

PROSPECTS FOR COMMERCIAL AIR-NAVIGATION IN SOUTH AMERICA

The ALADI - ECLAC Seminar

Latin American Association for Integration -

Economic Commission for Latin America and the Caribbean

Santiago, Chile, 15-17 April, 1997

Experts from the public and private sectors of Brazil, Chile, Colombia, Paraguay, Peru, Uruguay, and Venezuela participated on a private basis in an open debate. Representatives from the International Association of Latin American Air Transport (AITAL), the Latin American Civil Aviation Commission (CLAC), and the International Civil Aviation Organization (OACI) also attended the meeting.

The topics analyzed in the Seminar were:

1. The situation and prospects for international air-transport: policies and tendencies in the United States and the European Union.
2. South American sub-regional agreements.
3. The evolution of national policies in the region.
4. Structural changes in corporate management.
5. The use of commercial air-traffic rights.
6. Security in air-navigation.
7. The challenges facing regional airlines.

Principal Conclusions and Recommendations

A. General conclusions

In matters of air-transport, it is recognized that there is a need as well as both advantages and usefulness in South America having a set of common criteria for commercial air policies that permits development in a new climate of flexibility and openness of markets in a secure, efficient, and economic manner.

Likewise, it is thought that operational security and civil aviation security are the essential elements among those sustaining air-transport, commitments to their protection being made by the Signatory States to the Chicago Convention on International Civil Aviation in 1944.

It has been shown that the competitive advantages derived from new technologies of management and commercialization and from new formulas for cooperation together with the prevailing methods of transferring ownership South American airlines require, among other actions: modernizing the prevailing structure of standards, particularly in relation to the granting of traffic rights; fulfilling the recommendations on facilitation; undertaking studies of the tax burden on companies and of the region's air-activity; and effecting a readjustment of the contribution of national authorities to the development of the air-transport sector.

B. Elements of a common regional policy on matters of commercial air-navigation

Analyzing the components of a regional air-policy to promote the most competitive South American air-transport system possible, and keeping in mind agreements already reached as well as those that might arise in the work of various specialized fora in the region, the treatment of the following matters is considered of particular interest:

1. The benefits of expanded markets

Recent experience with the opening of markets for the region's international routes supports the conclusion that it has been a positive one for companies as well as for customers, and for countries as a whole.

In South America, increases in frequencies have supported a considerable growth in traffic volume on specific routes, and these increases have provided the opportunity for companies of the region to confront favorably the extraregional competition on them. Also, increases in frequencies on extraregional routes have benefited the companies of the region through increases in their share of traffic.

In this context, it is recommended that air-transport policies be adopted that are supportive of opening traffic by the companies of the region and among them as well with a purpose of strengthening regional companies and, by so doing, helping them to become more competitive in extraregional markets, thus creating for them a better environment for negotiation in possible future alliances with extraregional companies.

2. Convergence of national processes and regional agreements

Existing regulations in the Andean Community, the subregional agreement adopted by the countries of Mercosur, Chile and Bolivia, permit the service of new markets for regular air-services. This, together with the institutional framework that has emerged on the national level as a result of privatization processes, on the one hand, and the proliferation of agreements among companies on operations and commercialization, on the other, are promoting convergence and increased regional homogeneity in commercial air-transport.

This situation surely constitutes the basis for moving forward towards increased coordination between authorities of the region in search of a uniform operational framework with more homogeneous systems of standards and regulations.

In this context, it is recommended that progress continue both in the expansion and in the articulation of existing multilateral agreements. Likewise, it is recommended that the facilitation standards be met for passenger and air-cargo transport that were adopted by the OACI and the CLAC.

3. Improvement in corporate management

The most recent techniques of corporate management, based on revenue management and information systems, have provided substantial competitive advantages to large, extraregional airline companies. These systems permit the optimization of corporate income through a complex administration of costs and risks as real time adjustments of tariffs and the supply of seats are transmitted by computer to reservation systems. On the other hand, new systems of direct sales of fares are being developed that create additional advantages to the airlines that are in a position to offer them.

The airlines of the region will have to continue adjusting to these profound changes in the management of their costs of supply, incorporating technologies that permit them to improve their efficiency, become more competitive in international markets, and offer their customers better services.

In this context, it is recommended that a wider diffusion be achieved of these new systems of administration and that regional cooperation be promoted in these and other aspects of corporate management. Also, it is recommended that authorities help to ensure that the benefits attributed to these new administrative systems reach, in fact, customers.

4. Commercial competition

The growing competition in national, regional, and extraregional markets, new techniques of corporate management, and strategic alliances through codes of conduct among airlines, *inter alia*, create new challenges to authorities as they labor to safeguard conditions of equal participation in markets as well as to defend the interests of air-transport customers.

It is believed that national authorities of the region should give special attention to the identification analysis and intervention to correct the practice of unfair competition and to ensure that, as far as possible, the companies of the region encounter the same operating conditions as do companies outside the region. For this, it is necessary to develop a greater mutual understanding between the authorities and the aerocorporate sector to achieve a better understanding of prevailing conditions in national, regional, and extraregional markets.

In this context, increased cooperation is recommended between authorities to analyze and confront the problems and the challenges of the region in the fields of commercial competition and market access. These include matters such as tax burdens, labor regulations, equipment rental contracts, and access to computerized reservation systems, for example.

5. Traffic rights: criteria for award

The increase in competitiveness and the need to achieve maximum use of available capacity of equipment and services have generated situations that, in fact, have thrown into doubt the guiding principles for awarding traffic rights by national aeronautical authorities when these rights are granted to airplane charterers who are not engaged in operating airlines.

With regard to the increase in charter contracts in which the nature of the operator is not clear where national

companies are authorized to utilize traffic rights and when the operations are protected by charter contracts using airplanes run by a foreign transporter, the award to national companies of traffic rights raises the doubt if an airplane charterer should be the title holder of traffic rights.

It is proposed that uniform criteria be adopted that avoid the awarding of traffic rights by the region's civil aeronautical authorities to companies that are not engaged in the utilization of airplanes for commercial purposes. In a like manner, when an authority awards traffic rights to companies operating planes in the framework of charter contracts, it is proposed that this be done in a way that responds to the necessities of additional capacity in a temporary and not in a permanent way. On the other hand, it is recommended that the countries of the region that have not done so ratify Article 83 of the Chicago Convention on the transference of liability from the country of registry to the country of the operator.

6. Cooperation in the field of air-security

In various civil aeronautical administrations of the region important deficiencies in the human resources, both technical and financial have been observed, that are required to effect the controls necessary for operational security. Moreover, the OACI has shown that, in a program of operational security supervision, there were cases in which national airlines achieved levels of fulfillment of international security standards that were much higher than those that their respective administrations, for lack of resources, would be in condition to certify.

These deficiencies, and the recent classifications in categories 2 and 3 issued by the FAA of the United States with the consequent suspension of the aerocommercial services of regional airlines to and from that country, make all the more evident the necessity for meeting international standards of operational security, not only for the protection of customers and of populations but also for commercial reasons and for the operation of the companies that are affected in the region as well.

It is proposed, in this field, that mutual cooperation among civil aeronautical administrations of the region be stimulated and that use be made of the programs promoting vigilance in matters of operational security and technical assistance that OACI makes available to contracting states. At the same time, regional coordination is necessary to analyze solutions which might ensre that the defects identified in the introduction of international standards by administrations charged with supervising operational security do not cause the suspension of aerocommercial services in the affected country.

TRANSPORT LIBRARY

The Transport Unit of the Division of International Trade, Transport, and Finance maintains a specialized library of about 5,500 volumes which emcompass topics such as on maritime transport, urban railroads, multimodal transport, and highways in addition to manuals and magazines specialized in transport, and directories, treaties, etc., that support the work of internal and external researchers from both the public and private sectors.

A work plan is being developed by which this specialized library is expanding and upgrading its external documentary service by using modern computational resources. Interested parties can access this library by e-mail, Ms. Bárbara Donoso: bdonoso@eclac.cl, telephone: 56-2-2102217, Transport Unit, ECLAC, Santiago,

Chile.

Below is presented information about various documents prepared and published by ECLAC.

MARITIME TRANSPORT

(1899) XC NU.ECLAC. Transport Unit. *Structural changes in ports and the competitiveness of Latin American and Caribbean foreign trade; Cuaderno 65, Santiago: ECLAC, 1991, 140 pp.*

Summary: At the beginning of the sixteenth century, ports were no more than 50 nautical miles apart. Due to inexact navigation systems, vessels limited themselves to daylight sailing along coast lines between that city and other communities in the Mediterranean, Western Europe, the Baltic and to the Red Sea via the Suez landbridge. With the development of accurate marine navigation vessels began to call at ports with better facilities and larger volumes of cargoes, and this initiated the trends toward cargo concentration and port consolidation. In the 1890s, dock workers began to respond to the casual nature of port employment and labor-saving technologies by organizing into unions and making strenuous efforts to avoid the adoption of such technologies. These cargo, port, labor and technology trends are stronger today, as ports face specialized scale-economy vessels, high-capacity cargo-handling equipment, long-distance inland transport, privatization, decentralization and deregulation of transport, computers and communications systems. LC/G.1633-P <MARITIME TRANSPORT> <TRANSPORT PLANNING>.

(2875) XL NU.ECLAC. Division of Transport and Communications.

The restructuring of public-sector enterprises: the case of Latin American and Caribbean ports; Cuaderno 68. Santiago: ECLAC, 1992. 148 pp.

Summary: The public-sector ports of Latin America and the Caribbean face a crisis in almost every aspect of their activities. The consequences of government ownership and operation of ports can be seen from a chronic overstaffing, political constraints on the construction of facilities at new sites and on the movement of certain activities to more appropriate locations, costly work arrangements, low productivity and charges far in excess of international levels. Without a reduction in costs and an improvement in productivity at many ports of the region, a decisive opportunity to enhance the competitiveness of the region's exports in international markets will be lost. Latin American and Caribbean governments seek to restructure their ports so that they might better support national economic growth goals.

Series: Cuadernos de la CEPAL, n. 68 LC/G.1691-P <MARITIME TRANSPORT> <INSTITUTIONAL FRAMEWORK> <TRANSPORT PLANNING> <DESREGULATION> <DECENTRALIZATION> <PRIVATIZATION> <CONCESSIONS> <PORTS>.

(3327) CL MX NU.ECLAC. Transport Unit. *Cargo transport services between Chile and Mexico. Santiago: ECLAC, 1993. 44 pp. LC/L.725.*

Summary: One of the conclusions of the Regional Seminar on the Commercialization and Competitiveness of Latin American Exports that took place in Santiago, Chile, during 9-12

September, 1991 was that public action should wisely support the process of export-promotion in which the countries of the region are engaged. With a purpose of achieving this goal, productivity should be increased and the costs reduced of all activities and functions including the handling of products in transport service corridors. In this sense, the usefulness of undertaking a study of the transport and service corridors between Mexico and Chile was proposed, recognizing that the recent signing of the Agreement on Economic Complementation between both countries presented an appropriate context for intensifying their commercial interchanges. Given that the analysis of a corridor must be undertaken necessarily for specific modes of transport and prior to the need to strengthen the commercial currents between both countries, the analysis focused aerial and oceanic services as the most appropriate framework for the initial research. From this point of view, the Economic Commission for Latin America and the Caribbean (ECLAC) and the Mexican Transport Institute (IMT) agreed to undertake an initial exploratory analysis of the Chile-Mexico corridor as it relates to the commercial interchanges between these countries and to the aerial and maritime transport involved. The objective of this document is to provide a general overview of this corridor, the role of which, considering all of its components as a whole, is of prime importance in the development of commercial interchanges between both countries.

The activities undertaken by ECLAC and the ITM are divided into four areas. In the first place, the commerce between Mexico and Chile is considered with the objective of understanding its magnitude, characteristics, composition and behavior in the past and, if possible, of postulating some prospects for its evolution in the future. The results of this initial evaluation are presented in Section 1.

The second area of research is an analysis of supply and demand for aerial and maritime services between both countries. In this regard, the principal routes employed, the companies that offer services, and the share of each of the respective commercial interchanges were identified. This area of research seeks to define the conditions of competition between the carriers and the liberty with which others can initiate services, all with a purpose of determining exactly the structure of the market in which the different actors are engaged. The results are presented in Sections II and III.

In the third area, developed in Section IV, are examined the ports that render services in the commercial interchanges between Chile and Mexico. This evaluation includes the volumes of the cargoes that are commercialized bilaterally as well as the equipment, efficiency, and problems of each port. Lastly, the conclusions are presented in Section V. <MARITIME TRANSPORT> <AIR-TRANSPORT> <PORTS> <COMMERCE> <CARGO> <TRANSPORT SERVICES>.

(0525) XL NU.ECLAC. Transport Unit. *Labor reform and private participation in public sector ports; Cuaderno 77. Santiago: ECLAC, 1996. 167 pp. LC/G.1889-P.*

Summary: For centuries, employment conditions for port labor were set unilaterally by maritime employers. For the last few decades, however, in Latin America and the Caribbean they have been determined by Governments (acting as employers) and unions. The existing labor regimes support port workers' desire for an adequate livelihood but also isolate them from market signals and thus give rise to inefficient and grossly overstaffed cargo-handling monopolies. In today's global economy, however, the elimination of such inefficiencies and costs is imperative.

<MARITIME TRANSPORT> <PORTS> <PRIVATIZATION> <TRANSPORT PLANNING> <LABOR RELATIONS>.

(0148) XL NU.ECLAC. Transport Unit. *Course on port modernization: a pyramid of interrelated challenges. Santiago: ECLAC, 1997. 31 pp. LC/R.1655/Rev. 1.*

Summary: The *Course on Port Modernization: A Pyramid of Interrelated Challenges* seek to encourage participants to analyze a wide range of diverse factors such as markets, services, technologies and the legal environment which influence the administration and operation of ports. <MARITIME TRANSPORT> <PORTS> <PORT ADMINISTRATION>.

MULTIMODAL TRANSPORT

(0717) XL NU.ECLAC. Division of Transport and Communications.

Multimodal transport in the Southern cone of Latin America: ECLAC, 1991, 28 pp. Conference: Meeting of Ministers of Public Works and Transport of the Countries of the Southern Cone, 18, Lima, PE, 18-22 November, 1991. LC/R.1070.

Summary: Transport operation and the supervision of its various modes has given rise to terms such as 'combined transport', 'intermodal' and 'multimodal'. In fact, these terms refer to distinct actions and concepts. By the term 'combined transport' is understood an operation that consists of transport elements of distinct modes being used for the transport of the same cargo, a common example being the transportation of truck trailers on railroad flat cars. Intermodal transport is that which is effected by using various modes of transport in the context of the same operation. Multimodal transport differs from intermodal transport in the documentation and legal aspects involved. In intermodal transport each carrier emits a document and responds individually to the cargo owner for the service rendered. In multimodal transport the cargo is under the responsibility of a single operator who emits a single document, operating with a single contract that, in fact, is superposed over the subcontracts covering each mode separately. <TRANSPORT MODES> <MULTIMODAL TRANSPORT> <INSTITUTIONAL FRAMEWORK> <LEGAL ASPECTS> <OPERATIONAL ASPECTS>.

(3499) XL NU.ECLAC Transport Unit.

Channels, chains, corridors and competitiveness: a system approach and its application to six Latin American export products. Santiago: ECLAC, 1992, 182 pp.

Summary: In order to analyze spatial and temporal imbalance and the obstacles that have to be overcome so that Latin American products arrive under competitive conditions at international markets, a model of the commercialization of Latin American exports was constructed. It serves as an analytic framework that permits one to categorize economic agents participating in international commerce as well as their activities with a purpose of examining the interrelations between them and with the environment in which commerce evolves. The model permits one to identify problems and obstacles and to anticipate not only a basis for formulating solutions but also to evaluate and envisage the effects that they might have. Likewise, the model makes it possible to appreciate, with greater clarity, the complex process of export commercialization so that, in applying it, one can understand better the process itself as well as the elements that are most influential in the

competitiveness of Latin American export products.

Series: Cuadernos de la CEPAL, N°70. LC/G.1732-P <MULTIMODAL TRANSPORT> <MARITIME TRANSPORT> <ROAD TRANSPORT> <CASE STUDIES> <ECONOMIC MODELS> <COMMERCIALIZATION> <EXPORTS> <COMPETITIVENESS. <CORRIDORS>.

(4092) XL NU.ECLAC. Transport Unit.

Regional Seminar on Multimodal Transport Regulations: synthesis and conclusions (Montevideo, Uruguay, 21-23 June, 1993). Santiago: ECLAC, 1993, 32 pp.

Conference: Regional Seminar on Regulation of Multimodal Transport, Montevideo, UY, 21-23 June 1993. LC/R.1324.

Summary: This seminar should be viewed as an attempt to analyze in Latin America the possible convergence of regulatory processes in consonance with the new vision that, with the UNCTAD/CCI Rules, has emerged in international trade. The regulatory focus presented to the seminar does not mean to assign priority to legal over operational aspects but, rather, it reflects the aforementioned regional situation in which various countries and subregional groupings in the region have set into motion parallel legislative processes impacting the operation and the operator in multimodal transport. Such a focus lacks a detailed analysis of the functional components of multimodal transport such as insurance, banking and commercial practices of purchase and sale, customs' controls, tax aspects and foreign exchange control, electronic interchange of data, the technology of multimodal transport and its comparison with unimodal transport, the operation of internal cargo areas, the economic framework of the markets for transport and services, and the commercialization of imports and exports. These aspects merit special attention because they will, in practice, determine the viability of multimodal transport in the region. They were treated in the framework of the seminar insofar as operational practice could lead to one or another regulatory option. This document synthesizes six of the presentations made at the seminar, and it reports the most important conclusions of the debates that took place during it. <MARITIME TRANSPORT> <MULTIMODAL TRANSPORT> <PORTS> <STANDARDS> <TRANSPORT COMPANIES>.

(0689) AR CL NU.ECLAC. Transport Unit.

A first approximation to a study of transport services in integration spaces: the case of Argentina and Chile; Santiago: ECLAC, 1996. 38 pp.

Summary: The legal-administrative framework that governs interchanges between Argentina and Chile is shaped by bilateral and multilateral agreements. In both cases, sectoral negotiation many times resolves the practical problems that arise in the application of governmental agreements without the existence of formal mechanisms of governmental coordination. Commerce between Chile and Argentina has enjoyed a marked acceleration during the 'nineties. Prior to this, bilateral trade suffered fluctuations that frustrated stable growth in transport services. Actually, bilateral trade is effected using four modes of transport: maritime, railroads, roads, and air, although road transport strongly predominates. With the intensification of bilateral trade, the obstacles to international road transport have become evident, such as inadequate frontier controls and a deficient infrastructure, all of which impact negatively on travel-time, turnaround-times, and on profitability. LC/R.1633 <MULTIMODAL TRANSPORT> <ROAD TRANSPORT> <TRANSPORT CORRIDORS> <BIOCEANIC CORRIDORS> <INTEGRATION>.

(3019) XL NU.ECLAC. Transport Unit.

Seminar on multimodal transport in Latin America: synthesis and conclusions. Santiago: ECLAC, 1996, 24 pp.

Conference: Seminar on Multimodal Transport in Latin America: Synthesis and Conclusions, San Salvador, 5-7 September, 1995. LC/R.1646.

Summary: In the XVI Meeting of the Transport Coordinator held at the Secretariat of the Treaty of Central American Integration (SIECA) in Guatemala City in February, 1995, it was established that, inter alia, the Economic Commission for Latin America and the Caribbean (ECLAC) would sponsor and realize, together with the Central American Commission of Maritime Transport (COCATRAM), in 1996 in Central America, a Multimodal Transport Seminar. This event took place in San Salvador, El Salvador, during 5-7 September, 1995 in which participated specialists from Central America, Latin America, and Europe with a purpose of analyzing the obstacles and challenges that this transport mode faces in Central America and identifying the principal areas of activity that require, on a priority basis, the participation of the corporate and state sectors and of users. <MULTIMODAL TRANSPORT> <CUSTOMS> <PORTS>.