The State of Air Transport Liberalization in Latin America and the Caribbean

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(Airports Council International – Latin America and Caribbean)

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The State of Air Transport Liberalization in Latin America and the Caribbean

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Executive Summary

- Airports Council International through its regional office in Latin America and the Caribbean (ACI-LAC) commissioned NACO to conduct a high-level study on the state of air transport liberalization in the LAC region with the objective to develop a coherent and informed vision that can support future advocacy initiatives, spark alignment with like-minded aviation industry partners, and substantiate the policy positions of LAC airports with government authorities and international organizations.

Why the Liberalization of Air Transport Should Matter to LAC Airports

- A fully liberalized operating and business environment cannot guarantee the launch of new flights, but it can certainly provide a stable and predictable competitive landscape for airlines to consider new investments and commercial commitments with airports. Secondary gateways and regional airports can benefit directly from a business-friendly environment that offers operational flexibility to new airline start-ups and supports point-to-point services.
- Promoting the liberalization of the air transport sector begins by influencing government decision-making processes at home. This is why LAC airports would benefit from occupying a more prominent role in the process of bilateral air service negotiations and the formulation of national aviation policies. As catalysts of economic and tourism development, airports are strategically positioned to inform governments on policy priorities that affect aviation activities and provide input on regulatory proposals that influence their market positioning.
- The liberalization of air transport ultimately is a matter of economic competitiveness for the LAC region and its airports. Air connectivity is a key factor of economic competitiveness because it enables trade, supports tourism flows, and facilitates cross-border investments. Improved air connectivity benefits airport users – i.e., passengers, businesses, exporters, shippers, tourists – because they can access more destinations and markets around the world faster and more seamlessly. More flights would typically result in incremental revenues for airport operators.
- There is a concrete need in 2024 to promote a friendlier business environment for air services as part of the air liberalization agenda. These are some of the top issues currently affecting air operators in the LAC region: (1) burdensome authorization processes, (2) unilateral government action, (3) conditional traffic rights, (4) inconsistent application of slot allocation rules, (5) limited or lack of airport capacity, (6) costly regulatory regimes, (7) lack of coordination between government authorities on policies that affect aviation, (8) technical knowledge of aviation regulators, and (9) lack of awareness of the value of aviation. Airports have an interest in progressing the above issues because some of them affect levels of service but also their ability to attract new flights and protect their market position.

Models of Liberalization and Approach for the LAC Region Going Forward

- Liberalized operating environments have historically promoted more connectivity between countries (to/from hubs but also to/from secondary gateways and regional airports), more affordable and convenient options for travelers, and more opportunities for trade, business, and people-to-people exchanges.
- Four models of liberalization were reviewed in this study: (1) domestic deregulation and open skies policy (U.S.), (2) liberalization of internal and external aviation policies (EU), (3) synergetic liberalization between trade partners (Australia/New Zealand), and (4) soft regional integration and phased-in liberalization (ASEAN).
- Despite the clear differences that exist across the four models in terms of government institutions, decision-making processes, regulatory approaches,

including the structure of the local aviation industry, the positive market effects that resulted from the various processes of liberalization are unequivocal:

- Greater access to low-cost travel for consumers following the expansion of the LCC business model.
- Fundamental role played by LCCs as primary air connectivity providers in countries without a strong national airline.
- Sustained reduction of inflation-adjusted average air fares over time.
- Traffic growth stimulation in main hubs and secondary markets.
- Increased number of city-pairs being served by airlines within the relevant internal market (either domestic or regional).
- Increased number of non-stop direct connections from/to secondary gateways and regional airports.
- Reinvigoration of the local tourism industry as a result of increased inbound international tourism.

- Based on the lessons learned from the four models, and a brief assessment of the most recent liberalization initiatives deployed in the LAC region, future discussions should ensure that there is a strong political will to progress the liberalization agenda on a multilateral basis based on tangible and measurable goals, supported by a clear understanding of the economic and social benefits associated with liberalization among decision-makers and policymakers.
- The agenda promoted by LAC airports should rest on the premise that the liberalization of air transport is not an end in itself but rather a tool of economic development that can enhance LAC's global competitiveness and air connectivity.

State of Affairs in the LAC Region: Air Connectivity and Economic Indicators

- The LAC region currently performs behind other world regions in terms of air connectivity measured by annual seat capacity per destination. In 2023, LAC's air connectivity was 42% lower than both North America (U.S. and Canada) and Europe, and 33% lower than ASEAN. Brazil, Argentina, Mexico, Colombia, and Chile are the most connected countries in the intra-LAC market.
- The low levels of intra-regional connectivity observed in the LAC region can be linked to many factors, including the low maturity of intra-regional air services, low GDP growth per capita in most countries, unfinished liberalization and burdensome doing business conditions for air services, risk averse attitude of airlines, lack of low-cost options for new travelers, and weak intra-LAC trade and business exchanges.
- While air connectivity trends indicate demand for air travel per capita, it is essential to consider economic growth as a critical factor in the development of air traffic volumes. We note that LAC's share of world GDP has declined from 8.5% in 2010 to 6.9% in 2022. LAC's real GDP has only grown modestly between the period 2010-2022 (CAGR of 1.3% versus the world economy with a CAGR of 3.1%)
- Some of the above factors ultimately affect the propensity to fly of populations in the LAC region. For instance, we found that Latin Americans (i.e., Mexico, Central America, and South America) tend to take fewer flights per year compared to other countries with similar income levels. In contrast, the high propensity to fly observed in the Caribbean countries seems to be primarily driven by small population size and high inbound tourism arrivals.
- Not surprisingly, more than 50% of the total seat capacity in the intra-LAC market is provided by regional airline groups such as Copa Airlines, LATAM, and Avianca. Major LAC airport hubs such as Panama City (PTY), Bogota (BOG), Lima (LIM), Mexico City (MEX), Sao Paulo (GRU) and Santiago (SCL) actually attract 74% of all market share of intra-LAC one-stop passenger traffic. In contrast, the share of LCC

seat capacity on the intra-LAC routes is fairly low (8.3%), particularly if put into perspective with other markets displaying a higher degree of liberalization such as ASEAN (51.6%), EU (46.1%), and North America (14.8%).

- Moreover, direct non-stop flights accounted for 57% of all intra-LAC passenger traffic in 2019. This percentage is comparatively lower than the share of direct non-stop flights in Europe (89%), ASEAN (87%), and North America (62%). The limited presence of LCCs on the intra-LAC routes provides less options for point-to-point flights between secondary gateways and regional airports.
- Finally, we found that, on average, each capital city in the LAC region is connected to only 10 other capitals, which represents less than 20% of the total number of capital cities in the region. Also, there is a substantial number of daily passengers traveling indirectly (i.e., with one or more stops) between capitals in the intra-South American market, especially on those routes that have well-known capacity limitations such as Lima-Buenos Aires (LIM-EZE) and Bogota-Buenos Aires (BOG-EZE).

Get Your House in Order: Developing a Vision and Aeropolitical Capacity-Building

- The commercial function of airports can gain much from building a synergetic relationship with the aeropolitical function. The preparation of business cases and the deployment of new routes often require direct interactions with local government authorities to promote a more favorable regulatory framework or to improve the current doing business environment. Airports operating in politically sensitive environments have an interest in having these two functions to work hand in hand.
- It is also recommended that the aeropolitical function be embedded or reports directly to the CEO Office, with dotted lines to the commercial teams responsible for air service development, passenger experience, and corporate affairs, but also to the legal and compliance department. In small to medium-sized airports, the aeropolitical function can be held by the CEO or the C-level/SVP overseeing government and institutional affairs.

- Finally, it is also important for airport teams to gain a deeper understanding of the categories of provisions in Bilateral Air Services Agreements (BASA) and economic regulation instruments that apply to air operations in order to develop policy positions, proposals, and priorities before and during bilateral negotiations.

Policy Agenda for the Future

- Building on the vision, principles and action items of the Miami Declaration of 2023, the deployment of a coherent advocacy agenda for airports towards a more liberalized operating environment can be achieved by: (1) supporting the removal of remaining market access restrictions at the level of bilateral air negotiations, (2) working with local authorities to improve the policy and business environment applicable to aviation activities, with a focus on air services, and (3) promoting airport interests in transportation, infrastructure and environmental policies, but also in other non-aviation areas such as taxation, and customs/immigration.
- It is in the immediate interest of airports in the LAC region to continue to push forward the air liberalization agenda according to an ecosystem approach that seeks synergies with like-minded aviation industry stakeholders such as airlines.
- LAC airports have the unique opportunity to contribute to the development of a model of liberalization that reflects their own realities and are well-positioned to support the achievement of their ambitions into the future.

1 Introduction

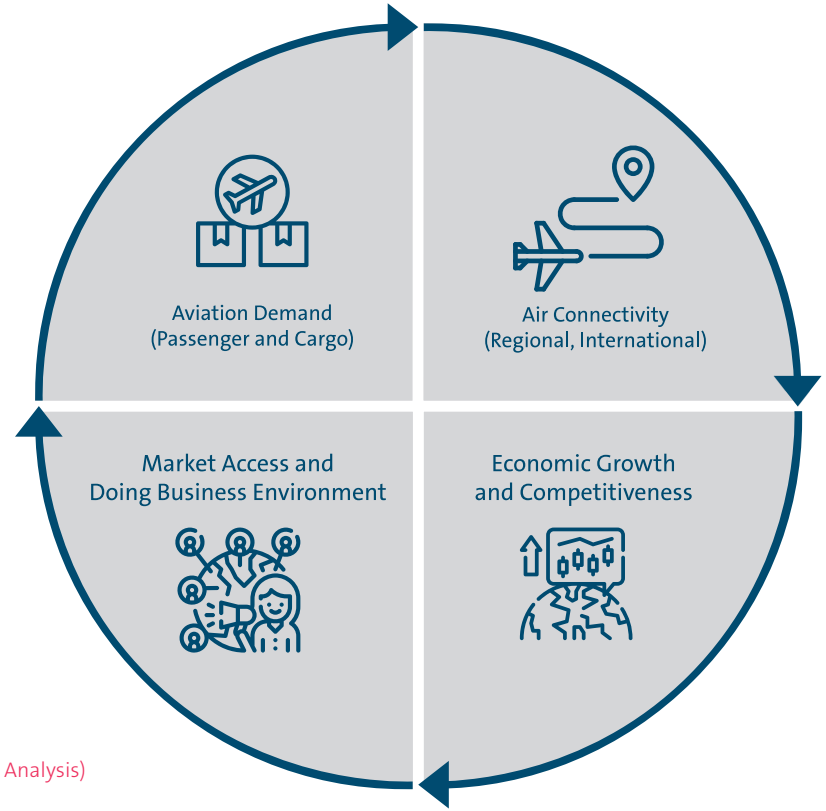
The air transport sector enables cross-border trade, supports tourism flows, and serves as catalyst for foreign direct investment, knowledge sharing, and people-to-people exchanges. It also provides vital air links to peripheral cities outside major urban agglomerations, including remote and disadvantaged communities, and small island states. That is why air connectivity remains partly a matter of national interest.

The sector supports 87.7 million jobs worldwide and generates approximately 11.3 million direct jobs, of which 6.14 million (or 54%) are directly linked to airport operations[1]. Despite its modest contribution to global passenger traffic (7.7%), the air transport sector in the Latin America and Caribbean (LAC) region has a greater impact on local job creation compared to other regions as it effectively captures 9% of all aviation jobs globally. In contrast, while Europe generates 26% of global passenger traffic, it captures only 15% of aviation jobs globally. North America (i.e., U.S. and Canada) captures 22.7% of global traffic but supports only 10% of total aviation jobs[2].

Context and Scope of the Study

Various landmark studies have been published over the years on the topic of air liberalization by the International Air Transport Association (IATA), the Organization for Economic Cooperation and Development (OECD), the International Transport Forum (ITF), as well as other regional organizations and aviation industry groups. In September 2023, Airports Council International through its regional office in Latin America and the Caribbean (ACI-LAC) commissioned NACO to conduct a high-level study on the state of air liberalization in the LAC region with the objective to develop a coherent and informed vision for the future of liberalization in the LAC region – by and for the airport community. This study will also serve as foundation for future advocacy initiatives as well as industry alignment and engagement with local governments.

Fig.1 Relationship between market access, aviation demand, economic growth, air connectivity



(source: NACO Analysis)

1 Introduction

Relevance of Air Liberalization for Latin American and Caribbean Airports

In recent years, various studies have shown that airports are important contributors to national economies, fostering direct, indirect, induced, and catalytic employment and Gross Domestic Product (GDP)[3]. The LAC region is no exception in that regard. As natural engines of economic and tourism development, LAC airports – both hubs and regional – have much to gain from supporting flexible aviation policies and regulatory frameworks that provide airlines the freedom to operate across borders without unnecessary administrative hurdles or burdensome requirements.

For LAC airports, ensuring that local government authorities provide favorable conditions for the development of air services is also a question of commercial viability and regional competitiveness. Although it is undeniable that most countries in the region have made concrete efforts to liberalize in recent years, much work remains to be done, especially in the areas of administrative and approval processes, slot allocation practices, inter-agency coordination, and the inconsistent application of bilateral aviation frameworks and best international practices.

From an aviation policy perspective, air liberalization is relevant because greater market access and a business-friendly regulatory environment are directly linked to levels of air connectivity between LAC countries and other regions and emerging markets, but also within the region itself. It is important to highlight that the region displayed the lowest growth rate of air connectivity between 2014-2019 compared to other regions in the world[4]. This trend should be reversed in the coming years.

On the left page is a diagram that depicts that interrelation between greater market access, market demand, economic growth, and air connectivity, as widely discussed in previous air transport liberalization studies, reports and the economic literature[5].

Organization of the Study

Section I ("Why Liberalization of Air Transport Should Matter to Airports") will tackle the question of why air liberalization matters for LAC airports by exploring the links that exist between market access, air connectivity and economic competitiveness, as well as the relationship between air liberalization and traffic growth. In addition, we will review the process of bilateral air negotiations and the increased role that airports could play in the future to inform government authorities on pressing priorities. Finally, this section will include a review of the top market access and doing business issues in the LAC region, as identified by a number of airlines operating in the region.

Section II ("Models of Air Liberalization in Perspective") will provide a comparative analysis of the various models of air liberalization that have been implemented across world regions in recent decades, with a special focus on the United States (U.S.), the European Union (EU), Australia and New Zealand (Trans-Tasman), and the Association of Southeast Asian Nations (ASEAN), and with the support of relevant case studies. A section will also be reserved to critically assess the various initiatives that have been deployed in the LAC region such as the Fortaleza Agreement as well as other air liberalization models promoted by the Andean Community, the Latin American Civil Aviation Commission (LACAC), and the Caribbean Community (CARICOM).

Section III ("Air Connectivity Trends in Latin America and the Caribbean") will analyze the state of the market in the region using quantitative techniques supported by industry and economic databases, with a focus on relevant themes for the LAC region such as propensity to fly, the economic drivers of air travel, intra-regional connectivity trends, as well as air connectivity to/from capital cities and major economic centers. This section will consider the cost of air travel in the LAC region vis-à-vis other world regions and potential implications for economic competitiveness.

Section IV ("Strategies, Approaches and Tools to Progress Air Liberalization") will outline some of the strategies, approaches, and tools airports could use to progress the air liberalization agenda in the coming years, including specific proposals to better integrate the aeropolitical function within the airport's organizational structure. This section will also focus on some practical elements such as how to develop an aeropolitical vision that aligns with an airport's commercial strategies and perceived regulatory risks, including a brief anatomy of market access and doing business provisions in Bilateral Air Services Agreements (BASA) that can be used by airport teams as a basis to develop positions and proposals before and during air negotiations.

Section V ("Agenda for the Future") will build on ACI-LAC's vision for air liberalization as captured by the Miami Declaration of November 2023. We propose the deployment of a coherent advocacy agenda based on tangible, measurable, and continuous progress on three fronts. First, LAC airports should deploy continuous efforts and work in collaboration with like-minded industry partners to remove the remaining market access restrictions and burdensome doing business practices. Second, they should work directly with local government authorities to improve the policy and business environment applicable to aviation activities. Third and last, LAC airports should understand and promote their interests in policymaking arenas beyond air transport per se, namely: infrastructure, tourism, immigration, environment.

The following sections outline some of the concepts that are directly relevant to the current study, in addition to some observations regarding the confidentiality of traffic rights between countries and what it means for airports.

Market Access and the Business and Regulatory Environment

Concepts such as market access and the doing business environment are central to this study and will be used throughout to categorize current practices, illustrate examples, and formulate recommendations. This is why we provide a brief explanation of the scope and meaning of each of these concepts in the next two paragraphs.

Market Access – Restrictive market access policies limit the ability of airlines to invest in new routes, expand air services, or to turn existing operations into viable commercial ventures due to the difficulty to develop traffic (for both passenger and cargo) beyond certain pre-established constraints. Examples of common constraints in Bilateral Air Services Agreements (BASA) may include:

- Limited number of weekly frequencies,
- Limited number of points of entry,
- Caps on the number of seats (on a country or per route basis),
- Conditions on the type of aircraft that are allowed to operate on certain routes, and
- Code-sharing limited to designated airlines, or a certain number of routes or flights.

In sum, restrictive market access policies affect the ability of foreign airlines to serve new destinations or enhance existing operations and thus can be considered a prima facie barrier to long-term airport development and air traffic growth.

Business and Regulatory Environment – Burdensome regulatory frameworks tend to increase the costs of doing business in certain markets, often eroding profitability levels in the short-term but also affecting the long-term commercial viability of airline operations. For instance, lengthy approval processes and costly regulations may negatively affect the long-term attractiveness of certain markets (countries) because they come to be perceived by airlines as commercially risky or legally unpredictable. Examples may include but are not limited to the following:

- The implementation of costly passenger protection regulations disconnected from operational realities and without previous industry consultations.
- The establishment of lengthy authorization processes to obtain operating permits that end up delaying the sale of tickets for new flights.

The doing business environment may also include areas of government policy and regulation that are not typically considered aviation-focused such as taxation, customs and immigration, environment, and labour, among others.

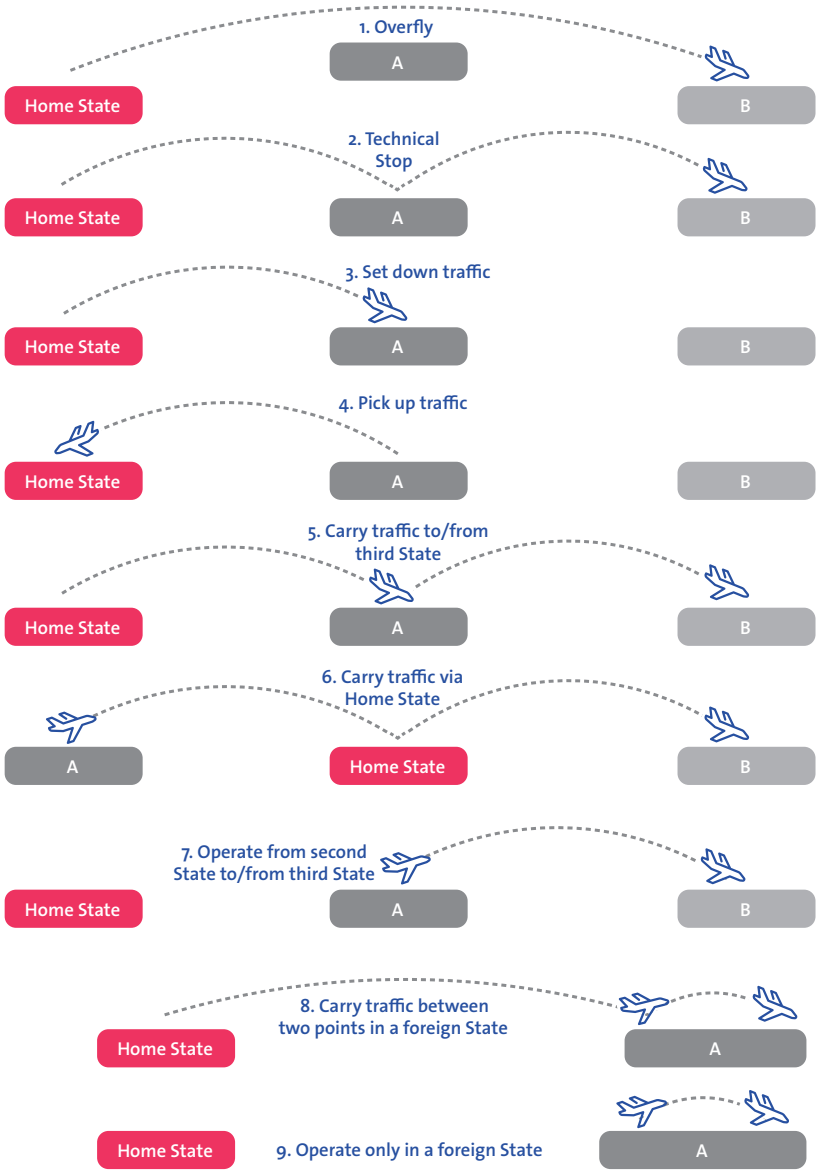
Traffic Rights, Freedoms of the Air, and Route Schedule

The concepts of traffic rights and freedoms of the air play a fundamental role in the route development potential of airports and their ability to market themselves and attract new (passenger and/or cargo) air services. A traffic right is commonly understood as the right of a designated airline, in respect to international scheduled air services, to transport passengers, cargo, and mail, separately or in any combination. Geographic specifications attached to traffic rights granted between countries are expressed based on the freedoms of the air and the accompanying route schedule.

Although most countries exchange the first and second freedoms through the International Air Services Transit Agreement[6], additional freedoms – and in particular 3rd, 4th, 5th, 7th, 8th, and 9th freedoms – are generally agreed and granted by countries through bilateral and/or multilateral air services agreements. Below is a brief description of the freedoms of air as commonly used in the industry.

- First freedom right: The right of a designated airline of one country to fly over the territory of another country without landing.
- Second freedom right: The right of a designated airline of one country to land in another country for non-traffic reasons, such as maintenance and refueling, while en route to another country.
- Third freedom right: The right of a designated airline to carry passengers and/or freight from the home country (country of registry) to another country.
- Fourth freedom right: The right of a designated airline to carry passengers and/or freight to the home country (country of registry) from another country.
- Fifth freedom right: The right of the designated airline of one country to carry passengers and/or freight between two countries outside of its own country, with origin/destination in its home country (country of registry).
- Sixth freedom right: The right of the designated airline of one country to carry passengers and/or freight between two countries on two routes via its home country or country of registry (i.e., combination of 3rd and 4th freedoms).
- Seventh freedom right: The right of a designated airline to operate stand-alone services entirely outside the territory of its home country (country of registry), and more specifically to carry passengers and/or freight between two foreign countries on a route without connection to its home country.
- Eighth freedom right (consecutive cabotage): the right of a designated airline to carry cabotage traffic (passengers and/or cargo) between two points within the territory of a foreign country outside, on a service that originates or terminates in its home country or a third state.
- Ninth freedom right (stand-alone cabotage): the right of an airline to carry passengers and/or freight between two points within the territory of a foreign country, on a service that is performed entirely outside its home country.

Fig.2 The Nine Freedoms of the Air



(Source: NACO's Adaptation of ICAO Manual on the Regulation of International Air Transport (Doc 9626, Part 4))

The most common annex in BASA is the Route Schedule, which outlines the routes over which the designated airline(s) of each party may operate the agreed services, and the conditions or restrictions applicable to certain or all routes. Although it has become a common trend in recent years for countries to allow the agreed air services and related traffic rights to apply to all points (origin, intermediate, destination, beyond), some countries still restrict the utilization of traffic rights granted to certain points only.

The Agreement between the Government of Australia and the Government of Canada relating to Air Services of 5 July 1988[7] is a good example of a mutually-agreed restricted BASA, in which the Australian government granted the designated airline of Canada the right to exercise its traffic rights based on a restricted route schedule that allows the agreed air services to originate from any point or points in Canada, but only using four intermediate points (San Francisco, Honolulu, Tahiti, and Fiji), with Sydney as the main point of entry in Australia and with one other point in Australia to be named by Canada, but no points beyond.

Below is a visualization of the nine freedoms of the air outlined above, adapted from ICAO's Manual on the Regulation of International Air Transport (Doc. 9626).

Routes to be operated in both directions by the designated airline of Canada:

Fig.3 Route Schedule (Australia-Canada BASA, 1988), Annex

Points in Canada	Intermediate Points	Puntos en Australia	Puntos más allá
Any point or points in Canada	San Francisco, Honolulu, Tahiti, Fiji	Sydney, with one other point in Australia to be named by Canada.	—

Any point or points specified above may be omitted on any or all services, but all services shall originate or terminate in Canada.

Routes to be operated in both directions by the designated airline of Australia:

Points in Australia	Intermediate Points	Points in Canada	Points Beyond
Any point or points in Australia	Fiji, Tahiti, Honolulu, San Francisco	Vancouver, with one other point in Canada to be named by Australia.	—

Any point or points specified above may be omitted on any or all services, but all services shall originate or terminate in Australia.

NOTES

1. The additional point in Australia to be named by Canada and the additional point in Canada to be named by Australia shall be any point with an airport designated for international operations.
2. Points to be named by either Contracting Party may be changed on si

In this case, neither designated airline could use Los Angeles (LAX) or Seattle (SEA) as points to carry 5th freedom traffic. In addition, designated airlines cannot operate to/from more than two points in the territory of the other party. We note, however, that both governments have made subsequent changes to the routes and associated rights, but these remain confidential until definitely entered into force by both countries[8].

Confidentiality of Commercial Rights

Air Services Agreements (ASA) – whether bilateral, plurilateral, or multilateral – establish the overarching legal and regulatory framework for air services between parties. Some of the most important provisions in ASA include the designation of airlines, application of national laws, ownership and control, airlines' rights to establish offices, hire and deploy staff, remit currency, customs duties, safety and security frameworks, and the routes that may be operated by designated airlines. Subject to the treaty-making process applicable in each signatory country, these provisions can be found in the public domain and are generally accessible in national treaty databases.

In contrast, commercial rights such as traffic rights, capacity entitlements (i.e., frequency of services, number of seats), and code-share provisions are generally treated as confidential by negotiating authorities and as such are not available to the general public. These are often detailed in Memoranda of Understanding (MOU) and Agreed Minutes that are signed between aeronautical authorities as addenda to the existing ASA. This common practice makes it almost impossible for external parties to assess what is the real and effective commercial framework that exists for air services between two or more countries.

Preliminary Observations and Caveats

An informal review of current BASA in Latin America and the Caribbean conducted during the course of this study reveals that the region as a whole – though not all countries – has made great progress in recent years regarding the grant of 3rd, 4th, and 5th freedom traffic rights for both passenger and cargo operations. However, we noticed there are still restrictions on the grant of effective 7th, 8th, and 9th freedom traffic rights, including restricted route schedules that open the door for conditional traffic rights.

In addition, we also noted that a number of business and regulatory framework provisions in current BASA remains burdensome for air operators and/or unfriendly from a business perspective. A more comprehensive assessment of the state of BASA in the region would necessitate a more systematic country-by-country, market-by-market study with full access to confidential documents detailing commercial rights. However, such enterprise is outside the scope of this study.

2 Why the Liberalization of Air Transport Should Matter to Airports

Although a fully liberalized competitive landscape for air services cannot guarantee the launch of new flights, it certainly provides a stable and predictable environment for airlines to consider new investments and commercial commitments with airports such as new and/or enhanced routes, more frequencies, and improved schedules. Regional and/or secondary airports in the LAC region could also benefit greatly from a more liberalized environment that provides a business-friendly operating environment, offers operational flexibility to new airline start-ups, and supports point-to-point services between secondary airports. This section will provide a brief overview of the current legal regime for international air services and review some of the underlying principles such as reciprocity, which is the basis of bilateral negotiations between countries – and where LAC airports should seek to have a more prominent role in the future. Before engaging in a broader discussion on the merits of air liberalization, we will elaborate further on the interrelation between air connectivity, competitiveness, and economic growth.

Fig.4 High-level process of formal bilateral negotiations for international air services

Pre-Negotiation

- Internal consultations with relevant government departments and input from local industry stakeholders to determine country priorities, exchange on negotiating positions, and respond to requests for negotiation.
- Negotiation mandate is established and approved by relevant authorities.

Negotiation

- States, represented by relevant authorities, present proposals and counter-proposals.
- Negotiation is conducted behind closed doors by chief air negotiators, aided by their legal, economic, and technical teams.
- Delegations are accompanied by observers, including aviation industry.

Post-Negotiation

- If there is an outcome following negotiations, address implementation of newly agreed bilateral framework.
- Exchanges between authorites and feedback from government and industry stakeholders.
- Bilateral consultations in case of disagreements, new issues, non-compliance.
- Ratification proccess.

(Source: NACO)

2 Why Air Liberalization Matters for Airports

Some Preliminary Considerations

Legal Basis of International Air Transport – International air transport is governed by the Convention on International Civil Aviation (commonly known as the Chicago Convention) signed in December of 1944, which also provides the underlying regulatory and institutional framework for the provision of international air services. From a legal perspective, the exchange of market access rights between countries – often referred to but not limited to traffic rights – derives from Articles 1 and 6 of the Chicago Convention, which together stipulate that "the contracting States recognize that every State has complete and exclusive sovereignty over the airspace above its territory" and "no scheduled international air service may be operated over or into the territory of a contracting State, except with the special permission or other authorization of that State, and in accordance with the terms of such permission or authorization"[9]. Non-scheduled air services – which would include cross-border charters and general aviation – are covered in Article 5 of the Chicago Convention[10].

Principle of Reciprocity – The principle of reciprocity is an important pillar of aviation relations between countries and the *modus operandi* of bilateral air services agreements and related documents. The scope of market access exchanged between countries, on the basis of reciprocity, is typically embodied in a set of documents (i.e., Bilateral Air Services Agreements, Protocols, Memoranda of Understanding, Agreed Minutes, Record of Discussions, Notes of Meeting, etc.) that clarify the scope and mechanics of the rights exchanged and also set out the foundations of the policy and business environment applicable to the agreed international air services. It must be noted, however, that some countries may decide to grant new traffic rights to designated airlines on an extra-bilateral basis (i.e., without the need to hold bilateral negotiations or formally amend the existing bilateral framework, with the rights approved subject to stringent conditions and time limits)[11]. Application processes for extra-bilateral traffic rights may be formalized or *ad hoc* and are usually triggered by an express written request by one of the signatory parties to the agreement.

Common Issues for Discussion – Some of the most common issues for discussion during bilateral air negotiations include (i) the grant of traffic rights (with the underlying freedoms of the air, which are further detailed in Annex 1 of this study), (ii) capacity (i.e., number of flights allowed), (iii) route schedules for operations (i.e., number of entry points but also intermediary points before and beyond), (iv) airline designations, (v) ownership and control requirements, (vi) commercial activities, (vii) taxes, (viii) customs duties, (ix) currency repatriation, as well as (x) code-sharing and cooperative arrangements. In recent years, other issues for discussion have included the competitive landscape for international operations (with corresponding safeguards and the introduction of concepts such as fair competition), financial transparency (in cases where one or more designated airlines are state-owned), as well as labour and environmental practices.

Process of Bilateral Air Service Negotiations

Most countries have developed their own internal consultation processes in preparation of bilateral negotiations (see Figure 2). Negotiation mandates are commonly established by the relevant national authorities responsible for the regulation of air transport, often with the participation or upon the advice of foreign affairs and economic ministries. These mandates are formulated during a process of consultations with other government and industry stakeholders – either through formal mechanisms or direct communications (private or public). As a general rule, a strategic approach to bilateral air services negotiations should entail a coordinated process where a number of stakeholders provide input to negotiating national authorities, from airlines, airports, and regional governments to tourism bodies and trade agencies.

Airlines have historically dominated the composition and influence of the industry group, followed by business and tourism interests. Because of their role as catalysts of economic and tourism development, LAC airports would benefit from occupying a greater role in the process of bilateral air negotiations, for example:

- By providing their input before the establishment of national aviation priorities, during the actual negotiations.
- By ensuring that their interests are reflected in the final outcome, but also during the post-negotiation phase which offers parties mechanisms to raise new and urgent issues.
- Communicate non-compliance by designated airlines with the bilateral aviation framework.
- Including requests for new rounds of negotiations on pressing issues such as additional traffic rights or amendments to outdated provisions.

It must be noted that the European Union has formalized some of these post-negotiation mechanisms in the form of Joint Committees where pressing issues that are relevant to airports, but also to other aviation stakeholders, can be discussed and resolved by signatory parties to the BASA[12]. Other countries such Australia have been the focus of recent controversies that highlighted the need for a more transparent process of bilateral air service negotiations that would include the use of cost-benefit analyses, wider consultations with key stakeholders including non-aviation agencies such as the Australian Competition and Consumer Commission, as well as the publication of a statement of reasons for decisions taken[13].

Historical Context of Liberalization and Regional Trends

The world has witnessed a growing trend towards the liberalization of international air markets as more and more governments have acknowledged the economic benefits created when allowing market forces to determine and guide the development of international air services[14]. Although the Latin American and Caribbean region has not been the exception to this positive trend[15], the process of liberalization remains unfinished and somewhat fragmented, particularly at the level of the policy and business environment that continues to burden airlines with unnecessary regulatory and administrative costs, and thus affecting the ability of airports to attract air services and become more competitive in their own right.

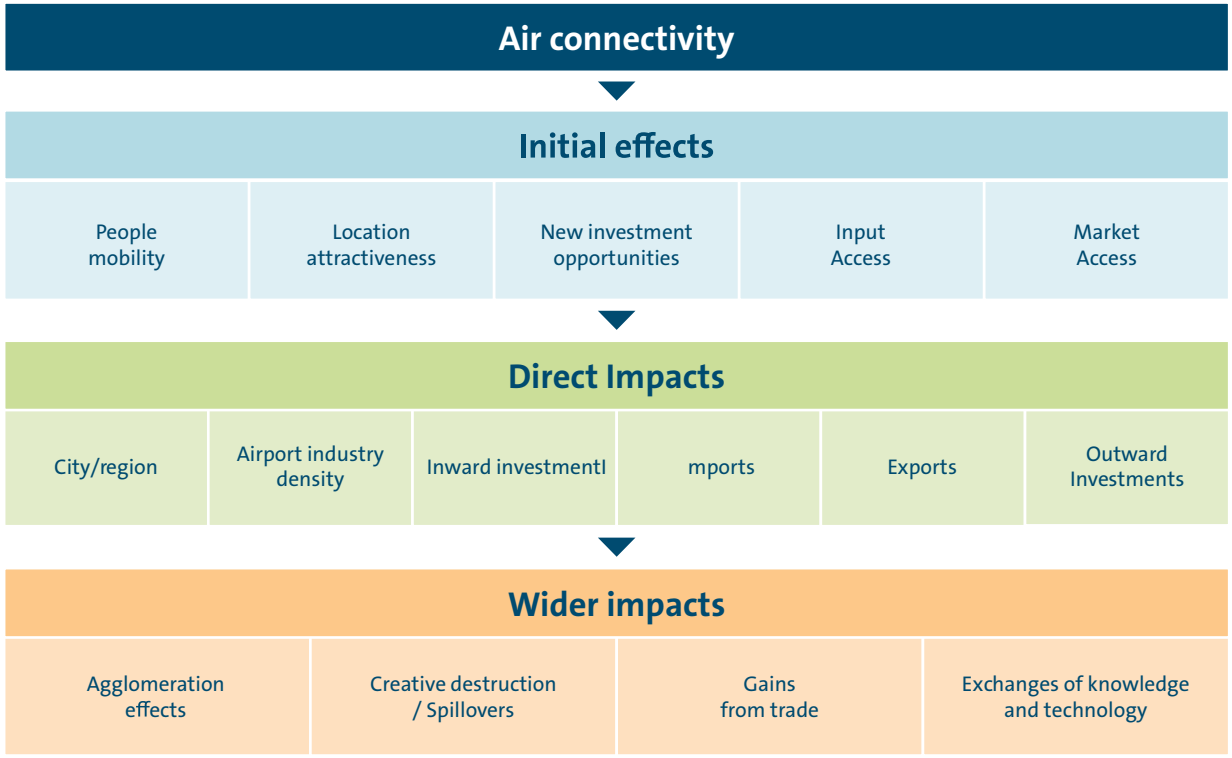
Several models of liberalization have emerged in mature aviation markets in recent decades. For example, the US has proactively pursued a so-called “open skies policy” that promotes bilateral frameworks under which carriers can operate any route without restrictions on capacity, frequency, or price. The EU has also developed a coordinated EU external aviation policy and concluded a number of comprehensive EU-level air transport agreements with neighboring countries and trade partners such as the United States, Canada, Morocco, Georgia, Israel, Jordan, Qatar, Oman, and more recently ASEAN Member States (i.e., Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam). According to the European Commission, between 2016 and 2019, air traffic between Europe and Israel has experienced an average growth of 12% per year. We also note that air traffic has grown consistently between the EU and Morocco and Georgia. These and other liberalization models will be reviewed in more detail in Section III of this study.

Liberalization, Air Connectivity and National Competitiveness

The air liberalization agenda remains intrinsically linked to a country's level of air connectivity and economic competitiveness. Air connectivity is a key factor of economic competitiveness because it enables trade, supports tourism flows, and facilitates cross-border investments and knowledge exchanges[16]. Improved air connectivity also benefits the users of air transport infrastructure (i.e., passengers, exporters, businesses, shippers, investors, and tourists) because they can access more destinations and markets around the world faster and more seamlessly. At its core, air connectivity facilitates the international mobility of people and goods and can thus be considered an important engine of economic growth and social development[17].

As shown in figure 3, air connectivity is also linked to improvements in the economic productive capacity of countries. Greater air connectivity – whether direct or indirect – results in increases in people mobility between markets, contributes to enhance the attractiveness of the regions being served by air services, and thus often results in new investment opportunities. In terms of wider impacts, air connectivity can accelerate the exchange of knowledge and new technologies, support inward and outward investments, triggering spillovers and agglomeration effects.

Fig.5 Air connectivity and economic productive capacity

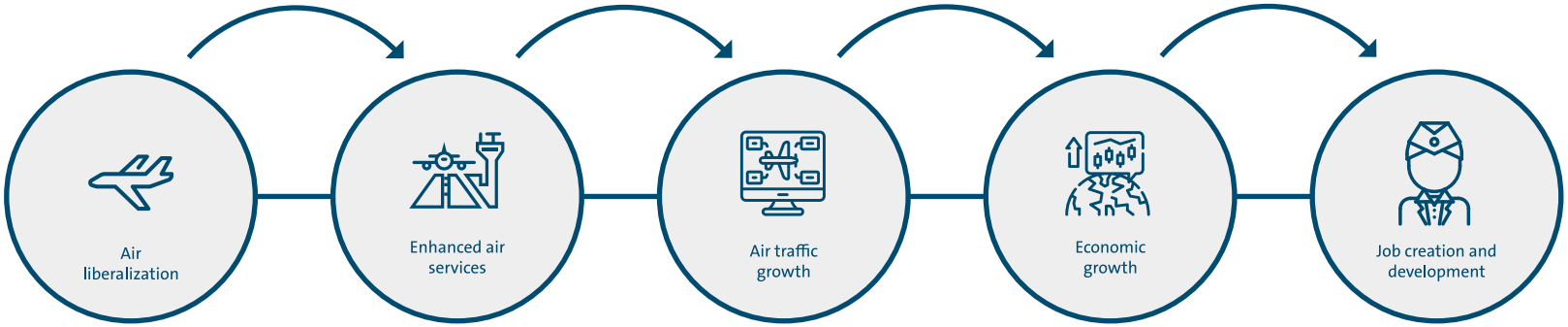


(Source: IATA, adapted by NACO)

From an airport operator perspective, more flights would typically result in incremental aeronautical and non-aeronautical revenues. Consequently, an increase in levels of air traffic over time is likely to have a positive effect on the economic benefits that can be expected from airport-related activities on surrounding communities, but also on the broader national economy. In particular, the benefits of liberalization on regional airports deserve to be highlighted because of the prospects of local job creation and increased tourism-related activity that can result from increased air connectivity to/from inbound tourism source markets. Indeed, previous studies have noted that countries with better air connections tend to benefit from increased trade, higher investment, more tourism activity, and better productivity overall[18]. These connections are certainly deployed by airlines but facilitated in big measure by airports.

In recent years, studies have also highlighted the many benefits that can result from air liberalization[19], namely increased airline competition in highly concentrated markets, increased traffic volumes, new route services, and overall substantial consumer benefits such as more choice and lower fares[20].

Fig.6 The Causal Relationship Between Air Liberalization and Economic Growth



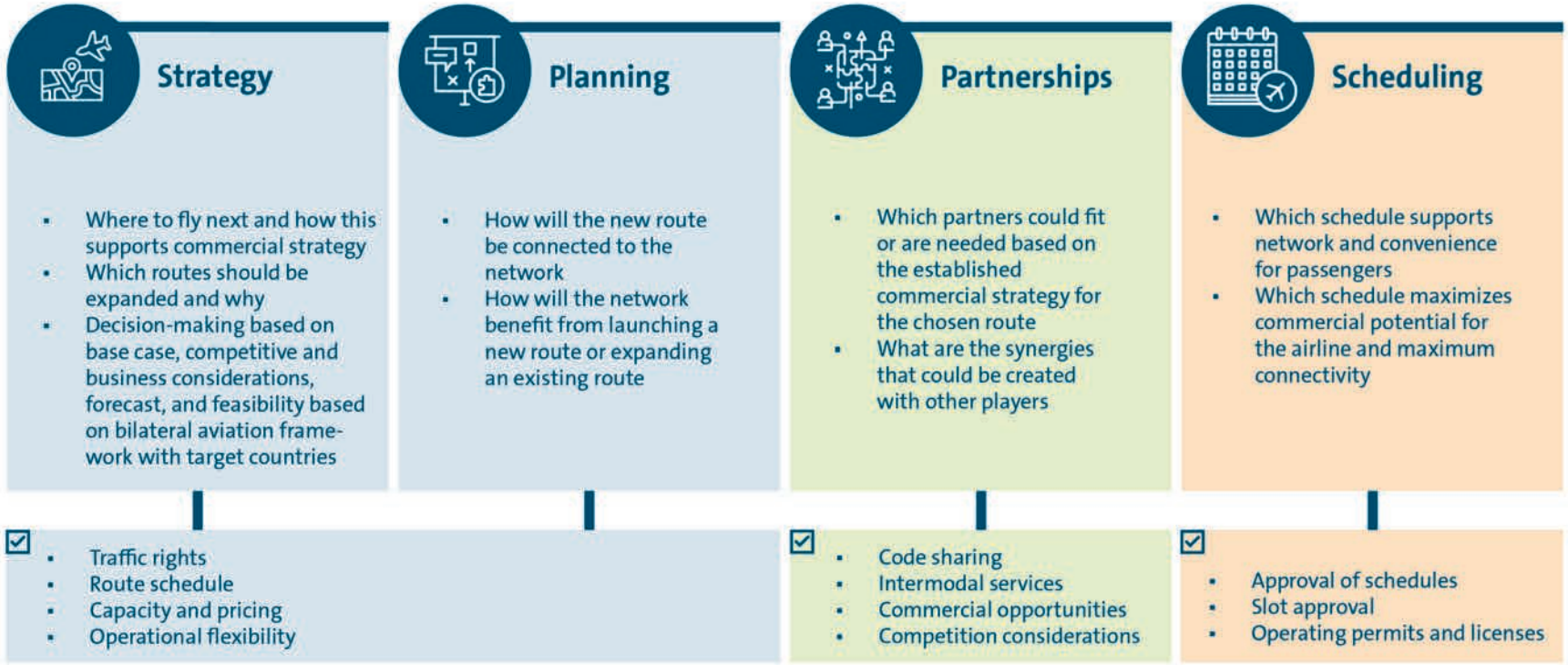
(Source: InterVISTAS-ga², adapted by NACO)

Impact of Bilateral Air Services Agreements on Airlines' Commercial Strategy

Air liberalization can benefit airports in various ways. The combination of unrestricted market access and flexible operational provisions, coupled with a favorable policy and business environment, increases the likelihood of airports attracting new and better air services in terms of frequencies, routes, schedule, and type of aircraft. Access to a flexible, and predictable doing business environment is a key factor for airlines when building the business case for new routes or additional flights. Figure 5 shows an overview of an airline's network management function and how it is affected by some of the provisions in Bilateral Air Services Agreements (BASA). One of the key objectives pursued by liberalization efforts in the context of international air services is to provide airlines with an open, flexible, and predictable operating environment that supports commercial freedom in the marketplace.

Although the promotion of open skies agreements has been the focus of most industry advocacy initiatives in recent years, there is a concrete need in 2024 to extend this discussion to the realm of the doing business environment, which continues to be heavily influenced by policies and regulations implemented nationally. In particular, the doing business environment has an impact on the costs (financial and administrative) incurred by airlines and also affects levels of service at airports. LAC Airports have an important role to play in promoting a friendlier doing business environment for international air services.

Fig.7 Overview of airline network management function and relationship with air services agreements



(Source: NACO Analysis)

Beyond Traffic Rights: The Business and Regulatory Environment Affecting Air Operations

LAC airports would benefit from understanding the issues that currently affect airline operations in the region. This step is not only necessary for general aeropolitical awareness but also to develop future collaboration and government engagement synergies with the airline industry It is crucial for the deployment of a coherent airport-driven agenda in support of air transport liberalization in the LAC region. For this study we interviewed over 10 airlines operating in the region covering from historic and well-established Full-Service Carriers (FSCs) to ambitious and fast-growing Low-Cost Carriers (LCCs), collectively representing 52.3% of international seat capacity in the LAC region in 2023. Despite several attempts, we were not able to speak to any of the Caribbean-based airlines. Figure 6 is an overview of some of the most important market access and doing business obstacles identified by the airlines interviewed.

Burdensome authorization licensing processes – Some airlines pointed out that flight authorization processes in the LAC region are often accompanied by burdensome or unnecessary requirements. These processes tend to increase the costs of doing business for operating airlines, adding operational unpredictability for new flights, and increasing commercial risks. For instance, there is no reasonable justification for linking the application for landing rights with the slot allocation process. Adding new routes or more frequencies should not put in jeopardy the authorization previously granted by the aeronautical authority. Similarly, an airline's application to obtain certain slots at a congested airport should not automatically trigger a revision of the foreign air operator permit and/or landing rights previously approved.

We also heard from some airlines that adding new routes within the framework of a relatively open BASA (i.e., with unlimited 3rd, 4th, and 5th freedom rights) may sometimes result in an extended review period by the local government authorities and the requirement to submit a business case to justify the use of additional frequencies. Seemingly there is no justification to impose this type of review processes on airlines if two countries have already agreed to exchange unlimited frequencies with 3rd, 4th, and 5th freedom rights. Such practices go against the spirit of liberalized agreements.

Unilateral government action – The majority of airlines interviewed pointed to cases where new policies or regulations are implemented by local governments without previous consultation with the industry. In some cases, unilateral government initiatives will affect an important segment of the passengers carried by certain carriers (i.e., visa entry fees for specific nationalities), thus affecting their overall airport experience and potentially affecting the commercial viability of flights if those passenger segments decide to travel elsewhere. In other cases, local government have imposed taxes on departing passengers, resulting in a general lack of clarity on the payment process at the airport, and thus slowing down passenger processing and causing flight delays. Based on the feedback collected from airlines, there is a need for more transparency on the implementation of new government policies and regulations that affect aviation. In sum, the implementation of more predictable, proportionate, and non-distortive regulations can only improve a country's doing business environment.

Conditional traffic rights – Most airlines expressed the view that traffic rights are generally not an important obstacle for operations in the region. Although some countries still seem to endorse restrictive market access policies, most countries in the region have gradually moved towards a liberalization model that promotes the grant of (at least) unlimited 3rd and 4th freedom traffic rights to foreign airlines. However, isolated cases of conditional traffic rights remain such as the request by some countries in the region for designated airlines to operate secondary routes before additional traffic rights are provided for the main entry point (often the capital city). Perhaps the most worrisome practice is the use of tender processes to authorize the utilization of previously granted frequencies, which includes the qualification of traffic rights based on a dichotomy of frequencies in perpetuity versus frequencies with expiration date[21]. This practice seems to favor airlines that would have inherited frequencies in perpetuity at some point in the past, while also limiting market access to new entrants and imposing substantial acquisition costs on traffic rights.

Fig.8 Top market access and doing business issues affecting air operations in the LAC region, 2024

(Source: NACO Analysis)

Inconsistent Application of Slot Allocation Rules – Some airlines mentioned that a number of countries in the region do not fully abide by the principles outlined in the Worldwide Airport Slot Guidelines (WASG)[22] such as independence, transparency, non-discrimination, predictability, and fairness. In practice, some countries seem to apply a hybrid approach that often deviates from the principles outlined in the WASG. According to the airlines, these hybrid models are applied inconsistently and as such may have a direct effect on the ability of new entrants to access a market and offer a convenient product to travelers. Overall, there is a need for more predictability and regulatory consistency in the application of slot allocation rules.

Limited or lack of airport capacity – The consensus among the airlines interviewed is that the LAC region, and especially airports in big capital cities, lack the necessary capacity to allow for continuous market expansion due to infrastructure limitations such as length of the runway and unavailability of gates during peak times, among others. A direct effect of the limited airport capacity observed in the LAC region seems to also add complexity to the process of slot allocation, and some airlines expressed the view that "less than ideal slots" affect the commercial viability and market attractiveness of their product. There is clearly a need for further investments in the region that would unleash the real potential of airports and support gains in competitiveness in the future.

Costly regulatory regimes – Airlines also expressed the view that the implementation of aggressive consumer protection regimes in certain countries within the LAC region have resulted in increased costs of doing business. More importantly, it seems that new regulations or amendments to current consumer protection legislation are sometimes implemented without consultation with the industry. This trend results in regulatory frameworks that do not consider the operational realities and safety obligations of airlines. There is a need for greater transparency and ongoing government-industry consultations to better evaluate the effectiveness of passenger protection regulations to ensure that they abide by the internationally recognized principles of smarter regulation presented during the 39th ICAO Assembly in 2016[23].

Lack of coordination between government authorities – Some airlines noted that some countries in the region will often formulate and/or implement new policies and regulations (i.e., new immigration controls, grant of non-reciprocal, unlimited blanket fifth freedom traffic rights, restrictive visa policies, new government taxes, etc.) without first consulting with the concerned Ministries or government agencies that are primarily responsible for air transportation, resulting in detrimental and costly effects on airlines. We note that some of these regulations may also contravene or deviate from existing provisions in BASA such as fair competition, taxation, and ground handling.

Technical knowledge of aviation regulators – Some airlines interviewed also pointed to the need to improve the technical knowledge of aviation regulators and government agencies responsible for aviation activities. Capacity building and regular interactions with the aviation industry should also be promoted.

Lack of awareness on the value of aviation – Some airlines also mentioned that government authorities are often unaware of the value that aviation brings to their countries in terms of employment, trade, and tourism. For airports, this gap can be transformed in an opportunity to better explain the economic impact of their operations on their surrounding communities.

3 Models of Air Transport Liberalization and Deregulation

Government policies in the field of aviation are deeply embedded in broader national economic visions and are often influenced by regional trends and local industry agendas. Among the key factors that shape a country's vision for aviation include national economic and development goals, transportation and industrial policies, tourism positioning, consumer protection, and environmental sustainability targets.

Often driven by considerations such as the national interest, countries and regions have developed various models of air liberalization over the years. While major aviation markets such as the U.S. or EU have formulated the scope and approach of their aviation policies for international air services in unequivocal terms, most countries or regions around the world have liberalized according based on an *ad hoc* approach.

Fig.9 Comparison of European LCCs and Network Carriers, 2004-2022

(Source: IATA - p.6 of "One Size Does Not Fit All" Study)

Some Market Effects of Air Liberalization

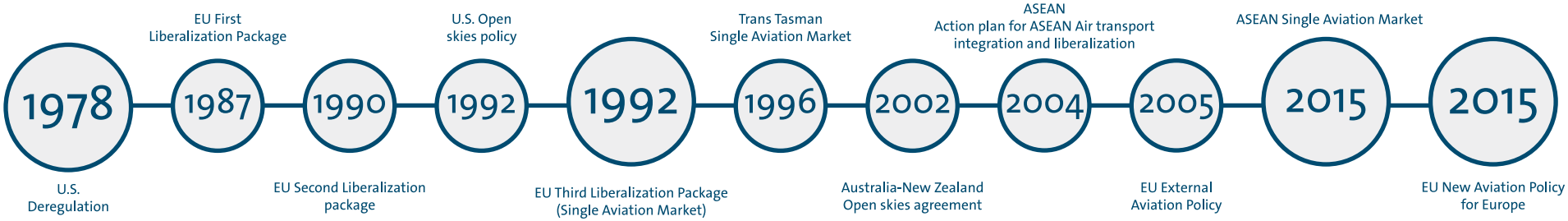
Historically, the airline industry has responded to newly liberalized air service agreements by expanding into new city-pairs previously closed to competition or enhancing current air services in previously capped routes, either by frequencies, type of aircraft or number of seats. The possibility of greater competition created by air liberalization has also led to product diversification (ex: airlines competing on schedule and classes of service on the same route) and even fostered the emergence of new business models targeting different passenger segments (ex: LCCs, ULCCs, etc.).

The European model is a case in point where air liberalization provided a stimulus to the development of low-cost airlines services and trigger an era of intra-EU hyper-connectivity. As illustrated in figure 7, the number of European-registered LCCs (35) has nearly doubled since 2004, while the number of network carriers has fallen slightly (from 149 to 131)[24]. According to a recent study by the European Commission, LCCs were responsible for 72% of all intra-EU passenger traffic growth during the 2016-19 period[25]. Relevant to smaller countries in the LAC region, European-based LCCs are responsible for the vast majority of air passenger traffic in countries without large national airlines (i.e., mostly in Central and Eastern Europe).

Other cases that are illustrative of the long-term positive market effects resulting from more open and liberal policies for international air services are the U.S.-Canada Transborder Market[26], the Australia-New Zealand Trans-Tasman Single Aviation Market[27], and the ASEAN Model of Phased Liberalization[28]. Some of these cases will be covered in more detail in the next section of this study. The Latin America and Caribbean (LAC) region can be described as a case of fragmented liberalization where costly doing business practices and burdensome regulatory processes continue to affect the competitiveness of the aviation sector. The following sections present a brief review of some of the most illustrative models of air liberalization around the world, with a focus on the United States (U.S.), the European Union (EU), Australia and New Zealand, and the Association of Southeast Asian Nations (ASEAN). Although these models reflect unique local political realities and region-specific institutional design, they all seek to promote a certain degree of liberalized regulatory regimes for international air services.

3 Models of Air Liberalization in perspective

Fig.10 Liberalization timeline, selected world regions (U.S., EU, Australia/New Zealand, ASEAN)



(Source: NACO Analysis)

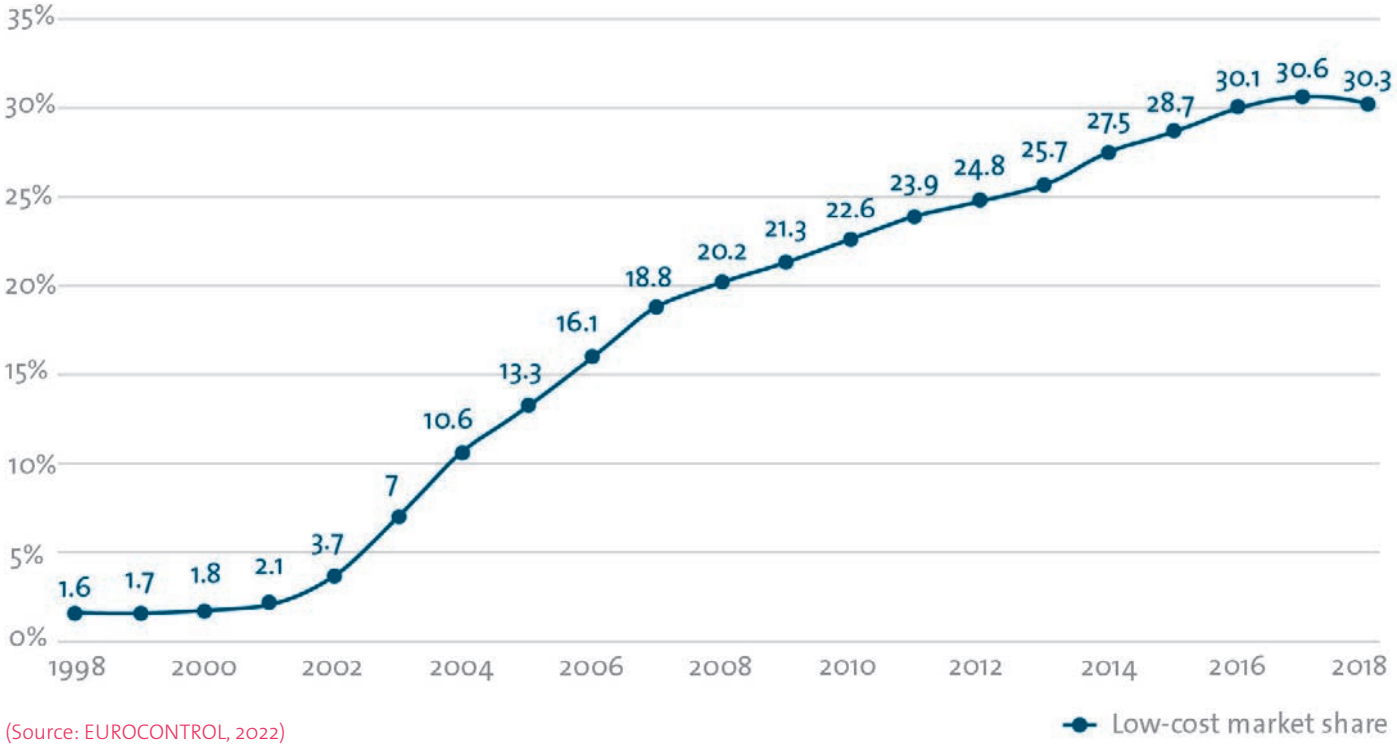
As will be illustrated in the following pages, liberalized aviation regimes have historically promoted more air connectivity between countries (to/from hubs and regional airports), more affordable and convenient options for travelers, as well as more opportunities for trade, business, and people-to-people exchanges.

Deregulation and Open Skies Policy in the U.S.

The process of deregulation in the U.S. was triggered in 1978 by the imminent failure of the previous regulatory model that aimed to manage market entries, routes, and pricing in the airline industry through the now defunct Civil Aeronautics Board (CAB)[29]. The recurrent unprofitability of U.S. airlines ultimately led Congress to pass the Airline Deregulation Act of 1978, which aimed at easing entry restrictions, allowing airlines to choose their own routes, and set their own fares, among others, and most importantly established the value of competitive market forces as an overarching principle. In retrospect, U.S. deregulation triggered the bankruptcy, reorganization, and consolidation of legacy carriers during the last two decades of the 20th century and allowed for greater market innovation through the introduction of new airline business approaches such as the Low-Cost Carrier (LCC) model pioneered by Southwest Airlines. Deregulation in the U.S. also led to a marked and sustained fall in air fare prices, benefiting the average consumer. According to the U.S Government Accountability Office, the median fare had declined almost 40% in 2006 (since 1980) and the average number of competitors per market (i.e., route) had increased from 2.2 to 3.5[30]. In 2022, inflation-adjusted average airfares in the U.S. domestic market were reported 47% lower than they were in 1978[31].

On the international front, the U.S. government has actively promoted Open Skies agreements with its aviation partners since 1992, with the underlying policy objectives to "provide affordable, convenient, and efficient air services to consumers, promote increased travel and trade, and unleash high-quality job creation and economic growth"[32]. In 2012, a landmark study on the benefits of liberalization found that "average fares are 32 percent lower on routes subject to [the] Open Skies policy"[33]. In addition, the Brookings Institution has estimated that Open Skies agreements continue to create over $4 billion in annual economic gains to U.S. travelers[34]. According to the U.S. Department of State, there are currently over 130 "Open Skies" air transport agreements, of which 70% are being used for international departures from the U.S. to Open Skies partners.

Fig.11 Share of Low Cost Carriers in Total European IFR Flights (%) – 1998-2018



(Source: EUROCONTROL, 2022)

EU Single Aviation Market: Liberalization of Intra-EU Routes

The process of liberalization undertaken by the European Union in 1987 culminated with the creation of a Single Aviation Market in 1992. The Third Liberalization Package provided new rules for the licensing of air carriers[35], air fares and rates[36], and market access[37], based on the decision to move to a single internal market across a range of economic activities, including aviation.

In particular, EC Regulation 2408/92 set out the rules on access for Community air carriers, which granted European airlines full access to all routes between Member States and the right to offer services between airports in other Member States (ex: Spain-based Vueling operating between Amsterdam and Paris, or Lufthansa operating flights between Paris and Marseille). Full and unrestricted access to all routes, including consecutive cabotage, was implemented subsequently in April 1997 for both scheduled and charter services. Interestingly, EC Regulation 2408/92 also established that capacity limitations would only be allowed for environmental reasons or cases of congestion and provided safeguards to protect thin routes where a public service obligation existed. Currently EC Regulation 1008/2008 provides the economic framework for air transport in the European Community on the grant and oversight of operating licenses, market access, aircraft registration and leasing, public service obligations, traffic distributions between airports and pricing.

According to a 2006 study, the Single Aviation Market "resulted in the generation of an incremental 44 million passengers, an increase in post-liberalization years of over 33% as contrasted with historical intra-European market growth of between 4-6% per annum [previously]"[38]. It should be noted, also, that the Third Liberalization Package of 1992 also had a significant impact on the development of new business models and the proliferation of LCCs such as Ryanair, easyJet, Vueling, and Wizz Air – including market responses by network carriers through the creation of their own low-cost providers and regional jets. The market share of LCCs in Europe was estimated at 30.3% (with 9,100 average daily flights) in 2018, whereas it was close to zero in the late 1990s. In 2022, the market share has increased to 30.7%[39].

EU External Aviation Policy: Liberalization of International Air Services

Following the landmark decision by the European Court of Justice in 2002[40], the EU started formulating an external aviation policy with the objective to restore the legal certainty of bilateral air services agreements concluded between EU Member States and their aviation partners (the so-called "Horizontal Agreements"), ultimately providing all EU-based airlines with equal market access rights to third countries through adoption of the principle of EU designation.

Subsequently, the EU started to work on developing a Common Aviation Area with neighbouring countries through a gradual process of market liberalization and regulatory harmonization with EU aviation rules. ECAA Agreements were then signed with the Western Balkans (2006), Morocco (2006) Georgia and Jordan (2010), Moldova (2012), Israel (2013). As a third pillar, the EU also engaged in the negotiation of comprehensive air transport agreements with key strategic partners, with a focus on opening the EU market through the provision of unlimited traffic rights, the removal of investment barriers, regulatory cooperation, and convergence, including ensuring a friendly "doing business" environment for operators on the basis of reciprocity.

Case Study 1:
EU-Georgia: Air Traffic Growth and New Regional Connectivity Options

Fig.12 EU-Georgia scheduled seat capacity, one-way, in million seats

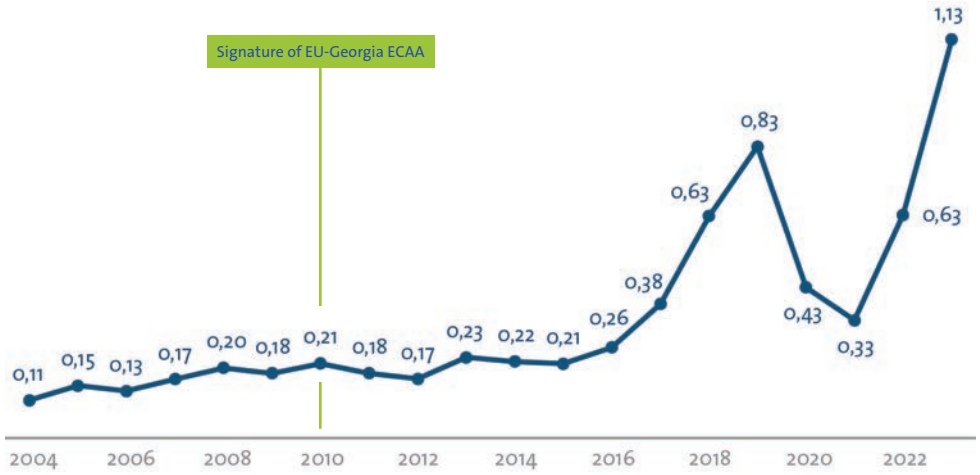
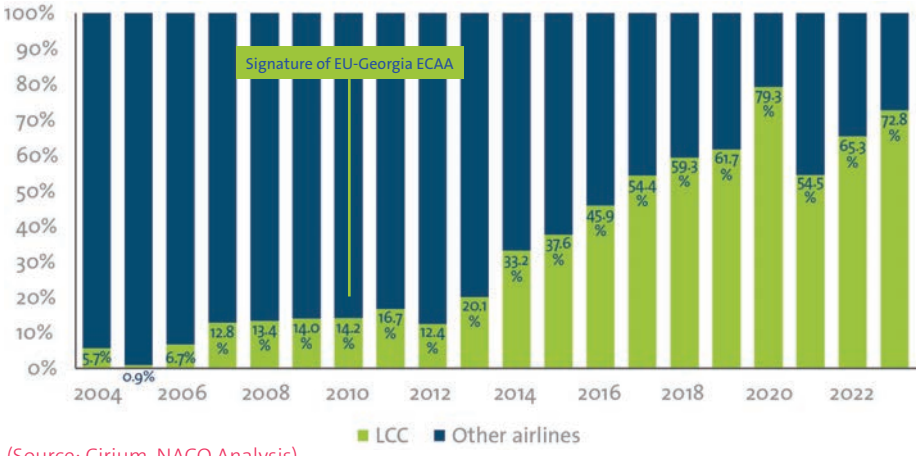


Fig.13 EU-Georgia LCC v. Full-Service Carriers (FSC) Market Share (in terms of scheduled seat capacity), 2004-2023



(Source: Cirium, NACO Analysis)

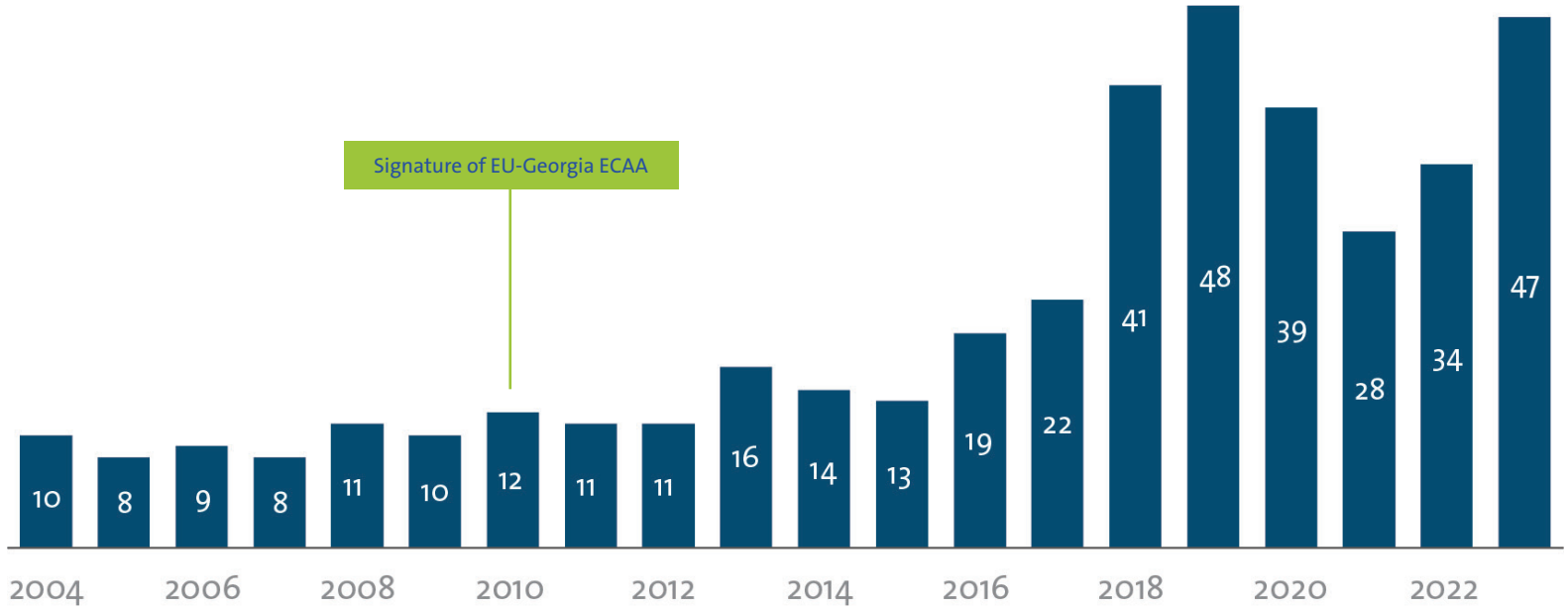
The European Common Aviation Area Agreement (ECAA) between the European Union and Georgia was signed in 2010. Subsequently supported by the introduction of a visa-free regime in 2017[41], passenger air traffic measured by one-way seat capacity quadrupled between 2015 and 2018, as illustrated in figure 10. While traffic growth was eventually disrupted by the COVID-19 pandemic, traffic volumes between the EU and Georgia experienced swift recovery in 2023, even exceeding pre-pandemic levels.

Traffic growth between both the EU and Georgia has also opened up market opportunities for new segments of travelers and facilitated the entry of Low-Cost Carriers (LCCs). As demonstrated in as demonstrated in the following page, LCCs market share vis-à-vis Full Service Carriers (FSC) was minimal pre-liberalization, at 14% of the total market share in 2010, measured in scheduled seat capacity. In 2023, the total market share of LCCs is 73%.

Moreover, the number of unique city pairs originating from Georgian airports experienced the largest surge post-2016 after LCC WizzAir opened a base in Kutaisi, a regional airport in Georgia. As shown in figure 13, the number of unique city pairs between the EU and Georgia surged almost four-fold between 2010 and 2019, from 12 to 48. Most of these city pairs are operated by LCCs.

As demonstrated in the comparison of graphics, prior to the signature of the EU-Georgia ECAA, direct connections between the EU and Georgia were limited to handful of capital cities and secondary cities in Germany. The unintended effect of air transport liberalization between the EU and Georgia has been the growth of direct non-stop services to/from secondary/regional airports.

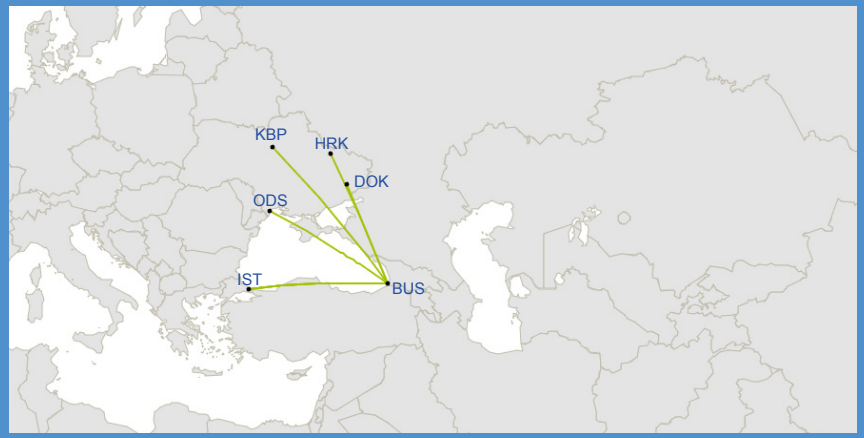
Fig.14 EU-Georgia unique city pairs, 2004-2023



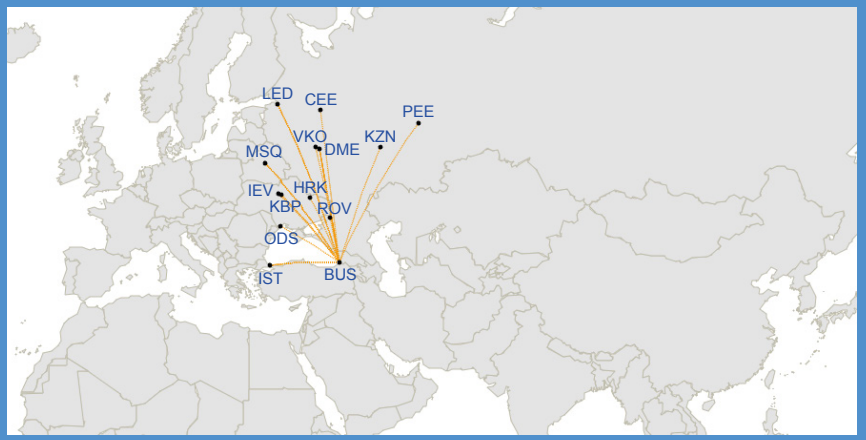
(Source: Cirium)

Fig.15 Comparison of city pairs (2010 v. 2019) between the EU and three Georgian cities (airports).

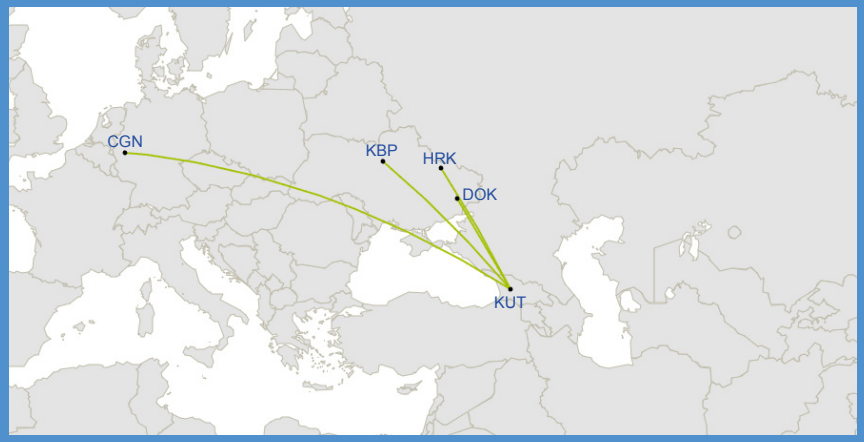
EU-Batumi (BUS) (June 2010)



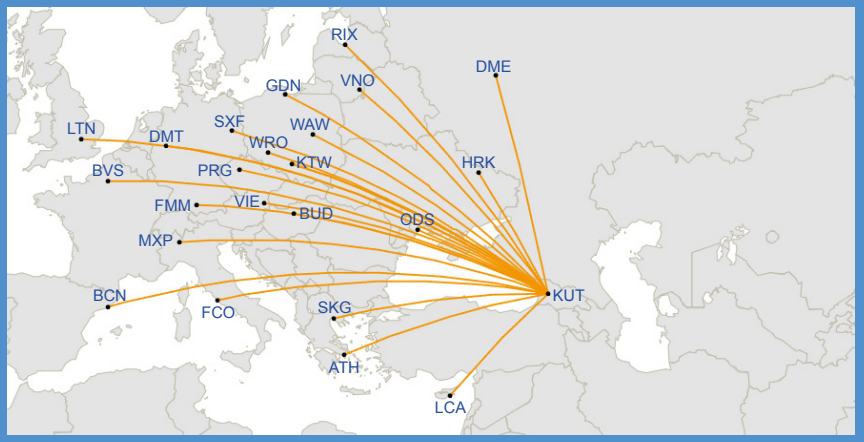
EU-Batumi (BUS) (June 2019)



EU-Kutaisi (KUT) (June 2010)

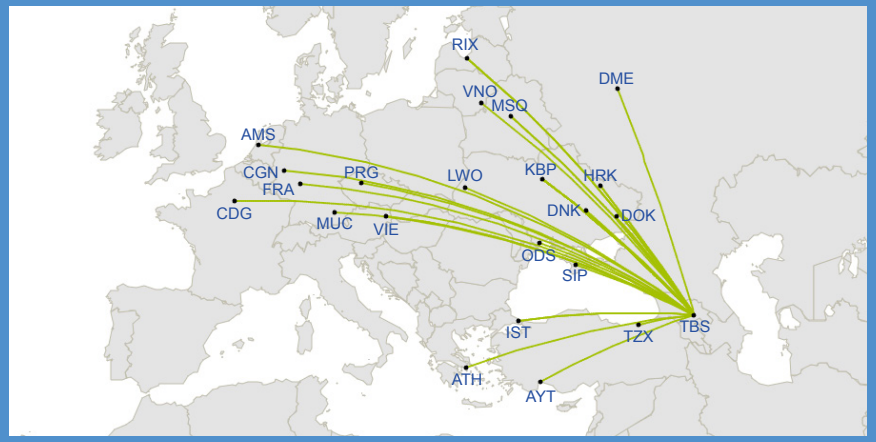


EU-Kutaisi (KUT) (June 2019)

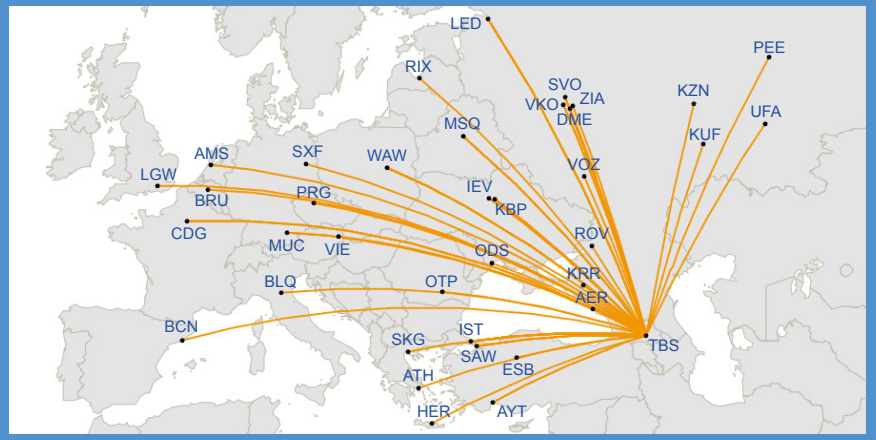


(Source: Cirium)

EU-Tbilisi (TBS) (June 2009)



EU-Tbilisi (TBS) (June 2019)



(Source: Cirium)

Case Study 2:
EU-Morocco: Significant Boost to Inbound Tourism and LCC Growth

Fig.16 EU-Morocco Scheduled Seat Capacity (one-way, in million seats), 2004-2023

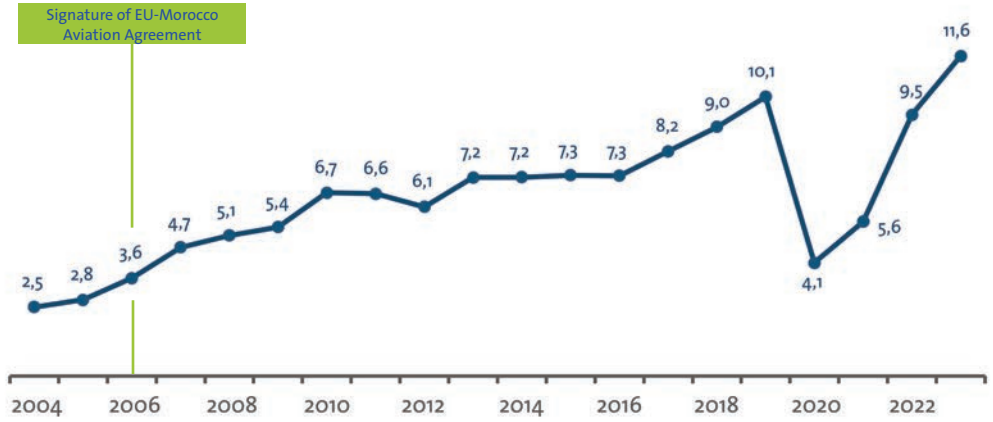


Fig.17 EU-Morocco LCC versus FSC Market Share (in terms of scheduled seat capacity), 2004-2023

(Source: Cirium, NACO Analysis)

In December 2006, the EU and Morocco signed the Euro-Mediterranean EU-Morocco aviation agreement, an innovative initiative that replaced bilateral agreements and aimed at opening markets and harmonizing legislation. Following this signature, airline capacity – measured by one-way seat – tripled from 3.6 million in 2006 to 10.1 million in 2019, equivalent to a solid CAGR of 8%. After being hit by the negative effects of the COVID-19 pandemic, airline capacity quickly bounced back, hitting 11.6 million one-way seats in 2023, exceeding pre-COVID-19 levels.

The agreement enabled LCCs to enter the EU-Morocco market and rapidly expand their presence. As shown on the left, starting at a modest 4% in 2006, LCCs swiftly achieved double-digit market share in 2007 and have consistently grown ever since, reaching 62% in 2023.

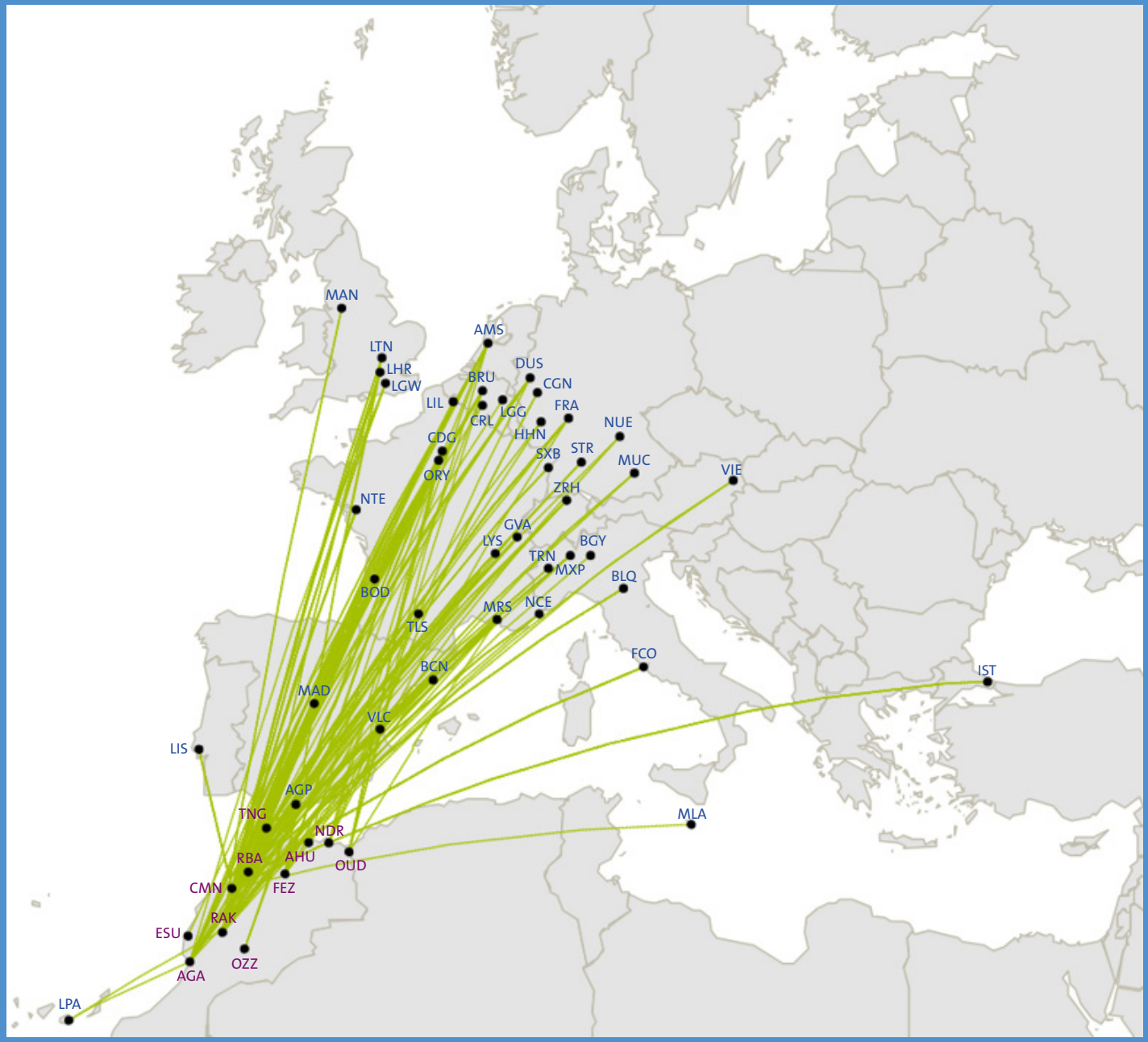
Fig.18 EU-Morocco Unique City Pairs, 2004-2023

(Source: Cirium)

In a similar fashion, the number of distinct city-pairs originating from Moroccan airports to the EU grew rapidly after the implementation of the agreement. It tripled from 103 in 2006 to 314 in 2019. Despite a temporary decline during the COVID-19 pandemic, the number of city pairs rebounded by 2023, reaching a total of 323. Notably, low-cost carriers (LCCs) operate on 75% of these city pairs.

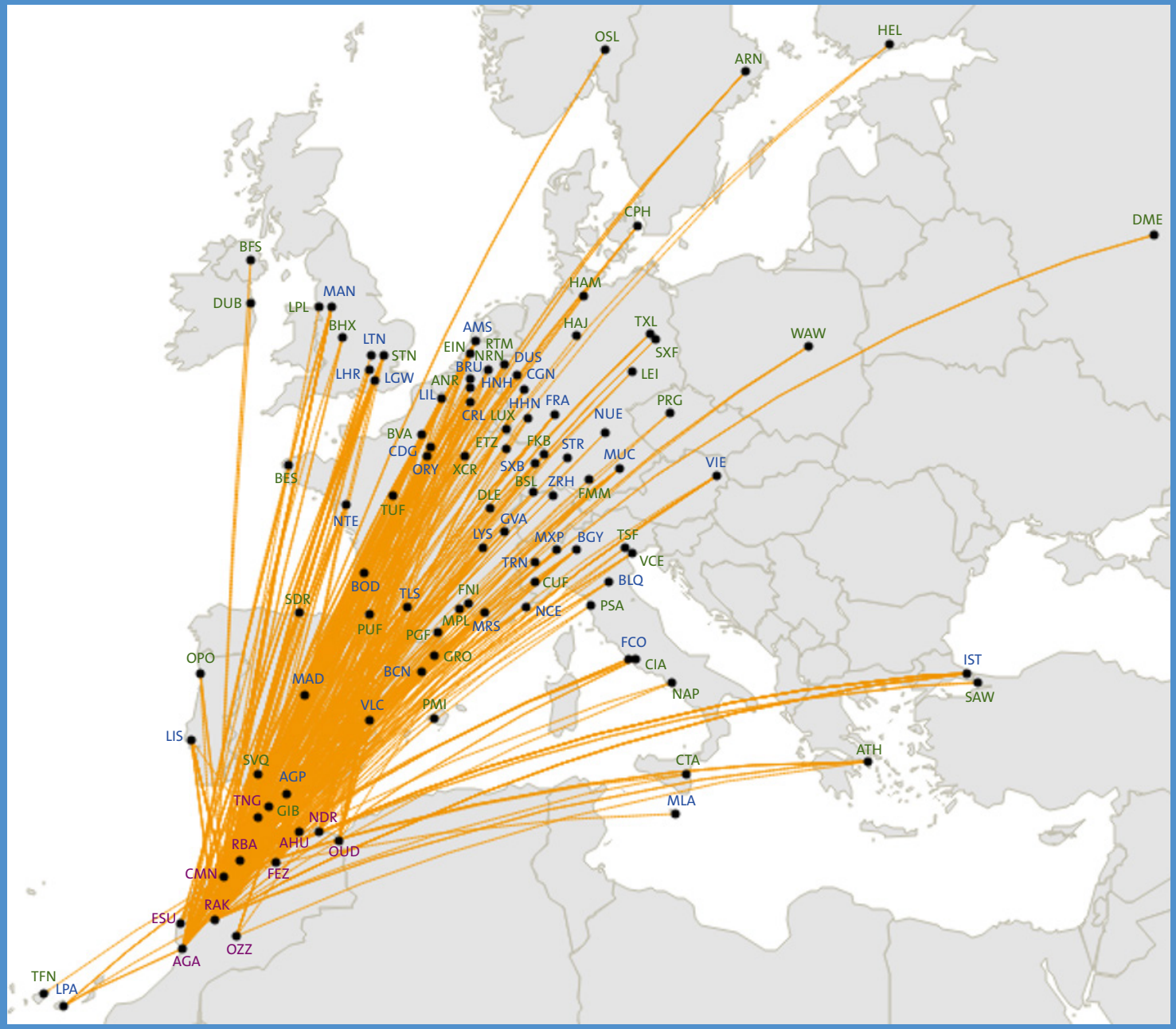
Comparing the route maps depicted on the following pages it is evident that in 2019, the EU-Morocco route network underwent significant expansion. The 2019 network encompasses remarkably denser connection between Western Europe and Morocco, as well as includes new destinations in both Northern and Southern Europe which were not present during the pre-agreement period of 2006.

Fig.19 EU-Morocco City Pairs in 2006



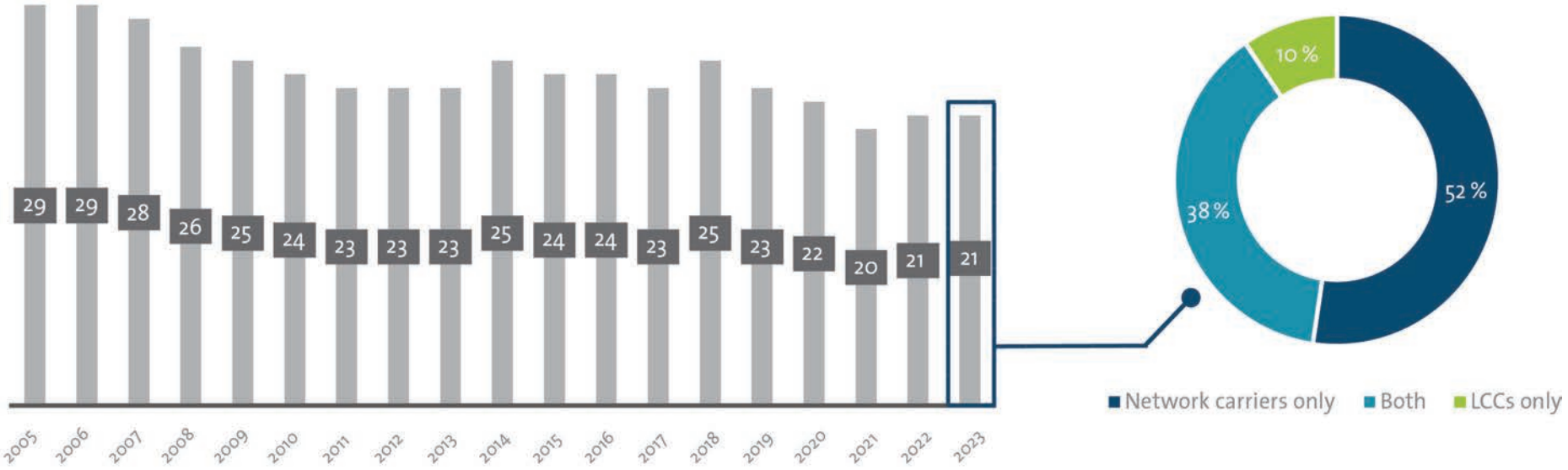
(Source: Cirium)

Fig.20 EU-Morocco City Pairs in 2019



(Source: Cirium)

Fig.21 Number of direct routes between Australia and New Zealand (2005-2023) and 2023 routes distribution between LCCs and Network carriers



(Source: Cirium, NACO Analysis)

In recent years, EU air transport agreements with third countries have been accompanied by a series of safeguards to ensure a level playing field based on the principle of open and fair competition in international aviation[42]. So far, The EU has concluded Comprehensive Air Transport Agreements (CATA) with the United States (2007, 2010), Canada (2009), Qatar (2019), Oman (2021), and ASEAN (2022). The signature of CATA is integral to EU's international air policy.

Australia and New Zealand: Synergetic Liberalization of the Trans-Tasman Market

Air liberalization between Australia and New Zealand finds its roots in the process of economic liberalization between both countries that started in 1966 when the first Free-Trade Agreement was signed, which was subsequently replaced by the Australia-New Zealand Closer Economic Relations Free Trade Agreement (ANZCERTA) of 1983, which created a collaborative framework to advance on transport issues.

In 1992, both countries concluded a Memorandum of Understanding (MOU), which lifted capacity restrictions and set out a phased liberalization towards full Trans-Tasman market access, including beyond rights by 1994[43]. Despite Australia's withdrawal from its commitments in 1994, both countries managed to conclude the so-called Single Aviation Market (SAM) arrangements of 1996, allowing for the relaxation of ownership and control requirements and the introduction of unlimited air services between and within both markets (effectively, up to cabotage). The SAM also introduced some novelties. For instance, the domestic airline designation allowed airlines to fly domestic services in both territories. The new SAM airline designation aimed at harmonizing ownership and control requirements as well as technical and safety certifications. Interestingly, market access to third countries remained restricted under the framework of the 1961 Australia-New Zealand Air Services Agreement.

In 2000, both countries decided to conclude an Open Skies agreement (ratified in 2002), which formalized the provisions of the SAM arrangements and removed some of the remaining market access limitations such as restrictions on beyond (third country) traffic rights. This new development provided Qantas and Air New Zealand some room for growth in international markets.

In addition, seventh freedom rights were granted for air cargo operations to facilitate trade. The bilateral framework was further relaxed in 2007 after both countries agreed to the mutual recognition of aviation related certifications, enabling designated airlines to operate flights to, from and within either country on the basis of their home certification.

A 2006 study noted that traffic between both countries "was 56% higher than it would have been in the absence of any liberalization, [allowing also] for new secondary gateways [i.e., Hamilton, Wellington, Christchurch] to compete for traffic, especially in New Zealand"[44]. The same study found that the number of non-stop direct routes between both countries had expanded from 12 to 23 between 1995 and 2012.

In 2023, there are 21 non-stop direct routes between Australia and New Zealand, from a peak of 25 routes in 2018. 52% of those routes are operated by FSCs, with the remaining by LCCs. We also note an increase in the number of seats deployed by LCCs over time, with some fluctuations that can be explained by airline consolidation developments in the Trans-Tasman market in recent years.

ASEAN: Soft Regional Integration and Phased-in Liberalization

The Association of Southeast Asian Nations (ASEAN) includes 10 countries with a combined population of 680 million people. Historically, the formation of ASEAN as a political entity has been driven by a spirit of integration and cooperation on economic, social, and security matters. In the realm of international air services, ASEAN has adopted a gradual approach to air liberalization driven with more modest ambitions considering the more fluid institutional framework of ASEAN. Similar to the Trans-Tasman Aviation Market, efforts towards further air liberalization by ASEAN countries have been supported by a series of parallel government actions to liberalize trade in services. Transport and tourism have been identified as priority sectors for economic integration under the ASEAN Economic Community framework[45].

ASEAN's current framework for aviation can be traced back to the Action Plan for ASEAN Air Transport Integration and Liberalization 2005-2015 adopted by ASEAN Transport Ministers in November 2004[46] , which was also accompanied by a Roadmap for Integration of the Air Travel Sector. This commitment was subsequently reaffirmed in 2007 with a vision to implement an ASEAN Open Skies policy by 2015, as part of the ASEAN Single Aviation Market (ASAM). From these initiatives resulted two formal agreements covering the liberalization of passenger air services: (1) the 2008 Multilateral Agreement on Air Services (MAAS) and (2) the 2010 Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS). An agreement for the operation of air cargo services was also adopted in 2009: the Multilateral Agreement for the Full Liberalization of Air Freight Services (MAFLAFS).

These agreements have allowed for the phased-in liberalization of air services within the ASEAN region based on a series of implementing protocols which outline specific targets for each phase of liberalization. Protocols 1 to 4 of the MAAS are structured around four sub-regions within ASEAN with a strong focus on secondary airports. Protocols 5 and 6 established targets for air traffic between ASEAN capital cities. Protocols 1 and 2 of the MAFLPAS seek to address third, fourth, and fifth freedom market access rights between any ASEAN cities. As suggested by Professor Alan Tan, "the idea of relaxing market access rights within and between sub-regions demonstrates ASEAN's incrementalist philosophy of starting with modest goals first and pursuing more ambitious relaxations at a later stage"[47].

In retrospective, the phased-in liberalization approach adopted by ASEAN considers the local political, economic, and social realities of its Member States, while also providing the necessary flexibility to progress liberalization objectives according to evolving national priorities. The absence of seventh freedom market access rights in the MAAS and MAFLPAS is the reflection of a consensus-driven process of ASEAN in which certain items are sometimes left out of the negotiation table in order to allow the air liberalization process to continue its course on a bilateral basis.

It is worth noting that ownership and control restrictions have been often circumvented by local airlines such as Air Asia and Tiger Airways through the implementation of a corporate model called "branchising ", whereby foreign joint venture affiliates are established to ensure compliance with ownership and control restrictions, which vary from country to country. Similar to the LAC region, ASEAN is an interesting case study whereby locally based airlines have found innovative ways to reduce the effect of existing market access and doing business restrictions.

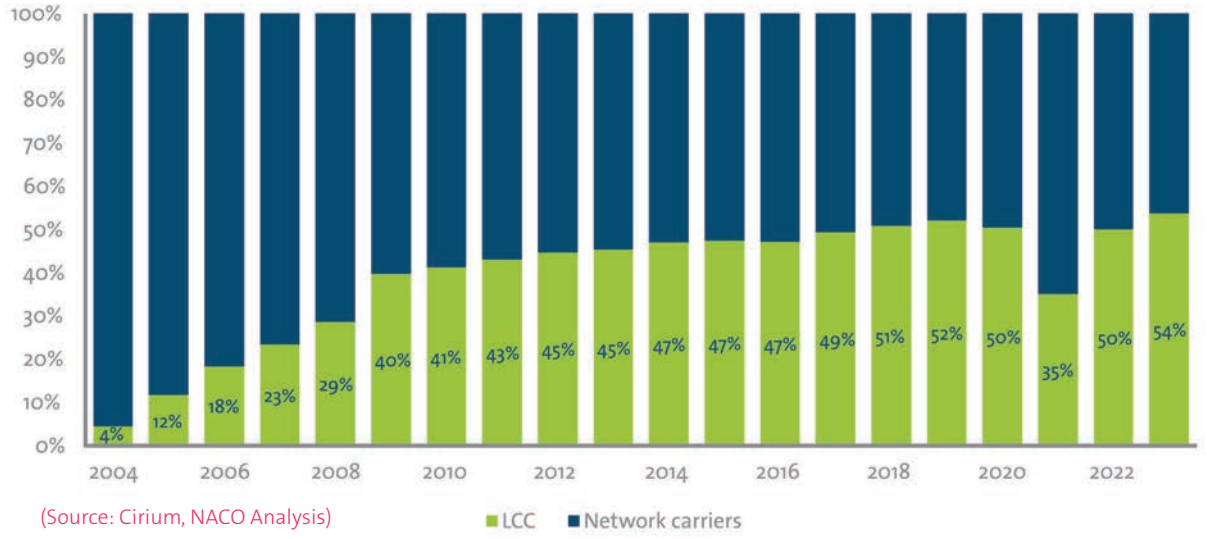
As demonstrated in the following case study, liberalization efforts have positively impacted levels of intra-ASEAN connectivity and traffic growth, turning it into one of the fastest growing aviation regions in the world

Case Study 3:
ASEAN - Intra-Regional Connectivity and Benefits to Regional/Secondary Airports

Following the adoption, in November 2004, of the Action Plan for ASEAN Air Transport Integration and Liberalization 2005-2015, a Roadmap for Integration of the Air Travel Sector (RIATS) and their Implementing Protocols with defined specific goals by sub-region and target dates were published. The sub-groups were countries in geographic proximity with strong trade ties. For instance, sub-regions CLMV (Cambodia, Laos, Myanmar, and Vietnam), IMT-GT (Indonesia-Malaysia-Thailand Growth Triangle), and the so-called BIMP-EAGA (Brunei, Darussalam, Indonesia, Malaysia, and Philippines East Asia Growth Area).
ASEAN incrementalist approach is reflected in the commitments under each Protocol:

- Protocol 1 – Unlimited 3rd and 4th freedom traffic rights within ASEAN sub-regions
- Protocol 2 – Unlimited 5th freedom traffic rights within ASEAN sub-regions
- Protocol 3 – Unlimited 3rd and 4th freedom traffic rights between ASEAN sub-regions
- Protocol 4 – Unlimited 5th freedom traffic rights between ASEAN sub-regions
- Protocol 5 – Unlimited 3rd and 4th freedom traffic rights between ASEAN capital cities
- Protocol 6 – Unlimited 5th freedom traffic rights between ASEAN capital cities

Fig.22 Intra-ASEAN LCC market share, in terms of scheduled seat capacity

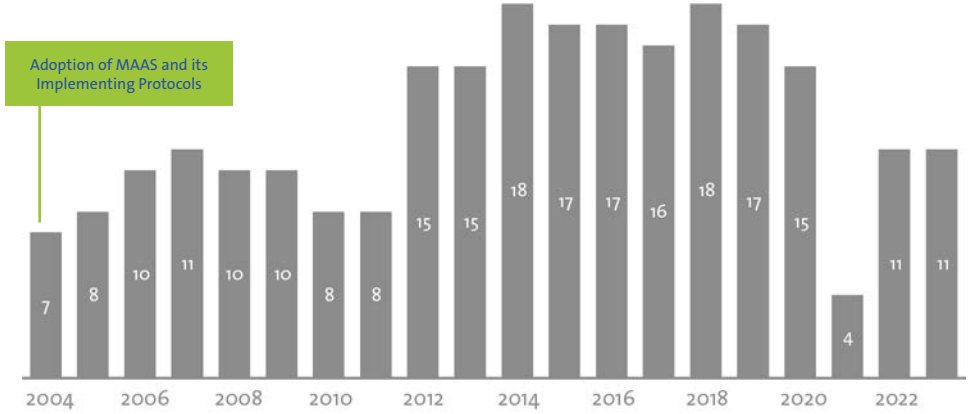


(Source: Cirium, NACO Analysis)

One of the most important outcomes of ASEAN's liberalization process is the gradual entry of LCCs in the internal market, spurring a new era of intra-regional connectivity between ASEAN members. As shown in the graph on the left, the market share of LCCs has increased over time from 18% in 2006 to 54% in 2023 (with the exception of the COVID-19 period).

Fig.23 Growth of FSC v. LCC in the Thailand-Malaysia Market (seat capacity in millions, 2004-2022)

Fig.24 Thailand-Malaysia unique city pairs, 2004-2023



(Source: Cirium, NACO Analysis)

Members of the Growth Triangle: Thailand–Malaysia

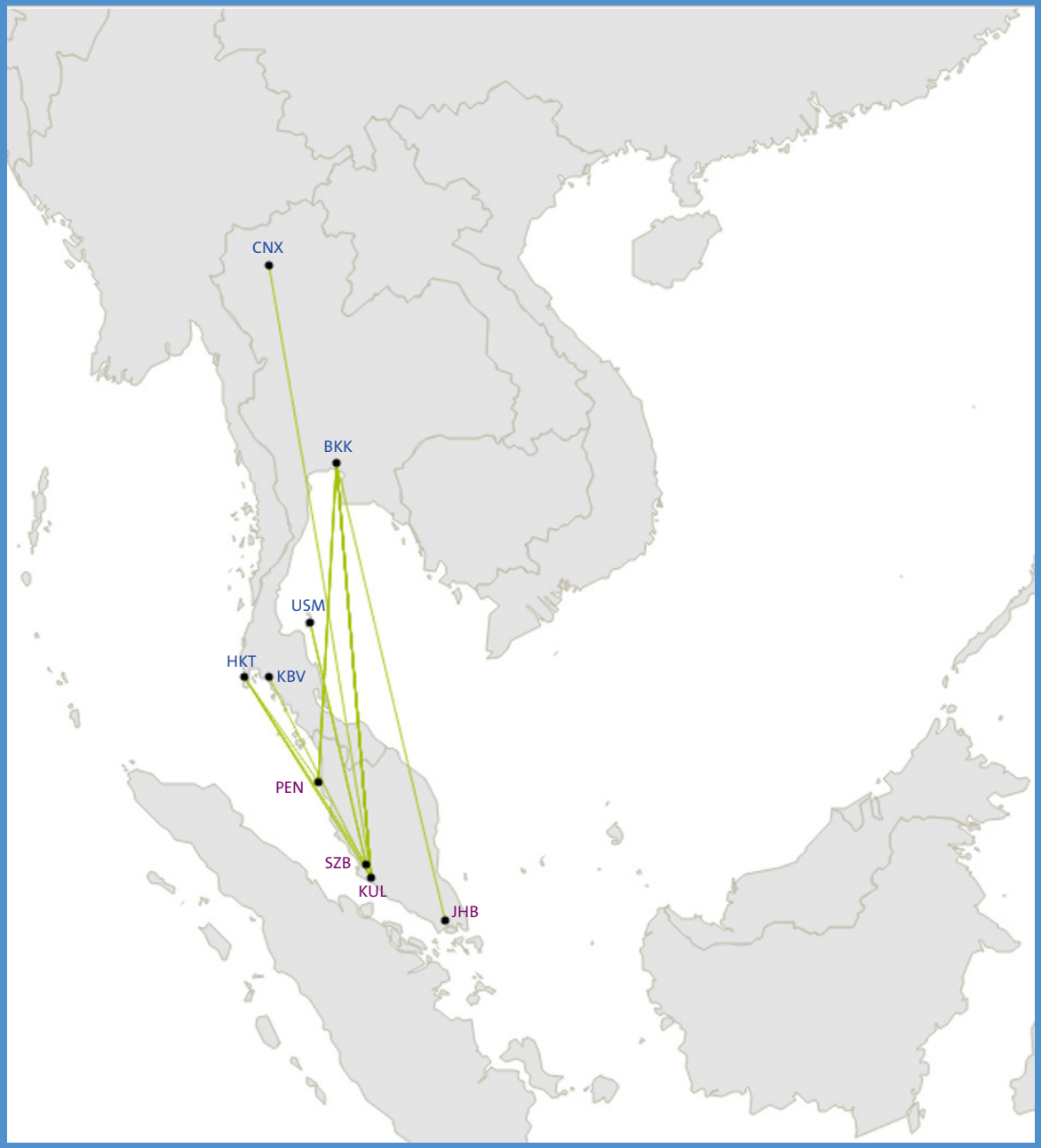
In the initial stages of air liberalization, the airline market between Thailand and Malaysia was dominated by FSCs such as Thai Airways and Malaysia Airlines. These carriers took advantage of codeshare agreements with each other and with European and Middle East airlines to maintain their market dominance in the Thailand-Malaysia market.

Figure 23 shows the steady stagnation in seat capacity among FSC in the 2013-2019 period. In comparison, the growth of LCCs such as Air Asia and Thai Air Asia displayed steady growth in the 2010-2019 period, which was subsequently interrupted by the restrictive measures imposed by both countries during the COVID-19.

We also note that greater liberalization between Thailand and Malaysia has led to an increase in the number of unique city pairs operated between both countries, benefiting airports outside capital cities Kuala Lumpur and Bangkok, and suggesting an increase in the number of leisure visitors. There has been a noticeable extension of city pairs to encompass secondary airports located along the southern coast of Malaysia. Figure 24 illustrates the evolution of unique city pairs between Malaysia and Thailand.

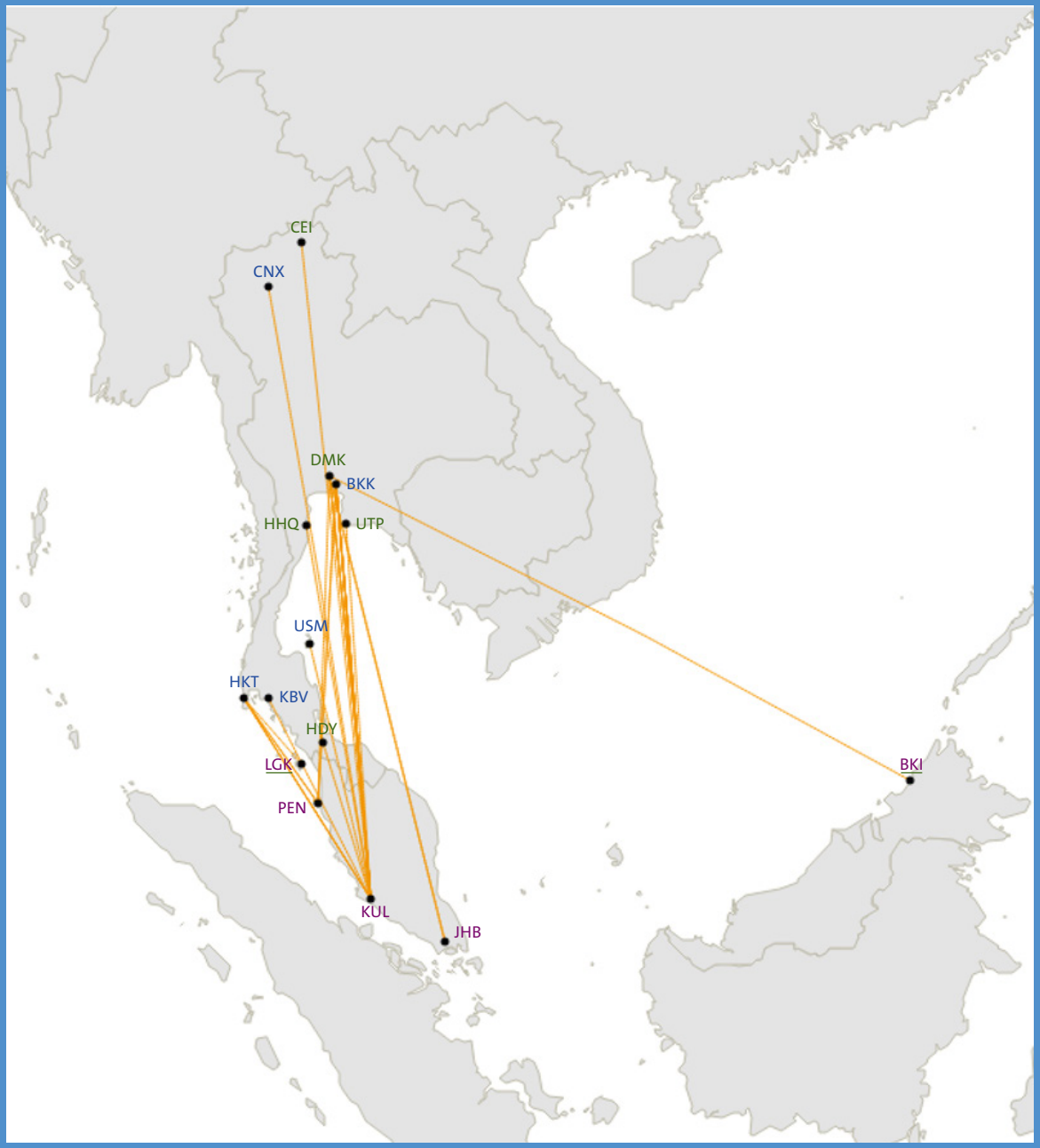
As shown in figure 25 and 26, before the adoption of MAAS and its implementing protocols, direct flights in 2009 between Thailand and Malaysia were primarily limited to major cities and tourism destinations in both countries. In 2019, the city pairs network has expanded to other secondary cities and tourism destinations, including Kota Kinabalu (BKI) and Langkawi (LGK) in Malaysia, as well as Chiang Rai (CNX), Hua Hin (HHQ), Hat Yai (HDY), Surat Thani (URT), Pattaya/ Rayong (UTP) in Thailand.

Fig.25 Thailand-Malaysia City Pairs in 2009



(Source: Cirium)

Fig.26 Thailand-Malaysia City Pairs in 2019



(Source: Cirium)

Latin America and the Caribbean: A Fragmented Model

In comparison to the regions and economic blocks reviewed so far and despite sustained efforts by the Latin American Civil Aviation Commission (LACAC), the Caribbean Community (CARICOME) and the Association of Caribbean States (ACS), the process of liberalization in the LAC region remains generally fragmented.

On one end of the spectrum countries such as Chile, Uruguay, and Paraguay have chosen to offer foreign airlines an open and flexible framework for operations. On the other end, Argentina, Venezuela, and Bolivia have historically opted for a more restrictive approach, often favoring the interests of national carriers and organized groups. We note, however, that President Javier Milei from Argentina has indicated a clear change of direction in December of 2023[48]. Somewhere in the middle are Mexico, Brazil, Peru, and Colombia, which are generally considered to have embraced a gradual approach to air liberalization but with certain limits on the grant of 3rd/4th freedom traffic rights, conditions and restrictions on the grant of fifth freedom rights, conditional traffic rights at times forcing airlines to fly to less attractive markets, and a doing business environment that could still be improved.

Fortaleza Agreement

We note several initiatives have been deployed in recent years to support air liberalization at a sub-regional level. For example, the 1996 Agreement on Sub-Regional Air Services of the Southern Common Market MERCOSUR (also referred to as the Fortaleza Agreement[49]) – signed by Argentina, Bolivia, Brazil, Chile, Paraguay, Uruguay, and subsequently Peru in 2000 – sought to provide a liberalized framework for new routes within the sub-region while leaving existing operated routes subject to the provisions in bilateral air services agreements (Articles 1 and 7). Interestingly, although the Fortaleza Agreement grants unlimited third and fourth freedom traffic rights to all signatory parties for use within the sub-region, it leaves fifth freedom rights subject to authorization by national aeronautical authorities[50]. Article 8 provides the first sub-regional attempt at promoting regulatory harmonization on the authorizations of routes, frequencies, and so-called commercial and operational activities related to scheduled services. The Fortaleza Agreement also provides the opportunity to national aeronautical authorities to review the scope of the agreement periodically, with a long-term view to gradually eliminate restrictions (Article 18).

Andean Community Decision No. 582

The Members of the Andean Community (i.e., Bolivia, Colombia, Ecuador, and Peru) established the Andean Air Transportation Integration Agreement (Andean Decision) in 1991[51], which allows all designated airlines to operate freely within the Andean market using third, fourth, and fifth freedom traffic rights[52], with the condition that they have their principal place of business in one of the Member States, and without being subject to ownership and control requirements (Article 12). The Andean Decision clarifies the documentation required to obtain operating permits (for scheduled and non-scheduled operations) and in doing so denotes a common objective to facilitate a process that can be often burdensome for airlines[53]. Other noteworthy elements include a general obligation to protect the interests of passengers (Article 24) and a provision regarding the avoidance of double taxation (Article 21). However, we note that no superseding clause was inserted in the Andean Decision and thus all the provisions in existing bilateral air services agreements between the parties continue to apply no matter how restrictive, consequently limiting the practical impact of the Andean Decision on air liberalization in the LAC region.

Multilateral Open Skies Agreement f or Member States of the LACAC

This multilateral framework was initiated by the Latin American Civil Aviation Commission and adopted by Member States in November 2010[54], with reservations from Brazil (re: 7th, 8th, and 9th freedom traffic rights for all-cargo and passengers) and Panama (re: 7th freedom traffic rights for all-cargo flights). In essence, the agreement attempts to provide an open skies-type regulatory environment by granting traffic rights to signatory parties up to sixth freedom for passenger operations (scheduled and charter), and up to seventh freedom for air cargo services (Article 2).

Similar to the U.S. Model Open Skies Agreement Text[55], the LACAC Open Skies Agreement provides a number of operational flexibility provisions such as the right to operate behind, intermediate, and beyond points, and points in the territory of the Parties along the routes, in any combination or in any order, and the right to carry in-transit traffic through the territory of any of the other Parties, among others[56]. Although only a handful of LACAC Member States (9 out of 22) have signed the agreement (i.e., Chile, Dominican Republic, Uruguay, Guatemala, Paraguay, Panama, Colombia, Honduras, and Brazil)[57], we note that these countries represent 51.2% of all seats deployed within the region (intra-LAC, excluding domestic). Broader regional consensus on a model for liberalization in Latin America could potentially be achieved if Argentina and Mexico join at some point in the future. The Caribbean region, however, would likely still be excluded from the LACAC Open Skies Agreement ("LACAC Agreement").

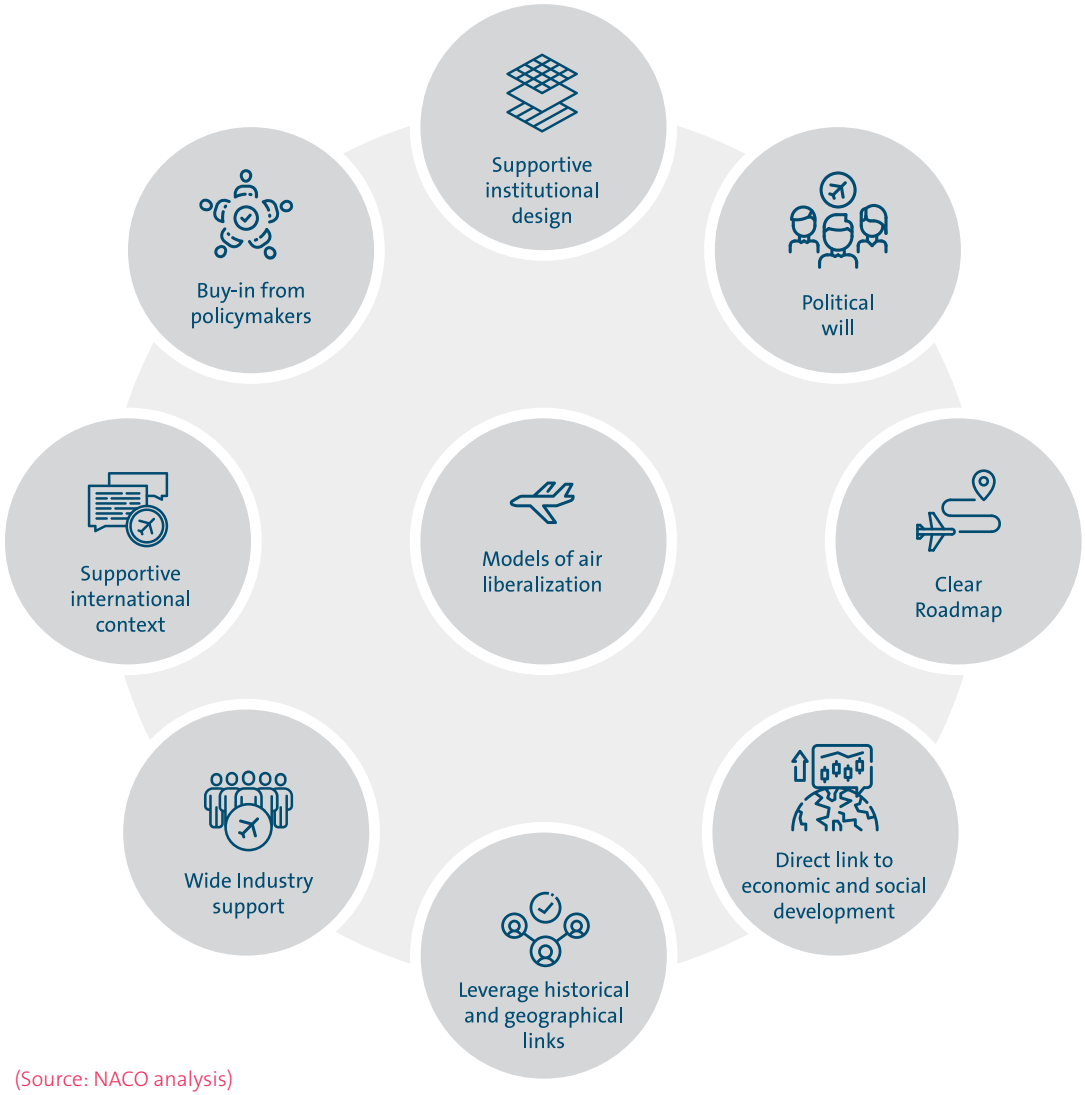
In addition, the LACAC Agreement attempts to provide a friendly business environment in the areas of currency conversion and transfer of profits (Article 19), the use of non-national personnel to perform managerial, commercial, technical, operational, and other specialized functions (Article 21), ground handling (Article 23), and multimodal services (Article 26). In sum, the agreement can be considered a comprehensive effort to promote air liberalization and business-friendly practices for the provision of international air services in the region .

Multilateral Air Services Agreement of the Caribbean Community (CARICOM)

The CARICOM Multilateral Air Services Agreement (MASA)[58] seeks to create an open skies-type framework for the provision of international air services within the Caribbean region. In its latest version, the MASA expanded the scope of market access rights available to CARICOM designated airlines to seventh freedom and cabotage[59], including a series of operational flexibility provisions previously proposed by the LACAC Open Skies Agreement and the U.S. Model Open Skies Agreement Text. Signatory parties to the MASA include Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

The MASA also promotes the principle of a fair and competitive environment for air operations (Article 19), CARICOM Member States have undertaken to elaborate a Protocol to address issues such as essential air services, subsidies, and a single security check for direct transit passengers on multi-stop intra-Community flights. However, we note that no superseding clause was inserted in the latest revision version of the MASA and consequently it would seem that all the provisions in existing bilateral air services agreements between CARICOM Member States would continue to apply even if they are more restrictive

Fig.27 Key Ingredients of Air Liberalization Initiatives Around the World



(Source: NACO analysis)

Cooperation Agreement for the Facilitation of Air Service Development

Finally, and although this can not be considered traditional multilateral air transport agreement, we note that Guatemala, Honduras, El Salvador, and Nicaragua signed a Cooperation Agreement for the Facilitation of Air Service Development in 2006[60], which seeks to promote the development of air services by considering tourism, cultural, economic, and commercial relations between the signatory parties. Recent integration initiatives in Central America include efforts to reduce to cost of air intra-regional air travel[61].

Conclusions: Key Ingredients of Models of Air Liberalization

Each model of air liberalization presented above progressed developed according to a series of contextual, institutional, political, and industry factors that deserve to be highlighted in this study because they can provide a basis for understanding the current dynamics in the LAC region. One factor to highlight is the strong political will observed in all of the four cases (U.S., EU, Australia-New Zealand, and ASEAN) to move towards a liberalized internal aviation market. Another important factor is the general awareness that existed among policymakers – at the national but also at regional level – that liberalization can bring tangible benefits to consumers, and support businesses, tourism, and trade – ultimately contributing to economic competitiveness. A third element of success is the recognition by policymakers that liberalization cannot be achieved overnight. Gradual progression has been a constant feature of all air liberalization processes.

The above observations are particularly relevant in the LAC context. Future discussions on liberalization should aim to ensure the presence of three key ingredients: (1) strong political will to advance in that direction, (2) general awareness of the economic and social benefits of air liberalization, and (3) the importance to progress based on a roadmap that makes commitments tangible and implementable, with a strong focus on supporting the air connectivity of regions and remote communities.

The graphic on the previous page summarizes some of key ingredients to progress the air liberalization agenda based on previous experiences in the U.S., EU, Australia-New Zealand, and the ASEAN region.

4 Air Connectivity Trends in Latin America and the Caribbean

The previous section presented four models of air liberalization implemented in North America, Europe, Australasia, and Southeast Asia. Despite the clear differences that exist across those four regions in terms of government institutions, decision-making processes, including the structure of their aviation industry, we have illustrated the positive market effects that resulted from the various liberalization processes:

- Greater access to low-cost travel for consumers following the expansion of the LCC business model.
- Fundamental role of LCCs as air connectivity providers in countries without a strong national airline.
- Marked and sustained fall in air fare prices over time.
- Traffic growth stimulation in main and secondary markets.
- Increased number of city-pairs being served by airlines within the relevant internal market (domestic or regional).
- Increased number of non-stop direct connections from secondary gateways and regional airports.
- Reinvigoration of the local tourism industry as a result of increased inbound international tourism.

This section will provide a snapshot of air connectivity trends in the LAC region. We will also seek to identify some of the factors that may be restraining the positive effects of liberalization to be truly realized.

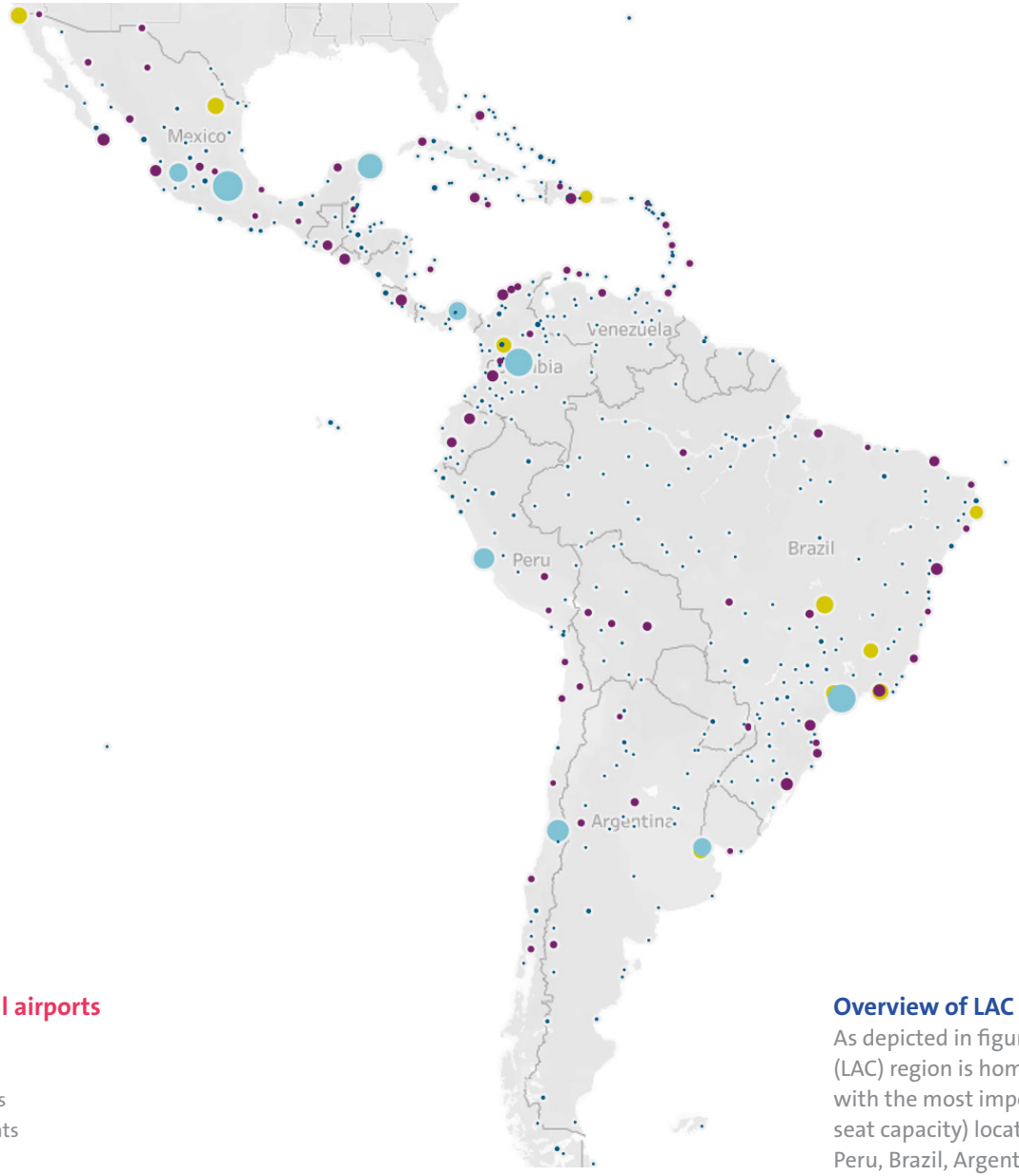


Fig.28 Overview of LAC commercial airports

Airport size

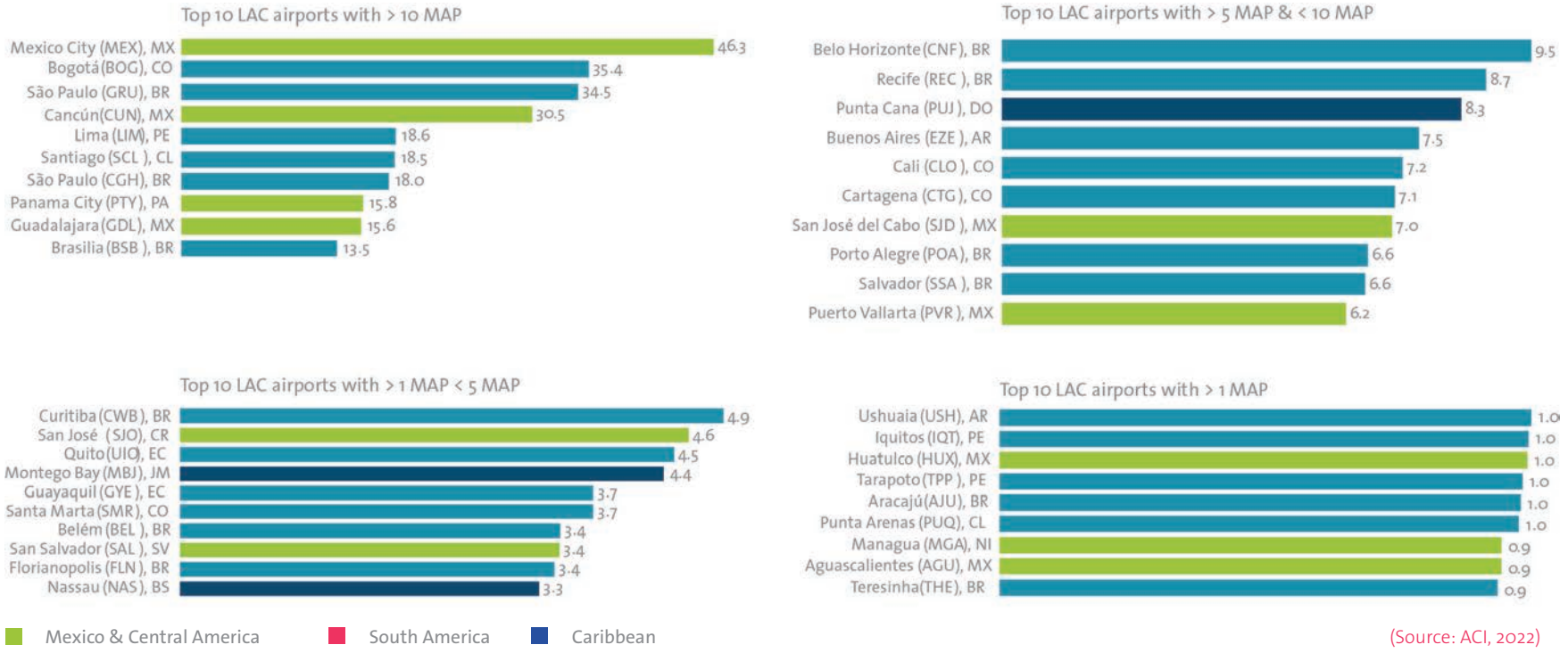
- <1m oneway seats
- >1m oneway seats & <5m oneway seats
- >5m oneway seats & <10m oneway seats
- >10m oneway seats

(Source: Cirium)

Overview of LAC Commercial Airports

As depicted in figure 21, Latin America and the Caribbean (LAC) region is home to over 550 commercial airports, with the most important airports (by number of annual seat capacity) located in Mexico, Panama, Colombia, Peru, Brazil, Argentina, and Chile.

Fig.29 Ranking of Top 10 LAC Airports based on Million Annual Passengers (MAP), 2022

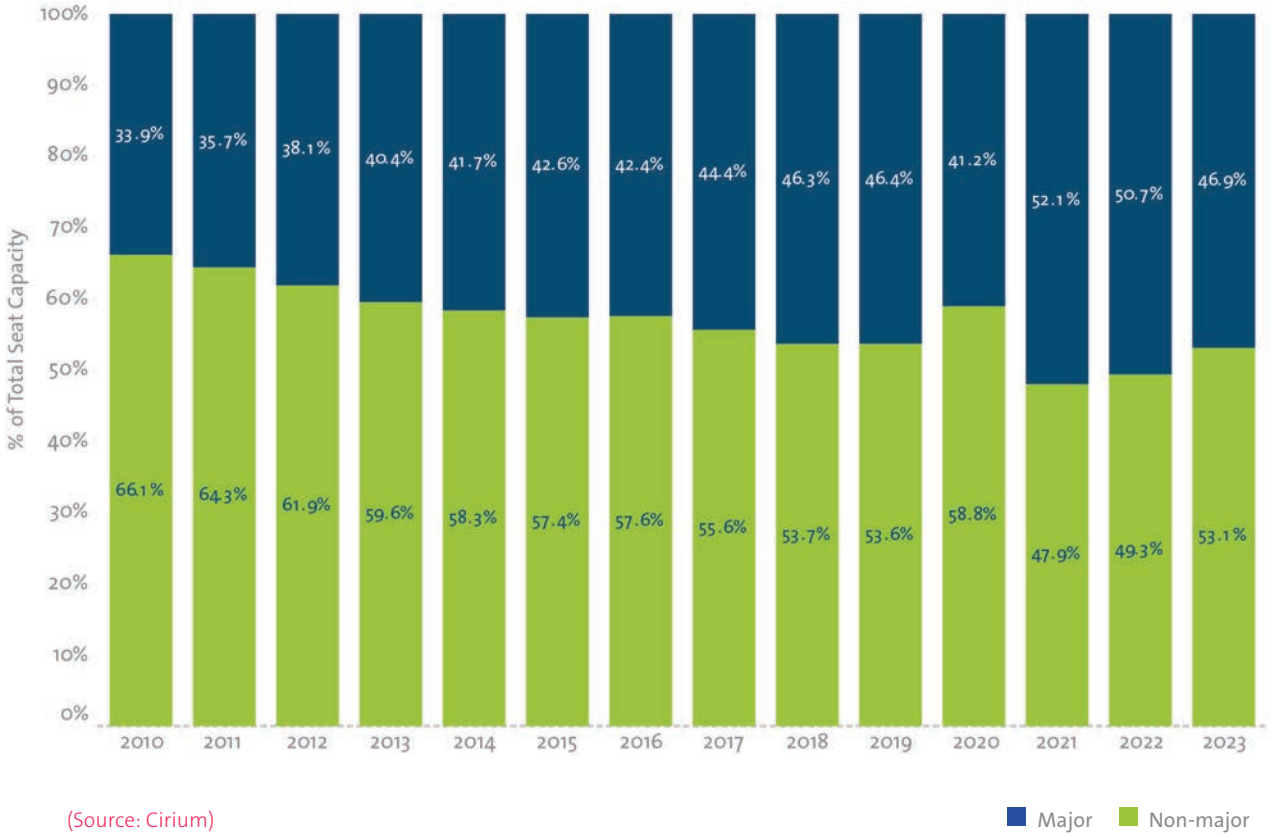


(Source: ACI, 2022)

Figure 22 ranks the top 10 LAC airports for each of the following four groups: (1) LAC airports over 10 million of annual passengers, (2) LAC airports between 5-10 million of annual passengers, (3) LAC airports between 1-5 million of annual passengers, and finally (4) LAC airports with less than 1 million annual passengers.
Perhaps with the exception of Cancun and Guadalajara, it is not surprising that the airports capturing the highest number of passengers are predominantly capital or financial cities such as Mexico City, Bogota, Lima, Santiago, Panama City, Sao Paulo, and Brasilia. The next category (5-10 million annual passengers) is composed mainly of non-hub or regional airports (with the exception of Buenos Aires) that are committed to growth and the attraction of inbound international tourists such as Punta Cana, Cali, Cartagena, San Jose del Cabo, Puerto Vallarta and Salvador Bahia.

As illustrated in figure 23, the top 10 airports in the region provided 46.9% of the total intra-LAC (excl. domestic) capacity in 2023. It is worth noting that their share of intra-LAC (excl. domestic) capacity has increased gradually from 33.9% in 2010, indicating also that intra-LAC capacity at the top 10 airports in the region has been growing faster than in the rest of the LAC airports. This suggests that increases in intra-LAC connectivity still rely significantly on major "hub" airports.

Fig.30 Intra-LAC seat capacity at the major (top-10) airports versus the rest of the airports



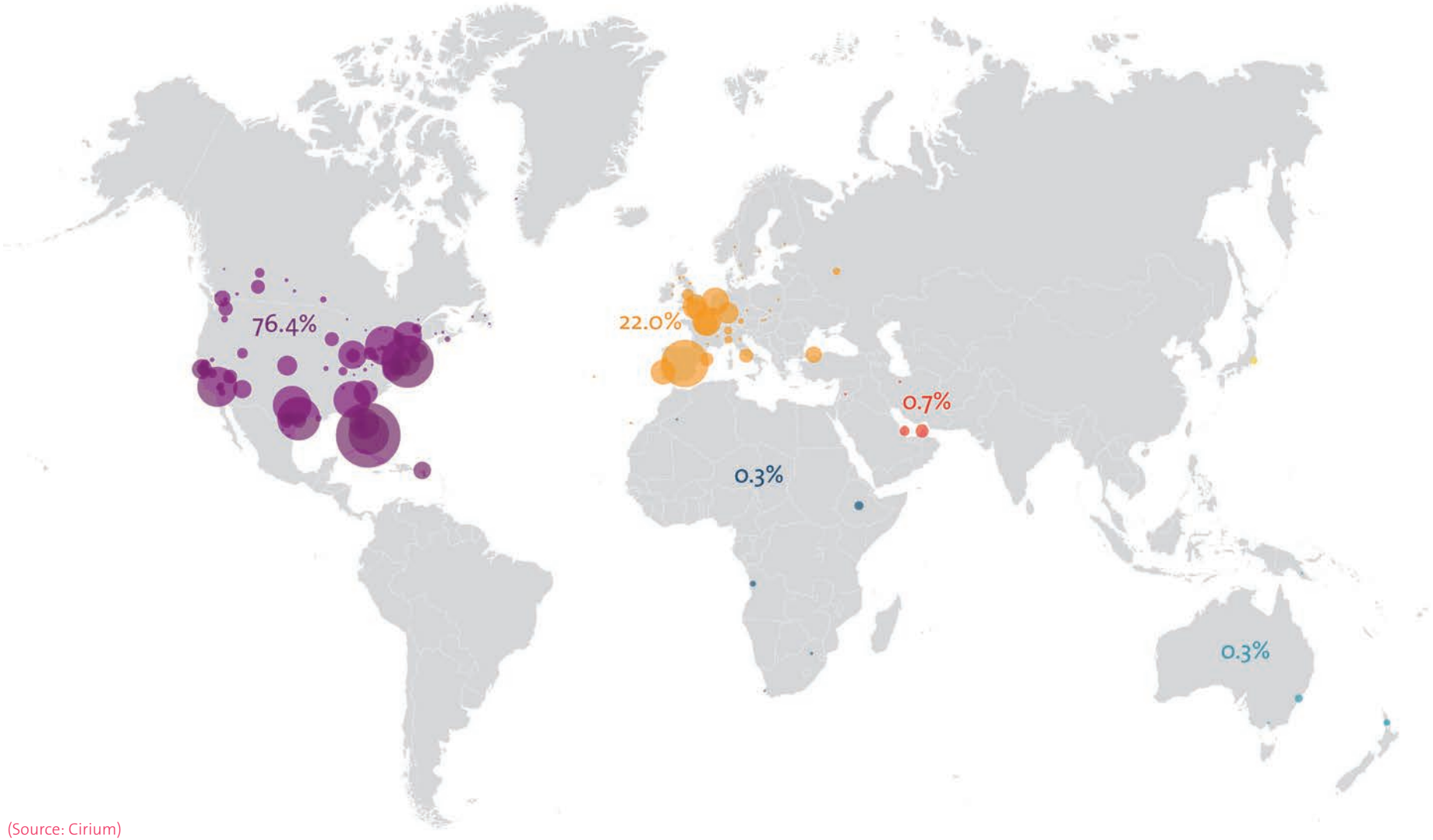
(Source: Cirium)

When we compare LAC's air connectivity with other world regions, we note that North America (including US and Canada) represents more than three quarters of the total international seat capacity to/from LAC airports. Europe was the second market in 2023, with 22% of seats. The rest of the geographic regions comprised less than 1% of the total seat capacity due to fleet limitations and thin O/D market demand.

Air Connectivity in Context

The LAC region performs behind other regions such as Asia-Pacific (excl. ASEAN), North America, Europe and ASEAN in terms of air connectivity measured by annual seat capacity per destination. As demonstrated in figure 25, LAC's air connectivity rate was 57% lower than Asia/Pacific (excl. ASEAN), 42% lower than both North America (United States and Canada) and Europe in 2023, and 33% lower than ASEAN. However, air connectivity per destination in the LAC region increased by more than one-third between 2010 and 2019, placing it only behind Asia, where air connectivity rate increased by roughly three-thirds during the same period.

Fig.31 LAC international seat capacity by continent (bubbles represent individual cities, size of bubbles reflects seat capacity volume) in 2023



(Source: Cirium)

Fig.32 One-way seat capacity per destination across world regions,2010-2023

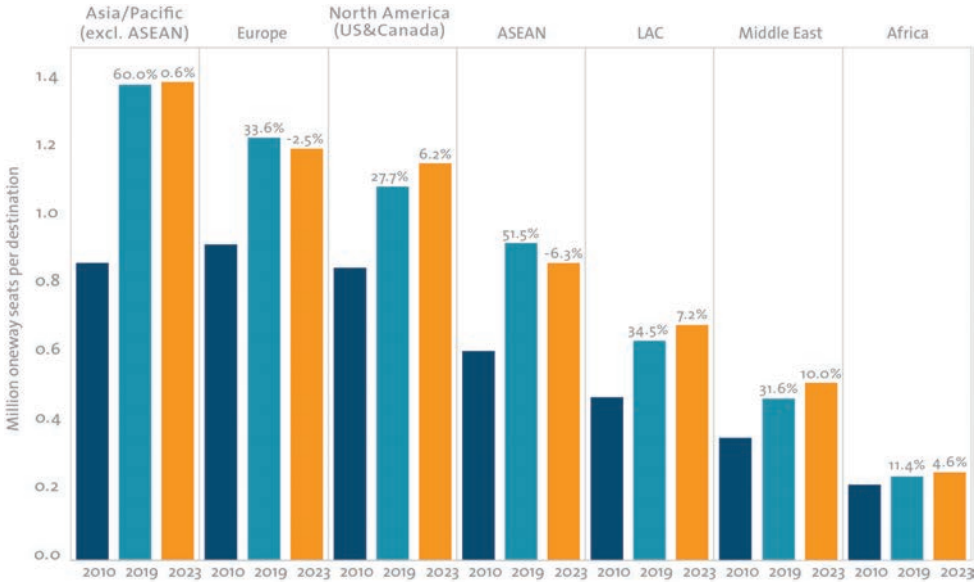
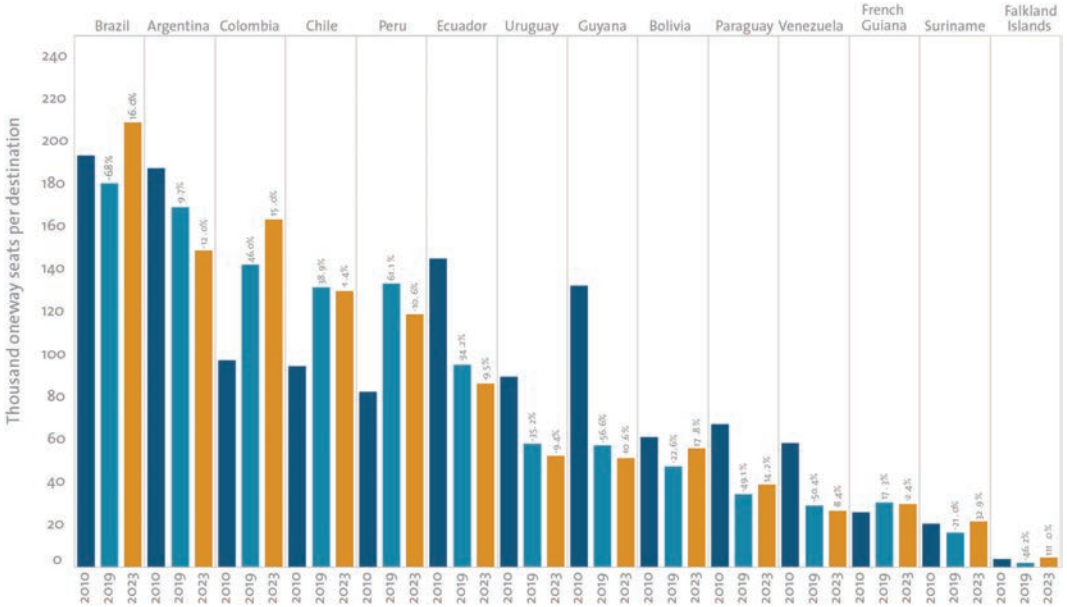


Fig.33 South America countries, one-way intra-LAC seat capacity, excl domestic, 2010-2023



(Source: Cirium, NACO Analysis)

Figures 26 and 27 show that Brazil, Argentina, Mexico, Colombia and Chile are the most connected countries in South America and the LAC region overall, all five with the highest number of seats per destination in the intra-LAC market. Between 2010 and 2019, we note that intra-LAC air connectivity (one-way seat capacity) in Brazil and Argentina had declined slightly. In contrast, during the same 2010-19 period, intra-LAC connectivity improved significantly in Mexico, Colombia, Chile, Panama and Peru. This is a result of relatively fast growth of the seat capacity per destination compared to the increase in the number of served destinations. It is also important to note that El Salvador and Costa Rica have improved their intra-LAC connectivity since 2010, confirming positive trends in inbound tourism for both countries resulting from aggressive tourism policies that rest on a national vision for economic development in both cases.

As illustrated in the figure on the left, Caribbean countries score much below South America, Mexico and Central America regions in terms of air connectivity per destination.

Fig.34 Mexico & Central America, one-way intra-LAC seat capacity, excluding domestic (2010-23)

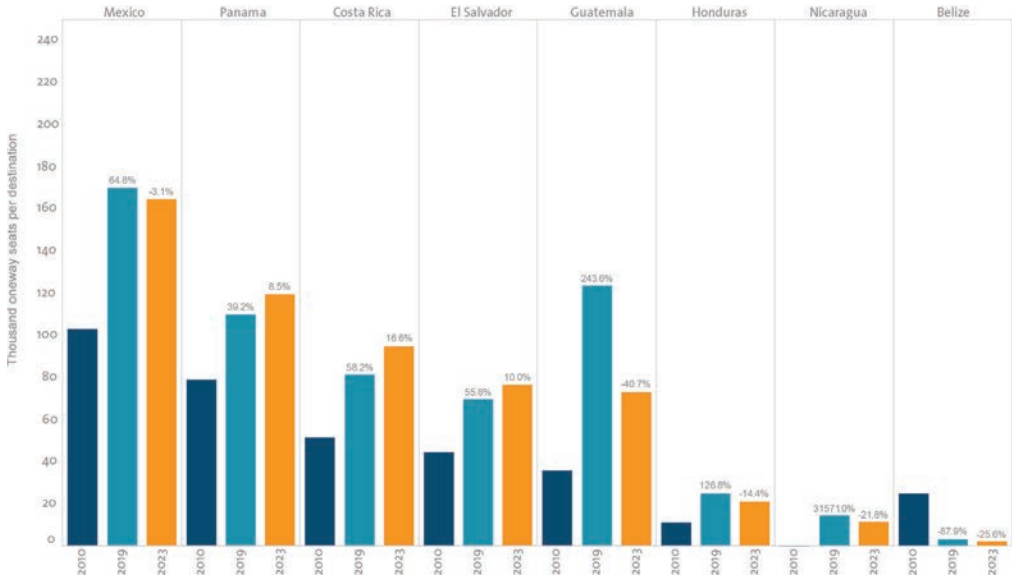
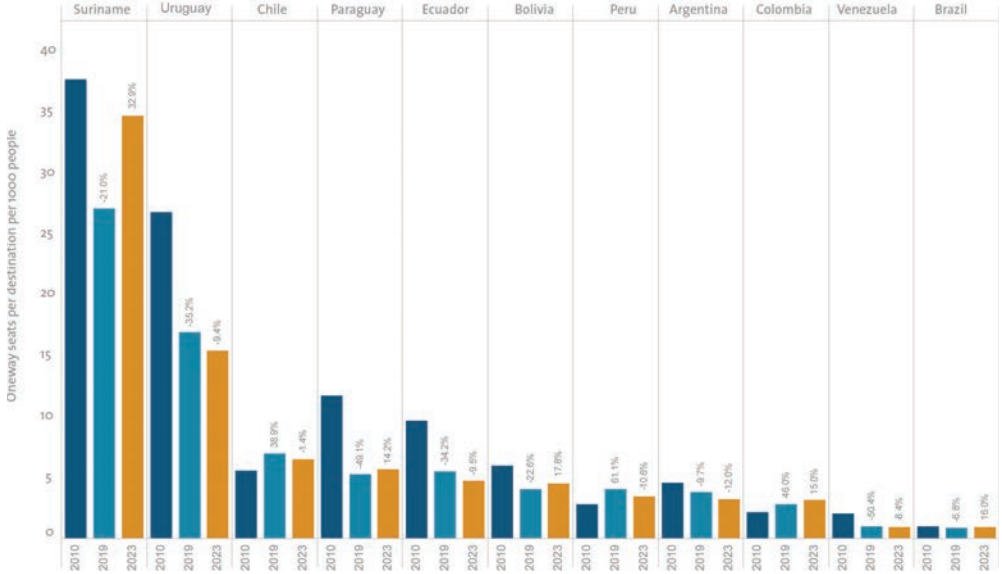


Fig.35 South American countries, one-way intra-LAC seat capacity per '000 people, excl domestic,2010-2023



(Source: Cirium, NACO Analysis)

If we explore intra-LAC air connectivity relative to country population size, Colombia, Brazil, and Mexico – previously positioned as leaders in the overall intra-LAC connectivity capacity per destination – score on the low end. This implies that the population in these countries still has limited access to other LAC countries. Furthermore, Brazil, the largest economy and population center in the LAC region, has actually experienced a decrease in its intra-LAC air connectivity per population size since 2010. Figures 27, 28 and 29 decompose one-way intra-LAC seat capacity relative to country population size, covering South America, Mexico and Central America, and Caribbean countries.

In the Mexico and Central America region, Panama is the leading country in terms of intra-LAC air connectivity per thousand people, likely owing to the hub operations of national carrier Copa Airlines. Costa Rica is the second most connected country in the region per thousand people, followed by El Salvador, whose air connectivity per capita improved between 40-60% between 2010 and 2019. In contrast, Belize`s intra-LAC air connectivity per capita sharply declined over the same period. Despite the strong presence of LCC Volaris, Mexico's intra-LAC connectivity per population size displays one of the lowest scores, illustrating some of the challenges that highly populated countries encounter as they open up markets to support greater air connectivity.

As illustrated in figure 30, compared to South American and Mexico and Central America states, Caribbean islands feature substantially higher intra-LAC air connectivity rate per capita. This can be attributed to the small population size of the islands, combined with strong inbound tourism volumes.

Propensity to Fly in the LAC Region

In every market, the propensity to fly – defined as the number of air trips per capita – plays a crucial role in shaping the demand for air transportation in the future. Figure 31 depicts the ranking of LAC countries and selected benchmark countries based on the number of air trips per capita in 2019. Upon closer examination, we can draw the following observations.

Firstly, within the LAC region, 9 out of the top 10 countries with the highest air trips per capita belong to the Caribbean sub-region. This underscores the Caribbean's popularity as an inbound tourism destination, attracting a significant number of tourists relative to its population size.Comparing these findings to benchmark countries, we note that the top 5 countries surpass Spain in terms of trips per capita, and the top

Fig.36 Mexico and Central American countries, one-way intra-LAC seat capacity per '000 people, excluding domestic, 2010-2023

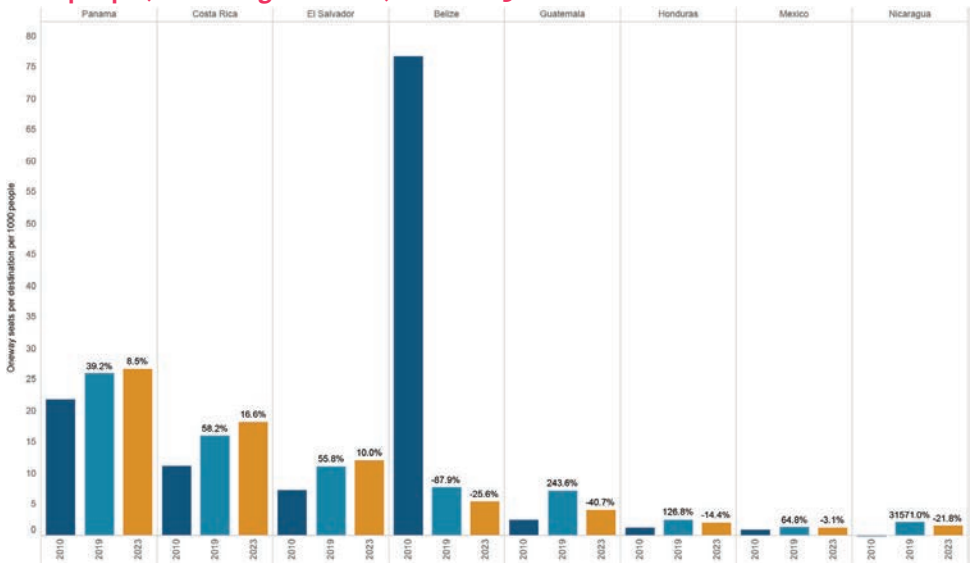
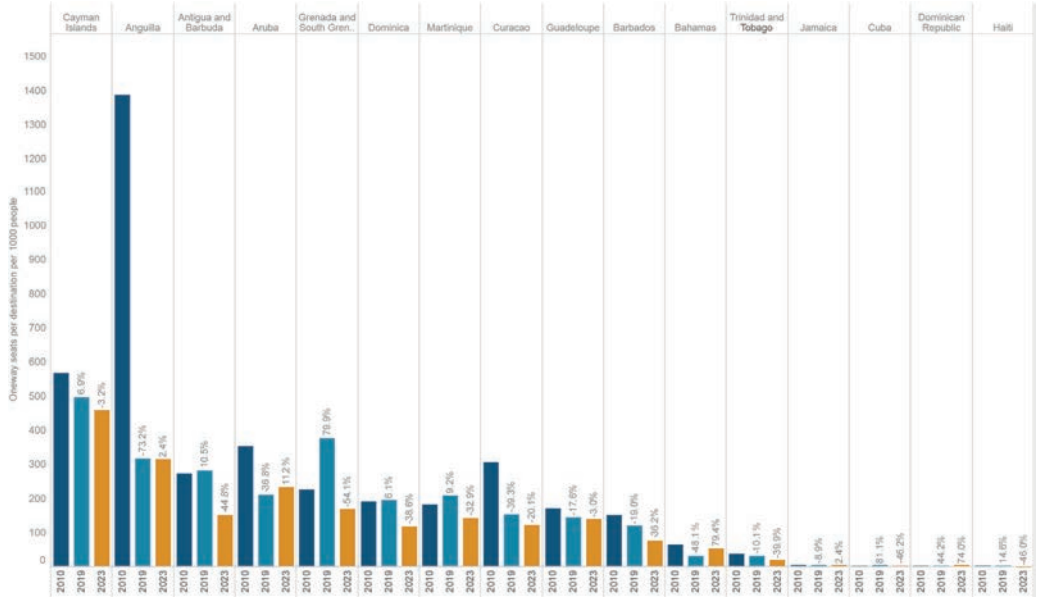
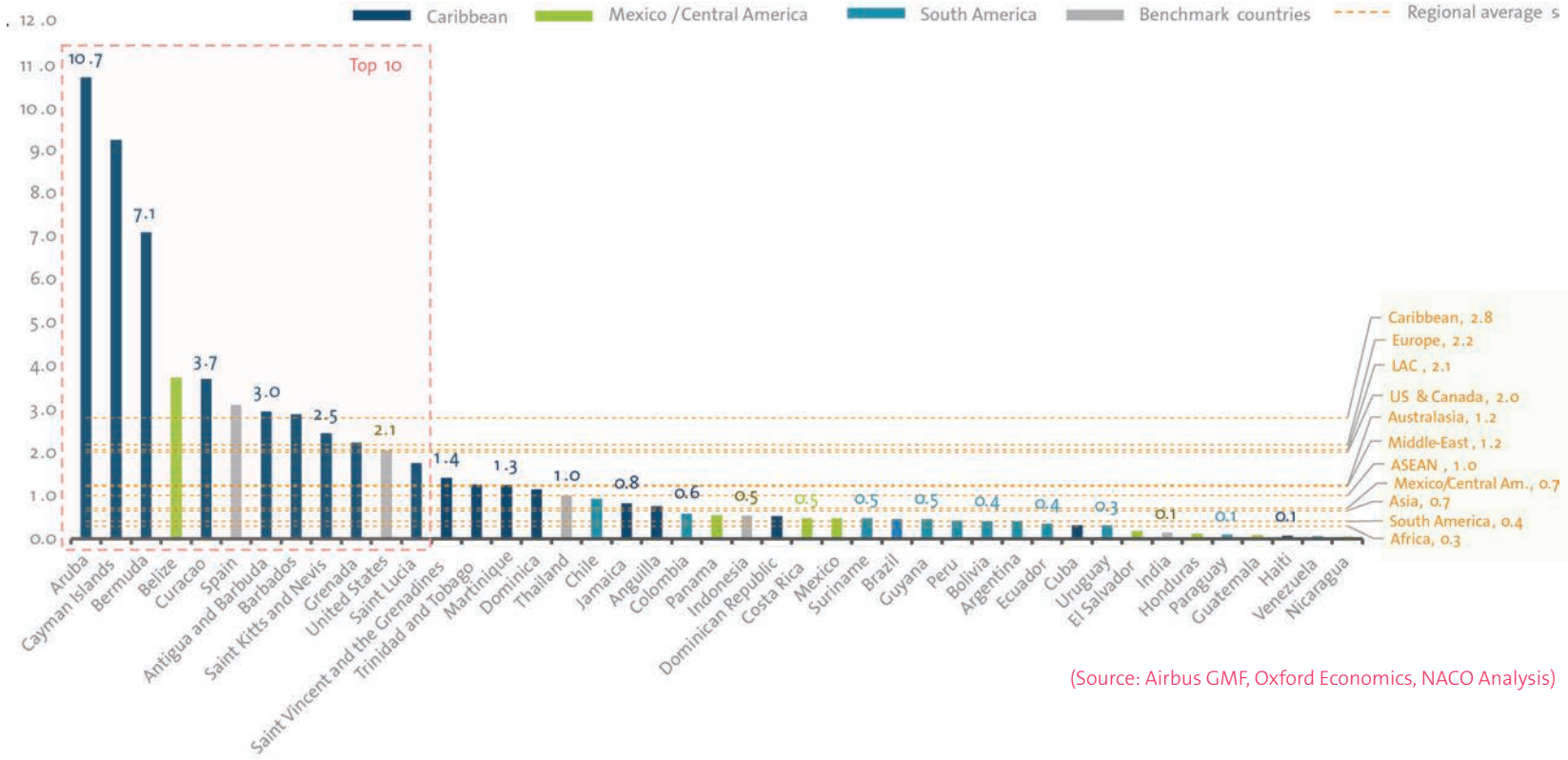


Fig.37 Selected Caribbean countries, one-way intra-LAC seat capacity per '000 people, excluding domestic, 2010-2023



(Source: Cirium, NACO Analysis)

Fig.38 LAC countries and selected benchmark countries, ranked by air trips per capita, 2019



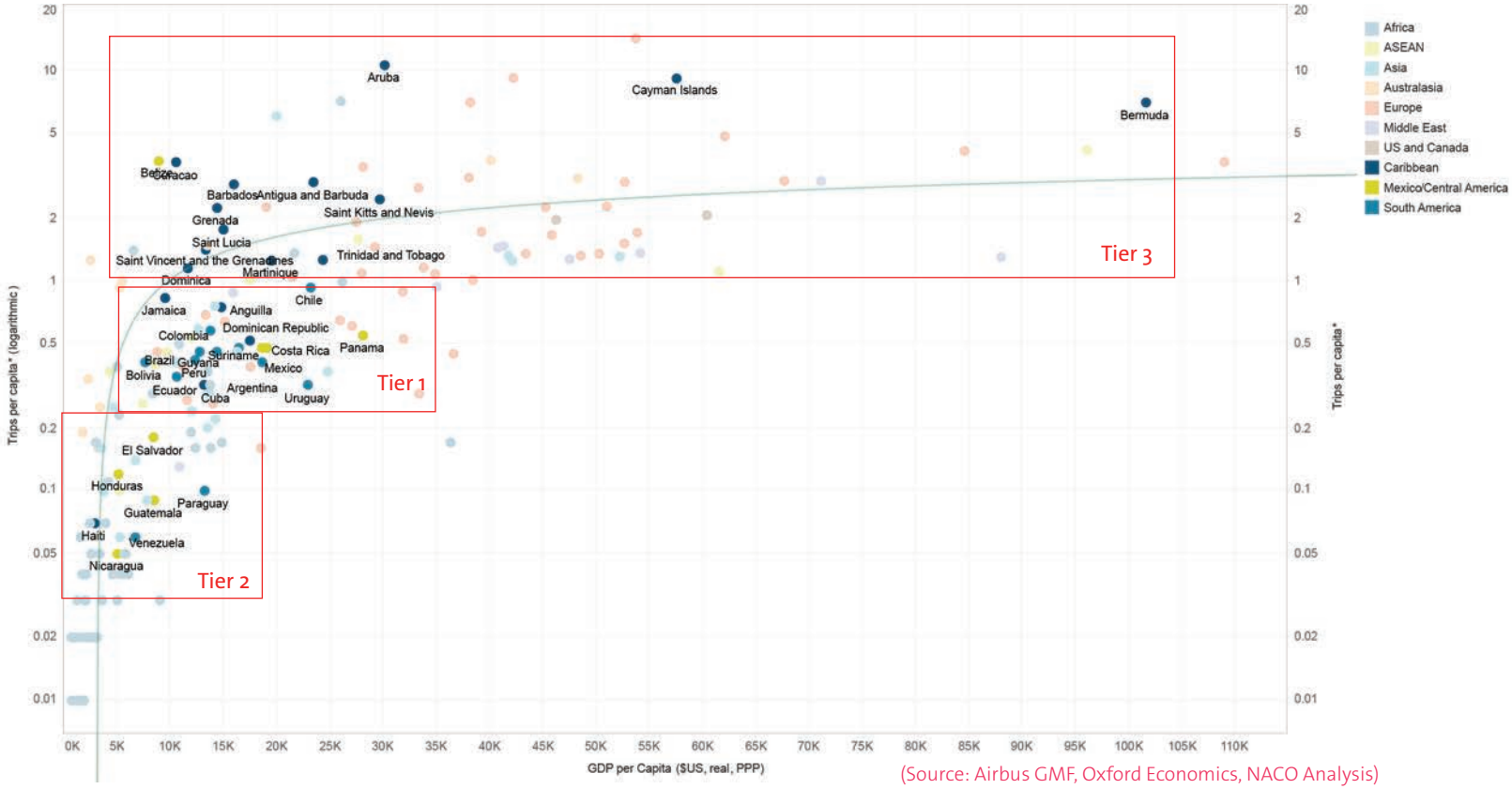
(Source: Airbus GMF, Oxford Economics, NACO Analysis)

9 countries outperform the United States in the same metric. With the exception of Belize, all other countries in the sub-regions of Mexico/Central America and South America rank on the lower end of the graph, mostly at levels similar to Indonesia and India.

Furthermore, when considering regional averages, despite Mexico/Central America and South America having relatively low average trips per capita, the overall LAC average remains higher than that of US & Canada, Australasia, Middle-East, and ASEAN. This achievement is primarily driven by the consistently high average of Caribbean countries within the LAC region. When excluding Caribbean nations, the LA average becomes significantly lower, only ranking above South America and Africa.

The following paragraphs will give more insight into the propensity to fly within the LAC region in relations with socio-economic growth in more details. While air connectivity trends indicate demand for air travel per capita, it is essential to consider economic growth as a critical factor in the development of air traffic volumes. Figure 32 shows a strong positive correlation between per capita income and trips per capita by air, and LAC countries are no exception. For the purpose of this study we have divided LAC's countries in 3 tiers, namely: (1) Major population and economic centers, (2) Developing and low-income countries, and (3) inbound tourism-driven economies.

Fig.39 Propensity to air travel in 2019, highlighting the LAC region in 3 tiers

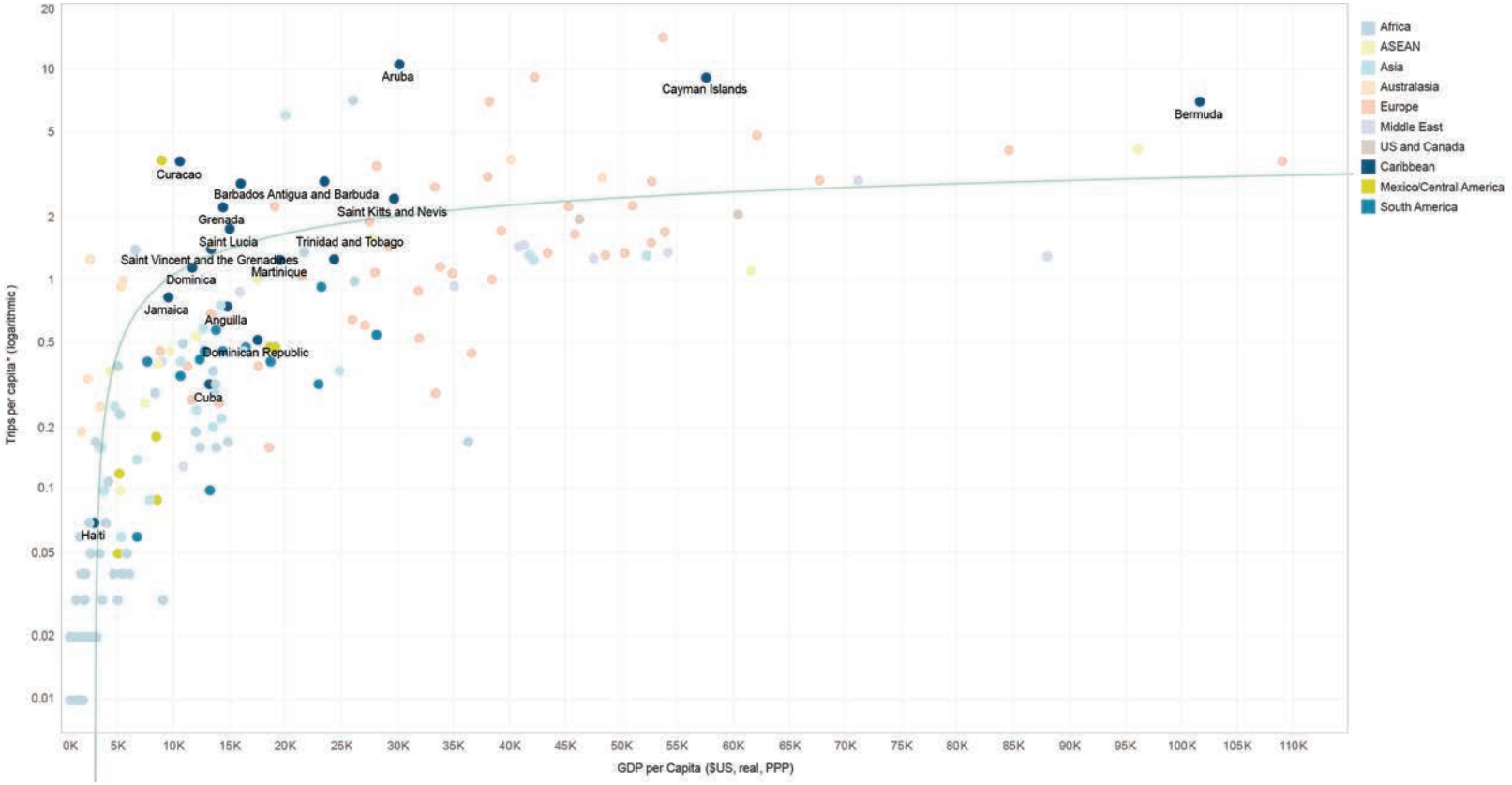


(Source: Airbus GMF, Oxford Economics, NACO Analysis)

As illustrated in the figure above, Latin American countries (excluding Caribbean) cluster below the trendline. This means that Latin Americans tend to take fewer flights per year compared to other countries with similar income levels. Although the graphic certainly indicates a significant potential for further traffic growth in the LAC region more generally, it also suggests a certain level of stagnation due perhaps to a costly operating environment, restrictions on market access, and a burdensome regulatory and business environment.

Another important consideration is that LAC's share of the world GDP has declined from 8.5% in 2010 to 6.9% in 2022. The LAC region's real GDP has only grown modestly with a CAGR of 1.3% (2010-2022), versus the world economy (CAGR of 3.1%). This implies that the LAC region has been underperforming in terms of economic growth compared to the world average. For instance, Tier 1 countries (i.e., "Major economies and population centers") such as Brazil, Colombia, and Panama, featured a propensity for air travel of around 0.5 trips per capita in 2019, which is lower than the world average of 0.9.

Fig.40 Propensity to air travel in 2019, highlighting Caribbean countries (dark-blue dots)

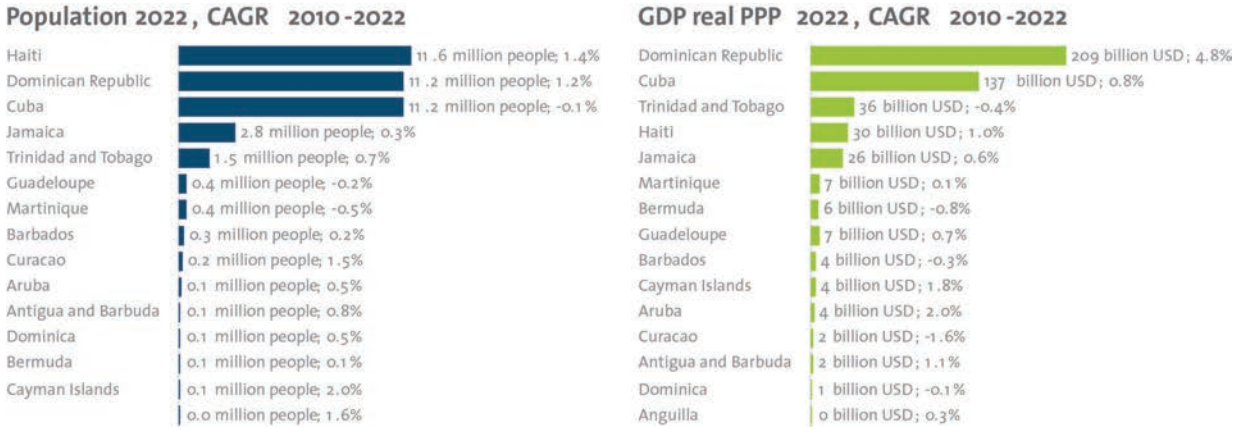


(Source: Airbus GMF, Oxford Economics, NACO Analysis)

As indicated in figure 33, relatively high propensity to fly in the Caribbean countries, compared to other LAC countries, is primarily driven by small population size and high inbound tourism arrivals such as Aruba, Curacao, and Barbados. Additionally, it is important to note that some markets benefit from strong offshore finance sectors, such as Bermuda and Cayman Islands, with relatively lower populations compared to other LAC states.

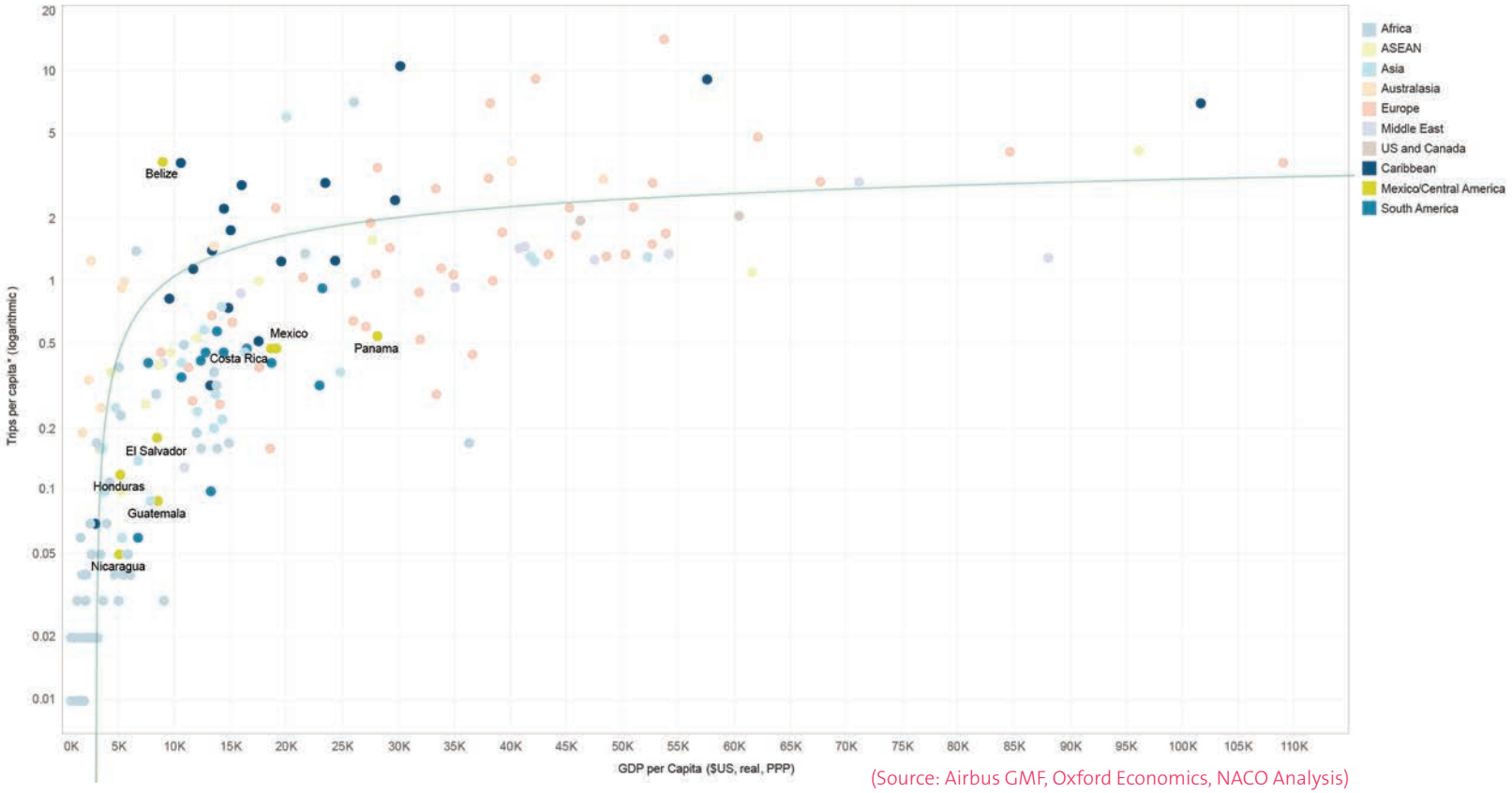
Large population and economic (measured by GDP) centers in the Caribbean, such as Dominican Republic and Cuba feature a lower propensity to fly index, compared to smaller Caribbean islands. In the case of Haiti, while it has population size similar to both Cuba and Dominican Republic, its economy size is much smaller leading to low GDP per capita and, as a result, less air travel. Having one of the largest populations in Caribbean region, Dominican Republic (0.52 trips per capita) and Cuba (0.32 trips per capita) cluster below the trendline.

Fig.41 Population and GDP in Caribbean countries in 2022 and CAGR 2010-2022



(Source: Oxford Economics, NACO Analysis)

Fig.42 Propensity to air travel in 2019, highlighting Mexico/Central America countries (light-green dots)

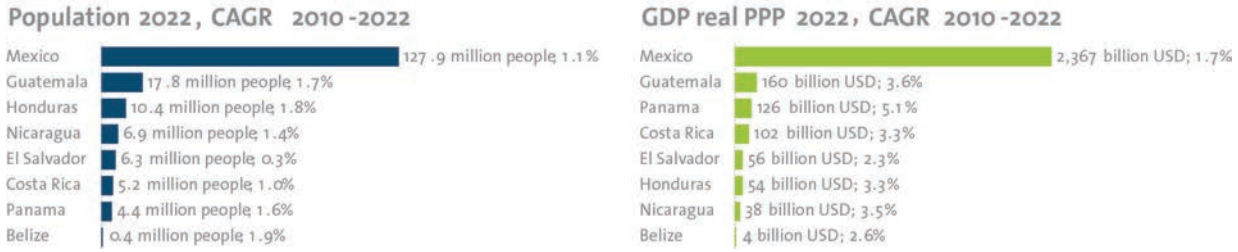


(Source: Airbus GMF, Oxford Economics, NACO Analysis)

As shown in Figure 35 above, across Central America countries, the propensity to travel is relatively low as the countries cluster below the trendline. In particular Nicaragua, Guatemala, El Salvador, and Honduras score low (<0.2 trips per capita) due to lower income levels (measured by GDP per capita), which has likely an adverse impact on the air travel demand. Except for Belize, El Salvador, Nicaragua, and Honduras are the smallest economies in the region. These countries also

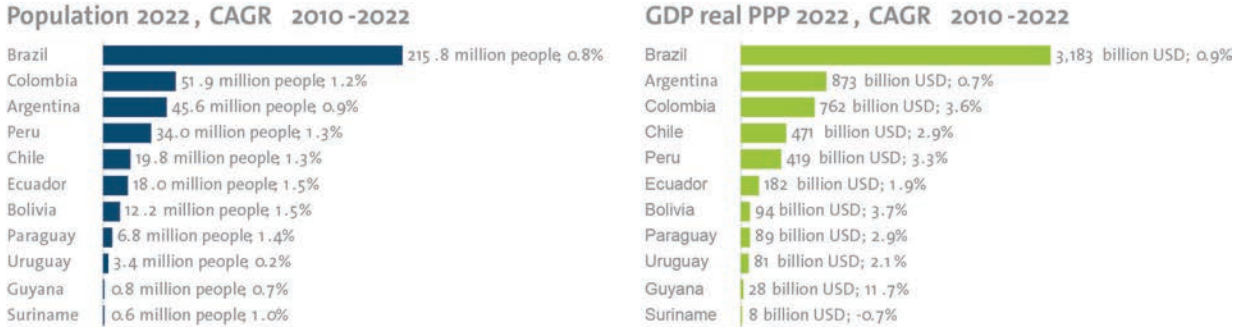
score low in the Human Development Index ranking. Mexico, Panama, and Costa Rica, some of the largest economies in the area, recorded propensity to fly at around 0.5 in 2019. Despite having higher income levels (measured by GDP per capita) than neighboring states, these three countries also cluster below the trend line. This implies that there is potential for these countries to improve their levels of propensity to travel in the coming years. Despite having the smallest economy in the region (USD 4 billion PPP in 2022) and the smallest population, Belize features high propensity to travel rank in the region and is placed about the trend line (3.73 trips per capita). In the case of Belize, high trip per capita rate can be attributed to the government`s efforts to develop the inbound tourism sector, making it one of the major contributors to the GDP, comprising roughly 40% of the local economy before COVID-19.

Fig.43 Population and GDP in Mexico/Central America states in 2022 and CAGR 2010-2022



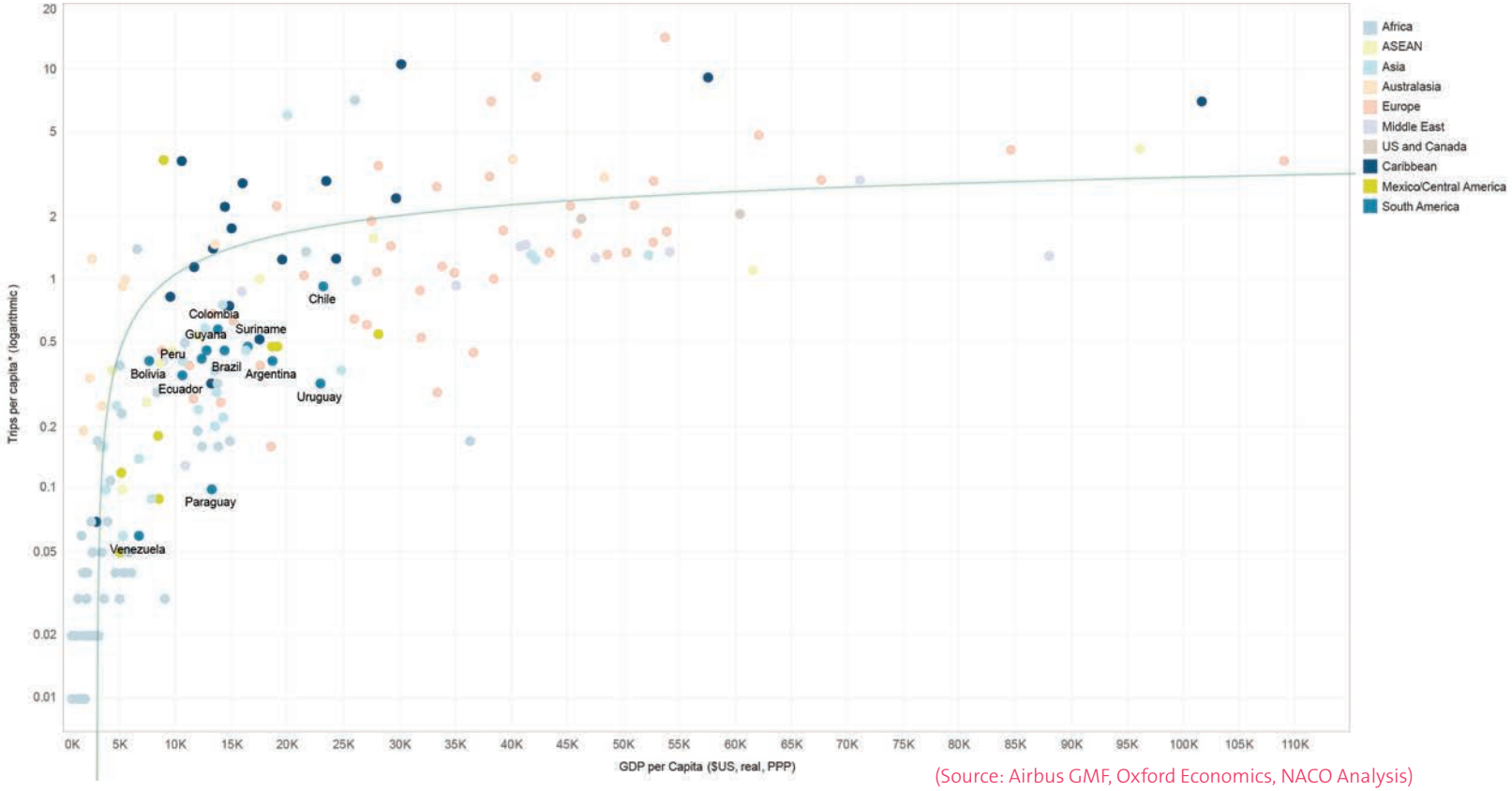
(Source: Oxford Economics, NACO Analysis)

Fig.44 Population and GDP in South America states in 2022 and CAGR 2010-2022



(Source: Oxford Economics, NACO Analysis)

Fig.45 Propensity to air travel in 2019, highlighting South America countries (turquoise dots) (Source: Airbus GMF, Oxford Economics, NACO Analysis)

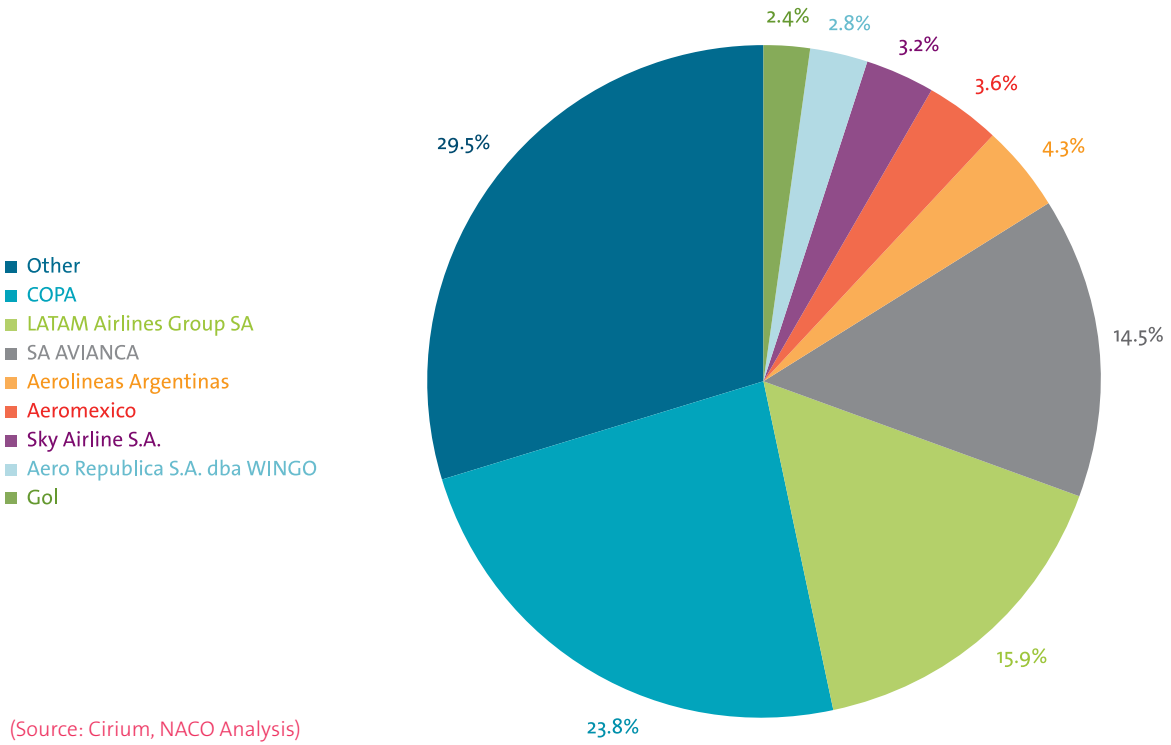


(Source: Airbus GMF, Oxford Economics, NACO Analysis)

Despite being the largest economic and population centers in South America, the propensity to travel of Colombia, Chile, Brazil, Argentina, Peru, Ecuador falls below the trendline, indicating potential for future increases in average trip per capita. Chile scores the highest rate with almost 1 trip per capita, owing to its relatively high GDP per capita and aviation market openness (in terms of traffic rights and doing business environment).

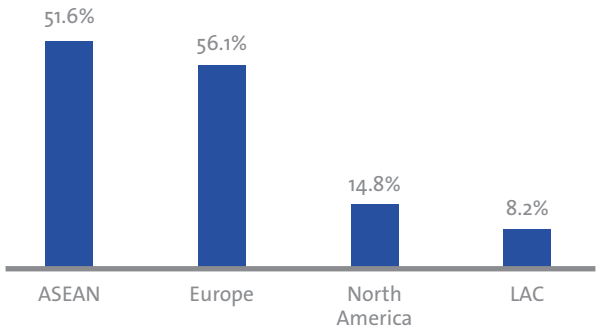
Venezuela and Paraguay have the lowest propensity to travel in the Sotuh America region. With low GDP per capita, partly as a result of political and economic instability, Venezuela ranks at 0.06 trips per capita in 2019. While Paraguay features similar GDP per capita levels compared to Ecuador, Guyana, and Peru, its propensity to travel lags behind its peers. This can be partially attributed to an underdeveloped (or untapped) air travel market.

Fig.46 LAC airlines' market share, per seat capacity (intra-LAC, excl. domestic), 2022



(Source: Cirium, NACO Analysis)

Fig.47 Comparison of LCC capacity deployed in intra-regional routes, selected world regions, 2019
(Cirium, NACO Analysis)



(Source: Cirium, NACO Analysis)

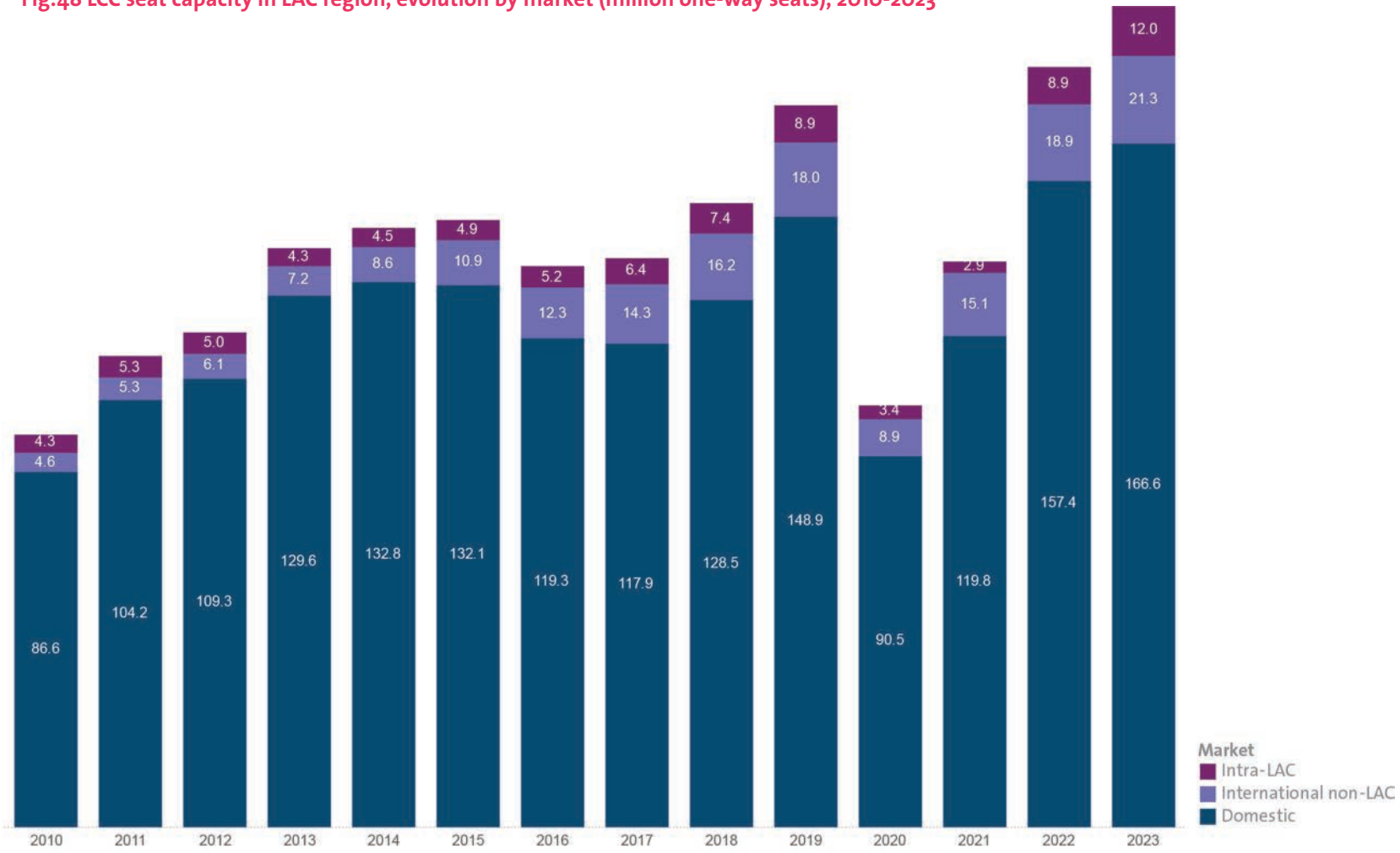
Intra-Regional Capacity is Mainly Supplied by the Largest Airline Groups

Currently more than 50% of the total seat capacity in the intra-LAC market is provided by major regional airline groups such as COPA Airlines (Panama), LATAM (Chile, Brazil) and Avianca (Colombia). Furthermore, it must be noted that, in 2023, Avianca and Brazilian-based GOL Airlines consolidated their operations under the Abra Group Limited holding, which may potentially be expanded by integrating Chilean LCC SKY AIRLINE, as it was mentioned by Avianca`s CEO in 2023. Driven by an ambition to lower operational costs and overcome foreign ownership rules, the merger of the carriers under one holding will likely improve the integration of the carriers` networks and offer more destinations to consumers.

Another important consideration is that the share of LCCs seat capacity on the intra-LAC routes is fairly low, particularly if compared to markets with a higher degree of liberalized air services such as the European Union, North America, and ASEAN (See Figure 40).

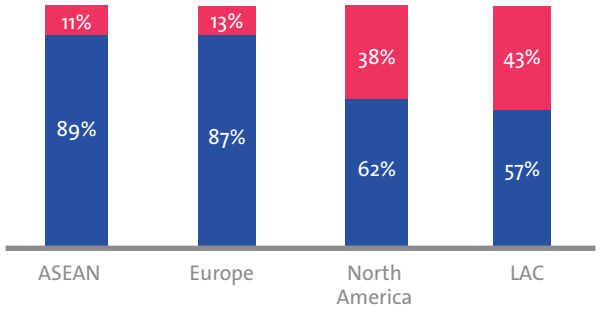
Undoubtedly, the presence of LCCs has significantly expanded over the past decade. However, this growth has predominantly been concentrated within domestic markets. The Brazilian domestic market holds particular significance in contributing to the overall seat capacity in LAC. In the wake of Brazil's economic downturn in 2016-2017, local LCCs GOL and AZUL undertook strategic measures to optimize their capacity, responding to the weakened demand for air travel during those years.
It is noteworthy that the international seat capacity of non-LAC LCCs is nearly double that of intra-LAC capacity. The substantial growth in international non-LAC capacity is largely attributed to the influence of US-based LCCs.

Fig.48 LCC seat capacity in LAC region, evolution by market (million one-way seats), 2010-2023



(Source: Oxford Economics, NACO Analysis)

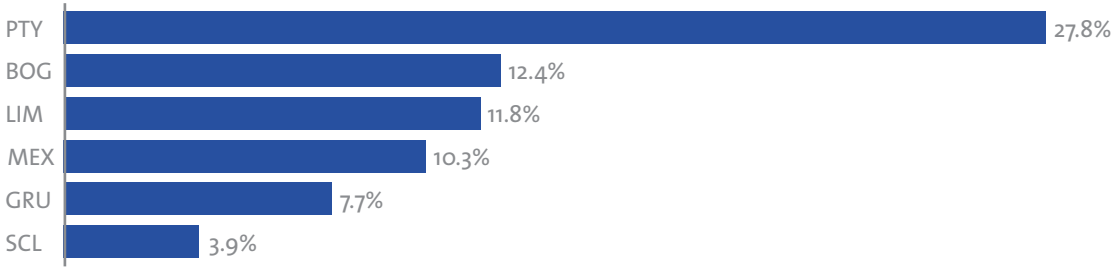
Fig.49 Intra-regional direct versus connecting traffic, selected world regions, 2019



(Source: Sabre MIDT, NACO Analysis)

Fig.50 Market share of intra-LAC one-stop connections at major hub airports, 2019

(Source: Sabre MIDT, NACO Analysis)



(Source: Sabre MIDT, NACO Analysis)

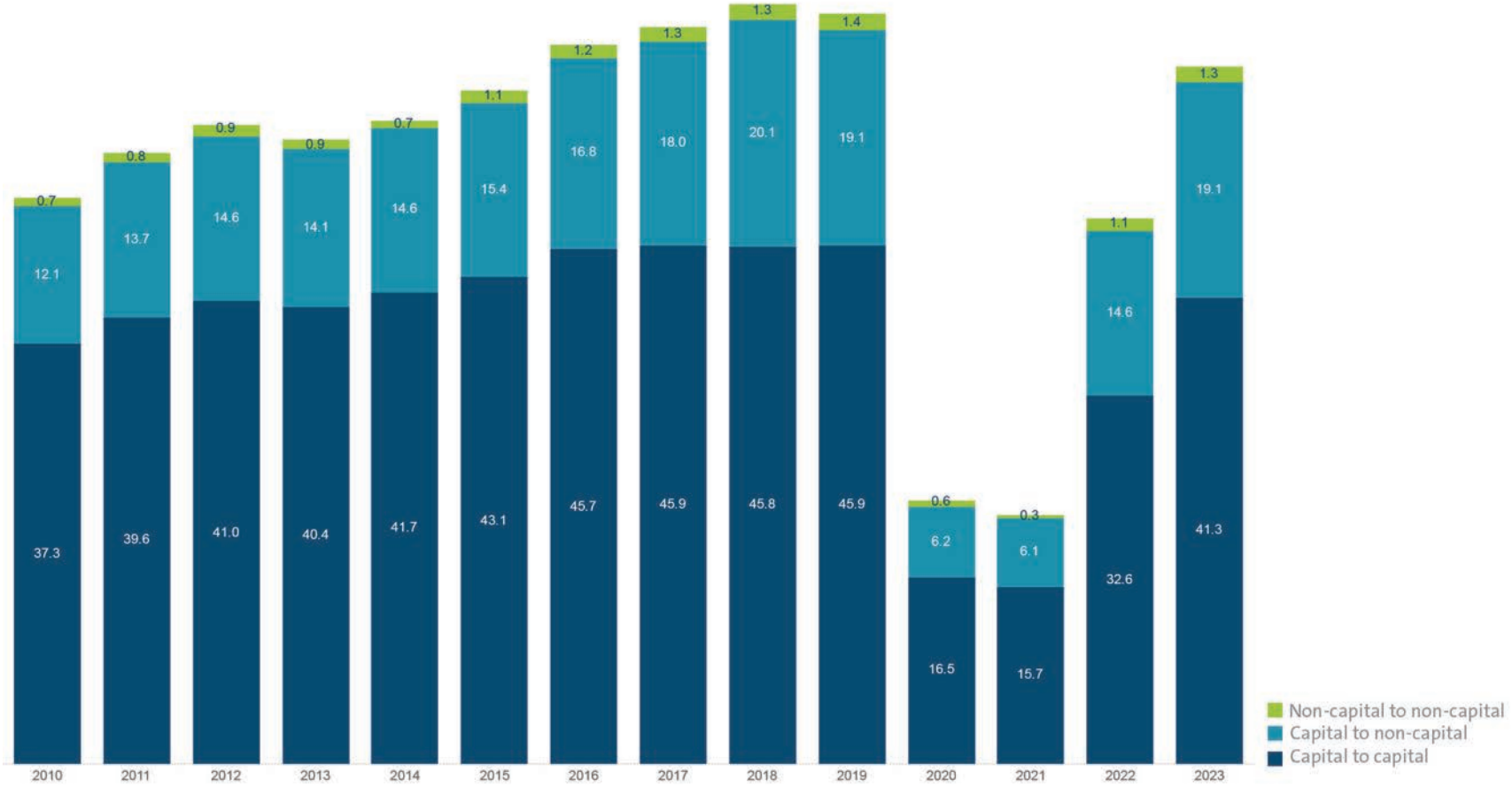
More than 40% of Intra-Regional Passenger Traffic Requires Onward Connections

In 2019, more than 40% of intra-LAC air passengers traveled to their final destination by connecting at another airport within the LAC region. In fact, roughly three-quarters of "onward connections passengers" transferred at one of the 6 major airports in the LAC region, namely: Panama (PTY), Bogotá (BOG), Lima (LIM), Mexico City (MEX), Sao Paulo (GRU) and Santiago (SCL). Direct non-stop flights account for 57% of all intra-LAC passenger traffic in 2019. This percentage is comparatively lower than the share of direct non-stop flights in other global regions in the same year, such as North America (62%), ASEAN (87%), and Europe (89%).

As shown in the Figure above, major LAC airport hubs attract 74% of all market share of intra-LAC one-stop passenger traffic. Panama City (PTY) displays the largest market share of all intra-LAC one-stop connections (27.8%), followed by Bogota (BOG) and Lima (LIM), with 12.4% and 11.8% respectively. It is clear that the majority of intra-LAC one-stop capacity in the region is provided by network carriers operating out of their main country hubs, in combination with other large regional carriers and LCCs that capture the remaining 26% of intra-LAC one-stop passenger traffic.

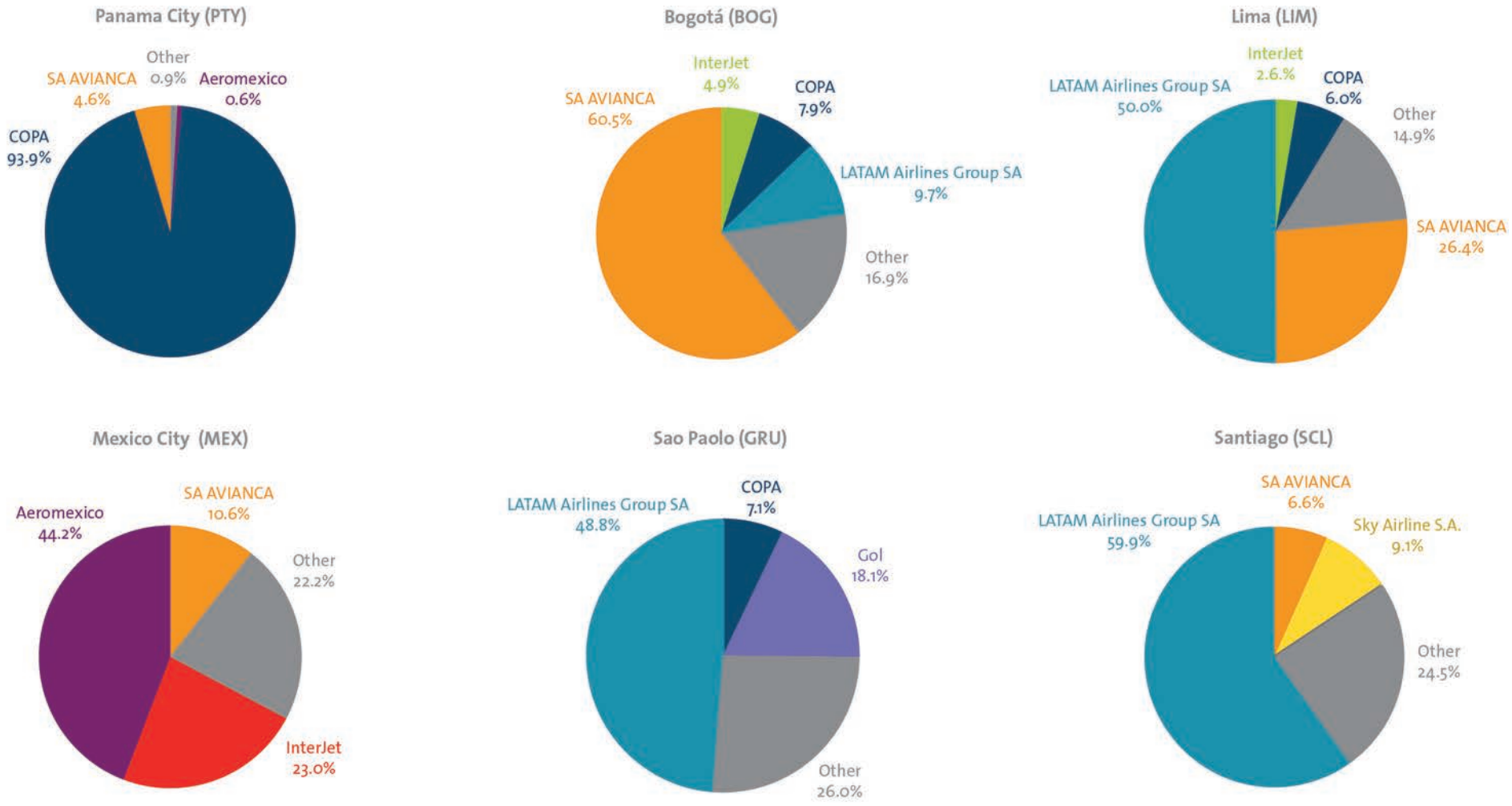
While intra-LAC non-capital-to-non-capital seat capacity doubled from 0.7 million annual seats to 1.4 million annual seats between 2010 and 2019 (equivalent to a CAGR of 7.8%), its volume remains very low compared to connectivity between capitals and capital to non-capitals. Illustrated below, roughly 20% of the total non-capital airports in LAC (more than 80 out of 470) provide international services while the rest focus on the domestic connectivity. On average, non-capital international airports have 15 weekly frequencies to foreign destination (around 2 return flights a day).

Fig.51 Intra-LAC (excl. domestic) seat capacity development



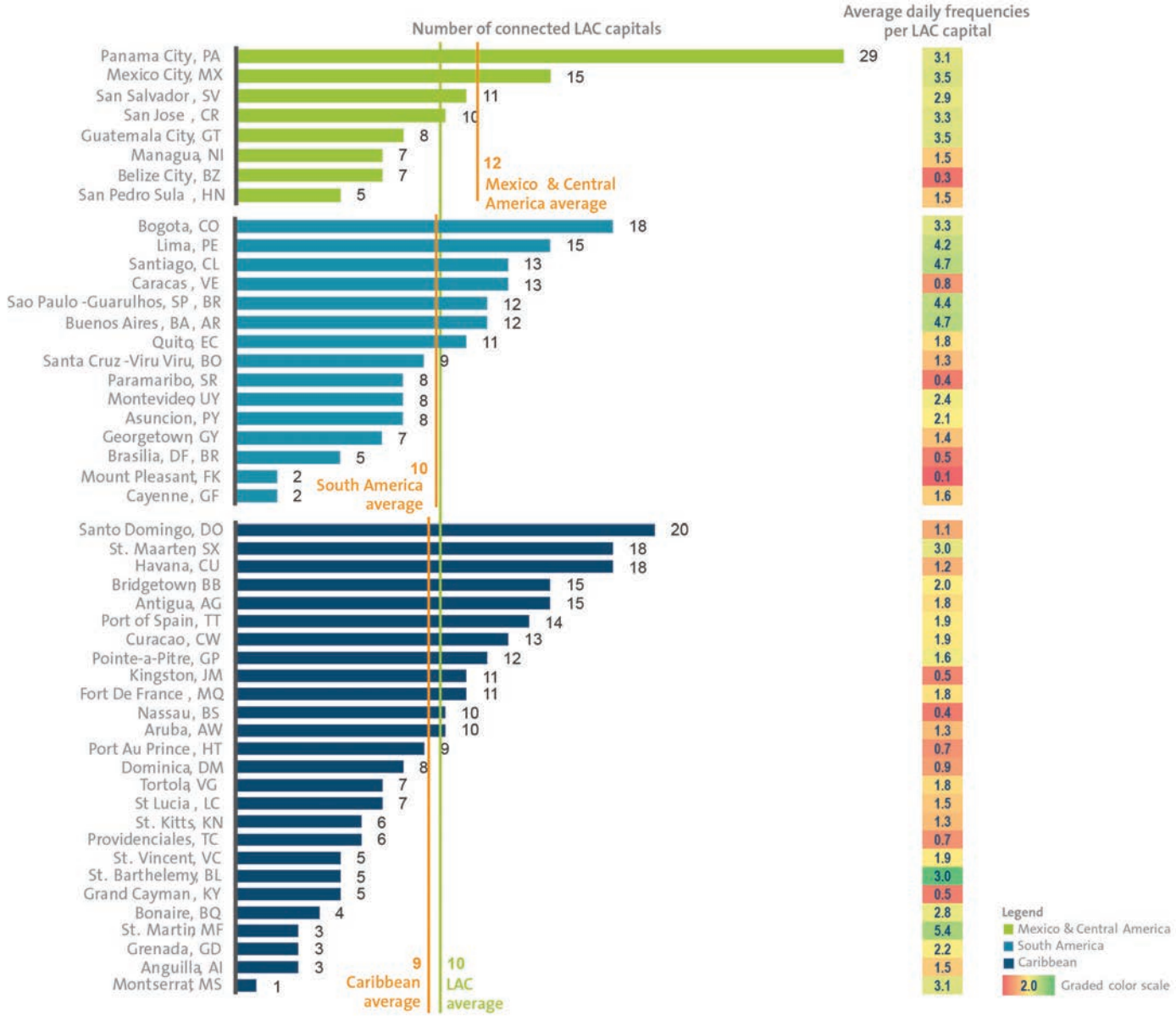
(Source: Cirium, NACO Analysis)

Fig.52 Intra-LAC market share (excl. domestic), in terms of seat capacity at 6 major airports, 2019



(Source: Cirium, NACO Analysis)

Fig.53 Intra-LAC capital city connectivity (by number of capital cities served and average daily frequencies per LAC capital), 2019



(Source: Cirium, NACO Analysis)

Low Connectivity Between Capital Cities

According to our analysis, as shown in figure 46, on average, each capital city is connected to only 10 other capitals, equivalent to less than 20% of the total number of capital cities in the region. Benefiting from the strong route network of its hub carrier COPA Airlines, Panama City has the greatest number of direct connections to other capital cities.

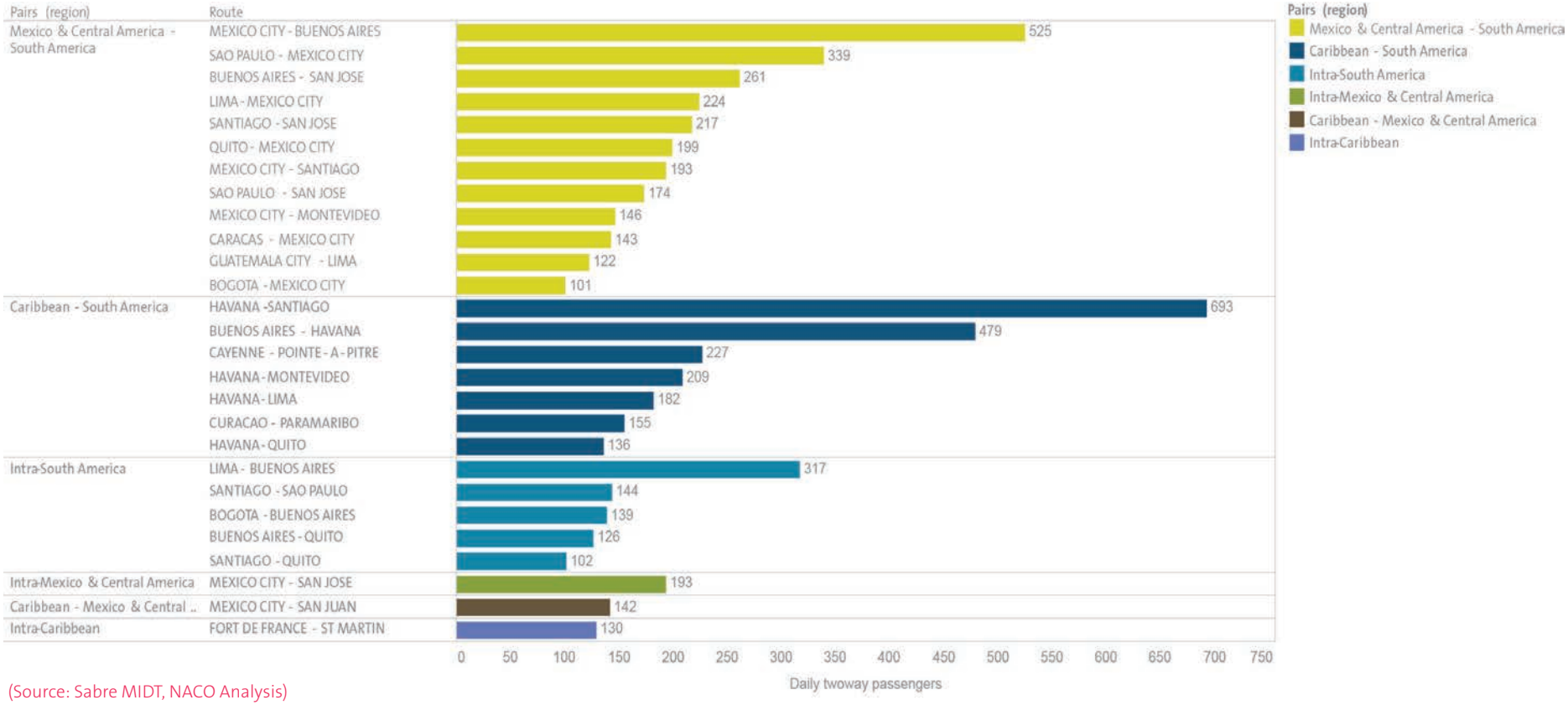
In 2023, Panama City is connected to 29 capital cities in the region, with approximately 3 daily services per capital destination on average . On the contrary, Brasilia, the capital of Brazil, with around 5 million population in its metropolitan area, has connections to only 5 other capitals in the LAC region . This means that passengers traveling to and from Brasilia to other major cities in the LAC region have to transfer at another airport to reach their final destination.

Among South American capitals, Bogota, Lima, Santiago, and Buenos Aires are the most connected capital cities within the LAC region. In the Caribbean, Santo Domingo, Havana, St. Maarten, Antigua, Port-of-Spain, and Bridgetown are the top 5 destinations connected to the highest number of LAC capitals. We also noted that Mexico City and Central American capitals as a group displayed higher levels of intra-LAC capital city connectivity than originally expected. However, it is important to note that some LAC capital cities are connected at a frequency lower than 1 daily departure. Most of these capitals are located in the Caribbean region (including Belize City, Kingston, Port-au-Prince, among others). As for South America, Brasilia, Caracas, and Paramaribo as the least connected capital cities (by number of frequencies to LAC capital destinations).

Figure 46 illustrated air travel capacity supply, figure 47 illustrates indirect passenger demand between capital cities in the LAC region with passenger flows with more than 100 two-way daily travellers. An overview of passengers requiring onward connection(s) at another LAC airport to reach their final destination is important for the purposes of analysing the current state of affairs in the LAC region. In some cases, this may be the result of a lack of sufficient demand between O/D markets or travellers' preference to fly at cheaper prices. In the context of the LAC region, it is also important to keep in mind the high degree of consolidation that exists within the local airline industry, with Aeromexico, Avianca, COPA and LATAM as dominant airlines in their respective hubs (i.e., Mexico City, Bogota, Panama City, Santiago, and Sao Paulo).

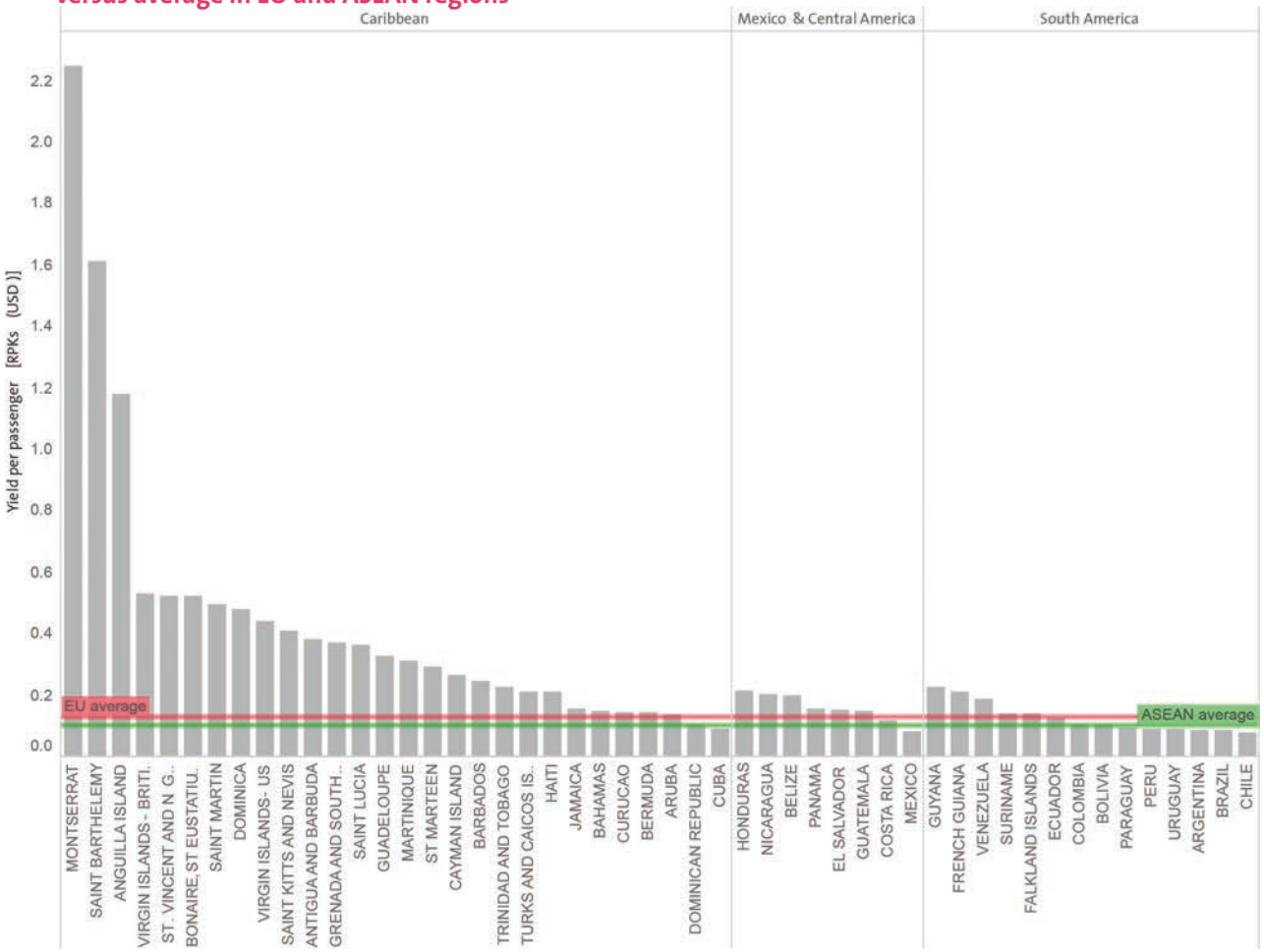
The size of demand is particularly evident between some capitals and major tourism destination in the Caribbean and South America. Same for capitals in Mexico & Central America and South America it is worth noticing that. For example, it is worth noting that there is a substantial number of daily passengers traveling indirectly (i.e., with one or more stops) between capitals in the intra-South American market. For example, more than 300 daily return passengers require onward connection traveling between Lima (Peru) and Buenos Aires (Argentina) are before flying likely due to existing restricted capacity (frequencies) between the two markets. We also note that there are over 500 daily return passengers traveling between Mexico City (Mexico) and Buenos Aires (Argentina) flying on a one-stop itinerary, and more than 330 daily return passengers between Mexico City (Mexico) and Sao Paulo (Brazil).

Fig.54 Indirect one-way daily passengers between LAC capitals and major tourism destinations, 2019 (Source: Sabre MIDT, NACO Analysis.)



(Source: Sabre MIDT, NACO Analysis)

Fig.55 Average yields (revenue per passenger kilometre) in 2019, LAC region (by country) versus average in EU and ASEAN regions



(Source: Sabre MIDT, NACO Analysis)

Cost of Air Travel Still Higher Compared to Liberalized Markets in the EU and ASEAN

Figure 48 provides an overview of average revenue yields (proxy for airfares per kilometer, measured by total airline revenue per passenger kilometer) across various LAC countries (not PPP adjusted). It is evident that the yields in the majority of LAC countries, in particular within the Caribbean, are higher than the ones in liberalized markets. Also, most countries in the LAC region display higher yields compared to the average in EU and ASEAN countries.

Conclusion

The low levels of intra-regional connectivity observed in the LAC region can be linked to many factors, including the low maturity of intra-regional air services, low GDP growth per capita, unfinished liberalization and burdensome doing business conditions for air service, risk averse attitude of airlines, lack of low-cost options for travelers, and weak intra-LAC trade and business exchanges. Some of these factors ultimately affect the propensity to fly of populations in the LAC region. We also observed a higher than desirable concentration of passenger traffic at large hub airports located in the capital cities, supported by a continuous domination of network airlines using the hub-and-spoke approach in those airports, and finally, a lack of direct air connectivity to/from regional airports or secondary gateways.

We also note that the share of intra-LAC capacity at the top-10 airports in the region has increased from 33% in 2010 to 47% in 2023, while the share of the connecting intra-LAC traffic is more than 40% (compared to around 10% in Europe and ASEAN). The limited presence of LCCs on the intra-LAC routes provides less options for point-to-point flights between regional airports, and the dominance of legacy carriers at hub airports lead to higher cost of travel in the LAC region, if compared to other geographies. As has been illustrated in the case studies presented in section 3, air liberalization has proven enable the expansion of LCC operations in various regions, unlocking demand for budget travel as well as improving connectivity between regional airports.

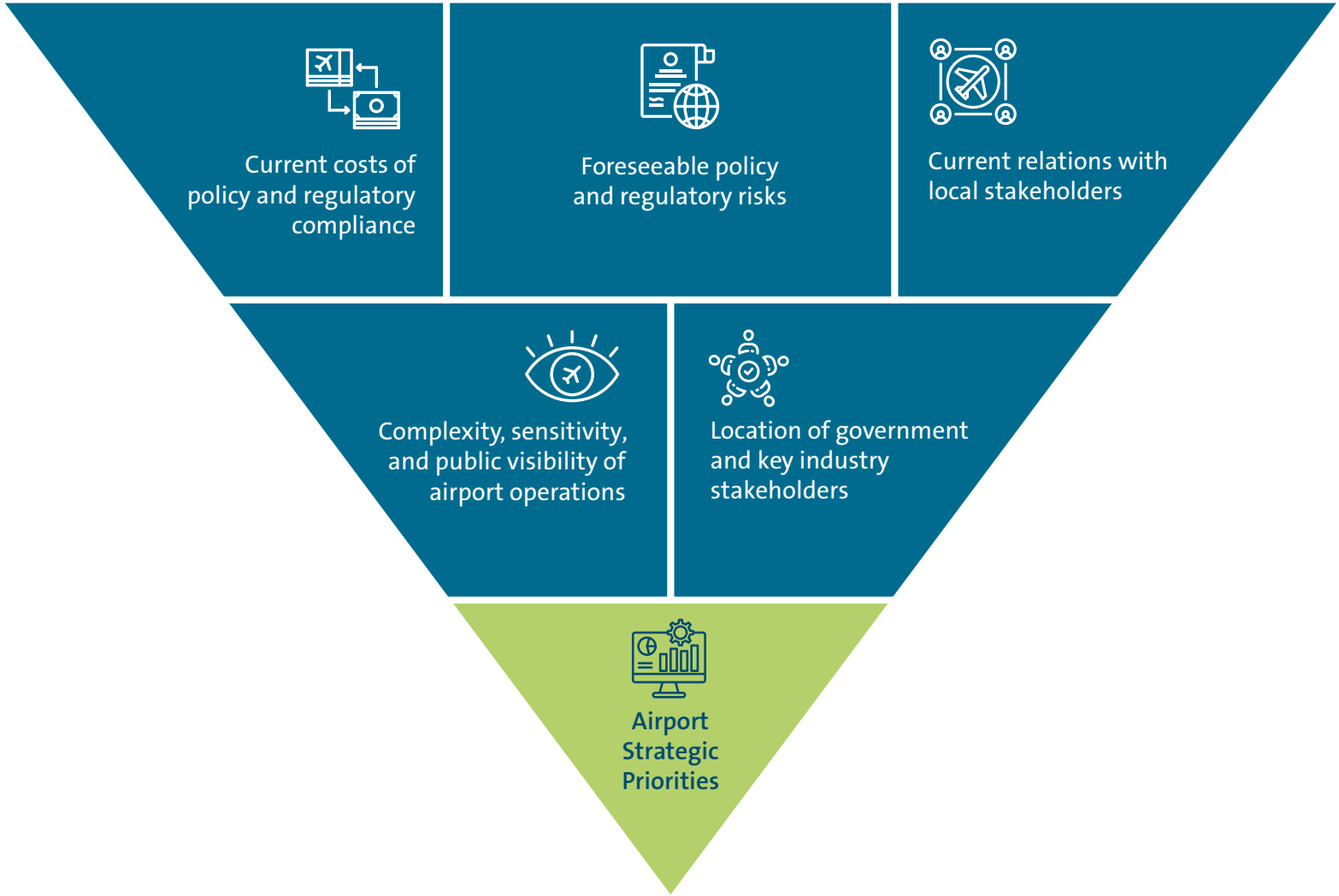
5 Strategies, approaches and tools to progress air liberalization

Airports are strategically positioned to influence government policy affecting aviation: from national infrastructure plans to tourism strategies, including in areas related to the regulation of air transport such as market access rights, competition, environment, taxation, and slot allocation, among others. Misguided government policies can result in missed opportunities or even direct and tangible costs for airport operators.

For example, the government's refusal to grant additional frequencies under a Bilateral Air Service Agreement (BASA) may restrict the entry of a willing airline in certain markets, thus affecting airports' ability to capture new traffic and generate incremental aeronautical and non-aeronautical revenues. Likewise, restrictive entry and in-transit visa policies can have a negative effect on passenger processing and customer experience, potentially forcing the airport to re-design or invest in new terminal space to process passengers.

In their role of central hubs facilitating air connectivity, airports in the Latin America and Caribbean (LAC) region have a vested interest to advocate in favor of further market air liberalization and support continuous improvements to the doing business environment. This section provides a brief overview of models that can be used to integrate the aeropolitical function into an airport operator's organizational structure, which should also include the development of a vision for concrete action and external engagement. In addition, and with the perspective to provide a reference tool to airports so they can strengthen their internal expertise on themes relevant to liberalization, this section provides a succinct anatomy of Bilateral Air Service Agreements (BASA), with a focus on the market access and doing business provisions that are most relevant to airports.

Fig.56 Factors influencing the necessity to create the aeropolitical function in an airport environment



Integrating the Aeropolitical Function into an Airport's Organizational Structure

In essence, the aeropolitical function of an airport will monitor government initiatives, engage with internal and external stakeholders, develop, and coordinate policy positions, and respond to developments affecting the airport in areas such as economic regulation, environmental matters, national infrastructure and transportation policies, land planning and use, among others.

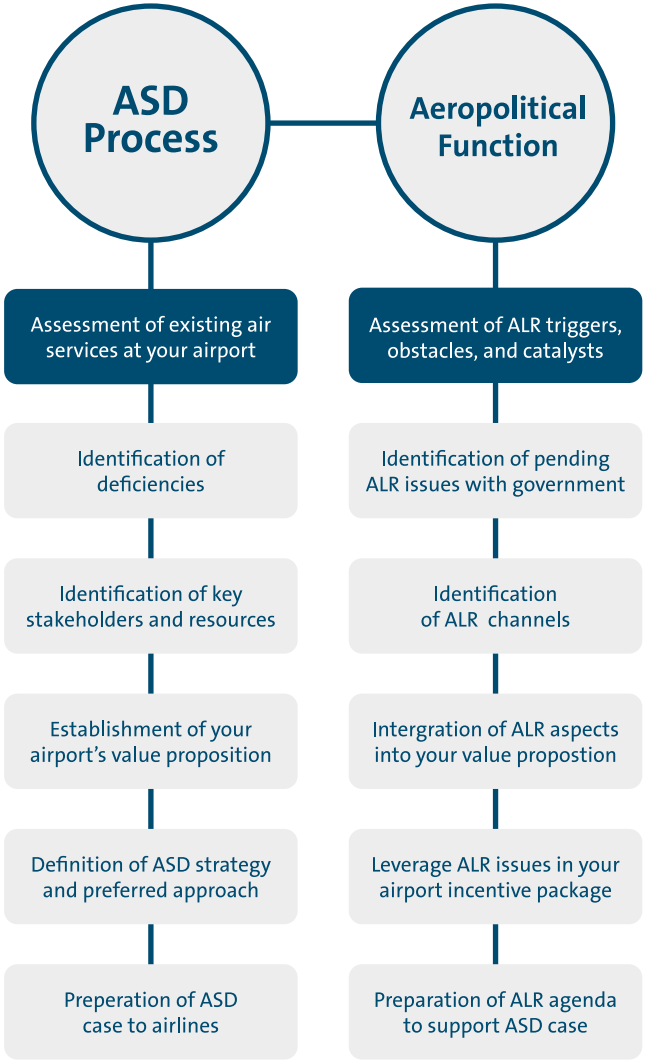
In our experience, airport operators can increase the business value of the aeropolitical function by paying greater attention to organizational design , internal capability development, and the overall quality of external engagements with government authorities. Ideally the integration of the aeropolitical function into an airport's organizational structure should be about breaking silos, building bridges, developing internal capabilities, and quantifying impacts. It is also important to ensure the buy-in and continuous commitment from the Board of Directors and C-levels, particularly those responsible for commercial strategy, route development, risk management, legal and compliance, and public affairs.

Companies in heavily regulated industries tend to organize their policy and regulatory function based on factors such as: (1) the number of countries of operation, (2) the complexity, sensitivity, and public visibility of the products and services offered in the relevant market(s), (3) the location and concentration of their relevant government stakeholders, (4) costs associated with legal compliance, including government policy and regulatory action (i.e., financial, commercial, operational, reputational), as well as (5) their overall budgetary capacity.

The above factors should be considered by airports in the LAC region in their efforts to become more proactive and influential aeropolitical players to support liberalization efforts, while also keeping in mind that communicating clear and consistent policy positioning with external stakeholders will increase the Return-on-Investment (ROI) of the aeropolitical function and further strengthen the case for air liberalization.

Considering the high sensitivity of aeropolitical issues and the ongoing need that airports have to access government and industry decision-makers, it is recommended that the aeropolitical function is embedded or reports directly to the CEO Office with dotted lines to the commercial teams responsible for air service development, passenger experience and facilitation, as well as the legal and compliance department and public/corporate affairs.

Fig.57 Synergetic relation between the Air Service Development (ASD) process and the Aeropolitical function responsible for ALR (Aeropolitical, Legal, and Regulatory) issues



(Source: NACO Analysis)

The Aeropolitical Function and Route Development

The commercial function of the airport can gain much from establishing a synergetic relationship with the aeropolitical function. As it is shown in the figure on the left, the preparation of business cases for potential routes requires at times direct interaction with the local government authorities, sometimes to promote a more favorable framework for new operations or to improve the current doing business environment.

The aeropolitical function can also be a strong ally in the crafting and deployment of airport incentives to carriers, and a key and influential player within the structure of an ASD Task Force or Route Committee with the mandate to attract new services to the airport through engagement with a variety of stakeholders from the political, business and tourism communities. Airports operating in politically sensitive environments require these two functions to work hand in hand.

The following section will review some of the most important market access and doing business provisions in BASA that are relevant for airports.

Fig.58 Categories of provisions in Bilateral Air Services Agreements (BASA)

Market access
- Grant of Rights
- Capacity
- Designation
- Route Schedule
- Code-Share
- Capacity
- Code-sharing

Doing business
- User charges
- Authorizations
- Customs duties
- Taxation
- Pricing (Tariffs)
- Remittances
- Commercial opportunities
- Non-national personnel
- Ground handling

Competitive landscape
- Fair competition
- Competition laws
- Safeguards

Social & Environment
- Environmental protection
- Passenger protection
- Labour standards

Technical
- Safety
- Security
- Statistics

Legal & Administrative
- Definitions
- Application of Laws
- Recognition of certificates
- Consultations
- Disputes and termination

Anatomy of a Bilateral Air Services Agreements and Related Instruments

Air liberalization has often been discussed under the prism of traffic rights (i.e., freedoms of the air, route schedules, weekly frequencies) or within the context of foreign ownership and control restrictions imposed by national governments. Restrictive Bilateral Air Services Agreements (BASA) provide a disincentive to invest in new routes. In contrast, a more flexible framework provides airlines' commercial teams with the possibility to be creative when developing new markets by leveraging, for example, on the use of 5th freedom traffic rights, co-terminalization provisions, and code-sharing arrangements. Commercial and operational flexibility in BASA support air connectivity to and from markets that would otherwise not be served under restrictive frameworks.

Market Access Rights

There are five key aspects (or clauses) in BASA that directly affect an airline's ability to enter or expand operations in any market: (1) Grant of Rights, (2) Capacity, (3) Designation, (4) Route Schedule, and (5) Code-Sharing and Cooperative Arrangements. These aspects affect the ability of airports to market themselves.

The clause "Grant of Rights " specifies the traffic and non-traffic rights under which designated airlines are permitted to provide air services (passenger, cargo, charter) between two countries (also referred to as signatory parties). This clause should be read in conjunction with the applicable schedule or annexes to the agreement that define the routes allowed, as well as other limitations or conditions attached thereof. In some cases, these annexes may grant additional flexibility to designated airlines such as the right to serve points behind any point in its territory with or without change of aircraft or flight number and hold out or advertise such services to the public as through services. For example, Colombia-based Avianca operating air services from Punta Cana (Dominican Republic) to Santiago (Chile) via Bogota with the same aircraft and under the same flight number.

The right to carry transit within the other Party's territory is another example of operational flexibility that would allow an airline to operate two points within the same country, but without exercising cabotage rights. For example, a LATAM flight originating in Santiago and carrying in-transit passengers between Lima and Arequipa before returning to Santiago.

The "Capacity" clause usually clarifies the regime that will govern the determination of capacity (i.e., frequencies, volume of traffic, type of aircraft) for the agreed air services. A common practice in restrictive agreements is to cap the number of weekly frequencies and number of seats allowed to be operated by designated airlines on certain or all routes. Some restrictive agreements may even place limitations on the type of aircraft that can be operated. Under more liberal frameworks, airlines are allowed to offer capacity based on commercial considerations and without government approval and/or intervention, but subject to competition laws and other safeguards.

The "Designation" clause provides an indication of whether countries (or signatory Parties) have allowed to designate one or more airlines to operate the agreed services and outlines the conditions under which airlines may be eligible for designation. "Substantial ownership and effective control" is often included as a condition *sine qua non* for an airline to be designated and it is still used in the majority of bilateral agreements due to concerns around the so-called flags of convenience.

The "substantial ownership" requirement is typically associated with more than 50 percent equity ownership, although in some countries this threshold may be higher. The reference to "effective control" is subject to various national interpretations but would typically be linked to safety and security oversight. A more liberal approach would be to allow an airline designation solely based on the principal place of business, without reference to substantial ownership and effective control requirements.

The "Route Schedule" outlines the routes and points for which specific freedoms apply. Under a liberal framework, designated airlines would be able to operate to/from any number of points in the territory of the other Party to the agreement. The notes under the "Route Schedule" will typically provide additional conditions, limitations, and exceptions to be applied, including an indication, for example, of how fifth and seventh freedoms are to be utilized by designated airlines and for which type of services (i.e., passengers, cargo). In some cases, restrictive route schedules and limitations in capacity may also affect the ability of designated airlines to enter into code-sharing agreements, either as an operating or marketing airline.

The clause "Code-Sharing/Cooperative Arrangement" defines the right and conditions established for designated airlines to enter into cooperative arrangements (i.e., joint-ventures, blocked space and code-share) with other airlines or modes of transportation (i.e., surface transport, including rail services). Some bilateral agreements may limit the use of this type of arrangements to designated airlines of the Parties to the agreement, and even restrict them to specific routes or a maximum number of weekly frequencies. Fully liberal agreements will allow cooperative arrangements with third country airlines, provided that all airlines involved hold the appropriate route rights, and even code-sharing on domestic segments but only as a part of an international journey.

Policy and Business Environment: Doing Business Provisions

The policy and business environment can also become an obstacle to new air services, and thus a barrier to reap the fruits of market access liberalization. A costly and burdensome doing business environment not only repels new entrants, but it may also affect incumbent airlines, even under an open skies agreement framwork. For example, government regulation can limit the use of certain airports by imposing curfews and capacity constraints. In some cases, regulation can increase the costs of operation through burdensome passenger protection regulations and monopolistic ground handling practices. For new air services (both scheduled and non-scheduled), the obtention of authorizations and permits is a crucial element that may delay operations and elevate commercial risks if the processes are unreasonably bureaucratic.

Local bureaucratic cultures and the institutional design of air transport authorities can certainly have a great influence on the doing business environment, but the underlying justification for certain unreasonable government actions can be based on certain clauses in the BASA. These clauses shape the policy and business environment available for airlines, and consequently the ability of airports to attract new services.

The most common clauses are: (1) customs duties, (2) taxation, (3) currency conversion and remittance of earnings, (4) commercial opportunities, (5) non-national personnel and access to local services, and (6) ground

handling. Although great efforts have been made in recent years by LAC countries to liberalize the the "doing business" provisions, some work remains at the level of actual practices on the ground as these continue to affect airline costs and burden their operations, ultimately jeopardizing the commercial viability of flights at an airport. Some of these issues will be mentioned in the last part of this section.

"Customs Duties" clauses are relatively standard and can be found in the vast majority of air services agreements. They usually provide exemptions on fuel, lubricating oils, spare parts, regular equipment, on-board supplies, printed advertising materials, and even staff uniforms. This type of clauses should be aligned with ICAO policies on the taxation of international air transport[62] and Article 24 of the Chicago Convention. A limited scope of exemptions may cause airlines additional costs.

"Taxation on income and capital" are usually covered under separate agreements on double taxation between countries and are the realm of financial authorities rather than aeronautical authorities. If no double taxation agreement exists between two countries, then greater attention should be paid to the wording of the relevant taxation clause. In all cases, it is preferable for the clause to be aligned with ICAO policies on the taxation of international air transport. Some bilateral agreements may be specific as to the scope of exemptions and it must be noted that these can include participation in interline commercial agreements and joint business ventures.

"Remittance of earnings" is a fundamental issue for airlines and one that has triggered an ongoing advocacy campaign by the International Air Transport Association (IATA). In a recent statement, IATA warned that rising levels of blocked funds continue to be a threat to air connectivity as the industry's levels of blocked funds have increased by almost 47% in 2023 compared to 2022 (or $2.27 billion from $1.55 billion)[63]. The "Currency Conversion and Remittance of Earnings" clause is included in the vast majority of bilateral agreements, either under a separate stand-alone section or under the "Commercial Opportunities" article. Venezuela figures consistently in the top 5 of markets with blocked funds, amounting to $3.8 billion of unrepatriated airline revenues in December 2022[64].

"Labour-related regulation" may directly affect the organizational agility of airlines launching operations in international markets, especially during the early stages of planning and deployment. The standard clause in bilateral agreements has been to allow designated airlines to bring in their commercial, operational, and technical staff, and ensure that they are granted the necessary employment authorizations (including visas) as required. However, countries may impose obligations to hire local personnel or impose limits on the number of foreign staff that can be brought in by the airline. In some cases, these hurdles are not clearly specified in the agreement but may be reflected by burdensome bureaucratic process and delays.

"Ground Handling" may be presented in a stand-alone section but also under the section on commercial opportunities. The key concern with restrictive ground handling clauses is that they compel the designated airline to use the services provided by a designated airline of the other country. This can result in unsatisfactory services and non-competitive prices that end up affecting levels of service and by ricochet airline brand and reputation in that market. When it comes to ground handling providers, the optimal situation for any airline is to have options, including self-handling. In the absence of wider choice, the tender process should be objective, transparent, and non-discriminatory.

Competitive environment

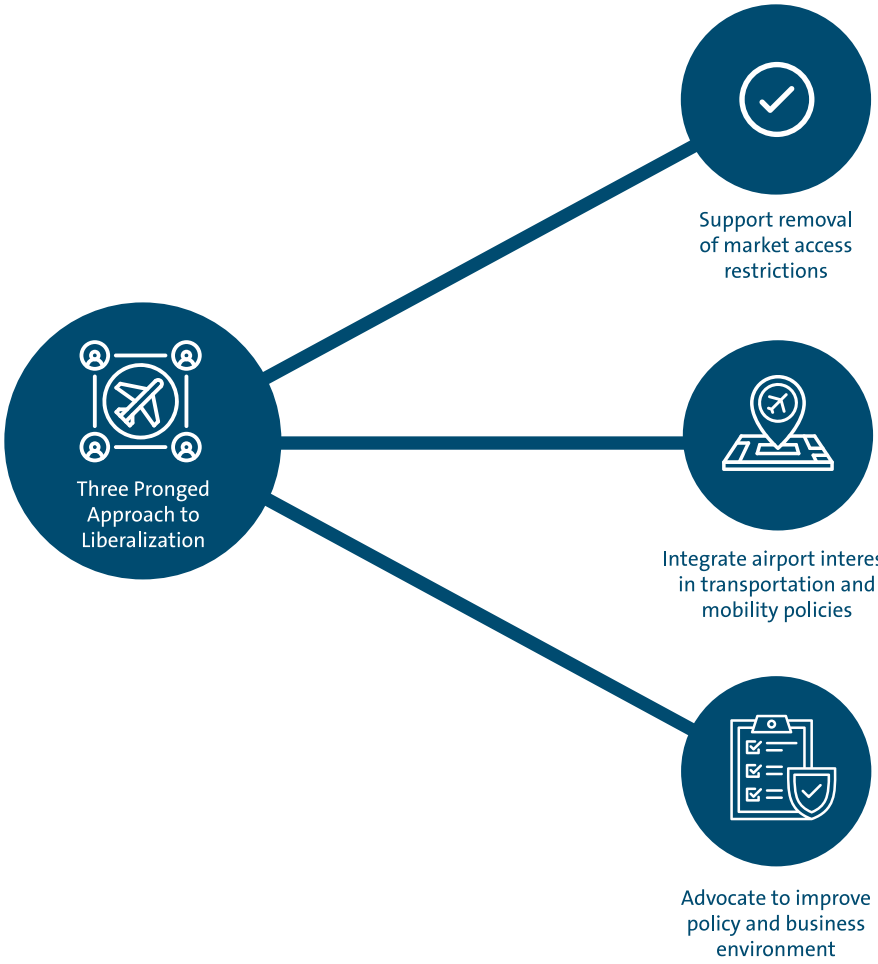
Provisions such as "Fair Competition" have been inserted in the BASA to ensure that open markets benefit consumers and enhance competition in the marketplace. In recent years, governments in mature markets have become particularly proactive in delineating the scope of "safeguards" to protect the competitive landscape available to airlines and avoid unfair business practices including state subsidies. The use of this provisions has opened up various debates around what do we mean by "level playing field" and certain obligations of airlines surrounding "financial transparency and disclosure". The most public examples were the war against Gulf carriers launched by the 3 biggest U.S. airlines ("Big 3") and the insertion of fair competition clauses by European countries and Australia in their BASA with Gulf countries. Airports have an interest in supporting a competitive market landscape for airline operations so they should follow with attention the scope of new "safeguards" limiting the commercial freedom of airlines.

6 Conclusion: Agenda for the Future

As discussed in previous chapters, the path towards a more liberalized air transport has taken different shapes and has often adapted to the local political and institutional context, aviation industry evolving realities, and influenced by geopolitical and trade developments. Four landmark cases of liberalization were presented: Deregulation and open skies (U.S.), liberalization, internal aviation market and external aviation policy (EU), synergetic liberalization (Australia/NZ), and phased liberalization (ASEAN). As we have seen, the Latin American and Caribbean (LAC) region still faces a number of challenges. For example, with the exception of some Caribbean islands, most LAC residents take fewer flights per year compared to other countries with similar income levels. We also noted that low levels of propensity to fly can be exacerbated by outdated market access rules, burdensome regulatory and business environment, unilateral policies and regulations without previous consultations, and a general non-alignment of aviation policies across countries in the LAC region.

Building on ACI-LAC's vision for air liberalization as captured by the Miami Declaration of November 2023, this last section presents a vision forward for air liberalization in the Latin America and Caribbean region that encompasses the removal of remaining market access restrictions but also improvement to the local policy and business environment in various areas and a proactive role for LAC airports.

Fig.59 Three-pronged ecosystem approach for air liberalization by Latin America and Caribbean Airports



Miami Declaration of 2023

On November 6, 2023, ACI-LAC called on governments in the region to take urgent action in order to progress air transport liberalization and improved air connectivity. The Miami Declaration recognizes that airports are natural engines of socio-economic and tourism development, triggering economic benefits for surrounding communities, providing air connectivity to shippers, travelers, and businesses, and ultimately enhancing the competitiveness of countries, regions, and cities. In addition, it emphasized that the aviation ecosystem in the LAC region has much to gain from a liberalized framework that provides airlines the freedom to operate international air services without being burdened by market access restrictions.

To achieve the above vision, ACI-LAC proposed that it is necessary to deploy greater efforts towards the achievement of a fully liberalized framework and a competitive business environment that fosters greater air connectivity in the LAC region and provides airports the tools to further enhance current services, attract new flights and the ability to market themselves to reach their full commercial potential.

6 Conclusion: Agenda for the Future

While applauding past and current liberalization initiatives undertaken by individual countries and regional organizations in the LAC region, the ACI-LAC suggested that there is much work to be done to establish a "Made in LAC" Single Aviation Market that brings progress and prosperity to the region, and competes directly with more advanced aviation regimes around the world. As such, the Board of Airports Council International – Latin America & Caribbean (ACI-LAC) agreed that urgent and sustained action should be taken on the following:

- National governments in the LAC region to provide a liberalized (up to 7th freedom for passenger and cargo services), flexible, and transparent regulatory framework for the provision of international air services, driven by the ultimate goal to promote the overall competitiveness of the LAC region.
- Local governments and relevant authorities to provide an attractive doing business environment for the provision of international air services through the implementation of smart regulations and effective policies and administrative processes to support the growth of the aviation sector in the LAC region.
- National governments to connect their aviation policies to broader transportation and economic objectives, including mobility, logistics and tourism policies, while also fostering the development of airport infrastructure to accommodate current and future traffic growth.
- Governments and the entire aviation ecosystem to consider sustainability aspects in the development of air services within the region, in line with ACI policies, strategies and frameworks.
- Governments to consult actively and proactively with aviation industry with a view to minimize the regulatory temptation to impose additional administrative and financial burdens on air operators and support new regional services.
- Industry should serve travelers according to the highest standards of customer experience and local communities should benefit from industry growth.

Three-Pronged Vision to Achieve Further Liberalization and Policy Coherence

Building on the vision of the Miami Declaration of 2023, the deployment of a coherent advocacy agenda for airports, based on tangible and continuous progress towards a more liberalized operating environment, can be achieve on three fronts: (1) support the removal of remaining market access restrictions at the level of bilateral air negotiations, (2) work with local authorities to improve the policy and business environment applicable to aviation activities, with a focus on air services, and (3) promote airport interests in transportation, infrastructure and environmental policies. Other aspects that should be considered by airports is the importance to deploy advocacy according to an ecosystem approach illustrated in figure 52 and with a renewed focus on capacity-building.

It is in the immediate interest of airports in the Latin America and Caribbean region to continue to push forward the air liberalization agenda according to a three-pronged vision that is built on an ecosystem approach that seeks synergies with other stakeholders such as airlines. Airports in the region have the unique opportunity to contribute to the development of a model of liberalization that reflects their own realities and can support the achievement of their ambitions into the future.

Last considerations

Going forward, an important consideration for airports should be the value of capacity-building to handle aeropolitical issues effectively to help progress greater market access and a friendlier doing business environment for international air services. It is thus vital that liberalization becomes part of the suite of airport strategic objectives.

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