



Japan International Transport Institute  
JITI Newsletter No. 7  
July 2007

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## Greeting

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Since we published the last newsletter in February, the weather has changed. The cherry blossoms have already come out, and Washington D.C. is now surrounded by a lot of greenery.

We held "The Seminar on the Liberalization of International Aviation ~ Is the Chicago Convention fit for aviation in the 21<sup>st</sup> Century? ~" in April. This seminar was a great success. The seminar was rich in content thanks to the great keynote speakers and the panel discussion, and I hope you were able to come to the seminar and enhance your understanding of what kinds of problems have been occurring in the current Chicago Regime and how to resolve these problems. Those who could not attend the meeting can download the Chicago Convention Committee Report from our website.

One of the issues related to the liberalization of international aviation is the passenger transport volume in the Asian market. We publish the aviation industry status report annually, and this year we will shed light on the Asian market as well as questions like whether the major network carriers' efforts to reform their business model pay off and whether the low cost carriers will continue to grow at the current pace which we discussed in last year's edition.

Meanwhile, we will focus on environmental issues in aviation. We have already launched a study group on the matter to discuss practical measures to reduce CO2 emissions from aircraft. Based on the study group report we will finish this summer, we are going to hold a seminar on October 9<sup>th</sup> this year, inviting Mr. Roberto Kobeh González, President of the Council, ICAO President as a keynote speaker.

Lastly, it is my honor to inform you that I will be leaving my position as the President of JITI and moving on to the new position of Vice Chairman of the Sasakawa Peace Foundation as of July 1, 2007. I would like to take this opportunity to introduce my successor, Mr. Hiroshi Maruyama, who served as the Vice-Minister for International Affairs, Ministry of Land, Infrastructure and Transport, Government of Japan, from 2005 to 2006. I would like to ask you to extend the same support to Mr. Maruyama that you have accorded me.

Sincerely yours,

Jiro Hanyu, President  
Japan International Transport Institute



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## Op-Eds and Commentaries

### Aviation Liberalization Debate in the Final Stage<sup>1</sup> Attention Focused on China in the Asian Block

#### New Runways at Haneda as a Lever A boost in competitiveness by establishing a regional market

Jiro Hanyu,  
President, Japan International Transport Institute

#### **Summary**

The government debate over aviation liberalization, which aims to provide Haneda Airport with international flights in 2010, has reached the final stage. In order to bolster competitiveness and enhance user friendliness, it is essential to create a common airline market at the scale of East Asia by liberalizing regulations on transportation capacity, route planning, etc. Using the new runways to be opened at Haneda as a negotiating tool, it is vital to get China interested in the deal.

#### ***The Outdated International Aviation Treaty***

Why can't the international aviation industry be treated the same way as other industries like the maritime and surface transportation industries? To be more specific, why can't the industry set freely its own fares, departing/landing spots, routes, number of flights, equipment for its services, and so on. No economists can give a logical answer to this question. A few might give you a mere historical background of the Chicago Convention, adopted in 1944, which stipulates that contracting state governments are free to enforce any regulations on foreign commercial airliners operating in their territorial airspace and that the specifics of what applies in such situations must be determined by the two involved state governments.

Were you to apply the regulations stipulated in the Japan-China Civil Air Transportation Agreement to today's automobile import-export trade for example, you would clearly see how outdated this agreement is.

First, both governments decide and report which companies are going to enter each other's automobile market. Then the governments have to agree on the sales areas, sales quantities, prices, etc. for the assigned companies. This must be the strictest practice of trade restriction that currently exists and it will be difficult to find another agreement similar to this in other fields of the international economy. However, this is an everyday practice in the international aviation industry.

<sup>1</sup> This commentary has been posted on Nihon Keizai Newspaper on May 11<sup>th</sup>, 2007, in the section of "Keizai Kyoushitsu (Economic Classroom)"



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In order to overcome this situation, the United States initiated the Open Skies Agreements and the EU initiated the Regional Liberalization Agreements. This spring, these two above were integrated and the US - EU Aviation Treaty was signed in pursuit of new and liberalized directions for international aviation. The idea is to deregulate new route openings over the Atlantic Ocean. The only issues that they could not agree on in principle and were carried over to the next negotiation table, which is to be held within the year, were regarding liberalizing domestic transportation and freedom to establish airline companies in participating countries. Although it does not provide complete liberalization, this is the first multinational treaty which aims at liberalization since the establishment of the Chicago Convention and it places approximately two thirds of the world's international air transportation on the right track for liberalization.

***Not Much to Gain from Liberalization with the U.S.***

The Open Skies Agreements, which are well publicized in Japan now, have a very catchy name but are quite self-serving to the United States. Under the agreements, domestic transportation remains in the hands of the country's aviation industry and foreigners are not allowed to establish and control an airline company in the country. Roughly three quarters of the revenue of the US aviation industry comes from the domestic operation and one quarter comes from the international operation. In other words, it is a partial liberalization as the US securely controls three quarters of the total market. This system allows the aviation industries of the countries with large domestic markets to have a big advantage in competition. Therefore, it is important to note that although the Open Skies Agreements initiated by the US can be viewed as the first step toward liberalization, if we stop the efforts to advance the liberalization, the partial liberalization will take root and cause great unfairness.

At a time when developed countries are moving fast to liberalize the international aviation industry, what should Japan do to cut off ties with the ancient regime and form a normal market where efficient airline companies with strong price competitiveness can survive regardless of what countries they belong to? I believe there are two things we can do.

It is not widely known that in the agreements signed in 1998, the US and Japan agreed to hold a negotiation in the near future to discuss complete liberalization going beyond the Open Skies Agreements. Due to the sharp decline of the aviation industry in the US since 2001, the prospect of reopening a full-scale negotiation is at a standstill, but as the 2010 opening of the new runways at Haneda comes close, there is no doubt that the US will be willing to start a full-scale negotiation with Japan and press for further liberalization.

The first option is for Japan to push through further liberalization at this opportunity, but if the US-dominating disproportioned number of operating flights cannot be corrected, Japan will have nothing to gain from the US. To be more specific, regardless of whether it is legally possible or not, what Japan can gain from the next negotiation would be merely exemption of the US Antitrust Law and freedom to establish business in the US. Therefore, not many in the aviation sector in Japan want to prioritize the negotiation with the US for understandable reasons.

The second option is to work on liberalization in the region of East Asia to establish an



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aviation common market just as the EU has done. The aviation market of Japan is bigger than the ones of Korea or South East Asian countries, but it is much smaller than the ones of the US, the EU, or China. Therefore the possible expansion of the market of Japan is limited. It is definitely disadvantageous for the Japanese aviation industry to get behind in the development and formation of liberalized cross-border regional markets. This idea is widely acknowledged in Japan and is expected to receive strong support since it is strategically sound as well. However, in order to realize and implement this idea, it is crucial to have China's cooperation.

Let's look at today's situation in East Asia where aviation is concerned. Korea has always supported the idea of liberalizing the aviation industry in the region of East Asia to compete with the US and the EU regions. Therefore Korea will definitely participate in this effort. On the other hand, China who holds a crucial position for the success of this effort seems to be hesitant about pursuing liberalization within the region of East Asia at the moment.

In the mid-1990s at the occasion of the 25th anniversary of the normalization of diplomatic relations between Japan and China, I brought up the subject of liberalization of international aviation between Japan and China. A negotiator on the Chinese side said that they would rather concentrate on increasing the transportation capacity at that moment because China's aviation industry was still immature. China's position does not seem to have changed since then as far as Japan is concerned.

China has been promoting conditional liberalization of air freight with the US, which leads us to suspect that China thinks it is not beneficial for them to pursue liberalization with Japan and Korea while their market is large enough to negotiate alone with the US and the EU.

However, if liberalized international aviation is inevitable among the developed countries in the near future, we must have China, who has a rapidly growing enormous market just in our back yard, cooperate with us as soon as possible so that we can be ready for our industries to freely operate business in many fields in the region. As we witness the boost in air transportation of international cargo and the rapid growth in international courier service, we can easily understand that liberalization of international aviation presents strategic importance for our country beyond the existing interest of the aviation industry.

### ***Increase Transportation Capacity and Liberalize at the Same Time***

If China does not show any interest in liberalization with Japan, how can we drag them to the negotiating table? It can be done by using the new runways at Haneda as a bargaining tool.

There are some opinions in Japan rejecting using Haneda for international flights or suggesting a limit on the number of international flights operating at Haneda Airport as domestic flights to and from Haneda Airport enjoy the current high profits. Some prefer the liberalization should be implemented at other airports than Haneda or outside Tokyo. It is like the UK implementing liberalization outside London or other than at Heathrow. It cannot be regarded as a meaningful policy by other countries. It may sound like a radical measure, but in order to succeed in liberalization with China, it might be inevitable that



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domestic flights at Haneda will have to be sacrificed and cut in number.

Haneda is closer to the metropolitan center than Beijing Airport or Heathrow Airport and with its perfectly established domestic routes, its value as an airport is much higher than the others. Haneda is the most valuable asset among the infrastructures of today's Japan and it will be almost impossible for Japan to build another asset as valuable as Haneda in the future. This fact is well understood by many countries such as the US as well as East Asian countries. Therefore, Haneda Airport must be and can be used strategically toward liberalization of international aviation.

What we must know and pay attention to at this point is that liberalization does not mean a boost in transportation capacity. Complete liberalization of the international aviation market that Japan is concerned with may be difficult to achieve at this point. However we must start liberalizing the government restrictions targeting airline companies and some shipping systems, so called the 5th, the 6th and the 7<sup>th</sup> Freedom, or else the international aviation services which are supposed to be free and multilateral can never be able to get out of the old shackles of convention. And it will also hinder new business opportunities and business models in the field of international aviation to be born.

We must have both an increase in transportation capacity and liberalization; missing either can create a problem. The negotiation which aims for liberalization which revolves around the new runway issues at Haneda can bring a solution to such problems all at once. The future rise or fall in the aviation industry and Japan's success in globalization depend all upon how to use the Haneda issue.



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## Next Seminar

### Seminar on CO2 Emission Reduction from Aircraft

Tuesday, October 9<sup>th</sup>, 2:00-5:30 pm, Reception 5:30-7:00 pm  
Fairmont Hotel, 2401 M Street, NW Washington, DC 20037

According to the Special Report on Aviation and the Global Atmosphere, which was published by the Intergovernmental Panel on Climate Change (IPCC) in 1999, emissions of carbon dioxide (CO<sub>2</sub>) from aircraft were only about 2% of total CO<sub>2</sub> emissions (or about 13% of total CO<sub>2</sub> emissions from all transportation sources) in 1992. It is estimated that they will be 3% of total CO<sub>2</sub> emissions in 2050 due to rapid growth in air traffic demand. Aircraft are estimated to contribute to about 5% of the total global warming in 2050 up from about 3.5% in 1992.

Due to the growth of international awareness for global warming and increasing requests for environmental consideration to regional governments and companies from the public, the energy and steel industries are making an effort to reduce Greenhouse Gas (GHG) emissions through the introduction of the Emission Trading System. At the 35th ICAO Assembly held in 2004, Resolution A35-5 was adopted in which market-based measures regarding aircraft engine emissions including the Emission Trading System for international aviation would be developed. Currently, some measures to reduce GHG from international aviation are being discussed by CAEP. On the other side, the European Commission (EC) announced last December that aircrafts departing from and landing in the EU would be included into an EU Emissions Trading Scheme (EU-ETS) to reduce GHG from aircraft, and a formal legislative proposal will be tabled by the end of 2006.

This seminar tries to highlight measures being taken and to be taken by ICAO Contracting States on CO<sub>2</sub> emission reduction from aircraft. Furthermore, it will provide a forum for experts and stakeholders to exchange ideas and act as a follow up to the ICAO Colloquium held in May. Speakers include Mr. Roberto Kobeh González, President, Council of ICAO and representatives from major states.

#### [Sponsors]

Airport Environment Improvement Foundation (AEIF) in Japan and Japan International Transport Institute

#### [Speakers]

ICAO, Representatives from Major States, Aircraft Manufacturers, Airports, Airlines, NPO, AEIF, and JITI



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## Study Groups

### **(1) Study Group on Measures to Curb CO2 Emissions from Road Transport**

In regards to the present situation of the Kyoto Protocol, we have focused on the transportation sector's problem of CO2 emissions and we feel that there are two major problems. The first is that it is a necessity that major producers of CO2 emissions in the world including not only developing nations whose CO2 emission levels are expected to escalate in the future, but also the United States, be incorporated in a new international framework. The second problem is the effectiveness of the Kyoto Protocol's mechanism. With the present Clean Development Mechanism (CDM), CO2 emission reduction measures have stopped all small scale progress due to institutional problems in the transportation sector, especially in automobiles. We are in a situation where we have no effective measures to curtail explosive motorization in developing nations.

In order to propose workable solutions to these problems, we started a study group on the matter. This study group consists of well known economists, specialists in automobile engineering as well as related officials from the Ministry of Land, Infrastructure and Transport. This year we also have the cooperation of active Chinese policy makers and the World Resources Institute from the United States. The main objectives of this study group are to perform quantitative analysis on motorization in upcoming developing nations and to examine effective policies and systems to decrease CO2 emissions from road transportation. This year especially, we plan to individually study China, India, and the United States by calculating the increase in CO2 emissions. In the end, we hope with discussions of post-Kyoto Protocol, to find some effective measures to reduce CO2 emissions for the transportation sector, as well as propose new systems to fight against global warming. JITI will hold a seminar in Tokyo and invite the Chairman of IPCC (Intergovernmental Panel on Climate Change) as a participant.

### **(2) Chicago Convention Study Group**

After more than 60 years since its birth, the Chicago Convention not only has become obsolete for current international civil aviation that has expanded its networks dramatically and experienced dynamic structural changes, but also poses fundamental problems as an international legal framework that governs international civil aviation.

With these problems as a backdrop, JITI established the Chicago Convention Study Group consisting of experts from Japan and the U.S. The group met once in January and once in April to discuss the future direction of an international regime to govern international aviation.

Based on the final report, JITI held a seminar on the liberalization of international aviation on April 16, 2007. The final report can be downloaded at [http://www.japantransport.com/publications/pub\\_2006\\_2.pdf](http://www.japantransport.com/publications/pub_2006_2.pdf).



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### **(3) Study Group on Measures to Reduce CO2 Emissions from Aircraft**

It is expected that the amount of CO2 emissions from aircraft will increase dramatically as the demand for global aviation increases. In order to propose workable solutions to this problem, JITI launched a study group on the matter in association with the Airport Environment Improvement Foundation (AEIF). This study group consists of experts from Japan, the U.S. and Europe. The main objectives of this study group are to discuss and propose practical measures to reduce CO2 emissions from aircrafts. In March, the group discussed the effectiveness of CO2 emission reduction of some measures including innovations in aircraft and engine design and improvements in airport and air traffic systems. In May, the group discussed an emission trading scheme and its applicability to reducing CO2 emissions in international aviation, as well as the best framework to address these problems with developing countries whose emissions are expected to increase dramatically with their economic growth. JITI is preparing a seminar on CO2 emissions from aircraft that is to be held on October 9<sup>th</sup> this year. Please be aware that further information regarding the seminar will follow.



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## Recent Event

### ***Seminar on the Liberalization of International Aviation ~ Is the Chicago Convention fit for aviation in the 21<sup>st</sup> century? ~***

#### **[Sponsors]**

Japan International Transport Institute and ANA Strategic Research Institute Co., Ltd.

#### **[Date and Place]**

Monday, April 16, The Ritz Carlton Hotel

#### **[Outline]**

This seminar pointed out the problems of the Chicago Regime and explored ways to resolve these problems thereby facilitating various international discussions on how a new regime on international aviation should appear and function.

#### **[Speakers]**

##### **OPENING REMARKS**

**Jiro Hanyu** – President, Japan International Transport Institute

##### **POLICY RECOMMENDATIONS ON THE CHICAGO CONVENTION**

**Shigenori Hiraoka** – Senior Representative, Japan International Transport Institute

##### **KEYNOTE SPEECHES**

**Norman Y. Mineta** – Vice Chairman, Hill & Knowlton Inc. (Former U.S. Secretary of Transportation)

**Hiromichi Toya** – Senior Advisor, All Nippon Airways Co., Ltd. (ANA)

**Michael E. Levine** – Distinguished Research Scholar and Senior Lecturer, New York University School of Law

##### **PANEL DISCUSSION**

**Michael E. Levine** - Distinguished Research Scholar and Senior Lecturer, New York University School of Law (Moderator)

**Dorothy Robyn** - Principal, The Brattle Group

**Michael J. Francesconi** - Vice President, Public Affairs, United Parcel Service

**Russell Bailey** - Senior Attorney, Legal Department, Air Line Pilots Association, Int'l

**Masashi Izumi** - Executive Vice President & COO, ANA Strategic Research Institute

**Masaaki Kobashi** - Director, Planning and Strategy, Japanese Railway Construction, Transport, and Technology Agency



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Keynote Speech



Panel Discussion



Audience

## Notice: Change in Staff

**Ms. Lisa Fukuda** joined JITI in February, 2007 as the Administrative Assistant and will be primarily focusing on office administration and conference organization. She received a B.A. in International Studies and French from the University of Wisconsin – Stevens Point in 2003. During university, Ms. Fukuda spent a semester at the Université de Caen in Caen, France, and upon graduation, she accepted a position to teach English in Kawasaki, Japan. Ms. Fukuda and her husband recently relocated to the DC area from West Lafayette, IN. Mr. Kazuo Fukuda holds the position of Information Officer/Cultural Affairs Coordinator at the Japan Information and Cultural Center of the Japanese Embassy. They currently reside in Arlington, VA.

### (For inquiries)

- Please contact the following for inquiries about JITI's activities:  
Deputy Representative Yoji Kawakami - [kawakami@japantransport.com](mailto:kawakami@japantransport.com)  
Administrative Assistant Lisa Fukuda - [fukuda@japantransport.com](mailto:fukuda@japantransport.com)

Phone: 202-833-9763

Fax: 202-833-9769

### (Application for participation in a seminar, etc.)

- We will inform you of upcoming conferences as soon as detailed information is available. We will also place information and updates on our website ([www.japantransport.com](http://www.japantransport.com)).
- In regards to participation in any conference, we would ask you to pre-register. You can register either by sending a fax transmission of a registration form or through the registration page on our website.



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