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**ASSEMBLY — 36TH SESSION**

**ECONOMIC COMMISSION**

**Agenda Item 40: Regulation of international air transport services**

**THE CASE FOR LIBERALIZING ACCESS TO THE AIR CARGO MARKET**

(Presented by the Airports Council International, The International Air Cargo Association and the International Federation of Freight Forwarders Associations)

**EXECUTIVE SUMMARY**

Air cargo is a dynamic force in the interdependent global economy because of its vital role in underpinning global trade and the global supply chain. Air cargo traffic rights should be liberalized to take account of the imperative for speedy delivery times and should be separated from passenger rights, since they involve different markets and different issues. Cargo's pivotal role in the global economy is best served by fully liberalised market access, a step already taken by several States.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective D.
<i>Financial implications:</i>	Not applicable.
<i>References:</i>	

## 1. INTRODUCTION

1.1 ACI, FIATA and TIACA support the liberalization of air cargo and express services for unfettered market access. The three organisations strongly believe that the global air cargo marketplace should be unrestricted as to the ability of air carriers to move cargo in any international market between two points anywhere in the world.

1.2 The three organisations are in favour of liberalizing international traffic rights for all air charter, combination carriers and all-cargo carriers, and allowing buyers and users the opportunity and responsibility to determine their carrier of choice in the marketplace. Setting air cargo free in this way allows market mechanisms to work across economies for the benefit of global trade.

1.3 The present state and pace of air cargo liberalization denies users, industry participants, and States the benefits of full global trade. The framers of the Chicago Convention could not have conceived of the fundamental importance of air cargo today for so many users and consumers around the globe.

## 2. BACKGROUND

2.1 As is evident from the following section titled “The Economic Impact of the Air Cargo Industry”, air cargo and express transportation is an economic development tool and driver of economic growth for the global economy; where liberalized all-cargo transportation traffic rights are available, separate all-cargo agreements should be pursued as the first step towards market liberalization and openness. Often developing countries see the advantages of market openness for the movement of goods before they recognize the same advantages on the passenger side. Such openness should be balanced and should be enhanced strictly for economic reasons.

2.2 Where efforts to separate all-cargo operating rights from combination rights, including passenger service, are deemed to be more practical, such agreements should not be held back by restrictions brought about by countries in an effort to protect carriers’ ambitions on the passenger side.

2.3 Cargo liberalization entails a shift in current regulation by proposing an agreement between like-minded countries that support the principle of severance of cargo from passenger rights, as an initial step in a long term strategy. Under this approach, a new generic all-cargo agreement would grant the same rights and privileges, on a reciprocal basis, to all signatories.

2.4 Such liberalization for all-cargo rights, however, should in no way restrict the ability of combination carriers to obtain similar agreement rights for both passenger and cargo service. There are circumstances where, politically, the granting of such all-cargo rights must be taken in parallel with combination carrier openness. It is understood that there is the possible need to exclude cabotage from this particular instrument. The establishment of a multilateral group of countries permitting fifth, sixth, and seventh freedoms can be confidently expected from countries that already operate “Open Skies” agreements.

2.5 The following organizations subscribe to and approve the above proposal to liberalize air cargo traffic rights:

- International Federation of Freight Forwarders' Associations
- The International Air Cargo Association
- Airports Council International

### **3. THE ECONOMIC IMPACT OF THE AIR CARGO INDUSTRY**

3.1 A number of studies have been undertaken in recent years on the economic impact of the air cargo industry. These studies unanimously confirm the growing importance of air cargo in the increasingly interdependent world economy, particularly cargo's role in facilitating efficient movement of intermediate, and high value goods among nations to bring efficiency and cost savings in the production process. For example, a cell phone designed in the UK might contain parts made in Canada, the U.S. and Sweden and be assembled in China for eventual sale by a Finnish company. This division of labour is far from random. High value operations are performed in nations with superior R and D, whereas labour-intensive assembly is performed in developing countries with lower wages, but sufficiently skilled work forces<sup>1</sup>. The rapid movement by air of components of the cell phone in this scenario also match supply to demand, essential to minimize heavy inventory costs.

3.2 Quantifying the economic impact of air cargo is at best an imprecise science. Bearing this in mind, the following sections discuss economic impact in terms of employment and income effects and also introduce the concept of the opportunity cost of disruptions in the cargo logistics supply chain.

### **4. AIR CARGO AS A CATALYST FOR EMPLOYMENT**

4.1 Studies by Airports Council International over the past several years have quantified the number of employees at airport sites owing their jobs to air cargo operations. Taking a figure of 4.5 million employees at airports worldwide, ACI surveys determined that about 15% of these jobs were directly related to air cargo operations giving a total of nearly 700,000 jobs in the cargo sector. But this is only a small part of total jobs dependent on air cargo in trucking, warehousing, freight-forwarding and sorting operations which are performed off-airport. Given the fact that airport real estate is often constrained and thus very expensive, many operations in the cargo logistics chain are located long distances from the air transport hub. An example would be Tokyo's Narita International Airport where cargo operations are consolidated at a site over 50 kilometres from the airport.

4.2 Case studies help us quantify the economic benefits of air cargo for a city or region. In Anchorage, Alaska, for example, about 10 percent of jobs in the city are directly related to operations at the airport, which is a huge hub for the sorting and re-directing trans-Pacific cargo. Indeed three companies, FEDEX, UPS and DHL operate in over 200 countries and employ over 950,000 employees collectively. The gusto with which cities compete to be selected as hubs for the cargo express market, as was the case with the six cities in the Carolinas area of the USA short-listed for a new FedEx sorting facility, is in and of itself a strong indicator of the value attached to air cargo-induced economic growth.

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<sup>1</sup> Example provided by Webber and Maynard: *Global Cargo Trends 2006*

## 5. FINANCIAL IMPLICATIONS

5.1 There are widely varying estimates of the financial impact of the air cargo industry. Most analysts quote a figure of 30% to 40% as the amount of world trade that moves by air in value terms. Using the range this puts the value of all shipments carried by air at between US\$ 2.5 and 3.5 trillion, by any measure an impressive number. As more and more nations join the World Trade Organization, tariffs will decline and more goods will move by air. Almost all forecasters see at least 6 percent annual global growth for air cargo tonnage over the next 20 years.

5.2 It would not be inaccurate to portray global air cargo as an economic powerhouse. The large integrators have investment grade credit ratings in an airline industry otherwise beset with highly volatile share prices and historically low returns for shareholders.

5.3 Another way to look at the cargo logistics chain is in terms of *opportunity costs*. With the logistics chain putting a premium on so-called “time-definite” services, restrictive bilateral and multilateral air services agreements impose a high cost on carriers, the shipper and the eventual customer. Outmoded bilateral agreements, which always have treated air cargo market access as a subset of passenger traffic, slow the logistics supply chain or cause the chain to operate over circuitous routings, adding precious time to the shipping process.

5.4 Only a few countries (India the most prominent) have embraced the logic that all-cargo services should be treated separately from passenger traffic and have moved to create liberalized regimes for cargo, including in some cases unilateral rights for seventh freedom traffic.

5.5 Those countries which have made the move to electronic pre-clearance and paperless processing of shipments are at a competitive advantage in a business where time is money.

## 6. CONCLUSION

6.1 The air cargo industry is already enabling the rapid integration of the world economy, bringing efficiencies to complex production processes by moving intermediate goods to regions which add the highest value at the lowest cost. Air cargo also carries high value finished goods quickly from manufacturer to consumer, cutting inventory costs and driving high levels of customer satisfaction. The future of the industry depends to a large extent on governments recognizing that market forces should continue to drive innovation. Excessive regulation has a high cost, creating inefficiencies in the global supply chain and thereby reducing the positive economic impact of air cargo on the economy.

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