

# How to ensure fair competition and define a level playing field?

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#### **Constat**

- No common definition of level playing field.
- Aim should be equality of opportunity (as in Chicago Convention) rather than equality of outcome.
- Inequality arises from natural advantage.
  - Geography.
  - General business environment.
- Inequality arises from subsidy.
  - Some of which may be tolerable.
  - Some undermine competition and efficiency in the long-run.
  - Operating subsidies tolerable only in very specific circumstances.
  - Transparency and international ICAO-endorsed framework needed.



### Air traffic rights

- U.S. domestic deregulation (1977-78) started wave Impetus from under-served secondary airports
   International open skies policy since 1992
- Canada pursues open skies "when in the national interest"
- China, gradual approach to foster growth of its 3 largest airlines
- E.U. single air transport market (1997) represents the ultimate regulatory convergence yet to be fully replicated anywhere else;
- ASEAN moving towards a single market but with less convergence
- Australia and New Zealand very liberal regimes, contrasting results



#### Socio-economic consequences of liberalisation

- Generally beneficial:
  - Lowering fares through competition + low cost carrier entry
  - Increasing and facilitating seamless connectivity
  - Supporting the growth of tourism, trade, aerospace and wider economy
  - New opportunities for secondary airports
- Challenges balancing impacts on consumers and producers:
  - Fair competitive market (subsidies)
  - Maintaining socially acceptable labour standards
  - Mitigating environmental externalities from increased traffic



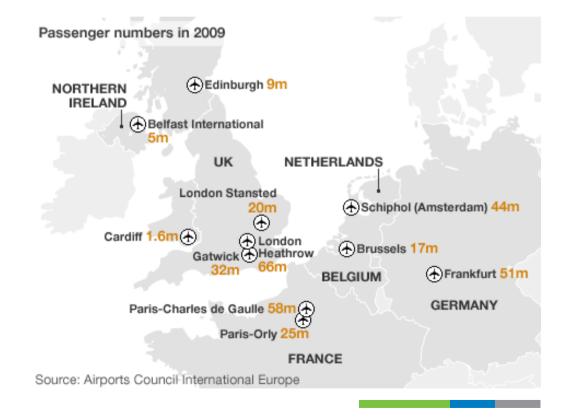
### Connectivity

- Function of generalised costs:
   prices, value of frequency, convenience of direct flights
- Key issue for all countries, but seen under different prisms:
  - Geographically disadvantaged or small countries:
     Linking to the global economy to support tourism and trade;
  - Large markets: Ensuring that they remain the linchpin connecting other markets, supporting own O/D market, air carriers, airports.
  - European hub carriers: concerned about losing connecting traffic to competing hubs in Turkey and the Gulf countries;
- Secondary airports benefit from frequency of service via local hubs but are attracted to new direct services to far-away hubs;
  - Does diverting traffic from the local hub to far-away hubs undermine overall connectivity?



## **Access to airports**

- Heathrow ≠ Frankfurt
- Newcastle ≠ Heathrow





#### **Fair competition**

- Long history of public funding of aviation
- No consensus as to what a level playing field is
- No ICAO-level agreement on a framework for subsidies yet
- US carriers 'white paper' on Gulf State subsidies highlights issues of transparency and defining unacceptable subsidies
- Need for:
  - 1.Agreed international framework to define acceptable public subsidies, across the aviation value chain, with particular attention paid to SOEs
  - 2. Transparent and standardized reporting of public subsidies
  - 3. Enforcement mechanisms that do not impede liberalisation
  - 4. Model clauses for ASAs predatory practices, subsidies
  - 5. Comity and convergence among consenting



### **Competition decisions**

- Decisions on air service agreements made in the light of the expected balance of benefits and costs, taking an overall view
- Balancing open skies (more competition) and anti-trust immunity (consolidation) in pursuing an efficient, competitive market
- Balancing consolidation with entrance
- Impact of new entry on domestic industry means it is phased / constrained sometimes even when fair.



# Thank you

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