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THE INSTITUTIONAL PARAMETERS OF WORLD AIR TRANSPORT MARKET

The institutional parameters of world air transport market are discussed in this article. The plurality of institutional parameters of global air transportation space are set up three main vectors – carrier capacity, market access, tariffs,which make up the regulatory content of the market. The plurality is divided on three types of conditions typical to modern market.
Keywords:world air transport market, regulation, institutional parameter, market access, tariff, carrier capacity.

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ІНСТИТУЦІОНАЛЬНІ ПАРАМЕТРИ СВІТОВОГО РИНКУ АВІАПЕРЕВЕЗЕНЬ

В статті розглянуто інституціональні параметри світового ринку авіаперевезень. Множинність інституціональних параметрів глобального авіапростору задають три основні вектори – провізна місткість, доступ до ринку, тарифи, які є основою процесів регулювання ринку. Всю множинність параметрів поділено на три типи умов функціонування, які характерні сучасному ринку.
Ключові слова: світовий ринок авіаперевезень, регулювання, інституціональний параметр, доступ до ринку, тариф, провізна місткість.

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ИНСТИТУЦИОНАЛЬНЫЕ ПАРАМЕТРЫ МИРОВОГО РЫНКА АВИАПЕРЕВОЗОК

В статье рассмотрено институциональные параметры мирового рынка авиаперевозок. Множество институциональных параметров глобального авиапространства задается тремя основными векторами – провозной способностью, доступом к рынку, тарифами, которые являются основой процессов регулирования рынка. Все множество параметров поделено на три типа условий функционирования, которые характерны современному рынку.
Ключевые слова: мировой рынок авиаперевозок, регулирование, институциональный параметр, доступ к рынку, тариф, провозная способность.

Resolution of the problem in general and its relationship with important scientific and practical tasks. As international air transport developed and became more complex over the past half century, so too has its regulation.

The subjectswhich make up the regulatory content in the economicfield of international air transportare market access, carrier tariffs and carrier capacity. All forms of modification of such content create the institutional parameters of world air transport market. And it's necessary to understand the specification of these parameters with aim to gain the advantages on aviation market.

Analysis of recent studies that solved the problem earlier. In a general view, the international regulation (or governance) is the separate international processes management with the purpose of avoidance of its potential negative consequences for world society. According to International Civil Aviation Organization (ICAO), regulation is the giving of authoritative direction tobring about and maintain a desired degree of order [1].

The question of institutional regulation has been studied by such authorsas Zinchenko F. [2], Zablocka R. [3]; market regulation –Cherkasov G. [4]; institutional market – Tambocev

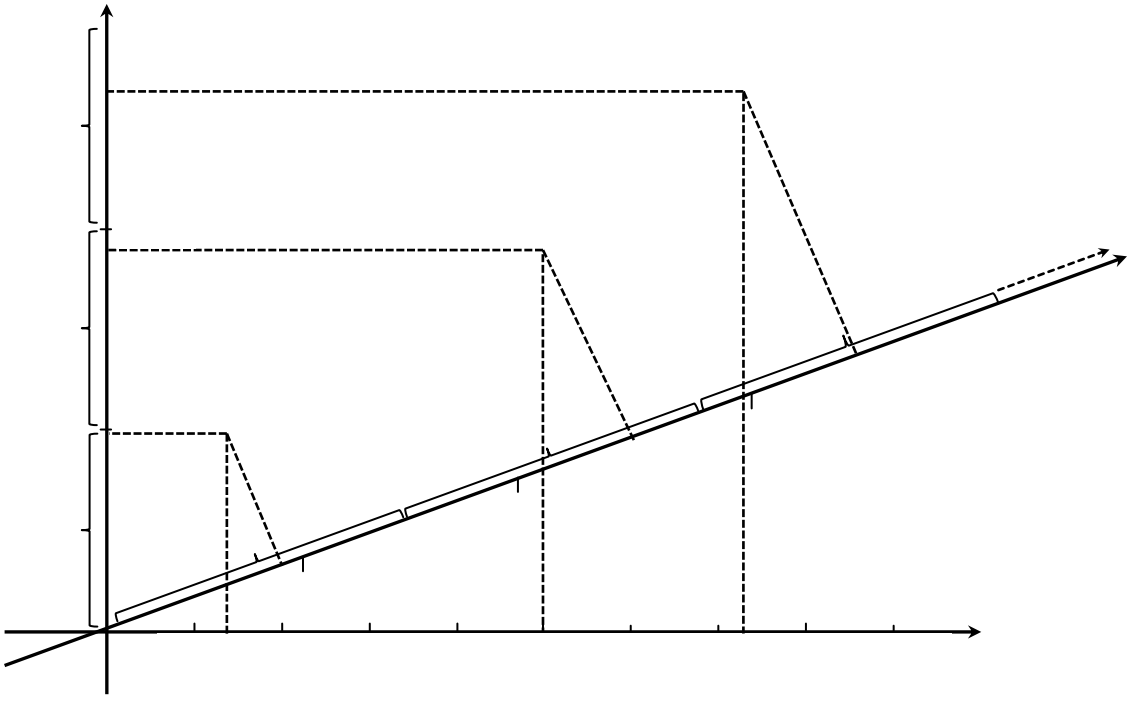
V. L. [5]; aviation regulation – ICAO [1] and its regional representations. So, the specific of institutional aviation transportation market has not been investigated yet.

The objectives of the article. The main objective of this article is to research the specific of institutional air transportation market across studying the main institutional parameters which typical for this market.

The main material of research with complete basing of scientific results. The foundation of institutional provision of world air transport market is the subjects which make up the regulatory content in the economic field of international air transport. Institutional provision, from author's point of view, is the presence of effective, adequate to present conditions, institutions which set institutional parameters of functioningof market subjects in global economic space. So, institutional parameters on the world air transportation market are represented by market access, carrier tariffs and carrier capacity which form the three vectors on picture 1 and include plurality of institutional parameters of global air transportation space.

Market access, carrier tariffs and carrier capacity are widely discerned in ICAO documentation [1]. Let's briefly stop on meaning of them.

Air transport market access include route right, operational right, traffic right andare usually granted in exchangefor similar rights by means of some agreement(s) orarrangement(s) between States and are usually limited toscheduled international air services.States limit market access for variousreasons including to bring about some perceived balance inrights exchanged; to retain leverage for possible futureexchanges; to avoid or minimize competitive impacts ontheir national carriers; to be precise in order to avoid misinterpretation;and to promote or favor some market segment(such as that of a particular city or national region) [1].



where MA – Market Access;
F – Freedoms;
CC – Carrier Capacity;
[0; CC_{PA}] – carriercapacitylimitson principles of predetermination establishment;
(CC_{PA}; CC_{BA}] – carrier capacity limits according to "Bermuda" agreement;
(CC_{BA}; CC_{LA}] – carrier capacity limits on liberalization principles;

CT –CarrierTariffs;
[0; DA] – limits of zone of double approval;
(DA; FlP] – limits of flexible pricingzone;
(FlP; FrP] – limits of free pricing zone.

Picture 1. Search of optimal variants of functioning in plurality of institutional parameters of global air transportation space

Route constituent of market access is expressedas an agreed geographic specification, or combination ofgeographic specifications, of the route or routes over whichan air service or services may be held out and performedand of the order in which authorized places may be served.

Operational constituentisexpressed as an agreed physical specification of how manycarriers may be designated; of how aircraft may be operated;r of what aircraft types, parts of aircraft, or substituteconveyances may be employed and assigned flightdesignators over an agreed route or routes.Operational rights include overflight, technical stop, optional omission of stops, mandatorystop, positioning flight, extra section flight andchange of gauge.

The process of transportation is expressedas an agreed physical or geographic specification, orcombination of specifications, of who or what may betransported over an authorized route or parts thereof in theaircraft (or substitute conveyance) authorized.The most basic way traffic rights are expressed as geographicspecifications is that of one of the freedoms of theair which relates to traffic.

Thus institutional parameters of global air transportation space include market access which comprehends specific constituents and is the separate vector (*MA*) in global air transportation space. This vector reflects nine freedoms. Every point of vector differs from another by rout, operating features and conditions of transportations, which are set between countries.

The next vector is air carrier tariffs, which are one of the major elements in theregulation of international air transport, although their regulatoryimportance has gradually decreased along with the generaltrend of air transport liberalization.

Among the reasons why a State regulates internationaltariffs ICAO details the following:

- to ensure that its national carrier or carriers have a fair opportunity to compete in providing international air services;
- to support pertinent national goals and objectives, such as encouraging international tourism and trade;
- to promote competition in international air transport by, for example, seeking flexibility for individual air carriers to use tariffs of their choice; and
- to respond to the needs of users of international air transport [1].

The main role in the institutional system of international organizations in the questions of tariffs takes InternationalAir Transport Association (IATA),major direction of activity of which is organization of mutual settlements and establishment of level of the published tariffs. Published and unpublished tariffs select by such criteria as publication, distribution, and, in case of necessity, approval by governments.

A non-IATAfare includes a bilateral/multilateral fare collectively determinedthrough bilateral or regional tariff consultationamong two or more airlines. Carrier fare usagehas grown rapidly in recent years because of liberalization.All IATA fares, most bilateral/multilateral fares and government order fares, and somecarrier fares (for example, alliance partners fares) are interlinefares, although the scope of interlining may vary. Mostcarrier fares are online fares.

On the carrier tariffs vector (*CT*) there are three zones of tariff placement. They include double approval/disapproval in which both Statesconcerned must approve/disapproval a tariff;flexible pricingzones in which States agree to approve tariffs falling withina specified range of prices and meeting correspondingconditions (outside of the zone, one or a combination of theabove-mentioned regimes may apply); and free pricing inwhich tariffs shall not be subject to the approval of anyStates, though some agreements may allow States to requirenotification of tariffs for informational purposes only.

The last vector is air carrier capacity. It is the quantitative measure and may be expressed in terms of aircraftsize, aircraft type, number of seats and/or cargo space (byweight and/or volume), frequency of operation, or somecombination of such terms.Capacityregulation inevitably involves a wide spectrum of nationalinterests extending beyond the economics of air transport.In making capacity decisions, governments must take intoaccount national policy goals (such as promoting internationaltrade, tourism and economic development) andtheir general responsibility for the public interest.

The financial success of an air carrierwill depend largely on how efficiently it utilizes its aircraftand how well it matches capacity to demand.Where possible, air carriers seek to match capacity totraffic demand in order to maximize profits and minimizeunused capacity on each flight.

Over the last five decades, States have developed manyforms of capacity regulation in their bilateral relations.However, the methods used fall into three basic categories,for which model clauses have been developed by ICAO asguidance to States and for possible inclusion in their bilateralagreements. Each model clause is accompanied by aset of criteria, related objectives and guidelines.

The three categories are:

- the predetermination method, which requires that capacity be agreed upon prior to the commencement of operation, either by governments or their aeronauticalauthorities, or between their designatedairlines subject to governmental approval;

- the Bermuda type method, in which the governments setout the capacity principles for the designatedairlines to follow but allow each airline the freedomto determine its own capacity, subject only to expost facto review by the governments through theirconsultation procedure; and

- the free-determination method, which allowscapacity to be decided by air carriers free of governmentcontrol, but may require each party toeliminate all forms of discrimination or unfair practices that would adversely affect competition.

In the conditions of growing liberalization processes it’s necessary to select and represent tendencies to creation of «open-skies» agreementson the carrier capacity vector (*CC*), which have no capacity limits. It is estimated that, in 2012, this involved about 35 per cent of country-pairs with non-stop scheduled passenger air services and about 58 per cent of the frequencies offered, through either bilateral “open skies” air services agreements (ASAs) or regional/plurilateral liberalized agreements and arrangements (compared with about 23 per cent and 46 per cent, respectively, eight years ago) [6].

As of March 2013, 440 Open Skies Agreements (OSAs) have been signed: 112 States signed OSAs with the United States, twenty-four with the EU, or any of its members, and nineteen States signed OSAs with both the EU (or any of its member States) and the United States.Twelve agreements granting “Seventh Freedom” traffic rightfor passenger services, and ten agreements granting “Eighth Freedom” traffic rights or consecutive cabotage rights for all services.

Moreover, at the regional level, the following agreements or arrangements for liberalization of intra-regional air transport services are currently in operation:

a) the Single Aviation Market within the European Union (EU, then European Community);

b) the North American Free Trade Area (NAFTA), formed by United States, Canada and Mexico (1994);

c) the Decision on Integration of Air Transport of the Andean Community (CAN, then Andean Pact) (1991);

d) the Banjul Accord for an Accelerated Implementation of the Yamoussoukro Declaration (1997);

e) the Multilateral Air Services Agreement for the Banjul Accord Group (2004);

f) the Agreement on the Establishment of Sub-regional Air Transport Cooperation among Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam (CLMV) (1998; the Multilateral Agreement on Air Services was signed in 2003);

g) the Multilateral Air Services Agreement (MASA) of the Caribbean Community (CARICOM) (1998);

h) the Agreement on Sub-regional Air Services (Fortaleza Agreement) of the Southern Common Market (MERCOSUR) (1999);

i) the Agreement on Air Transport of the Economic and Monetary Community of Central Africa (CEMAC) (1999);

j) the Regulations for the implementation of Liberalization of Air Transport Services of the Common Market for Eastern and Southern Africa (COMESA) (1999);

k) the Decision relating to the implementation of the Yamoussoukro Declaration concerning the liberalization of access to air transport markets in Africa (Yamoussoukro II Ministerial Decision) of the African Union (AU) (2000);

l) the Agreement on the Liberalization of Air Transport of the Arab League States (2007). This agreement formalized the Intra-Arab Freedoms of the Air Programme devised in 2000 by the Arab Civil Aviation Commission (ACAC);

m) the Pacific Islands Air Services Agreement (PIASA) of the Pacific Island Forum (2007); and

n) the Air Transport Agreement of the Association of Caribbean States (ACS, 2008).

Conclusions. Thus, in plurality of institutional parameters of global air transportation space we can set up threetypes of conditions of air transportation. These are points *A, B, C* on picture 1. Point *A* means the process of market regulation, point *B* – deregulation and point *C* – liberalization. The evolution of air transportation market goes to liberalization and the last stage of this process is "world open sky". But to get last stage it is necessary to make great institutional changes on every national market which require much funds. It is the task of every State to make the market conditions as effective as possible.

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