

# 1. Introduction

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This book offers a critical and wide-ranging assessment of the air transport liberalization process during the past 40 years.

This process is first located within the broader deregulation movement of the late 1970s and 1980s, which, in addition to specific national events, was partly the product of economic globalization at that time, resulting in economic integration and competitive pressure on nation states and their protected industries. All network industries were concerned, to varying degrees. In addition, air transport was only one sector subject to reform; other affected networks include the liberalization of national telecommunications and postal sectors, of energy, of surface transport and of the water and sanitation sectors. The Anglo-Saxon countries typically deregulated the operations of their network sectors early, with continental Europe typically following suit, often driven by the European Commission, although Eastern and Central Europe countries were driven by larger shifts in their political structures. While such regulatory reform – or, to use the American jargon, “deregulation” – triggered fierce ideological debates, it gradually became clear that greater liberalization of both operations and infrastructure sectors allowed the network industries to better adapt to the efficiency and competitiveness requirements of an increasingly integrated and global economy.

Of course, there were often good reasons why the different national network infrastructures and their operators were originally protected and regulated in order to, depending on their intrinsic natures, minimize the distortions that can occur in excessively competitive or monopolist structures. This was particularly the case when networks were vital elements in the economy, either in terms of conventional economic development or as conduits for allowing greater social and political integration. In aviation in the 1920s and 1930s, such reasons initially pertained to ensuring mail networks, to tying ex-colonies to their mother countries, to passenger services to less populated areas and to social services more generally, to national interests and corresponding control over flag-carriers, to the support of the military, and of course to safety, along with broadly defined national interests, as later enshrined in the 1944 Chicago Convention.

While national interests were initially of primary importance in large local markets, such as that of the United States, globalization subsequently played a major role in transforming aviation. However, the changes were not only brought about by national and international expediency. As we see in several of the contributions, new economic ideas about regulatory capture and about forms of competition, including theories of competition-for-the-market, contestability, and competitive tendering, were also driving forces, as were empirical studies showing the distortions that excessive regulation was inflicting on economies and social welfare. But aviation was not transformed by ideas alone. Part of the evolution of aviation simply had to do with the very practical matter of economic growth and the increasing demand for air travel and for air freight transportation, especially more recently in the emerging countries of Asia and to a much lesser extent of Latin America and Africa.

On the supply side, there have been important technological developments, especially when it comes to aircraft, such as the adoption of wide-body jets, longer-range airplanes, standardization of equipment, and the possibility of two-crew cockpits. Significant changes have also taken place at the airport level, where new financing mechanisms have allowed for the development of existing capacity and the emergence of new capacity, and as new business models have been introduced with greater emphasis on complementary revenue sources, including car parking and retail concessions. Some technological and managerial developments have also been introduced into air traffic control that have increased its capacity and facilitated the growth in traffic that has accompanied airline liberalization and the growing air transport market. These have included incremental improvements in radar-controlled traffic management, better weather forecasting, and greater coordination of air traffic management systems and financial arrangements. Airlines eventually found new business models and practices, such as low-cost operations, new yield management techniques, frequent flyer programs, and alliances. A large portion of global air traffic is now carried by three strategic alliances, affording considerable benefits of economies of scale and scope.

However, despite technological, economic, commercial, financial and ideological trends favoring national, regional and global air transport growth, liberalization remains – with the exceptions of Europe and Central America in the specific case of air traffic control – largely a national matter. Consequently, there have been significant differences regarding the state and especially the outcomes of the liberalizations in the various countries and regions. This book begins by discussing regulatory liberalization and its effects in the world's main aviation markets – including the United States (Chapter 2), Canada (Chapter 3), Australia (Chapter 4), Ireland

(Chapter 5), India (Chapter 6), and China (Chapter 7) – and regions, such as Europe (Chapter 8), Latin America (Chapter 9), and Africa (Chapter 10).

After considering the main national and regional developments in the aviation sector, the second section of the book discusses the main fears or objections that have been leveled against deregulation of air transport; namely, safety (Chapter 11), social services (Chapter 12), oligopolization (Chapter 13), the ensuing persistence of the hub-and-spoke system (Chapter 14), and market instability (Chapter 15). While most of these fears have turned out to be unfounded, air transport deregulation, and especially its success, has actually led to new, originally unanticipated challenges. In the third section, we discuss two emerging challenges in the aviation sector: mounting concerns over security (Chapter 16), and the challenges in air traffic control in Europe (Chapter 17) and other parts of the world (Chapter 18). Air traffic control is the remaining element of global aviation that is still heavily regulated with continuing diversity in national approaches. As well as national institutional rigidities, in terms of technology, the global network is still based upon radar systems awaiting a shift to more flexible and efficient satellite-based air traffic management. There are inevitably other challenges that we have not addressed, including reducing the adverse environmental imprint of aviation; developing institutions that permit the maximum exploitation of economies of scale, scope and density without the economic distortions that can accompany monopoly power; and ensuring that less developed parts of the globe are not excluded from the benefits of adequate air transportation. However, such challenges will have to be left for further research and publications.

Here, we have simply gathered the most relevant and highest quality inputs on all the various dimensions of air transport liberalization.

