


**IMPACT OF AIR SERVICES LIBERALIZATION
ON TOURISM GROWTH IN THAILAND**

Destination APEC 2020:
A Conference on Enhancing Tourism and Air Transport Connectivity in the Asia-Pacific
Region
27 February 2012
Manila, PHILIPPINES

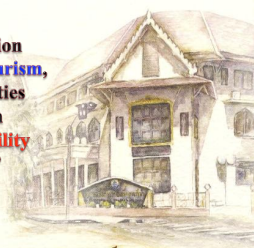
Thanitta Savetsila Maneechote
Deputy Permanent Secretary
Ministry of Tourism and Sports
Thailand Head of National Tourism Organizations



VISION

**“...To be a leading organization
in promoting and developing tourism,
sports and recreational activities
in order to be a mechanism
for sustainable economic mobility
and social development...”**

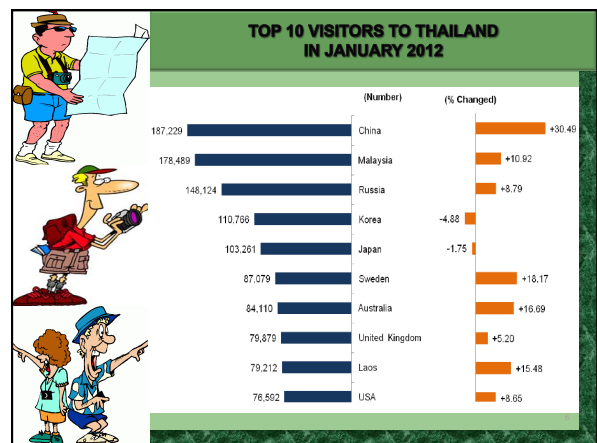
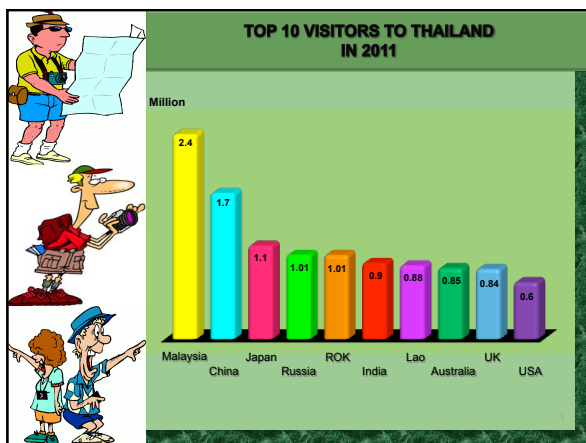
Ministry of Tourism and Sports



**NATIONAL TOURISM DEVELOPMENT PLAN
2012-2016**

Tourism Strategies

-  **Development of tourism infrastructures & facilities**
-  **Rehabilitation & sustainable development of tourism sites**
-  **Development on tourism products & services**
-  **Tourism confidence & tourism promotion**
-  **Encouragement of participation from government sectors, civil societies & local administration in tourism management**

Department of Civil Aviation
 กรมการขนส่งทางอากาศ

Department of Civil Aviation (DCA)

“...DCA is a government agency of which the obligations are to promote, develop & regulate civil aviation activities in Thailand...”

DCA complies with international standards to ensure the progress of civil aviation network & services, which would fulfill users demand resulting from tourism promotion & national economic growth as well as success in making Thailand a hub of aviation in Southeast Asia.

Department of Civil Aviation
 กรมการขนส่งทางอากาศ

GRADUAL LIBERALIZATION POLICY

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

Department of Civil Aviation
 กรมการขนส่งทางอากาศ

GRADUAL LIBERALIZATION POLICY

Progress

- 99 bilateral Air Services Agreements
- 3 ASEAN Multilateral Agreements for Liberalization of Air Freight & Passenger Services
- ASEAN Single Aviation Market (ASAM)

For APEC, Thailand & other economies have regularly discussed the approaches & solutions toward progressive aviation liberalization in the region.

LIBERALIZATION POLICY IN THAILAND

AIRPORT INFRASTRUCTURE IN THAILAND

25 Custom Airports

- 1-U-tapao Airport Operated by Royal Thai Navy
- 2 Airports Operated by Bangkok Airways Ltd.
- 6 Airports Operated by Airports of Thailand (AOT)
- 17 Airports Operated by Department of Civil Aviation (DCA)

AIRPORT INFRASTRUCTURE IN THAILAND

6 Custom Airports Operated by AOT (Airports of Thailand)

- Suvarnabhumi International Airport
- Don Muang International Airport
- Phuket International Airport
- Chiang Mai International Airport
- Chiang Rai Airport
- Hat Yai Airport

AIRPORT INFRASTRUCTURE IN THAILAND

Airport Closure in 2008

AIRPORT INFRASTRUCTURE IN THAILAND

Airport Closure in 2008

We can handle!
 From Wednesday, November 26, 2008 U-Tapao International Airport has been in use as the main air gateway to Thailand following the blockade of both "Bangkok-Suvarnabhumi and Bangkok-Don Mueang Airport" (Thursday 27-December 4, 2008)

AIRPORT INFRASTRUCTURE IN THAILAND

Airport Closure in 2008

TOURISM REHABILITATION MEASURES

Measures to assist airlines & operators

- ✦ Reduction of landing fee by 10%
- ✦ Reduction of parking fee by 20%
- ✦ Reduction of rental fee / terminal & building service charge by 10%

LOW COST CARRIERS & TOURISM GROWTH

2 Major Roles of Low Cost Carriers in Tourism Development in Thailand

- ✦ Connecting long-haul flights to spoke passengers of the flights to regional destinations by code sharing agreement with full-service carriers
- ✦ Providing short-haul services to connect between point to point within a particular area.

LOW COST CARRIERS & TOURISM GROWTH

14 International Low Cost Carriers Operating in Thailand

CHARTER FLIGHT & TOURISM GROWTH

- ▣ Limited scheduled air services, especially during the peak period.
- ▣ Charter flights can usually play a supplementary role.

Passenger Charter Flight Policy

- ▣ Charter flights to all local point(s) in Thailand will be permitted.
- ▣ Charter flights that bring in tourists to Thailand from new destinations will be permitted.
- ▣ Charter flights where passengers travel as a group, such as affinity group, own-use charter, student charter and round-the-world charter, will be permitted.
- ▣ Charter flights to supplement scheduled air services during the peak seasons will be permitted.

European Union Emission Trading Scheme (EU ETS)

Fair or Not Fair ???

BAND (approx. distance from London)	In the lowest class of travel (reduced rate)		In other than the lowest class of travel (standard rate)
	2010-2011	2010-2011	2010-2011
BAND A (0-2000)	£12	£12	£24
BAND B (2001-4000)	£60	£60	£120
BAND C (4001-6000)	£75	£75	£150
BAND D (> 6000)	£85	£85	£170

...Thank you for your kind attention...



APEC 2010: A CONFERENCE ON ENHANCING TOURISM AIR TRANSPORT CONNECTIVITY IN THE ASIA-PACIFIC REGION, 26 FEBRUARY - 1 MARCH 2012, MANILA, PHILIPPINES

IMPACT OF AIR SERVICES LIBERALIZATION ON TOURISM GROWTH CASE OF MALAYSIA

**DATUK DR. VICTOR WEE
CHAIRMAN OF TOURISM MALAYSIA
27 FEBRUARY 2011**

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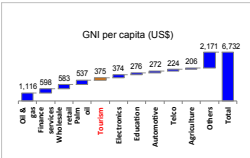
Contribution of Tourism to Malaysia's Economy

- Globally, Malaysia ranks **top 10 in tourist arrivals** and **top 15 in global receipts**
- It is the **9th most visited country in the world** and receives USD1 billion tourist receipts per 3 weeks from foreign visitors
- Tourism is the **fifth largest industry** after Oil, Gas & Energy, Financial Services, Wholesale & Retail and Palm Oil

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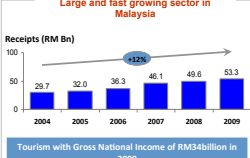
Tourism with strong starting position; Future ambition to grow sector 3x by 2020

Key strategic focus on enhancing yield per visitor



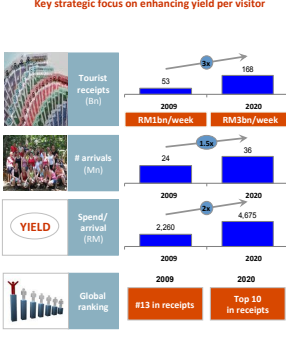
Sector	GNI per capita (US\$)
Oil & Gas	1,116
Finance	588
Wholesale & Retail	505
Travel & Tourism	537
Oil	375
Electronics	374
Education	276
Automotive	272
Tech	224
Agriculture	206
Others	217
Total	6,732

Large and fast growing sector in Malaysia



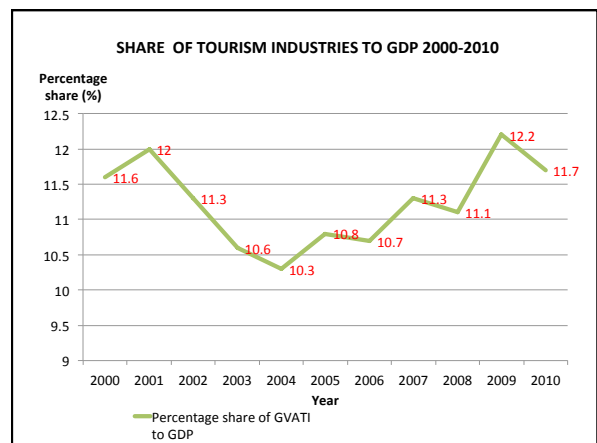
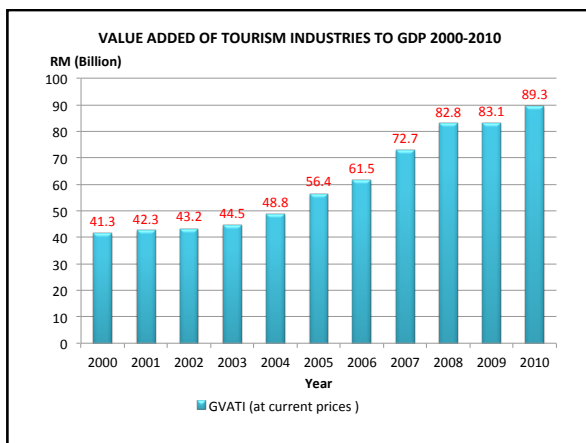
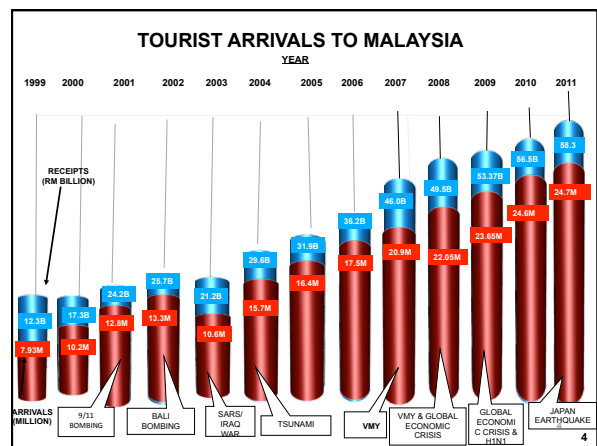
Year	Receipts (RM Bn)
2004	29.7
2005	32.0
2006	36.3
2007	46.1
2008	49.6
2009	53.3

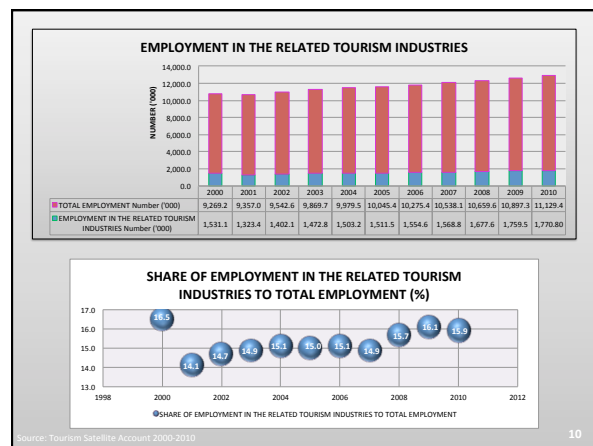
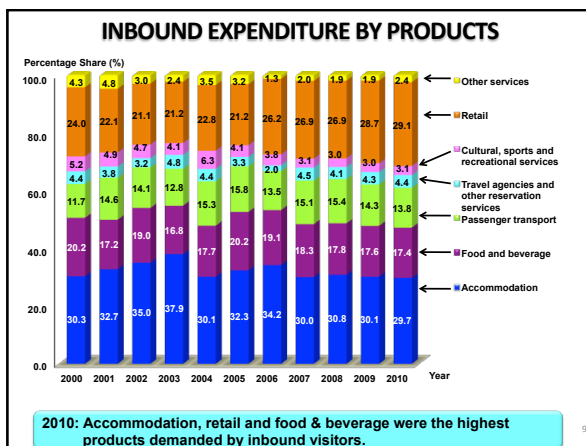
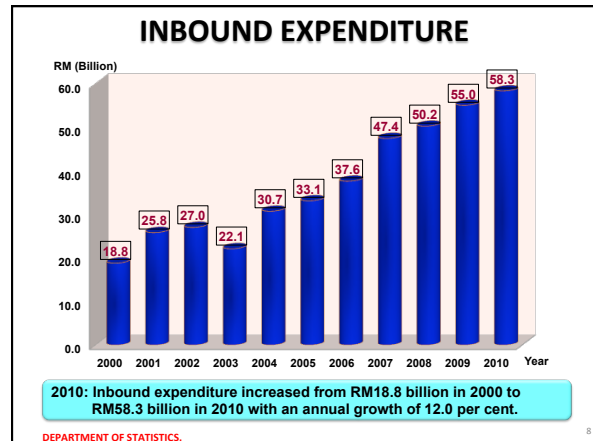
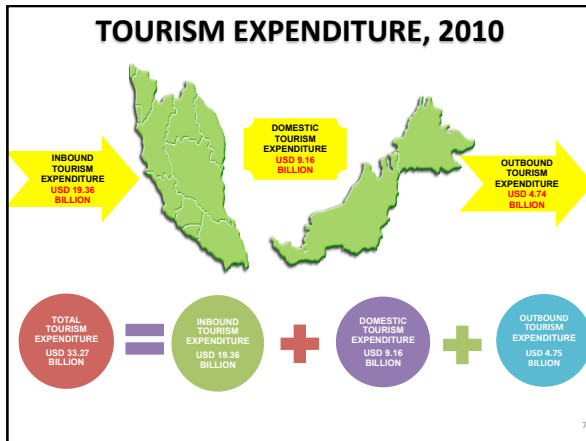
Tourism with Gross National Income of RM34billion in 2009



Indicator	2009	2020 Target
Tourist receipts (Bn)	53	168
# arrivals (Mcs)	24	36
Spend/arrival (RM)	2,280	4,675
Global ranking	#13 in receipts	Top 10 in receipts

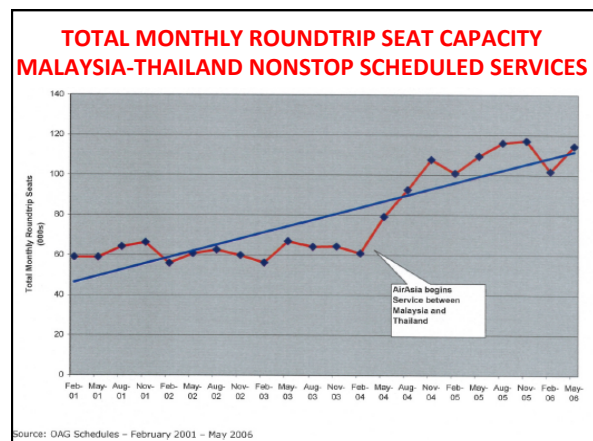
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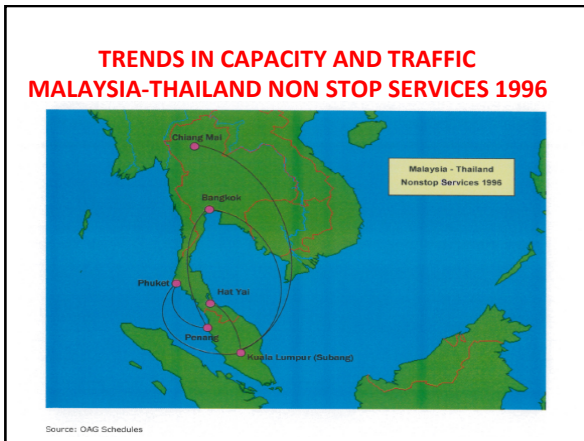




CASE 1: Liberalization Between Malaysia-Thailand

- For many years, the Malaysia-Thailand market was dominated by Malaysia Airlines and Thai Airways
- Both could serve any points in each other's country while maintaining capacity profitable for both flag carriers
- In 2004, AirAsia entered the Malaysia-Thailand market causing a surge in seat capacity
- Bilateral agreement between Malaysia and Thailand permitted AirAsia to expand in the market by new designations and frequency
- AirAsia's low cost structure helped spur traffic while generating increased competition from the incumbent flag carriers





Economic Impact

- In 2005, 1.3 million 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% market expansion
- Malaysia and Thailand obtained more than 4,300 full-time employment and a stimulus of over \$114 million to their GDPs

Source: InterVistas Study

CASE 2: Liberalization of Kuala Lumpur-Singapore Route

- The Kuala Lumpur-Singapore route was dominated by the national flag carriers, Malaysia Airlines and Singapore Airlines
- Passengers travelling on AirAsia from Kuala Lumpur to Singapore would have 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 Feb 2008 to AirAsia (Malaysia), and Tiger Air and Jetstar Asia from Singapore

LIBERALIZATION OF KL-SINGAPORE ROUTE

	2007	2008	2009	2010
AIRCRAFT MOVEMENTS (K.LUMPUR – SINGAPORE)	192,304	209,681	225,251	244,179
(GROWTH)	5.3%	9.0%	7.4%	8.4%
TOURISM ARRIVALS FROM SINGAPORE ('000')	10,493	11,003	12,733	13,042
(GROWTH)	8.6%	4.9%	15.7%	2.4%

Impact of KL-Singapore Liberalization

- The liberalization in 2008 resulted in 27% increase in aircraft movements between the two cities within 3 years, which also contributed to tourist movements between the two countries
- In 2010, the number of tourists Malaysia received from Singapore rose by 24.3% over 2007
- The opening is viewed as a significant development in the history of ASEAN airline industry and an important first step toward the liberalization of air services in the ASEAN region.

NATIONAL TOURISM POLICY

To develop the tourism industry in a sustainable manner and to maximize its potential as a primary and new growth sector which generates substantial economic activities and employment for Malaysians.

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Aspiration 2020

- Increase tourist arrivals from 24 million in 2009 to 36 million.
- Increase tourist receipts from RM53 billion in 2009 to RM168 billion.
- Contribute incremental RM66.7 billion to GNI
- 497,000 additional jobs in 2020

MALAYSIA AVIATION POLICY IN SUPPORT OF TOURISM GROWTH

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

Role of LCCs in Developing Tourism

- AirAsia and AirAsia X played an important role to develop tourism within ASEAN and the Asia Pacific region by increasing capacity to existing destinations served by other operators and well as unserved routes
- AirAsia entered into JVs with airlines in Thailand (Thai AirAsia), Indonesia (Indonesia AirAsia) and the Philippines (Philippines AirAsia) to enhance air connectivity from these countries
- AirAsia has also JV arrangements with Vietnam and Japan airlines

Development of AirAsia

2001	Air Asia sold to Tony Fernandes for the purpose of establishing a low-cost carrier based in Malaysia
2003	Established a second hub at Senai Airport in Johor Baru, near Singapore; Established Thai Air Asia as a joint venture with Shin Corporation; Launched its first international flight to Bangkok
2004	Acquired Awair, and Indonesian airline
2005	Rebranded Awair as Indonesia Air Asia
2006	As part of MAS route rationalization program, 96 non-trunk routes, in addition to 19 domestic trunk routes, were transferred to Air Asia
2007	Long-haul services from Kuala Lumpur to Australia and People's Republic of China using Airbus A330 offered by Air Asia X
2008	Vina Air Asia, to operate out of Hanoi, Viet Nam

Developmental Routes in AsiaPac

Operated by AirAsia

- Kuala Lumpur-Chiangmai
- Kuala Lumpur-Bandung
- Kuala Lumpur-Clark
- Kuala Lumpur-Solo
- Kuala Lumpur-Danang
- Kuala Lumpur-Bandar Aceh
- Kuala Lumpur-Ujung Pandang
- Kuala Lumpur-Balikpapan
- Kuala Lumpur-Jakarta

Operated by AirAsia X

- Kuala Lumpur-Christchurch
- Kuala Lumpur-Gold Coast
- Kuala Lumpur-Perth
- Kuala Lumpur-Tianjin
- Kuala Lumpur-Hangzhou
- Kuala Lumpur-Sydney

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THANK YOU

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IMPACT OF AIR SERVICES LIBERALIZATION ON TOURISM GROWTH: CHILEAN EXPERIENCE IN REGULATORY REFORM PROCESS

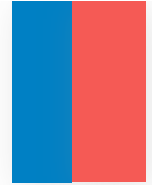


Gobierno
de Chile

APEC's Conference on Enhancing Tourism and Air
Transport Connectivity in the Asia-Pacific Region

February the 27th of 2012

Chile - Full Open Skies Policy

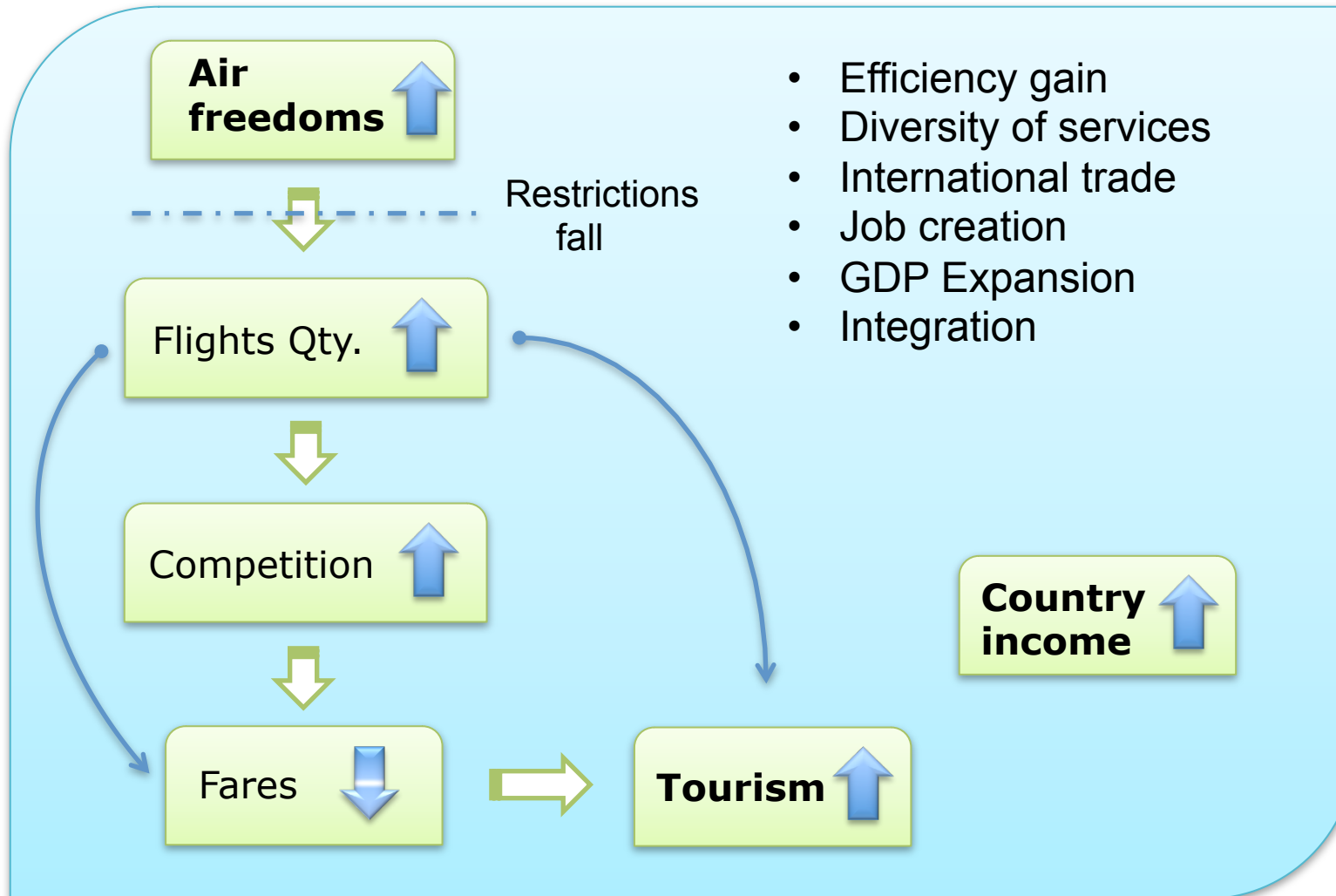


- Stable and clear rules – three decades of total open skies policy
- Free access to market
 - No restrictions of points to be served
 - Reciprocity
 - Existing requirements: technical and insurances
- Maximum liberty for airlines to design their air services
- Liberalization of property and control
 - No restrictions on capital nor on administration
- Minimum authority intervention
 - Market rules
 - Reduced administrative requirements → better for market efficiency and population wellbeing

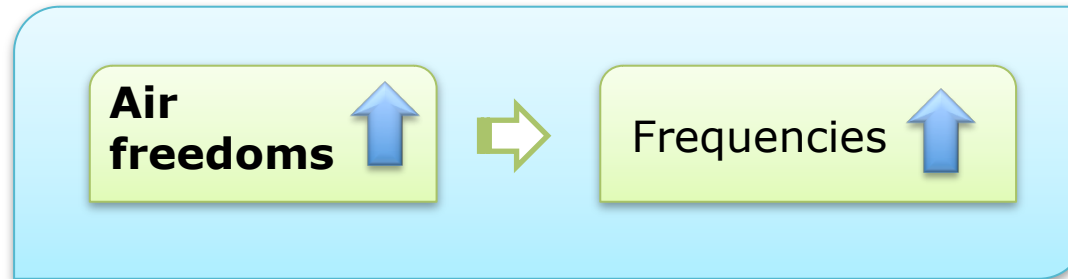
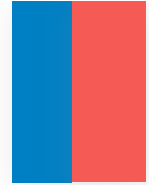
And it has worked! We count with a *diverse and efficient* air transport industry and healthy local airlines that are *not subsidized* by the government.



Increasing freedoms of the air makes tourism rise



3rd and 4th air freedoms are a first step, 5th should cause even more frequencies

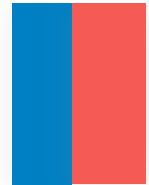


- To grant 3rd and 4th freedoms aren't always enough to rise tourism all the way
 - To serve some points it may be required to be able to go beyond that point
- The granting of 5th freedom is extremely meaningful for airlines:
 - Routes configuration goes up → higher occupancy rates → convenient for airlines → augmented flight frequencies

Similar benefits can be expected for granting higher freedoms of the air



World trend: towards liberalization - increase air freedoms



**Air
freedoms**

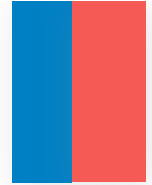


World's trend has been to move from a restricted position to liberalization


- Single European Aviation Market
- EU – US Open Skies Agreement
- **APEC's MALIAT – Multilateral Agreement on the Liberalization of International Air Transportation (2001)**
 - Up to 6th freedom of the air, and 7th for cargo
 - Promote competition
 - Expansion of international air transport opportunities
 - Enhance trade, benefit consumers, and promote economic growth
 - Competitive prices



Protectionist policies gives a poor support to a policy meant to stimulate tourism



- We have seen contradictory postures:

Tourism stimulation  Protectionism in air transport
(in leading economies in terms of liberalization)

In Chile, 2 countries are intensively promoting their country as a tourist destination

 And we have restricted frequencies!

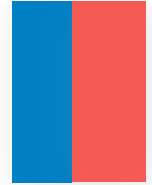


Campaign is not likely to reach it's full potential

Companies are more likely to promote destinations if they are able to rise frequencies without restrictions



Summary



- Chile has an open sky policy - good results.
- Granting more air freedoms enhances not only tourism.
- Protectionism in air transport works against tourism.
 - Tourism authorities should always be a good ally in seeking Open Skies agreement between countries, or regions.

Don't forget that Chile can't deny an offer of Full Open Sky Agreement, and also that APEC has the MALIAT ready to be signed!



**Thank
you!**



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de Chile**

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**DESTINATION APEC 2020: A CONFERENCE ON ENHANCING
TOURISM AND AIR CONNECTIVITY IN THE ASIA-PACIFIC REGION
27-28 February 2012, Manila, Philippines**

Mr. Andrew Wilson
Deputy Secretary
Ministry of Transport, Australia
27 February 2012

Thanks Beatrice. Firstly thank you for the invitation to discuss the impact of air services liberalization on tourism growth and to detail Australia's experiences. I may be slightly biased but I have good story to tell about Australia's experiences in aviation.

As you are all aware, Australia is an island nation just like the Philippines and almost everyone who travels there travels by air where for business or pleasure. So for Australia, aviation is a critical enabling industry for the broader economy. Without efficient, secure aviation industry there would be no or very few tourists. Continuing growth in international air services is therefore vital to support further growth in tourism as well as broader international business and trade. Successive governments have endorsed the role of Australia's government as creating the right environment for safe and sustainable expansion and not for picking winners. In this context, as Australia's economy has matured, 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.

Deregulation and liberalization of the aviation industry has been a long process, however. Just to provide an example, if I take you back 20 years, if I wanted to travel between Brisbane and Melbourne, I would have had a choice of 2 airlines, Australian Airlines or Ansett. The price I paid for my ticket would have been approved by the government and they are almost identical for either airline. The two airlines would have left Melbourne within 5 minutes of each other and this scheduling would have been approved by the government as well. The number of seats would have been allocated by the government and the meal that they serve me on the plane would have been identical and it would have been approved by somebody like me sitting in a government bureaucracy. In fact Australian Airlines, once I had a choice of, was owned by the Australian government and the two airports I was travelling between also were owned by the Australia government. If I then wanted to get on to an international flight and flown to far flung place like I would have, I had one choice if I wanted to go with an Australia airline, Qantas. Times thankfully have changed and I have to say for the better. Today I have a choice of 4 airlines to fly between Melbourne and Brisbane. From a premium business class service on Qantas or Virgin Australia to a low cost service on the Singapore Tiger. Airlines are free to determine their own schedule, prices and levels of service. Both airports are privately run with no government funds required to prod the ongoing infrastructure upgrades. And when connecting to an international service I have multiple Australian carriers to choose from as well as an increased number of foreign carriers. It's a market designed to provide choice for consumers and opportunities for business to invest to. And somewhat uniquely in the world of aviation, the industry more or less

makes a profit. We have a thriving domestic industry and training facilities to produce aviation professionals for the local and foreign markets. A particular interest given this conference topic is our goal to bring in more tourists to Australia and provide more opportunities to Australians to travel around the globe. Over the last 20 years the short-term arrivals into Australia have increased by 165% to around 6 million people. At the same time more and more Australians are travelling overseas with short term departures increasing by 250 percent to 7.4 million. And in Australia tourism industry is a significant element of our economy. It generates AUD 96 billion in spending and contributes AUD 34.6 billion in GDP, 2.5 percent of Australia's total GDP. In 2011, over 4 million visitors from APEC countries travelled to Australia contributing some AUD 15 billion in total inbound economic value. What have we done to get to where we are? The last 20 years have seen the sustained and successful government focus on regulating safety and security of airline operations. Over the same period airlines have been given the freedom to finally succeed by making their own commercial decisions about almost everything else. We aim to treat airlines like any other business. The Australian government did not jump to the rescue of the Ansett 10 years ago or Air Australia two weeks ago. While this does caused some social and economic dislocation it means that our aviation industry knows its commercial decisions need to stand the test of time. It is fair to say it is a fairly uncomfortable period of time to be a senior bureaucrat when an airline files and your Minister rings and says "so what do we do?" We let the market rule.

The result is that today our airlines are largely sustainable and profitable. This contrasts sharply with other countries that continue to prop up unsustainable carriers with bankruptcy protection or subsidies. Airports previously run by federal governments have been privatized including Sydney, Melbourne and Brisbane through long-term leases facilitating over AUD 200 Billion worth of investments in those airports, investments that would have been difficult to obtain under government ownership.

We have liberalized our international aviation policy starting with multiple designation and moving towards open skies agreement. Australia leads the world in breaking down barriers to cross-border investments in airlines. We have removed airline specific ownership regulation for domestic airlines.

This allows our domestic airlines to be 100 percent owned by foreign interests. And today, 3 of Australia's 6 largest domestic airlines are owned by foreign investors. This has boosted competition and provided customers with choices of service. In bilateral agreements we've encouraged and continue to push for 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 liberalization of the bilateral system. Our businesses have also supported this approach with investments in the growth Asian markets. The Australian government released the aviation white paper in 2009 which committed the Australia to pursuing further liberalization with key international aviation markets. This 30-year vision for the industry sets out concrete reforms and policy directions. And in international aviation set out policy for continued liberalization of the market Continued liberalization of the market. Australia has taken and will continue to take a liberalized approach to the negotiations of international air services rights while using the negotiations to balance the playing field. This approach reflects the fact that Australia has one of the most open aviation and liberal aviation markets in the world. This liberalized arrangement has increased competition, enhanced services and connectivity and helped deliver a more robust and competitive Australian industry. The growth in our domestic industry has secured jobs and economic security not just for many Australian workers employed in

the domestic aviation industry but also for those in industries such as the tourism sector who depend on the flow of travellers to, from and within our country.

Australian airlines provide Australia with a significant presence in international aviation. We are proud of the open skies and open capacity agreements we have signed. Today, half of all the airline passengers travelling to and from Australia travel on flights operated under these open arrangements. But we do not collect open skies agreements just as some kind of trophy. In Australia's view, the negotiations of open skies is not an end in itself. Our aim is to balance the economic, trade and tourism benefits that flow from opening up aviation markets while ensuring that Australia's national interest are protected. These include having a strong Australian biased aviation industry. Australia's national interest is not solely the interest of Qantas and Virgin Australia but the interest of the broader national economy, all those with a stake in aviation - airports, hotels, tourism operators, all those employed in the aviation industry and the travelling public. Before each set of negotiations, we consult widely to take into account a variety of views including local and Australian-wide tourism wide bodies. We have a bilateral system that has been operating for over 60 years that keeps markets close until they are opened. A 20th century regulatory regime for 21st century industry it's somewhat anachronistic but we must work within within that system. We must use the bilateral system to open up global aviation not to keep it close. We all benefit - aviation and tourism alike. We should use the bilaterals as a means of facilitating aviation not restricting it with unnecessary provisions such as tariff approvals. The only alternative is a multilateral system. And if history is anything to guard by, multilateral agreements are slow to progress than bilateral arrangements. It's therefore essential that the international agreements provide flexible frameworks that allow airlines to make commercial decisions about their services and plan for their long-term expansion. The Australian government believes that airlines and investors need confidence in the market today if we are all to be confident about aviation in the future.

Of course liberalization is not just about capacity. Liberalization of the international airline market needs to be fair and balanced. Opening up 3rd and 4th freedom capacity while retaining restrictions and provisions on 5th freedom services does not deliver a balanced playing field. A gain to capacity on its own is of limited value to an end of line destination such as Australia if it is not accompanied by usable fifth freedom beyond or intermediate rights. There needs to be a balance. To compete effectively in the global aviation industry, Australian airlines under the current global arrangements require usable 5th freedom rights if we are to compete with geography advantaged airlines. We recognize geography confers benefits to certain operators. The advantages of being located in a hub location are obvious and we seek to balance the playing field in our negotiations. Our geographical position means that we are the end of a long haul market. That's a fact of life. A range of important destinations such as Europe or the East Coast of North America can't be reached non-stop from Australia. For an airline from Asia or the Middle East, every flight from Australia to its home base is also a flight to London, Paris, Berlin, or Rome. Without usable fifth freedom rights, Australian carriers cannot compete on an equal and fair playing field. So for Australia there is no point to agreeing on unrestricted capacity with a country in Asia if there is no accompanying rights to fly beyond that country, to Europe, for example. It is in our national interest that Australia carriers have comparable opportunity to compete with foreign 6th freedom hub carriers and this balance will always be part of Australia's negotiating position. This approach that 5th freedom rights are critical to the opening up of international markets is a key element on how Australia approaches air services negotiations. In summary our policies work. Our aviation industry is safe, it's profitable and it meets the needs of the public. More and more people are traveling between Australia and the rest of the world.

While each of our countries is at a different economic stage, I invite other countries to have a look at Australian model. That will see how open markets have facilitated trade, investments and tourism. That will see a vibrant and competitive Australian domestic market with fully foreign owned airlines employing Australians and operating to Australian standards and with the freedom to make dollar or go bust. That will see increased traffic coming in and out of Australia over the last 20 years. That will see foreign airlines growing in the market at the same time as Australia carriers have grown. That will see major investments in major airports which the private sector is funding. That will see a strong and competitive Australian-based aviation industry with Qantas flying its A380s and Virgin expanding its international operations and partnerships with other airlines, all without government subsidy. The importance of which aviation is held is resolved in governments, airport and tourism stakeholders working together in bringing aviation bring benefits to Australia. Of course, it would be remiss of me to finish without discussing the European Union's Emissions Trading Scheme.

Australia along with all non-EU states is opposed to the unilateral imposition of market-based measures. However, Australia's position is to find a constructive way forward on the issue rather than simply voicing out our opposition. We consider a multilaterally-endorsed global framework is the most effective way forward to ensure international aviation contributes its fair share in reducing global carbon emissions. We will continue to work through ICAO to find a global solution. In particular Australia wishes to reaffirm ICAO's position in addressing international aviation emissions and has proposed a way forward by recommending that ICAO accelerate work towards a burning sectoral agreement with key elements decided by 2013. Although Australia believes that market based measures are an important tool in a basket of tools to tackle international aviation emissions we have urged the EU to cease or delay the extension of their ETS to international aviation to allow ICAO to further develop an agreed approach. To this end the Australian government has made recent ministerial representation to the EU commissioners on climate change calling the EU to reconsider. In closing I just would like to say this through opening up and liberalizing aviation markets and the continued monitoring of the impact of decision we have made, we have set an example to our friends in the aviation world. It would be worthwhile in taking a look at what Australia is doing.

Effects of Market Access Liberalization : Focus on Open Skies, Travel and Tourism Growth

Presented at

Asia Pacific Economic Council (APEC) Conference
(27 February, 2012: Manila)

by

© **Prof. Tae Hoon Oum**

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and

President, The Air Transport Research Society (ATRS)

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Moderator's List of Questions

- How important is tourism to your economy? What is the contribution of tourism to overall GDP? Wider positive/negative effects on the economy?
- Has the liberalisation of air services kept up with the pace of growth in passenger traffic? **No, in fact Liberalization should be used as traffic and tourism stimulator**
- Has the liberalisation of air services led to positive growth in the tourism industry? **Yes, definitely so**
- **What are some of the difficulties or obstacles encountered in the overall liberalisation process? How do you think these can be resolved?**
- Going forward, what is the outlook for your economy and in particular, the tourism sector?

Case of Japan

- ❑ **Airlines' total contribution to Japan's value-added is quite small : \$7.96 billion (2009)**
- ❑ value-added by **tourism sector: \$340 billion (2009)**

- ❑ **\$1.61 trillion of Trade (2010);
\$ 6.35 trillion of Japan's GDP (2011)**

- ❑ Air Transport Policy should be to designed *to maximize its total value-added to the economy*;

Case of Canada - 2008

- ❑ ***Airline sector's total contribution to Canada's value-added is quite small (\$5.9 billion)***
- ❑ **the value-added by tourism sector of \$30 billion;**
- ❑ **\$932 billion** (with \$47b. Surplus) size of Int'l trade, and
- ❑ **\$1.3 trillion** size of Canadian economy (\$1.6 trillion in 2011)
- ❑ **Consumer Welfare** is a major part of national economic benefit;

Major Global Liberalization Events

➤ **United States:**

- 1978 domestic deregulation;
- Open Skies initiatives began in 1992, and now became Open Skies hub nation (103+ nations)

➤ **Europe:** 3 packages + 1997 Cabotage = Single Aviation Market; Continuous liberalization measures, and market expansion

➤ **Other liberalization:** Australia – New Zealand Single Aviation Market, ASEAN, and NEA liberalization aiming to achieve open skies (bilaterally, trilaterally (?))

➤ **EU-US Open Aviation Area (OAA)** went into effect in March, 2008

Effects of Liberalization

- ❑ **Allowed airlines to set up efficient route network** → hub-and-spoke network in markets with large geographic space (US, Europe)
- ❑ **increased competition in OD markets** while airline industry consolidated via mergers/acquisitions
- ❑ **Surviving airlines became cost efficient** by improving productivity, cutting input prices, doing outsourcing, etc.
US Case: both price and production cost of air transport reduced by **1-1.5% annually** (Swan, 2007) ; **real airfares decreased by 50% in 1978-2006 period as compared to CPI**
→ **stimulated huge traffic growth**
- ❑ **benefits Flexible and Efficient carriers** including LCCs

Ex.1, US Air Fares increased less than ½ of CPI: 1978-2006

ITEM-U.S. Good or Service	Unit	1978	1990	2006	Increase 2006/1978
College Tuition: Public	Year	\$688	\$1,908	\$5,836	8.5x
College Tuition: Private	Year	\$2,958	\$9,340	\$22,218	7.5x
Prescription Drugs	Index	61.6	181.7	363.9	5.9x
New Single-Family Home	Home	\$55,700	\$122,900	\$246,500	4.4x
New Vehicle	Vehicle	\$6,470	\$15,900	\$28,450	4.4x
Unleaded Gasoline	Gallon	\$0.67	\$1.16	\$2.59	3.9x
CPI (Urban-All Items)	CPI-U	65.2	130.6	201.6	3.1x
Movie Ticket	Ticket	\$2.34	\$4.22	\$6.55	2.8x
First-Class Postage	Stamp	\$0.15	\$0.25	\$0.39	2.6x
Whole Milk	Index	81.0	124.4	181.6	2.2x
Grade-A Large Eggs	Dozen	\$0.82	\$1.01	\$1.31	1.6x
Air Travel: International	Mile	7.49¢	10.83¢	11.85¢	1.6x
Air Travel: Domestic	Mile	8.49¢	13.43¢	13.00¢	1.5x
Television	Index	101.8	74.6	22.3	0.2x

Effects on Tourism and Economy

- (Positive externality) benefits to **tourism industry is huge**
- **Increased employment** in high-tech and other economic sectors in metropolitan region (Irwin and Kasarda 1991), promote business communication and labor mobility (Button 2006)
- **Promote trade and investment** (Hummels 2006, Limao and Venables 2001), help firms to handle demand volatility (Aizenman 2004 and Schaur 2006).

US has Open Skies (includes 5th Freedom) with most of Asian countries except China



China, Japan and S. Korea: liberalization records

- ❑ Asian countries have restrictive Air Services Agreements (ASA) among themselves while opened up with US**
- ❑ In the past five years or so, S. Korea have changed their approach to pro-Open Skies policy (only for Transborder Open Skies involving 3rd /4th freedom traffic); Korea signed transborder open skies agreements with many countries including ASEAN;**
- ❑ Japan realized the problem later on; signed Open Skies agreement with 10 countries since Aug, 2007; S. Korea, Thai, Macao, HKG, Vietnam, Malaysia, Singapore, Canada, USA, Sri Lanka**
- ❑ Tokyo area airports are protected until 2013 due to airport slot capacity constraints on NRT and HND**

China, Japan and S. Korea: liberalization records – *cont'd*

- ❑ **China is reluctant to sign Open Skies, except with ASEAN (for now); but this will change under the New Chinese leadership in the wing**
- ❑ **Trade, Investment and Western Economic Development priorities of China give incentives to China to open up airline market**
- ❑ **Korea-Sandong province transborder open skies has been positive (both air transport, and trade/investment flows); China-ASEAN Open Skies agreement will also be positive**
- ❑ **Chinese airlines are gaining confidence** that they can turn their lower unit costs into a competitive advantage

Cases in point: Japan-S. Korea

signed TB freedom Open Skies in Aug 2007; LCCs enters 2009

- ❑ **Japan→Korea passengers** increase from 2.33 million in 2006 to 3.05 million in 2010, **31% increase**
- ❑ **Korea→Japan passengers** increased 2.11 million in 2006 to 2.44 million in 2010, **16% increase**

Canada-Japan Liberalization: Oct 1, 2011

- airfares reduced by 10%
- traffic volume increase by 16%
- \$55 million increased benefits to Tourism

Canada - U.S. Transborder Agreement

- Reached liberalization agreement in **February 1995**

- Often described as ***transborder* “Open Skies”**
 - 3rd/4th freedom services freed;
 - **Liberal codesharing arrangements**
 - 5th freedom restricted
 - Slot allocation - LGA (7), ORD (5)

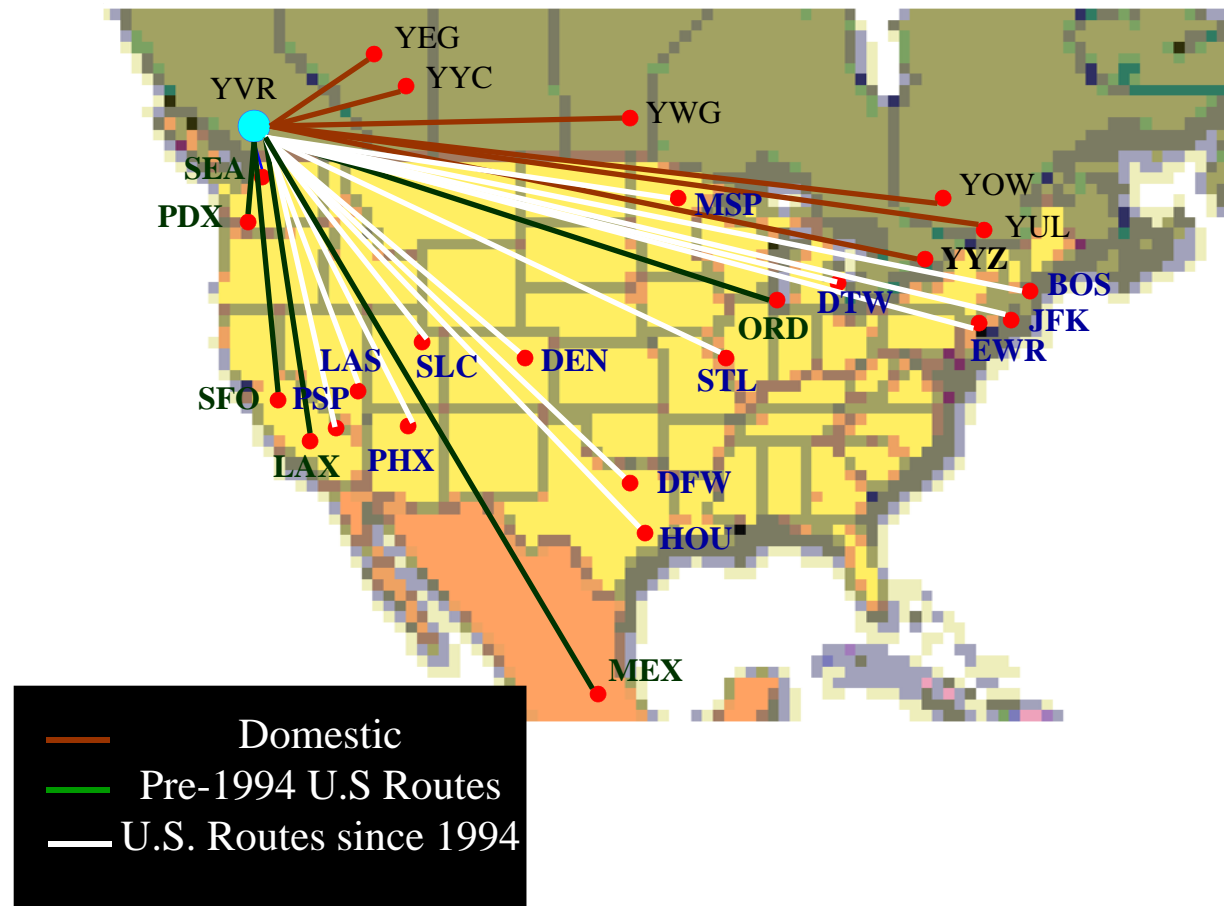
- **Open skies agreement achieved only in 2007 (77th country to sign Open Skies with US)**

Effects of Canada - U.S. Agreement

- ❑ **Significant increase in transborder traffic**
 - **i.e. Ex YVR +64% between 1994 & 1998**
 - **YVR scheduled routes increased from 6 in 1994 to 20 in 1998**
- ❑ **AC began more than 1200 code-share flights per week to all parts of the United States – major coup, and increased market share**
- ❑ **AC gained Canada-US transborder market share in a major way by strengthening Toronto hub and Vancouver gateway**

Canada - U.S. TB Open Skies: increased traffic by 64%

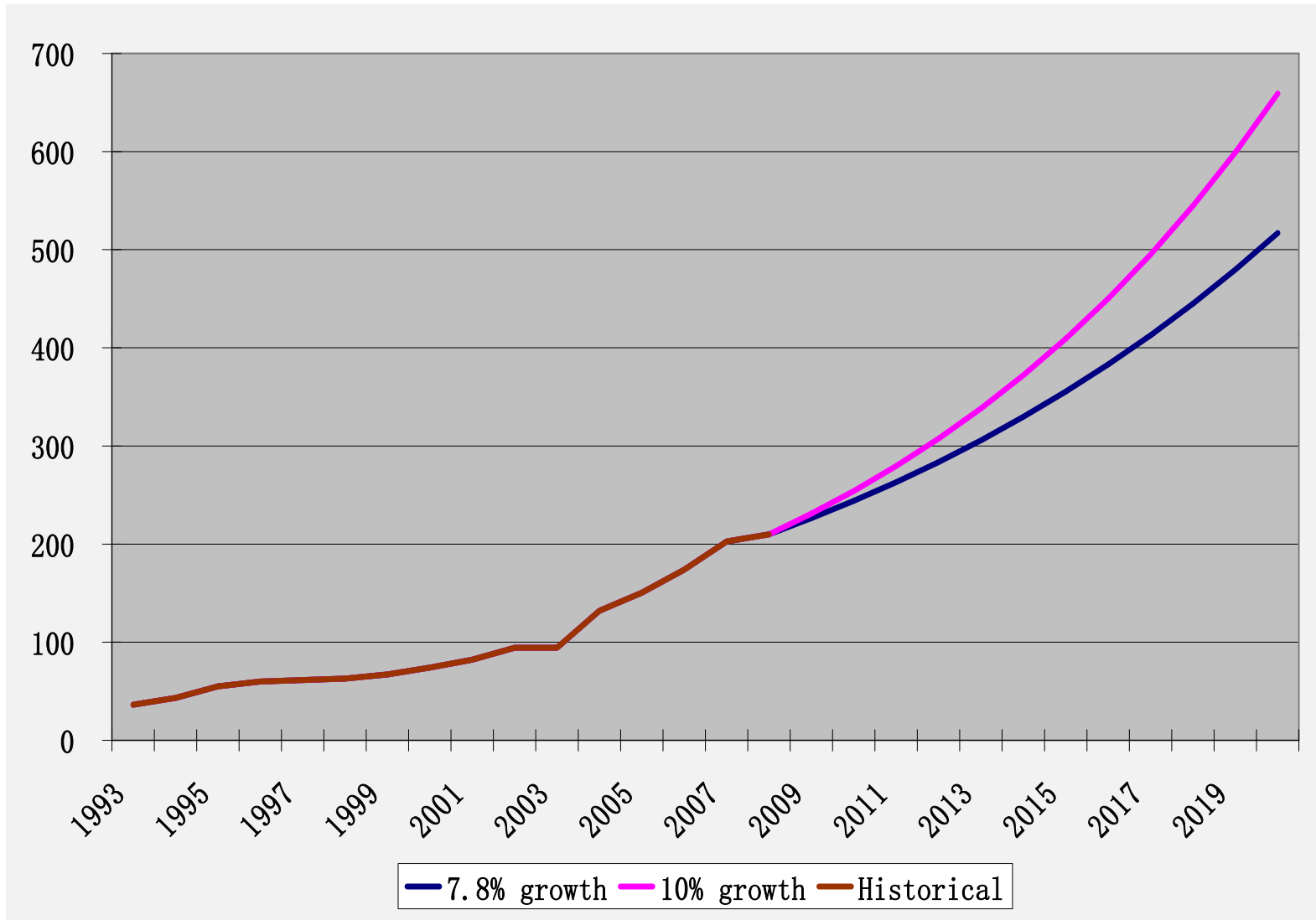
Routes to/from YVR from 6 to 20 between 1994 and 1998



What happened after Canada-Korea signed Open Skies in July 2009 ?

- ❑ **Until 2009, Koreanair were allowed only 3 flights/week to Vancouver; and 4 flights/week to Toronto (a total of 7 flights each Air Canada and Koreanair between Canada and Korea)**
- ❑ **After Open Skies, Koreanair now serves 7 flights to Vancouver and 7flights to Toronto (5 flight/week in winter seasons for Vancouver-Seoul);**
- ❑ **Korean tourists to Canada increased from 131,000 in 2009 to 157,500 in 2010, an increase of 20%; most of these Koreans now come directly to Canada instead of coming to Canada via USA airports**

*Forecast: China's Air Travel will reach 650 million in 2020
(Y. Zhang, 2009); 6.6% GDP growth x 1.5 air travel multiplier*



© Tae Oum

China's Outbound Tourism (10-years ago, no one forecasted 18.6% annual compounded growth !)



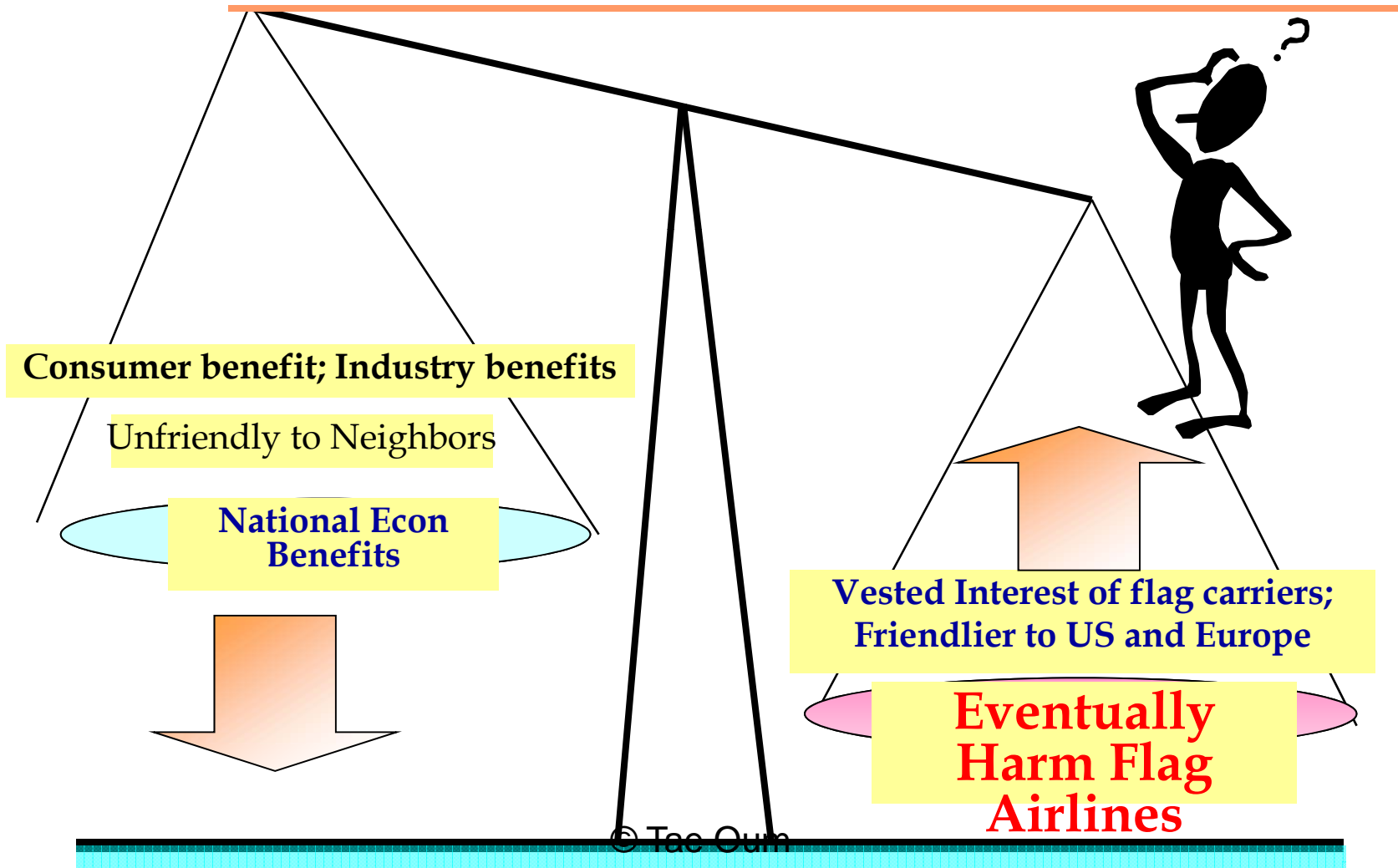
What need to be done

- ❑ ***Time has come to change our approach to 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 taught us that ***most of the protected flag carriers eventually fail after wasting \$billions of tax payer and consumer dollars:*** Varig, Alitalia, Swissair, Olympic, Iberia, JAL, Air Canada, etc.
- ❑ Each country would be served far better by ***adopting Open Skies as principle,*** and ***Reversing Onus of Proof to the opponents*** of Open Skies. .

Key Barriers to Open Skies

- ❑ Fear that Open Skies would bankrupt airlines** (e.g., Olympic, Alitalia, Varig, Spanair, JAL went bankrupt before Japan-US Open Skies)
- ❑ Unit Cost differences** – airlines from the higher cost country may lose market shares to airlines from the lower cost countries
- ❑ Airlines of smaller countries may benefit more than airlines from the larger countries (**Asymmetric benefits**)**
- ❑ Govt ties to flag carriers, and Lack of political will** to break away from vested interest to do good things for economy and powerless citizens

Bilateral ASAs among E. Asian countries are heavily influenced by Vested Interests against National Economic Benefits (Oum and Yamaguchi, 2005 in Far Eastern Economic Review)



Methods for Achieving Open Skies

- 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, etc.)
 - **Canada-US**: In 1994, President Clinton and PM Chretien appointed **High-level Ambassadors** for Open Skies deal making; *initialed the Transborder Open Skies agreement within two months*
 - **3-year Phase-in period** for **Toronto, Montreal, Vancouver markets** to deal with Canadian carriers fear of US mega airlines invasion

- **Phase-in approach** similar to the Canada-US case may be designed in order to deal with **ongoing concern on level-playing field** for all major airlines in the region

Methods for Achieving Open Skies – cont'd

- Using avenues via which **gain/loss in air transport sector may be compensated via gain/loss in other economic sector (tourism, trade, investment, etc.)**;
- For example, **APEC is an excellent forum** via which **to achieve such tradeoffs** between air transport and tourism and other economic sectors

Thank You

2012 ATRS world conference (27-30 June: Tainan, Taiwan)
The ATRS Global Airport Performance Benchmarking Reports –
10th Year

www.ATRSworld.org

**DESTINATION APEC 2020: A CONFERENCE ON ENHANCING
TOURISM AND AIR CONNECTIVITY IN THE ASIA-PACIFIC REGION
27-28 February 2012, Manila, Philippines**

Remarks

Undersecretary Daniel G. Corpuz
Department of Tourism, Philippines
27 February 2012

Thank you Beatrice. My contribution this afternoon will be to use the Philippines as a case study in terms of showing one tourism development and the other side in terms of air services liberalization. Presently, tourism now is the fourth largest foreign exchange earner here in the Philippines, after our exports of semiconductor materials and electronic circuits remittances of our overseas Filipino professionals and workers and the fast growing BPO information technology. It has leap-frogged already compared to exports of agricultural produce as well as exports of extracted metals. The importance of our tourism industry was underscored when a new tourism act was enabled 2 years ago. It pointed to a certain direction wherein tourism can be a vehicle for investments, in bringing in investments, in modernizing our transport infrastructure, in introducing new tourism facilities and services, particularly in the accommodation sector as well as in essentially being a platform in dispersing the economic benefits to the countryside even to our small villages.

It also reflects what our tourism secretary mentioned earlier this morning that tourism can be a platform for instilling a certain pride amongst our Filipinos with respect to our rich natural assets and heritage and that it the reason why our aim is essentially to transform tourism as everybody's business. As of last year we ended something like some 3.9 million foreign visitor arrivals and an increase of some 12 percent over the previous year and an increase of some 16 percent over that of 2009. During the remaining years of this past decade however the industry was underperforming when we talked about percentage growth rates with our friendly ASEAN competitors. This particular industry by the end of 2010 contributed something like 5.7 percent of our GDP but more important of this I think is the labor force and job opportunities that was contributed to the economy and that is 3.6 million people or Filipinos employed in the tourism and transport sectors, fully 10 percent of the total employment rate of the country. It is also essentially targeted to single entrepreneurs and small and medium business scale businessmen, that is focused on retail trade, and the small food and beverage establishments that we do have. Essentially, employment is one big factor for the government in pushing the development of tourism.

That law which I have mentioned earlier also spurred a more liberalized view with respect to developing our air services. As early as 2 years ago, the Philippines adopted a pocket open skies policy that meant to say that our secondary international gateways were given unrestricted access to foreign carriers similar to what Prof Oum mentioned something earlier in his presentation of Japan. This move was also spurred by virtue of the congestion in our premier gateway. And an internal case study here could be identified with respect to the Clark International Airport. Clark as you very well know was the largest airbase of the Americans outside the US mainland turned over to the Philippines. In 2005, Clark as an international gateway then had some 7,000 foreign arrivals. In implementing a liberalized charter program for developmental routes Clark was able to successfully develop itself into a hub initially with low cost carriers spearheaded by Tiger Airways and Air Asia Malaysia. So from seasonal charters it became to quasi-regular services and then eventually

regular services. In 2011, some 570,000 passengers already used Clark International Airport. The liberalization program of the government also overhauled the institutional make up of our air negotiating panels. It made it friendly to user industries in the sense that before it used to be exclusive enclave of the Department of Transportation, Department of Foreign Affairs. Now the panel also has new members, representatives from the Department of Tourism as a user of the air sector, the Department of Trade and Industry and the Department of Labor and Employment given the fact that the Philippines obviously has a large overseas labor force. These user industries can contribute significantly on how our air negotiation process proceeds with other countries. So that in essence is where we are right now. We would require further liberalization particularly in certain markets. We don't want it open immediately as there are still factors that have to be considered but again going back to Prof Oum's experience with respect to South Korea, South Korea by the way is the primary market for inbound tourism to our country. We ended last year with some 925,000 Koreans visiting our shores and we want 2012 to be a break year for us by exceeding the 1 million mark. Unfortunately the air rights have already been fully utilized and with the assistance of our colleague from the CAB we do hope to be able to liberalize further the bilateral agreement between these two countries. Thank you Beatrice.

**DESTINATION APEC 2020: A CONFERENCE ON ENHANCING
TOURISM AND AIR CONNECTIVITY IN THE ASIA-PACIFIC REGION
27-28 February 2012, Manila, Philippines**

**Atty. Carmelo L. Arcilla
Executive Director, Civil Aeronautics Board, Philippines
27 February 2012**

Thank you Beatrice. Let me say that we have a pretty liberal regime in the Philippines. Our aviation policies are liberal enough to sustain the needs of tourism and trade. And after all liberalization is a work in progress. It is an evolving phenomenon and the Philippines is liberalizing at a pace that suits its needs.

Before I dwell into your question let me share with you a bit of history. We are the first country in Asia to fully privatize our airlines. We are the first country in Asia to fully deregulate domestic aviation. In the Philippines, local airlines can operate to any route with potentially unlimited traffic rights. The groundwork for liberalization in the Philippines has been laid down by Executive Order 219 (issued in January 5, 1995). And the critical provision of this policy is multiple designation of international airlines for local airlines. So it paved the way for the entry of local airlines into the international scene. As recent as 10 years ago, we only had one international airline. And now we have 6. We have seen a dramatic increase in traffic of course the base number is rather low but our growth rate is one of the highest in the world. Our growth rate in 2011 is less than the 2010 but overall it is 12 percent. And we have attribute this to the liberal regime EO 29 mandates that we negotiate for significant traffic rights to address demand. And in 2005, my agency came up with a program called the liberal charter program. It's one of its kind at least in Asia because it allowed unilateral rights for foreign airlines to operate quasi-regular services to airports outside of Manila. And why outside of Manila? Number one, our tourist destinations are outside of Manila and can be more directly accessed by direct services by foreign airlines. Number two, there is congestion issue we have slot problems in Manila and of course I do not know if I should say it Manila is the hunting ground of 6th freedom strategists that do not stimulate their tiny markets after all. So this chain of events paved the way for the entry of local airlines into the industry. We have Cebu Pacific, Air Philippines, Seair, Zest Air, and now we have Air Asia Philippines. We have also allowed cross border ownership. Some countries do not even allow foreign equity to the airline companies. But in the Philippines we have allowed the entry of cross border ownership by Air Asia Berhad.

Our overall liberalization policy is progressive and a focused one. Progressive and focused in the sense that we look at the dynamics of the market and we look at the value of opening up the markets to the objective of enhancing direct connectivity and air service availabilities especially to our tourist destinations. We have seen a dramatic increase of flights to our developmental gateways as Usec Corpuz has mentioned. Clark has experienced an exponential growth in traffic from a measly 30,000 about 6 years ago. Recently our President issued EO 29. This directs the Philippine negotiating panel to pursue more aggressively progressive liberalization and specifically to negotiate for unlimited 3rd and 4th and 5th 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. So all of these programs are supplementing each other or complementing each other. Of course EO 29 is very young but we have already seen effects. We have seen explosion of sorts in Kalibo, of 400 to 500 percent increases in

traffic from China, even in Laoag, even in Clark. And so we feel that we are sufficiently covering the needs of trade and tourism. We have more or less 71 million air seats and for the last 5 years I think our international traffic increased by almost 50 percent. Our domestic traffic in 5 years increased more than double. In fact in the World Economic Forum Report in 2011 for travel and tourism competitiveness, the Philippines ranked 29 out of 139 countries in terms of openness of bilateral agreements. We also ranked 30th among 139 countries in terms of the availability of seat entitlements. Unfortunately we are lagging behind in terms of infrastructure. We are also lagging in terms of access to airports, hotel availability, police assistance even in security and safety and the like. So President and Secretary are focusing our energies toward dealing with the infrastructure problems. In the past, unfortunately our government implemented the airport infrastructure programs that gave little regards for the dynamics of the market. A modern seaport, new airport, sitting in a region where there is no or the traffic potential is very low, resulting in that airport being severely underutilized. We even have two airports very proximate to each other and the proximity of the 2 airports undermines the viability of both. So our Secretary informed the meeting this morning that we are now rationalizing the allocation of resources for airport development. And so we are a modern airport will rise in Bohol which is a very popular destination. Puerto Princesa was voted as one of these new 7 wonders of the world. And modern airport is being going to be constructed. We have Laguindingan airport that will be opened in the first quarter of next year. Of course we are not leaving out Manila. Manila is bursting in the seams. And most of you who flew probably experienced a long holding pattern coming in the airport, landing in the airport. And of course there is a program to move our principal gateway to Clark in 5 years but for the moment, we studied a program to refurbish Manila airport to introduce structural and aesthetic improvements. We are so building 2 rapid exit taxiways to allow for more movements of aircraft. We are moving general aviation out of the Manila airport – propeller driven aircraft. We have 15 flying schools in Manila alone. We are moving these flying schools to an outlying airport in Subic. We are moving general aviation maybe in a couple of years. So this will free up 17 percent of the slots. So this could be a palliative but at least this will relieve the current congestion in Manila. And so even in traffic as I said we have been experiencing robust growth, double digits in the past few years. We had 18.6 M domestic passengers in 2011 versus 16.4 M in 2010. In the international sector, we had 16.6 M in 2011 as against 14.5 M in 2010. So I think in terms of opening up or liberalizing, we are on track and I think our pocket open skies policy is working in terms of promoting direct services to our tourist destinations. The principle that new direct services will develop new destinations is working. It has been proven in this country because if you want to visit the Philippines you won't have to land in Manila and take a connecting flight to Boracay or Cebu or even in El Nido. I think the formula that we are using suits our needs and now we have about 71 million seat entitlements and for now it is sufficient. For the last 5 years we held 35 air negotiations and we are mandated by EO 29 to pursue more and more negotiations. And as Undersecretary Corpuz mentioned, our first round of air talks this year is with Korea because the entitlements are fully utilized. We hope to expand in Korea. So in essence that is how our policies are aligned with the requirements of tourism and trade. Thank you very much.



Asia-Pacific Economic Cooperation



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

Maria Cherry Lyn S. Rodolfo
Co-Convenor





- Tourism is about friendship and understanding....
- Tourism is about people and not just numbers....
- Tourism depends on air connectivity... APEC alone covers 40 percent of the global land mass...




Destination APEC 2020

Key Policy Goals of the APEC Tourism Charter 2000


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

Destination APEC 2020

Conference Programme

Session	
	Welcome Remarks
	Keynote Speeches
	Message
I	Impact of Air Services Liberalization on Tourism Growth: Progress in Regional Air Services Integration
II	Impact of Air Services Liberalization on Tourism Growth: Country Experiences in Regulatory Reform Process



Destination APEC 2020

Key Messages (T. Rifai, UNWTO Sec-Gen)

- 3.5 to 4.5 percent growth of international arrivals in 2012 (highest in the Asia-Pacific region)
- 1950s: 25 M travellers, US\$2 B receipts
- 2012: 1 B travellers, US\$1 trillion receipts
- 2020 and 2030: 1.4 B and 1.8 B travellers

Imperative for Cooperation in APEC

1. Climate Change Adaptation
2. Taxation
3. Travel Facilitation

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Effects of Liberalization



- Cross-country experiences (Session I)
- Individual country experiences (Session II)




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Impact of Connectivity

- Labor Productivity (+)
- Foreign Direct Investments (+)
- Economic Growth (+)
 - Jobs, GDP, tax revenues
- Consumer benefits (+)

Destination APEC 2020

Scope of liberalization efforts



- Thailand
- Malaysia
- Chile
- Australia
- Philippines
- North Asia
- Canada




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Enabling Factors

- Inclusion of tourism in the national development agenda
- Regulatory certainty
- Political will
- Consumer interests represented in aviation decision-making processes

Destination APEC 2020

Are We There Yet?



Not yet...
Significant restrictions in global aviation (operational and ownership)




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Weak(est) Link(s)?

- Poor Infrastructure?
 - Airports, airport systems ?
 - Travel facilitation (visas, border control/frontline services – CIQ) ?
- Unfriendly business climate?
 - Taxes on passengers?
 - Taxes on airlines?
- Lack of Political will ?
 - Lack of regulatory certainty ?
 - Principal-agent problem ?
- All of the above ?

Destination APEC 2020

Conference Programme

Session	
III	Convergence of Tourism and Aviation Investment Policies
IV	Aviation and Tourism Growth: Implications for Airport Infrastructure
Areas of Cooperation: Response from the Tourism Sector	




Destination APEC 2020

