Liberalization and Asymmetries for Inter-continental air bridging:

Peru's initiatives and expectations[1]

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July 2003

[1] Speech to be presented on PECC International Round Table : "Role of Airports & Airlines in Trade Liberalization & Economic Growth" Singapore 5-6 September 2003.

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FIRST WORDS

1. Twenty-Ten and 2020 are magnetic dates set by APEC´s Bogor Goals on which all our expectations are concentrated. The bridge we are building, linking present with future, are affected by our actions and omissions of today. Thus, we must explore permanently what kind of bridge we are building, since we might foresee ourselves crossing a golden bridge but in reality we might be working with material for a wooden one, or even worst, for a paper bridge.

2. The close relationship between goals, declarations, decisions and their real impact is paramount to identify if we all are sharing a common route or if someone could be loosing the way.

3. For just a moment, please let's imagine that we are trekking in a forest. In the journey we share our voices; we are able to respond to each other however, in the process some of the parties could be arriving to a wonderful lake, in others words, reaching our goals, meanwhile some others could be at the edge of moving sands.

4. The same thing could happen in APEC's process. Thus it's necessary to revise our trekking in order to find out if other members are reaching the goals, or if some of them are far away of goals or in great troubles.

5. During the 90s, Peru moved swiftly to an open economy model, deregulating the transportation sectors, extending national treatment to all investors in order to entice them to share with us our huge natural resources, among other actions. The aim was to build an open society where wealth is shared by all citizens. Regretfully, reality has eluded us from this landscape.

6. So, it is the momentum to share with you, that we are building the new bridge over a new economy, to rethink about speed, gradualism, midterm scopes and cooperation forms bearing on mind the line named 2010 or 2020, because we still have the idea that our common expectations suppose to share wealthier societies.

LIBERALIZATION

7. How to explain this complex situation if Perú is an open economy, with plenty of resources, and with a disposition to enhance relationship with foreign investors, according to the Bogor's goals?

Standards	AVERAGE			
	APEC			
	OECD	No OECD	All	Perú
National treatment	2.8	2.5	2.6	5.0
Non-discrimination	4.3	3.9	4.1	5.0
Repatriation & convertibility	4.8	4.1	4.4	5.0
Expropriation & compensation	3.8	4.0	3.9	5.0
Controversies solution	4.3	4.6	4.2	4.0

8. How to explain it also when developed economies are resistant to adopt more aggressive liberalization policies? What is the impact of these delays on open economies?

9. Those are current questions that encompass many variables where each one has a direct impact in the result of our goals achievement.

10. This is a central point, because in a non industrialized economy, to be an open market means a big transition with a huge risk : lost of internal capital, both physical and human. In other words, the immediate consequence is a great impact in the quality of growing. Off course, this is not a problem when investment flows regularly at a level that creates enough new employment to enhance wealth levels. This is the good scenario.

11. But, the real scenario is not so bright. We all know how open, deregulated and or well fitted can be an economy, capital flows respond in different forms to market structures. In a less developed market frequently acts more cautiously. Regretfully, neither the liberalization policy nor the free market economy theory will improve the market perspectives without freeing labor flows. In other words, there is not a problem at all, if in compensation of the low capitals flows, human capital can flow freely to other markets. However, if liberalization just means free movements of capital and goods, then we are in front of a created asymmetry.

12. But until now we have shown just part of the picture. Let's go back again to the free market theories, which do not care about monopoly impact, instead of these tolerate it. I am more comfortable talking about free concurrence and free competition, because the concentration of production and services in few hands impede the flow of information, which is essentially the source of market decisions.

13. The worst market distortions arise from the lack of competition and/or from the limits on market access. This is because of the negative impact in productivity, technical enhancement, rigidly on labor forces, capital concentration, among others. I really don't want to give you the wrong impression that APEC goals promote these market distortions, what I am trying to emphasize is in the necessity to watch carefully the negative impact of market concentration on the possibility to reaching our goals.

14. I recognize that these ideas mean to row against the water. However, it is necessary to do it, even if it sounds oldie, because some old great ideas must be recap for our benefit; at least the almost forgotten idea related economic convergence, because the Bogor's Goals are not far away of wealthy economies converging into a new world map.

15. It's necessary to be quite critical regarding some main concepts of general use. One of them is the so called free market way, which in practice has been used

against free competition. I have to recheck such a concept of free market because it is the basis for the decisions taken which has originated distortions and refrain us from liberalization. That is the reason why I prefer to use and highlight the term of free competition instead of free market. The aim of this proposition is to go back to the convergence path instead of the exclusion path that sometimes we feel under our feet.

16. Our idea to return to work under convergence pattern will allow us to identify those critical factors producing negative impacts on open economies. This same pattern is useful to work not just on theoretical opportunities but on real and effective results.

17. Positioned in this point of view I would like to review asymmetry matters, as inherent consequences of liberalization policies, in order to avoid great negative impacts and their effects on the future.

ASSYMETRIES REVIEW.

18. The world economy walks at least in two different scenarios. One is the wealthy places built in industrialized markets, and the other is the uncomfortable places mired by poverty with fragile markets. Within APEC, this economic dualism increasingly shows its face. I am not talking about the old dualism between backward agriculture against modern industry. I am referring to a new and different phenomenon, emerged as consequence of the current globalization process.

19. As we pointed out above the limitation on economic factor flows is a source of asymmetries. An open economy requires permanent capital flows. Regretfully, as we all know, after the 1997 crisis, capital flows are now much more cautious and limited. It is essential a permanent flow of capital. Thus, the distortion emerges because of the reduction of this capital flows and/or rigidity on it. A free flow of labor force it is necessary to balance the situation; but it is hardly as ever to talk about it.

20. We have no doubt that in a more interconnected world the problems in one side of the world soon or later will be a worldwide problem. This is why we have to be one step ahead the problem as a wise way to act..

21. For instance, Peru has a big experience fighting terrorism. In such a conflict all Peruvian inhabitants were involved. The poorest citizens mainly from rural villages and shanty towns participated with a great success in fighting terrorism. As early as 1987 terrorist were expelled from Ayacucho and Huancavelica, their places of origin. In urban sectors, basically Lima, the problem got high

proportions once the terrorist withdrew from rural areas, but were also defeated 5 years later. However, is that a closed matter? Sincerely no, because poverty and disaffection feed violence. We have to answer how long will take to arrive to developed economies. September 11 is part of the answer.

22. In order to correct asymmetries, we need more integration, an integration that increasingly involves cooperation among economies, not just in trade matters, not only processing economic task, we need a new kind of cooperation which involves economic joint ventures with direct benefits to small and mid enterprises which have very good entrepreneurs and are great human reserves.

23. However, this meeting is specialized in transport, air transport, a sector highly regulated, suffering a lot of troubles and, with a special dynamic because of its particular operative conditions.

24. It is also a sector where the afore mentioned asymmetries are more evident because the differences in the location count, and counts a lot, counts as operative costs, counts as demand, count as protections policies, counts as market exclusions, and counts as market structure.

25. If any doubt remains about how specialized is this sector it is enough to remember the images from September 11, to bear on mind the importance of air control system as an early alarm detection, to remember how the complex process to come aboard failed. But overall, it’s convenient to remember that this sector has been traveling through out rare skies for a while.



CONCENTRATIONS AND CRISIS

26. The air transport industry is highly concentrated. The top 20 biggest airlines controls almost the 60% of the market, however they are increasingly withdrawing from south-south routes and strengthening the north-north routes. Governments from develop economies and some governments of emerging economies have been subsidizing several companies notwithstanding the same administration declares their compromise with an open skies policies. How to understand it?

ATW's Top 20 Airlines January-May 2003	
Airline	**RPKs**
American	**75,524,448**
United	**64,430,461**
Delta	**61,382,775**
Northwest	**43,349,848**
Continental	**36,305,997**
British Airways 1	**31,144,000**
Air France 1	**30,960,000**
Southwest	**30,601,876**
Lufthansa 1	**27,669,000**
US Airways	**23,338,567**
Singapore 3	**21,167,500**
Qantas 2	**19,658,000**
Japan Airlines 2	**19,459,153**
KLM 1	**18,326,000**
Cathay Pacific 1	**13,911,539**
America West	**13,633,338**
Korean Air 1	**12,043,000**
Alaska	**9,845,471**
Air Canada 3	**9,648,000**
Iberia 2	**9,458,000**
1. Jan.-Apr. 2. Jan.-Mar. 3. Jan.-Feb.	
Note: Includes only carriers who submitted their information to ATW in time for this report.	
http://www.atwonline.com/stats_top25.cfm	

27. Simply, as a highly regulated sector, air transportation has different prices structure in different markets being one component the so called regulation costs, which creates a preferential space for negotiation with state administrations, since the risk of a general slump is a menace no administration is ready to afford it. In other words, the market gives some elements but not all the elements, the others are provided by strategic reasons.

28. The existence of an adequate balance between market inputs and strategic inputs is of paramount importance in this case. Even more, when we are involved in cooperation mechanism, where the concessions granted by both sides are not always equitatives.

29. The so called balance is a fundamental stone in air transportation industry, because we are talking about regions that have high standards confronted with routes with low demand standards; because we are confronting and comparing different kind and composition of operative costs; since we are putting in the same level very different income realities.

30. Please let me show you some Peruvian statistics related to concentration on air transportation services during the last decade. The figures showed a negative variation numbers close to 74% in air traffic services, and close to 27 % in international services. Is not possible to be relaxed with a kind of reality like that, basically because our country needs to be quite integrated and the single way to link Amazon basin with ocean is by air traffic. I call this phenomenon a capital lost.

PERUVIAN AIRLINES 1953 - 2001			
CURRENT SITUATION	**NATIONAL**	**INTERNATIONAL**	**TOTAL**
UNOPERATIVES	22	30	52
OPERATIVE	6	22	28
% VARIATION	-72.73	-26.65	-46.15
SOURCE : INEI			

31. How, in such cloudy skies could we all together arrive to a safe port? How could be share cooperation mechanism?

OPERATIVE REGULAR COMPANIES 1953-2001		
COMPANY	**SINCE**	**OPERATION**
Aerolíneas Argentinas	1953	I
LAN Chile (Líneas Aéreas Nacionales de Chile)	1954	I
KLM. (Compañía Real Holandesa de Aviación)	1954	I
AVIANCA (Aerovías Nacionales de Colombia)	1957	I
Varig (Empresa Viacao Aéreo Río Grandese)	1961	I
LL.A.B. (Lloyd Aéreo Boliviano)	1961	I
Iberia (Líneas Aéreas de España)	1963	I
Challenge Air Cargo (Air Transport)	1982	I
American Airlines	1990	I
LACSA (Línea Aérea Costarricense)	1991	I
Aero Continente 1/	1992	N / I
Aerocondor	1992	N
Servivensa	1993	I
COPA (Compañía Panamericana de Aviación)	1994	I

Continental Airlines	03/1996	I
Aeroméxico	04/1996	I
Martinair Cargo	11/1996	I
Arrow Air Cargo	01/1997	I
Delta Airlines	07/1998	I
TANS (Transportes Aéreos Nacionales de la Selva)	12/1998	N
Aeropostal	12/1998	I
Lan Perú 2/	07-11/1999	N/I
Taca Perú 3/	07-10/1999	N/I
Aviandina	12/1999	N
TAME (Línea Aérea del Ecuador)	06/2000	I

1/ Inicio de operaciones internacionales en setiembre 1999.
2/ Inicio de operaciones nacionales en julio e internacionales en noviembre.
3/ Inicio de operaciones internacionales en julio y nacionales en octubre.
N: Nacional. I: Internacional. N / I: Nacional e Internacional.

Fuente: CORPORACION PERUANA DE AEROPUERTOS Y AVIACION COMERCIAL (CORPAC) - Of. de Desarrollo Corporativo - Area de Estadística.

OPEN SKY AGREEMENTS

32. Since 1944 under the Chicago Convention there is a trend pushing for open skies, which is good, and could be better if air routes worth the same and also if among the routes there is a linkage. This is obviously far from the reality; as we know some routes are worthier than others, by instance, Singapore – Bangkok in miles should be similar to Lima – Ayacucho, however you don't see any Jumbo traveling from Lima - Ayacucho, is this just a problem of capital goods? Quite frankly no, the problem resides on the commercial critical mass, further geography, further market income level, and further infrastructure and so on.

33. The same thing happens in southern routes where some of them are worthier than others; during tight protection years the airlines used the cross subsidies to comply with internal regulations to serve some routes of real low income but high social income. Those were the days of cooperation between State administration and private operators, when the preference or exclusive access to profitable routes was justified by the community service covering low income routes.

34. It seems that the so called open sky agreements are sweeping the needed balance used to develop air traffic, both internal and international. It also seems that

under this new trend only high income routes will survive because economic rationality. However, profitability is just a part of economic rationality and no the whole picture. Development geostrategies is another element of this rationality, equally important than former profitability.

35. All the transport sector by the kind of services granted are duly regulated, which means additional transaction costs; furthermore, the development strategies have also costs to state administrations as well to private sector; finally, the difference routes worth also includes different costs. When we stand before of such set of conditions we may conclude that a flat open sky agreement could not fit everywhere, being much more reasonable to adapt the general scope according different realities involved.

36. Obviously we are talking about new ways of direct cooperation, in one side in regulation terms searching to homologize them, and on other supporting the development strategies adding by this way a cooperation channel in the permanent effort to reduce poverty.

UNOPERATIVE AIR COMPANIES 1955 - 2001		
COMPANY	**SINCE**	**OPERATION**
RAPSA (Rutas Aéreas del Perú S.A.)	1955	N
EAPSA (Expreso Aéreo Peruano)	1959	N
ATSA (Aero Taxi S.A.)	1959	N
LANICA (Línea Aérea de Nicaragua)	1959	I
PANAIR (Limatambo Panair do Brasil)	1960	I
L.A.V. (Línea Aérea Postal Venezolana)	1961	I
ATAPSA (Aerovías Trans American S.A.)	1966	I
PANAIR (Iquitos Panair do Brasil)	1967	I
PANAGRA (Pan American Grace Airways Inc.)	1967	I
A.P.A. (Aerovías Panamá Airways)	1967	I
RIPSA (Rutas Internacionales Peruanas S.A.)	1967	N / I
LANSA S.A. (Líneas Aéreas Nacionales S.A.)	1971	N
TRANSPERUANA (Transporte de Aviación)	1972	N
APSA (Aerolíneas Peruanas S.A.)	1972	N / I
SATCO (Servicio Aéreo de Transportes Comerciales)	1973	N
COPISA (Compañía Peruana Internacional de Aviación S.A.)	1973	N / I
B.O.A.C. (British Airways Corporation)	1974	I
B.A. (British Airways)	1976	I
British Caledonian	1982	I
Braniff	1982	I

Air Panama (Air Panamá Internacional S.A.)	1990	I
Eastern	1990	I
Aerochasqui	1991	N
Canadian (Canadian Pacific Airlines Limited)	1992	I
Transamazon	1992	N
Sitracargo	1992	N / I
Andrea	1992	N
Cruzeiro	1993	I
Aeronaves del Perú	04/1994	N / I
Aero Tumi	04/1994	N
Air France	03/1995	I
Imperial Air	08/1996	N
A.O.M.	09/1996	I
VIASA	01/1997	I
Expreso Aéreo	02/1997	N
Peruvian Aviation Travel System S.A.	03/1997	N
Aerosanta	03/1997	N
Americana de Aviación	11/1997	N / I
Faucett	11/1997	N / I
Transp. Aéreo Mercosur - LAPSA	08/1998	I
Ecuatoriana de Aviación	09/1998	I
Alitalia	10/1998	I
Aeroperú	03/1999	N / I
Mexicana de Aviación	04/1999	I
Aserca Airlines	05/1999	I
Transp. Aéreo Andahuaylas	01/2000	N
Saeta	02/2000	I
United Airlines	03/2000	I
ACES (Aereolineas Centrales de Colombia)	12/2000	I
Aeroflot	03/2001	I
Lufthansa	08/2001	I
Cubana de Aviación	09/2001	I

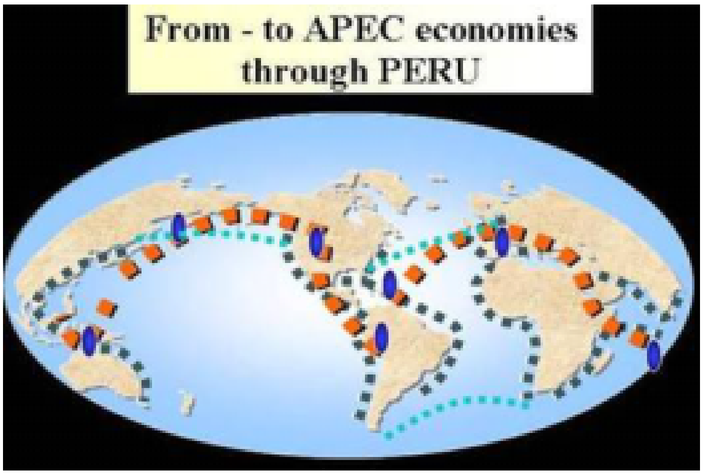
N: Nacional. I: Internacional.
N / I: Nacional e Internacional.

Fuente: CORPORACION PERUANA DE AEROPUERTOS Y AVIACION COMERCIAL (CORPAC) - Of. de Desarrollo Corporativo - Area de Estadística.

AIR BRIDGES TO SOUTH AMERICA

37. We began this speech talking about a bridge linking present with future, now I would like to call your attention to air bridges, in the same path of action that Mexican and Chilean colleagues talked about.

38. Certainly, ideas about Air Bridge to South America are difficult, as all of you know, because the geographical dimensions of South America, its distance from Asian economies, the gross limitation in infrastructure, among other factors, makes our land a great adventure, the adventure to build a future.



39. As you could easily notice, Peru is positioned at the same parallel as Brazil, one of the most successful emerging economies. This single element gives Peru the option to explore different ways to create a parallel bridge from/to Asia, with an additional advantage, linking Brazil with Asia through Peru will allow to gain all the middle ground in between; al element which makes the difference.

40. Technical requirements are solve, as well as commercial critical mass. As all you are duly aware, Peru is an open economy giving the same treatment to all investors, an economy growing smoothly, where the state of law is firmly against corruption; an economy plenty of natural sources and beauty, a nice place for investment, dreams and rest. We hope to see most of you traveling around the Andes in a common adventure to build the best bridge : the human bridge.