THE BILATERAL AGREEMENT BETWEEN ARGENTINA AND THE UNITED STATES

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Abstract

The air transport supply between Argentina and the United States is characterized by being strongly disproportionate in favor of the American carriers. Nevertheless, the proportionality level has not been stable during the last 10 years, but has experienced numerous swings, although the tendency favors the American companies. The analysis of the constant renegotiation process of the bilateral agreement and the study of the main statistic variables were used to identify the causes of the supply disproportion. Finally, it is possible to argue that this process derived from abundant factors that took place during this period including: bilateral meetings and agreements, business strategies, regulations of air market protection, financial situations of the air carriers and other exogenous causes of variation in demand.

Keywords: Bilateral agreement, Argentina, United States, International air policy.

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1. INTRODUCTION

The air transport industry has historically been considered a factor of territorial organization – sometimes with geopolitical ends-, an activity that favors regional development and other economic activities, and a service that increases connectivity and accessibility, among other qualities. Nevertheless, air transportation has its own dynamism and, as other economic activities, generates jobs and has its own development strategy. Perhaps, the difference between operating a flight with a national and a foreign company is not directly related to the factors derived, but rather to the generation of direct jobs, satisfaction of the displacement needs of local population, strategies in the choice of suppliers and contacts with the local society; that can generate an acceleration or an increase in the impact of the factors derived in a certain region or country.

Relating to the above mentioned issue, the purpose of this analysis consisted in verifying if an important disproportion of the air transport supply between Argentina and the United States exists, considering the origin of the companies.

2. INTERNATIONAL INSTITUCIONALIZATION OF AIR TRANSPORT

The aeronautical improvements that were generated during the Second World War and the consequent increment in the number and importance of airlines induced the development of a new and more complex process of institutionalization in comparison with the development of airline market organization initiated in 1910. This process started from the Convention on International Civil Aviation and the signature of the important Chicago Convention in 1944. The Chicago Convention was signed under the stimulation made by the United States.

In fact, there was a strong struggle between the interests of the two air transport powers of that time – the United States and the United Kingdom. "The first one aimed at universalizing the open skies theory, that is, companies of all countries could fly to any other country. This is an absolutely theoretical position because, given the asymmetry of possibilities, this meant that the American carriers would be the owners of the business. The UK sought the creation of norms to guarantee the equitable participation of all the nations in the traffic through regulations and bilateral agreements and proposed the creation of an international supreme authority in the

matter" (author's translation from Potenze, 1997).

The main result of this meeting was the agreement of four basic principles of international aviation regulation –sovereignty, equality of opportunities, non-discrimination and liberty of designation– and the freedom rights of the air space (also known as freedoms of the air) that guided the air transport development. Argentina adhered to this convention in 1946.

3. AIR TRANSPORT IN ARGENTINA (1990-2006)

Although global economy was expanded in the world from the mid seventies, in Argentina this economic paradigm was fortified with the Menem presidency (1989-1999). This government based its term on strong neoliberal politics that stimulated the insertion of the global capitals in Argentina. The main characteristics of that historic moment that affected the air transport market were the foreign exchange stability, the parity of the Peso and the American Dollar, the increment of the direct foreign investments, the settlement of transnational companies, the increment of financial and banking activity, migrations, the application of deregulation and economic liberalization policies, besides a strong privatization and concession process (see Lipovich, 2007). The deregulation and economic liberalization policies and the privatizations and concessions process related to the air transport market had important consequences. The main particularities of this process can be summarized in three points: commercial deregulation of the domestic market, privatization of the national companies and, finally, partial deregulation of the international market of passengers.

The privatizations and concessions process began in air transport market with the privatization of the public airlines. Although among the companies that were privatized it can be mentioned the regional TAN and Aerochaco (see Arias, 2002), the most important privatization was the one of Aerolíneas Argentinas (to extend see, Thwaites Rey, 2001). Aerolíneas Argentinas was privatized in 1990 and was one of the first public services that were privatized during the first Menem government. It is important to clarify that to make the sale of Aerolíneas Argentinas more attractive, the government granted to this carrier a monopoly for international routes by being classified as the only national flag airline of Argentina. This meant that no other Argentine carrier could operate international destinies covered by Aerolíneas Argentinas or included in the expansion plan developed by the new owner of this carrier.

The decisions applied in the Argentine air transport scope since 1990, largely explain the nowadays problems of this economic industry in this country. Specifically, the disproportion of air transport supply between Argentina and the United States was generated by several facts that took place since 1990 and they always were protected institutionally by the national laws and by bilateral and multilateral agreements.

4. THE DISPROPORTION OF THE AIR TRANSPORT SUPPLY BETWEEN ARGENTINA AND THE UNITED STATES (DECEMBER, 2005)

It is very easy to imagine a scene of some disproportions related to the origin of airlines in the air transport supply for international destinies, mainly in those where the Argentine companies compete with the largest carriers of the world. In the case of the existing air services between Argentina and the United States, Argentine companies compete against the airlines that control the greatest national air transport market of the world and, by extension, the most powerful in the world. Although the disproportion of the air transport supply between Argentina and the United States is significant, it is relevant to make a comparison with other international routes – for both cases– with the purpose of verifying the magnitude of this disproportion.

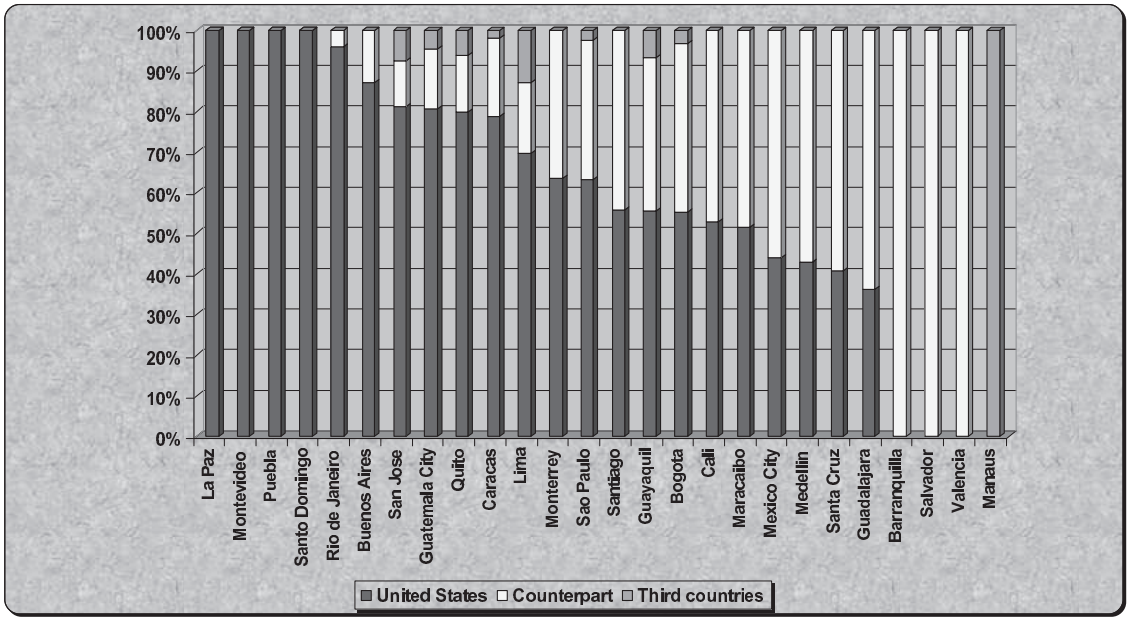
4.1 Distribution of the air transport supply between Argentina and the United States.

When talking about the distribution of the air transport supply between Argentina and the United States, the proportion of services offered by American, Argentine or by other foreign airlines is being referred to. In this calculation, only non-connection flights –with or without stops– were kept in mind.

By December 2005, the routes between Argentina and the United States were served exclusively by companies of both countries. On the American side, there were four airlines covering these routes (American, Continental, Delta and United) and on the Argentine side there was only one: Aerolíneas Argentinas. The American companies had 93% of the weekly flights in the routes between that country and Argentina, while the Argentine airline had the remaining 7%. Measured in number of weekly seats offered, the American companies had 87%, while the remaining 13% were offered by Aerolíneas, because this company operates those routes with greater aircrafts. Although the disproportion is exaggeratedly high in this case, a comparative analysis can help to assess this situation correctly.

4.2 Distribution of the air transport supply between the United States and Latin America.

The first comparative analysis emphasizes the proportions in the routes between the United States and the main cities of Latin America according to the origin of the airlines. From the United States, there were direct air services towards 26 of the 41 Latin American cities with over one million inhabitants. In some cases, the supply was totally offered by American companies, by airlines of the countries were the analyzed cities are located or by carriers based in third countries. This could happen because, in some cases, there is not enough interest or possibilities to cover those routes and they were supplied in a monopolistic form. In other cases, there are no direct services, although passengers could make flight connections. Cities that had a monopolistic supply of direct services to the United States were eight (see Figure 1).



Source: Elaborated from own data based in airlines publications (see Lipovich, 2006).

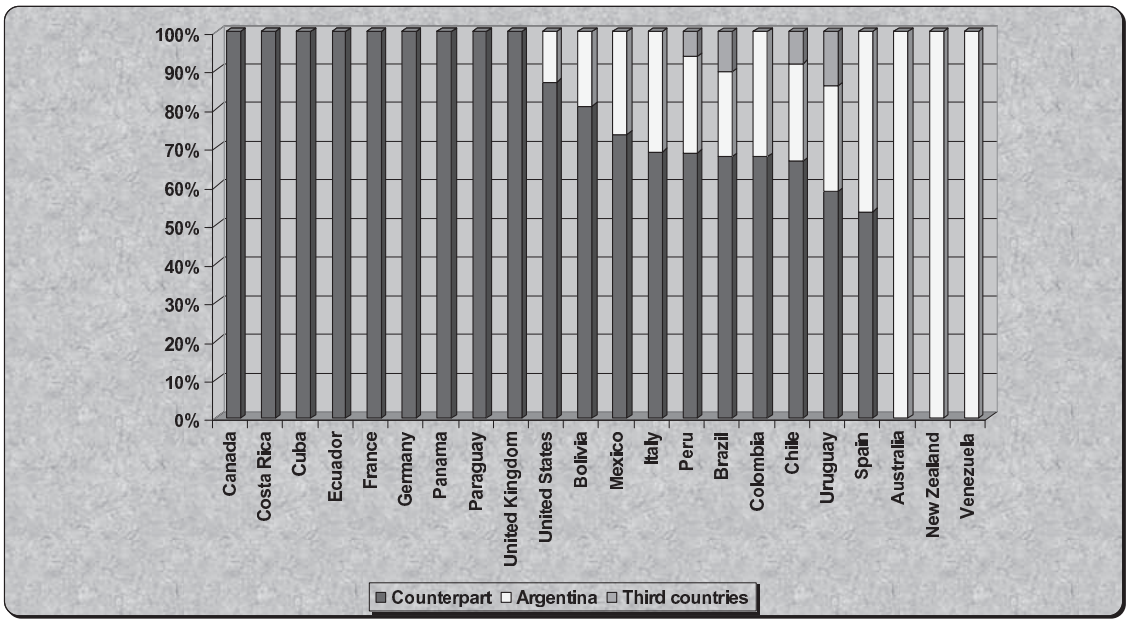
Figure 1: Proportion of weekly seats offered from and toward the United States, according to the origin of the airlines. (December 11-17, 2005)

On the other hand, there was a group of 18 Latin American cities that had transnational competition in their direct flights to the United States because they were operated by airlines of the countries were the analyzed cities are located, American companies and/or by airlines from third countries. In these cases, the supply can be divided according to the origin of the airlines. Rio de Janeiro is the city where the greatest disproportion in favor

of the American carriers was verified (almost 96% of the weekly seats offered). The second greatest disproportion took place in Buenos Aires, where the American companies offered 87% of the weekly seats, as was already mentioned. Nevertheless, if we consider these same relations but based at national scale, it can be affirmed that the country with the greatest disproportion of Latin America in the routes from and toward the United States was Argentina. Brazil as a whole had a disproportion of less than the 69% of the weekly seats offered by American companies.

4.3 Distribution of international air transport supply in Argentina.

The second comparative analysis is based on the study of the disproportions of the weekly flights of all the international destinies –grouped by country– that was offered from and toward Argentina. Again, there were international destinies operated only by airlines based on a same country –12 cases–. Nevertheless, airlines with different national origins competed in some other destinies, 10 altogether. Of all the international routes to and from Argentina where there was competence between foreign and Argentine companies, the United States was the most disproportionate destiny in favor of the American carriers (see Figure 2).



Source: Elaborated from own data based in airlines publications (see Lipovich, 2006).

Figure 2: Proportion of weekly seats offered from and toward Argentina, according to the origin of the airlines. (December 11-17, 2005)

In sum, it is possible to affirm that in December, 2005 an important disproportion in the number of weekly seats offered between Argentina and the United States existed. On the other hand, none of the other Latin American countries –where there was competence among businesses with different national origins– had that significant disproportion in its routes to the United States. Besides, the United States was the most disproportionate international destiny of Argentina.

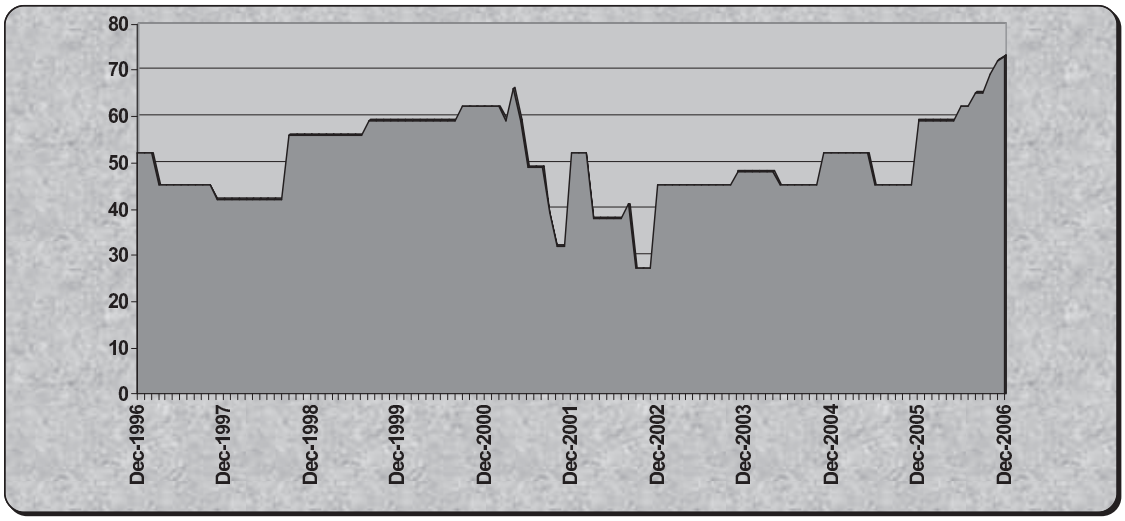
The case of the flights supplied between Argentina and the United States –from the exposed data– deserves another additional type of analysis. A chronologic study of this issue can be useful to verify the disproportion along time. It is possible to verify if this was a durable situation or if it has experienced fluctuations.

5. EVOLUTION OF THE AIR MARKET BETWEEN ARGENTINA AND THE UNITED STATES (1996-2006)

5.1 Chronologic analysis of the distribution of the air transport supply between Argentina and the United States.

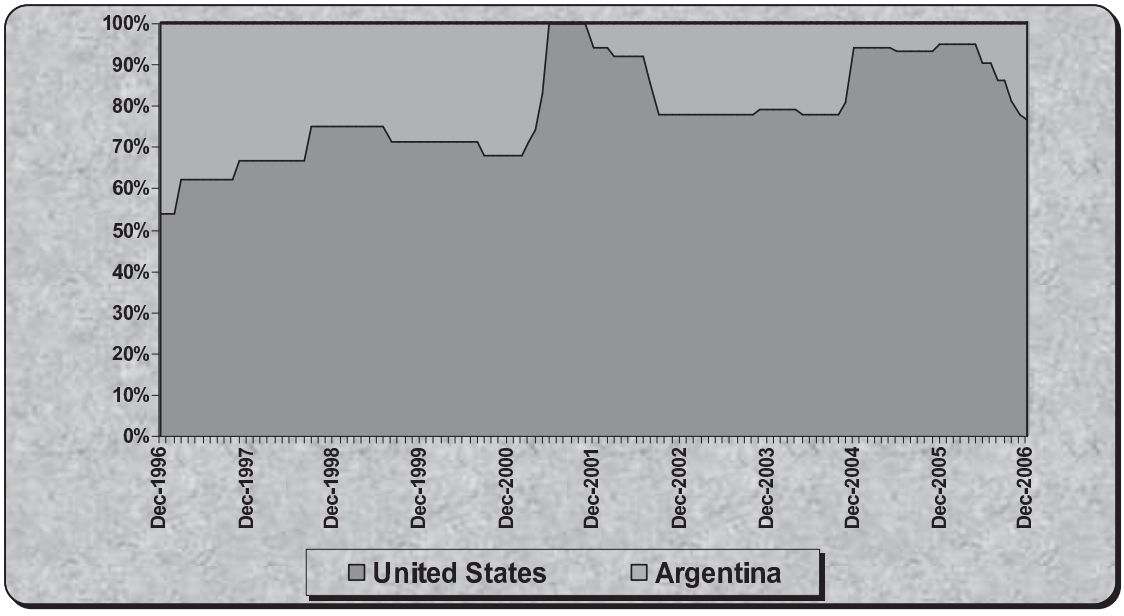
In order to study the behavior of the supply of weekly flights offered between Argentina and the United States, two figures are presented. Figure 3 exposes, in absolute values, the number of weekly frequencies offered by all the airlines without discriminating their national origin. On the other hand, Figure 4

expresses in relative values the proportion of the supply discriminating if the companies are based in the US or in Argentina.



Source: Elaborated from airlines data.

Figure 3: Number of weekly flights offered between Argentina and the United States. (December, 1996 – December, 2006)



Source: Elaborated from airlines data.

Figure 4: Proportion of weekly flights offered between Argentina and the United States, according to the national origin of the airlines. (December, 1996 – December, 2006)

From Figure 3, it can be affirmed that the flights supply grew from 1998 until 2001, when it fell abruptly and the supply slowly was adapted to the demand. The supply was stabilized since 2002 until 2005, when it grew again reaching a historical maximum (73

weekly flights). Relating to Figure 4, it is possible to add that the flights' offering was balanced between the Argentine or American companies at the beginning of 1997. Nevertheless, the proportion of flights offered by American companies then grew and was maintained until the mid 2001. During the second half of the year 2001 the American companies had the 100% of the market for 6 months uninterruptedly. After that, the disproportion was weakened and it was stabilized between 2002 and 2004. Since 2005 the disproportion grew again until 2006 when it went down again.

If the supply had been perfectly balanced, the proportion should have stayed at 50% during the whole period. It is possible to speculate with many reasons to explain this process and to understand the present time of the air transport supply between both countries. The main causes that explain this situation derive from direct variables and very different events. Among them it is possible to talk about: bilateral agreements, agreements between airlines, regulations of air market protection, economic situation of the companies and other exogenous causes of variation in demand. A brief observation and description of these variables and events is provided on point 5.2.

5.2 Chronological analysis of the bilateral negotiations and the business strategies.

The chronological analysis of the bilateral negotiations and the business strategies is classified into 6 stages, which express what happened in the last 20 years.

5.2.1 Closed Skies (1985-1996).

In 1985, the first bilateral agreement between Argentina and the United States was defined. The Argentine Congress sanctioned it as a law –Law 23,426– (La Ley, 1987) in 1986. This agreement has a large number of clauses and articles that allow regulating the supply between both countries. Nevertheless, there are some specific issues that deserve special attention to carry out the following analysis.

In first place, it is important to mention that this agreement was developed in virtue of the Covenant on International Civil Aviation – Chicago, 1944. Secondly, there are two clauses in the bilateral agreement that had great impact in the following negotiations. On the one hand, the clause contained in the article 1, clause 2A: "substantial ownership and effective control of that airline are vested in the Party designating the airline, nationals of that Party, or both" (United States and Argentina, 1985, p.1). On the other hand, article 4, clause 2 says that "Each Party may request consultations concerning the safety and security standards… Each Party reserves

the right to withhold, revoke or limit the operating authorization or technical permission of an airline or airlines designated by the other Party in the event the other Party does not take such appropriate action within a reasonable time" (United States and Argentina, 1985, p.2-3). In third place, two annexes are included to the agreement–law. Annex 1 includes the possible routes that could be offered and the maximum number of frequencies to be operated is detailed in annex 2.

In 1990, another remarkable fact took place: the privatization of Aerolíneas Argentinas. The most important airline of Argentina was taken over by Iberia and then by the State Company of Industrial Participations (SEPI), both from Spain. In order to make this privatization more attractive, the Argentine government included a clause that indicated that Aerolíneas was going to have privileges – monopoly– in the international routes that this carrier operated in 1990 and the ones defined in the investment plan of the next owner, Iberia. These privileges were offered for 10 years, expiring in 2000.

In 1992, an exchange of notes between the governments of Argentina and the United States specified that from that year onwards, the total of allowed weekly frequencies in low season passed to be 16 for each party and 22 weekly frequencies in high season. The novelty is that it specifies the companies that can offer those services: Aerolíneas, American and Pan Am. In 1995, there was another exchange of notes agreeing that weekly frequencies were extended and the operators changed. The frequencies were extended this way: from July–1994, 22 for each party, 24 from October–1995, 26 from December–1996 and 28 from January–1998. The operators then were: Aerolíneas, American and United, due to the Pan Am bankruptcy.

In 1996, Aerolíneas Argentinas went through its first great financial crisis and the SEPI began to seek a strategic partner to attract private investors.

5.2.2 Open Skies (1996-1999).

The two main companies interested in joining Aerolíneas as strategic partners were American Airlines and Continental Airlines, both American. Finally, it was agreed that American was going to be the strategic partner of Aerolíneas to stimulate the entrance of private investors with the objective of rescue Aerolíneas of its strong financial crisis. Nevertheless, the US Government stated that they only would approve the Aerolíneas shares purchase on the part of American Airlines, if Argentina signed an open skies agreement with that country.

The first consequence of the management of American Airlines in Aerolíneas was the shutdown of the route between Buenos Aires and Los Angeles in 1997. LAPA –another Argentine airline– offered to serve it, but Aerolíneas immediately refused alleging that this route could only be operated –from the Argentine side– by itself, because of the privileges granted until 2000.

Moreover, during the same year, some authorities of the US announced that they would sign an open skies agreement with Chile if the alliance between American and LanChile were closed (La Nación newspaper, December 7, 1997). They also announced that the meetings with Argentina to reach an open skies agreement would begin in March, 1998. Indeed, on that date the conversations between both governments began, although the positions of the main actors were divergent. At that moment, the interested ones to enter in that market were LAPA, Continental and Delta Air Lines. American and United stated publicly and surprisingly that, by norm, they supported the open skies policy developed by the United States (La Nación newspaper, March 16, 1998), although in this case particularly, both airlines would have new and more competence. Continental and Delta supported open skies openly because they were interested in flying to Argentina. However, Aerolíneas was between two opposite positions. On one hand, it wanted to maintain its exclusiveness until the year 2000 but, on the other hand, without open skies, American would not be a shareholder in the company. In spite of its intentions to fly to the United States, LAPA supported the idea of maintaining a top in the amount of allowed frequencies. At governmental level, the United States assured that they were convinced they would sign an open skies agreement soon because the purchase of Aerolíneas on the part of American was a condition (La Nación newspaper, March 16, 1998), and it was only necessary to confirm the terms. Nevertheless, the Argentine executive affirmed publicly that they wished relaxation, but not open skies. In this way, a series of 6 meetings and 2 agreements was initiated.

The first meeting was carried out in March, 1998. There were two disagreements on aspects that served as pressure elements for the United States. The first one is related to the effective control of the companies. This way, the United States would be able to classify Aerolíneas as a non-Argentine company because Argentine actors did not possess at least 51% of the assets and thus they would cancel all the flights of that airline to the US. The other friction was generated on

the criteria of air security and safety without a possible arbitration. Thus, the United States would be able to allege that the conditions of air security and safety in Argentina were poor and they also could take corrective measures against the Argentine airline market.

Among these bilateral meetings, LAPA announced that it would fly between Buenos Aires and Atlanta –a little profitable final destiny– and would be associated with Delta, which counts on an enormous flight connection center in that city. American ended up taking control of Aerolíneas for 25M dollars thanks to a provisory permission granted by the United States. The change in the management began with the announcement of an ambitious business plan. American would make an investor round to seek private investors to ensure the viability of the business plan. Moreover, as consequence of the growth in the air demand in Argentina, the frequencies were expanded to 42 for each party.

In December, 1998, the second meeting between the parties was carried out. The United States wanted to expand 50% of the frequencies for the following year and the remainder in 2000. Argentina did not yield, because they preferred to expect the results of the round of potential investors that would allow the Aerolíneas business plan. The meetings were temporarily closer and in March, 1999, the third one was held. In this meeting, the clauses referring to air security and safety were discussed and those of substantial ownership and effective control of the companies –these clauses could be thought as pressure elements of the US –. The fourth meeting took place a month later, in April, 1999. The proposal of the United States was to open the skies immediately and the Argentine representatives wanted to delay this as long as possible, because of the uncertain situation of Aerolíneas Argentinas. The conclusion of this meeting is that both countries reached an agreement based on the addition of 7 frequencies in 2001 –to be taken by Delta– and another 7 in 2002 –for Continental–. The conclusion is that there would not be open skies at least for 4 years.

After the fourth meeting, the results of the investors round made by American were known and they were qualified as lukewarm by the Argentine press. In fact, before the lack of success with the private investors, American proposed the extension of banking credits and the execution of a second investors round. Therefore, the Argentine executive decided to delay the meetings until the situation of Aerolíneas was defined.

The fifth meeting was held in July, 1999. In it, a draft was elaborated stating that 7 frequencies per year would be implemented until 2003, when open skies would be in force. With this draft elaborated and with a very short time towards the end of the Menem government, both parties met again. The sixth meeting was held in August, 1999. In this meeting, a progressive open skies agreement between Argentina and the United States was finally signed. In 2000, there would be 7 weekly frequencies more, 7 more in 2001, 2002 and in 2003 there would be open skies. The United States managed to close the agreement before the presidential elections in Argentina. Although the agreement would be in force in 2000, this would start with the exchange of notes of the chancellors. After the sixth meeting, LAPA inaugurated the route between Buenos Aires and Atlanta despite of the fact that this airline could not be associated with Delta and they announced that if the economic results of this flight were not positive, they would not compete anywhere else in the US.

With the open skies agreement just signed, with a new Argentine president and with the second investors round that turned unsuccessful, American Airlines announced that it would give up Aerolíneas Argentinas.

5.2.3 Skies Opening (1999-2000).

With the announcement of the retreat of American Airlines from the Aerolíneas management, the Argentine government decided to momentarily suspend the open skies agreement with the United States. In fact, the open skies agreement had arisen as a condition to allow the participation of American in Aerolíneas. At the same time, the Argentine authorities declared again that local companies could not compete with those of the United States. Above all this situation, the representatives of the United States claimed that the agreement was already signed and that it should only be enforced.

It is important to clarify that the policies of the United States about open skies were not limited to Argentina. That country signed more than forty agreements of that type since 1997 until 1999. In that period, the United States signed 12 open skies agreements in Latin America. In these 12 countries, the American carriers increased their supply by 24% and the Latin-American companies by 12%. Specifically, and as an example, in the case of the open competence between TACA and Continental, the American company proposed rates smaller than the costs. Robert Booth –an international consultant– affirmed that the Latin-American airlines had a 30% higher cost than the American carriers in a similar seat and that only the big four –

American, United, Delta and Continental– had a fleet twice as big as that of all the Latin America companies (La Nación newspaper, February 27, 2001).

During most of 2000, the pressure of the United States was constant under the argument that the agreement had already been discussed, accepted and signed. The Argentine authorities froze the agreement until August, 2000, to wait for the results of the new Aerolíneas Argentinas crisis. At the same time, the Minister of Economy announced that the Aerolíneas privileges of monopoly in the international traffic had been ended. From that moment on, all the Argentine companies were national flag airline with the same rights and obligations. A little later, a new rescue plan for Aerolíneas was launched including the suspension of flights and the massive dismissal of 1,600 employees.

In spite of all the controversies and claims, in October, 2000, a new meeting between Argentina and the United States was carried out to reconfigure the agreement and the Argentine law 23,426 was modified. The scheduled traffic of passengers between Puerto Rico and Argentina, and the scheduled cargo traffic between both countries were completely freed. 7 weekly passenger frequencies from April, 2001, and other 7 from December of the same year were added. This fact caused an increase in the allowed frequencies from 42 to 56 weekly frequencies.

5.2.4 Closed grounds (2001-2002).

This stage began just after the modification of Argentine law 23,426 that quickly caused a large number of consequences. In April, 2001, Delta Air Lines began to fly between Buenos Aires and Atlanta and it refused to sign a code share agreement with LAPA. With this operation, Delta generated 30 direct jobs in Argentina (La Nación newspaper, February 23, 2001). As consequence, LAPA had to close the route among Buenos Aires and Atlanta for not signing a code share agreement with Delta and by having from that moment a direct competence in that destiny. In addition, Continental announced that it would fly between Buenos Aires and New Jersey. Almost at the same time, American announced the cancellation of the contracts with the travel agencies that did not accept to cut the commissions from 9% to 6% (La Nación newspaper, December 21, 2000). For Aerolíneas, the situation was not simple. This airline had a fatal blow because the routes between Argentina and the United States represented the 30% of its profits. Because of the new competence and its own financial crisis, Aerolíneas decided to close all the flights to the United States (among others). The immediate balance of the modification of

Argentine law 23,426 was characterized on the facts that no Argentine company kept its flights to the United States from June, 2001, and the presence of the American big four carriers in Ezeiza, was announced and confirmed.

A totally exogenous fact shook the market again. The attacks of September 11 caused great problems in airline industry, mainly for the American carriers. The repercussion in Buenos Aires was produced when American and United suspended many of their flights between the US and Ezeiza, although these suspensions were applied for a very short time. Besides, in late 2001, the situation of Aerolíneas was stabilized due to the fact that Group Marsans –also from Spain– became the new owner of the company. This stabilization was fragile due to the political and economic crisis suffered by Argentina at that time. Moreover, then the United States decided to finish the Weiver visa program –spontaneous visa– applied for Argentine people to enter in that country.

At the beginning of 2002, a recovery of the airline market between Argentina and the United States took place. In fact, American and United normalized their operation in Ezeiza. In addition, Aerolíneas flew again to the United States, although with less frequencies. American announced a new flight to Dallas and United announced its new flight to Washington. That market recovery was emphasized with the entrance of a new Argentine player after the exit of LAPA. This new player was Southern Winds (SW) that announced its new flight to Miami.

Less than one month after the SW announcement, the United States authorities lowered the air security and safety category of Argentina, falling down from category 1 to 2. The change in the security and safety category allowed the application of corrective measures. The measures applied imposed on the Argentine companies the prohibition to incorporate new routes toward that country and the airlines that had already operated could not modify their routes or the aircrafts that offered the service; they only could fly the established routes at that moment. On the other hand, the American companies could continue incorporating destinies from the United States towards Argentina.

5.2.5 Skies Closing (2002-2005).

Formally, the United States attributed the fall in category to the lack of supervision of the civil aviation industry. Even though the drop in category had many consequences, the first victim was SW. In fact, despite the difficulties, SW managed to start flights to Miami, but with aircrafts of the Icelandic company Air Atlanta.

The recovery of the market in the early 2002 began to wither and the winds began to change in 2003. United presented its bankruptcy and American had to mortgage aircrafts to avoid it. Delta, in turn, closed its flight between Buenos Aires and Atlanta and American cut 14 weekly frequencies between US and Ezeiza. In this context, SW increased the amount of flights to Miami –operating in Icelandic aircrafts– because of the high occupation rate and the retreat of the American carriers. This scenario persisted until late 2003 and early 2004 when American normalized its flights in Ezeiza, Delta flew again between Buenos Aires and Atlanta and Continental finally announced the beginning of its flights toward Ezeiza, but this time from Houston. Going against the tide, SW closed its flights between Argentina and the United States. It seems that, at that stage, the weakness of the American companies was counteracted by the Argentine companies and the recovery of the former meant the weakening of the latter.

After this last recovery of the market on the part of the American companies and the weakening of those from Argentina in 2005, the United States re-categorized to Argentina to category 1. Again, the decision is not explained because there were no significant changes in relation to the Argentine air security and safety. Surely, if the Americans knew beforehand that between 2002 and 2005 its airlines would be weakened and then they would recover, the category loss served to prevent Argentine companies from taking large shares of the air market between both countries.

5.2.6 Tumultuous Skies (2005-2006).

This last stage began with a resetting of the airline market, supported among other things, by the fast economic growth in Argentina. In this context, Continental began its operation between Buenos Aires and Houston. Moreover, a new Argentine player appeared. LAN Argentina became a new flight operator to the United States by opening its route to Miami from Ezeiza. Aerolíneas, in turn, split its flights between Argentina and the United States and began to fly non-stop from Buenos Aires to Miami and to New York.

This stage ended in December, 2006, with a situation in which open skies were not applied, but each party authorized the operation of 56 weekly frequencies between both countries. The American carriers use the 56 frequencies and the Argentine companies operate only 17 of the 56 frequencies authorized.

6. THE CAUSES OF THE DISPROPORTION

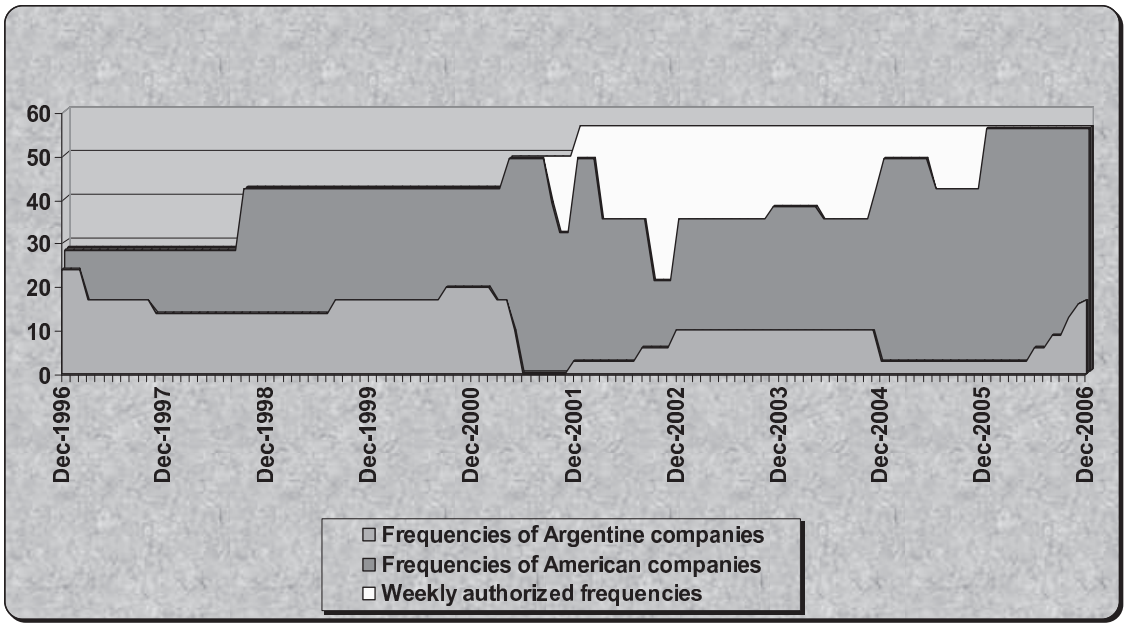
As exposed before, some ideas can help to enumerate the most prominent causes to explain the disproportion of the air transport

offered between Argentina and the United States. These causes were generated by the players that intervened in the process previously described, whereas others can be catalogued as exogenous to the inner process.

The most significant causes among all those originated by the decisions of the Argentine officials were two. Firstly, the monopolistic privileges granted to Aerolíneas Argentinas had consequences in this specific process, besides that decision had stimulated the privatization of that airline. This aspect allowed reserving to Aerolíneas the routes between Argentina and the United States, even during its great financial and operative crises. The consequences of these privileges were translated into the impossibility for other Argentine companies to operate flights from Buenos Aires to Miami, New York and Los Angeles –the most profitable final destinies– up to the year 2000. For example, that forced to LAPA to abandon it interest in flying the route between Ezeiza and Los Angeles and it did not have another option than to fly to another city with a profit value that depended on alliances with other American companies. Therefore, LAPA decided to start flying between Ezeiza and Atlanta –a non-profitable route as final destiny– and when Delta refused to close an alliance, it had to suspend the flights to that city. Another of the most important causes generated on the part of the Argentine authorities consisted on the unnecessary approval to the growth in frequencies in 2000 that increased the number of weekly frequencies from 42 to 56. The impacts were negative and immediate for Argentina airline industry, since the airlines of this country suspended all their operations toward the United States for 6 months, while the frequencies of the American companies were increased. Likewise, a subsequent consequence consisted in the possibilities of the Argentine companies to compete from that moment, not with 2, but with 4 of the greatest airlines in the world.

Nevertheless, not only the decisions performed by the Argentine authorities can be denoted as causes of the disproportion, and it is possible to analyze the actions of the American authorities linked with the disproportion. In first place, the extortive and subjective character of the American foreign policy can be emphasized. The extortion arises from the built-in because some of the incorporated clauses in the agreements were permanently used as pressure elements on the American side despite the refusals on the Argentine side. The pressures were constant and lasting and they included the threat of not recognizing Aerolíneas as an Argentine company and the effective threat to question

the air security and safety of this country. It is also possible to think that the foreign air transport policy of the United States is characterized by its subjectivity. This happens because of the contemporaneousness of some open skies agreements signed with certain countries and the refusals to sign this type of agreements with other countries, as was the case on the United Kingdom or the European Union. In fact, the United States denied for a long time to sign open skies with the European Union, while they signed them in Latin America, Africa and Asia. Another of the causes arisen in the core of the American authorities was the fall in category of Argentina, related to the Argentine air security and safety, occurred between 2002 and 2005.



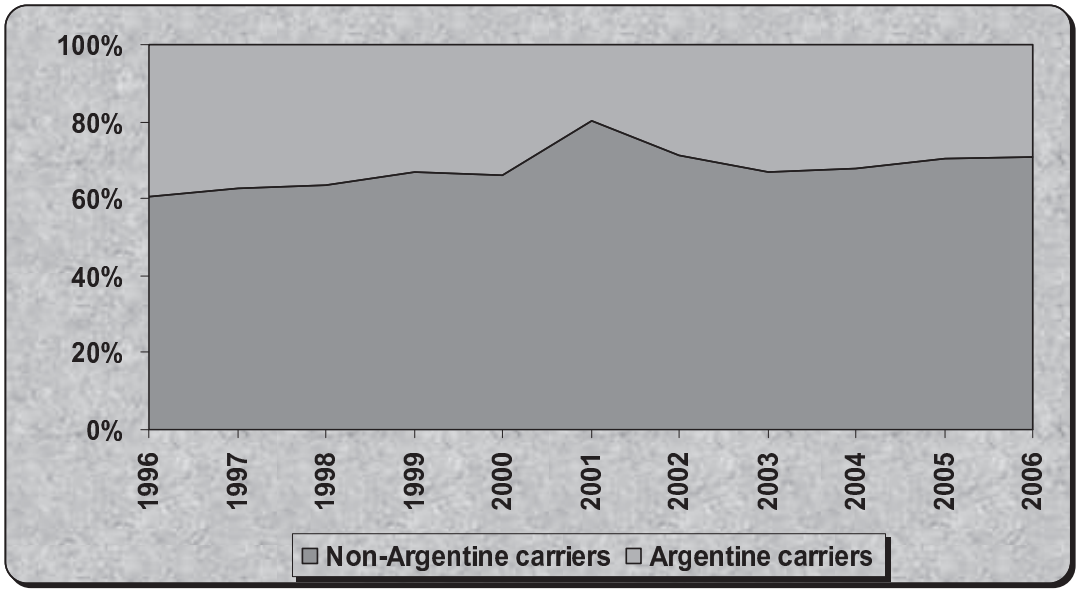
Sources: Elaborated from airlines data, United States and Argentina (1985) and exchange of notes between the Argentine and American chancellors.

Figure 5: Number of weekly authorized frequencies and supplied by Argentine and American companies between both countries. (December, 1996 – December, 2006)

From Figure 5 it is possible to verify a decrease in the number of frequencies served by American companies from 2001 to 2005. This decrease was based generally on the world-wide air transport crisis that took place after the September 11, 2001 attacks and specifically it could be explained from numerous financial crisis and bankruptcies on the part of the American companies that fly to Argentina. The application of corrective measures from 2002 up to the recovery in 2005 seems to prevent other airlines to increase their participation due to the crisis in the American companies. It simply seems to

be another form of protection, besides the protection for broken airlines that keep operating thanks to chapter 11 of the bankruptcies law of the government of the United States, although publicly they continue pressing poorer countries to liberate their economies.

In spite of all this reasoning, there are some other issues that could be added too. In first place, it is possible to think that the disproportion was generated for the degree of weakness of the Argentine companies to compete with foreign airlines in international routes. This is a valid but not sufficient explanation. Figure 2 shows that the participation of the Argentine companies was negatively disproportionate in all cases where there was competence. This demonstrates a great degree of weakness that is confirmed in Figure 6. This figure exposes the increment of the weakness of Argentine companies towards other companies that operate in that country. Nevertheless, the behavior of the disproportion experienced by the Argentine companies with respect to the foreigners is somewhat smaller to the one existing between the Argentine and the American carriers (see Figure 4). It is necessary to consider that the flights to the United States represent a great part of the total international flights offered from Argentina.

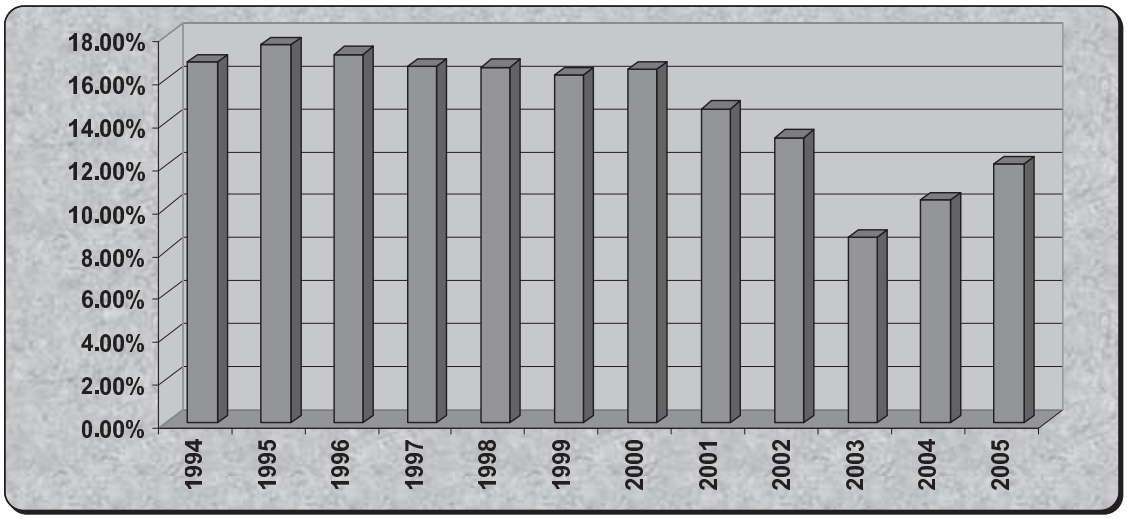


Sources: Elaborated from Subsecretaría de Transporte Aerocomercial (http://www.aerocomercial.gov.ar).

Figure 6: Annual passengers in international flights from and toward Argentina, according to the origin of the airlines. (1996 – 2006)

Secondly, another cause to consider was the disinterestedness of the passengers in traveling from Argentina to the United States and vice versa. It is possible to be argued that

after the attacks in the World Trade Center of New York, the Argentine crisis and the end of the Weiver visa system, there was a growing disinterest in these routes. Figure 7 expresses in relative numbers the importance of the routes between Argentina and the United States in proportion with the total of international annual passengers in Argentina.



Sources: Elaborated from Subsecretaría de Transporte Aerocomercial (http://www.aerocomercial.gov.ar).

Figure 7: Proportion of annual passengers in the route from and toward the United States concerning the total Argentine international passengers. (1994 – 2005)

7. FINAL CONSIDERATIONS

There is a great disproportion in the air transport supply between Argentina and the United States if the origin of the companies that cover these flights is considered. In fact, in late 2005, Argentine airlines covered 7% of the supply and the Americans covered the rest. Besides, this route was the most disproportionate one between the United States and any other country in Latin America in which airlines of different origins competed. At the same time, it was also the most disproportionate route considering the international flights from Argentina to the rest of the countries of the world in which there was competence according to the origin of the airlines. In 2006, this disproportion was reduced until December, when the Argentine companies accumulated 23% of the air transport supply between both countries.

This disproportion varied in the last 10 years (1996-2006). In 1996, the disproportion was practically nonexistent and then, in 2001, the American companies reached 100% of the supply. Later, and as a result of a strong crisis in airline market in general and of the American carriers, in particular, this disproportion decreased. This situation was stabilized during the period in which the

United States took corrective measures against Argentina and, in 2005, the disproportion increased again. In 2006, the companies of the United States covered the totality of their quota and the Argentine companies began to expand their supply, reducing the disproportion.

All of this process has different causes. The unnecessary enlargement of frequencies permission and the granting of privileges to Aerolíneas Argentinas from 1990 to 2000, can be mentioned as the most prominent causes generated by the Argentine authorities. This process also relates to the extortive and subjective character of the foreign policy of the United States, mainly concerning air transportation; and by the imposition of corrective measures on the part of the American government against Argentina. Two facts more can be added to explain the disproportion. On one hand, the weakness of the Argentine companies in relation with the rest of the foreign airlines and on the other hand, a growing disinterestedness in traveling between both countries from 1995 until 2003.

With respect to the future perspectives, it can firstly be said that the disinterest of the passengers in these routes is increasingly smaller. Moreover, Aerolíneas has no more privileges to operate monopolistically the international flights. Thirdly, Argentine companies increased their participation little by little in this market along 2006. Finally, it is necessary to consider that American carriers already cover the totality of the authorized frequencies. This situation stimulated to authorize more frequencies to expand from 56 to 112 in March, 2007. Although this is a strongly negative measure for the Argentine airline industry, the Argentine authorities justified this measure by the growth of the foreign tourism in that country.

Finally, I consider worth pointing out that the introduction of the Chicago Convention of 1944 warning that "the future development of the international civil aviation can powerfully contribute to create and to preserve friendship and understanding between the nations and the people of the world, while its abuse can become a threat to the general security" and went on to state that "it is advisable to avoid the friction between nations and people and to stimulate the cooperation on which the peace of the world depends " and in the end said that "the services of international air transportation are established based on the equality of opportunities" (Decree 15,110/1946 in La Ley, 2006).

ACKNOWLEDGEMENTS

The author would like to thank for the unconditional support and the contributions by Pablo Ciccolella, Jorge Polanco and

Jessica Savino. Also acknowledged is the institutional support from the CONICET and from the Instituto de Geografía of the Universidad de Buenos Aires.

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