

**THE PERCEIVED IMPACT OF
WTO (WORLD TRADE ORGANIZATION)
ON AIR TRANSPORT SERVICES
A CASE STUDY**

by:

JALILA SAYED MURTADHA EBRAHIM AHMED

**A thesis submitted in partial fulfillment of the
Requirements for the degree of**

MASTER OF BUSINESS ADMINISTRATION

**Department of Management
University of Bahrain**

Bahrain

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DECLARATION



I Declare that this work is the result of my own investigation and that it has not already been accepted in substance for any degree, nor is it being currently submitted for any degree.

Signed :
J. S. Ahmed (candidate)

Date : 25 January 1999

The Thesis defence committee considers the thesis titled:

**“THE PERCEIVED IMPACT OF
WTO (WORLD TRADE ORGANIZATION)
ON AIR TRANSPORT SERVICES
A CASE STUDY”**

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ABSTRACT

This research studied the perceived impacts of the application of the principle of the World Trade Organization (WTO) on the aviation industry in general, and the three areas of Air Transport activities specifically covered by WTO.

Services covered by the agreement included: Aircraft Repair and Maintenance, the Selling and Marketing of Air Transport Services, and Computer Reservation System (CRS). To provide an overview, changes in Air Transport industry with regard to competition and industry's pressures, along with World Trade Organization principles, functions and structure were discussed first.

To identify those impacts of WTO, this research used multiple-case approach to analyze views of respective officials of five major selected Airline companies. In the empirical section, financial impacts of WTO on five selected companies were quantified for two dimensions: Financial and Operating Structure.

After a thorough analysis of five case studies, the following main outcomes emerged from this investigation:

- In the area of operating costs, most companies expect the overall impact to be positive and there will be a reduction in overall cost.
- Airline mega companies will be easily able to reduce staff and administrative costs without any restrictions, while few others will try to find ways which are an acceptable to all parties, to do so.
- For the operations structure, airline companies are expected to seek different motives for changing their operation structure, through regional integration to reduce cost through synergy, transfer of technology and related skills and market access.
- In the area of profitability, companies expect that the airline will experience moderate increase in profit, but this will be in the long run.
- In the area of Aircraft Repair and Maintenance Services, airline companies seem to be satisfied with their current policies. Most of the major airlines own facilities for major maintenance and/or contracting out, hence, the perceived change is very limited.
- Direct Selling and Marketing Air Transport Services: Most airlines expect a significant impact of WTO in this area; the reason being the company will not need to go through agents as is the case in most countries, and this will save the commission payable to the agent.
- Computer Reservation System(CRS) Services: This area is expected to be affected by WTO.
- International Civil Aviation(ICAO) is currently reviewing its Code of Conduct and the WTO coverage of CRS is being taken into account so as to avoid any regulatory conflict.
- There is considerable potential for improvement of the application of the WTO disciplines to the three activities mentioned above.
In the area of regulatory regime, most airline companies will try to achieve a sensible and enlightened regime that steers between excessive regulation and destructive laissez-faire so that International Air Transport can continue to function in a safe and orderly manner. And yet, the review process, to begin by the end of this decade, will probably be a better indicator of the WTO member's confidence in the WTO as a regulatory regime for air transport.
- The implementation of WTO principles will encourage customers to ask for more benefits to be given to them in the form of high quality of services and low prices.

GLOSSARY OF ABBREVIATIONS

AACO	Arab Air Carriers Organization
ACAC	Arab Civil Aviation Council
ACARS	Aircraft Collision Avoidance System
AFCAC	African Civil Aviation Commission
AFA	Association of European Airlines
AFRAA	African Airlines Association
AITAL	Association Of Latin American Air Transport
ASPA	Association Of South Pacific Airlines
ATK	Available Tonne Kilometres
CRS	Computer Reservation System
ECAC	European Civil Aviation Conference
GATT	General Agreement On Tariff and Trade
GATS	General Agreement On Trade On Services
GDP	Gross Domestic Product.
GNS	Group of Negotiations on Services
GSA	General Sales Agent
ICAO	International Civil Aviation Organization
IATA	International Air Transport Association
ITU	International Telecommunication Union
LACAC	Latin Civil Aviation Commission
MFN	Most-Favoured-Nations
OECD	Organization for Economic Co-operation and Development.
SPRCAC	South Pacific Regional Civil Aviation Council
TCAS	Traffic Collision Avoidance System
UPU	Universal Postal Union
WHO	World Health Organization
WMO	World Meteorological Organization
WTO	World Trade Organization
WWW	World Wide Web Site

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CHAPTER ONE

INTRODUCTION

1.1 Background

From the perspective of a rapidly globalizing and increasingly competitive business and trade environment, the Air Transport Industry has led a relatively sheltered and insular existence for over the past 50 years, with distinctive characteristics as to its industry structure and regulatory arrangements. However, like all international economic activities, it has now been caught up in today's accelerating era of globalization, multinational competition, regulatory adjustment and redefinition of its mission. These emerging trends reflect the growing importance of trade in services for the growth and development of the world economy and the need to establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade, under conditions of transparency and progressive liberalization. The agreement has brought, for the first time, world trade in services under the control of one single organization, the World Trade Organization (WTO). Within this agreement, an Annex on Air Transport Services has been negotiated. The agreement provides clarification on the application of principles and rules to the Air Transport Industry. It also carries some practical importance, as well as some types of risks.

1.2 The purpose of the study

Given the dynamic nature of the Air Transport Industry and the rapidly changing technological developments and considering the latest progress made in WTO(World Trade Organization) to put Air Transport in Trade Framework, it is worth conducting an empirical study to find out the perception of officials in the Aviation Industry regarding the potential impacts of the application of the principles of the WTO on the Aviation Industry in general, and the three key areas of Air Transport activities specifically covered by WTO (aircraft repair and

maintenance services, the selling and marketing of Air Transport services and computer reservation system(CRS) services).

1.3 Statement of the problem

In view of nature of the Aviation Industry, which is governed by a highly complex system of bilateral agreements and by a broader multilateral environment provided by the International Civil Aviation Organization (ICAO) and International Air Transport Association (IATA), all trying to achieve a balanced and reciprocal exchange of rights between States on the basis of fair and equal opportunity, putting Air Transport in trade regime to apply the new agreed principles of WTO in this industry, will have some impact on Airline operations.

Up to this stage the immediate impact of the WTO on Air Transport appears to be very limited and its implications are expected to be in the longer term. In researcher opinion, it is important to address the possible effects of WTO's principles on Airline companies.

1.4 Research Questions

Formulating a series of research questions can add clarity to the conclusions that need to be drawn. It adds clarity to the objectives of the research. Questions of the research are unproved propositions that need to be empirically compared with actual findings of the research. Hence, the research question is:

“Would the implementation of WTO's principles by Airline companies lead to significant impacts on the financial and operating structures of Air Transport activities specifically covered by WTO?”.

This question is designed to empirically investigate this unproved statement and to have a clear measure of WTO's impacts on the key areas of the Air Transport Industry. (Three selected areas were identified). The identification is based on researcher working experience in the field of Air Transport Industry, and notions

constructed from reading many articles on the topic as well as in-depth discussions with experts people in this field.

The three main areas that are likely to be affected by WTO are:

- **Aircraft Repair and Maintenance Services Policy:** Aircraft repair and maintenance services include those activities undertaken on an aircraft or a part of it while it is withdrawn from service, and does not include so-called line maintenance.

Airline policies regarding major maintenance projects, either using their own facilities or contracting out.

- **Direct Selling and Marketing Air Transport Services:** Include all activities undertaken by the air carrier to sell and market freely its Air Transport Services including all aspects of marketing such as marketing research, advertising and distribution, etc. which normally affect airline companies' profitability and market share.
- **Computer Reservation System (CRS) Services :** Include all services provided by computerised systems that contain information about Airline's schedules, availability, fare and fare rules, through which reservations can be made or tickets issued.

Other general areas that are likely to be affected by WTO are:

- **Cost structure:** Operating expenses made by Airline companies to build their infrastructure, advertising costs, spent to promote company services, staff and administrative costs and also the cost for engineering and maintenance of the fleet.
- **Market share:** is the portion of the market that each Airline company serves.
- **Customer's benefits:** Customers are always looking for the following benefits to be passed to them:
 - High quality services.
 - Punctuality for aircraft departure.
 - Promotional fares.

-Wide range of services.

- **Change in operations structure motives** : Airline companies are seeking different motives for changing its operation structure. The main ones are :

Regional integration to reduce cost through synergy, transfer of technology and related skills and market access.

1.5 Methodology

To achieve the purpose of this research “*To find out the perceived impacts of WTO on major Airline companies*”, the multiple-case studies approach, is the most appropriate research method to be used. This can be attributed to the fact that all three conditions of applying case study as a research strategy as Zikmund W.G. (1991) summarizes it, are available in this research.

A “how” or “what” or “why” question is being asked about contemporary set of events, over which the investigator has little or no control”.

Five major Airline companies are selected, on the following bases:

- Availability of company information and annual reports .
- Availability of direct contacts with respondents to facilitate and speed up data collection.
- Operating in different regions of the world, which means different markets and a wider representation .

1.6 Data Gathering

The researcher has examined and used various data sources to conduct this study. These sources can be classified as primary and secondary data.

1.6.1 Primary Data

Primary data is obtained using a structured questionnaire. The questionnaire is divided into seven parts:

Part 1: Introduction to the topic.

Part 2: Purpose of the questionnaire.

Part 3: General type questions seeking information about respondents.

Part 4: Questions related to the “Aircraft Repairs and Maintenance Services”.

Part 5: Questions related to the “Selling and Marketing Air Transport Services”.

Part 6: Questions related to the “Computer Reservation System Services”.

Part 7: Questions related to general information about the potential impact of WTO.

Respondents were offered multi-choices to facilitate the completion of the questionnaire and to ensure prompt response. Questionnaires were, either hand delivered or sent by fax to the selected major Airlines companies.

As respondents were promised that their views would remain confidential and anonymous throughout the preparation and after the completion of the research, five completely answered questionnaires were analyzed without referring to the original name of the companies. Hence, substituted names were used : Airline A, Airline B,.....Airline E.

1.6.2 Secondary Sources

These sources are used to obtain more understanding to the related literature review and to ensure that the important facts are taken into account. These are:

- IATA conference papers
- ICAO conference papers
- Convention on International Civil Aviation.
- WTO publications
- Internet searching in World Wide Web sites(WWW)
- Financial & Business Periodicals
- Airline Companies Annual Reports
- Aviation magazine
 - Asian Aviation.
 - Flight Magazine.

1.7 Data Analysis

In each case study, the financial position of the company was analyzed using different financial ratios. Based on respondents' responses, perceived financial impacts of WTO on each area was identified under three scenarios (low, average and high) by using sensitivity analysis. In the discussion part, the previously developed question of the research is used as a template with which the empirical results of case study are compared.

Finally based upon five cases analysis and findings, the summary and conclusions are drawn up.

1.8 Limitations of the study

The following are the main limitations of the study:

1. Limitation related to the sample: The study covers only five companies from different parts of the world.
2. Limitation related to the methodology: The study employs a case study approach which has the following limitations: difficulty in the generalization of the study results, and the inability to test the study hypothesis statistically.
3. Limitation related to the period covered: Five years average financial ratios were used in the study, however the detailed financial analysis concentrated on the financial statements of the most two recent years.
4. Limited Literature Review on the subject: No researchers' studies were found on the subject, since it is a fairly new topic.
5. Limitation related to the study questionnaire: Since the study employs a questionnaire methodology, the perceptions expressed by the respondents include some degree of subjectivity.

1.9 Organization of the study

This study consists of six chapters, the first one has covered the introduction part to define the topic and state the problem and questions of the study. In addition to

that, a brief overview of the methodology has been given. The remaining chapters are as follows:

Chapter Two - Overview of Air Transport Industry and WTO : The first part of the Chapter gives an overview of development and phases of competition of the Air Transport Industry. Furthermore, it covers recent pressures placed in that industry. In the second part, WTO's formulation, functions, principles and how it differs from GATT are discussed in details.

Chapter Three - Literature Review : This Chapter demonstrates the related literature concerning placing the Air Transport Industry on a trade framework, size of the Air Transport Industry, and progress made in market liberalization by WTO's members.

Chapter Four - Methodology : This Chapter explains in detail the procedures used in each stage of the research. It covers case study strategy and why it is used in this study. A close overview of the research questions and data sources to give details about questionnaire is also discussed in this Chapter. Moreover, a full hypothetical case is demonstrated to show how case studies are analyzed based on information obtained from respondents.

Chapter Five - Case Studies : Five selected case studies are presented in this chapter. In each case study, company profile, services and current financial position are discussed. The impact of WTO on each dimension is quantified and discussed based upon the views of the respondents.

Chapter Six - Summary, Conclusion and Recommendations : Based upon the findings of Chapter Five, a conclusion and some recommendations are made. Furthermore, directions for further analysis are discussed.

CHAPTER TWO
OVERVIEW OF AIR TRANSPORT INDUSTRY
&
WORLD TRADE ORGANIZATION

To have a well and comprehensive understanding of the perceived impact of WTO on the Air Transport Industry, it is essential to have an overview of the Air Transport Industry and the WTO itself. Therefore this chapter consists of two parts, the first part is to present an overview of the Air Transport Industry as well as the latest developments with regard to competition and the pressures between airlines. The second part is devoted to define the WTO and its basic principles, functions and structure.

2.1 OVERVIEW OF THE AIR TRANSPORT INDUSTRY

From the perspective of a rapidly globalizing and increasingly competitive business and trade environment, the air transport industry has led a relatively sheltered and insular existence over the past 50 years, with distinctive characteristics as to its industry structure and regulatory arrangements.

Regulatory authorities throughout the world, especially in developing countries, have often sought to use airlines for national prestige and tourist development with too little regard to their financial health, particularly considering the very large investments needed to acquire new modern aircraft with lower operating expenses.

In addition, quite a few governments have been unable to implement coherent policies for the development of civil aviation along practical and economic lines. This has been particularly evident in recent years, during which the natural growth of the Air Transport has been greatly inhibited by a serious congestion problem, due to inadequate air traffic control and airport capacity.

Other areas of concern are the steady increases in airport and en-route air navigation charges, the impact of new measures, environmental regulations and restrictions relating to airline operations, as well as the proliferation of new taxes on international air transport. The deregulation and liberalization of International Civil Aviation, as well as the rapid globalization of world markets have brought about dramatic and fundamental changes in the structure of the Air Transport Industry as a whole. It can be said to a large extent free market principles control International Civil Aviation, and that the Aviation Industry is likely to be faced with profound changes into the next century. The Air Transport Industry's deregulation and liberalization have also brought about fundamental changes in the pricing philosophies of the world airlines.

In today's fast-changing business environment, the availability of sophisticated computer systems and comprehensive database covering a wide range of commercial activities and services, together with satellite-based telecommunications facilities, is likely to have an impact on the future growth of international air transport .

The next decade will see a continuing restructuring of the world air transport industry. A limited number of mega carriers will emerge operation on strictly commercial principles, to enable them to finance future fleet acquisitions and to raise large amounts of capital. The smaller airlines, especially airlines in developing countries, will need to establish alliances and co-operative arrangements with carefully selected partners in order to ensure their economic viability in the years to come. More and more governments favour liberal bilateral air services agreements, including a multilateral approach.

An increasingly interrelated global and free- market economy has brought about an unprecedented focus on international competitiveness.

To adapt to the current economic realities and new technological advances, the world airlines through IATA and regional airline association need to develop and implement new innovation strategies and programs, with special emphasis on motivated and well-trained staff, to increase productivity and reduce unit operating costs so as to achieve an adequate return on investments. Similarly, ICAO and ACI have to develop and implement progressive policies and new facilities, and systems designed to improve the global civil aviation infrastructure.

The convention on International Civil Aviation requires that International Air Transport services be established on the basis of equality of opportunity and operated soundly and economically . In fact, ICAO's basis objective is the development of safe, regular, efficient and economical air transport.

As aviation moves towards the close of the 20th century, States and the Civil Aviation Industry are facing unprecedented challenges posed by traffic which continues to grow but is at times difficult to predict, emerging new technology, a rapidly changing commercial and regulatory framework, a growing awareness of the need for protection of the environment, and a requirement for substantial investment in infrastructure, equipment and human resources, at a time where there are increasingly competitive pressures for financial resources.

2.2. WORLD TRADE ORGANIZATION

2.2.1 WHAT IS THE WORLD TRADE ORGANIZATION (WTO)?

The world trade organization (WTO) can be defined as *“The legal and institutional foundation of the multilateral system. It provides the principle contractual obligations determining how governments frame and implement their domestic trade legislation and regulations . And it is the platform on which trade relation among countries evolve through collective debate, negotiation and adjudication”* (WTO Trading into the Future , 1995), p.4.

The (WTO) was established in January 1995 . Governments conducted the Uruguay round negotiations on 15 December 1993 and ministers gave their political backing to the results by signing the final act at a meeting in “ Marrakesh Declaration” on 15 April 1994 . Affirmed that the result of the Uruguay round world “strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world” the (WTO) is the embodiment of the Uruguay round result and the successor to the general agreement on trade and tariffs (GATT) . Not only does the (WTO) have a potentially large membership than (GATT) , it also has a much broader scope in terms of commercial activity and trade policies to which it applies. The (GATT) applies only to trade in merchandise goods; the (WTO) covers trade in goods , services and trade in ideas or intellectual property.

2.2.2 WTO FUNCTIONS

The main essential functions of WTO can be summarized as follows :

- Administration and implementation of multilateral and plurilateral trade agreements which together make up the (WTO).
- Acting as a forum for multilateral trade negotiations.
- Seeking to resolve trade disputes between governments.

- Monitoring national trade policies to help trade flow smoothly, in a system based on rules.
- Technical assistance and training for developing countries.
- Co-operating with other international institutions involved in global economic policy-making.

2.2.3 THE PRINCIPLES OF THE TRADING SYSTEM

The (WTO) agreement contains some 29 individual legal texts covering everything from agriculture to textiles and clothing, and from services to government procurement, rules of origin and intellectual property. Added to these are more than 25 additional ministerial declarations, decisions and understandings which spell out further obligations and commitments for (WTO) members. However, a number of simple and fundamental principles run throughout all of these instruments which, together, make up the multilateral trading systems.

1. Trade Without Discrimination:

There are two forms of non-discrimination required; the first is known as “most-favoured-nation” (MFN), under which members are bound to grant to the products of other members treatment no less favourable than that according to the product of any country. Thus, no country is to give special trading advantages to another or to discriminate against it: all are on an equal basis and all share the benefits of any moves towards lower trade barriers. The second form of non-discrimination is known as “national treatment”, requires that once goods have entered a market they must be treated no less favourably than the equivalent domestically-produced goods.

2. Predictable And Growing Access To Markets:

The multilateral trading system is an attempt by governments to provide investors, employers, employees and consumers with a business environment which encourages trade, investments and job creation, as well as choice and low prices in

the market place. Such as environment needs to be stable and predictable, particularly if businesses are to invest and thrive.

The existence of a secure and predictable market access is largely determined by the use of tariffs, or customs duties. Whilst quotas are generally outlawed, tariffs are legal in the (WTO) and are commonly used by governments to protect domestic industries and to raise revenues. However, they are subject to disciplines for instances, they are not discriminatory among imports-and are largely “Bound”. Bindings means that a tariff level for a particular product becomes a commitment by a (WTO) member and cannot be increased without compensation negotiations with its main trading partners.

Following the establishment of the (GATT) in 1947, average tariff levels fell progressively and dramatically through a series of seven trade rounds. The Uruguay round added to that success, cutting tariffs substantially, sometimes to zero, whilst the overall level of bound tariffs significantly dropped. The results provide a substantially higher degree of market security for traders and investors. Many other (WTO) agreements seek to ensure conditions of investment and trade are more predictable by making it very difficult for member governments to change the rules of the game at whim. In almost every policy area which impinges on trading conditions, the scope of members to pursue capricious, discriminatory and protectionist policies is constrained by (WTO) commitments.

The key to predictable trading conditions is often the transparency of domestic laws, regulations and practices. Many (WTO) agreements contain transparency provisions which require disclosure at the national level or at the multilateral level through formal notifications. The regular surveillance of national trade policies through trade policy review mechanism provides a further means of encouraging transparency both domestically and at the multilateral level.

3.Promoting Fair Competition:

The (WTO) is a system of rules dedicated to open , fair and undistorted competition. Rules on non-discrimination are designed to secure fair conditions of trade and so too are those on dumping and subsidies. Previous (GATT) rules, which laid down the basis On which governments could impose compensating duties on these two forms of unfair competition were extended and clarified in (WTO) agreements.

4. Encouraging Development And Economic Reform:

Over three-quarters of WTO members are developing countries and countries in the process of economic reform from non-market systems . During the seven-year course of the Uruguay Round over 60 such countries implemented trade liberalization programs. Some did so as part of their accession negotiations to (GATT) while others acted on an autonomous basis. At the same time, developing countries and transition economies took a much more active and influential role in the Uruguay Round negotiations than in any previous round.

This trend effectively killed the notion that the trading system that existed only for industrialised countries. It also changed the previous emphasis on exempting developing countries from certain (GATT) provisions and agreements. With the end of the Uruguay Round, developing countries showed themselves prepared to take on most of the obligations that are required of developed countries. They were, however, given transition periods to adjust to the more unfamiliar and, perhaps, difficult (WTO) provisions particularly so for the poorest, “least-developed” countries. The value to development of pursuing, as far as is reasonable, open market-oriented policies, based on (WTO) principles, is widely recognized. But so is the need for some flexibility with respect to the speed at which those policies are pursued. (WTO Trading into the Future, 1995).

2.2.4 Trade Round - The Package Route To Progress

The biggest leaps forward in international trade liberalization have come through multilateral trade negotiations, or “trade rounds”, under the auspices of (GATT) - the Uruguay Round was the latest and the most extensive.

Although often lengthy, trade rounds offer a package approach to trade negotiations ; an approach with a number of advantages over issue -by-issue negotiation . Firstly, trade round allows participants to seek and secure advantages across a wide range of issues. Secondly, concessions which are necessary but would otherwise be difficult to defend in domestic political terms, can be made more easily in the context of a package which also contains politically and economically attractive benefits . Thirdly, developing countries and other less powerful participants have a greater chance of influencing the multilateral system in the context of a round than if bilateral relationships between major trading nations are allowed to dominate . Finally , overall reform in politically sensitive sectors of world trade can be more feasible in the context of a global package

Most of GATT `s early trade rounds were devoted to continuing the process of reducing tariffs . The results of the Kennedy Round in the mid-sixties ,however , included a new GATT anti-dumping agreement . The Tokyo Round during the seventies was a more sweeping attempt to extend and improve the system.

2.2.5 How Is The WTO Different From The GATT ?

The World Trade Organisation is not a simple extension of GATT . On the contrary it completely replace its predecessor and has a very different character . Among the principal differences are the following (GATT,1994):

1. The GATT was a set of rules, a multilateral agreement, with no institutional foundation, only a small associated secretariat which had its origins in an attempt to establish an international trade organisation in the 1940s. The WTO is a permanent institution with its own secretariat.
2. The GATT was applied on a "Provisional basis" even if, after more than forty years, governments chose to treat it as a permanent commitment but after long time. WTO commitment are full and permanent from beginning.
3. The GATT rules applied to trade in merchandise goods. In addition, to goods, the WTO covers trade in services and trade-related aspects of intellectual property.
4. Whilst GATT was a multilateral instrument, by the 1980's many new agreements had been added of a plurilateral and therefore selective nature. The agreements which constitute the WTO are almost all multilateral and thus involve commitments for the entire membership.
5. The WTO dispute settlement system is faster, more automatic, and thus much less susceptible to blockages than the old GATT system. The implementation of WTO dispute findings will also be more easily assured.

2.2.6 The Structure Of The WTO

The structure of the WTO dominated by its highest authority, the ministerial conference, composed of representatives of all WTO members, which is required to meet at least every two years and which can take decisions on matters under any of the multilateral trade agreements. The day-to-day work of the WTO, however, falls to a number of subsidiary bodies; principally the general council, also composed of all WTO members, which is required to report to the ministerial

conference. As well as conducting its regular work on behalf of the ministerial conference, the general council convenes in two particular forms:

- Firstly, as the dispute settlement body to oversee the dispute settlement procedures.
- Secondly as the trade policy review body to conduct regular reviews of trade policies of individual WTO members.

The general council delegates responsibility to three other major bodies: namely the councils for trade in goods, trade in services and trade-related aspects of intellectual property rights. Each type of council has its own group, for instance, related groups for council for trade in services are:

- Negotiation group on basic telecommunications,
- Negotiation group on movement of natural persons,
- Negotiation group on maritime transport services,
- Committee on trade in financial services, and
- Working party on professional services.

The General Agreement on Trade in Services (GATS), negotiated during the Uruguay Round, is the first set of multilaterally-agreed and legally-enforceable rules and disciplines ever negotiated to cover international trade in services.

The agreement contains three elements:

- A framework of general rules and discipline
- Annexes addressing special conditions relating to individual sectors
- National schedules of market access commitments.

The Council for Trade in Services oversees the operation of the agreement.

I. The Framework

The framework consists of 29 articles including a series of basic obligations:

- **Total Coverage:** The scope of the agreement is all internationally-traded services, however they are delivered. The agreement defines four modes of delivery: Services supplied from one member country to another (e.g. international airline services); services supplied in the territory of one member to the consumers of any other (e.g. tourism); services provided through the presence of a commercial entity of one member in the territory of any other (e.g. banking); and services provided by individuals of one member in the territory of any other (e.g. fashion models or consultants).
- **National Treatment:** in the sectors recorded in its schedule and subject to any conditions indicated there, each government must treat services and service suppliers of other members no less favourably than its own like services and service suppliers.
- **Most-Favoured-Nation (MFN) Treatment:** a government must not discriminate between services or service suppliers of other members, but must accord all of them treatment no less favourable than that accords to like services and service providers of any. However, governments wishing to maintain more favourable treatment for particular countries in relation to particular service activities were given a one time opportunity to do so by recording “MFN exemptions” prior to the implementation of the GATS. the lists of such exemptions will be reviewed after five years, with a normal limitation of ten years on their duration.
- **Transparency requirements** include publication of all relevant laws and regulations. Since domestic regulation, in the absence of tariffs, provide the most significant means of influence or control over service trade, the agreement requires that all such measures should be administered in a reasonable, objective and impartial manner. Governments are also required to establish the means for a prompt review of administrative decisions relating to the supply of services.

- International payments and transfer for current transactions relating to specific commitments under the agreement shall not be restricted, except in the event of balance-of-payments difficulties where such restrictions will be limited, temporary and subject to conditions.

Market access and national treatment commitments are recorded in national schedules. The schedules identify those services and service activities for which market access is guaranteed, and specify any conditions to which that access is subjected. Any limitations of the commitments to give equal access for foreign service suppliers must be entered in the schedules. These commitments are bound; like bound tariffs. They can only be modified or withdrawn after negotiation of compensation with affected countries. They thus provide guaranteed conditions under which foreign investors and exporters and importers of services can do business.

- **Progressive Liberalization:** the agreement requires successive rounds of further negotiations, the first to begin within five years, in order to take the process of liberalization further, both by increasing the level of commitments in schedules and by reducing the adverse effects on trade of government measures.

II. The Annexes

There are four annexes in GATS:

- The Annex on the movement of Natural Persons
- The Annex on Financial Services.
- The Annex on Telecommunication .
- **The Annex on Air Transport Services(Appendix-D).**

III. The Schedules and MFN Exemptions

As a result of bilateral negotiations, each government has recorded in its national schedule the service sectors and the activities within those sectors, on which it

guarantees access to its market, and has entered any limitations on market access and national treatment it wishes to maintain.

The schedules and MFN exemption lists, therefore, contain the negotiated and guaranteed conditions under which international trade in service is conducted. These recorded conditions cannot be changed for the worse without prior notice of the change and negotiation of compensation to affected countries; they can however be improved at any time and will be subject to further liberalization through the future negotiations to which governments are already committed by the GATS.

2.2.7 On-going Work Program

At the end of the Uruguay Round governments agreed to continue negotiations in four areas, basic telecommunications, maritime transport, movement of natural persons and financial services. The Annex on Air Transport services states that the agreement applies to measures affecting three types of services concerning the Air Transport Sector.

The choice of the three activities for coverage would not seem to be the result of any detailed analysis but rather the result of the GNS negotiations and the desire for a positive initial list. However the scope of application has been defined not only by this positive list; so that there is no misunderstanding, the Annex specifically carves out or excludes from its application "traffic rights" and directly related services - the core so called "hard rights" in aviation relations.

A final but vital feature of the Annex is the requirement that the council for trade in services review at least every five years development in the Air Transport Sector and the operation of the Annex with a view of its possible further application extending its coverage of Air Transport.

CHAPTER THREE

LITERATURE REVIEW

The purpose of this chapter is to review the related literature concerning setting air transport services in the trade framework, the regulatory structure and arrangements, regulatory change and debate and then the WTO's application and impacts on the industry. The chapter concludes with researcher's remarks.

3.1 Air Transport In Trade Framework

For nearly half a century Air Transport has absorbed the national thinking about the objectives, expectations and approaches. Although it enabled traded, but it kept cabotage out of the market access trading exercise and created a pivotal role for reciprocity in all aspects of every aviation relationship.

Bilateral agreements have a large measure of commonality in their coverage and format, and bilateral air negotiations are essentially trade treaty negotiations on a single economic activity.

Bilateralism accommodates airlines ranging in size. The world's airlines are also disparate and diverse. The system of bilateralism and the national carriers it supports are criticized for encouraging protectionism in terms of shielding many state supported and subsidized national carriers from the competitive forces of the market place, resulting in costly and inefficient international air services as well as serving as an obstacle to industry restructuring and rationalization through market forces. In other words, to its critics, bilateralism encourages and maintains a distorted trading system. Against such detractors, the bilateral system is defended as the best guarantee of direct participation, the desire for which is based in no small part on a lack of faith in many countries of having to rely completely on foreign operators to provide the trade and transportation links they believe necessary to their economic and social development.

3.2The Regulatory Structure And Arrangements In International Air Transport

Over the past half century, this sector has successfully, safely and in relatively orderly manner developed its international structure. Its safety record has been enviable and its expansion impressive, building from a base, both international and domestic, of less than one million passengers world-wide in 1945 to more than one thousand six hundred million in 1996. Such a rate of growth has often outstripped general economic and trade growth in spite of the close attachment between air transport and the economy. And air transport has achieved this within the legal framework enshrined in the Chicago convention, which is the basic charter for international civil aviation subscribed by 183 countries and is the constitution of the International Civil Aviation Organization (ICAO).

The basic principle of the economic regulatory framework is that of national sovereignty in air transport matters with the concomitant requirement to obtain authorization or permission to operate regular scheduled services into, out of, or over another country. Thus market access for foreign airlines is only possible with the authorization of the country concerned.

In 1940s the attempts to construct a multilateral economic regime were foundered in large part, the reason is, most countries were not willing to yield their national sovereignty with respect to universal market access for international commercial air services and hence, bilateralism was the preferred mode for granting market access and regulating such activities.

Today air transport services are governed by a complex structure, more than 3000 bilateral agreements between governments are exist, each of them to a greater or lesser extent regulating traffic rights, capacity, designation, pricing and a host of other associated operational and administrative obligations and rights and using non-discrimination, reciprocity, mutual recognition or other such regulatory principles(“Air Transport Regulation”, ACI, Beirute, 1998).

3.3 Regulatory Change In Air Transport

The winds of liberalization, privatization and globalization have also swept through the Air Transport sector with permanent consequences. The airline industry is restructuring notwithstanding the nationality factor and the bilateral system. The increasing number of airline alliances ranging from simple bilateral agreements for ticketing, selling and handling to complex equity based multi-airline global tie-ups, are changing the face of airline travel, market pattern and the nature of the industry in a substantial way. The various airlines initiatives in response to competitive market pressures are in turn concentrating the minds of regulators on how to deal with issues like foreign investments, code-sharing and other market place phenomena as well as how to use regulatory tools such as competition laws, which have for the most part been outside the air transport environment.

3.4 The Air Transport Regulatory Debate:

The regulatory adjustment, in particular the liberalization of international air transport is a topical and crucial debate in this sector, the outcome of which determine the long term structure of the industry and certainly the nature and direction of its growth and development. However this debate in air transport is not a product of the GATS. For nearly two decades there has been a lively dialogue about liberalization swirling around in the air transport community. Viewpoints range all the way from the trader, to the outright protectionists who see any change in the status quo as unwanted and undesirable. Yet, at the other end there are those who assert the special nature of air transport almost as a formal mantra. The real fact is that air transport does have certain idiosyncratic structural and regulatory features but at the same time a global-oriented business like any other, subject to commercial principles and objectives and affected by many of the same public policy considerations as other economic activities.

At the global and institutional level, much of the regulatory debate and the response to rapidly changing circumstances have in recent times been focused on ICAO, covering all the fundamental aspects of regulation and designed, bilateral relationship or multilateral. The ideas covered such topics as open market access, with an associated “safety net” to ensure participation and safeguards to maintain a fair competitive environment, subsidies, ownership and control, investments, the use of competition laws and business matters like ground handling and currency conversion.

3.5 The WTO’s Application to International Air Transport:

The Annex on Air Transport Services is accurate and simple taking both an inclusive and exclusive approach. Inclusively, it delineates the applicability of the GATS liberalization disciplines of most-favoured nation treatment and, where market access is granted, national treatment by limiting it to three air transports activities; the so called “soft rights”. However, the Annex specifically carves out or excludes from its application “traffic rights” and directly related services - the core so called “hard rights” in aviation relations. Another exclusive aspects of the Annex which limits its scope is that it sets aside the Uruguay Round dispute settlement mechanism and gives primacy to existing measures for dispute settlement. Yet another aspect limiting the scope of the GATS is the confirmation that any specific commitment or obligation will not reduce or affect a party’s obligations under bilateral or multilateral agreements. A final but vital feature of the Annex is the requirement that the council for Trade in Services review at least every five years, developments in the air transport sector and the operation of the Annex with a view of its possible further application, which is to say extending its coverage, of air transport.

So we can see that the specific GATS application to air transport was purposely limited, and that it made it more acceptable at least in its initial form to a large number of countries.

3.6 Impacts Of WTO'S Applications On The Industry

Based on a number of studies carried out by OECD (Organization for Economic Co-operation and Development) and the World Bank, the overall estimated impact of WTO on all related industries is to increase world GDP by \$213 billion to \$274 billion after ten years of implementation, or roughly by 1 - 1.2% of world GDP as a step-gain (Evans & Walsh, 1994).

International Civil Aviation Organization (ICAO) experts have anticipated that the council for Trade in Services could get around to review the Air Transport Annex any time in the next few years, its mandate will be clear but its task will not be simple. The trade negotiators are going to be faced with four challenging tasks. The first task will be to assess how well the Annex has worked so far for the three air transport activities and the progress made in the reduction of regulatory barriers, with regard to those activities, which could be attributable to the commitments made.

The second task will be to see how those initial sets of commitments on air transport can be improved, firstly by getting countries which have not done so to make them and by removing the conditions and limitations on those existing restricted commitments, secondly by negotiating the removal of existing exemptions, and thirdly by considering whether and how far to expand the coverage to other activities.

The third task will be to "assess developments in the air transport sector", in the words directive.

In fact much could happen in the next few years. Air transport has a capacity for surprising even its most experienced and knowledgeable observers. In recent months the United States has put the seal on successful negotiations for "open skies", the most liberal possible aviation regime, with nine smaller European countries. These cases show that bilateralism can be an effective liberalizing vehicle. They also underline that the bilateral route to liberalization can be tailored to fit specific markets, national needs, relationships and circumstances.

In addition, the regional approach to liberalization has been steadily growing in recent years. These activities and trends should have an impact on the Annex review process and the willingness of its members to expand its coverage.

The final challenge for the Annex review is a conceptual one, that is how best to reach the liberalization objective in air transport. One potential impact could be the creation of duplicate regulatory regimes. In short, regulatory duplication and the complexities arising from differing rights and obligations in Air Transport relations with respect to an activity have the potential to create some difficulties but in general they do not give cause for serious or insurmountable concern.

Perhaps of far greater concern, in its potential for regulatory confusion and in its possible consequences for the sector, would be an eventual GATS coverage of “hard rights” that is traffic rights, capacity, designation and pricing.

3.7 Concluding Remarks

Based on the literature review, the following are the main remarks concluded by researcher:

The crucial thing is the WTO coverage of “hard rights” which will be an ambition, simply for these reasons ;

1. The pivotal role of reciprocity in air transport, especially in the trading of benefits and access will work as an obstacle .
2. The infrastructural limitations in air transport, are physical restraints that exist.
3. Widespread reluctance of most developing countries to relinquish or jeopardise their control over their air transport development through any uniform multilateral liberalization process at this stage.

The immediate financial and non financial impacts of the WTO on Air Transport is very limited and still not addressed by any researchers or institute as its very difficult to quantify the impacts at this stage.

A full WTO coverage of air transport, if attempted, would be an historic shift, and likely to produce a vastly different air transport sector than we see today.

CHAPTER FOUR **METHODOLOGY**

4.1 INTRODUCTION

This chapter discusses the methodology of the study and describes the procedures used in each step of the study, from data collection to data presentation and discussion of findings.

This chapter first reviews research strategy and why multiple-case-study is used as a strategy for conducting this research. Then it discusses the research questions and sources of information which including primary and secondary sources. The structure of the case study and the hypothetical case are carefully discussed.

4.2 Case Study Strategy

Case study is one of the research techniques, which represent a way of investigating an empirical topic by following a set of procedures. Thus it can be defined as *“An empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used”* (Churchill G. A., 1991). This definition, not only helps us understand the case studies, but also distinguishes them from the other research strategies such as survey and experiment.

Zikmund W. G. (1991), has also identified and summarized the general conditions for using the case study as a research strategy. *“A who, what, when, where, and how questions, are being asked about a contemporary set of events, over which the investigators has little or no control to determine the apposite answers”*.

If questions are 'how' and 'what' types of questions, the case study approach would be an advantageous strategy. Since this research is trying to identify "how"

the implementation of WTO's requirements will likely affect certain types of activities in Airlines Industry , the case study approach seems appropriate .

Moreover, researcher found that studying the issue from horizontal point of view is more appropriate than vertical approach, so, it is advisable to address problem from the identified areas for each selected company in depth.

The most developed international airline companies in the world are aware of WTO and its latest progress. Moreover, most of them are members in (ICAO) and (IATA) which work with full cooperation with WTO . Accordingly concentrating on this type of companies will give more reliable information/views than undeveloped companies which are not aware of WTO' s developments and potential consequences on the air transport sector.

4.3 Research Questions

As stated in chapter one, the question is stated as follows : Would the implementation of WTO' s principles by Airline companies lead to significant impacts on the financial and operating structures of Air Transport activities specifically covered by WTO?.

Those covered activities are :

- **Aircraft repair and maintenance services policy** : Do Airline companies expect to change their policies regarding this issue or not?. Their expectation of any change on related cost were also quantified . As mentioned earlier most of them use their own facilities for major maintenance or / and contracting out.
- **Direct selling and marketing air transport services**: How important this policy to the Airline companies?. Is the direct selling policy perceived to have a positive impact on company's market share? Which Airline companies, small ones or major ones, would be effected more?.

Computer reservation system(CRS) services: How the implementation of WTO rules related to CRS on Airline company's will affect the overall performance?. As stated earlier CRS is computerized systems that contain information about air carriers' schedules, availability, fares and fare rules, through which reservations can be made or tickets may be issued. However, ICAO code of conduct and the WTO coverage of CRS are almost similar.

Other general areas that are investigated and perceived to be affected by WTO are:

- **Cost structure:** After market liberalization and open market access, competition between airline companies will be more intensive, accordingly the current cost structure is expected to change to reflect the new market factors.

Most of changes will be in the following areas:

1. More advertising cost to compete and gain market share.
2. More capital expenditure to enhance /build out new infrastructure to meet market and customer needs
3. More control on staff cost to increase profitability and efficiency.

- **Airlines customers benefit:** In competitive and liberalized market, customers are expected to ask more benefits to be passed to them because they will have more choices. These benefits include promotional fair, better quality of services, quicker and more flexible services, and wide range of services.
- **Regulatory regime:** Airline companies will try to achieve a sensible and enlightened regime, however, new regulatory arrangements should seek broader, mutually beneficial economic development.

4.4 Data Collected Methods

Information sources are classified into primary and secondary types:

4.4.1 Primary Sources

Primary information for the study is mainly obtained from a close-ended structured questionnaire (Appendix-A). The questionnaire for this study was pre-tested because it is always advisable to start every research project with a pilot survey (Churchill, 1995). A pilot test was conducted for the purpose of detecting weaknesses in questionnaire design and to make sure that the potential respondents understand the wording of the questionnaire. A draft copy of the questionnaire was distributed to a number of expert managers in the fields seeking their opinions, comments, and suggestions regarding the scope, structure, clarity, and understandability of the questionnaire. Received comments and suggestions were incorporated in the preparation of the final questionnaire.

The questionnaire contains seven parts and a cover letter :

Part 1 : gives a brief introduction about recent development in Air Transport Industry as well as the progress in WTO.

Part 2 : states the purpose of questionnaire and list the three Air Transport activities specifically covered by WTO.

Part 3 : contains questions designed to get information about respondents. Including information about respondent experience and managerial level.

Part 4 : includes six close-ended questions related to the “Aircraft Repairs and Maintenance Services” first area covered by WTO. There are six questions in this part, some of them are designed to get information about current situation, such as, the current company’s repairs and maintenance policy regarding major maintenance projects; while most of questions are targeted to obtain information about potential impact after the implementation of WTO’s principles.

Part 5 : contains six questions about the “Selling and Marketing Air Transport Services” second area covered by WTO. This part also contains six questions designed to get information about the impact of “direct selling” policy on company’s market share, cost and revenue.

Part 6 : includes three questions targeted to get information about “Computer Reservation System Services”, and the importance of CRS on company’s current performance as well as the impacts of the implementation of WTO rules related to CRS.

Part 7 : The last part of the questionnaire in which the researcher seeks information about the overall potential impact of WTO; such as, the regime expected the companies to follow after the implementation of WTO and the current and future perceived importance of main customers’ benefits, like lower prices, better quality of services, and wider range of services.

Questionnaire were sent by two ways either hand deliver or by fax to ten selected major Airlines companies. Most of them are aware of WTO and its development. In order to ensure prompt response the researcher exerted much efforts to get the responses from the selected companies.

Targeted response rate is 100 percent and the actual response rate 70 percent(7 companies out of 10). To of the seven cases didnot complete the questionnaire fully as a result only five companies were selected for conducting this study. The majority of the respondents are in top management level of their organization and have more than 10 years in the same field.

This means that they are aware of international changes of all airline aspects. Bsed on these facts, the researcher has great confidence in the views and information provided by the respondents.

4.4.2 Secondary Sources

In addition to the information obtained from questionnaire, various type of secondary sources are utilized. Those sources include:

A. Information About Airline Industry

- IATA-Compendium of International Civil Aviation (1996/1997).
- ICAO-Manual on the regulation of International Air Transport.
- Companies‘ Annual reports(1996 & 1997).

- IATA White Paper, “Air Transport in a changing World” (Dec,1992).
- IATA Annual report (1996).
- Internet searching in Airlines ’ sites, as most of Airlines have created sites for their companies in WWW.

B. Information About WTO

- Full GATT (General Agreement on Trade and Tariffs) Agreement(1994).
- WTO (World Trade Organization) publications.
- Some specific reports written in Air Transport Services and the General Agreement on Trade in Services(GATS).
- Conferences and seminars held by ICAO(1995&1998).

C. Financial & Business Periodicals

Several journals were reviewed, these include:

- Jane’s Airport Review.
- Financial Times
- Economist
- Civil Aviation Magazine.

4.5 Case Study Structure

Each case study contains six sections: The first section gives a brief profile about company without referring to its original name and a proxy name is used instead. In the second section the fleet and routes operating. The third section is about customer and products and then about the company maintenance. The fifth section is the financial review in which financial position of the company is analyzed using the general and specific airline ratios, these ratios are:

- Liquidity ratio to measure how easily the company can lay its hands on cash and be able to meet its maturing short term obligations.

-Current Ratio = Current assets / Current liabilities.

- Leverage Ratio to measure the extent to which the company has been financed by debt.

$$\text{-Debt Ratio} = \text{Total debt} / \text{Total assets.}$$

- Profitability Ratios to measure management's effectiveness as shown by the returns generated on sales and investment .

$$\text{-Return on Assets} = \text{Operating profit} / \text{Assets.}$$

$$\text{-Return on Capital} = \text{Operating profit} / \text{Capital.}$$

- Growth Ratios to measure the company's ability to maintain its economic position in the growth of the economy and industry.

Gross Revenue Average Growth, Net Profit Average Growth and Capital Expenditure Average Growth.

- Other Airline Specific Ratios:

- Load Factor which is the percentage relationship of revenue load carried to capacity available.

-Airline Cash Coverage = Internally generated cash from operation / Capital expenditure.

-Dividend Coverage = profit / Total amount of dividends paid and proposed for the year.

Interest Cover = Operating Profit / Net finance charges.

-Cost per ATK = Total Airline Operating Costs / ATK s.

ATK: Available Tonne Kilometres; capacity, measured in tonnes available for the carriage of passenger, excess baggage, cargo and mail on each sector multiplied by the sector distance.

All comments made about current financial ratios are based on company average for two years(1996 and 1997). Since industry averages are needed to be compared with company average, ratios of the five selected Airline companies ratios are averaged and considered as industry averages.

The general ratios help to assess the company position as indicated earlier that the selected companies are major ones, therefore, from analyzing these ratios the financial positions can be evaluated. The other specific Airline ratios help to identify market position and operational efficiencies of the selected airline companies, therefore these ratios are calculated under current conditions and after the perceived impacts of WTO implementation.

In the sixth section WTO's financial impacts on the selected areas are analysed and discussed. Invaluable remarks from respondents' view are also included in the section.

In each case study there are three tables:

Table-1 : shows company's profit and loss account in part I and balance sheet in part II, for the two-latest-year published results.

Table-2 : displays an analysis of company financial position and contains four parts. In part I five years financial result at a glance are presented, while part II calculates financial ratios using the above formulas for company as well as industry. part III shows a review of operation for both passengers services and cargo services and part four is revenue and cost breakdown.

Table-3 :In this table the upper part of the income statement restated with the perceived impact to see the overall impact in operating profit . Since most of the questions in the questionnaire needed to be answered in a stocktake way, more about WTO's potential impact will be elaborated in chapter five.

All figures in the above three tables are dominated in millions US Dollar unless otherwise specified. To convert financial statement figures from company home country's currency to US Dollar the prevailing exchange rates are used.

4.6 Hypothetical Case

It is essential to present one hypothetical case to illustrate how the perceived impacts of WTO have been calculated by using current financial statements, information in annual reports, and questionnaire's responses.

To eliminate the differences in financial statement reporting, the statement of income is presented in standard format to help the identifications of WTO's impacts on the selected areas.

Calculation of potential impact

To assess the impacts of WTO on each airline the following procedures were followed:

To get the new level of variable(e.g. revenue) two steps were involved:

First step is to reflect change in average growth rate As in table-3 in each case study.

Current level of revenue = 13,353 million and the average growth rate is 11%, so revenue will be $13,353 \times (1.11) = 14,822$.

The second step is to calculate the new level of revenue after the potential impact:

According to respondent's answer to Q10: Increase by 0% - 10%,

- Low scenario: $14,822 \times (1) = 14,822$
- Average scenario: $14,822 \times (1.05) = 15,564$
- High scenario: $13,353 \times (1.10) = 16,304$

The same procedure is followed in calculating other variables in the study.

CHAPTER FIVE

ANALYSIS AND RESULTS

This chapter presents the analysis related to the five selected case studies using the methodology demonstrated in chapter 4. For each Airline company, a brief profile about the company and its activities is given. Furthermore, current financial position is presented and discussed. Then potential financial impacts are tackled and followed by brief conclusion about the case. Finally a general review of WTO's potential impacts on financial and non-financial dimensions are demonstrated to summarize the five cases and compare empirical findings with the early formulated questions of the study.

5.1 Airline - A

5.1.1 Profile:

The company was founded in 1946 as an international airline offering scheduled passenger and cargo services to 48 cities in five continents, with a reputation for quality and the highest technical standards. It has a 75 percent shareholding in the all-freight carrier AMH, which operates scheduled cargo services to Japan, Europe, and the Middle East. As a strong, diversified aviation group, it maintains equity interest in a number of subsidiaries and associated companies which provide aviation related services. These include aircraft line and base maintenance, the inflight catering, cargo and ramp handling and airport security. It is a member of the Swire group and is listed on the Stock Exchange of MH limited.

The company employs 15,757 staff world-wide, including 1,379 cockpit and 5,525 cabin crew. These staff members around the world make a valuable contribution to the company's reputation and services..

The company won the prestigious Air Transport World Passenger Services Award for 1997.

5.1.2 The Fleet And The Network :

Currently the company owns 15 aircraft of the following types: B747-400/300/200/200F/400F, B777-200, A330-300, and A340-300, in addition to 13 aircrafts on order for delivery in 1998 and 1999. The average age of the fleet at 31st December 1997 was 7.1 years. Given the standard age of 5 years and the international practice of keeping aircraft for many years after their standard life (5 years or more) is average age, is very similar to that of many other major airlines.

- All the company's aircraft are equipped with a Traffic Collision Avoidance System (TCAS). TCAS monitors the position of an aircraft in close proximity and will alert the cockpit crew when safe standards of separation may be violated.
- The aircraft are also equipped with Aircraft Communication and Reporting System (ACARS) which allows the aircraft to use either VHF radio or satellite

communications to maintain a voice or data/link from anywhere in the world with the Airline's headquarters.

- The Rolls-Royce RB211 engines on the company's B747-400 fleet will be upgraded to provide improved fuel economy and engine performance whilst reducing engine weight and maintenance costs.
- A five-year exclusive agreement was signed with SITA (Societe Internationale de Telecommunications Aeronautiques) which will provide a comprehensive range of communication services in over 80 countries. It provides the company with a fully integrated end-to-end managed communications network.
- Code-share services to some destinations were established in 1998 with major airlines to enhance services and ultimately increasing revenue. The cornerstone of alliances has been code-share agreements. These work by putting an airline's two-letter flight designator code on a partner's flight number. That is, the same flight booked through a computer reservation system (CRS) of one of the Airlines will have the two-letter designator codes of both Airlines.

5.1.3 The Customers And The Product:

Route specific improvements in food, beverage and entertainment services continue to be popular, proving that any small, innovative touches, are noticed and appreciated by customers of the Airline. Personal televisions have been installed in the Economy Class seating of over half of the company's passenger fleet.

The concept of service leadership "Service Straight From The Heart" developed from a philosophy into a culture and become a part of the core values and business strategy of the Airline.

Whilst honing the Airline's service skills, the Airline also has been upgrading the hard product including the type of aircraft, the destinations, the schedules and connections.

The volume of business and holiday passenger air traffic in its region is expected to grow at around twice the rate of the rest of the world which is 5.5 percent during the next decade.

Check-in services have been enhanced with the extension of PhoneCheck and EarlyCheck services to passengers in all classes of travel. ReturnCheck, which allows passengers returning on the same or next day to check-in at departure, was extended to most destinations.

An Integrated Operations Control project was launched in 1997 to devise a system that brings crew, maintenance, airport services and flight operations controllers into a single operation. Passengers will benefit from the greater efficiency arising from an integrated approach to weather, ground-handling and engineering delays.

5.1.4 Maintenance

MH Aircraft Engineering Company Limited, in which the company holds a 25% interest, has a 20-year franchise to provide line and base maintenance and overhaul services. Its new facility will include a hanger capable of housing three widebody aircraft, plus associated workshops at a cost of \$179 million.

The company has also invested in the construction of line and base maintenance facilities at its airport.

5.1.5 Financial Review;

According to the information provided in Table-1 and Table-2, page 45, 46, 47 and 48, the company's total assets at 31st December 1997 was \$9,083 million. operating profit for 1997 was \$308 million, a decrease of 38 percent from the 1996 level. Total revenue, of \$3,929 million represented a drop of 3 percent over the previous year's figure. These reductions stemmed from a deterioration in passenger load factors and yields following the significant downturn in the country tourism as well as the Asian currency turmoil.

Against all that, the company's most significant effort to revitalise the country tourist market was the the airline super offer "two-for-the-price-of-one airfare" with accommodation packages. Over 50,000 passengers took advantage of the offer. Route costs, which include meal costs, landing and parking charges, increased primarily due to the increase in the number of flights operated. Fuel costs increased

by \$50 million as a result of an increase in the volume uplifted and higher fuel prices compared with 1996. Aircraft depreciation and operating lease costs increased, reflecting deliveries during the year and the full year's effect of the 12 aircraft delivered in 1996. Replacement spares and labour costs for maintenance and overhaul of aircraft are charged to operating profit on consumption and as incurred respectively.

Liquidity:

The company's average current ratio, is about 0.73 percent, which indicates that the company will face difficulties in meeting its short term obligations. It is less than the industry average which is 0.90 times.

Leverage :

The average debt ratio is about 28%. However this percentage is lower than the industry average, which is 37.2%. Most of the debt financing was used to finance the construction of new airport. Net debt equity ratio increased to 0.34 times in 1997.

Profitability:

The company's operating profit in 1997 was \$308 million, a decrease of 38% from 1996, which is \$496 million. Five years average growth in profit was 24% which suggest that the company has strong profit record.

Revenue passenger kilometres decreased by 3.0% against a 5.2% increase in available seat kilometres which resulted in a deterioration in passenger load factor from 74.0% to 68.2% (the passenger load factor is revenue passenger kilometres (RPK) expressed as a percentage of available seat kilometres (ASK)). The taxation charged decreased by 39.9% as a result of reduced profitability and the resolution of overseas tax dispute. Return on total assets for 1997 was 4% on average and the return on capital is round 13.5%.

Dividends

Total amount proposed and paid for 1997 is \$126 million. Dividend coverage has been decreased by 0.4 times from 2.1 to 1.7 times. The reason is the decline in the company's profits.

Operating costs

Airline-A is devoting 27 percent of its operating cost to staff. There is a decrease of only 1% in staff cost in 1997 compare with previous year. Aircraft depreciation and operating lease costs also increased, reflecting deliveries during the year and the full year's effect of the 12 aircraft delivered in 1996.

Market share

Overall, market share over the past three years was maintained on most routes, however the reduction in the number of travellers led to excess capacity on some routes.

Growth:

Based on the information presented in section I in Table 2, the company's growth percentages can be summarized as follows.

- Average growth in gross revenue is about 7 percent per annum and average growth in profit is 6 percent, whilst the average growth in cost is 8 percent. All the percentage have been adjusted for the potential impact of WTO.
- Earnings per share has increased sharply from 10.3 in 1993 to 15.3 in 1996, however it decreased to 6.3 only in 1997.
- Long term investments in 1997 increased by 7 percent from 1996 due to the 13 aircrafts on order for delivery in 1998 and 1999 and to the headquarter's building at the new airport.
- Dividend per share over the past five years has grown by 5.4 percent in average.

Review of operation:

The number of passengers carried decreased by 8.8% to 10 millions in 1997 compared with 1996. Passenger yields(revenues generated from passengers) came under severe pressure and decreased by 4.8% in 1997. This reduction stemmed from a deterioration in passenger load factors caused by the significant downturn in the country's tourism as well as a currency crisis.

The company's cargo load factor improved by 6.0% and reached 72.9%. As cargo Tonne kilometres improved by 12.2% against an increase of 2.4% in cargo capacity. Cost per ATK fell by 0.1% reflecting efficient cost management.

5.1.6 Potential Financial Impacts of WTO

Following the procedures used for the hypothetical case in the methodology chapter, the following are the percent figures extracted and used in Table-3 to calculate financial impacts of the implementation of WTO on the company's performance based on the responses recieved :

- The percentage increase in revenue will be between 7 and 17 percent.
- Operating cost will be between an increase of 8% and a decrease of 2 %, the company will be able to reduce staff and administration cost without any restrictions.
- Profit will increase by 6 percent on average, after open market access for domestic and foreign investors with out any discrimination.
- Advertising expenditure will not be significantly affected.

Critical remarks:

- **Aircraft maintenance policy.**

Since Airline-A depends heavily on MH Aircraft Engineering Company Limited, in which the company holds a 25% interest in all major maintenance projects. The company percieve that the application of WTO rules and principles will not

have a significant impact on the company's maintenance policy. Aircraft and maintenance cost will increase, but in a decreasing manner ranging from \$417 to \$463 million, which reflects the normal increase in maintenance cost regardless of the implementation of WTO's principles.

- **Direct selling and marketing Air Transport services**

Direct selling and marketing to the transporting services is perceived to be very important issue. The overall cost will shrink since the commission payable to the agent will be less by 2% as indicated by expert people in the same field. At the same time, competition between companies will be more intensive after open market access, and this will lead to lower prices and higher quality services.

- **Computer Reservation System Services(CRS)**

Airline-A perceive the current CRS to be very important to the company's performance, hence CRS is a computer system that provides information on air carrier schedules, space availability and tariffs, and through which reservation on Air Transport Services can be implemented. CRSs benefit both the Air Transport Industry and Air Transport users. Also the two systems, ICAO code of conduct for the regulation and operation of CRS, and the WTO coverage of CRS which are perceived to be compatible, and consequently, will intensify fair competition between airlines and will ensure the availability of the widest possible choice of options to meet the needs of Air Transport users.

- **Regulatory Reform**

Airline-A will try to achieve a sensible and enlightened regime that steers between excessive regulation and destructive laissez-fair to continue function in a safe and orderly manner.

Projected Financial Performance after the Implementation of WTO on Airline A,s operation:

Part 2 and 3 of Table-3 (page 49 and 50) exhibit potential financial impact on the selected areas under the three scenarios (Low, Average and High) with percentage of impact.

The following summarize main points:

- **Revenue:** As per the above assumption, revenue for Airline-A will increase by a range of \$ 275 to 668 million, between 7 to 17 percent. Furthermore, traffic revenue will be up by a range of \$266 to \$406 million, this is mainly due to the expected reduction in the expenses. Other revenue will increase by a range of \$9 to \$13 million.
- **Operating Cost :** Overall impact on cost will be positive, that is mean cost will be down, but in the long term. According to the responses and the three scenarios that applied, overall cost will range from \$79 to \$107 million, staff cost will not change much and it will range from \$34 to \$107 million. The reduction that will take place in overall operation cost, will be balanced by the normal annual growth rate.
- **Operating profit:** The net impact of the implementation of WTO on profit will be high because Airline-A experienced dramatic drop in profit over 1996, which is down by almost 60% . However, based on the past five years, profit margin is expected to fall between 7% and 19%.
- **Revenue breakdown:** company rely on traffic revenue which stand for 97 percent of total revenue. Industry average represent only 91percent.
- **Cost breakdown:** Airline-A's staff costs will remain high compared with the current and potential industry averages. Staff cost represent 27% of total operation cost, whilst the industry average is only 25%.

In sum, it is expected that adopting WTO requirements, Airline-A's profitability will be highly affected and the Airline will achieve a high profit in the long term. This is due to the drop in overall expenses and the increase in competition. In addition the regulatory change which will take place will lead to a regime, that will concentrated on a balanced reciprocal exchange of rights between states on the basis of fair competition and equal opportunity and reciprocity.

AIRLINE - A ANALYSIS TABLES

Table-1 Airline-A FINANCIAL STATEMENTS

I. Profit and Loss Account

	1997 US\$M	1996 US\$M
Operating Revenues		
Traffic Revenue	3,799	3,914
Other Revenue	130	133
	3,929	4,047
Operating Costs		
Staff & Administrative	989	983
Aircraft Maintenance	429	426
Aircraft Fuel	604	554
Other Operating Cost	1,599	1,588
	3,621	3,551
Operating profit	308	496
Net Finance Charges	(43)	(49)
Net Operating Profit	265	447
Exceptional items	(44)	69
Share of profits of associated companies	39	46
Profit before taxation	260	562
Taxation	(38)	(62)
Profit after taxation	222	500
Minority interests	(5)	(2)
Profit attributable to shareholders	217	498
Dividends	(126)	(233)
Retained profit for the year	91	265
Earnings per share	6.3¢	15.3¢
Earnings per share excluding exceptional items	7.6¢	13.2¢

II. Balance Sheet

	1997 US\$M	1996 US\$M
Aircraft and related equipment properties and other equipment	4,077 152	4,063 155
Fixed assets	4,229	4,218
Long-term investments	4,070	3,791
Current assets	784	1414
Total Assets	9,083	9,423
Current liabilities	(1,341)	(1,633)
Total assets less current liabilities	7,742	7,790
Deferred taxation	(731)	(679)
Deferred exchange differences	(267)	(32)
Total assets less current liabilities and deferred items	6,744	7,079
Financed By:		
Share capital	87	88
Reserves	2,854	2,841
Shareholder' s funds	2,941	2,929
Long-term liabilities	3,803	4,150
Total equity and long-term liabilities	6,744	7,079

Table-2 Airline-A FINANCIAL EVALUATION (US.\$)

[illegible]

CONT. TABLE-2

IV. Revenue & Cost Breakdown

<u>Revenue</u>	1997	1996	company 2-Yr Av.	Industry Average
Traffic Revenue	97%	97%	97%	91%
Other Revenue	3%	3%	3%	9%
Net Revenue	100%	100%	100%	100%
 <u>Cost</u>				
Staff & Administrative	27%	27%	27 %	25%
Aircraft Maintenance	12%	12%	12%	13%
Aircraft Fuel	17%	16%	17%	13%
Other Operating cost	44%	45%	44.5%	49%
Total	100%	100%	100%	100%

TABLE-3 WTO' S FINANCIAL IMPACTS ON AIRLINE-A

1.Impact on revenue and cost						
	Actual			potential		
	1996	1997	Low	Average	High	
I. Revenue	4,047	3,929	4,204	4,400	4,597	
Impact			275	471	668	
Percentage*			7%	12%	17%	
II. Cost	3,551	3,621	3,911	3,730	3,549	
Impact			290	109	(72)	
Percentage*			8%	3%	(2%)	
* 5 Years G.Rate % and Potential Impact are Imposed						
2. Income statement with percieved impact						
	Actual		Normal		potential	
	1996	1997	Growth	Low	Average	High
Operating revenue			7%	0%	5%	10%
Traffic revenue	3,914	3,799	4065	4,065	4,268	4,471
Other revenue	133	130	139	139	146	152
Total revenue	4,047	3,929	4,204	4,204	4,414	4,623
Operating cost			8%	0%	(5%)	(10%)
Staff cost	983	989	1,068	1,068	1,015	961
Aircraft Maintenance	426	429	463	463	440	417
Fuel	554	604	652	652	652	652
Other	1,588	1,599	1,727	1,727	1,727	1,727
Total cost	3,551	3,621	3,910	3,910	3,834	3,757
Profit	496	308	294	294	580	866
WTO net impact(M\$)				(14)	286	572
Porofit margin:	0.12	0.08	0.07	0.07	0.13	0.19
(Profit/Total revenue)						
Change on profit margin				0%	6%	6%

CONT. TABLE-3

3. Financial Ratio Current and Potential

	Current		Potential	
	Comp. Av.	Industry Av.	Com. Av.	Industry Av.
Revenue & Cost				
<u>Revenue</u>				
Traffic Revenue	97%	91%	97%	91%
Other Revenue	3%	9%	3%	9%
Total	100%	100%	100%	100%
<u>Cost</u>				
Staff Cost	27.5%	25%	26%	25%
Aircraft Maintenance	11.5%	13%	12%	13%
Aircraft Fuel	16.5%	13%	17%	14%
Other Costs	44.5%	49%	45%	48%
Total	100%	100%	100%	100%
Other Ratios(Specific to Airline Industry)				
Net Debt Equity Ratio	29%	45%		
Dividend Cover	1.9	0.65 times		
% of staff cost out of gross Revenue	24%	30%	23%	22%

5.2 Airline-B

5.2.1 Profile :

The company is an International Airline operating world wide and play a major roles in both the passenger and cargo markets.

In 1996 the company reached an agreement on the further privatization of the Airline (State's holding 25%, 10.4% through common shares and 14.6% through cumulative preference shares A). The company and its partners fly to more than 350 cities in 80 countries on six continents.

Through its strong alliance with its partner Airlines, intercontinental network and route partners, it offers passengers and shippers more than 90,000 connections between cities (city-pairs) around the world.

During fiscal 1996/97 a 26,385 people were employed, of which a 14,295 worked in the home country and 4,897 elsewhere.

The Company's goal is to participate in one of the leading global Airline systems as an independent and financially strong. It aims to sustain the passenger preference, and to provide a stimulating and stable working environment for its employees.

Targets also include a structural increase in shareholder value and a mutually profitable relationship with its partners.

5.2.2 The Fleet:

The company has a young fleet of aircraft with an average age of seven years, consists of 90 jet aircraft and 21 turboprop aircraft from Boeing (767-400, 737-300), McDonnell Douglas, Fokker and Saab. With additional of a new order of four Boeing 737-800. Fleet composition and capacity deployment are oriented to serving the Airline network optimally, with strives for fleet standardization, which translate into more efficient and more flexible operations.

5.2.3 The Customers And The Products

Customers satisfaction has remained fairly consistent, aspects of reliability, punctuality, convenience and friendliness are criteria used by the customers to measure services. Information technology also plays an important role, the number and the quality of connections an Airline can offer competitively are two of the most important criteria, which is judged by.

Productivity raised by 60% and the Focus 2000 program will result in substantial quality improvements.

Traffic increased by six percent in 1997; passenger traffic by eleven percent and cargo traffic by two percent.

5.2.4 Maintenance:

All maintenance of the Company's fleets is predicated to the Engineering & Maintenance Division, one of the larger and certainly one of the most experienced Aircraft Maintenance Firms, it offer a one-stop-shopping concept for complete maintenance. Currently, approximately 40% of its capacity is used for third-party work. Engineering & Maintenance works under close direction with a large number of certified companies throughout the world.

In addition, Engineering & Maintenance Division has received complete renewal of all its important national and international licenses. Various spectacular improvements have been made through Business Process Redesign (BPR), resulting in reduced system costs for customers.

5.2.5 Financial Review:

According to the information provided in table-1 and table-2, pages 56,57 , 58 and 59, the Company's total assets for 1997 was \$7,762 million. Operating profit for 1997 was \$114 million, a decrease of 57% from the 1996 levels. Total revenues of \$ 4,999 million represent an increase of 9% from the 1996 level, whilst total cost increased by 16% from the 1996 level.

Liquidity: The company's average Current Ratio, is about 1.3 times , that means Company's current assets can easily cover short term obligations. Its strong financial position enabled the Company to close a financial lease agreement within a year.

More than 60 percent of its liquid assets are invested in government bonds or kept in form of cash. Industry average is only 0.90.

Leverage : Around 45.5 percent of total assets of the Company is financed by debt. Long-term debt including perpetual loans and the short-term portion of long-term debt included under current liabilities. Under certain circumstances, the company has the right to redeem the subordinated perpetual debts, with or without payment of a premium. The high debt ratio indicates the extent to which the company has been financed by debt to acquire new aircraft, a high debt ratio indicates a high level of risk.

Profitability: The company's operating profit in 1997 was \$114 million, a decrease of 57% from 1996, which was \$265 million. Five years average growth in profit was only 3% annually. Total operating revenues increased by 9%. The yield or average return per Revenue Ton-Kilometres(RTK) improved by 2.9%, due to the positive effect of exchange rate fluctuations, and the on balance negative influence of changes in the product mix and tariff mix. Average return on total assets was 2.5 percent and the return on capital was about 10%.

Operating expenses before provisions increased by 13%, the most important cause was a 29% increase in the costs of aircraft fuel. Only a small portion of this could be passed on in tariffs and fares. The introduction of six new Boeing -767 aircraft increased the costs of operational leases. The Company is devoting 29 percent of its operating expenditure to its staff. Unit costs increased by 9%.

Dividends: Airline-B based the dividend on the quality of net income, the liquidity position, capital ratios and the future financing required. Pay-out ratio was allowed to vary from 30% to 40% of net income, 0.48 Dollar per share has paid to

shareholders either cash or entirely in the form of airline-B common shares. The Net debt-to-equity increased by 13% from 1996 level, this was caused among with other things, by the withdrawal of part of the company shares which had been held by the state.

Review of operations: The total world market grew by around 6% during the fiscal year. Airline-B transported a total of 13 million passengers, an increase of 8% compared to the previous fiscal year. Yield per Revenue Passenger-Kilometre remained the same at 7¢. An average increase of 7% in both available seat-kilometres and available ton-kilometres. Break-even load factor which is the load factor percentage at which operating revenues equal operating expenses was 34% in average.

5.2.6 Potential Financial Impacts of WTO

Following the procedures used for the hypothetical case in the Methodology Chapter, the following are the percent figures extracted and used in Table-3(pages 60 and 61) to calculate financial impacts:

- The percentage increase in revenue will be between 6 and 16 percent.
- Operating cost will be between an increase of 7% and a decrease of(3%).
- Reduction in staff and other administrative costs will be moderate.

Critical remarks:

- The perceived impact after the application of WTO rules and principles regarding Aircraft Maintenance Policy will be considered by the company, hence the the Company's Engineering and Maintenance Division works under

close direction with a large number of certified companies through out the world. So the Company intend to continue with its policy.

- The company's view the Direct Selling and Marketing issue to its transporting services to be unimportant at all .
- Regarding regulatory regime, the company intend to follow a sensible and enlightened regime to achieve the required balance between airlines.
- The company will be able to reduce staff cost but with some sort of restrictions.
- Airline-B perceived the current CRS system to be very important to the Company's performance . The two systems , ICAO code of conduct and the WTO coverage of CRS were perceived to be compatible and by only this way fair competition between airlines will be relieved.

AIRLINE-B ANALYSIS TABLE

Table-1 Airline-B FINANCIAL STATEMENTS

I. Income Statement:

	1997 US\$M	1996 US\$M
Operating Revenues		
Traffic Revenue	4,356	3,998
Traffic Revenue	643	604
	4,999	4,602
Operating Expenses		
Staff & Administrative	1,434	1,294
Aircraft Maintenance	560	482
Aircraft Fuel	528	409
Other Operating Cost	2,574	2,199
	5,096	4,384
Operating Income	(97)	218
Financial income and expense	(104)	(92)
Results on sale of tangible fixed assets	7	45
other holdings	250	154
Pre tax income	56	325
Taxes	58	(63)
After tax income	114	262
Net income	114	262
Dividend per share	0.48 ¢	

II. Balance Sheet

	Mar. 1997 US\$M	Mar. 1996 US\$M
Fixed assets		
Intangible fixed assets	81	77
Tangible fixed assets	4,616	4,685
Financial fixed assets	863	885
	5,560	5,647
Current assets		
Operating supplies	161	146
	826	803
Marketable securities	216	94
Cash	999	1,267
	2,202	2,310
Current liabilities	1,976	1,643
Current assets less current liabilities	226	667
Assets less current liabilities	5,786	6314
Long-term debt		
Perpetual debt	897	897
Other long-term debt	2,603	2,777
	3,500	3,674
	330	254
Deferred credits	303	358
Group equity		
Stockholders' equity	1,641	2,015
Share of third parties	12	13
	1,653	2028
	5,786	6,314

[illegible]

CONT.TABLE-2

III. Revenue & Cost Breakdown				
Revenue				
	1996	1997	Company 2-Yr. Av.	Industry Av.
Traffic Revenue	87%	87%	87%	91%
Other Revenue	13%	13%	13%	9%
	100%	100%	100%	100%
Cost				
Staff & Administrative	30%	29%	29.5%	25%
Aircraft Maintenance	11%	11%	11%	13%
Aircraft Fuel	9%	11%	10%	13%
Other Operating Cost	50%	49%	49.5%	49%
	100%	100%	100%	100%

Table-3 WTO' s FINANCIAL IMPACTS ON AIRLINE-B

1. Impact on revenue and cost

	Actual 1996	Actual 1997	Low	potential Average	High
I. Revenue	4,602	4,999	5,299	5,549	5,799
Impact			300	550	800
Percentage			6%	11%	16%
II. Cost	4,384	5,096	5,453	5,198	4,943
Impact			357	102	(153)
Percentage			7%	2%	(3%)

2. Income statement with percieved impact

	Actual 1996	Actual 1997	Normal Growth	Low	potential Average	High
Operating revenue			6%	0%	5%	10%
Traffic revenue	3,988	4,356	4,617	4,617	4,848	5,079
Other revenue	604	643	682	682	716	750
Total revenue	4,602	4,999	5,299	5,299	5,564	5,829
Operating cost			7%	(0%)	(5%)	(10%)
Staff cost	1,294	1,434	1,534	1,534	1,457	1,381
Aircraft Maintenance	482	560	599	599	569	539
Aircraft Fuel	409	528	565	565	565	565
Other Operating Cost	2,199	2,574	2,754	2,754	2,754	2,754
Total cost	4,384	5,096	5,452	5,452	5,345	5,239
Profit	218	(97)	(153)	(153)	219	590
WTO net impact				0	372	743
Profit margin (Profit/Total Revenue)	0.05	0.02	0.03	0.03	0.04	0.10
Change on profit margin				0%	1%	7%

CONT. TABLE- 3

3. Financial Ratio Current and Potential

	Current		Potential	
	Comp. Av.	Industry Av.	Com. Av.	Industry Av.
Revenue & Cost				
<u>Revenue</u>				
Traffic Revenue	87%	91%	88%	91%
Other Revenue	13%	9%	12%	9%
Total	100%	100%	100%	100%
<u>Cost</u>				
Staff Cost	29.5%	25%	28%	25%
Aircraft Maintenance	11%	13%	11%	13%
Aircraft Fuel	10%	13%	10%	14%
Other Costs	49.5%	49%	50%	48%
Total	100%	100%	100%	100%
Other Ratios(Specific to Airline Industry)				
Net Debt Equity Ratio	118.5%	45%		
Dividend Cover	3.7	0.65 times		
% of staff cost out of gross Revenue	28.5%	30%	26%	22%

5.3 Airline-C

5.3.1 Profile:

The company is one of the largest and fully privatized airline companies since February 11, 1987, and one of the most profitable in the world, it has become one of few truly world class companies, establishing a reputation for consistently high standards of business and customer service performance.

The main activities of the Company are the operation of international and domestic scheduled and charter air services for the carriage of passengers, freight and mail and the provision of ancillary services.

The Company's overriding strategy continues to concentrate on the building of a global Air Transport system to serve the world market. It served 165 destinations in 82 countries, with alliance carriers and the global network covers 474 destinations in 103 countries.

The Company global alliance consists of airlines in which it has equity investments, franchise agreements and code-share agreements.

Company's mission as stated in the annual report is "To be the undisputed leader in world travel".

The company's employees who hold a tangible stake in their company, are fiercely proud of their Airline and working as a cohesive team with confidence in their ability to continue creating the benchmarks by which the rest of the industry is judged.

5.3.2 The Fleet

The number of aircraft in the group are 308, types Concorde , McDonnell Douglas , Boeing, Airbus and Fokker.

The mainline fleet grew by seven and reached 256. this includes an additional five

Boeing 777s, four Boeing 747-400s and two Boeing 767-300s.

Orders were placed for an additional aircraft types; 747-400s, 757-200s and 777-200s. Nine Boeing 737-300s were ordered to replace the Fokker 100s as part of fleet rationalisation.

5.3.3 The Customers and the product

The Company Success has been built on a firm commitment to customer service, cost control and the Company's ability to change with the times and new demand by setting a new values and goals by which they introduce new services and products with safe and secure.

The company adapted Frequent Flyer Programmes, to allow the passengers to earn and burn miles on each carrier.

5.3.4 Maintenance

Airline-C using both ways, their own line maintenance services and contracting out. The company owns some base line maintenance in some major airports.

The Company contract handling, a handling operation for other Airlines at main airport was recently closed and the provisions of vehicle management and maintenance services was outsourced to other company on a five-year contract.

5.3.5 Financial Review:

According to the information provided in table-1 and table-2, pages 66, 67, 68 and 69, the Company's total assets less current liabilities at 31st December 1997 was \$11,622 million. Operating profit for 1997 was \$872 million, a decrease of 25 percent from the 1996 level. Total revenues, of \$13,353 million, represent an increase of 8 percent over the previous year's figure.

Liquidity: The average of Current Ratio was near to 0.8 , this indicates that Airline-C's current assets cannot meet short-term liabilities. From analysing the components of current assets, its found that more than 65% of the current assets

was trade debtors, and 28% devoted to short-term loans and deposits, and the cash at bank was only 3%.

Leverage : The average Debt Ratio was about 44% and the industry average is only 37%.

profitability: The company's operating profit in 1997 was \$872, a decrease of 25% from 1996 level. Revenue increased by 8% and mainline scheduled Revenue Passenger kilometres increased by 6.4 percent. Profit before tax for the year was up by 9.4% from the last year. Operating expenditure increased by 10% with unit cost per ATK up by 0.8% which was pushed up by fuel price increases of 20%.

Profit attributable to the shareholders increased by 16.9%. Earnings per share (profit attributable to shareholders divided by the daily weighted average shares in issue throughout the year) was 89.0¢.

Operating costs: The company was devoting 30% of its operating cost to staff, and the Company is fully committed to increasing its employees participation in it, the number of staff holding shares and their shareholding increased from the current level of some 65% and 3.5% respectively. .

Airline specific ratio: Average dividend cover was 3.6 times and the average Net Debt-Capital ratio was 58.4%, this was due to the rise in capital and reserves.

Review of operation: The number of the passengers carried by the Company was 13 million in 1997. Available Seat- kilometres rose by 7.3% and Passenger Load Factor for the year was 73.2 percent, a decrease of 0.6 points below last year record figures.

Revenue Tonne kilometres(RTKs) increased by 7.7% with total capacity Available Tonne Kilometres(ATKs) up by 8.2% .

5.3.6 Potential Financial Impacts of WTO

Following the procedures used for the hypothetical case in the Methodology Chapter, the following are the percent figures extracted and used in Table-3(pages 70 and 71) to calculate financial impacts of the implementation of WTO on the Company's performance based on the responses recieved:

- The percentage increase in revenue will be between 11 and 21 percen, to 16,157 million dollar a year.
- Operating Cost will be between an increase of 0 and 10 percent, cost will increase at the begining to different reason such like to cope with the changes in the amount reserved for future investment in infrastructure and to sustain in competitive position.
- Profit will increase by 14 percent on average, after open market access for domestic and foreign investors without any discrimination.
- Advertising expenditure will remain the same

Critical remarks:

- The application of WTO rules and principles are limited regarding Aircraft Maintenance Policy, it perceived to be unaffected at all, since the Company is using their own base maintenace and also contracts out partially, when necessary.
- The Company perceive that the Direct Selling and Marketing to their transporting services to be very important issue, although their market share will not be affected.
- Airline-C will try to achieve a sensible and enlightened regime that steers between excessive regulation and destructive laissez - fair as it always do, with the cordination of the ICAO and the IATA regulations.
- Able to reduce staff cost without restriction.
- The company perceive the two systems, ICAO code of conduct and the WTO coverage of CRS to be highly compatible .

AIRLINE-C ANALYSIS TABLE

Table-1 Airline-C FINANCIAL STATEMENTS

I. Profit and Loss Account :

	1997 US\$M	1996 US\$M
Revenue		
Traffic Revenue	12,153	11,315
Other Revenue	1,200	1,081
	13,353	12,396
Operating Expenditure		
Staff & Administrative	3,831	3,492
Aircraft Maintenance	749	733
Aircraft Fuel	1,345	1,046
Other Operating Expenses	6,556	5,962
	12,481	11,233
Operating profit	872	1,163
Income from interests in associated undertakings	182	97
Other income and charges	27	(2)
Write back of exceptional provision	200	—
Profit on sale of fixed assets	32	32
Net interest payable	(291)	(356)
Profit before taxation	1,022	934
Taxation	(144)	(179)
Profit after taxation	878	755
Minority share of losses after taxation	5	—
Profit for the year	883	775
Dividends paid and proposed	(246)	(209)
	637	566
Earnings per share	89¢	79¢
Dividends per share	24¢	22¢

II. Balance Sheet

	1997 US\$M	1996 US\$M
Tangible assets		
Fleet	10,123	9,147
Property	1,578	1,383
Equipment	420	374
	12,121	10,904
Investments	1,093	848
Fixed assets	13,214	11,752
Current assets		
Stocks	125	166
Debtors	2,255	2,195
Short-term loans and deposits	955	1,850
Cash at bank and in hand	121	77
	3,456	4,288
Creditors: amounts falling due within one year	(5,048)	(4,511)
Net current liabilities	(1591)	(224)
Total assets less current liabilities	11,622	11,529
Creditors: amounts falling due		
Borrowings and other creditors	(6,444)	(6,949)
Convertible capital bonds 2005	(361)	(502)
	(6,805)	(7451)
Provisions for liabilities and charge	(93)	(94)
Minority interests	42	—
	4,766	3,984
Capital and reserves		
Called up share capital	401	384
Reserves		
Share premium account	902	753
Revaluation reserves	474	482
Profit and loss account	2,989	2,365
	4,366	3,600
	4,766	3,984

Table-2 Airline-C FINANCIAL EVALUATION (US.\$)

[illegible]

CONT. TABLE-2

III. Revenue & Cost Breakdown				
Revenue				
	1996	1997	Company 2-Yr. Av.	Industry Av.
Traffic Revenue	91%	91%	91%	91%
Other Revenue	9%	9%	9%	9%
	100%	100%	100%	100%
Cost				
Staff & Administrative	31%	31%	31%	25%
Aircraft Maintenance	7%	6%	6.5%	13%
Aircraft Fuel	9%	10%	9.5%	13%
Other Operating Cost	53%	53%	53%	49%
	100%	100%	100%	100%

Table-3 WTO' s FINANCIAL IMPACTS ON AIRLINE-C

<u>Impact on revenue and cost</u>					
	Actual			potential	
	1996	1997	Low	Average	High
I Revenue	12,396	13,353	14,822	15,489	16,157
Impact			1,469	2,136	2,804
Percentage			11%	16%	21%
II. Cost	11,233	12,481	13,729	12,105	12,481
Impact			1248	499	125
Percentage			10%	5%	0%

2. Income statement with percieved impact

	Actual		Normal		potential	
	1996	1997	Growth	Low	Average	High
Operating revenue			11%	0%	5%	10%
Traffic revenue	11,315	12,153	13,490	13,490	14,165	14,839
Other revenue	1,081	1,200	1,332	1,332	1,399	1,465
Total revenue	12,396	13,353	14,822	14,822	15,564	16,304
Operating cost			10%	0%	(5%)	(10%)
Staff cost	3,492	3,831	4,214	4,214	4,003	3,793
Aircraft Maintenance	733	749	824	824	783	742
Aircraft Fuel	1,046	1,345	1,480	1,480	1,480	1,480
Other Operating Cost	5,962	6,556	7,212	7,212	7,212	7,212
Total cost	11,233	12,481	13,730	13,730	13,478	13,227
Profit	1163	872	1,092	1,092	2,086	3,077
WTO net impact				0	993	1984
Profit margin	0.09	0.07	0.07	0.07	0.13	0.19
Profit\Total revenue						
Change in profit margin				0	0.06	0.12

CONT. TABLE- 3

3. Financial Ratio Current and Potential

	Current		Potential	
	Comp. Av.	Industry Av.	Com. Av.	Industry
Revenue & Cost				
<u>Revenue</u>				
Traffic Revenue	91%	91%	91%	91%
Other Revenue	9%	9%	9%	9%
Total	100%	100%	100%	100%
<u>Cost</u>				
Staff Cost	31%	25%	30%	25%
Aircraft Maintenance	6.5%	13%	6%	13%
Aircraft Fuel	9.5%	13%	11%	14%
Other Costs	53%	49%	53%	48%
Total	100%	100%	100%	100%
Other Ratios(Specific to Airline Industry)				
Net Debt Equity Ratio	29%	45%		
Dividend Cover	5.8	0.65 times		
% of staff cost out of gross Revenue	58.4%	30%	26%	22%

5.4.1 Profile:

The company was established in 1974 as a shareholding international airline company offering scheduled passenger and cargo services to 60 cities in five continents, with a reputation for quality and the highest technical standards. However this number reduced to 49 destinations in a process of scaling back operation to close unprofitable routes. Passengers carried is more than 4 million a year .

The company employs 5,357 staff world-wide, of which, 1,500 are crew . These staff members around the world make a valuable contribution to the service .

The company was among the first airlines to recognise the opportunities that code-sharing represented.

5.4.2 The Fleet And The Network :

Currently the company owns 34 aircraft of types B767, A320, and A340. The average age of the fleet at the end of 1997 was 79.0 months. In addition, six A330 have been ordered for delivery in the near future.

The implementation of highly sophisticated information technology systems enable the company to refine their schedules to the convenience of their passengers.

5.4.3 The Customers And The Product:

Over the years the company has built an enviable reputation for service excellence to a discerning customer base. The maintenance of these high standards of services, whether in air or on the ground, has now been given top priority within the airline. The flight experience is what most of the company's customers remember about the airline. Providing sophisticated international services with the traditional hospitality has clinched many international awards for passenger service appreciated by their customers.

Whilst honing their service skills, they have also been upgrading their hard product. The type of aircraft they fly, the destinations they serve and the schedules and connections they offer, are all very vital aspects of their product.

The main thrust of the company overall inflight strategy is to deliver the most polished and professional service to passengers.

The company introduced “Fast-track” immigration clearance for premium passengers and was the first in the Middle East to introduce a fully fledged passenger loyalty programme.

5.4.4 Maintenance

The Aircraft Maintenance Company, in which the Airline company holds a 40% interest, provides aircraft maintenance and overhaul services. The Maintenance Company’s broad capability includes the maintenance of airframes, engines, components and avionics certified to stringent aviation regulatory standards and covering a wide range of aircraft type.

The Maintenance Company also contracts out partially, when necessary .

5.4.5 Financial Review:

According to the information provided in Table-1 and Table-2, page 76, 77, 78 and 79, the Company’s total assets at 31st December 1997 was \$839 million. Operating profit for 1997 was \$67 million, an increase of 14 percent from the 1996 level. Total revenues, of \$1,026 million represented a drop of 2 percent over the previous year’s figure.

Liquidity: The company’s average of Current Ratio is about 0.49. This indicates that the Company’s current assets cannot adequately meet short-term liabilities, but sale and lease of surplus aircraft generated revenue that covered a substantial part of their obligations.

Leverage : The average Debt Ratio is about 21 percent, this relatively low leverage ratio is a positive sign since the company will enjoy more flexibility in the payment of its obligations.

Profitability: Whilst scaling down operations by 15% in ATK, only 1.7% of revenue and 3% in number of passengers were lost, the yield increased steadily by 5.9%. Net profit after tax for the year was 48 million dollar. Operating expenditure was down by 8.0%. A comprehensive restructuring programme initiated at the end of the year helped return the airline to operating profitability.

Operating cost: The company is devoting 47% of its operating expenditure to its staff, and the company committed to continuing the training of its staff.

Airline specific ratio: Shareholders' fund for the year increased by 25% over the previous year, and return on shareholders' funds reached 20.9% after a decrease of 47.8% a year before.

Review of operation: The number of passengers carried by the company was 4.6 million and Available Passenger-Seat-Kilometres was 26 RPK million. Breakeven load factor for the year was 62.8 per cent, a decrease by 2.7 points below last year's record figures. Revenue per employee increased by 6%. Cargo carried was 35 RTK millions.

5.4.6 Potential Financial Impacts of WTO

Following the procedures used for the hypothetical case in the Methodology Chapter, the following are the percent figures extracted and used in Table-3(pages 80 and 81) to calculate the financial impacts of the implementation of WTO on the company's performance based on responses received:

- The percentage increase in revenue will be between 1 and 11 percent.
- Operating cost will be between 1 and 9 percent.

- Profit margin will range between 0 to 2 percent.
- Reduction in staff and other administrative costs will not be difficult for the Company, it will be able to do it, easily without restrictions.
- Advertising expenditure will slightly shrink.

Critical remarks:

- Airline-A perceives that the application of WTO rules and principles are not going to change current aircraft maintenance policy.
- It views the direct selling and marketing of their transporting services as important issues and perceived a slight change in their market share.
- Intention to follow a sensible and enlightened regime.
- Able to reduce staff costs without restriction.
- Airline-A perceived the two systems, ICAO code of conduct and the WTO coverage of CRS, to be compatible.

AIRLINE-D ANALYSIS TABLE

Table-1 Airline-D FINANCIAL STATEMENTS

I. Profit and Loss Account:

	1997	1996
	(US\$M)	
Statement of income		
Revenue		
Traffic Revenue	1,088	1,118
Non Traffic Revenue	65	54
Incentives	(127)	(129)
Total Revenue	1,026	1,043
Expenditure		
Staff & Administrative	163	164
Aircraft Maintenance	122	116
Aircraft Fuel	102	106
Other Expenses	630	715
Total Expenditure	(1,017)	(1,101)
Profit(loss)from operation	9	(58)
Non operating income	49	23
Finance charges	(6)	(30)
Profit(loss) before extraordinary item	52	(65)
Restructuring costs	(4)	(23)
Profit (loss) for the year	48	(88)
Statement of accumulate losses		
Balance at 1January	(219)	(131)
Profit(loss) for the year	48	(88)
Transfer to legal reserve	(7)	
Transfer to development reserve	(2)	(1)
31 December	(180)	(220)
Accumulated profits (losses) retained by:		
Company	(188)	(227)
Subsidiary company		
Associated and joint venture companies	8	7
	(180)	(220)

II. Balance Sheet

	1997 US\$M	1996 US\$M
Assets Employed		
Fixed assets	312	647
Advances and deposits	14	15
Long term loans	93	120
Investments	89	93
Deferred expenditure	5	8
	513	883
Current assets		
Fleet aircraft held for disposal	12	
Inventories	10	17
Accounts receivable and prepayments	208	208
Bank deposits, balances and cash	96	75
	326	300
Current liabilities		
Unearned revenue	124	140
Accounts payable and accruals	321	360
Current portion of term loans	63	113
	58	133
	566	746
Net current liabilities	(240)	(446)
	273	437
Funds Employed		
Shareholders' funds		
Share capital	343	344
Reserves	66	59
Accumulated losses	(180)	(219)
	229	184
Non current liabilities		
Term loans	44	253
	273	437

Table-2 Airline-D FINANCIAL EVALUATION (US.\$)

I. Five years at a glance

	1993	1994	1995	1996	1997
			(US\$M)		
Operating Revenue	1,027	1,143	984	1,043	1,026
Operating Profit	55	15	(139)	(58)	8
Revenue per employee	0.17	0.18	0.15	0.18	0.19
Shareholders' funds	389	405	269	182	230

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Average percentage change:

Revenue	12%	(13%)	5%	(2%) = 1%
Cost	16%	0%	(3%)	(8%) = (1%)
Profit	(73%)	(88%)	(58%)	14% = (51%)

II. Financial Ratios ;

II. Financial Ratios		Company		Industry
	1996	1997	2yr Av.	Average
Current Ratio	1.2	1.3	1.25	1.2
Debt to Capitalization Ratio	0.4	0.5	0.45	0.4
Debt to Total Assets Ratio	0.3	0.4	0.35	0.3
Debt to Total Debt Ratio	0.2	0.3	0.25	0.2
Debt to Total Debt Ratio	0.1	0.2	0.15	0.1
Debt to Total Debt Ratio	0.05	0.1	0.075	0.05
Debt to Total Debt Ratio	0.02	0.05	0.035	0.02
Debt to Total Debt Ratio	0.01	0.02	0.015	0.01
Debt to Total Debt Ratio	0.005	0.01	0.0075	0.005
Debt to Total Debt Ratio	0.002	0.005	0.0035	0.002
Debt to Total Debt Ratio	0.001	0.002	0.0015	0.001
Debt to Total Debt Ratio	0.0005	0.001	0.00075	0.0005
Debt to Total Debt Ratio	0.0002	0.0005	0.00035	0.0002
Debt to Total Debt Ratio	0.0001	0.0002	0.00015	0.0001
Debt to Total Debt Ratio	0.00005	0.0001	0.000075	0.00005
Debt to Total Debt Ratio	0.00002	0.00005	0.000035	0.00002
Debt to Total Debt Ratio	0.00001	0.00002	0.000015	0.00001
Debt to Total Debt Ratio	0.000005	0.00001	0.0000075	0.000005
Debt to Total Debt Ratio	0.000002	0.000005	0.0000035	0.000002
Debt to Total Debt Ratio	0.000001	0.000002	0.0000015	0.000001
Debt to Total Debt Ratio	0.0000005	0.000001	0.00000075	0.0000005
Debt to Total Debt Ratio	0.0000002	0.0000005	0.00000035	0.0000002
Debt to Total Debt Ratio	0.0000001	0.0000002	0.00000015	0.0000001
Debt to Total Debt Ratio	0.00000005	0.0000001	0.000000075	0.00000005
Debt to Total Debt Ratio	0.00000002	0.00000005	0.000000035	0.00000002
Debt to Total Debt Ratio	0.00000001	0.00000002	0.000000015	0.00000001
Debt to Total Debt Ratio	0.000000005	0.00000001	0.0000000075	0.000000005
Debt to Total Debt Ratio	0.000000002	0.000000005	0.0000000035	0.000000002
Debt to Total Debt Ratio	0.000000001	0.000000002	0.0000000015	0.000000001
Debt to Total Debt Ratio	0.0000000005	0.000000001	0.00000000075	0.0000000005
Debt to Total Debt Ratio	0.0000000002	0.0000000005	0.00000000035	0.0000000002
Debt to Total Debt Ratio	0.0000000001	0.0000000002	0.00000000015	0.0000000001
Debt to Total Debt Ratio	0.00000000005	0.0000000001	0.000000000075	0.00000000005
Debt to Total Debt Ratio	0.00000000002	0.00000000005	0.000000000035	0.00000000002
Debt to Total Debt Ratio	0.00000000001	0.00000000002	0.000000000015	0.00000000001
Debt to Total Debt Ratio	0.000000000005	0.00000000001	0.0000000000075	0.000000000005
Debt to Total Debt Ratio	0.000000000002	0.000000000005	0.0000000000035	0.000000000002
Debt to Total Debt Ratio	0.000000000001	0.000000000002	0.0000000000015	0.000000000001
Debt to Total Debt Ratio	0.0000000000005	0.000000000001	0.00000000000075	0.0000000000005
Debt to Total Debt Ratio	0.0000000000002	0.0000000000005	0.00000000000035	0.0000000000002
Debt to Total Debt Ratio	0.0000000000001	0.0000000000002	0.00000000000015	0.0000000000001
Debt to Total Debt Ratio	0.00000000000005	0.0000000000001	0.000000000000075	0.00000000000005
Debt to Total Debt Ratio	0.00000000000002	0.00000000000005	0.000000000000035	0.00000000000002
Debt to Total Debt Ratio	0.00000000000001	0.00000000000002	0.000000000000015	0.00000000000001
Debt to Total Debt Ratio	0.000000000000005	0.00000000000001	0.0000000000000075	0.000000000000005
Debt to Total Debt Ratio	0.000000000000002	0.000000000000005	0.0000000000000035	0.000000000000002
Debt to Total Debt Ratio	0.000000000000001	0.000000000000002	0.0000000000000015	0.000000000000001
Debt to Total Debt Ratio	0.0000000000000005	0.000000000000001	0.00000000000000075	0.0000000000000005
Debt to Total Debt Ratio	0.0000000000000002	0.0000000000000005	0.00000000000000035	0.0000000000000002
Debt to Total Debt Ratio	0.0000000000000001	0.0000000000000002	0.00000000000000015	0.0000000000000001
Debt to Total Debt Ratio	0.00000000000000005	0.0000000000000001	0.000000000000000075	0.00000000000000005
Debt to Total Debt Ratio	0.00000000000000002	0.00000000000000005	0.000000000000000035	0.00000000000000002
Debt to Total Debt Ratio	0.00000000000000001	0.00000000000000002	0.000000000000000015	0.00000000000000001
Debt to Total Debt Ratio	0.000000000000000005	0.00000000000000001	0.0000000000000000075	0.000000000000000005
Debt to Total Debt Ratio	0.000000000000000002	0.000000000000000005	0.0000000000000000035	0.000000000000000002
Debt to Total Debt Ratio	0.000000000000000001	0.000000000000000002	0.0000000000000000015	0.000000000000000001
Debt to Total Debt Ratio	0.0000000000000000005	0.000000000000000001	0.00000000000000000075	0.0000000000000000005
Debt to Total Debt Ratio	0.0000000000000000002	0.0000000000000000005	0.00000000000000000035	0.0000000000000000002
Debt to Total Debt Ratio	0.0000000000000000001	0.0000000000000000002	0.00000000000000000015	0.0000000000000000001
Debt to Total Debt Ratio	0.00000000000000000005	0.0000000000000000001	0.000000000000000000075	0.00000000000000000005
Debt to Total Debt Ratio	0.00000000000000000002	0.00000000000000000005	0.000000000000000000035	0.00000000000000000002
Debt to Total Debt Ratio	0.00000000000000000001	0.00000000000000000002	0.000000000000000000015	0.00000000000000000001
Debt to Total Debt Ratio	0.000000000000000000005	0.00000000000000000001	0.0000000000000000000075	0.000000000000000000005
Debt to Total Debt Ratio	0.000000000000000000002	0.000000000000000000005	0.0000000000000000000035	0.000000000000000000002
Debt to Total Debt Ratio	0.000000000000000000001	0.000000000000000000002	0.0000000000000000000015	0.000000000000000000001
Debt to Total Debt Ratio	0.0000000000000000000005	0.000000000000000000001	0.00000000000000000000075	0.0000000000000000000005
Debt to Total Debt Ratio	0.0000000000000000000002	0.0000000000000000000005	0.00000000000000000000035	0.0000000000000000000002
Debt to Total Debt Ratio	0.0000000000000000000001	0.0000000000000000000002	0.00000000000000000000015	0.0000000000000000000001
Debt to Total Debt Ratio	0.00000000000000000000005	0.0000000000000000000001	0.000000000000000000000075	0.00000000000000000000005
Debt to Total Debt Ratio	0.00000000000000000000002	0.00000000000000000000005	0.000000000000000000000035	0.00000000000000000000002
Debt to Total Debt Ratio	0.00000000000000000000001	0.00000000000000000000002	0.000000000000000000000015	0.00000000000000000000001
Debt to Total Debt Ratio	0.000000000000000000000005	0.00000000000000000000001	0.0000000000000000000000075	0.000000000000000000000005
Debt to Total Debt Ratio	0.000000000000000000000002	0.000000000000000000000005	0.0000000000000000000000035	0.000000000000000000000002
Debt to Total Debt Ratio	0.000000000000000000000001	0.000000000000000000000002	0.0000000000000000000000015	0.000000000000000000000001
Debt to Total Debt Ratio	0.0000000000000000000000005	0.000000000000000000000001	0.00000000000000000000000075	0.0000000000000000000000005
Debt to Total Debt Ratio	0.0000000000000000000000002	0.0000000000000000000000005	0.00000000000000000000000035	0.0000000000000000000000002
Debt to Total Debt Ratio	0.0000000000000000000000001	0.0000000000000000000000002	0.00000000000000000000000015	0.0000000000000000000000001
Debt to Total Debt Ratio	0.00000000000000000000000005	0.0000000000000000000000001	0.000000000000000000000000075	0.00000000000000000000000005
Debt to Total Debt Ratio	0.00000000000000000000000002	0.00000000000000000000000005	0.000000000000000000000000035	0.00000000000000000000000002
Debt to Total Debt Ratio	0.00000000000000000000000001	0.00000000000000000000000002	0.000000000000000000000000015	0.00000000000000000000000001
Debt to Total Debt Ratio	0.000000000000000000000000005	0.00000000000000000000000001	0.0000000000000000000000000075	0.000000000000000000000000005
Debt to Total Debt Ratio	0.000000000000000000000000002	0.000000000000000000000000005	0.0000000000000000000000000035	0.000000000000000000000000002
Debt to Total Debt Ratio	0.000000000000000000000000001	0.000000000000000000000000002	0.0000000000000000000000000015	0.000000000000000000000000001
Debt to Total Debt Ratio	0.0000000000000000000000000005	0.000000000000000000000000001	0.00000000000000000000000000075	0.0000000000000000000000000005
Debt to Total Debt Ratio	0.0000000000000000000000000002	0.0000000000000000000000000005	0.00000000000000000000000000035	0.0000000000000000000000000002
Debt to Total Debt Ratio	0.0000000000000000000000000001	0.0000000000000000000000000002	0.00000000000000000000000000015	0.0000000000000000000000000001
Debt to Total Debt Ratio	0.00000000000000000000000000005	0.0000000000000000000000000001	0.000000000000000000000000000075	0.00000000000000000000000000005
Debt to Total Debt Ratio	0.00000000000000000000000000002	0.00000000000000000000000000005	0.000000000000000000000000000035	0.00000000000000000000000000002
Debt to Total Debt Ratio	0.00000000000000000000000000001	0.00000000000000000000000000002	0.000000000000000000000000000015	0.00000000000000000000000000001
Debt to Total Debt Ratio	0.000000000000000000000000000005	0.00000000000000000000000000001	0.0000000000000000000000000000075	0.000000000000000000000000000005
Debt to Total Debt Ratio	0.000000000000000000000000000002	0.000000000000000000000000000005	0.0000000000000000000000000000035	0.000000000000000000000000000002
Debt to Total Debt Ratio	0.000000000000000000000000000001	0.000000000000000000000000000002	0.0000000000000000000000000000015	0.000000000000000000000000000001
Debt to Total Debt Ratio	0.0000000000000000000000000000005	0.000000000000000000000000000001	0.00000000000000000000000000000075	0.0000000000000000000000000000005
Debt to Total Debt Ratio	0.0000000000000000000000000000002	0.0000000000000000000000000000005	0.00000000000000000000000000000035	0.0000000000000000000000000000002
Debt to Total Debt Ratio	0.0000000000000000000000000000001	0.0000000000000000000000000000002	0.00000000000000000000000000000015	0.0000000000000000000000000000001
Debt to Total Debt Ratio	0.00000000000000000000000000000005	0.0000000000000000000000000000001	0.000000000000000000000000000000075	0.00000000000000000000000000000005
Debt to Total Debt Ratio	0.00000000000000000000000000000002	0.00000000000000000000000000000005	0.000000000000000000000000000000035	0.00000000000000000000000000000002
Debt to Total Debt Ratio	0.00000000000000000000000000000001	0.00000000000000000000000000000002	0.000000000000000000000000000000015	0.00000000000000000000000000000001
Debt to Total Debt Ratio	0.000000000000000000000000000000005	0.00000000000000000000000000000001	0.0000000000000000000000000000000075	0.000000000000000000000000000000005
Debt to Total Debt Ratio	0.000000000000000000000000000000002	0.000000000000000000000000000000005	0.0000000000000000000000000000000035	0.000000000000000000000000000000002
Debt to Total Debt Ratio	0.000000000000000000000000000000001	0.000000000000000000000000000000002	0.0000000000000000000000000000000015	0.000000000000000000000000000000001
Debt to Total Debt Ratio	0.0000000000000000000000000000000005	0.000000000000000000000000000000001	0.00000000000000000000000000000000075	0.0000000000000000000000000000000005
Debt to Total Debt Ratio	0.0000000000000000000000000000000002	0.0000000000000000000000000000000005	0.00000000000000000000000000000000035	0.0000000000000000000000000000000002
Debt to Total Debt Ratio	0.0000000000000000000000000000000001	0.0000000000000000000000000000000002	0.00000000000000000000000000000000015	0.0000000000000000000000000000000001
Debt to Total Debt Ratio	0.00000000000000000000000000000000005	0.0000000000000000000000000000000001	0.000000000000000000000000000000000075	0.00000000000000000000000000000000

Liquidity:

Current Ratio	0.40	0.58	0.49	0.90 times
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Leverage Ratio:

Debt Ratio	21%	22%	21%	37.2
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Profitability:

Return on Assets	(0.07)	0.02	0.05	19.5
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Other Ratios:

(specific to airline industry)

(specific to airline industry)		(Times)	
Return on Shareholders' funds	20.9%	(47.8%)	(13.5)

[illegible]

Review of Operations:

Passenger services:

Available Seat Kilometres:

ASK(million)

1996 1997

16,539	14,272
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Cargo Services:

Cargo carried (RTK Million)	96	97
-----------------------------	----	----

3,519 3,873

Breakeven load factor(%)	64.1	62.8
---------------------------------	------	------

CONT. TABLE - 2

III. Revenue & Cost Breakdown				
Revenue				
	1996	1997	Company 2-Yr. Av.	Industry Av.
Traffic Revenue	95%	94%	94.5%	91%
Other Revenue	5%	6%	5.5%	9%
	100%	100%	100%	100%
Cost				
Staff & Administrative	15%	16%	15.5%	25%
Aircraft Maintenance	11%	12%	11.5%	13%
Aircraft Fuel	10%	10%	10%	13%
Other Operating Cost	74%	72%	73%	49%
	100%	100%	100%	100%

Table-3 WTO' s FINANCIAL IMPACTS ON AIRLINE-D

<u>Impact on revenue and cost</u>					
	Actual		potential		
	1996	1997	Low	Average	High
I Revenue	1,043	1,026	1,036	1,088	1,139
Impact			10	62	113
Percentage			1%	6%	11%
II. Cost	1,101	1,017	1,027	976	925
Impact			10	(41)	(92)
Percentage			1%	4%	9%

2. Income statement with percieved impact

	Actual		Normal	potential		
	1996	1997	Growth	Low	Average	High
Operating revenue			1%	0%	5%	10%
Traffic revenue	1,118	1,088	1099	1,099	1,154	1,219
Other revenue	54	65	66	66	69	73
Total revenue	1,172	1,153	1,165	1,165	1,223	1,282
Operating cost			1%	(0%)	(5%)	(10%)
Staff cost	164	163	165	165	157	176
Aircraft Maintenance	116	122	123	123	117	132
Aircraft Fuel	106	102	103	103	98	120
Other Operating Cost	715	630	636	636	604	680
Total cost	1,101	1,017	1,027	1,027	976	925
Profit	71	136	138	138	247	357
WTO net impact				113	(60)	41
profit margin	0.06	0.12	0.12	0.12	0.05	0.03
Change on profit margin				0%	7%	2%

CONT. TABLE -3

3. Financial Ratio Current and Potential

	Current		Potential	
	Comp. Av.	Industry Av.	Com. Av.	Industry
Revenue & Cost				
<u>Revenue</u>				
Traffic Revenue	94.5%	91%	94%	91%
Other Revenue	5.5%	9%	6%	9%
Total	100%	100%	100%	100%
<u>Cost</u>				
Staff Cost	15.5%	25%	16%	25%
Aircraft Maintenance	11.5%	13%	12%	13%
Aircraft Fuel	10%	13%	10%	14%
Other Costs	63%	49%	62%	48%
Total	100%	100%	100%	100%
Other Ratios(Specific to Airline Industry)				
Net Debt Equity Ratio	49%	45%		
Dividend Cover	2.6	0.65 times		
% of staff cost out of gross Revenue	16%	30%	13%	22%

Airline-E

5.5.1 Profile:

The company was founded in May 20, 1933 as an internationally competitive airline operating world wide as well as domestically and serving the passenger and cargo market. In September 1990 the decision was taken to privatize the airline and 5% of the shares were sold to the public.

During the year the company flew to 87 destinations, 28 within the home country and 59 abroad.

The company ranks among the 50 biggest airline companies worldwide in the 1996 lists of Aviation Week and it was announced at the same year, as being one of the most reliable airline companies within the list issued by the Air Watch Report.

By 1997 the number of employees had reached to 8,668 . A total of 9.3 million passengers flew on airline-E in 1996, an increase of 7.9% from the previous years.

5.5.2 The Fleet And The Network :

Currently the company owns 65 aircraft of the following types: B737, A340, A310, RJ-100/70 and B727.

The company became a member of the Yield Management Committee in order to appeal to a more sensible CRS user.

5.4.3 The Customers And The Product:

The company introduced “Corporate Blue” additional with “Mileage Club” to their loyal customers. They also provided an “Alo Flight” audio answering system. High standard of services has now been given top priority within the company. At the end, all will be appreciated by their customers.

5.5.4 Maintenance

The company carried out a full range of technical maintenance services on its fleet. The company's maintenance centre has been awarded by the European Joint Civil Aviation Authority for the hard effort spend. In order to provide reliable and on time maintenance services for all aircraft, a tender for the construction of the second Maintenance Base began in 1997.

5.4.5 Financial Review:

According to the information provided in Table-1 and Table-2(pages 85, 86 and 87) the company's total assets at 31st December 1997 was \$291 million. Operating profit for 1997 was \$330 million, an increase of 16 percent from the 1996 level. Total revenue of \$1,121 million attributed to an increase of 17 percent over the previous year.

Liquidity: The company has strong liquidity position as the company's average current ratio is 1.15. This indicates that current assets can meet short-term liabilities.

Leverage : The average debt ratio is about 47.5 percent .

Profitability: Revenues for 1997 increased by 17% as a result of traffic increase.

Operating costs: The company devoted 25% of its revenue to its staff, an increase of 4% from 1996 level.

Operating expenditure of \$733 million dollars, represent a 9% increase over 1996.

Airline specific ratio : The average Return on Asset was 10% and the interest coverage, 2.6 percent.

Review of operation: The number of passengers carried by the company was 9.4 million and Available Passenger-Seat-Kilometres increased by 7.3% . Passenger load factor for the year was 69.0% percent. Revenue per employee increased by 13.6%.

5.5.6 Potential Financial Impacts of WTO

Following the procedures used for the hypothetical case in the Methodology Chapter, the following are the percent figures extracted and used in Table-3(pages 88 and 89) to calculate financial impacts of the implementation of WTO on the Company's performance based on the responses recieved:

- The percentage increase in revenue will be between 17 and 27 percent.
- Operating cost will be between 6 and 16 percent
- Profit margin will increase by 6% and 12 percent.
- Reduction in staff and other administrative costs will be moderate.
- Advertising expenditure will increase slightly.

Critical remarks:

- Airline-E perceive that application of WTO rules and principle are limited regarding aircraft maintenance policy.
- It views the direct selling and marketing to their transporting services as important issues, although this aspect will not change their market share.
- Aim to follow a sensible and enlightened regime.
- Able to reduce staff cost, after major restrictions are removed.
- Airline-E perceive the two systems, ICAO code of conduct and the WTO coverage of CRS, to be highly compatible .

AIRLINE -E ANALYSIS TABLES

Table-1 Airline-E FINANCIAL STATEMENTS

I. Profit and Loss Account:

	1997 US\$M	1996 US\$M
Revenues		
Traffic Revenue	952	802
Other operating revenues	169	153
	1,121	955
Expenses		
Staff & Administrative	183	141
Aircraft Maintenance	165	141
Aircraft Fuel	123	154
Other expenses	262	235
	733	671
Profit or (loss) for the period	338	284
Taxes and other status obligation	8	—
	330	284

Balance Sheet

	1996 US\$M	1995 US\$M
Current assets		
Liquid Assets	30	11
Marketable securities	—	1
Trade receivable	24	20
Other receivable	2	3
Inventories	15	10
Other current assets	34	25
Total current assets	105	70
Long term assets		
Trade receivable	15	10
Other receivable	5	4
Financial fixed assets	1	1
Tangible fixed assets	150	108
Tangible assets	2	2
Assets subject to amortization	1	2
Other fixed assets	12	5
Total long term assets	186	132
Total assets	291	202
Short term liabilities		
Financial liabilities	14	15
Trade payable	31	28
Other liabilities	2	1
Advances received	1	1
Other short term liabilities	47	14
Total short term liabilities	95	59
Long-term liabilities		
Financial liabilities	20	22
Trade payable	11	—
Other liabilities	1	—
Advances received	14	13
Other long term liabilities	—	—
Total long term liabilities	46	35
Shareholders equity:		
Capital	44	43
Capital reserves	109	63
Profit reserves	1	1
Net profit(loss) for the period	18	1
Total shareholders equity	174	108
Total liabilities (sources)	291	202

**Table-2 Airline-E FINANCIAL EVALUATION
(US.\$)**

[illegible]

Table-3 WTO' s FINANCIAL IMPACTS ON AIRLINE-E

<u>Impact on revenue and cost</u>					
	Actual			potential	
	1996	1997	Low	Average	High
I Revenue	955	1,121	1,312	1,368	1,424
Impact			191	247	303
Percentage			17%	22%	27%
II. Cost	671	733	850	814	777
Impact			117	81	44
Percentage			16%	11%	6%

2. Income statement with percieved impact

	Actual		Normal		potential	
	1996	1997	Growth	Low	Average	High
Operating revenue			17%	0%	5%	10%
Traffic revenue	802	952	1,114	1,114	1,170	1225
Other revenue	153	169	198	198	208	218
Total revenue	955	1,121	1,312	1,312	1,378	1,443
Operating cost			16%	0%	(5%)	(10%)
Staff cost	141	183	212	212	201	191
Aircraft Maintenance	141	165	191	191	181	172
Aircraft Fuel	154	123	143	143	136	129
Other Operating Cost	233	262	304	304	289	274
Total cost	671	733	850	850	807	766
Profit	284	388	462	462	571	677
WTO net impact				0	109	215
Profit margin	0.03	0.35	0.35	0.35	0.41	0.47
(Profit\total revenue)						
Change in profit margin				0	0.06	0.12

CONT. TABLE - 3

3. Financial Ratio Current and Potential

	Current		Potential	
	Comp. Av.	Industry Av.	Com. Av.	Industry
Revenue & Cost				
<u>Revenue</u>				
Traffic Revenue	84.5%	91%	85%	91%
Other Revenue	15.5%	9%	15%	9%
Total	100%	100%	100%	
<u>Cost</u>				
Staff Cost	29.5%	25%	25%	25%
Aircraft Maintenance	11%	13%	21%	13%
Aircraft Fuel	10%	13%	19%	14%
Other Costs	49.5%	49%	35%	48%
Total	100%	100%	100%	100%
Other Ratios(Specific to Airline Industry)				
% of staff cost				
out of gross Revenue	28.5%	30%	21%	22%

CHAPTER SIX

SUMMARY, CONCLUSION

AND RECOMMENDATION

6.1 Introduction

This chapter summarizes the main points covered in the five previous chapters. In additions, it lists and discusses the general outcome of empirical comparison. Then it presents some recommendations for the Airline companies. Finally it gives directions for further analysis to be done on this important topic in the future

6.2 Summary

Air Transport Industry was governed by a highly complex system of bilateral agreements providing for a balanced and reciprocal exchange of rights between States on the basis of fair and equal opportunity and reciprocity.

In addition, a broader multilateral environment was provided by the International Civil Aviation Organization (ICAO) and International Air Transport Association (IATA). So governments having agreed on certain principles and arrangements in order that International Civil Aviation may be developed in a safe and orderly manner and that International Air Transport Services may be established on the basis of equality of opportunity and operated soundly and economically. The future development of International Civil Aviation can greatly help to create and preserve friendship and understanding among the nations and peoples of the world. Furthermore , most developing countries have committed themselves to bind or liberalize tourism, and travel services that will result from liberalization and increased competition that will contribute more generally to improved efficiency , consumer welfare and growth in developing countries as well as other countries. It is desirable to avoid friction and to promote that cooperation between nations and peoples upon which the peace of the world depends.

Given all this , most states were concerned to ensure that new arrangements would not disrupt the established global network of Air Services or create a dual systems of regulations.

As discussed in Chapter two, it has been concluded that Marakesh Agreement culminated the latest multilateral “round” of trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). It has established a new international organization, the World Trade Organization (WTO), replacing the GATT, with new powers and procedures. Part of the Marakesh Agreement is a General Agreement on Trade in Services (GATS). The GATS treatment of Air Transport was the culmination of negotiating currents within that environment and the overriding political determination of the negotiators to encompass from the outset all sectors in the trade in services framework, yet with the recognition and incorporation in the final analysis, and with the involvement of ICAO, of the particular characteristics of air transport. Whilst the GATS separates out Air Transport for specific sectoral treatment in an Annex, just as it does for telecommunications, financial and maritime services, there is one distinguishing feature of that treatment. With agreement on the Annex on Air Transport services the Uruguay Round had completed its approach to Air Transport for the time being.

In addition schedules to GATS contain commitments by which fifty seven WTO members open their national markets to international competition by varying degrees. For the time being, these commitments apply chiefly to value added services.

Trade without discriminations, predictable and open market access, fair competition, and encouraging development and economic reforms are WTO’s objectives, which are essential to increase competition in order to reduce cost of doing business and make a real difference to economic growth rate.

The purpose of this project was to study the perceived impacts of applying WTO’s principles on the Aviation Industry in general and the three areas of Air Transport activities specifically covered by WTO, Aircraft Repair and Maintenance, Selling and Marketing of Air Transport and Computer Reservation Systems(CRS).

Formulating compatible question, adds clarity to the purpose of the project.

Question of this project was stated as follow:

“Would the implementation of WTO’s principles by Airline companies lead to significant impacts on the financial and operating structures of Air Transport activities specifically covered by WTO” ?.

To prove this Question, this project was conducted, using Multiple Case-Study Strategy, as it has proved to be the most appropriate strategy to serve the purpose of the project, five case studies were analyzed in details. Primary information was obtained directly from respective officials of the selected companies using a well-structured questionnaire which covered the areas of the study. The selected companies were considered to be good representative of the industry because they cover different regions and markets of the world; Moreover, they have full awareness of latest development of WTO and most of them play effective roles in the ICAO . Furthermore, information obtained from various types of secondary sources has provided valuable data and facts to complete this study.

In the Methodology Chapter, a simple hypothetical case was demonstrated to illustrate how potential financial impacts calculated using respondents’ responses to the questionnaires and the latest published financial statements.

The five selected Airline companies were analyzed in details in Chapter Five. In each case, brief profile about the Company and its services was presented in order to recognize the Company status, then current financial position of the Company was assessed using main general financial ratios in addition to relevant Airline-specific ratios. Then potential financial impacts on the Airline were identified and discussed.

In Appendix-C at the end of this research a summary of potential impacts of WTO’s applications on three Airline companies, the major ones.

6.5 Conclusion

WTO agreement promotes liberalization, and it enhances certainty, security and predictability through a clear set of rules. This is particularly valuable at a time when rapid growth and technological development are changing the face of the Air Transport Industry. The world Aviation Industry is moving towards globalization, liberalization and private market responsiveness. Regulations may be appropriate to help State adapt, participate and play a flexible and creative role in such an environment.

Based on the study findings, the following conclusions are reached:

1. The immediate financial and non financial impacts of the WTO for Air Transport is very limited, it's affect will be in the long term
2. The need for more study, since the subject is fairly new and not addressed by researchers or institute.
3. Developing Industry Structure to ensure participation and safeguards to maintain a fair competitive environment.
4. Investigating the possibility of expanding the coverage of WTO to other airline activities (Hard Rights) such as traffic right, capacity, designation and pricing.

Also to be noted those following points:

- New regulatory arrangements should take account of airport capacity considerations and other interests in determining services levels, and should not erode or restrict airport proprietary rights.
- Any move to replace the current bilateral air service system with arrangements between or within trading blocs or groups of States should allow for traffic services to be adapted to the capacity considerations of individual airports or regions. Great caution should be exercised to ensure equitable market access when trying to design new regulatory arrangements.

- New regulatory arrangements should not focus on balancing the interests of providers of services but should seek to promote broader, mutually beneficial economic development.

6.4 Recommendations

The multilateral approach to the regulation of Air Transport, based essentially on trade principles and methodology, would be difficult to implement and would face many structural and industry specific impediments as to differing regulatory foundations, institutional and legal arrangements, mind-sets and conceptional approaches. This does not mean to imply that Air Transport, should be excluded from the GATS. In contrary, ICAO and WTO have cooperated well and will continue to do so.

Some recommendations can be drawn from this research as following:

1. The full understanding of WTO and the scope of its impacts on the company operation and financial position need to be examined in detailed by each airline according to its unique characteristic.
2. Flexibility in the operating structure and financial structure of the companies.
3. Multilateral negotiating on fair treatment of smaller companies
4. Periodic evaluation by WTO of the degree of compliance by each airline. The evaluation can be conducted in cooperation with IATA and ICAO.

6.5 Further Research Direction

The immediate impacts of WTO for air transport is very limited. However, its implications in the longer term, are far less clear and studies to be conducted either to address different aspects that have not been addressed on this project, or to study actual impact on the selected dimensions after the actual implementation of WTO principles in air transport industries, then comparison between actual and perceived can be made and deviations can be investigated.

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APPENDIX - A

May, 1998

The perceived impact of WTO on Air Transport

Services (Questionnaire)

Dear Sir/Madam,

First of all I would like to introduce myself. My name is Jalila S. M. Ahmed from Bahrain. I am in the final stage of my MBA (Master in Business Administration-Finance) program at the University of Bahrain. To date I have attended and passed all the examinations. Currently I am working on the final part which is Writing the final project. The topic of my research is "The perceived Impact of WTO/GATT on Air Transport Services". Given the dynamic nature of the Air Transport Industry and the rapidly changing technological developments, I believe that an empirical investigation on how the Air Transport Industry will be changed or reshaped after the implementation of WTO would have significant value. This study concerns the potential impacts of the application of the principles of the WTO on the Aviation Industry in general and in particular the three areas of Air Transport activities specifically covered by the WTO. The necessary data for completing this study will be collected via a structured questionnaire mailed to respective officials in major aviation related companies operating in various regions of the world.

Please find enclosed a questionnaire aimed at acquiring your valued views on the subject. Needless to say, by completing this questionnaire you would assist me considerably towards the finalization of my project and would enable me to draw my own conclusions and recommendations based on practical experience in this field.

Your views will remain strictly confidential and anonymous at all times both throughout the preparation and after the completion of the project. I would like to take this opportunity to express my gratitude and appreciation of you taking the time to complete the questionnaire.

I would very much appreciate it if you would please do your best to complete the questionnaire in full and return it to me by ---/5/1998.

Yours faithfully,

Jalila S. M. Ahmed

Graduate student at University of Bahrain

Questionnaire on the perceived impact of WTO on Air Transport Services

Introduction:

From the perspective of a rapidly globalizing and increasingly competitive business and trade environment, the Air Transport Industry has led a relatively sheltered and insular existence for over the past 50 years, with distinctive characteristics as to its industry structure and regulatory arrangements. However, like all international economic activities, it has now been caught up in today's accelerating era of globalization, multinational competition, regulatory adjustment and redefinition of its mission. These emerging trends reflect the growing importance of trade in services for the growth and development of the world economy and the need to establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade, under conditions of transparency and progressive liberalisation. The agreement has brought for the first time world trade in services under the control of one single organization the World Trade Organization (WTO). Within this agreement, an Annex on Air Transport Services has been negotiated. The agreement also provides clarification on the application of the principles and rules to the Air Transport Industry, it also carry some practical importance as well as some types of risks.

Purpose of the Questionnaire:

Against this background this questionnaire is designed to investigate the perception of officials in the aviation industry regarding the potential impact of the application of the principle of the WTO on the Aviation Industry in general and the three areas of Air Transport activities specifically covered by WTO.

WTO AND Air Transport industry- An overview.

The Annex on Air Transport Services is simple and accurate. The agreement also specifying those services that are covered as well as those are not covered by the agreement. Services which are covered by the agreement include :

a) Aircraft Repair and Maintenance Services: Meaning such activities when undertaken on an aircraft or a part thereof while it is withdrawn from service and does not include so-called line maintenance.

The air carrier have the freedom to choose the location for building their own base- maintenance. Such a policy is likely to lead to an increase in the international competition among airlines in this area.

b) The Selling and Marketing of Air Transport Services include all activities undertaken by the air carrier to sell and market freely its Air Transport Services including all aspects of marketing such as marketing research, advertising and distribution.

c) Computer reservation system (CRS) services: include all services provided by computerised systems that contain information about air carriers' schedules, availability, fares and fare rules, through which reservations can be made or tickets may be issued.

By adapting the WTO rules related to CRS, Airlines will have equal opportunity in attracting customers and the customer will have the chance to choose the most appropriate Airlines to serve them. This is likely to increase the competition in the Aviation Industry and enhance the quality of services provided.

Finally WTO Annex on Air transport services require to review the article of the Annex every five years in order to take in to consideration future developments in the Air Transport Industry structure and operation.

General Information

Company / Organization :-----

management Level

----- Top Management

----- Middle Management

Year of Services:

----- Less than 5 years

----- 5 - 10 years

----- More than 10 years

Based on this brief background would you please answer the following questions:

Q1. Following the application of WTO rules and principles, do you think your company will change its policy, with regard to those three Air Transport activities (Aircraft Repairs and Maintenance services, Selling and Marketing of Air transport services and Computer Reservation System Services) ?

- ☐ No change.
- ☐ Limited change.
- ☐ Moderate change.
- ☐ Significant change.
- ☐ Very Significant.

AIRCRAFT REPAIRS AND MAINTENANCE SERVICES:

Q2. What is your company's current repairs and maintenance policy regarding major maintenance projects ?

- ☐ Use company's facilities.
- ☐ Contracting out.
- ☐ Both partially.
- ☐ Others(please specify)

Q3. After the implementation of WTO, do you expect your company's current maintenance policy to change ?

☐ Yes ☐ No

If so ,

Q4. To, what extent are those changes likely to occur ?

- ☐ No change.
- ☐ Limited change.
- ☐ Moderate change.
- ☐ Significant change.
- ☐ Very Significant.

Q5. What is the average percentage of your company's profit currently reserved for future investment in infrastructure ?

- ☐ 0% - 10%
- ☐ 10% - 20%
- ☐ 20% - 30%
- ☐ More than 30%

Q6. As a result of implementing WTO, the current percentage of your company's profit reserved for future investment in infrastructure will:

Increase:

- ☐ Slightly.
- ☐ Moderately.
- ☐ Sharply.

Decrease:

- ☐ Slightly.
- ☐ Moderately
- ☐ Sharply

☐ Remain the same

Q7. What are your expectations regarding your company's current Aircraft repair and maintenance services costs, as a result of implementation of WTO, do you expect them to

Increase:

- ☐ Slightly.
- ☐ Moderately.
- ☐ Sharply.

Decrease:

- ☐ Slightly.
- ☐ Moderately
- ☐ Sharply

☐ Remain the same

SELLING AND MARKETING AIR TRANSPORT SERVICES:

Q8. If the airlines have the opportunity to sell and market their transporting services directly and not through General Sales Agent (GSA), how important is that policy to your company ?

☐Very important ☐Important ☐Moderately ☐Less important ☐Not important at all

Q9. How do you perceive the direct impact of WTO regarding direct selling in your company's market share ?

Increase:

- ☐ Slightly.
- ☐ Moderately.
- ☐ Sharply.

Decrease:

- ☐ Slightly. ☐ Remain the same
- ☐ Moderately
- ☐ Sharply.

Q10. What is the impact of direct selling on your cost and revenue? I expect my company's revenue will:

Increase by:

- ☐ 0% - 10%
- ☐ 10% - 20%
- ☐ 20%- 30%
- ☐ More than 30%

Decrease by:

- ☐ 0% - 10%
- ☐ 10% - 20%
- ☐ 20% - 30%
- ☐ More than 30%

I expect my company's Cost will:

Increase by:

- ☐ 0% - 10%
- ☐ 10% - 20%
- ☐ 20%- 30%
- ☐ More than 30%

Decrease by:

- ☐ 0% - 10%
- ☐ 10% - 20%
- ☐ 20% - 30%
- ☐ More than 30%

Q11. How do you perceive the impact of WTO rules related to market liberalisation and open market access on your company's market share?

Increase:

- ☐ Slightly.
- ☐ Moderately.
- ☐ Sharply.

Decrease:

- ☐ Slightly. ☐ Remain the same
- ☐ Moderately
- ☐ Sharply

Q12. What percentage of your company's gross revenue is currently allocated to advertising expenditure?

- ☐ 0% - 5%
- ☐ 5% - 10%
- ☐ 10% - 15%
- ☐ 15% - 20%
- ☐ More than 20%

Q13. As a result of implementation of WTO, your company's advertising expenditure will :

- | | | |
|--------------------------------------|-------------------------------------|--|
| Increase: | Decrease: | |
| ☐ Slightly. | ☐ Slightly. | ☐ Remain the same |
| ☐ Moderately. | ☐ Moderately | |
| ☐ Sharply. | ☐ Sharply | |

COMPUTER RESERVATION SYSTEM SERVICES:

Q14. How do you perceive the importance of the current CRS to the performance of your company?

- ☐ Very important.
- ☐ Important.
- ☐ Moderately important.
- ☐ Less important.
- ☐ Not important.

Q15. As a result of the implementation of WTO rules related to CRS, your company's overall performance will:

- | | | |
|--------------------------------------|-------------------------------------|--|
| Increase: | Decrease: | |
| ☐ Slightly. | ☐ Slightly. | ☐ Remain the same |
| ☐ Moderately. | ☐ Moderately | |
| ☐ Sharply. | ☐ Sharply | |

Q16. Currently ICAO(International Civil Aviation Organization) is reviewing its code of conduct and the WTO coverage of CRS is being taken into account so as to avoid any regulatory conflict, in your opinion do you perceive the two systems to be:

- ☐ Highly compatible.
- ☐ Compatible.
- ☐ Less Compatible.
- ☐ Not Compatible.

Q17. Would you please Specify the regime you expect your company to follow after the implementation of WTO:

- ☐ A new regulatory framework that might better reflect the grouping of a national interest in regional bodies and the eventual interaction between these bodies.
- ☐ Try to achieve a sensible and enlightened regime that steers between excessive regulation and destructive laissez - faire so that international air transport can continue to function in a safe and orderly manner.
- ☐ Possibly , even allowing for the coexistence of different regulatory systems.
- ☐ Other regimes, please specify:-----

Q18. To remain competitive now and after the implementation of WTO, companies have to minimize their cost , to what extent can your company succeed in achieving this objective through reducing staff and administrative costs:

	<u>Future</u>
1. ☐ Able to do it easily without restrictions	☐
2. ☐ Able to do it with some sorts of restrictions / limitations	☐
3. ☐ Able to do after major restrictions are removed	☐
4. ☐ Unable to do it at all	☐

Q19. If your answer to Q18 is 1 or 2, how do you value the reduction in staff and other administrative costs.

☐ Very significant ☐ significant ☐ Moderate ☐ Insignificant

Q20. Based on your current knowledge of your customers, what are your expectations regarding relative importance of each of the following benefits to your customers in the current future market arrangement after the implementation of WTO:

- Low prices and discount schemes

Current:

☐ Very important ☐ Important ☐ Less important ☐ Not important

Future:

☐ Very important ☐ Important ☐ Less important ☐ Not important

- High quality of services

Current:

☐ Very important ☐ Important ☐ Less important ☐ Not important

Future:

☐ Very important ☐ Important ☐ Less important ☐ Not important

- Wide range of services

Current:

☐ Very important ☐ Important ☐ Less important ☐ Not important

Future:

☐ Very important ☐ Important ☐ Less important ☐ Not important

Q21. In your opinion the potential impact of the implementation of WTO on the small airlines and large airlines are likely to be:

Small Airlines:

Large Airlines:

☐ Very significant impact.

☐ Very significant impact.

☐ Significant impact.

☐ Significant impact.

☐ Limited impact.

☐ Limited impact.

☐ No impact.

☐ No impact.

“Thank you for your kind cooperation“

APPENDIX - B

History Background:

MILESTONES IN INTERNATIONAL CIVIL AVIATION

In addition To the courageous and inspiring adventures of the early aviators and the initiatives taken by numerous pioneers in establishing scheduled domestic and international Air Services prior to the second world war ,the most outstanding accomplishments in Civil Aviation during the next five decades have been the industry agreements and standards established by the World Aviation Community. These achievements involved thousands of meetings and negotiations between governments, airlines, airport authorities, aircraft and engine manufacturers, the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA), and many other national, regional and international organizations , directly or indirectly participating in the development and implementation of policies, rules, and regulations, uniform standards and procedures. Over the years, this process of consultation and coordination has brought about a highly integrated and standardized global network of safe and reliable scheduled air services.

THE STRUCTURE OF INTERNATIONAL CIVIL AVIATION

International Air Transport has certain basic foundations upon which its complex structure rests and is permitted to operate. First are the sovereign governments in whose hands ultimate control of the International Air Transport industry lies. Second are the inter-governmental bodies, such as the International Civil Aviation Organization (ICAO), International Telecommunication Union (ITU), Universal Postal Union (UPU), World Health Organization (WHO), World Meteorological Organization (WMO), African Civil Aviation Commission (AFCAC), Arab Civil Aviation Council (ACAC), European Civil Aviation Conference(ECAC), Latin American Civil Aviation Commission (LACAC), and South Pacific Regional Civil Aviation Council (SPRCAC), each playing a specialized part in fostering the safe and orderly development of International Civil Aviation . Third are the Airline

Organizations, such as International Air Transport Association(IATA), Air Transport Association of America (ATA), African Airlines Association (AFR-AA), Arab Air Carriers Organization (AACO), Association of European Airlines (AFA), Association of Latin American Air Transport (AITAL), and Association of South Pacific Airlines (ASPA).

CIVIL AVIATION CONVENTIONS OF 1919

A first attempt to reach international agreement on Civil Aviation matters was made by 19 European governments at a conference held at Paris in 1910. However, the delegates could not agree on the text of a convention and it was left to the aeronautical commission of the 1919 Paris peace conference, where the commission agreed to draft a set of principles to govern the preparation of the convention and its annexes.

Principles which were adopted unanimously:

- The full and absolute sovereignty of each state over the air above its territories and territorial waters, carrying with it the right of exclusion of foreign aircraft, and the right of each state to impose its jurisdiction over the air above its territories and territorial waters.
- Subject to the principle of sovereignty, recognition of the desirability of the greatest freedom of International Air Navigation in so far as this freedom is consistent with the security of the state, with the enforcement of reasonable regulations relative to the admission of aircraft of the contracting states and with the domestic legislation of the state.
- With regard to domestic regulations relative to the admission and treatment of the aircraft of the contracting states, recognition of the principles of the absence of all discrimination on the ground of nationality.

- The recognition of the principle that every aircraft must possess the nationality of the contracting state only and that every aircraft must be entered upon the register of the contracting state, the nationality of which it possesses.
- Provisions which are recognized as desirable from an international point of view to ensure the safe conduct of aerial navigation Are:
 - 1- Regulations for compulsory certificates of air worthiness and licences for wireless equipment, at least for aircraft used for commercial purposes. Mutual recognition of these certificates and licences by the contracting states.
 - 2- Regulations for compulsory licences of pilots and other personnel in charge of aircraft. Mutual recognition of these licences by the contracting states.
 - 3- International rules of the air, including international rules as to signals, lights and for the prevention of collisions. Regulations for landing and on the ground.
- Recognition of the principle of special treatment for military, naval and state aircraft when they are in government service.
- Recognition of the right of transit without landing for international traffic between two points outside the territory of a contracting state, subject to the right of the state traversed to reserve to itself its own international commercial aerial traffic And to compel landing of any aircraft flying over it by means of appropriate signals.
- Recognition of the right of use, by aircraft of all the contracting states , of all public aerodromes upon the principle that charges for landing facilities should be imposed without discrimination on the ground of nationality.
- Recognition of the principle of mutual indemnity between the contracting states to cover damage done to person or property in one state by government aircraft of another state.
- Recognition of the necessity of a permanent international aeronautical commission.

- Recognition of the obligation of each contracting state to give effect to the provisions of the convention by its domestic legislation.
- Recognition of the principle that the convention does not affect the rights and duties of belligerents or neutrals in time of war.

The commission established three sub commissions:

- A) Legal
- B) Technical
- C) Military

PAN AMERICAN CONVENTION ON COMMERCIAL AVIATION OF 1928

A Pan American Conference, held in Havana, Cuba, considered the draft provisions prepared by a commission established at the Santiago Conference, and a pan American Convention on Commercial Aviation, commonly known as the Havana Convention, was signed on 20 February 1928 by the United States of America and twenty other states located in the Western Hemisphere. In the convention, it was recognized that every state has complete and exclusive sovereignty over the air space above its territory and territorial waters. The convention was to be reviewed and updated periodically at Pan American Conferences .

Key differences between the Paris convention of 1919 and the Havana Convention:

- The Havana convention had no annexes; all rules were within the treaty itself. The amendment of rules , therefore, was comparatively a very difficult and cumbersome process.
- The Havana convention applied only to private aircraft; there were no provisions related to state aircraft , nor was their status indicated.

- Aircraft registration was to be accomplished in accordance

With the laws of each state; there were no provisions to assure a degree of uniformity as between state's registration codes.

- Flight crew competency also was to be assured under each state's regulatory regime; pilots were required to demonstrate an adequate knowledge of the regulations of each state into which they would operate. In other words, each state's flight crew certification authority had to be familiar with the permanent codes of some 20 other sovereign states and had to examine and certify flight crews thereon.
- The absence of any sort of permanent secretariat body under the Havana convention required contracting states to file each month with every other state, inter alia, a copy of all registrations and cancellations thereof, regulatory actions, airways establishments and changes, Aerodrome information and statistical data.

The Havana convention contained no provisions for a permanent and dynamic means of facilitating civil aviation's progressive development and evolution. States were expected to take initiative in guiding the development of civil aviation and in the writing of regulatory codes. This permitted a good deal of flexibility among states but also led to duplication and a degree of uncertainty .

CONVENTION ON DAMAGE CAUSED BY FOREIGN AIRCRAFT TO THIRD PARTIES ON THE SURFACE OF 1933:

This convention dealing with damages caused by foreign aircraft to persons and property on the ground was signed at Rome on 29 May 1933. It imposes strict liability on aircraft operators for sums limited by reference to the maximum permitted weight of the aircraft. Liability is secured by compulsory insurance, cash deposits or bank guarantees. This convention was amended by the Brussels protocol of 1938 to permit insurers to use some basic defenses.

CHICAGO CONVENTION ON INTERNATIONAL CIVIL AVIATION OF 1944

At the invitation of the United States of America, 52 states met in Chicago from 1 November through 7 December 1944, with a view to establishing a basic legal framework for the operation of international civil air services. As per the opening message of President Franklin D. Roosevelt to the delegates the purpose of the conference was to establish a fundamental law that would give full recognition of the sovereignty and juridical equality of all nations so that airways would serve humanity.

The conference produced six important documents:

- *The Convention on International Civil Aviation was concluded and opened for signature.
- *An Interim Agreement on International Civil Aviation.
- *The International Air Services Transit Agreement (IASTA).
- *Drafts of 12 technical Annexes to the Convention were completed.
- *A standard form of Bilateral Agreement.

FORMATION OF THE INTERNATIONAL CIVIL AVIATION ORGANIZATION (ICAO)

An integral part of the Chicago Convention was the establishment of the International Civil Aviation Organization (ICAO), which came into being on 4 April 1947 as a permanent organization. The principal aims and objectives of (ICAO), are to develop the principles and techniques of international air navigation and to foster the planning and development of International Air Transport.

AIR TRAFFIC RIGHTS-FREEDOMS OF THE AIR

Provide that no scheduled international air service may operate over or into the territory of a contracting state without the previous consent of that state. The

Chicago conference also adopted two supplementary agreements: the International Air Services Transit Agreement and the International Air Transport Agreement, which contain the recognized Freedoms of the air. The first and second freedoms are technical privileges; the third, fourth and fifth freedoms concern commercial (traffic) rights.

Transit Rights

First Freedom: The privilege to fly over a treaty partner's territory without landing.

Second Freedom: The privilege to make a technical landing in a treaty partner's territory without picking up or letting off revenue traffic.

Transport Rights

Third Freedom: The privilege to carry revenue traffic from the carrier's national territory (A) to a treaty partner's territory (B).

Fourth Freedom: The privilege to carry revenue traffic from a treaty partner's territory (B) to a carrier's national territory (A).

Fifth Freedom: The privilege to carry revenue traffic between two or more treaty partner nations (B to C and/or to D) on flights operating out of or into a carrier's national territory (A).

Sixth Freedom: The privilege to carry revenue traffic flown between two treaty partners (B to C) operating through a carrier's territory (A).

Seventh Freedom: The privilege to carry revenue traffic flown between the territories of two nations (B to C) by a carrier operating entirely outside its own territory (A).

Cabotage

Eighth Freedom: The privilege to carry a treaty partner's domestic revenue traffic (city 1 to city 2).

THE BERMUDA AGREEMENT - ERA OF CONTROLLED COMPETITION

This agreement emerged two opposing philosophies of the Chicago Conference, The one which called for free and competitive approach and the other which called for a more controlled competitive environment, and created a bridge which enabled post-war international civil aviation to develop sensibly.

WARSAW CONVENTION ON AIR CARRIERS LIABILITY OF 1929

The Warsaw system consists of the original Warsaw Convention of 1929 and a series of protocols amending the Warsaw provisions, as well as one convention supplementary to the Warsaw Convention.

At Warsaw, establishes the international liability of air carriers and the monetary limits of damage, delay and loss. The legal regime governing the liability of air carriers in international carriage of passengers, baggage and cargo .

THE HAGUE PROTOCOL OF 1955

The main characteristics of it is amending the original provisions of the Warsaw Convention.

MONTREAL AGREEMENT OF 1966

An interim arrangement among air carriers operating passenger transport to, from or with an agreed stopping place in the USA. Similarly, the Malta Agreement for European governments.

GUATEMALA CITY PROTOCOL OF 1971

The amendments introduced by Guatemala city protocol of 1971, relating to the carriage of passengers and baggage only, and not to cargo, the most important are:

- Would enable the substitution of electronic data processing for the issuance of passenger documents of carriage or of baggage checks;
- With respect to personal injury and damage, destruction or loss of baggage, the carrier is subject to strict liability regardless of fault; only in case of contributory negligence of the person claiming compensation could the carrier be partly or wholly exonerated;
- With respect to delay of passengers or baggage, the liability continues to be based on a rebuttable presumption of fault of the carrier with reversed burden of proof;
- Determination of the limits of liabilities. These limits are unbreakable and cannot be exceeded ;
- Adding one additional court, namely, the court within the jurisdiction of which the carrier has an establishment if the passenger has his domicile or permanent residence in the territory of the same state;
- States would be free to establish a system of a “domestic supplement”. To supplement the compensation payable to claimants in respect of death or personal injury of passengers;
- The protocol provides for a periodical adjustment of the limits of liability;
- The protocol shall enter into force when ratified by thirty states.

MONTREAL PROTOCOLS OF 1975

The main characteristic of the amendments introduced by the four montreal protocols are:

1. To amend the Warsaw Convention.
2. To amend the Warsaw Convention as amended by the Hague protocol.

3. To amend the Warsaw Convention as amended by the Hague protocol and the Guatemala City protocol.
4. To amend the Warsaw Convention as amended by the Hague protocol.

IATA AIRLINE LIABILITY CONFERENCE OF 1995

The conference examined the possibility of developing a uniform World Wide system, to be put into effect by conditions of carriage and applicable tariffs pursuant to a new inter-carrier agreement, which would replace the Montreal Agreement of 1966.

Further more, the conference established two working groups to assess and report on :

1. The cost impact on airlines of an enhanced liability package, and
2. Appropriate and effective means to secure complete compensation for passengers, where required.

APPENDIX - C

Summary Of Potential Financial Impacts of WTO on Three Companies

	<u>Airline-A</u>			<u>Airline-B</u>			<u>Airline-C</u>		
<u>1. Impact on revenue and cost</u>									
	Low	Average	High	Low	Average	High	Low	Average	High
I. Revenue	4,204	4,400	4,597	5,299	5,549	5,799	14,822	15,489	16,157
Impact	275	471	668	300	550	800	1,469	2,136	2,804
Percentage*	7%	12%	17%	6%	11%	16%	11%	16%	21%
II. Cost	3,911	3,730	3,549	5,453	5,198	4,943	13,729	12,105	12,481
Impact	290	109	(72)	357	102	(153)	1,248	499	125
Percentage*	8%	3%	(2%)	7%	2%	(3%)	10%	5%	0%
<u>2. Income statement with percieved impact</u>									
	Low	Average	High	Low	Average	High	Low	Average	High
Operating revenue									
Traffic revenue	4,065	4,268	4,471	4,617	4,848	5,079	13,490	14,165	14,839
Other revenue	139	146	152	682	716	750	1,332	1,399	1,465
Total revenue	<u>4,204</u>	<u>4,414</u>	<u>4,623</u>	<u>5,299</u>	<u>5,564</u>	<u>5,829</u>	<u>14,822</u>	<u>15,564</u>	<u>16,304</u>
Operating cost									
Staff cost	1,068	1,015	961	1,534	1,457	1,381	4,214	4,003	3,793
Aircraft Maintenance	463	440	417	599	569	539	824	783	742
Fuel	652	652	652	565	565	565	1,480	1,480	1,480
Other	1,727	1,727	1,727	2,754	2,754	2,754	7,212	7,212	7,212
Total cost	<u>3,910</u>	<u>3,834</u>	<u>3,757</u>	<u>5,452</u>	<u>5,345</u>	<u>5,239</u>	<u>13,730</u>	<u>13,478</u>	<u>13,227</u>
Profit	<u>294</u>	<u>580</u>	<u>866</u>	<u>(153)</u>	<u>219</u>	<u>590</u>	<u>1,092</u>	<u>2,086</u>	<u>3,077</u>
WTO net impact(MS)	<u>(14)</u>	<u>286</u>	<u>572</u>	<u>0</u>	<u>372</u>	<u>743</u>	<u>0</u>	<u>993</u>	<u>1984</u>
Porofit margin: (Profit/Total revenue)	<u>0.07</u>	<u>0.13</u>	<u>0.19</u>	<u>0.03</u>	<u>0.04</u>	<u>0.10</u>	<u>0.07</u>	<u>0.13</u>	<u>0.19</u>
Change on profit margin	<u>0%</u>	<u>6%</u>	<u>6%</u>	<u>0%</u>	<u>1%</u>	<u>7%</u>	<u>0</u>	<u>6%</u>	<u>12%</u>

APPENDIX-D

Annex on Movement of Natural Persons Supplying Services under the Agreement

1. This Annex applies to measures affecting natural persons who are service suppliers of a Member, and natural persons of a Member who are employed by a service supplier of a Member, in respect of the supply of a service.
2. The Agreement shall not apply to measures affecting natural persons seeking access to the employment market of a Member, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis.
3. In accordance with Parts III and IV of the Agreement, Members may negotiate specific commitments applying to the movement of all categories of natural persons supplying services under the Agreement. Natural persons covered by a specific commitment shall be allowed to supply the service in accordance with the terms of that commitment.
4. The Agreement shall not prevent a Member from applying measures to regulate the entry of natural persons into, or their temporary stay in, its territory, including those measures necessary to protect the integrity of, and to ensure the orderly movement of natural persons across, its borders, provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any Member under the terms of a specific commitment.¹³

Annex on Air Transport Services

1. This Annex applies to measures affecting trade in air transport services, whether scheduled or non-scheduled, and ancillary services. It is confirmed that any specific commitment or obligation assumed under this Agreement shall not reduce or affect a Member's obligations under bilateral or multilateral agreements that are in effect on the date of entry into force of the WTO Agreement.
2. The Agreement, including its dispute settlement procedures, shall not apply to measures affecting:
 - (a) traffic rights, however granted; or

¹³ The sole fact of requiring a visa for natural persons of certain Members and not for those of others shall not be regarded as nullifying or impairing benefits under a specific commitment.

(b) services directly related to the exercise of traffic rights, except as provided in paragraph 3 of this Annex.

3. The Agreement shall apply to measures affecting:

- (a) aircraft repair and maintenance services;
- (b) the selling and marketing of air transport services;
- (c) computer reservation system (CRS) services.

4. The dispute settlement procedures of the Agreement may be invoked only where obligations or specific commitments have been assumed by the concerned Members and where dispute settlement procedures in bilateral and other multilateral agreements or arrangements have been exhausted.

5. The Council for Trade in Services shall review periodically, and at least every five years, developments in the air transport sector and the operation of this Annex with a view to considering the possible further application of the Agreement in this sector.

6. Definitions:

(a) "Aircraft repair and maintenance services" mean such activities when undertaken on an aircraft or a part thereof while it is withdrawn from service and do not include so-called line maintenance.

(b) "Selling and marketing of air transport services" mean opportunities for the air carrier concerned to sell and market freely its air transport services including all aspects of marketing such as market research, advertising and distribution. These activities do not include the pricing of air transport services nor the applicable conditions.

(c) "Computer reservation system (CRS) services" mean services provided by computerized systems that contain information about air carriers' schedules, availability, fares and fare rules, through which reservations can be made or tickets may be issued.

(d) "Traffic rights" mean the right for scheduled and non-scheduled services to operate and/or to carry passengers, cargo and mail for remuneration or hire from, to, within, or over the territory of a Member, including points to be served, routes to be operated, types of traffic to be carried, capacity to be provided, tariffs to be charged and their conditions, and criteria for designation of airlines, including such criteria as number, ownership, and control.