonstrated this strong political will with the issuance of a new innovative policy that opened up its secondary gateways to foreign carriers, despite opposition from its local carriers.

- *Representation of consumer interests* - A strong consumer voice is important in advancing liberalisation. The case of Australia demonstrated that the engagement of groups outside of Australia's own carriers has helped shaped Australia's national aviation and liberalisation policies, leading to greater choices for consumers and to more viable Australian carriers. In the case of the Philippines, the air negotiating panel includes representatives from the departments of labor, trade and industry and tourism.
- *Role of LCCs* – The LCCs such as Air Asia of Malaysia and Cebu Pacific Air of the Philippines exerted pressure on governments to amend ASAs in order to allow for multiple designation policy and to increase market access in terms of higher levels of traffic rights and flexibilities in the choice of aircraft into secondary gateways. The networks of these LCCs have significantly expanded as a result of the liberalization of the bilaterals.

#### 4.2 Chokepoints/Weak Links

What more should governments that have undertaken significant liberalisation do? What are the next steps for governments in order to sustain the growth of tourism through liberalisation?

The conference highlighted the fact that the benefits are not easy to be realized despite the liberalisation of air access due to the impediments or weak links that prevent new services from being mounted and that prevent new services/lower fares from generating higher traffic. These chokepoints include low profile of tourism, poor infrastructure, unfriendly business climate such as uncompetitive taxes and charges and lack of political will. These chokepoints make both aviation and tourism suffer from foregone opportunities resulting from liberalized and seamless mobility.

4.2.1 Low profile of tourism - The tourism industry is not yet part of the mainstream economic agenda in APEC member economies. This is evidenced by the lack of alignment of domestic/national policies with the APEC Tourism Charter Goals. For example, the passenger experience – from preparing travel documents/papers to securing visas to the airport experience (land and air side) to the flight – is still not seamless and convenient at all. There is a need to bring up tourism in the global economic agenda in order to get the recognition truly deserved by tourism. Mexico was mentioned to be instrumental in raising this concern in the G20 agenda.

4.2.2 Infrastructure Constraints – There are two components – the hard infrastructure and the soft infrastructure. Airlines continue to face hard infrastructure constraints in some APEC economies, thereby limiting their ability to expand in both primary and secondary gateways. There are two urgent issues – congestion and financing. Tokyo area airports for example are protected until 2013 due to airport slots. The Ninoy Aquino

International Airport (NAIA) in Manila has been noted for its congestion - terminal and runway infrastructure. The secondary gateways in most APEC economies, especially those in developing economies in ASEAN, need upgrading of facilities and systems. The ASEAN is focusing more on policy related to the Single Aviation Market and traffic rights, security and air traffic management. The discussions are focused mostly on land connectivity – highway, seaport, railway – and not yet on airport infrastructure, an agenda still given to each member economy to develop. As regards airport financing, most economies rely on taxation of airlines as primary sources of government revenues for maintenance and expansion programs, thus discouraging airlines from increasing capacity and thereby killing the so-called “goose that lays the golden egg” or tourism. APEC can explore more innovative revenue sources as proper pricing of airport services and fees, incorporating non-aeronautical economic activities as major source in the business models and public-private partnership schemes (as demonstrated by Australia’s experience in airport privatization).

The soft infrastructure constraints relate to matters such as airport safety and security systems or organizations and airport-related services particularly Customs, Immigration, Quarantine and Security (CIQS) Services for border protection purposes. In relation to airport systems, the Philippines is unable to expand capacity in markets such as the United States and Europe due to the Federal Aviation Administration (FAA) downgrade of the CAAP and the EU ban on Philippine carriers. These ratings have negatively affected the ability of Philippine carriers to enter as new players in economies like Korea<sup>10</sup> and Japan, primary tourism markets of the Philippines. Likewise, insurance costs have gone up for airlines and for passengers. The CIQS services continue to constrain seamless travel due to the lack of investments in appropriate technology, IT systems and personnel to expedite visa issuances and security clearances at the border. There are competing needs for government funds but if tourism is to generate the gains resulting from air transport services liberalisation, governments have to pursue these investments in order to become or remain competitive, whichever is more applicable to individual economies.

- 4.2.3 Unfriendly business climate – In spite of the liberal air access environment in some APEC economies, tourism growth has not been very significant due to business climate issues, specifically taxes and charges, raised by airlines. These taxes and charges include: (1) the United Kingdom (UK) Air Passenger Departure (APD) Tax, (2) the EU Emissions Trading Scheme (ETS), (3) taxes (Common Carriers Tax and Gross Philippine Billings) on foreign airlines in the Philippines, and (4) costs of payments for overtime, meals and transportation allowances by CIQS. Both (1) and (2) are common issues to APEC economies with significant volume of EU arrivals as in the case of Australia, Thailand, and Viet Nam. In relation to the EU ETS, Viet Nam raised that the unilateral introduction came as a surprise after Viet Nam agreed to sign the horizontal agreement with the EU in 2004 and to drop the aviation fuel tax to reduce the burden on the airline industry to make use of the money savings to buy new generation aircraft engine.

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<sup>10</sup> The commercial annex of the ASA between Korea and Philippines was amended last April 2012 and provided for a relatively significant increase in air access between the two APEC member economies.

Taxes on any component of travel will result in an increase in travel costs – eventually passed on to the consumer. This will lead to lower traffic volume. The decrease in traffic can be explained by passengers not traveling at all or by passengers traveling to another location due to the high taxes and charges. The cases of Denmark and the Philippines were used as examples. Note however that some markets – high value ones – may be willing to pay for the taxes but still need to be empirically validated. Items (3) and (4) above were raised by the Philippine private sector as major reasons behind the absence of air connectivity to long haul markets and lagging connectivity with the rest of Asia. Airlines are not incentivized to deploy significant capacity to the Philippines due to these issues. However, it was noted that it may be resolved soon due to the pronouncements of the Aquino administration in December 2011 that it will do away with these taxes to support the 10 million tourism targets by 2016.

4.2.4 Weak Institutions/Lack of regulatory certainty - In some cases, the issue is one of principal-agent problem, where the national leaders have already exercised political will but the agents – heads of agencies that are mandated to implement the policy – resist or slow down implementation of the national directive. This is in the case of the implementation of 24/7 operations in international airports that will now remove overtime charges to airlines as cited in the case of the Philippines.

4.2.5 Absence or lack of appropriate competition policy - Aviation markets have been liberalized but most economies still lack competition policy that will set the rules of the game, enabling market growth and at the same time providing mechanisms to discipline market behavior in order to prevent unfair practices and/or excesses that lead to unsustainable and unreliable services and to harmful effects on consumer welfare.

## **5 Proposed Areas of Cooperation and Next Steps**

As pointed out by Secretary Ramon R. Jimenez of the Department of Tourism, Philippines, the conference is an opportunity for the tourism sector to achieve stronger representation in the formulation of air transport policies and reforms and that it's not just about convergence of policies but of building friendship, necessary in breaking the silos between tourism and air transport policies. And such friendship begins with a dialogue that promotes an understanding of each sector's issues and perspective of each other's role in pursuing a true integrated common policy is therefore an imperative in APEC.

There are at least seven (7) areas where cooperation is imperative between tourism and air transport sectors.

### **5.1 Mainstreaming of tourism in the national, regional and multilateral agenda**

- This proposal seeks to address two concerns raised during the Conference, namely:

(a) how to convince governments about the importance of connectivity to tourism and of tourism in generating the much needed economic and social benefits. Tourism still has a relatively low profile in the APEC. It is possible that governments have information about them but are not acting on the information and recommendations.

(b) in the case of economies that are not yet liberalized or not really open to the idea of liberalisation but the tourism industry would want to start this conversation, what would be the first steps?

- Proposed APEC Agenda
  - For APEC Leaders to support the open letter of the UNWTO and the WTTC, strong allies of tourism sectors across the world, to prioritize tourism and to remove the barriers/chokepoints to tourism and aviation growth. The open letter presented to heads of states seeks recognition for tourism in the national agenda.
- Proposed APEC Tourism Working Group Agenda
  - Consolidate evidences of workable solutions that Leaders can consider especially in juggling between domestic political interests; link up the initiatives of the Tourism Working Group (TWG) with the transport working group (TPT) to further demonstrate the benefits/evidences of liberalisation and tourism and therefore remove remaining barriers to air transport liberalisation, given the various levels of development among APEC member economies. There are opportunities to further strengthen the evidences through this dialogue between the working groups and by bringing in organizations like PATA, IATA, AAPA, UNWTO, and WTTC and their affiliates as observers or dialogue partners.
  - Determine the distribution of tourism benefits in order to identify the inclusive growth gains and gaps that still need to be addressed if tourism is to become a vehicle for poverty reduction.
  - Package, communicate and sell the message effectively to the decision-makers through sharing of “best practices.” The Working Group needs to identify the key messages that will include recognition of the value of tourism jobs to be at par with those in aviation.

## 5.2 Pursuing liberalisation of both operational and capital market restrictions

- This serves as a strategic area of cooperation in order to provide greater mobility of capital across the region
- Proposed APEC Agenda
  - For APEC Leaders to commit to the liberalisation of aviation markets, including airline partnerships and alliances, in order to strengthen the competitive advantage of the region in both tourism and aviation, facilitate trade and investments and supply chain connectivity and foster intensive cooperation for innovative growth
  - For APEC Leaders to advance the MALIAT and the options for liberalisation based on the ongoing regional initiatives such as those of ASEAN and its Dialogue Partners
- Proposed APEC Tourism Working Group Agenda
  - Together with the APEC Transport Working Group, demonstrate the benefits of joining the MALIAT for APEC Member economies

### 5.3 Integrating climate change as agenda in tourism and aviation development program in APEC

- This proposal seeks to protect the environment while maximizing socio-economic welfare generated by tourism and aviation through a more responsible and inclusive growth. The UNWTO reported that tourism is estimated to account for 5 percent of the global CO2 emissions and air transport represents around 40 percent.
  - Proposed APEC Agenda
    - For APEC Leaders to commit to sustainable tourism and aviation by supporting the aviation industry's increasing commitment to improve technology, fuel efficiency, operations and infrastructure to cut its carbon footprint in half by 2050 compared to 2005 levels and to veer away from imposing taxes that only deter airlines from making investments in these technological developments.
    - For APEC Leaders to mainstream climate change as an agenda in their national tourism and aviation programs and broadly in APEC as well.
  - Proposed APEC Tourism Working Group Agenda
    - Identify activities that national tourism organizations can pursue individually and/or together with other APEC members in order to find ways by which tourism can contribute to the climate change agenda
    - Together with the APEC Experts group on air transport (including airports), recommend joint activities and/or innovative ways at the national and regional levels that will help reduce the carbon footprints of tourism and aviation, outside of taxation schemes, given the growth in capacity and demand and significant ongoing and future airport infrastructure programs

### 5.4 Removing burdensome taxes and charges

- This proposal seeks to remove the chokepoints in travel demand and business climate. These are the chokepoints discussed under 4.2.3 above.
- Proposed APEC Agenda
  - For APEC Leaders, as single voice, to raise and address the issue of the APD and the ETS through a dialogue with the EU Leaders. The dialogue will focus on demonstrating the mutual benefits in removing those taxes.
  - For APEC Leaders to commit to removing the taxes and charges that impede air connectivity and tourism flows
- Proposed APEC Tourism Working Group Agenda
  - Demonstrate the impact of the EU taxes on APEC and EU tourism and aviation (and ultimately economic growth) by engaging the support of global aviation bodies such as IATA, PATA, AAPA.

- Engage the private sector – particularly airlines and tourism companies - from APEC in identifying the remaining and priority impediments or chokepoints (in terms of taxes and charges) that should be removed in support of tourism and aviation growth in APEC.
- Package, communicate and sell the message – why the taxes and charges should be removed - effectively to the decision-makers through sharing of “best practices” between stakeholders who have been engaged in similar (and successful) advocacies in the past

#### 5.5 Investing in travel facilitation

- This proposal aims to enable seamless movement across borders by tourists and passengers.
- Proposed APEC Agenda
  - For APEC Leaders to prioritize harmonization of immigration, customs and security procedures and investments in technology and systems in improving visa application and processing formalities well as the time of visa issuance.
  - For APEC Leaders to commit to supporting freedom to travel by relaxing visa policies and streamlining procedures thereby reducing transaction costs for passengers and airlines
- Proposed APEC Tourism Working Group Agenda
  - Demonstrate benefits of making it easier for travellers to enter a destination and find ways to reduce burden and facilitate travel.
  - Dialogue between IATA and the APEC Transport and Tourism Working Groups on how systems such as IATA’s Fast Travel or Simplifying Business Models in airports and airlines can help provide seamless travel and expedite business activities

#### 5.6 Implementing innovative approaches in airport infrastructure development and airline marketing programs

- This proposal aims to speed up the provision of good and safe airport infrastructure and systems
- Proposed APEC Agenda
  - For APEC Leaders to use APEC as platform in narrowing the gap in airport infrastructure and systems across member economies and thereby help each other comply with international standards
  - For APEC Leaders to prioritize the harmonization of navigational facilities in order for APEC to have the most efficient air space system to conserve limited resources.
- Proposed APEC Tourism Working Group Agenda
  - Recommend to the APEC transport working group the need to determine innovative ways of addressing capacity constraints and financing airport infrastructure development or modernization programs, and the successful PPP models. This can be done through sharing among stakeholders under an exchange program.

## 5.7 Promoting healthy competition in aviation to sustain connectivity for tourism

- This seeks to ensure sustainable tourism and aviation markets that reinforce each other's growth
- Proposed APEC Agenda
  - For APEC Leaders to strengthen the institutions or build the institutions that will promote healthy competition in each member economy's aviation market. This includes strengthening the capacity of institutions to gather data and establish the information system that will be used to address competition issues arising from liberalisation of markets.
- Proposed APEC Tourism Working Group Agenda
  - Dialogue with the APEC Air Transport Working Group and recommend that APEC Secretariat look into the various competition policies and competition authorities most relevant to the sustainability of aviation and tourism markets

## 5.2 Proposed Activities of the APEC Tourism Working Group

1. A regular meeting be convened among the TWG and TPT to draw a more concrete agenda towards enhancing integration of tourism and air transport policies.
2. Joint advocacy of tourism and air transport to remove/reduce chokepoints through a forum similar to this conference to bring into the fold other relevant sectors and agencies, e.g. foreign ministry, immigration agency, investment agency, and airport authority. The objective is to document experiences of economies on benefits and costs of investments in travel facilitation and their impacts on tourism and harmonize policies and programs in support of tourism growth
3. Invite IATA as observer in the working groups to pursue alignment of air transport policy reforms with tourism agenda in APEC, given that IATA's members represent about 84 percent of the world's airline capacity
4. Through the collaboration of international organizations, studies/conference may be undertaken on the following areas:
  - 4.1. Conference on the state of travel facilitation across APEC member economies and recommendations to address the gaps, enable policies and processes at the national and regional levels
  - 4.2. Comparative study to examine the policies, programs and activities being pursued across APEC to allow and to attract the entry of more local and foreign airlines, including an analysis of workable competition policy models and an assessment of the infrastructure programs.<sup>11</sup>

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<sup>11</sup> This is a consolidation of two proposals presented by Philippines during the 40<sup>th</sup> TWG meeting in Taipei, Chinese Taipei (25-26 April 2012).

## **PART II - CONFERENCE PROCEEDINGS**

### **A. Introduction**

1. There were 161 participants who joined the Conference. A list of the participants and resource persons can be found in *Annex 1*. The breakdown is as follows:
  - 108 local and 53 foreign
  - 18 were speakers and resource persons (including those from the UNWTO, IATA and PATA) while 143 were delegates
2. Out of the 143 delegates, 105 were local and 38 foreign.
3. The economies represented (by the participants and the speakers/resource persons) were: APEC member economies (Australia; Brunei Darussalam; Canada; Indonesia; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Thailand; United States, and Viet Nam), Cambodia, and Lao PDR.
4. The two-day conference was designed to include presentations and discussions. It used the framework of the tourism system described in Part I and emphasized on the role of institutions. The conference program and profile of speakers and moderators are attached as *Annexes 2\_1* and *2\_2*, respectively.

### **B. Opening Ceremony**

5. The Conference opened as Mr. Javier Guillermo Molina, Lead Sheperd of the APEC TWG, extended a warm welcome to the participants. He highlighted the travel facilitation initiative designed to expedite the flow of larger numbers of people while ensuring the security of the overall travel system. He emphasized the benefits of travel facilitation to travellers (in terms of easier and more efficient and less stressful travel experience), private sector (in terms of operational and cost efficiency), and to governments (in terms of greater ability to manage flow of travellers across borders while at the same time ensuring high levels of security and border integrity).

*(Annex 3. Welcome Remarks\_Javier Guillermo Molina\_APECTWG)*

6. Secretary Ramon R. Jimenez Jr. of the Philippine Department of Tourism warmly welcomed the participants and emphasized that connectivity is not merely about making flight plans, not just about cooperation but in the very big sense, about friendship. Connectivity is actually about understanding each other's needs and trusting in the sincerity behind those needs and those demands, and finally in the unity of goals and what makes each other happy. He encouraged both the APEC tourism and transport working groups to support the APEC Charter of 2000 and the APEC Tourism Strategic Plan for 2015 that establishes the promotion of an efficient regional economic integration for policy environment and structural reform. He further appealed to the APEC Transport Working Groups to make tourism an integral part of your plans as well and for the participants to make the conference a part of the new APEC initiative that is of breaking business growth opportunities for travel and tourism in the new APEC economy, and to make this conference for convergence advocacy and for building friendship.

*(Annex 4. Opening Remarks\_Secretary Jimenez Jr.\_Philippine DOT)*

7. Secretary Mar Roxas of the Philippine Department of Transport and Communications declared that tourism is very much in the center of all these programs and projects that the Philippine government is undertaking in order to support the private sector. He emphasized that the APEC Tourism Charter is a key priority as it plays a major role in promoting efficient regional economic integration through policy alignment and structural reforms. He expressed the support of the Philippine DOTC to the charter in achieving APEC's goal free and open trade in Asia Pacific Region through the provision of convenient, safe and reliable transport for goods and people. He reiterated the mission of the Philippine DOTC to ensure that the passengers are safe as they move to and from Philippines. Secretary Roxas outlined the programs and initiatives of his department in ensuring such safety at the various airports of the Philippines.

*(Annex 5. Opening Remarks\_Secretary Roxas\_PhilippineDOTC).*

8. Secretary-General Taleb Rifai of the UNWTO presented that tourism represents 6 percent of the world's global trade and 30% of the trade in services thus called on the UNWTO, the WTTC and the IATA to work together with APEC to strongly advance the open travel agenda. By joining forces, these organizations have an opportunity to demonstrate tourism's value, not just as an economic force, but as one of the human activities best able to lead a new decade of fairer, stronger and more sustainable growth. He identified three main areas in which the collaboration between tourism and air transport can be critical to advance common goals and potentials to generate socio-economic benefits: (1) sustainability and climate change, (2) taxation that heavily penalize tourism development, and (3) travel facilitation and considering the possibilities offered by information and communication technologies in improving visa application and processing formalities well as the time of visa issuance.

*(Annex 6. Keynote Speech\_SecGenTaleb Rifai\_UNWTO)*

9. Maria Cherry Lyn S. Rodolfo, co-convenor of the Conference, presented the objectives and programme for the 2 days.

*(Annex 7. Conference Overview\_ Cherry Lyn Rodolfo\_Philippines).*

## **C. Presentations**

### **Day 1 Presentations**

#### ***Session 1: Impact of Air Services Liberalisation on Tourism Growth: Progress in Regional Air Services Integration***

10. Datuk Dr. Victor Wee, Chairman, Malaysia Tourism Promotion Board and moderator for Session 1, introduced the speakers from the IATA and the PATA.
11. The first presentation, Economic Impact of Air Connectivity and Liberalisation, was given by George Anjaparidze, IATA Senior Economist. He explained the 3 ways of looking at the benefits from air transport: (1) jobs, gross domestic product and tax revenue supported by aviation, (2) consumer benefits, and (3) benefits from improved air transport links, i.e. improvement in productivity, facilitation of foreign direct investment, and promotion of agile business models. Liberalisation is a key agenda in the air transport sector because of the

restrictions that continue to constrain the growth of air connectivity and the sectors that depend on them – tourism, trade and investments. These restrictions are in the areas of statutory provisions on capital or ownership (e.g. 25 percent threshold for ownership of US airlines by non-nationals) and on operational Rights (e.g. the right of Country X to deny access to an airline from Country Y if it is not “substantially owned and effectively controlled” by nationals from Country Y). Liberalisation generates benefits to consumers in terms of: lower prices, increased output and choice and improved product and service quality. The benefits to firms include: improve capacity utilization, promote cost efficiency and productivity, increase investment and knowledge transfer, and improve profitability and market value. He concluded that airline market liberalisation will support APEC agenda: trade and investment liberalisation, supply chain connectivity and fostering intensive cooperation for innovative growth.

During the open forum, Mr. Anjaparidze pointed out that the scale of liberalisation has been patchy in the APEC, where some are more liberalized while others are still closed. There have been some progress but there is still a long way to go. The different scales of liberalisation explain the differences in levels of benefits. He explained that national governments still hesitate in relaxing ownership rules due to safety and security reasons but which he stated can be addressed by industry initiatives on safety audit programs and collaboration between national and regional entities. He used the example of Nestle Switzerland in demonstrating the point that liberalisation of ownership can lead to cheaper cost of capital and higher value for the company, two crucial elements that allow markets to function effectively. He also mentioned that the IATA reports considered the benefits from air connectivity in general and that LCCs, considered to be contributing more to the tourism industry based on observations, are invited to join the IATA as members. To date, IATA has 25 LCCs, mostly from Europe as members. Other LCCs, particularly from Asia, are not members of IATA due to differences in business models and priorities. He noted that it is possible for passengers to travel on cheaper fares on legacy carriers than on LCCs.

*(Annex 8.Session1\_Impact of liberalisation\_George Anjaparidze\_IATA).*

12. Mr. Martin Craigs, CEO of PATA, followed with his presentation on the binding constraints to APEC tourism growth. He raised the taxation issues, faced by APEC economies in relation to long haul EU markets such as the UK, considered a key advocacy of PATA and an outrage against freedom to travel. He questioned the logic of the UK government in imposing the exorbitant air passenger duty, around 85 pounds per passenger including 3-year old children collected by the airlines on behalf of the British government. He also questioned the role of the emissions taxes of the UK, which he believed will not be used to reduce the carbon footprint of the aviation industry but to finance the rail infrastructure between London and Birmingham in order to reduce travel time by 20 minutes. He emphasized that the media should be more responsible in reporting on something like tourism that affects the livelihood of millions of people. He referred to the bad media coverage of the floods in Bangkok in 2011. He then explained the role of aviation and tourism in Asia Pacific and the role of the LCCs in developing the global aviation networks as seen in Figures 3 and 4 below. There are 3 major impediments to tourism growth in the region. These are fragmentation, vulnerability and relatively low profile of the tourism sector. On travel facilitation, Mr. Craigs used Cambodia as an example of a

facilitating economy, issuing visas for 30 minutes upon arrival compared to the 100 days of the US government. He suggested the following as areas of cooperation among APEC, IATA and PATA:

1. To work as a group to speak up against the unilateral EU taxes—including the ETS - that are penalizing long haul tourism markets and restricting freedom to travel to the APEC region and more developed economies such as the US that continue to restrict visa issuances on certain types of travel, thus affecting bonafide leisure travel;
2. To elevate the need to ensure regulatory certainty to the APEC Ministers through the APEC TWG. The private sector appeals to the APEC governments to fast tract efforts to ensure regulatory certainty particularly for private sector investments;
3. To advocate with government to facilitate travel through investments in technology such as biometrics to speed up visa issuances and people mobility at the airport; and
4. To bring up tourism in the global economic agenda in order to get the recognition truly deserved by tourism. Mexico was mentioned to be instrumental in raising this concern in the G20 agenda.

Figure 3. LCC Asia Network: 2003

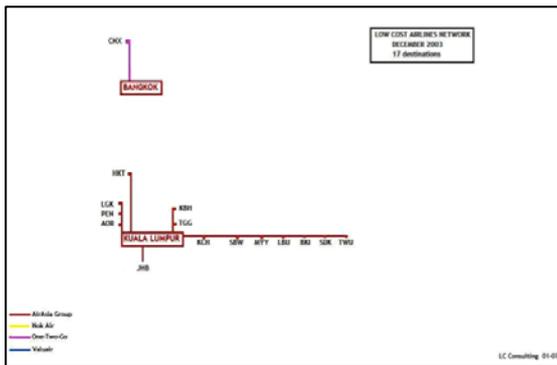
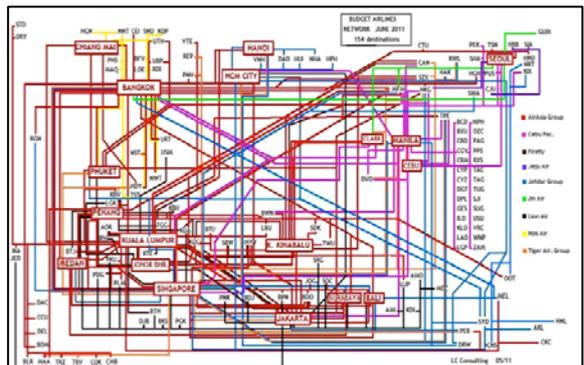


Figure 4. LCC Asia Network: 2011



(Annex 9. Session1\_ Tourism and Air Transport Integration\_Martin Craigs\_PATA)

**Session 2: Impact of Air Services Liberalization on Tourism Growth: Country Experiences in Regulatory Reform Process**

13. Atty. Beatrice Lim, Director for Industry and Government Affairs of the Association of Asia Pacific Airlines introduced Session 2 on the economy experiences in air services liberalisation and their impact on tourism growth.
14. Mrs. Thanitta Maneechote, Deputy Permanent Secretary, Thailand Ministry of Tourism and Sports explained the tourism strategies of Thailand that enabled it to attract 19 M international visitors in 2011. Thailand’s gradual liberalisation policy for aviation has the following objectives:

- To have many air carriers operating air services to/from Thailand
- To encourage sustained & fair competition among air carriers
- To promote extensive network of air services with various types of services
- To promote sufficient services with high quality & reasonable price

- To facilitate public both passengers & cargo transport, which support tourism & trade industries

To date, Thailand has signed 99 bilateral Air Services Agreements, 3 ASEAN Multilateral Agreements for Liberalisation of Air Freight & Passenger Services. It also has a liberal charter policy to support tourism. The role of the LCCs was also highlighted, being instrumental in connecting long-haul flights to spoke passengers of the flights to regional destinations by code sharing agreement with full-service carriers and in providing short-haul services to connect between point to point within a particular area. During crises times, Thailand's aviation responded through the following measures in order to support airline connectivity: reduction of landing fee by 10 percent, of parking fee by 20 percent and of rental fee / terminal & building service charge by 10 percent. Thailand is preparing for the implementation of the mutual recognition agreement for tourism workers by 2015 and for other ASEAN initiatives such as the ASEAN Single Aviation Market. In terms of safety and security issues, Mrs. Maneechote recognized the role of the 1,000 tourist police and volunteers – foreigners who have come to live in Thailand and volunteered to support the tourism industry. She also raised the concerns about the impact of the implementation of the EU ETS on travel cost.

In relation to the question on how Thailand is able to cope with the EU ETS, she reported that Thailand likewise objected to the implementation of the instrument but the government has already instructed its airlines to follow the system in the meantime. The Thai government has already given its comment to the EU during a multilateral forum with ASEAN.

*(Annex 10. Session2\_Case of Thailand\_Thanitta Maneechote\_TAT)*

15. Datuk Dr. Victor Wee gave an overview of the experience of Malaysia, the world's top 10 destination in tourist arrivals and top 15 in global receipts. Malaysia's tourism is the fifth largest industry after Oil, Gas & Energy, Financial Services, Wholesale & Retail and Palm Oil. Total inbound tourism expenditure reached US\$19 Billion in 2010. Malaysia's goal by 2010 is to make the tourism sector grow 3 times as much as its size in 2010. The combination of inbound and domestic tourism is bigger than the palm oil industry. He presented the economic impact of the liberalisation of the following air routes: Malaysia-Thailand and Malaysia-Singapore and the role of the LCCs particularly Air Asia in expanding capacity and enabling tourism benefits.

Malaysia's aviation policy is geared towards the following goals:

- Develop a network of modern airports systems
- Promote a liberal/open skies aviation policies with 18 economies
- Multilateral Agreements among ASEAN economies to accelerate open sky arrangements for both Full-Service-Carrier and Low-Cost-Carrier
- Develop KLIA as a hub for passenger and cargo
- Develop Malaysia as low cost carriers hub, especially after the completion of KLIA2 as a low cost carrier terminal

As far as the LCC is concerned, Air Asia and Air Asia X have played an important role not only in Malaysia but the entire ASEAN market. It entered into joint venture agreements to enhance air connectivity in ASEAN. The latest of these ventures was Philippine Air Asia.

What are the next steps to liberalisation? What steps should government have to take in terms of liberalisation? Dr. Wee emphasized on the need to link up the initiatives of the tourism working group with the transport working group to highlight the benefits of liberalisation and tourism and therefore remove remaining barriers to air transport liberalisation. In ASEAN, he mentioned that since economies have different levels of development, then it is important for those outside of Brunei and Singapore to strongly consider and implement their paths to liberalisation.

In the case of economies that are not liberalized or not really open to the idea of liberalisation but the tourism industry would want to start this conversation, what would be the first baby steps? Datuk Wee explained that for governments to pursue liberalisation efforts where they are needed, it is important for the tourism sector to mainstream tourism in the national agenda. He cited the UNWTO and the WTTC are strong allies of tourism sectors across the APEC region. The open letter of UNWTO and WTTC that is presented to heads of states seeks recognition for tourism in the national agenda. The problem in mainstreaming tourism is an issue faced by tourism stakeholders in developed economies rather than in developing ones.

*(Annex 11. Session2\_Case of Malaysia\_Datuk Victor Wee\_Tourism Malaysia).*

16. Mr. Diego Silva from the Chilean Civil Aeronautics Board revealed the features of Chile's 30-year old "open skies" policy: free access to market, maximum liberty for airlines to design their air services, liberalisation of property and control (no restrictions on capital nor on administration), minimum authority intervention. Chile's CAB will grant full "open skies" even if Chile's own airlines are not willing to serve points in other economies. Increasing freedoms make tourism growth; thus, granting 3<sup>rd</sup> and 4<sup>th</sup> freedoms are not enough to make tourism grow. Fifth freedoms allow flexibility to airlines to choose the routes and make airlines augment their flight frequencies. Chile's advocacy is for economies promoting tourism to give up protectionism of their air transport sector. Mr. Silva asserted that tourism authorities should always be a good ally in seeking Open Skies agreement between economies, or regions.

*(Annex 12. Session2\_Case of Chile\_Diego Silva\_CAB).*

17. Mr. Andrew Wilson, Deputy Secretary of the Ministry of Transport of Australia shared the experience of Australia in liberalizing and deregulating their aviation market. Australia is considered to have one of the most liberal, if not the most liberal air transport regime around the world. The Australian government has overseen significant deregulation of the aviation industry over the last 20 years by removing government interference in the running of airlines and we have continued to liberalize service arrangements to free the markets up and to take up opportunities and to provide consumers a greater choice of products. Over the last 20 years the short-term arrivals into Australia have increased by 165 percent to around 6 M people. At the same time more and more Australians are travelling overseas with short-term departures increasing by 250 percent to 7.4 M. And in Australia tourism industry is a significant element of Australia's economy. It generates 96 B dollars in spending and contributes 34.6 B dollars in GDP, 2.5 percent of Australia's total GDP. In 2011, over 4 M visitors from APEC economies travelled to Australia contributing some 15 billion dollars in total inbound economic value.

What has Australia done to get to where they are today?

- First, the government focused on regulating safety and security of airline operations.
- Second, airlines have been given the freedom to finally succeed by making their own commercial decisions about almost everything else.
- Third, airports were privatized.
- Fourth, the international aviation policy aimed at multiple designation policy and open skies agreements as means of achieving the national interest goals. Related to this is the inclusion of designation criteria rule in bilateral air agreements based on incorporation and principal place of business to lay the ground work for future liberalisation of the bilateral system.
- Fifth, foreign ownership of domestic carriers was liberalized, allowing 100 percent foreign equity.

The result: Australian carriers are largely sustainable and profitable. This contrasts sharply with other economies that continue to prop up unsustainable carriers with bankruptcy protection or subsidies. Mr. Wilson also discussed the role of usable fifth freedom traffic rights in the development of a sustainable Australian-based aviation industry, one that serves the national interests beyond those of the carriers.

On the issue of the EU ETS, he recommended a constructive way forward on the issue rather than simply voicing out opposition, that is, through a multilaterally-endorsed global framework as the most effective way forward to ensure international aviation contributes its fair share in reducing global carbon emissions. That means working with ICAO to achieve this framework.

During the open forum, Deputy Secretary Wilson confirmed that Australia indeed implements relatively easy visa application procedures since everything can be done online and the process is painless and instantaneous. He recommended that while Immigration procedures continue to serve as challenge governments must come up with ways that facilitate travel and reduce the burdens, by demonstrating the benefits of making it easier for people to enter an economy.

*(Annex 13. Session2\_Case of Australia\_Deputy Secretary Wilson\_Transport Ministry).*

18. Professor Tae Oum of the University of British Columbia, Canada demonstrated the effects of liberalisation on tourism growth in the cases of Japan, Canada, Korea, China and the US. He pointed out that the time has come to change governments' approach to the airline sector. Airlines contribute to the economy mainly by supporting other industries. Thus, making pro-economy and pro-consumer policy is consistent with maximizing national economic benefits. History has shown that most of the protected flag carriers eventually fail after wasting billions of taxpayer and consumer dollars. Each country would be served far better by adopting "open skies" as principle, and reversing onus of proof to the opponents of "open skies." The key barriers to "open skies" are the following:

- fear that "Open Skies" would bankrupt airlines

- unit cost differences – airlines from the higher cost country may lose market shares to airlines from the lower cost economies
- airlines of smaller economies may benefit more than airlines from the larger economies (asymmetric benefits)
- government ties to flag carriers, and
- lack of political will to break away from vested interest to do good things for economy and powerless citizens

The methods for achieving “Open Skies” include:

- putting Open Skies as an agenda in Political leaders’ Summit meeting; realistic tradeoff emerges between Air Transport sector and other sectors of economies (Trade, FDI, Tourism)
- phase-in approach, using avenues via which gain/loss in air transport sector may be compensated via gain/loss in other economic sector (tourism, trade, investment, etc.).

*(Annex 14. Session2\_Case of Northeast Asia\_Oum\_UBC)*

19. Undersecretary Daniel Corpuz of the Philippine Department of Tourism, discussed the role of the tourism law enacted in 2009 in underscoring the importance of tourism. The same law pointed to a certain direction wherein tourism can be a vehicle in bringing in investments and in dispersing the economic benefits to the countryside even to the small villages. In 2010, tourism contributed about 5.7 percent to the Philippine GDP but more importantly, it employed 3.6 M Filipinos or 10 percent of the total employment rate of the country during that year. The Tourism Act spurred a more liberal view of the air transport sector, leading to the opening up of secondary gateways to foreign carriers and in ensuring that consumer interests are represented in the policy-making process and decision. The Aquino administration reconstituted the Philippine air panel in order to include the Department of Labor and Employment as representative of the millions of Filipino professionals and workers around the globe. He appealed to the Philippine Civil Aeronautics Board for support in pursuing the negotiations with Korea in order to address the full utilization of seat entitlements in this market. Note that South Korea is the number one tourism market of the Philippines today.

*(Annex 15. Session 2\_Case of Philippines\_Usec Daniel Corpuz\_DOT)*

20. Executive Director Carmelo Arcilla of the Philippine Civil Aeronautics Board provided more details about the liberal air policy regime in the Philippines. He noted that the Philippines was the first economy in Asia to fully privatize its airlines and the first to fully deregulate domestic aviation. The groundwork for liberalisation in the Philippines has been laid down by Executive Order 219 (issued in January 5, 1995) where multiple designation was the critical provision that paved the way for the entry of local airlines into the international scene. From one airline in 1994, there are now 6 airlines in the economy. Other liberal policies adopted in support of tourism included: (1) the liberalized charter regime that granted unilateral rights for foreign airlines to operate quasi-regular services to airports outside of Manila, the first of its kind in Asia, (2) EO 29 that directs the Philippine negotiating panel to pursue more aggressively progressive liberalisation and specifically to negotiate for unlimited 3<sup>rd</sup> and 4<sup>th</sup> and 5<sup>th</sup> freedom traffic rights to secondary gateways outside of Manila. The CAB is further mandated to or allowed to grant additional traffic rights to foreign

airlines on a unilateral basis over and above the limitations imposed by pertinent air services agreements. EO 29 has led to an explosion of sorts in Kalibo, of 400 to 500 percent increases in traffic from China. The same is true in the case of Clark. He further noted that there are about 71 M seats available for utilization by both Philippine and foreign carriers. The main concern is infrastructure, particularly airport infrastructure. He then gave an update of the current airport modernization program.

During the open forum, Director Arcilla raised the negative impact of the US FAA downgrade on the expansion plans of Philippine carriers in other markets such as Korea. In South Korea, there is regulation that does not allow a start up airline to fly to Korea if the state is banned or downgraded. The Korean government has agreed to resolve this issue with the Philippine CAB.

*(Annex 16. Session 2\_Case of Philippines\_Carmelo Arcilla\_CAB)*

## **Day 2 Presentations**

### **Session 3: Convergence of Tourism and Aviation Investment Policies**

21. Maria Cherry Lyn S. Rodolfo, Co-Convenor, presented the synthesis of Day 1 proceedings.

*(Annex 17. Day 1 Synthesis\_Rodolfo)*

22. Session 3 on Convergence of Tourism and Aviation Investment Policies started with an introduction of the speakers by Deputy Secretary Andrew Wilson of the Transport Ministry of Australia.

23. Mr. George Anjaparidze of the IATA showed the economic impact of the aviation industry in the Philippines, particularly its contribution to tax revenues. Taxes on any component of travel will result in an increase in travel costs – eventually costs passed through to consumer. This will lead to lower traffic volume. The decrease in traffic can be explained by passengers not traveling at all or by passengers traveling to another location due to the high taxes and charges. The cases of Denmark and the Philippines were used as examples. Denmark abandoned economically damaging passenger tax. Initially, Denmark proposed DKK75 tax that would have added 3 percent to average travel costs, far more for domestic passengers. The IATA analysis showed the following impacts:

- Over 328,000 tourists & passengers would have been lost
- GDP would have been DKK 586 M lower
- 1,400 jobs would have been lost
- Other tax receipts would have been DKK 238 M lower
- (1 USD ≈ 5.5 DKK; 1 DKK ≈ 7.75 PHP)

In the case of the Philippines, the total tax attributable to aviation sector's economic footprint 26.4 PHP billion. Previous IATA analysis revealed that elimination the CCT and GPB would lower the total cost of int. passenger travel by 2.5 percent and generate additional USD 38-78 M in from increased tourism revenues during the first year of the elimination of the taxes only.

*(Annex 18. Session3\_ Aviation Taxes and Charges\_George*

*Anjaparidze\_IATA)*

24. Mr. Felix Cruz, Chairman of the Philippine Board of Airline Representatives, discussed the role of aviation in the tourism value chain and the imperative for convergence of aviation and tourism. In the Philippines, the DOT and the Department of Public Works and Highways have signed a memorandum of agreement to implement prioritization of tourism road infrastructure for public funding. However, there are still areas where investment policies in aviation do not support tourism growth. One is the taxation regime, specifically the common carriers tax and the gross Philippine billings, which foreign airlines have raised as unfavorable to airline capacity investments in the Philippines and a major reason behind the exit of carriers, particularly the long haul carriers, in the past decades. These have made it easier for airlines to give up the Philippines and to shift capacity to more competitive Asian destinations. The association has been appealing to the government to repeal the common carriers tax and to grant reciprocal exemptions in terms of the gross Philippine billings tax. Other areas requiring convergence include: implementing 24/7 and 3-shift basis in international airports and terminating the practice of charging overtime fees, meals and transportation allowances by Customs, Immigration and Quarantine personnel to international airlines, which have been subject to poor governance, upgrading the airport infrastructure and systems.

Mr. Cruz explained that it was the Tourism Act of 2009 that triggered the realization of other supporting agencies to rally behind tourism. However, there is still a lack of alignment between the policy and the implementation at the ground level. Governments should be in tune with the latest development of the world in order to be able to implement 24/7 operations. The organization is advocating for government to provide the budget to make this happen.

*(Annex 19. Session3\_Case of Philippines\_Felix Cruz\_PHLBAR)*

25. Mrs. Jessica Soto, National Director for Tourism Development of Peru, highlighted the transparent, stable & friendly legal framework that Peru offers to investors. In this regard, Peru has increased its international arrivals in 136 percent in the last 10 years and its revenues in 248 percent in the same period; currently, there is 60 percent more international airlines flying from Peru since 2003, going hand in hand with an important increasing in destinations, positioning Peru as an important air hub in South America. On the other hand, Mrs. Soto emphasized the strong coordination led by the Tourism Sector with the Ministry of Transportation to align air connectivity policies with tourism goals, by promoting a bigger supply of commercial air services, encouraging the operation of airlines that open new international routes or establish more frequencies to and from the International Airport Jorge Chavez, in Lima. In this line, a cooperative agreement between the tourism sector and air transport sector is currently in place. This agreement seeks to implement three packages of incentives to airlines as shown in Figure 5. It is important to mention that Peru's target is to generate more air services from international airlines in order to reach 3.5 million international tourists by 2015. In addition, the tourism sector seeks to develop more competition into the domestic market and to open up new internal routes, particularly 31 new regional routes.

Figure 5. Cooperative Agreement between Tourism and Airlines

Package 1	Package 2	Package 3
<p>Airline operating additional international frequencies on a route or pre-existing international destination.</p> <p><b>Benefit:</b></p> <p>LAP: <b>6 months 100% discount on landing and takeoff</b></p> <p>CORPAC: <b>90% discount on fares charges by the transportation authority</b></p>	<p>Airline operating additional international frequencies that represents a new international route with a direct connection to the International Airport Jorge Chavez in Lima</p> <p><b>Benefit:</b></p> <p>LAP: <b>12 months 100% discount on landing and takeoff and</b></p> <p>CORPAC: <b>90% discount on fares charges y the transportation authority</b></p>	<p>Airline operating additional international frequencies that represents a new international route with a direct connection from Europe, North America or Asia to the International Airport Jorge Chavez in Lima.</p> <p><b>Benefit:</b></p> <p>LAP: <b>24 months 100% discount on landing and takeoff</b></p> <p>CORPAC: <b>90% discount on fare by authority.</b></p> <p>PROMPERU: Through an special agreement, will implement a <b>two year - promotion plan of Peru as a destiny in the market of origin &amp; complement for US\$ 1 million (each year)</b></p>

*(Annex 20. Session3\_Case of Peru\_Jessica Soto\_Tourism Ministry)*

26. Mr. Ross Clapcott of New Zealand explained the role of air linkages and of distance as an economic and not just a geographical concept for a economy that is arguably the most geographically isolated developed economy in the world. The OECD estimates that New Zealand's distance to markets reduces its GDP per capita by about 10 percent. Distance disproportionately constrains growth in knowledge-intensive, high value-added activities. Face to face contact is vital for business opportunity and innovation. He explained the role of the Ministry of Economic Development's to include among others:

- coordinate government agencies in order to determine priority routes and to serve as clearing house for regular information and analysis on priority routes,
- establish of a network of key agencies to act on key risks quickly
- Identify current and potential role of government
- Provide nformation provision and deepen knowledge
- identify medium to longer term route and network risks and opportunities

*(Annex 21. Session3\_Case of New Zealand\_ Ross Clapcott)*

#### **Session 4 - Aviation and Tourism Growth: Implications for Airport Infrastructure**

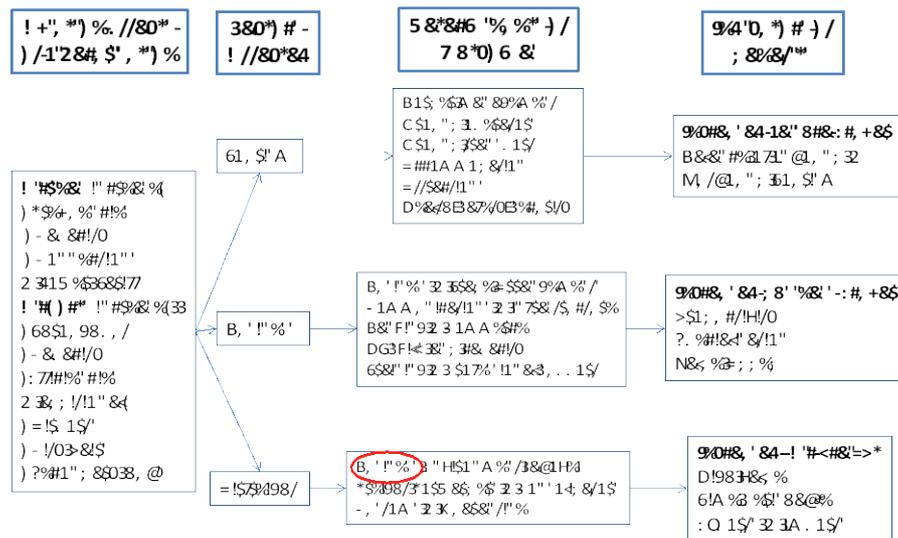
27. Session 4 started with Mr. Molina as moderator.

28. Mr. Edy Krismeidi of the ASEAN Secretariat presented the objective to advance the full liberalisation of air transport services in ASEAN and to achieve the ASEAN Leaders' vision of Open Sky in the ASEAN region. The milestones of the ASEAN in air transport liberalisation in the region include:

- ASEAN Plan of Action in Transport and Communications 1994-1996
- Ministerial Understanding on ASEAN Cooperation in Transportation, 19 March 1996, Bali
- Roadmap for Integration of ASEAN (RIA) for ASEAN Competitive Air Services Policy, 2004
- ASEAN Open Skies Agreements, 20 May 2009, Manila
- ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services, 12 November 2010, Bandar Seri Begawan
- ASEAN-China Air Transport Agreement
- ASEAN Single Aviation Market

The ASEAN is now in the process of negotiating with dialogue partners (i.e. India and Republic of Korea) for Open Skies. Mr. Krismedi explained the protocols embodied in the 3 agreements, namely: ASEAN Air Freight Agreement, Multilateral Agreement on the Full Liberalisation of Passenger Air Services, and Multilateral Agreement on Air Services. He also identified the sectors – tourism, business and airfreight - affected by aviation liberalisation and the indicators of benefits as shown below. He commented that liberalisation in ASEAN will continue to be on gradual basis given the various levels of development of its members. The ASEAN has focused more on the Single Aviation Market and the traffic rights liberalisation and has yet to focus on airport infrastructure.

Figure 6. Impact of Air Transport Liberalisation



(Annex 22. Session4\_ASEAN Open Skies\_Edy Krismeidi\_ASEAN Secretariat)

29. Col Ramon Gutierrez of the Civil Aviation Authority of the Philippines discussed the general policies of CAAP and the developments in the policies and programs of CAAP, including those related to regaining the Category 1 status from the US Federal Aviation Administration. Note that the Philippines was downgraded by the FAA in 2008 due to safety concerns. In particular he emphasized that the CAAP had already addressed the resolution of concerns. In the past, CAAP had no published written policy process documents regarding resolution of safety issues, and no visible method of tracking identified safety issues to resolution. The CAAP also fully supports the development of the air

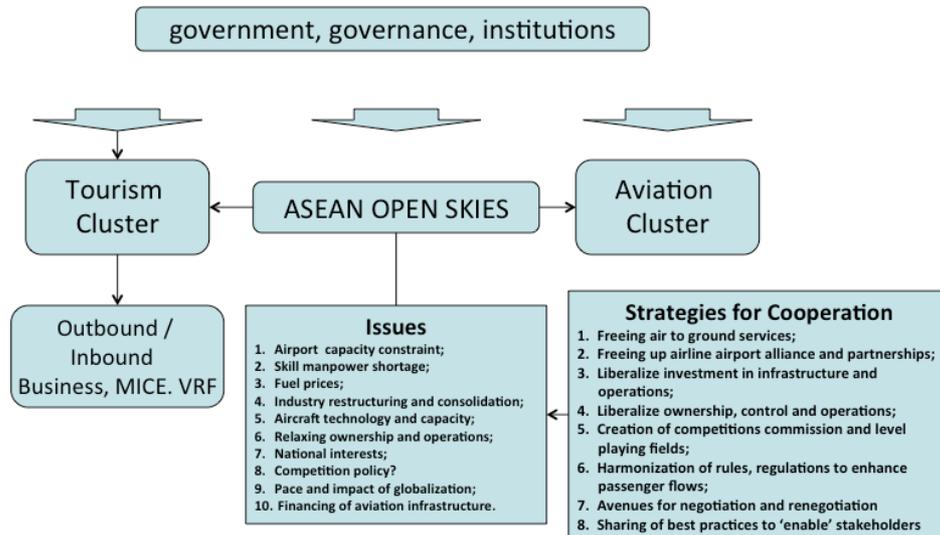
connectivity of the BIMP-EAGA and promoting the regional and local tourism within the region by providing the needed incentive to airlines operating the region with 50 percent discount on landing fees, passenger terminal fee, parking fee, and navigational charges.

*(Annex 23. Session4\_CAAP\_Ramon Gutierrez\_Philippines)*

30. Professor Anthony Chin from the National University of Singapore highlighted the relationship between air service liberalisation and economic growth as demonstrated in Figure 7. Liberalizing only 320 bilateral agreements of the existing thousand would create 24.1 M full-time jobs and generate an additional \$490 billion in GDP. This corresponds to an economy almost the size of Brazil. The general conclusions to date across economies have been positive in terms of impact on tourism, and with larger benefits in terms of indirect impacts. Airlines are more efficient operationally and business wise; travelers benefit through greater choice, lower fares and better connectivity are regulators are waking up but they have to balance between political and social interests. In ASEAN, connectivity is very crucial - physical, institutional and people-to-people linkages - to achieve the objectives of the economic, political-security and socio-cultural pillars of the ASEAN Community by 2015.

There are issues related to the implementation of open skies. These include airport capacity constraints, financing of infrastructure and competition policy among others. The strategies for cooperation among the aviation cluster range from freeing air to ground services, freeing up airport partnerships, and sharing of best practices to enable stakeholders.

Figure 7- Strategies for Cooperation



Prof Chin discussed the eight liberalisation options under the MALIAT and proposed the following strategic options:

- Identify strategically investment gaps impediments, develop strategies to assist the tourism industry and attract further investment including soft and hard infrastructure including financing options.
- Liberalize tourism sector in APEC: Allow foreign equity participation with fair

conditions of competition with effective safety nets for low income members and visa liberalisation;

- Develop airports focusing on the dynamic global supply chain. Airports are not just people and cargo processing points! It's a business;
- Utilize IT to promote an integrated differentiated tourist focus on impression branding at critical point of contact with ASEAN + RoA destinations;
- Develop airports as business hubs and entities;
- Human resource development and management and benchmarking performance and competency in tourism services;
- It's nice to think big and reap big but do not ignore small and medium airport development: the missing vital links, and
- Let private sector with global mindsets take the lead!

In response to a query on who will pay for the infrastructure projects, Prof Chin replied that governments can tap the resources of dialogue partners. Or they can come up with innovative financing options that will provide returns on tangible assets for investors. Airports also need to identify creative arrangements and their niche. He gave the example of airports in New Zealand that continue to survive because they have focused on becoming the staging post for US army expedition for Antarctica. If airports have a number of pluses to offer, he suggested PPP as another creative arrangement. But if airports have nothing to offer, then it may justify their public financing. When airports are well-managed and are able to generate surpluses, it becomes easier for them to keep the airlines and to even attract more because they can return the surpluses through incentives as shown in the cases of Singapore and Malaysia.

*(Annex 24. Session 4 ASEAN Open Skies Anthony Chin NUS)*

31. Mr. Jorge Enrique Mezher, Undersecretary Mexico Secretariat of Tourism, presented the potentials of Mexico both as an economy and tourism destination. Mexico is the number 14 largest economy in the world, with per capita income higher than other emerging markets like India, China and Brazil. Mexico is currently in the top 10 economies in the world in terms of tourist arrivals and tourism represents 108 B U.S. Dollars, and generates 2.5 M direct jobs and 5 M indirect jobs. On 2011, Mexico had 74 M international visitors, however, 10.8 M were tourists by air, meaning 15 percent of all visitors. But these air arrivals are priority segments because they represent 75 percent of total tourism expenditure, with average spending \$800 dollars per trip.

To promote tourism, the strategy of Mexico was designed with the objective that by 2018, Mexico can get located in the top five "must visit" destinations, proving that Mexico has sufficient natural resources, archaeological and biodiversity for the best experience to visitors. This National Agreement considers the execution of 100 actions divided into 10 axes: to increase connectivity and transit facilities of passengers, build, maintain and improve infrastructure and promote urban planning, strengthen the promotion of the sector in the economy and abroad, encourage public and private investment and facilitate the financing industry.

To stimulate the development of new routes, the Agreement defined two types of strategies: structural and short term. The four main structural changes include: foreign investment, airport fees, supplementary services, and bilateral agreements. The Ministry of Tourism is working with the Ministry of Economy on the possibility to modify the limits of foreign investment so airlines are

allowed to have up to 49 percent foreign capital, proportion now limited to 25 percent. Likewise, they are working with the Ministry of Communications and Transport works towards a new Air Policy which will allow higher competition in the provision of supplementary services, as well as the rebalance of airport fees, and finally, the flexibility of bilateral agreements.

Figure 8 – Policy decision-matrix : Mexico

<b>Impact</b>	<b>High</b> Immediate Effect Main entry barriers	<ul style="list-style-type: none"> <li>Promoting best routes with open skies</li> <li>WTTC</li> </ul>		<ul style="list-style-type: none"> <li>Strategic scheduling at AICM</li> </ul>
	<b>Medium</b>	<ul style="list-style-type: none"> <li>Higher limit for foreign investment</li> </ul>	<ul style="list-style-type: none"> <li>Flexibility in bilateral trades</li> </ul>	<ul style="list-style-type: none"> <li>Get rid of market disruptive subsidies</li> </ul>
	<b>Low</b>	<ul style="list-style-type: none"> <li>Understanding needs for automatic routes authorization</li> </ul>	<ul style="list-style-type: none"> <li>Supplementary services competitiveness</li> <li>Airport fee re-balance</li> </ul>	<ul style="list-style-type: none"> <li>Elimination of ASA exclusivity in fuel provision</li> </ul>
		<b>Low</b>	<b>Medium</b>	<b>High</b>
		<b>Factibility</b>		

SECTUR has engaged a consultancy company, ICF SH&E, to develop a technical analysis to identify air service opportunities for 42 destinations in Mexico. The project has been divided in two stages where the first stage has been completed in December 2011. In stage 1, 116 unique routes were identified that included an airline and schedule proposed and a route forecast. After the two stages are completed in March, the next step will consist of meeting the airlines in a joint effort to attract the attention of the airlines. So the project can be finished on April 2012.

*(Annex 25. Session 4\_Mexico Presentation\_Jorge Mehzer\_Ministry of Tourism)*

32. Director Rolando Canizal of the Philippine DOT synthesized the 2-day conference. He acknowledged that the APEC Tourism Working Group is extremely delighted for the overwhelming support extended by the transportation sector from the region. What comes next after this conference? At the forthcoming meeting of the APEC TWG in Chinese Taipei, the following recommendations are requested to be submitted for discussion:

1. A regular meeting be convened among the TWG and TPT to draw a more concrete agenda towards enhancing integration of tourism and air transport policies;
2. A forum, similar to this conference, be organized to bring into the fold other relevant sectors and agencies, e.g. foreign ministry, immigration agency, investment agency, and airport authority. The objective is to harmonize policies and programs in support of tourism growth;

3. Through the collaboration of international organizations, a study may be undertaken on the pace of air services liberalisation in APEC region. This will assist and guide the TWG and TPT in aligning its activities in the future.

*(Annex 26. Conference Synthesis\_Rolando Canizal\_Philippine DOT).*

33. Ambassador Laura del Rosario, Undersecretary for International Economic Relations of the Department of Foreign Affairs, Philippines recognized the APEC Tourism Working Group as one of the most active working groups in the APEC organization. She acknowledged tourism as a low hanging fruit that can generate the most amounts of benefits for economies seeking to improve prospects. The Philippine government is working on integration and visas, looking at the possibility of e-visas, and on trying to lower tariffs, taxes for airlines, and providing incentives for tourists, and investors in tourism. She expressed the Philippine government's appreciation of the delegates' participation especially in moving the agenda of the APEC Tourism Working Group.

*(Annex 27. Closing Remarks\_Amb\_Laura del Rosario\_Philippine DFA).*

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