

2020 Transportation Research Board 99th Annual Meeting Report

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1 Introduction

Over the course of five days from January 12th to 16th of this year, the Transportation Research Board, one of the world's largest international academic groups on transportation, held its 99th Annual Meeting in Washington, DC. During the Meeting, hundreds of lectures and workshops, exhibitions by private companies, and research presentations by academic institutions were held at the convention center and nearby hotels located in the center of the city. In this paper, I will give an outline of a session I attended, named the "Impact of Large Policy Changes on the Aviation Industry," and share my views.

2 Government Policy and Air Connectivity: An Airline Perspective

David S. Lee of Airlines for America, a Washington D.C. based lobbying group representing major North American airlines, recalled that "the US aviation industry has had a turbulent 20 years to date," with both ups and downs. While the last decade was the most profitable period ever for U.S. airlines, the decade before that (2000-2009) had losses of \$ 63 billion due to the effects of terrorism, wars, SARS, etc. Overcoming such challenging periods, the U.S. aviation industry has been on the rise, with approximately 47% of Americans taking flights at least once in 2018, and total passenger transport capacity, which is found by the number of seats multiplied by transport distance, reaching 1.25 trillion available seat miles (ASM) in 2019. Lee said that the rise of LCCs has contributed notably to this boom, with examples including the latest news of Spirit Airlines signing a contract with Airbus to purchase a total of 100 aircrafts this year, including A319neo, A320neo, and A321neo. On the other hand, Lee points out that the growth of the three largest megacarriers, comprising of American Airlines, Delta Air Lines and United Airlines, have recently been slowing down somewhat. Although the market share of these megacarriers had been around 58% in 2010, the share went down to 53% in 2018. Lee said that this is partly due to the rise of LCCs as well as decreasing airfare prices. During the 40 years from 1979 to 2018, airfare for US airlines fell 44%.

Additionally, it can be said that price competition intensified due to deregulation by the US government. In light of these circumstances, each airline has started charging fees for baggage, in-flight dining and drinking, access to Wi-Fi networks, etc., in order to secure more profit. Thus, competition between airlines is changing at a rapid pace, whereas meanwhile US airports are not growing as fast. Lee is worried that from the perspective of airlines, airport-related tax revenue is currently mostly spent on implementing security programs, and not on contributing to the convenience and satisfaction of passengers and airlines. Lee said that modernization of airports requires that they secure revenue for themselves, and for that, regulations on airport operations should be relaxed.

3 Brexit and Aviation: A European Union Perspective

Following Lee's speech, Maximilian Bauernfeind of the Austrian Ministry of Transport, Innovation and Technology reviewed the influence of the UK Brexit on the European aviation industry.

According to Bauernfeind, there are two possible scenarios for Brexit. One is the signing of an agreement for future relationship measures between the UK and the EU, as well as adopting a political declaration. In this case, EU legislation will apply to the UK until the end of the transition period in which the UK completes its withdrawal (31st December 2020; extendable until 31st December 2022). It also regulates EU and UK citizenship, finances and the UK-Ireland border. On the other hand, he envisions that the political declaration will include future relationship measures, such as comprehensive trade agreements and sectorial agreements (such as for the transportation sector), and that the EU and UK will also enter into air transport agreements in the aviation sector.

Another scenario for Brexit is a "No Deal", where a withdrawal occurs without mutual agreement. In that case, the UK is no longer following EU law and is not part of the common market (WTO rules will still apply to the UK). In addition, since the UK will no longer be following international agreements signed by the EU, border controls on individual tariffs

and technical standards will be required. Bauernfeind says the aviation sector will have the biggest impact if Brexit transpires without a mutual agreement. As the UK will no longer be privy to single market rules and bilateral agreements between the EU and third countries, including traffic rights as defined in international aviation agreements, they will need to arrange their own agreements with other countries, including the EU. Bauernfeind then answered a question of whether bilateral agreements that the UK had independently signed with current EU member states before EU law came into force would be reinstated. He expressed that these bilateral agreements had been terminated at the time of the enactment of EU law under Article 59¹, and would not automatically become effective. In other words, the UK will have to negotiate with EU member states again and sign individual agreements. If the withdrawal happens without an agreement being made, the EU may take steps to ensure basic connectivity (which can be applied during the transition period) to ensure point-to-point transit between the EU and the UK, and stipulate guidelines, due to technical factors, on landing and overflight practices. The above mentioned regulations are valid for one year after the end of the transition period for Brexit or until an EU-UK agreement is reached. Discussions on the post-Brexit handling of codeshares, including with other countries, are ongoing.

Brexit has other impacts on the aviation sector. For example, a British airline operator cannot provide air transport services within the territory of 27 EU member states without additional approval (this also applies to transport proceedings of EU operators in the UK). Also, the UK operating license will no longer be considered under that of the EU. Additionally, the UK will no longer be a member of the European Union Aviation Safety Agency (EASA). This removes the requirement for the British Aviation Administration to compel UK companies to comply with EU aviation safety legislation, but also in turn invalidates previously awarded EASA certification of UK-based persons and organizations in the EU. Because projections of Brexit outcomes can change as recent events continue to evolve the situation, we cannot take our eyes off of it.

4 Airline Privatization in Africa

Next, Megersa Abate from World Bank spoke on the

privatization of airlines in Africa.

First, to explain the current situation of the airline market in Africa, the top ten African airline carriers were introduced. In descending order; ① Ethiopian Airlines, ② EGYPTAIR, ③ Royal Air Maroc, ④ Air Algérie, ⑤ Comair (South Africa), ⑥ Kenya Airways, ⑦ South African Airways, ⑧ Tunisair, ⑨ Mango Airlines (A subsidiary of South African Airways) and ⑩ Safair (South Africa) made the top ten list, of which the first four are state-owned companies.

Citing general academic views, Abate listed the reasons for privatization as improved infrastructure, efficient service, and reduced financial burden. Moreover, Abate added that whether privatization takes precedence over the continuation of state-managed airlines depends on ① the appropriate and transparent transition of ownership, ② the degree of market power controlled by private companies, and ③ the existence of a competitive market environment. As an example of whether African airlines should be privatized, the following table shows the relation of efficiency to the management entity of major African airlines.

	Labor Cost / person	RPK / person	Government Holding Ratio
Ethiopian Airlines	18,993	2.5	100%
Kenya Airways	40,187	2.6	48.3%
South African Airways	35,497	2.2	100%
EGYPTAIR	36,418	1.9	100%
FastJet	74,918	3.9	Privatized
Emirates	55,435	4.2	100%

*The unit of labor cost / person (= employee) is in US dollars. The unit of RPK / person is one million RPK.

Although Ethiopian Airlines is a fully state-owned company, it is the most competitive airline in the table in terms of labor costs, indicating that some state-owned companies restrain soaring labor charges.

FastJet, a South African low-cost carrier (LCC), has a high RPK (Revenue Passenger Kilometers) per employee rate that is comparable to other airlines, showing advantages of complete privatization.

¹ Article 59 - Termination or suspension of the operation of a treaty implied by conclusion of a later treaty

1. A treaty shall be considered as terminated if all the parties to it conclude a later treaty relating to the same subject-matter and:
 - (a) it appears from the later treaty or is otherwise established that the parties intended that the matter should be governed by that treaty; or

- (b) the provisions of the later treaty are so far incompatible with those of the earlier one that the two treaties are not capable of being applied at the same time.
2. The earlier treaty shall be considered as only suspended in operation if it appears from the later treaty or is otherwise established that such was the intention of the parties.

Abate pointed out that the challenge for the African region as a whole is to reduce financial burden. According to Abate, strict regulations on finance, high insurance premiums, business plan failures, and external factors such as Ebola have caused constant negative earnings for airlines. He surmised that a free market has yet to be introduced to many areas in the first place. It is said that only a few countries, such as Ethiopia and Nigeria, have become relatively competitive markets.

Finally, Abate concluded the talk with the following points. There are financial and efficiency issues in Africa, which result in promoting privatization. At the same time, there are serious structural problems. In other words, monopolies occur through strict regulation of domestic markets and vertical integration. In order to improve this situation, deregulation and liberalization of domestic and international markets should first be brought about. Also, in order to avoid market monopolies, vertical and horizontal integrations that take place during corporate consolidation and realignment should be prevented to some extent.

5 ICAO The 40th Assembly: What Lies Ahead

Finally, Cortney Robinson, an air transport specialist for the International Civil Aviation Organization (ICAO) who spoke at ICAO's 40th general assembly, summarized the items that were recently determined and agreed upon for the economic development of air transport.

This time, six items were introduced: (1) taxation, (2) air transport liberalization, (3) aviation-related data, monitoring and analysis, (4) consumer protection, (5) infrastructure management, and (6) further support for member states.

On "taxation," the General Assembly agreed to request that member states do the following two things: firstly to evaluate national goals that are consistent with ICAO policies, and secondly to properly conduct cost-benefit analysis before introducing air transport-related taxes. Regarding "air transport liberalization," items promoting the achievement of ICAO's long-term vision for liberalization of international air transport were approved, such as promoting a more detailed understanding of the benefits of liberalization on passenger transportation and market liberalization barriers, and ICAO's efforts to hold a conference on "foreign investments for airlines". Regarding "aviation-related data, monitoring and analysis", ICAO's new targets in the fields of statistics, big data analysis, and economic forecast analysis, etc, have been set. On "consumer protection," the General Assembly urged the member states to apply ICAO principles on consumer protection from regulatory enforcement by airlines concerning access to air travel for passengers with price transparency or the obligation of airlines toward passengers in case of flight disruption (flight cancellation, flight delay or denied boarding due to overbooking etc.). They also

asked that member states sign and ratify the 1999 Montreal Agreement. The General Assembly also agreed that views and good practices regarding the application of the above ICAO principles should be actively shared. Regarding "infrastructure management," member states were encouraged to consider establishing independent organizations that operate airports and air traffic control, formulating national and regional aviation infrastructure plans, and building a transparent, stable, and predictable investment environment to support aviation infrastructure development. Finally, it was agreed that the ICAO should provide "further support for the member states" in creating a framework for ministerial declarations and action plans for developing air transport and tourism in Africa.

6 Conclusions

This session provided a good opportunity for capturing new information, including current aspects of international aviation from multiple perspectives, such as airlines, issues in specific regions of the world, and the workings of international organizations. There are many topics that are not necessarily directly related to the US, and I feel that learning them has provided me insight that will contribute to the expansion of my research activities in the future. I hope to continue to work on more valuable research activities based on the information and advice obtained in this session.