

Transportation Science Society of the Philippines (TSSP)

Proceedings

of the
Symposium on the

“Open Skies Policy”

Welcome Remarks

Dr. Shizuo Iwata
Vice President, TSSP

Keynote Speeches

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Panel Reactions

Hon. Evelyn Pantig
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Moderator

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Opening Remarks of Dr. Shizuo Iwata, TSSP Vice-President

On behalf of the Transportation Science Society of the Philippines, I would like to welcome all of you for participating in this Symposium entitled "Is An Open Skies Policy Good for the Philippines?"

The Transportation Science Society of the Philippines was established in 1993 and has been quite active in undertaking meetings, seminars, workshops, and publication of journals. This year we are also holding the 1997 Annual General Meeting. At present, our society is supported by 26 Corporate Members composed of Filipino/Japanese companies, 94 Regular Members, aside from a number of Associate Members.

Today's topic focuses on the air transportation sector. Air transportation services in the last two decades have been expanding quite rapidly, much faster than the average growth rate of the overall transport sector, due to the globalization of the economy and also of social activities. Therefore, we consider the air transport sector's contribution to economic development of worldwide significance.

The air transportation sector has been facing a number of challenges: congestion of the facilities at major airports, concentration of passenger traffic at gateway airports while second-line airports remain under-utilized. This situation can not be attributed simply to a bottleneck in infrastructure construction. Increasing attention to environmental constraints, as well as severe competition in the air transport industry, is forcing a restructuring of airlines to meet financial problems. The traditional air transport sector has prospered based on bilateral agreements anchored on government rules that regulate the entry of foreign players and the air fares. However, the continued expansion of the air transport market has opened several possibilities. The current trend is towards a more open market, which of course, run counter against established bilateral agreements. So, under this kind of circumstances, how should the Philippines respond? These will be tackled in this afternoon's symposium for which we invited several distinguished guests.

I hope that today's symposium will be stimulating and will elicit the fruitful exchange of information about the pros and cons of the Open Skies Policy. Thank you very much.

Introductory Remarks by the Moderator, Mr. RENE S. SANTIAGO, TSSP Director

Thank you, Dr. Iwata. If you noticed I dispensed with the usual formalities in the absence of Undersecretary Cal and to avoid any impression of DOTC intervention in this afternoon's discussions. And I think it would be better for all if DOTC would remain non-committal for a while on this controversial topic. If I may say so, DOTC is faced with a dilemma on whether an open skies policy is something that it ought to pursue. There are recent developments that have triggered a serious re-thinking of the issue. I think our next keynote speaker will provide us some ideas. So, let me call on Dr. Tetsuo Yai to present his research work on international airline services and how this might be useful to the Philippine case.

Keynote Speech of DR. TETSUO YAI

(Note: See Appendix for presentation charts/tables and reference paper.)

Ladies and gentlemen, my name is Tetsuo Yai from the Tokyo Institute of Technology. It's my honor and pleasure to present the results of my research in today's Symposium. My paper examined the particular case of Japan but applicable to the general subject of International Air Transport Analysis. I would like to start with the historical development in Japan and in the Asian region. (Referring to presentation outline in Appendix A) Numbers 1 and 2 expound on this aspect, while the third item emphasizes the importance of the data. Number 4 relates the findings to the importance of future research work in the subject. Last item restates my conclusions.

First of all, let me explain that the changes in the current network of Japan is not directly related to the Open Sky Policy. It is only now that Japan is debating about an Open Sky Policy between U.S. and Japan. In the late 1980's, Japan had many international and local airports. This map shows the number of airports. There are three categories of airports; the red line denotes a high speed line. There are plans to connect large airports by rail, with priority to rail connections between the ten largest cities and the airport, for example, the Shizuoka. The distance is about the length from Spain and Portugal to Germany. In 1987, we had only 5 or 6 airports that had international flights. By 1994, we had 15 or 16 airports. Most of the local airports had connections only to Seoul, with the operator invariably being a

Korean carrier. The red part refers to the share of Korean airline, while the green one depicts Japanese carrier. The blue one is for American carriers. As you can see, there are many red lines in this map. And after the completion of the new Kansai airport, a new network of international and domestic flights emerged with many flights from local airports to the Kansai airport. Passengers can easily transfer from domestic to international flights. Before its completion, the major international airport in Narita had passengers transferring by land transport from Kanita, which was the largest domestic airport, to Narita. That was one of the problems. This was a new service, however, with many flights provided from the local airports. Earlier, I mentioned the flights to Seoul from local airports. These direct services were studied in terms of how beneficial they were to Japanese, to Koreans and to other passengers. The conditions changed for Koreans and other nationalities after the completion of Kansai airport. This was one of the basic examples of the logit choice model for the airline route. Of course, there are country-specific conditions, so I tried to calibrate the model by country.

This (slide) shows the amount of benefits and the changes from 1991 to 1996. I compared the two periods so that you can see that there had been fewer benefits to Japanese passengers flown by Korean Airlines. You can also see that this surface is smaller in area or in benefits. This means that this area has experienced some loss of benefits due to changes in the network during the period. One of the reasons for the shift was the price reduction in Narita Airport. In this region, new flights to Seoul and back have been opened. It could not be said that total benefits came from the new services, since some local areas suffered while some other regions gained. This kind of analysis will assume more importance in Japan in determining future aviation policy.

Next chart is more about the effects on the domestic side of Japan. This is about the introductory phase. We also tried to understand the network changes in this region and this are the basic figures. And you know that this particular carrier increased their flights from 1991 to 1993. For example, in the case of their flights along this route to mainland China, the airline expanded its network. Singapore also expanded its flights inside the main Asian countries. Using such data, I tried to compare the networks being followed by the two airlines. This entailed defining the relations of the two networks. For example, this one is a completely independent network, while this one is competitive. All destinations and origins of the two are similar or identical. In which case, passengers have a choice between the two

airlines. On the other hand, this network partially overlaps another airline. Network B is included in network A. This is a kind of supplementary, or complimentary situation. In this example, the passengers departing from this airport can use network B, airline BA and reach his destination using same airline. Airline B can increase its percentage share either from network A or network B. This approach allows one to evaluate the relationship between two networks. In this case, the results of the analysis used network data for 1987 and 1993. I'm sorry for not using colored copies in the handouts; it's a little difficult to differentiate the true colors in this figure. As you may see, there are two kinds of relationships between the two networks. One is competitive network. This is Korean Airline, this is another airline. Cathay Pacific is the strongest competitor because their networks are overlapping. But for Indonesia Airline, it is a supplementary airline or complimentary to Korean Air because their two networks are very different. This two figures show that during the past 6 years, the network has changed. During this year, Kansai of course, had many domestic flights. For the rest of the region, it complements or supplements the other airlines. Cathay Pacific and Singapore Airline were the strongest competitors in this area. But in 1993, Thai Airways became one of the supplementary airlines to Singapore Air. Their biggest competitor was JAL, whose strategy changed with demand.

This one is the case of a world-wide network. This figure is slightly different for 1993. What I could not fully explain was the reason for PAL's becoming a supplemental airline in this region. When it comes to the world wide network, Singapore Airlines is the most competitive to NIA and supplemental to other airlines distant from Singapore. And JAL is also a competitive airline vis-a-vis NIA airlines. There are rules for the supplemental airline, but these vary with time. But in this figure, the general trend is not very different although some think they are different from the 1983 situation. I will discuss more about this later. This is just an example.

Let me now proceed about the relationship between South Korea and USA, and the relationships between their two airlines. The figure indicates that for the secondary airline from Narita or China, the network expanded from 1992 to 1996. The blue line means newly open flights. Using the same method of analyses, I tried to calculate the respective indices for the competitive situation and for the supplemental situation. In 1991, JAL and Northwest were competitors. But China was a supplemental airline. By 1996, the situation changed. However, JAL and China remained as the strongest competitors in the China market. On the

other hand, secondary carriers established good relationships with U.S. airlines. The analysis is as of a certain date. But since the network structure has changed rapidly in recent years, it may be difficult to extrapolate. It depends on demand increases, carriers' behavior, and the passengers' response.

From the viewpoint of an academician like me, it is very important to have the empirical data to analyze. To use an analogy: the 20th century was the age of automobiles wherein many kinds of transportation planning methods or techniques to model choice (was developed). The 21st century would be the age of air transport, so it is imperative that we develop new methods, new techniques, to predict demand and the future system. Along this line, I tried to model the networks in this region, 5 or 6 years ago, using available data. For example, Japanese passengers that went to the U.S. flew west or directly, or some of them flew via a Korean airport. But this was mainly based on immigration data, which was culled from Narita International Airport in Japan. This data is not as good, but it is a starting point for conducting research work. We can conduct a large-scale passenger survey, like the one conducted by the Ministry of Transport every two years. But the main focus of that survey is to determine the behavior of Japanese and foreign passengers that enter Japan. My research topic is more comprehensive, because we have to know the behavior of passengers who do not stop over, in order to understand the demand changes. So we tried to conduct new survey at Narita airport for the Pacific traffic. Flight questionnaire forms were issued to those who did not enter Japan. We wanted to know their behavior. For example, this figure shows that nearly ten percent of the passengers visited four countries in the region; nearly 20 percent visited three countries. I tried to compare different types of passengers -- those entering Japan, those who did not and were only in-transit.

Finally, I determined that the more active the passengers, i.e., those who travel longer distances, the higher the percentage of business travelers. Travel range is also in the survey program. The data is still being processed. But in conducting such survey, travel distance and travel time included in the survey form can add delays, as well as vary by nations. For example, using this survey, we can make an airline choice model, airport choice model. In this case, we made a purchase choice and variables listed here included cost of fares, cost of travel, and frequency. Finally, I obtained hourly values in US dollars. For U.S. residents, for example, the value was 25 US dollars per hour. Similar value was derived for Korean residents.

I would like to go now to the next topic. This table is included in your handouts. I believe that this one presents my conclusions. In this presentation, the analysis of travel behavior is as important as in other modes of transport. We focused on travel analysis by air passengers. It is also important to evaluate the general strategy of airlines and the network variation. For example, in the Japanese local airport case, I mentioned that it had international flights by Korean carrier with substantial user benefits. But in June, Korean Air will stop operating from the three airports. Thus, the network structure is a function of the foreign airline's strategy. The Denver International Airport was built 3 to 4 years ago with a huge capacity. It was very famous even in Japan. But it is still not open to foreign airlines. It is restricted. Kyushu, on the other hand, has three international airports. You can find the same figure in your handouts. This chart shows that the airport hubs that airlines use in U.S., for example, Atlanta which is the hub of Delta Air, Denver and Chicago. You can see the map of the eastern Asian region. I picked the location of New York and Tokyo at the same point as the Philippines here and San Francisco is here. This area is very big. But the U.S. has a big population with no internal immigration barriers. But we have many countries with many carriers where the situation is completely different from the U.S. Geographically, our sizes are no different from the U.S. The markets have many kinds of alliance and new airlines. I think we may become more similar in the future.

This graph emphasizes the importance of data in research. I tried the same analysis using the restructured data in terms of network changes. This is a very simple exercise, because I fixed the total demand, total frequency, and load factor. For example, San Francisco, Hong Kong and some of the local airports. These figures refer to the travel time into the airport including access time; the lower it is, the lower is travel cost from origin to this airport. Usually, if we have a direct flight from airport 1 to airport 2, we should pay; there are two expenses. There are expensive tickets where we pay the full cost. But if we use this route or this route, sometimes we get cheaper tickets. For this one, the price is about 120,000 Yen. But if you want to go from A1 to A2, the fare will be discounted. This is the assumption for this simulation and using the behavioral model I made. In this case, we have one international airport and three domestic airports connected to this airport and satisfied all the conditions stated. Forty-six flights between this, and this, and this. Fifty-five countries as destinations. I can change the situation and add another international airport. But this one has no connection to the local airport. In this case, 44 direct flights and 65 flights from this

international airport Narita, and 46 still have the same load factor. However, in this case, these two airports would be the competitors, since they have the same network linked to domestic airports and they also provide links to other countries. We tried to calculate the two, when in isolation. One is a successful case, while the third case is not. This is successful because they got 31 flights. Java (?) to airport, the total is 62 and direct flights reduced from 44 to 33. The result appears unacceptable. It might be reasonable, but in this case, there are many passengers affected. Most passengers want to use the direct flights but the fares were higher. So many passengers shifted to another airport. But in another case, satisfying the same conditions, the result was different -- direct flight into the airport increased to 51 but two international airports in the same country lost many passengers. Only people who want to go abroad from this region use this airport.

In this example, passengers from this airport going to this airport have two options. In the base case, they got 30,000 yen per person as benefits from direct flights in this network; while international passengers between these airports could use 3 routes. One via this route, and one in this route. In the process, they lost 8,000Yen per person. So the analysis used behavioral motive. The important thing here, such as the concern between the US Airline and Thai Airlines, changed the network structure to this region. This kind of situation applied only to 5 airlines. One is Korean, one is Hong Kong, one is Thailand, one in USA. Of course, U.S.A. has many airlines but in this case, we restricted to United and Northwest. But for people who want to go to U.S. and Thailand, passenger can use Thai Air by the same route.

Finally, I got a solution that is more beneficial. It really depends on the carriers' behavior and passengers' behavior. The analysis concentrated on the Japanese network, and on simple relations about passengers departing from Japanese airports. The situation is more complicated, because we have to evaluate global networks -- not only in Japan -- and this kind of world view is a more important consideration in future research.

Thank you very much.

MR. RENE S. SANTIAGO

Thank you, Dr. Yai. We allowed you a more extended presentation because we brought you all the way from Tokyo to deliver such a heavy stuff. I'm sure the audience is really trying to grasp the substance of your presentation. The DOTC or CAB might have wished, or even PAL for that matter, to have you on board to support whatever positions they have. Reserve your questions to Dr. Yai. Let's go back for now to our own country as we call on the next speaker, who is always associated -- rightly or wrongly -- with the policy against deregulation. He is an executive of Philippine Airlines, bearing a familiar name in Philippine aviation, Atty. Roberto Lim.

Keynote Speech of ATTY. ROBERTO C. O. LIM, Vice-President, Philippine Airlines

Good Afternoon. I'm really very thankful for this opportunity to participate in this Symposium. It is always irresistible when your Alma Mater invites you to contribute in some small way. This institution is known for its academic freedom and has produced a lot of great ideas and great leaders. Let me now proceed to the issue at hand -- the Open Skies Policy.

At the outset, there is already a presumption that Philippine Airlines has taken a stand against open skies. Maybe, this reputation is undeserved on the part of the Philippine Airlines because we are not really in favor of protectionist policies. But what PAL is really in favor of is what we are discussing today. But just to ease your mind, we are not protectionist in our outlook nor in our activities. So, let's first review the concept.

First question is: What is "Open Skies"? I think this is a very common term without any precise meaning. And therefore, it raises complications because any and all can invoke the concept passionately in a way that suits their purposes and, therefore, it becomes a source of confusion.

If you want to dramatize a policy that sounds progressive, that fits the world of the global economic order, you can conveniently announce an "open skies" policy. If you want a convenient panacea for the problem of sluggish growth in tourism, call for an open skies policy. That is supposed to bring in a flood of new tourists. If you want to impress a distinguished forum about your prescription for aviation development, advocate open skies.

You can really reduce very serious and complicated aviation policy concerns into two words: open skies. But if only open skies where just that -- slogans and propaganda in line -- then it is a harmless phenomenon. But the world does not take this lightly.

In 1994, the governments of 183 countries met in Canada and they examined this issue very closely. And the result was that nations believed that open skies is a serious threat to their own economic progress. We have performed a complete expression of the will of states that this slogan has to be taken seriously and is presumed to be inimical. I will now attempt to describe to you about open skies in the most neutral term that I can present it.

I believe open skies in its purest form is a policy where countries would allow any foreign airline to fly into or out of its airport carrying any kind of passenger or any cargo traffic in an unregulated, unrestricted and unreciprocated way. I think it will be hard to argue against this purest form of definition. In the Philippines, if we are to adapt an Open Skies Policy in the way that I will define, I believe it will be inimical to national interest. It is not so much being friendly to foreign airlines but allowing them to gain unregulated entry into the Philippine market with no regard for actual market demand. We believe that in such a situation, you create an environment that breeds ruinous competition. It will also tempt, you know, neighboring countries with powerful airlines to exploit the Philippine market regardless again of actual demand or actual markets.

We may for example, cite Cathay Pacific as a strong airline who would definitely exploit an open skies regime in the Philippines by trying to make Hong Kong as the gateway of Philippine travelers all over the world. That would therefore, marginalize efforts by the government and by the Philippine Airlines and other Philippine carriers to make the Philippines an attractive destination and to have its airports a major transshipment or crossroad for passenger and cargo traffic. So, it's not as simple. I mean, we have to watch out what our neighbors are doing or what they can do and what their policies are. And one factor in this environment is that you have a very, very competitive industry.

To go further, assuming we have open skies in the Philippines, we have to bear in mind the context of the United States. You all know that the U.S. has the mega carriers serving not only their domestic market but the global market. We believe that if the Philippines has open skies, it would be defenseless against the mega carriers of the USA.

Philippine Airlines and other budding Philippine carriers would simply be not in a position to slug it out with the U.S. mega carriers.

I think the analogy here would be granting a midget and a sumo wrestler this simple opportunity to have a competition. You might say that the rules are the same and that they are applied equally and certainly the sumo wrestler would have physical advantage of defeating the midget. So, I think the point is quite clear that open skies is not good for the Philippines.

We believe that we are on the side of the consensus of states with respect to this issue. Even rich countries like Japan, France, Britain, Hong Kong and Australia have strongly opposed open skies. We must also realize open skies breeds an environment of merciless laissez-faire where the weak and the disadvantaged are simply allowed to fade or die away. I remember one executive of the U.S. carrier in one international symposium who made a remark that if you can't be efficient and if you can't be global then you should just be in a restaurant business. I don't think countries are prepared at this point in time to give up what they believe is their inherent right to participate in international aviation. Unfortunately, not everybody who believes they have the resources and the wherewithal can achieve that level of efficiency which U.S. mega carriers have. But let us not negate the right of countries to participate in international civil aviation. Even small countries like the Philippines can aspire to participate. We in Philippine Airlines have reinvented ourselves or are in the process of reinventing ourselves by arming the company with new fleet of aircraft so that we can, in a small way, contribute actively in international civil aviation. Another point that I would like to stress is that there is really no country that truly practices open skies. I think the only exception would be the mini-states or principalities like Luxembourg, Barbados, Abu Dhabi, because they don't really have a big market of themselves. And neither do they have flag carriers. They can afford to brag around that they believe in open skies. Dubai used to proclaim open skies. Ever since they've come out with their international flag carrier, Emirates, they shied away from their pronouncement and have resorted to the traditional bilateral process of negotiating air rights.

Let us now move to another topic. Let's now examine what the U.S. is doing. Earlier I said that the consensus of the states in that conference of 1994 was to reject open skies. This decision did not sit well with the Americans. They have been peddling, pushing and pressing for open skies. And they have been doing this by approaching each country and forcing or

negotiating with each country that they have targeted for open skies regime. Not surprisingly, they avoided Singapore. That is quite natural because Singapore is geographically situated as to be out of reach of the U.S. mega carriers. They will not be adversely affected by an open skies policy with the U.S. There is also some geo-political consideration in pushing for open skies, aside from purely commercial. Because of the small size of Singapore, its airline draws traffic from other countries rather than from its internal market. Singapore is small and with limited population. The only way for their airline to grow is to carry passengers to/from other countries. So, there's no big loss in having open skies and with the United States.

As to the Philippines and the USA, the R.P.- U.S. air treaty of 1982 already decreed that open skies would occur by 1996. The Philippines re-negotiated this treaty under very difficult circumstances, and was able to postpone the effect of open skies to year 2003. Admittedly though, some features of open skies are now provided for under the RP-US treaty. The last treaty provides unlimited cargo flights between the two countries. Hence, there is now open skies regime with respect to cargo. Federal Express, as you all know, have set up operations in the Philippines and while it may constitute a welcome foreign investment, it has also deterred Philippine Airlines from embarking on its own freight operation. So, I suppose, that's one of the give-and-take of international aviation. On the one hand, it's good for the country in the sense that you get foreign investments. On the other hand, it also takes away opportunities for a Philippine enterprise. Obviously, it is clear where PAL stands on this matter. But suffice it to say that there are pros and cons.

Let me also go back to some other terms that you may have encountered in international aviation. Open skies is not identical with the term liberalization. Allow me to explain. Historically, Philippines aviation has been regulated. Competition was controlled by government regulations and many governments insisted ownership of their airlines. National carriers were maintained as status symbols to reflect national pride or prestige, even though at times the government could not afford to invest in developing airlines and ensuring it offers a quality service. Governments would negotiate their rights very assertively. Often, by imposing restrictions instead of creating opportunities. We can characterize this aviation policy as a protectionist or restrictive one. But air travel has grown by leaps and bounds all over the world to an extent not dreamt of by pioneers of aviation history. More and more governments all over the world, particularly those in the progressive regions of Asia and Europe, have adopted more liberal approaches to the management of international aviation to

and from their countries. Instead of focusing on restrictions, governments have begun to focus on the trade opportunities of the market place. What is the market demand for aviation service? What growth can be expected? And how can it be cultivated or even stimulated?

The national carrier has ceased to be an expensive toy and instead has come to be recognized as a powerful economic instrument. Sometimes even as a lifeline. More and more national carriers are being privatized and with private ownership, they are being revitalized with new investments to become more competitive and offer higher quality products. We call this phase liberalization of international aviation. This is usually coupled with liberalization of domestic aviation markets as domestic airlines are given more freedom to set their own prices, to offer their own products, to serve their market better instead of being restrained by excessive government regulations. We see in liberalization, whether international or domestic, a positive force for aviation, as opposed to the destructive forces of open skies. We see open skies as a surrender to the chaos of unlimited, untrammelled, unmerciless competition; while liberalization to our minds is an orderly progressive process where air rights and industry opportunities are expanded in accordance with real and sustainable market growth. Philippine aviation policy has seen its own evolution from the regime of restrictions to a policy of liberalization. As the national flag carrier, PAL is supportive of this general policy trend and is taking a leadership role in marshalling the positive opportunities from liberalization. This is not to say that the Philippines has a perfect policy, or that liberalization is always being properly applied. PAL has been vocal on several occasions over its implementation. For example, we have decried excessive liberalization on some international routes such as those to the Middle East where some grants of rights for foreign gates has been in excess of market demand and where PAL did not get valuable reciprocal opportunities in exchange. We have also complained that there is not enough reciprocal liberalization in some other routes where the potentials for market growth are greater -- such as the routes to Japan. We have been knocking on the doors of Japan for so long, to increase our frequency but have so far failed because of the refusal of the Japanese government to grant us rights.

We believe that the teamwork between PAL and the government has also produced a lot of benefits for the industry. On the domestic front, PAL has consistently complained that there is not enough liberalization. For example, the current regime still requires PAL to operate many unprofitable domestic routes. However, the new entrants are not required to take

up a proportionate share of the missionary routes, thus leaving PAL to perform the public service obligation.

Now, PAL's newly-installed private management is making unprecedented multi-billion dollar investment to recreate the Philippine flag carrier into Asia's best airline with Asia's largest fleet of state-of-the-art aircraft. Last Sunday, the first PAL Airbus A340-300 was delivered fresh from Toulouse. We will be receiving no less than 13 more brand new aircraft for this year and another 18 brand new aircraft next year. We believe that by the year 2000 Philippine Airlines will be a force to contend with in the airline industry. All this progress will be possible under a properly calibrated liberalized aviation policy where PAL is given a fair chance to compete to the best of its ability against tough competition from foreign airlines supported by their own government. We will not need protectionism or cuddling or babying. All we need is a little thank you. All this progress will be realizable to the Philippines provided it does not fall for the seductive siren of open skies and adopts a policy which the world has already rejected three years ago. Open skies is not a level playing field, it is capitulation. In tandem with PAL's effort to become a truly world class competitor, the Philippine aviation industry is now tuned to the growing needs of the market. Tourism is growing, trade is being nurtured, new markets are being opened, new gateways are being developed outside Manila as international flights now link the world directly to Cebu, Davao and Subic Bay. Several Filipino carriers means more travel choices are available to the travelling public. Other initiatives can be taken under a liberalized aviation policy to enhance Philippine position in an aviation world. Our government should expedite and expand the current efforts to upgrade and supply first rate airport facilities, navigational aids and other aviation infrastructure to our country. PAL is extending its reach by entering into strategic alliances with key foreign airlines. Such alliances would provide the Philippines with both shield and sword. A shield against the worst effects of radical aviation policy such as open skies and a sword in the form of global marketing presence to elevate the competitiveness of the Philippine aviation industry. And of course, we call on the Philippine policy makers to maintain the integrity of the bilateral process of negotiating air traffic rights with foreign countries so that we can maintain fairness for the Philippines in all cases. A well-calibrated policy can cultivate and secure the best deal for the Philippines. Open skies can only threaten you. We submit that the nation will be better off relegating open skies to the realm of propaganda where it belongs, and instead opt for the tried and tested approaches in meeting challenges. Thank you.

**Panel Reactions from DOT Undersecretary Evelyn Pantig
& DOT/CAB Deputy Executive Director Guia Martiniez
Moderator: Mr. Rene S. Santiago**

MR. RENE S. SANTIAGO

Thank you Atty. Lim. There you have it. No to open skies, yes to liberalization except when you give away everything. We're running a little bit late. What we should do is proceed with the reactions of our two female panelists. May I call on Undersecretary Evelyn Pantig to give her reactions to the two presentors, and maybe also, to express the viewpoint of tourism.

DOT UNDERSECRETARY EVELYN PANTIG

Thank you very much Mr. Moderator. Good afternoon to everyone who's here. We have been asked just to make a reaction, not to come up with any speeches. That's exactly what we're going to do. So, some of my statements would be indirect or direct reactions to the speeches of both Dr. Yai and Atty. Lim. The question asked here: "Is an Open Skies Good for the Philippines?"

For tourism, that is the most ideal situation because open skies policy provides for the greatest access into and out of the Philippines for international tourism and within the territorial waters of the Philippines for domestic tourism. However, in view of the stage of economic development of the Philippines is in right now, notwithstanding being the new Tiger of Asia, the Philippines cannot really compete yet on an open skies policy as earlier articulated by my friend here, Atty. Lim. If the Department of Tourism were to be given an option or two options to choose from – whether to protect the interest of the national flag carrier that does not have the capacity to respond to the demand, or to take the other option in the interest of the larger economy and of tourism in particular -- the Department of Tourism will always opt for open skies policy or for policy that will give more rights to a foreign airline that the national flag carrier cannot respond to.

Actually, some three years ago, there was a big battle within the government – particularly, the CAB and the DOTC on one side, and the Philippine Airlines on the other. The Philippine government opted for open skies policy then, and the Philippine Airlines fought against it. The Department of Tourism was caught in the middle, because it can't really abandon the Philippine Airlines which has been a partner in promoting the Philippines abroad. We have a joint marketing program for attracting tourists into the country. The position of DOT then during the meeting that the President had instigated and chaired by then

Executive Secretary Guingona, was that DOT was not for open skies policies. We were for the liberalization of aviation contained in Executive Order No. 219. And the way we defined open skies policies during that time was that if there is a demand for more seats which the Philippine Airlines cannot fill up for one reason or another, then entry of another carrier shall be allowed. What we we're saying also is that any additional demand for seats, the Philippine Airlines as the national flag carrier will always be given priority.

For one reason or another, if there is no local airline that can be designated as international carrier, then we can even have the foreign airlines to fill up the gap until such time that the Philippine Airlines or any national airline can pick up the slack. We would say to the foreign airlines that the grant of landing rights is conditional and can be withdrawn. And so, in that deliberation, Philippine Airlines was only too happy because we're still giving them the preferential treatment, the priority position in so far as allocation of seat capacity, was concerned. The liberalization policy finally came into being by virtue of Executive Order No. 219 of 1995. Among its provisions was for only one national flag carrier which may be Philippine Airlines. However, its generic designation is a designated airline. And if the designated airline, which is also the national flag carrier, cannot keep up with the demand, then the Philippine government can always designate another airline. And this may be more than one carrier; it could be two, depending on the quantification of the demand. And this will also apply to domestic airlines. Hence, it's not going to be solely Philippine Airlines. There could be one, two, or three, as long as there is a need for more seats or as long as there is a need to open a new route in order to promote tourism and trade. So everything would be on a developmental stage. In that Executive Order which liberalized aviation, the Department of Tourism was given some prominence in the determination of whether to provide for more frequencies or not. Before the change of regime from the Marcos to the Aquino government, the Department of Tourism had the Civil Aeronautics Board as an attached agency with the Secretary of Tourism as Chairman of the CAB. That arrangement meant that DOT could regulate aviation in accordance with the demands of tourism. With the change in administration came a reorganization that replaced the Secretary of Tourism with the DOTC Secretary as CAB Chairman. So, DOT lost the CAB to the DOTC. We now realize that we have to be at the CAB, if the interest of tourism would have to be protected at all times. So under Executive Order 219, there are two panels created. First is the negotiating panel, which is in charge of negotiations for air equipment and for bilateral air agreements, and where the Department of Tourism was not a member until this year. From the inception of the EO,

however, the DOT has been a member of the second panel, which is the consultative panel. And this consultative panel is the body that reviews existing bilateral air agreements – on whether to open up or to provide for more frequencies, and so forth and so on. Lately, we found the need to be a member of the negotiating panel as well, and so we asked the President to include DOT in the negotiating panel. So two months ago, the President endorsed the membership of the DOT in the negotiating panel to the Department of Foreign Affairs which sits as Panel Chairman. The chairman of the consultative panel is the DOTC, and is usually represented by CAB chairman. So, we are happy now with the structure because DOT could express and insist on certain conditions to protect the interest of tourism.

One specific bilateral agreement where the DOT played a very major role is in the RP-Japan consultative air talks. By way of reaction also to the presentation of Dr. Yai, it is true that the Philippines asked a lot more than what Japan acceded to. We asked for twice the existing frequencies into the Philippines by Japan Airlines and Philippine Airlines on a reciprocity basis, but we got only 11. Our target was 14 frequencies. When you translate the 11 frequencies of various aircraft configurations as provided for in the MOA, that meant 220,000 additional air seats for the Philippines to be provided by Japan Airlines and PAL. This was very crucial to us, because Japan is the second largest single market of the Philippines. It is a very close second to our first market which is the U.S. In fact, last month or in February, Japan has overtaken the U.S. But the statistics of tourist arrivals, which is from April or 2 months late, U.S. is again in the first position. Overall, U.S. is 17.8% of the total tourist arrivals compared with Japan at 17%. For 1996, the 17% share translates into 350,000 more tourist arrivals into the country. Our share of the Japanese market is still very small, because based on the latest statistics we got, about 23 million Japanese travel out of Japan. Of course, if all the 220,000 available seats translated into passenger seats, there could be 220,000 more Japanese tourists into the country. Under the existing MOA, there is no stipulation as to whether the capacity will be passenger seats or cargo berths, or a combination of seats and cargo. Right now, the constraint is not so much seat capacity as airport internal capacity. Fortunately, there is a recent decision of government to expand NAIA, to be followed by expansion of Clark Field and maybe Subic. However, Subic is more for cargo rather than passengers. On the domestic front, government is also expanding the Cagayan de Oro airport, as well as Zamboanga City and Laoag airports, which are major airports and also envisioned to be international airports sometime in the future. Thank you.

MR. RENE S. SANTIAGO

Thank you Undersecretary Pantig. Now, may I call on the person in the middle, in the sense that they are the agency that will have to resolve the conflicting objectives and interests on aviation. On the one hand, they would like to promote tourism. On the other hand, they can not just let down PAL. They will have to study the situation, wrestle with all the complications, and perhaps deal with other countries. May I call on the Executive Director of Civil Aeronautics Board, Atty. Guia Martinez.

ATTY. GUIA MARTINEZ

Good afternoon. It has been a very informative afternoon for us with Atty. Lim here and Dr. Yai as resource speakers. I would like to congratulate Dr. Yai for his graphic analysis of the regional networks and the air routes. I believe Japan can really accept open skies because its equipment and infrastructure are in place. Before I go on, let me correct the introduction; I am only the Deputy Executive Director. The Executive Director might get mad at me for presuming to occupy his position and to speak in his behalf.

If 146 countries rejected open skies as defined by Atty. Lim, then indeed why should we be different? As a matter of fact, the Philippines deferred the effectivity of the 1982 air service agreement with the United States because it will allow United Airlines to operate anywhere in the Philippines and vice versa. The Philippines is not yet ready for an unrestricted open skies policy as defined by Atty. Lim to mean unregulated, unreciprocated entry to the Philippine airports without the corresponding market demand. We are not ready to be globally competitive. We are still laying down the foundations toward becoming globally competitive. It was only on January 3, 1995 that President Ramos signed Executive Order No. 219, which establishes the domestic and international civil aviation policy. As mentioned by Atty. Lim, open skies is not liberalization and what we have now is liberalization.

This Executive Order was issued to improve air service availability, quality and efficiency through exposure to foreign markets and competition. Undersecretary Pantig has already mentioned the provisions of this executive order, which if I may repeat, called for at least two international carriers to be designated official carriers for the Philippines. If the

designated carriers do not use up the total frequency entitlement of the Philippines under the existing air services agreements or other agreements, then additional carriers will be designated to operate such frequencies. With regard to rights and rules, the exchange of traffic rights and rules with other countries will be based on the national interest, which shall include value for the Philippines in terms of promoting international trade or investment and tourism, among others, and on the reciprocity between the Philippines and other countries. Reciprocity shall be interpreted to mean exchange of rights, freedoms and opportunities of people who have equivalent value. The Civil Aeronautics Board shall determine national interest taking into consideration the larger interest of the country especially the users of the service

Right now, the government is pursuing major airport development projects, such as those mentioned by USec. Pantig about Clark, Subic, NAlA, Mactan and Davao. Secondary airports are also being developed in General Santos, Laoag, Palawan, Cotabato, and Zamboanga and in the autonomous region of Muslim Mindanao. These improvements are being done for us to be globally competitive. Also the government is modernizing the navigational aids and upgrading the airfield lighting systems. There are also plans for building a new international cargo terminal. Phil. Airlines is re-fleeting to improve its service, to ensure safety, and to be competitive.

The implementation of Executive Order 219 will increase flight frequencies, passenger seats, and cargo capacities. There are now thirty-five (35) international airlines serving the country plus the three (3) Philippine carriers operating internationally, namely: Philippine Airlines, Grand International Airways, and an all-cargo carrier, the Pacific-East Asia Corp. The newest addition is Qatar Airways, which started operating only last year. The scheduled airlines operated 386 frequencies a week in 1996 and carried a total of 6.89 million international passengers, both incoming and outgoing. Last year, the CAB conducted 12 bilateral air negotiations with other countries. And this year, we hope that DOT will be active in the negotiating panels. As of now, "open skies" for CAB is not for the unregulated, unreciprocated entry in the Philippines, but the opening of new gateways and allowing the entry of new airlines based on value to the Philippines and reciprocity. I would like to inform Atty. Lim that the CAB is not unfair. We require the new entrants or the new airlines to operate also in the missionary routes, but that they are not ready now. We have to give them

some time to prepare. I believe that one airline, Grand Air, is negotiating with Asian Spirit for the latter to serve the missionary routes for them. There will be a partnership.

That is the end of my reaction. Thank you very much.

MR. RENE S. SANTIAGO

Thank you Atty. Martinez. Can we take a 15-minutes break so you could all stretch out and be ready with your questions before we open the table for discussion.

SUMMARY: by MR. RENE S. SANTIAGO, Moderator

The DOTC is now faced with that question of Open Skies Policy because of the development of the region. The Philippines may lose creating a regional hub in terms of an airport. Then I think it also goes to the ambition of the Philippine to create Clark as the regional hub airport similar to what happened in seaports where Kaoshung, Pusan and Hong Kong are the regional hubs and the Philippine ports are really just hidden. And it is happening in the airline industry and you have a lot of developments.

And here Dr. Yai presents to you a very complicated analysis, so I'm sure it's not a simple case to say let's open. It depends on a lot of factors and the point he even said actually was, that not all countries are rushing to the battle cry of open skies, but slowly adjusting little by little. It depends on particular interests and starting conditions on how they could cope in that direction.

Singapore, of course, decided immediately to embrace it. In fact, you may call exploit it because it has nothing in the way of a market. It makes sense from that point because it was a simple case of one country one city, and there is really no internal traffic. It likes to believe itself that it is the hub airport in Southeast Asia among ASEAN. But of course it is reacting to the fact that Malaysia is just completing an airport bigger than Changi and would like to be the hub airport. And here we are, the government is trying to visualize itself that the Philippines will be left behind them. Will the Open Skies Policy be an easy answer to some of this issues? Frankly, I don't think they have the answer. But this forum hopefully provided some directions towards that point. And if you want an example, the US itself was a very big country. It's like several countries within one country. When they went into deregulation, it was like an Open Skies within its own area, and you know what happened. A lot of adjustments came about, and you have this situation now where Atlanta, Chicago and Dallas becoming the biggest hubs in the continental US. If you transform the scenario in the Asian region, you are now confronted with, what exactly you would do in fact if DOTC will announce open skies tomorrow! You simply don't have the airport capacity to have it. And the second point is, I don't think one country can make a decision unilaterally given the Byzantine aspect of bilateral agreements left and right.

With that, I would like to conclude this symposium.