(Re)Shaping the international aviation regulatory system in the 2020s

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Mercantilism rules – always

But what changes is how it is defined

• **Nationally**
  What is the “national interest”? protecting national airline(s) vs broader socio-economic interests

• **Multilaterally**
  General trade agreements could extend to aviation? Not v likely
The 2020s - Major Influencers

China – will progressively dominate global aviation. Regulatory influence grows proportionately.

Europe - where to without the UK?

The US - diminishing global influence, but controlling locally.

Latin America and Africa – followers, each with distinct features.

Middle East – the Gulf Three + new narrowbodies. Internally restrictive.

“External forces”: sustainability, health, oil prices and technology.

The new future is regional airline growth – with regulatory impact.

The BIG unknown: Distribution and major social companies – AI, data,
What China wants, China will get

• Just as the US dominated policy in the 20th century, so China will come to dominate 2020-2050
• China’s strategy is more explicitly directed to global trade influence and hegemony, incorporating wider national goals
• Chinese airlines and policies increasingly dominate aviation in the already-liberal captive East Asian markets (with 30 Chinese airlines operating in the region)
China’s Belt and Road (BRI) is the foundation for global trade - and aviation - expansion.

112 countries where China has financed projects

Source: NYT 18-Nov-2018
Belt and Road - BRI

Red dots = ports China has helped build

Source: NYT 18-Nov-2018; Source: Shipping data from University College London Energy Institute
EU remains highly influential

- Airline consolidation, strengthening incumbents, make new entry difficult
- More EU inter-region international multilateral agreements
- BUT - withdrawal of the UK is likely to dilute the EU’s liberalising influence
- Also, environmental responsibility will dictate new policies, probably not favourable to aviation....
EU has agreed a “taxonomy” of permissible green investments and loans

➢ In Dec-2019, the European Council and the European Parliament reached political agreement on the text of a proposed “Taxonomy Regulation”

➢ A key objective to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth

➢ Would ban all investment in coal production by 2030

➢ European Parliament declared a “climate emergency” in late Nov-2019
US Enclave

- Continuing union pressures and nationalism should protect US domestic – embracing contiguous Latam markets
- US airline acquisitions and JVs will entrench this role
- Latam is also a key region for global trade and strategic dominance
N Atlantic Haven

- A combination of mutual interest and pressure from major airlines on either side of the Atlantic should be sufficient to protect this lucrative point to point market from foreign intrusion – in the short term
- But it still remains a highly competitive market, as new long haul narrowbodies enter
“External” influences on regulatory policy

1. Sustainability/global warming
2. Public health controls?
3. Oil prices
4. Aircraft technology
“External” influences on regulatory policy

1. Sustainability influences
   - Consumer behaviour
   - Investor and corporate behaviour
   - Government environmental taxes (hurt LCCs more)
   - Government policies – eg UK government Committee on Climate Change: “ban FFPs”, escalating air miles levy
   - Customer facing websites and intermediaries prioritise “cleanest” operators” (newest aircraft, high density)
2. Public Health issues

- Coronavirus is one manifestation of the potential for global pandemics
- China is a much more important influencer on aviation than it was in 2003
- At that time the WHO said the next occurrence was “not a matter of whether, but when” the next event would occur
- In 2003, air services were central to the spread of the disease
- Like airline security, health security will influence operations – but with greater geographical focus
2.1 Public Health issues – post-SARS 2006 research

“SARS spread rapidly via a global airline network that, a century on from the Wright Brothers' first flight, afforded unprecedented mobility. While it is true that the origin of the disease so close to Hong Kong made it especially prone to diffusion by air travel, and that a similar disease originating in Central Africa, for instance, would have spread more slowly....it is nevertheless apparent that the world was ill-prepared to mitigate the diffusion of SARS via international air transport.”

Airline Networks and the International Diffusion of Severe Acute Respiratory Syndrome (SARS)
Author(s): John T. Bowen Jr and Christian Laroe
“External” influences on regulatory policy

3. Oil prices

- Can have a limiting effect on competition – if prices exceed USD100/barrel
- This threat appears to have diminished (for good?)
- Weak economic forces and surplus demand are suppressing prices, supporting growth
“External” influences on regulatory policy

4. Aircraft technology

• The Gulf carriers disrupted long haul flying, using new technology (as well as coinciding with global liberalisation)

• The next generation of fuel-efficient narrow bodies will have an even larger impact, this time at a more granular level

• It happens at a time when major hubs are near-full and few new airports will be built
The future is regional

• New small, long range narrowbodies are ideal for point to point operations between small, uncongested airports

• Populism creates pressures to cater more to regional centres (eg UK PM Johnson’s goals in post-Brexit UK)

• The persuasiveness of broad economic arguments is greatest when regional development is concerned

• The direct competitive impact on national airlines is lower, so policy openings can be less controversial

• Responds to needs of often-loss making regional airports - when hubs are full
Russia’s tailored regional aviation policy for St Petersburg

21 countries’ airlines may operate freely to Pulkovo Airport:
No restrictions on airport point of origin for Belgium, Denmark, Ireland, Switzerland, Portugal.
Nine other countries’ airlines are partly restricted:

- Austria: all cities except Vienna
- Bulgaria: services from/to Sofia only
- UK: all cities except London
- Germany: all cities except Berlin, Munich, Düsseldorf and Hamburg
- Spain: all cities except Barcelona and Malaga
- Italy: all cities except Rome and Milan
- Cyprus: all cities except Larnaca and Paphos
- France: all cities except Paris and Nice
- Czech Republic: all cities except Prague
The 2020s - Major Influencers

The BIG unknown: Distribution and major social companies – AI, data,
Data becomes king

• IATA’s New Distribution Capability - NDC is just the tip of the iceberg of how airline retailing is changing
• At the heart of it is tech-enabled solutions for helping airlines “know their customers” better
• Data aggregation and analytics are increasingly intruding into this process (and becoming a revenue source in their own right)
Know your customer

These companies *do*...

Any of the major online consumer-facing companies has adequate data and analytics to disrupt the airline sales process – if they wanted to
...disrupt the airline sales process...

- This is the part of the industry that is almost unregulated internationally.
- If these and other third parties are able to control the distribution process, that has the potential totally to undermine the whole purpose of national airline designation.
- It would mean that, while “flag carriers” and inter-governmental agreements continue, the airline would become a mere vehicle
- When demand and technology coincide, external parties like these will control the distribution - and revenue - chain
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Thankyou!