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Deal liberalises aviation between the two regions but it may take a few years to assess possible impact, say industry watchers

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ASEAN and the European Union (EU) have concluded negotiations for the world's first bloc-to-bloc air transport agreement, liberalising aviation between the regions – though industry watchers say it may take a few years to assess the possible impact.

One reason is the current restrictions on air travel, with most borders at least partially closed due to the Covid-19 pandemic, said observers.

Negotiations for the Asean-EU Comprehensive Air Transport Agreement (AE CATA) were completed at the Extraordinary Asean-EU Senior Transport Officials Meeting held virtually on June 2.

"The agreement will help rebuild air connectivity between Asean and Europe, which has been decimated by the Covid-19 pandemic, and open up new growth opportunities for the aviation industry in both regions," said Asean and the EU in a joint statement on Friday.

But Shukor Yusof, founder of Endau Analytics, noted: "We would need to look very far ahead as the pandemic is very much in play, and any benefits – particularly a rise in the number of flights and increased cooperation in carbon offset, safety and so on – that would come from this treaty will be realised in the future."

Agreeing that benefits can only be realised after travel has resumed, Volodymyr Bilotkach, an aviation analyst at the Singapore Institute of Technology, said: "Different approaches to risk management in Europe and Asean could lead to delays in reopening of air travel between the regions."

Under the agreement, Asean and EU airlines will be able to fly any number of services between both regions.

In addition, when flying via and beyond each region to any third country, airlines will be able to fly up to 14 weekly passenger services, as well as any number of cargo services.

But given border curbs, the agreement will not be significant in the short term for passenger volumes, said DBS analyst Jason Sum.

As for cargo, the agreement lets airlines access more markets by eliminating the need for transit at major cargo hubs.

But this may not translate into higher cargo volumes in the near term either, due to an acute lack of belly cargo space as passenger planes remain grounded, he added.

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"Additionally, we need to bear in mind cargo revenues only accounted for around 10-20 per cent of revenue for Asean carriers pre-Covid-19, so this will not be enough to move the needle for most airlines."

Still, Mr Sum sees the agreement as positive in the longer term, allowing a quick restoration of connectivity as the regions emerge from crisis. This is the culmination of eight rounds of negotiations that started in October 2016, with Singapore leading talks for Asean and the European Commission doing so for the EU.

Brendan Sobie, analyst and consultant at Sobie Aviation, said that while the agreement is "important symbolically", he would not necessarily expect a major impact.

Much depends on how the market unfolds after the pandemic and if any airlines take advantage of opportunities for new fifth-freedom routes – routes between two countries where neither is the airline's home base.

If they do, this could stimulate competition as airlines from Asean and EU gain greater access to each market, he said.

This might help them compete against carriers from other regions such as the Middle East.

But he is "not convinced" that the agreement will make a big difference, saying: "I'm somewhat cautious as Asean open skies did not have an impact."

Other issues may prevent fifth freedom routes from operating.

"Slots have always been an issue in this region which can make traffic rights irrelevant. What fifth freedom routes are actually allowed – for example, can an airline backtrack or are only straight lines permitted – also can be an issue," said Mr Sobie.

Singapore has already signed many open-skies agreements with countries globally, as it has always believed in air transport liberalisation, said Joshua Ng, director of Alton Aviation Consultancy Singapore.

"Singapore-European air travel was already fairly liberalised, and as a result Singaporean travellers will unlikely see a step increase in the number of Singapore-Europe flights or destinations as a result of the bloc-to-bloc agreement," Mr Ng said.

Assoc Prof Bilotkach said that experience from an EU-US agreement in place since 2008 shows that airlines are unlikely to exercise the right to fly outside their home countries.

"In principle, Singapore Airlines should be able to fly to EU from Bangkok or Jakarta, not only from Singapore. Yet, I am sceptical something like this will happen – maybe such services will be launched at first, but those are unlikely to be sustainable," he said.

Actual new entry may not need to happen for the agreement's benefits to be realised in some way, as the very possibility of competition can put pressure on incumbents, helping to drive prices lower, he added.

In his view, the agreement has symbolic importance too.

"Some experts feared that after the pandemic, governments may be inclined to erect barriers to competition on international airline markets, trying to protect their carriers so that the airlines could recoup the losses during the pandemic and repay the loans that many governments have provided to sustain the airlines during the crisis. This agreement shows that this will not necessarily be the case," he said.

Asean and the EU will now submit the agreement for legal scrubbing, in preparation for it to be signed at a later date to be confirmed. Besides liberalising air transport, the agreement provides for cooperation between both blocs in areas such as aviation safety, air traffic management, consumer protection, and environmental and social issues.