

**54th CONFERENCE OF
DIRECTORS GENERAL OF CIVIL AVIATION
ASIA AND PACIFIC REGIONS**

*Ulaanbaatar, Mongolia
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AGENDA ITEM 4: ECONOMIC DEVELOPMENT OF
AIR TRANSPORT

**ECONOMIC BENEFITS OF CODE-SHARE, CO-TERMINAL
AND OWN-STOPOVER RIGHTS**

(Presented by Cambodia, New Zealand and Singapore)

SUMMARY

This paper advocates the liberalisation of third party code-share, domestic code-share, co-terminal and own-stopover rights, alongside the liberalisation of 3rd, 4th and 5th freedom traffic rights.

The Conference is invited to recognise the benefits of liberalising third party code-share, domestic code-share, co-terminal and own-stopover rights to all aviation stakeholders and to the States' economies; and to encourage States to liberalise these rights as part of the wider liberalisation of market access.

ECONOMIC BENEFITS OF CODE-SHARE, CO-TERMINAL AND OWN-STOPOVER RIGHTS

1. INTRODUCTION

1.1 Airlines have increasingly been using code-share arrangements, co-terminal and own-stopover operations to expand their networks and improve service to passengers. Airlines exercising third party code-share, domestic code-share, co-terminal and own-stopover rights still need to hold the underlying 3rd, 4th or 5th freedom traffic rights under existing bilateral agreements. These rights should be liberalized as part of the bilateral agreements. This paper invites the Conference to consider the liberalisation of third party code-share, domestic code-share, co-terminal and own-stopover rights, alongside the liberalisation of 3rd, 4th and 5th freedom traffic rights.

1.2 Code-sharing is a cooperative arrangement where one airline markets and places its code on a flight operated by another airline. This is usually in conjunction with its own-operated service. Under code-share arrangements, the marketing airline could operate a 3rd/4th freedom service to a destination, and transfer its passengers to the 3rd/4th freedom service of the operating airline. Third party code-share allows a marketing airline from a third party State to place its code on an airline's flight between two other States, for example, Finnair places its code on Qantas Airway's flights between Bangkok (Thailand) and Sydney (Australia) to connect with its own-operated flights between Helsinki and Bangkok. Domestic code-share allows a marketing airline to place its code on an airline's domestic flight¹, for example, Air New Zealand places its code on China Eastern's and Air China's domestic flights between Shanghai and Beijing, to provide connections with its own-operated flights between Auckland and Shanghai. In all cases, the exercise of traffic rights is by the operating airlines under the relevant bilateral agreement.

1.3 Co-terminal and own-stopover operations are a combination of two or more 3rd and 4th freedom operations which allow airlines to serve two or more points in another State on the same routing. Co-terminal operations refer to an airline tagging on additional points in a single flight, for example SilkAir's co-terminal operations in Lao PDR (Singapore-Vientiane-Luang Prabang) means that SilkAir would carry passengers to Vientiane and passengers to Luang Prabang on the same flight, and making a stop to discharge passengers at Vientiane first, followed by Luang Prabang. These are different from cabotage rights as the passengers are international passengers brought in by that airline and not domestic passengers. Own-stopover operations refer to an airline discharging and taking on its own traffic destined for another point in the same State after a stopover. For example, Qantas Airways' co-terminal/own-stopover operations in the US (Sydney-Los Angeles-New York) allow passengers originating from Sydney to stop over at Los Angeles first, and then continue on to New York on a Qantas Airway's flight at a later date on the same ticket.

2. ECONOMIC BENEFITS OF CODE-SHARE, DOMESTIC CODE-SHARE, CO-TERMINAL AND OWN-STOPOVER RIGHTS

2.1 The liberalisation of these rights benefits economies, passengers and airlines. Code-share, co-terminal and own-stopover operations help to increase air connectivity and access to secondary cities, in turn boosting tourism, trade and economic growth of these secondary cities. When SilkAir began own-stopover operations between Phnom Penh and Siem Reap in 2010, traffic on the Singapore-Siem Reap sector grew by a compounded annual growth rate of 108% between 2000 and 2005, contributing to the rise of Siem Reap as a popular tourist attraction. This benefitted the local economy as demand for tourism-related services increase.

2.2 Passengers benefit from increased access to destinations, as well as more options and added convenience of travelling to more than one point on a single flight itinerary. As compared to

¹ As part of an international journey.

interlining where passengers buy a single ticket for a flight on two or more independent airlines with different flight codes, code-sharing provides passengers with higher quality and more seamless service through coordinated scheduling, easier connections at airports and access to frequent flier programmes.

2.3 For airlines, liberalisation of code-share rights would enable them to expand their international networks without deploying their own aircraft. Airlines can also increase their network coverage to markets for which routes are too thin to allow commercially viable direct operations. Co-terminal and own-stopover rights help improve the route economics of flights. If SilkAir were to operate separate services between Singapore and Vientiane, and between Singapore and Luang Prabang, load factors would be insufficient for either service to be commercially viable. Co-terminal rights at Vientiane and Luang Prabang allow traffic to be consolidated on the service, improving the route economics and enabling a commercially viable product between Singapore and these destinations.

2.4 The increased connectivity to these cities also stimulates greater air travel demand, increasing the overall market size for home-based airlines and bringing about other benefits to the wider economy. Domestic code-share arrangements would also allow home-based airlines to benefit from the feed brought in by foreign airlines.

3. ACTION BY THE CONFERENCE

3.1 The Conference is invited to:

- a) Recognise the benefits of liberalising third-party code-share, domestic code-share, co-terminal and own-stopover rights, to economies, passengers and airlines; and
- b) Encourage States to liberalise these rights as part of the wider liberalisation of market access.

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