**Slide Show Notes**

**Air Transportation**

Air transportation is perhaps not as important as containerization in the revolution in shipping that has facilitated the growth of cross-border commerce, but it shouldn't be overlooked. My understanding when I was working in the Philippines, twenty years ago, was that, already by then, over half the dollar value of its exports left the country by air. Good air service is also important to tourism and to location of industry in what have been called "aerotropolis" developments.

International cooperation on air transportation is shaped by a framework agreement that permits but does not mandate openness to services from foreign carriers. The framework agreement also supports technical cooperation on navigation aids and so forth. On the other hand, it presupposes that airlines will remain single-nation organizations rather than international businesses, which complicates international air service.

Airlines need concessions from sovereigns to operate in or over their territory. The concessions are traditionally broken down into categories, the "Freedoms of the Air."

The traditional international agreement, which was reached in Chicago in 1944, establishes a framework for the sovereigns to negotiate over the concessions they will offer each other’s airlines.

The Chicago Convention also includes general agreement on logistical matters, such the personal baggage of the pilots and flight crews not being subject to customs controls.

The organization established by the Chicago Convention is ICAO, the International Civil Aviation Organization.

ICAO focuses on safety, infrastructure, and navigation aids. With a staff of just under 1,000 and a budget of around CAD 100mn per year, it is now headquartered in Montreal (not Chicago), with seven regional offices around the world.

People's access to international air transport services depends on bilateral governmental negotiations to give airlines the right to provide those services. Air transportation is another example where governmental negotiations are prompted by industry, which, when it wants something from another country, will ask its government to negotiate for it.

An agreement that I'm familiar with is the U.S.-Philippines bilateral, an old-style agreement, which went into effect in 1982. As you look at the marked-up copy of this agreement (in Canvas), you'll see that it sets the exact number of airlines that can provide service between the two countries, with the U.S. Government and the Philippine government each being free to select the airlines (so long as they are domiciled in its territory).

The agreement allows services to only certain destinations. On the other hand, it doesn't limit the volume of traffic or the frequency of service. It also says it allows freedom of pricing, but with a limitation that passenger fare cuts of more than 20% can be vetoed (Article 12, Section 6.b).

Each airline can conduct ground operations for itself, which may have been a U.S. requirement for such things as technical inspects and refueling. I know that when I lived in Kinshasa in the mid-1980s, Sabena (the Belgian government's airline) wouldn't allow its planes to refuel in that airport at all.

The challenging nature of an agreement that gives governments this kind of discretion about commercial favors would probably be less important in the days, not so long ago, when governments themselves owned and operated airlines that had a monopoly on international service from their territories.

The U.S. was different, in that its airlines were privately owned. In the Philippines, however, the near-monopoly carrier is private and considers itself the "flag carrier." (Its television ads while I was there, around the year 2000, showed school children pledging allegiance to the airline.) Unsurprisingly, its fares were high, and its routes were limited.

In the early 1990s, the USG opted for the "Open Skies" policy and now has Open Skies agreements with about 130 countries (but not with the Philippines).

The term "Open Skies" refers here to a bilateral civil aviation agreement where the parties grant enumerated rights to "the airlines of the other party" (rather than to a limited number of airlines) and permitted routes are to "any points" (rather than to designated points).

The agreement is still limited to "national" rather than "international" airlines, however.

In the case of the U.S.-EU agreement of 2007, it specifically endorses airline networks via "code sharing" and other "cooperative marketing arrangements."

The U.S.-EU agreement does not authorize airlines to do purely local business in the other signatory's territory.

In sum, although it's arduous to have to go through bilateral agreements rather than to have a multilateral framework, limits to market access are not baked in and a pair of governments can move to "Open Skies" if they want.