

# Is the Chicago Convention Fit for Aviation in the 21<sup>st</sup> Century?

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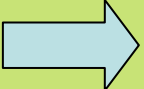


In 1947, the Chicago Convention took effect with an aim at developing civil aviation in a safe and orderly manner.



Chicago Convention

# Unprecedented changes in the past 60 years

- Number of passengers  
8 million (1945)  2 billion (2005)
- Small number of elite passengers  
 Mass transportation system
- Continued strong growth  
Only 1991, 2001 & 2002 recorded negative growth due to a war and terrorism.
- Projected to grow further  
ICAO projects a 4.4% growth in traffic up to 2015.

***A very impressive record, but...***

# International aviation is not global

***Why is there no truly global airline?***

***Why do airline alliances boom?***

***Did international aviation reach its full potential?***

***Are international aviation markets competitive enough all across the globe to bring to customers the benefits they deserve?***

# Chicago Regime

## Chicago Convention

§ 1 Airspace sovereignty



§ 6 Freedom to fly...  
subject to prior permission

§ 7 Cabotage...  
may be denied

## Transit Agreement

Freedom to fly over & land for  
technical reasons

## Bilateral Agreements

*For airlines substantially owned &  
effectively controlled by either nation*

Freedom to fly between  
the two nations

And beyond the other nation

**Restrict**

And from behind your nation

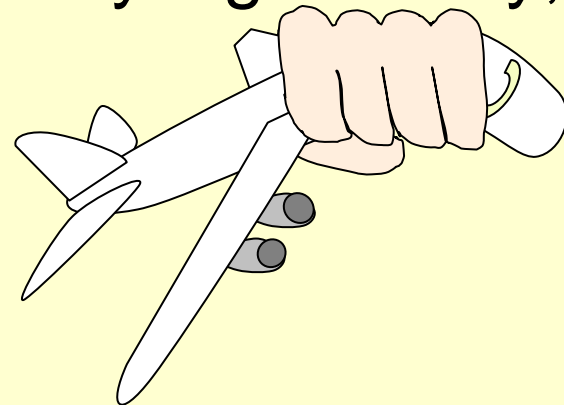
Freedom to fly between the other nation and  
the third nation



# Bilateral agreements flourished...

- Leaving many aspects of aviation business to governmental negotiations, including:

Who can fly; From where to where to fly; What type of aircraft to fly; How many flights to fly; Whether to code-share.....



- In many cases, a designated airline can veto fares another designated airline proposes.....

# Put yourself in a CEO's shoes...

## Under the current regime

You may not be able to:

- ✓ Enter the market you like
- ✓ Open a new route
- ✓ Increase number of flights
- ✓ Switch to bigger aircraft
- ✓ Go into partnership with foreign carriers
- ✓ Set up a subsidiary in a foreign country
- ✓ Buy into foreign carriers
- ✓ Fly seamlessly connecting domestic services in other countries etc.

*No airline provides global services.....*

# Look at it from a traveler's perspective

## As a result

### Travelers may have to:

- ✓ Pay higher fares than they would have paid with more competition
- ✓ Change their trip schedules or be bumped due to not enough capacity
- ✓ Switch from one airline to another with an increased chance of lost luggage and travel from one terminal to another
- ✓ Suffer poor services (including poor meals & !\*%\$#@ flight attendants)

# How much more you are paying

**Percentage Difference in 2004 between International Fares (U.S.-Foreign) and U.S. Domestic Fares (adjusted for distance)**



# It's about time to consider....

## ***Beyond the Open Skies***

*(The Open Skies Policy is not cool any more.)*

- No limitations on the number of designated airlines, points, routes, frequencies, and capacity.
- Let airlines decide airfares and no anti-trust exemption to IATA conference airfares
- No restrictions on foreign ownership and control
- Open domestic routes to foreign competition
- More competitive slot allocation, no competition-distorting subsidies, international competition rules and consumer protection.

***Better services at more affordable rates by truly international airlines***

# National security concern

- Cabotage by foreign airlines and foreign ownership of airlines is restricted often because of national security concern.



- National security is important legitimate concern.
- But why does cabotage and foreign ownership have to be restricted across the board to secure contingent mobilization of civil air fleet?
- For example, foreign direct investment can be reviewed case by case in light of its national security concern.  
The government can let foreign airlines operate domestic routes or buy out airlines on the condition that they agree to provide aircraft for contingent military use, and back it up with a penalty.

# Labor concern

- Lifting foreign ownership control & a cabotage ban will lead to cross-border reorganization, resulting in job loss and labor substitution.

**VS**

- Lifting foreign ownership control & a cabotage ban will make operators more efficient so that they can expand the market further. Even foreign airlines providing domestic services have to set up establishments and hire local employees to effectively serve their customers.

# How to implement the proposal

- Ideally, the Chicago Convention has to be overhauled.

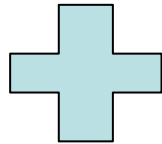
Time consuming, involving 160+ nations  
Two-third majority rule



- Initially further liberalization occurs under the current bilateral agreements.
- At some point, they should be expanded to multilateral agreements or ideally a separate new multilateral agreement attached to the Chicago Convention should be negotiated.

# US-EU Tentative Agreement

- Elements of the Open Skies (No restrictions on designation, 1<sup>st</sup> through 5<sup>th</sup> freedom and fair setting) + European designation



- 6<sup>th</sup> freedom
- 7<sup>th</sup> freedom for cargo services and limited 7<sup>th</sup> freedom for European combination services
- Partial opening of Fly-America traffic to European carriers
- More policy coordination on competition, security, safety, the environment, etc.

Etc.

# US-EU Tentative Agreement (2)

- Multilateral liberalization packages
- Going beyond the traditional Open Skies
- How far can both sides go in the second stage negotiations in traffic rights, foreign investment, infrastructure constraints and other issues?
- Any possibility of expanding the agreement to surrounding nations?

# Future of Aviation

## AirAsia

Asia's leading low fare no frills airline and first to introduce "ticketless" travelling.

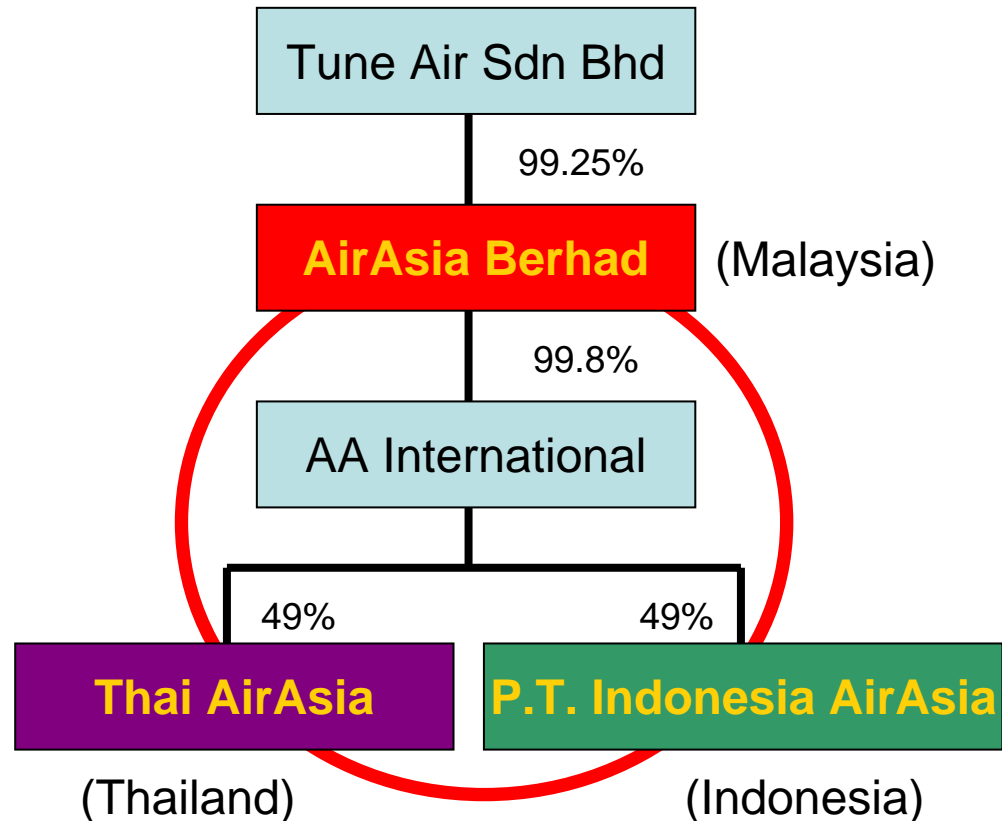
(From AirAsia HP)

### Fleet

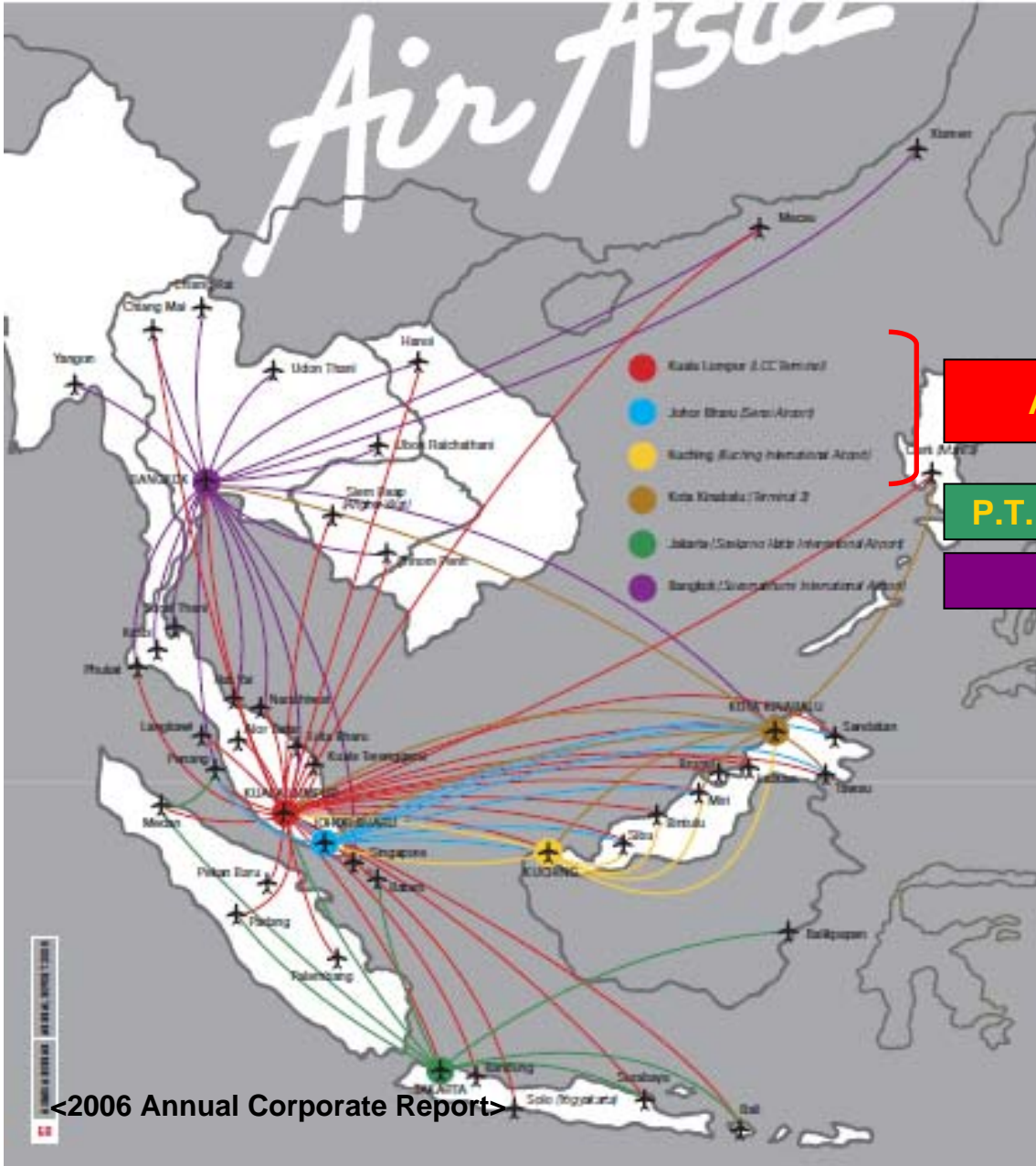


34 Boeing 737-300  
17 Airbus 320  
(130 aircraft commitment with  
Airbus for A320)

### Corporate Structure



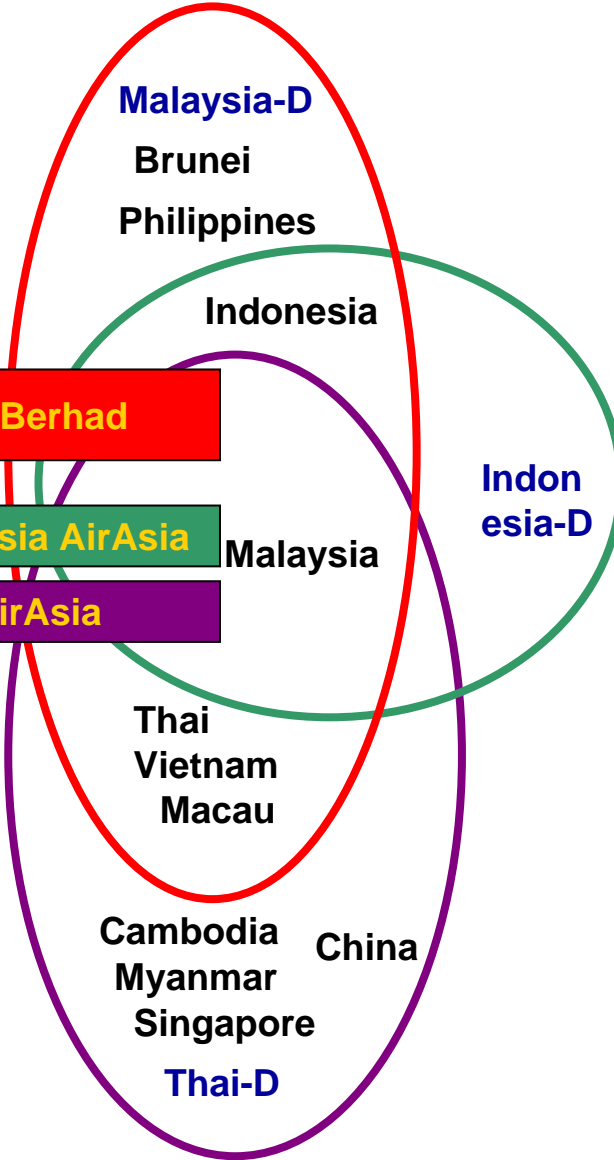
# Network



**AirAsia Berhad**

**P.T. Indonesia AirAsia**

**Thai AirAsia**



# Services



**Kuala Lumpur → Jakarta**  
**724 Mi**

**79.99 MYR = \$23.07**

**Bangkok → Macau**  
**1,028 Mi**

**499 THB = \$15.68**

**Manila → Kuala Lumpur**  
**1,543 Mi**

**1,179 PHP = \$24.58**

Washington, DC → Memphis (789 Mi)  
\$116

Washington, DC → Dallas/Ft. Worth (1,193 Mi)  
\$69

Washington, DC → Denver (1,491 Mi)  
\$99

\*All fares are one-way fares for flights on May 16, if purchased on March 23.

Where is this flying?.....

