

THE IMPACT OF AIR SERVICE AGREEMENT LIBERALIZATION: THE CASE OF UKRAINE

Air transport regulation has been undergoing structural reform in various countries due to globalization and the free market economy concept. Consequently, the concepts of privatization, deregulation and liberalization of Air Service Agreements, such as open skies agreements, have evolved.

In these liberalized countries, the industry has witnessed very significant impacts in the area of traffic growth, competition, air fares reduction, improved cost efficiencies in airlines, and the development of low cost carriers and airline alliances. For instance, the EU experienced increased competition on many routes leading to a 34% decline in air fares, while passenger traffic on certain routes grew by as much as 108%. These and similar experiences inspired many emerging and developing countries like Ukraine to adopt such reform despite the fear of foreign carrier domination and capital flight.

Agreement on the Common Aviation Area between Ukraine and the EU is one of the main priorities for Ukraine. Ukraine's accession to the EU aviation area will provide tangible benefits for citizens of Ukraine as well as aviation infrastructure and industry: improvement of the quality of service and flight safety, increase in supply in the market for passenger transportation and consequently lower fares for air travel, and attraction of investments to airports.

Signing of the CAA Agreement is being delayed since 2014, despite the willingness of Ukrainian side. The main reason for postponement is a lack of consensus between Spain and the United Kingdom to formulate the wording of the Agreement in the part of an Article 2 "Definitions" paragraph 31 "Territory" concerning the status of Gibraltar. Alternatives to solving the above problem are: to strengthen the current approach to negotiations on the signing of the CAA; to change the approach to negotiations on the signing of the CAA; to negotiate a possibility of getting the benefits of the CAA without signing the Agreement; or to focus primarily on the implementation of the technical parts of the CAA Agreement and wait for the right moment to restore active negotiations.

The market remains unattractive for the carriers despite the optimistic statistics. Ukrainian airline companies have carried 25% more passengers in comparison with the similar period last year. There are two main reasons for such growth: "Ukraine International Airlines" (UIA) transfer flights and the surge of the charter flights to Turkey. In general, the Ukrainian air transportation market remains unattractive for the carriers. This is evidenced first by the fact that new airline companies do not hurry to enter our market. And those ones who had fled to us earlier but reduced the flights in recent years resume them carefully. The aviation is essentially very reactive. It depends on the economic state, effective demand and business and citizens expectations. It is very difficult with it now.