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Open Skies for Higher Growth

Through the implementation of the open skies policy, the government hopes to improve the tourism industry and help sustain economic growth.

Open skies is one regulatory reform being undertaken by the government to further liberalize the air transport sector and improve its competitiveness in the global economy. Other regulatory reforms in critical sectors that are prone to regulatory capture are ports, shipping, telecommunications and power.

Regulatory capture, according to economists, is a phenomenon in which a government regulatory agency which is supposed to be acting in the public interest becomes dominated by the vested interests of the existing incumbents in the industry that it oversees.

While liberalization of certain industries has been undertaken, much more has to be done especially in the transport industry. The International Air Transport Organization (IATA), in a briefing paper, noted that governments have consistently failed to follow-up with broader decentralization, thereby making their initiatives mere “half-measures”.

IATA cited “open skies” agreements as effective means of liberalization. It also pointed out that, on the other hand, bilateral air service agreements tend to constrain growth due to its inherent restrictions.

Benefits from Open Skies

Opening up the skies to liberal air travel and reforming regulatory structures have positive effects on investments and competitiveness, said the National Economic and Development Authority.

Investments can have a multiplier effect, as more business will be generated for hotels, resorts and other related-tourism services. Through competition created by open skies, air transport costs will be also be reduced.

The impact of broadening avenues for international travel can bring in more tourists. In turn, employment across all sectors would tend to increase. It is estimated that having an equivalent of one million tourists can generate one million new jobs.

The experience of the Diosdado Macapagal International Airport (DMIA) at the Clark Economic Zone



is a case in point. When President Gloria Macapagal-Arroyo issued Executive Order (EO) No. 253 in 2003 declaring Clark and Subic as “developmental routes”, an upsurge in international transport activities was noted. The liberalization of the airports in the two areas was subsequently implemented through EO 500 in January 2006. The EO advocated for “the increase in commercial and cargo access to DMIA” to enhance Subic-Clark’s position as an international service and logistics center in the region.

The EO also allows budget airlines to fly to DMIA without limitation on traffic rights, capacity and air freedom rights except cabotage, or flying to domestic routes.

Clark International Airport Corp. President Victor Luciano reported a 110 percent increase in passenger traffic in Clark in 2006 due to the presence of numerous budget airlines at the airport, whose fares are much lower than traditional carriers.

Aside from giving consumers more options when traveling abroad, the EO likewise resulted in increased economic activity in Clark as more passengers from Manila and the rest of Luzon opted to use the DMIA as departure points to other cities in Asia instead of the overcrowded Ninoy Aquino International Airport.

Only seven months after EO 500 was issued, Malacañang released an amended version dubbed EO 500-A which restricts non-national carriers from operating at the DMIA, thereby threatening to reverse the gains made by the open skies policy. The EO is expected to significantly reduce passenger traffic as budget airlines begin moving out of Clark.

There is, however, a move to revise EO 500-A to restore open skies in Clark and in Subic to ensure that the Philippines is not left out of the global competition in air transport.

Growth through Competitiveness

The IATA reported a 5.9 percent growth in passenger traffic worldwide in 2006. Industry profits likewise rose as a result of increasing efficiency due to competition. The aviation body likewise sees sustained growth until 2010, with intra-Asia traffic cornering bulk of the increase.



Given these developments, the Philippines is expected to put into place assertive policies on aviation to get a significant portion of the Asian passenger traffic pie.

Socioeconomic Planning Secretary Romulo L. Neri said that while it is important to put up “hard” infrastructure such as airports, money spent on these projects won’t be maximized unless the country develops a regulatory environment conducive to growth.

Secretary Neri, who is also NEDA Director General also identified the Civil Aeronautics Board (CAB) as one of the government agencies where regulatory capture must be eased out. He stressed that regulatory capture tends to constrain economic growth since it weakens institutions by promoting the sale of rules and diversion of expenditure. It also limits government revenues, leading to reduced social spending.

Not all is positive in fully liberalizing the aviation industry, however. It has its own disadvantages, like putting tremendous pressure on traditional carriers, including flag carriers such as Philippine Airlines, as competition dramatically increases competition. If traditional carriers fail to shape up, it could result to huge losses, bankruptcy, and eventually, closure.

Nevertheless, IATA continues to advocate for greater deregulation on the assumption that the advantages are expected to outweigh the disadvantages.

Through competition, the consumers win. When the US domestic aviation market fully liberalized its air transport industry, it was able to provide welfare gains of around US\$6 billion to passengers due to lower fares and more choices. It likewise noted that open skies agreements tend to generate greater competition on long-haul international routes, thereby improving airline efficiency and quality.
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