



AGENDA FOR FREEDOM



The case for wider and deeper liberalisation of air transport

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The case for **liberalisation**

➤ Why air transport is similar to banking

- Bank credit facilitates trade and market transactions
- Air connectivity facilitates trade and globalisation



The case for **liberalisation**

➤ Why air transport is **different** to banking

- Risk of failing financial system largely from lack of regulatory oversight
- Risk of failing air connectivity largely from restrictive market access and ownership regulations



The case for **liberalisation**

- **Best practice regulation is focused on market failure**
 - Bank prudence
 - Air transport safety and security



The case for **liberalisation**

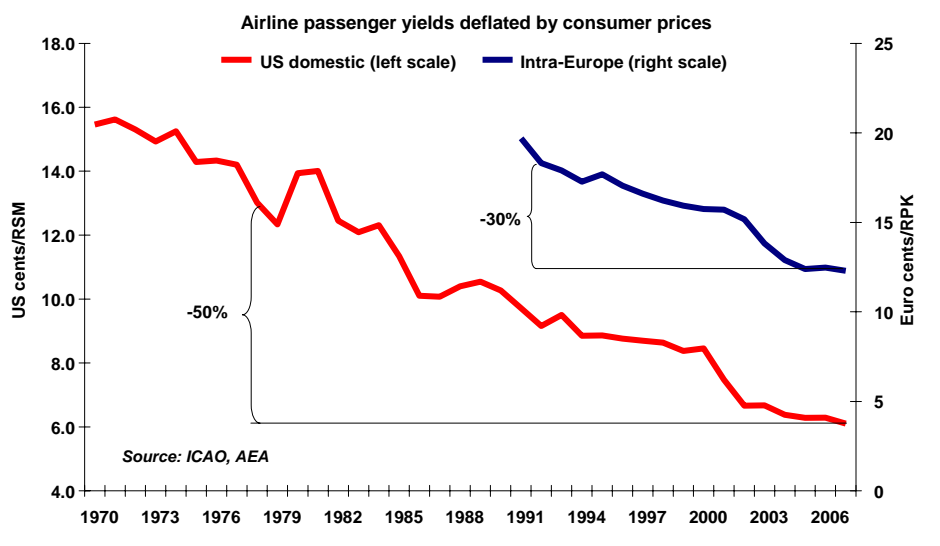
- **No clear market failures justify regulating market access or airline capital and ownership structures**



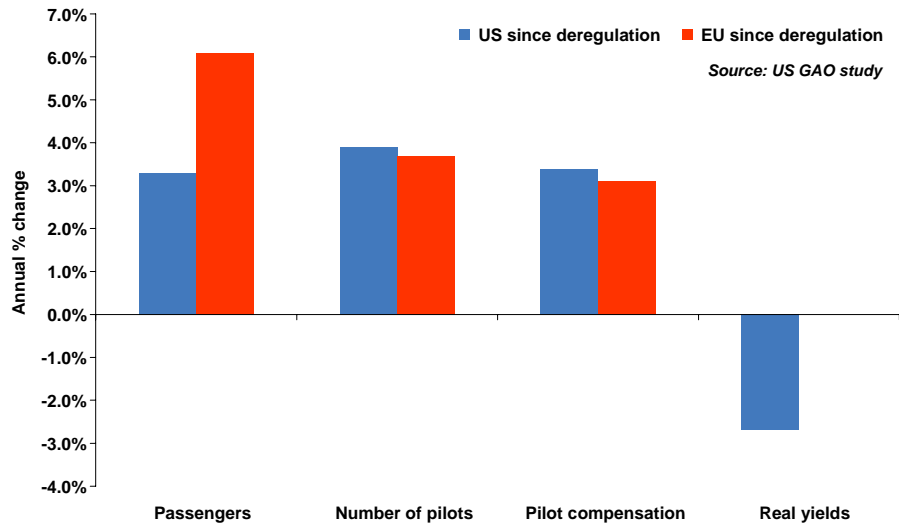
Other network industries already have commercial freedoms

- Banking
- Electricity and gas
- Telecoms
- Media

Liberalisation has brought large benefits to **air travel consumers**



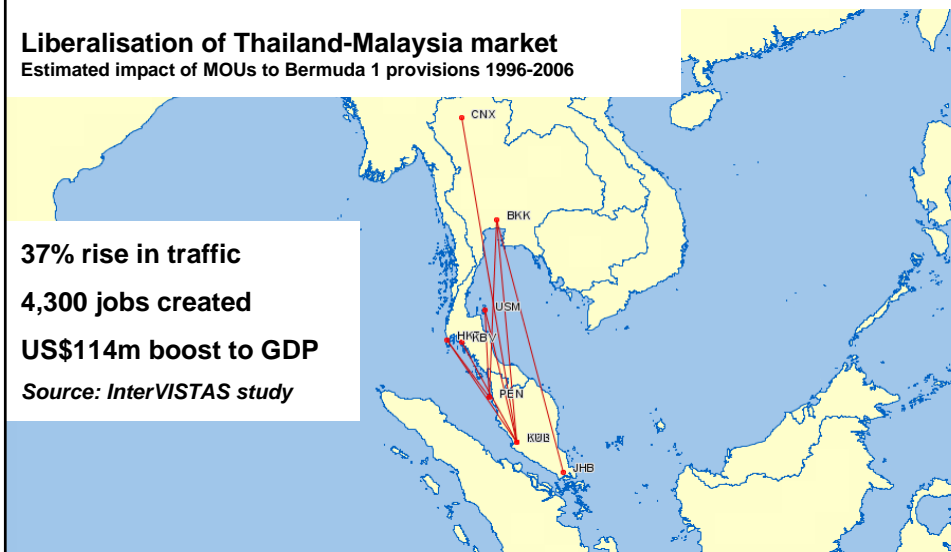
Employees have also benefited from post-liberalisation expansion



There have been large benefits for the wider economy as well

Liberalisation of Thailand-Malaysia market
 Estimated impact of MOUs to Bermuda 1 provisions 1996-2006

37% rise in traffic
4,300 jobs created
US\$114m boost to GDP
 Source: InterVISTAS study



Studies have shown consistent wider economic benefits

Liberalisation of Australia-New Zealand market

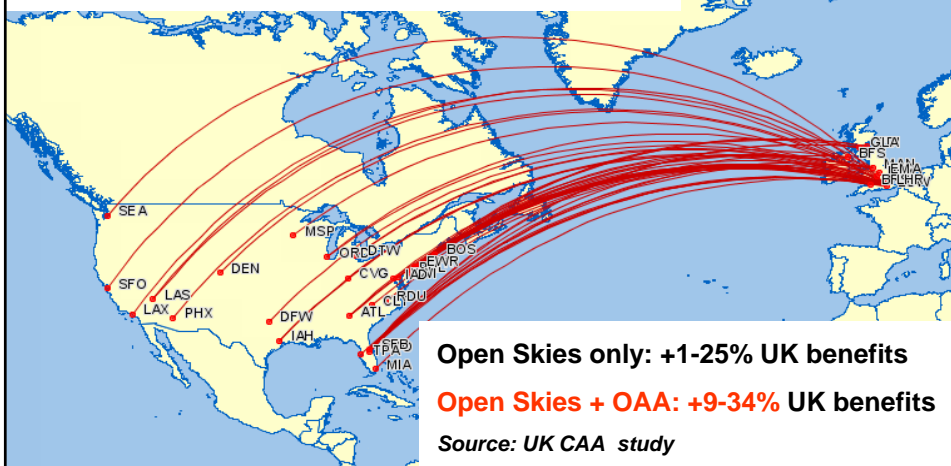
Estimated impact of Single Aviation Market
1996, Open Skies 2002



Deeper liberalisation would bring additional economic benefits

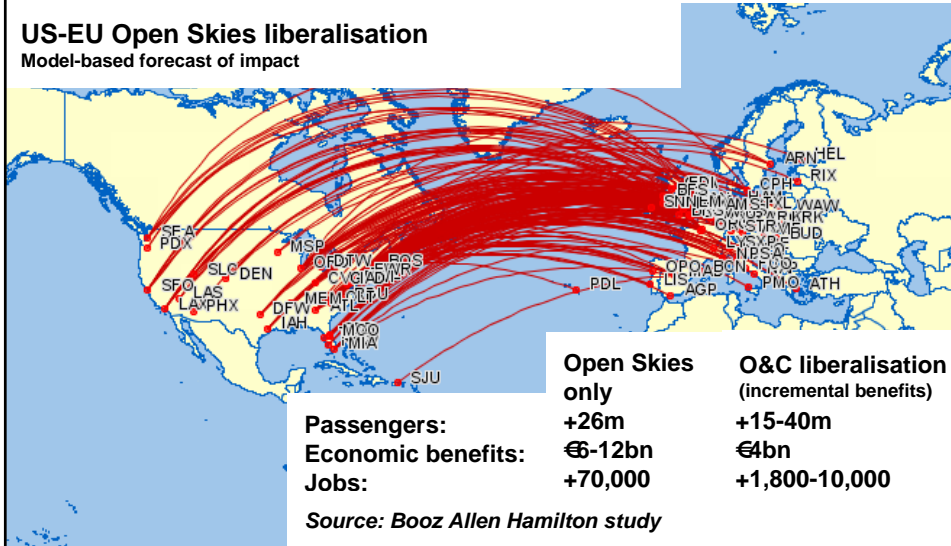
Liberalising the US-UK Bermuda II bilateral

Model-based forecast of impact

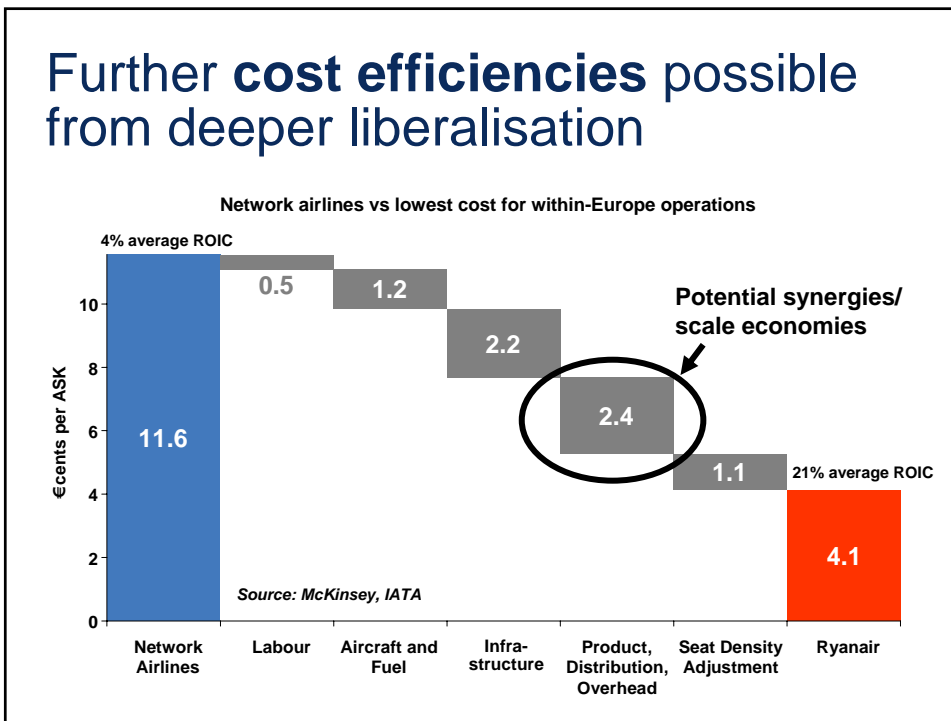


Studies suggest additional economic benefits would be **significant**

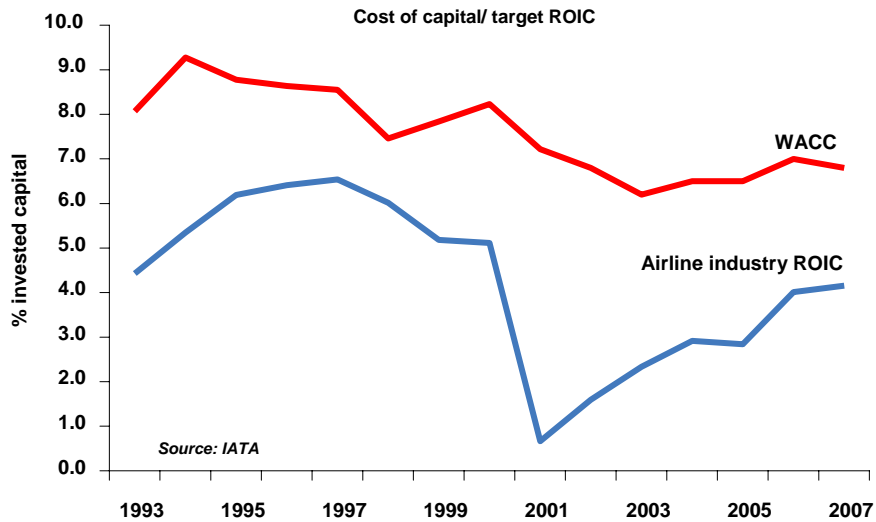
US-EU Open Skies liberalisation Model-based forecast of impact



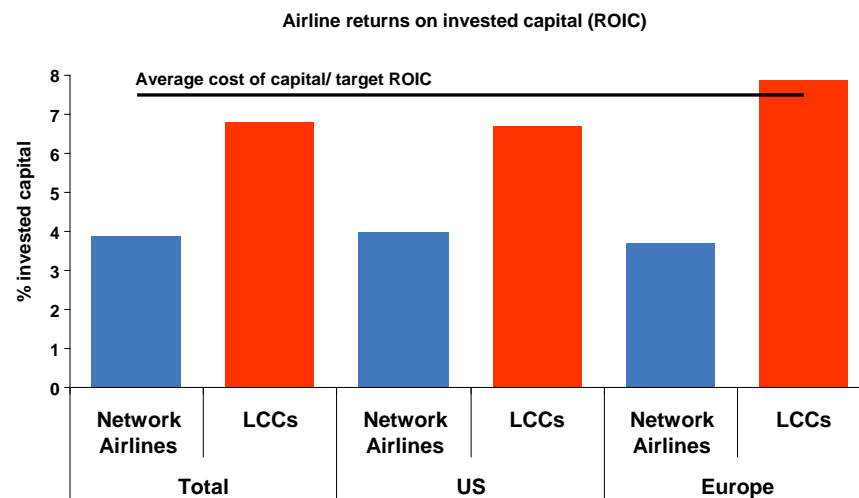
Further **cost efficiencies** possible from deeper liberalisation



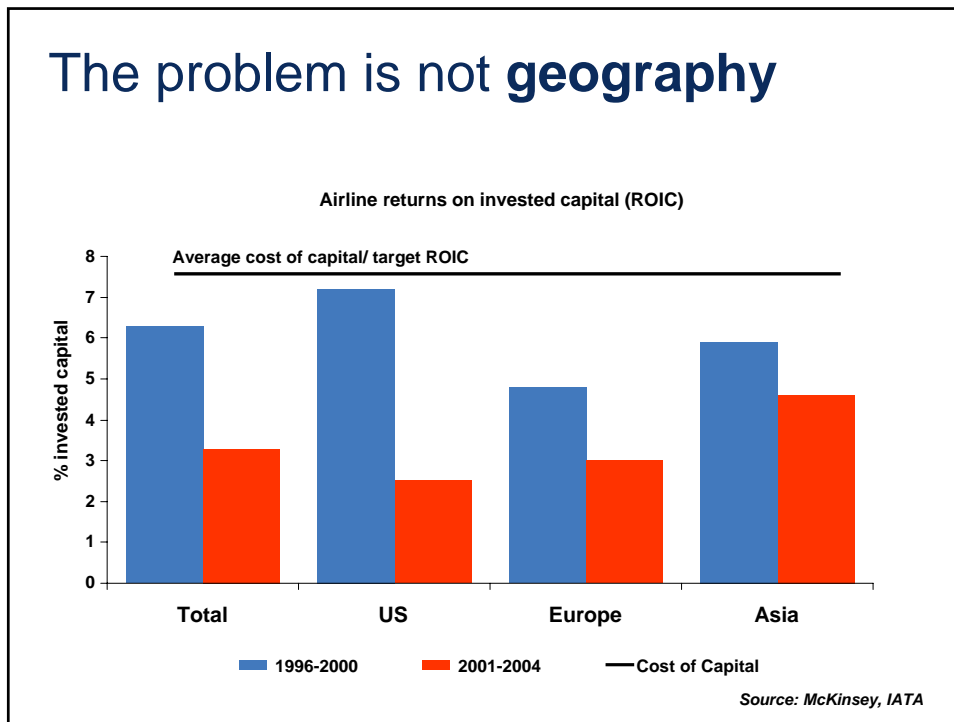
Deeper liberalisation may address financial unsustainability of airlines



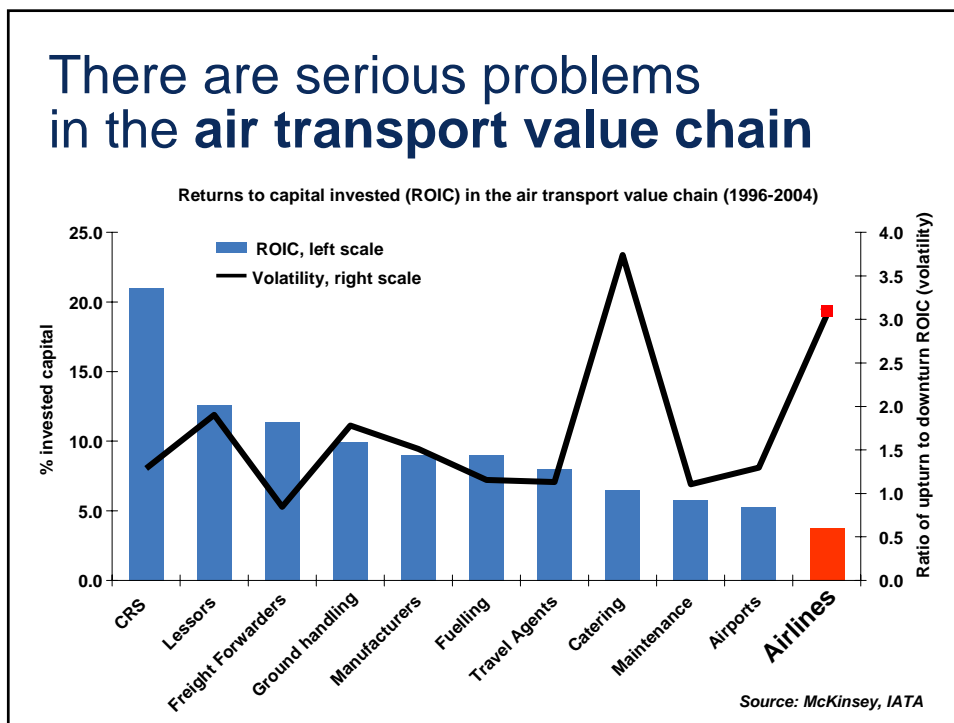
The problem is not with business models



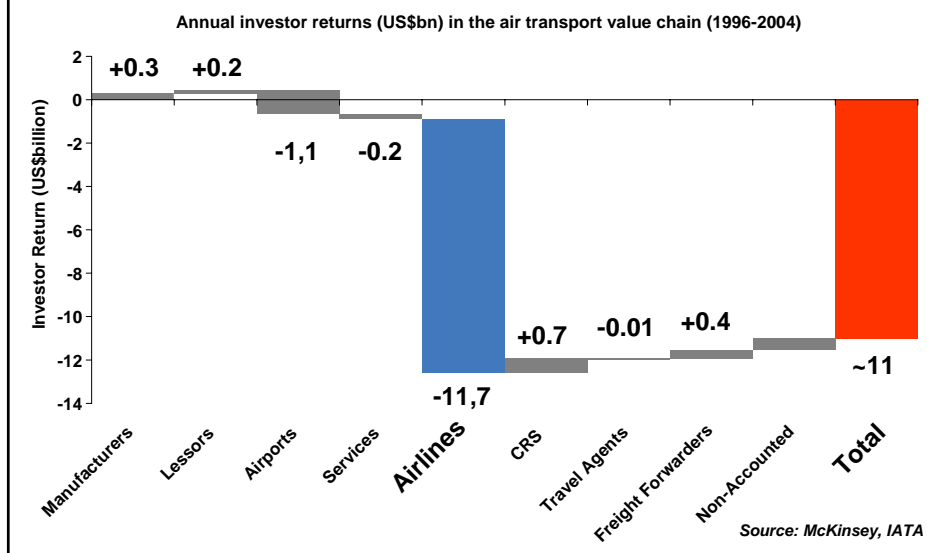
The problem is not geography



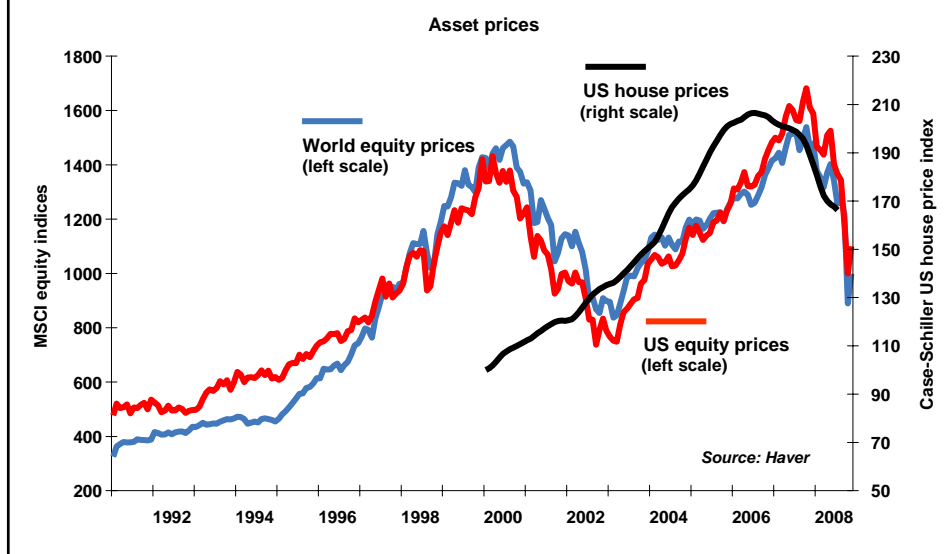
There are serious problems in the air transport value chain



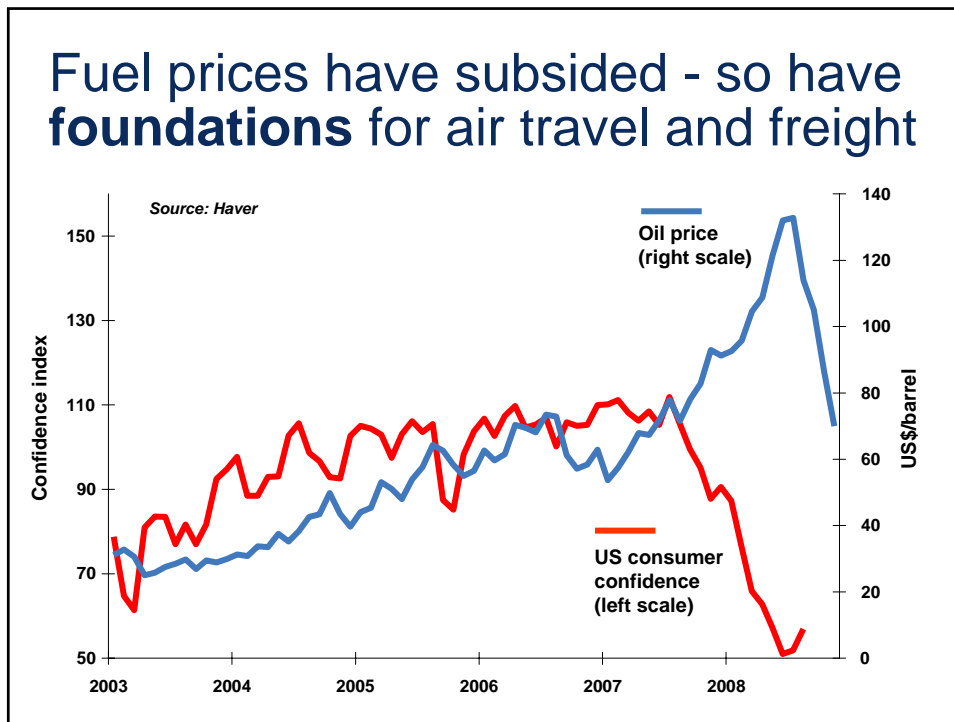
But **returns** are unsustainably low for air transport as a whole



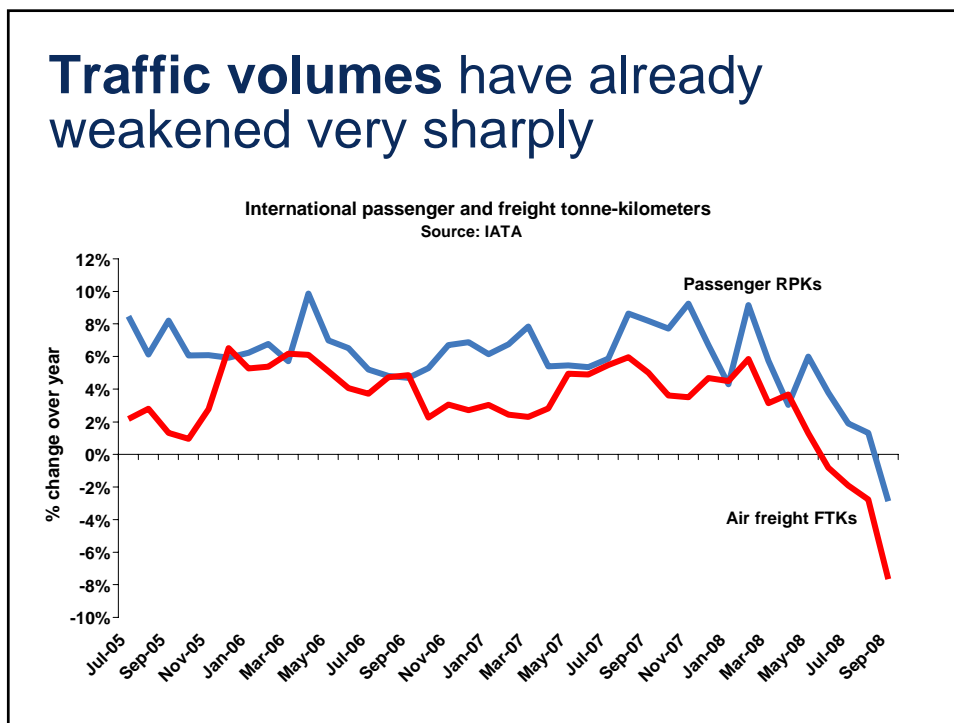
Now fallout from **financial crisis** threatens to damage air transport



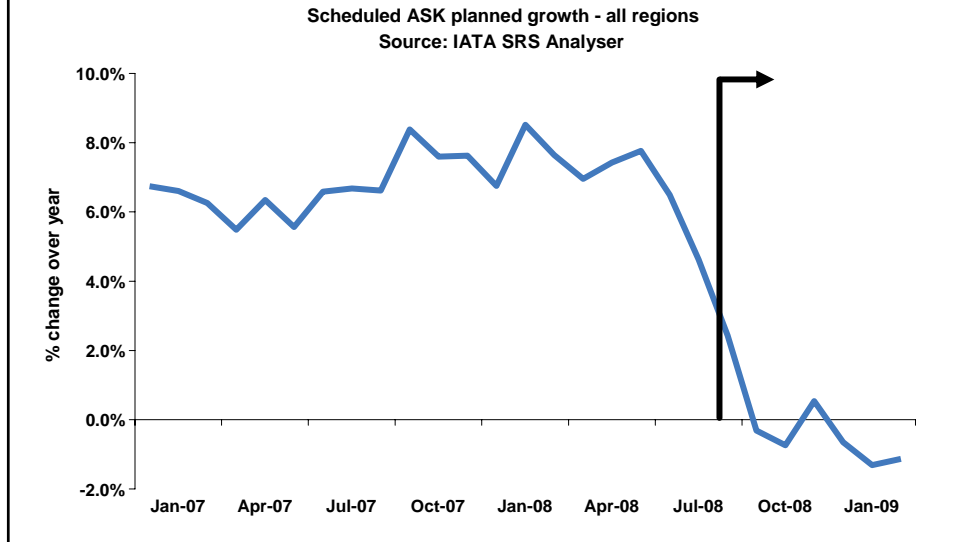
Fuel prices have subsided - so have foundations for air travel and freight



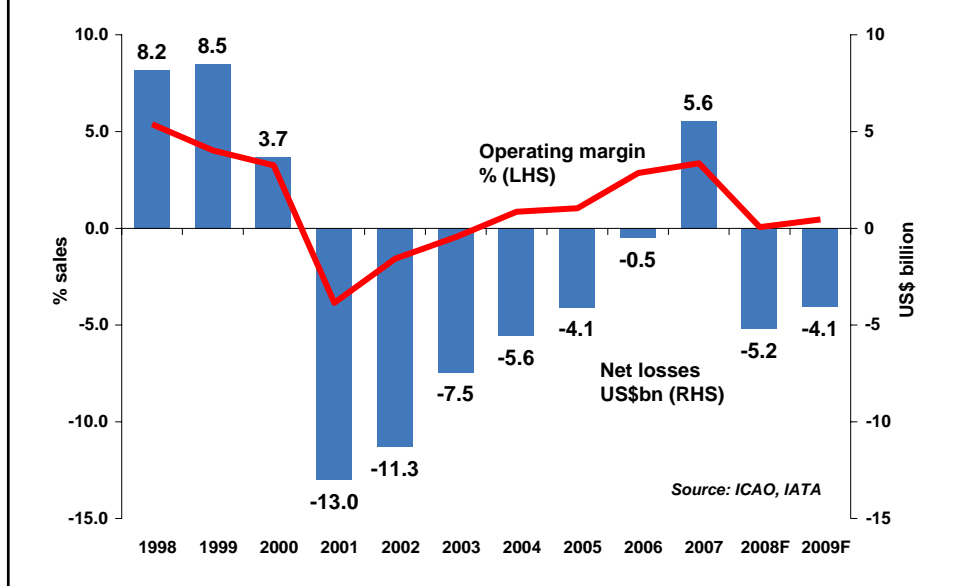
Traffic volumes have already weakened very sharply



Causing the industry to **shrink** and put economic benefits at **risk**

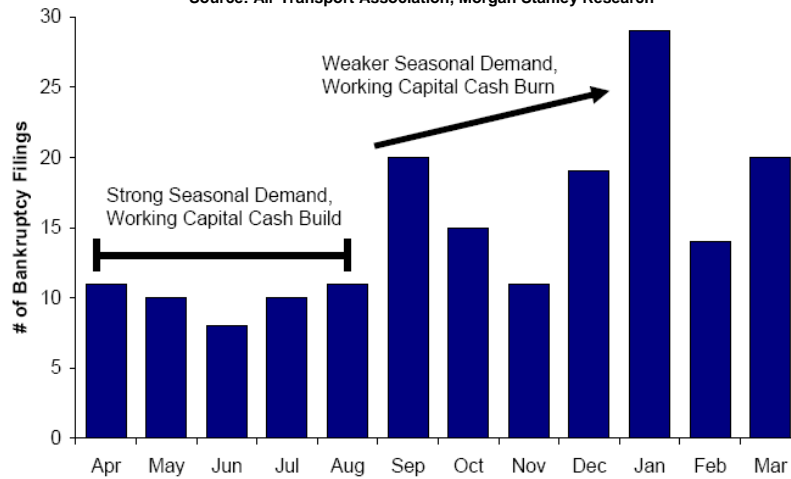


Losses expected to continue in 2009



More airline bankruptcies likely in months ahead

Airline bankruptcies and service cessations since 1978
Source: Air Transport Association, Morgan Stanley Research



Commercial freedom required

↗ Banking crisis accentuates fundamental problems



Commercial freedom **required**

- **Liberalisation brings great benefit to consumers and the wider economy**



Commercial freedom **required**

- **Low airline returns mean scarce capital is not being used efficiently**
 - Consumer and wider economic benefits at risk if airline performance unsustainable
 - But this is not due to business models
 - It is not due to geographical market
 - It is only marginally due to the value chain

Commercial freedom **required**

➤ **Removing the barriers to restructuring airline capital is key to long-term sustainability**

- May avert widespread airline failures
- Will generate cost efficiencies improving returns and reducing fares
- Can be achieved maintaining safety, security and labour standards



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