Flying together

● E U A I R T R A N S P O R T P O L I C Y

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FOREWORD

Over the last 20 years there has been a revolution in the economic and regulatory landscape of air transport in Europe.

This is largely due to the creation in the 1990s of a single market for aviation in the European Union. Air transport used to be a highly regulated industry, dominated by national flag carriers and state-owned airports. The single market removed all commercial restrictions for airlines flying within the EU, such as restrictions on routes, the number of flights and the setting of fares. Now all EU airlines can operate air services on any route within the EU.

European policy has transformed the air transport industry by creating the conditions for competitiveness and ensuring both quality of service and the highest level of safety. Consumers, airlines, airports and employees have all benefited from new routes and airports, greater choice, lower prices, and a better overall quality of service.

With more than 130 scheduled airlines and a network of over 450 airports, air transport also makes a key contribution to the European economy. It employs more than 3 million people in the EU and contributes more than EUR 120 billion to European GDP. Linking people and regions, air transport plays a vital role in Europe's integration and competitiveness, as well as its interaction with the world.

However, airlines still have less commercial freedom when flying to countries outside the EU, and passengers have less choice. International aviation has traditionally been governed by bilateral agreements between individual countries, restricting the number of airlines on the routes concerned, the number of flights and the possible destinations.

To overcome these limitations, the EU is extending its aviation policy beyond its borders. First, any bilateral agreements that are not in line with the freedom of operation deriving from the single market need to be revised to ensure legal certainty and to put all EU airlines on an equal footing for flights to countries outside the EU. Second, the EU is working to establish by 2010 a common aviation area with neighbouring countries in the Mediterranean and to the east. Third, the EU is setting up open aviation areas with other key international partners. Closer international relations will not only open markets, but also allow the EU to ensure high standards of safety and security in international air transport and to work with others more effectively to address the impact of aviation on the environment.

A lot still needs to be done to allow air transport to fulfil its potential. The EU will pursue these ambitious goals hand in hand with partners around the world.

Jacques Barrot
Vice-President of the European Commission,
with responsibility for Transport

FREE AS A BIRD: THE SINGLE MARKET FOR AIR TRANSPORT

Before 1987, aviation markets across Europe were protected and fragmented — but this was to change. In order to create a single market for air transport, the EU liberalised the sector in three stages.

The first package of measures adopted in December 1987 started to relax the established rules. For intra-EU traffic, it limited the right of governments to object to the introduction of new fares. It gave some flexibility to airlines concerning seat capacity-sharing.

The second package in 1990 opened up the market further, allowing greater flexibility over the setting of fares and capacity-sharing. It also gave all EU carriers the right to carry an unlimited number of passengers or cargo between their home country and another EU country.

The following stage of the liberalisation of air transport in the EU was a third package of measures which applied from January 1993. This package introduced the freedom to provide services within the EU and, in April 1997, the freedom to provide cabotage (the right for an airline of one EU Member State to operate a route within another Member State). This single market was subsequently extended to Norway, Iceland and Switzerland.

The third package of air transport liberalisation provided for:

• harmonised requirements for an operating licence for EU airlines;

• open access for all EU airlines with such an operating licence to all routes within the EU, plus the possibility for national governments to impose public service obligations on routes essential for regional development;

• full freedom with regard to fares and rates: airlines no longer required to submit their fares to the national authorities for approval.

Moving with the times

The aviation market evolved with the introduction of the third package and, after a decade and a half, the time has come to modernise the legal framework. In July 2006, the European Commission made a proposal to update and simplify the legal framework for the single air transport market. The proposal is designed to consolidate the three existing regulations of the third package into one and to ensure an even more effective aviation market in the future, as a first stage towards the further consolidation of legislation. Meanwhile, studies have been started with a view to elaborating a fully fledged European civil aviation code.

Beyond market opening, the single market rests on stringent common rules in order to both ensure a level playing field and continuously improve standards, notably in safety and security.

To ensure fair competition, the European Commission applies competition rules on mergers and alliances, price fixing and other arrangements to the air transport sector, and state aid rules are strictly enforced.

Safety and security first

One major benefit of the EU's single market is the high level of safety and security in all aspects of air transport. Statistically, flying is one of the safest means of transport, and Europe has a strong safety record. However, with up to 30 000 flights operating in Europe on the busiest days and air traffic further increasing, EU policymakers are determined to ensure that the safety of flying in Europe is continuously enhanced.

The EU has harmonised safety standards at a high level. A European Aviation Safety Agency (EASA) was established in 2002. EASA, headquartered in Cologne, Germany, assists EU policymakers in the development of common aviation safety rules. Today, national authorities continue to carry out the majority of operational tasks. However, the agency will gradually extend its competences from airworthiness certification to air operations, licensing of flight crew, safety of airports and air navigation services.

Passengers need to be assured that all aircraft they board, whether belonging to EU or foreign airlines, offer high levels of safety. If there is evidence that an airline is not able to operate with the minimum safety standards, the European Commission can impose bans and operational restrictions. The airlines considered to be unsafe are put on a list, which is published on the European Commission's website and updated at least every three months.

Moreover, following the terrorist attacks on 11 September 2001, the EU harmonised security rules at all EU airports. The European Commission carries out its own inspections to ensure that airports meet these high security standards.

Passenger rights

The EU is a party to the Montreal Convention and implemented this international treaty with a regulation on the liability of airlines for death and injury in case of accidents and for baggage delays. Furthermore, the EU adopted regulations on compensation and assistance for passengers in the case of denied boarding, cancellations or long flight delays. Adequate assistance must be provided to persons with reduced mobility. And all passengers have the right to be properly informed on the exact identity of the company which operates their flight.

Towards greener air travel

As for the environment, ever more stringent measures are being implemented on the maximum amount of noise aircraft may produce. In addition, action is being taken to help aviation fight climate change. The impact of aviation on climate change is still modest, but is growing fast. The European Commission has therefore proposed including greenhouse gas emissions from aviation in the EU emissions trading scheme, under which airlines will have a permanent incentive to reduce their climate impact. This is one among several measures to achieve more sustainable aviation growth. Investing in clean technology and improving air traffic flows are also important in this regard.

Taking social issues into account

The single market should lead to improved working conditions within the air transport sector. The European Commission is committed to ensuring the application of the relevant national and EU legislation. In order to properly assess the situation and the potential needs, the Commission is reviewing the social impact of air transport liberalisation.

Promoting access to airport services

The successful liberalisation of air services within the EU has been fostered by measures to promote non-discriminatory access to airport services. Airports play a vital role in the further development and competitiveness of the single aviation market. The market for ground-handling services has been gradually opened up to competition since 1996.

Airport slots are allocated on the basis of transparent and non-discriminatory rules in case of congestion. In early 2007, the European Commission presented an airport package, including a proposal for a directive on airport charges and an action plan on airport capacity.

Single market, single sky

Air traffic control provides the infrastructure for a safe and efficient flow of air traffic. Air traffic management (ATM) has always been developed at national level, but such fragmentation has led to inefficiency. As part of the EU's aviation policy, the single European sky — an ambitious initiative to reform the architecture of European airspace to meet future safety and capacity needs — entered into force in April 2004.

The single European sky aims at reorganising European airspace according to air traffic patterns, setting common technical and procedural rules and fostering the development of a harmonised European ATM system. The airspace is to be organised in 'functional airspace blocks' regardless of national boundaries. The new organisation of airspace will reduce delays, costs and emissions and improve safety.

Single market success

The single market for air transport in the EU has brought huge benefits to air transport users. Firstly, the number of airline routes within the EU has increased 170 % since the creation of the single aviation market in 1993 — more cities and also remote regions are now served by air transport. Passengers have a greater choice of destinations and the convenience of more direct flights.

Competition within the EU has strongly increased. Between 1992 and 2006, the number of routes with more than two competitors rose by 300 %. As a consequence, passengers have more choice and prices have gone down sharply.

Not only are passengers in the EU faced with fewer and fewer monopoly services but, over recent years, low-cost carriers entering the market have introduced completely new business models and changed the travel habits in many European countries. Low-cost carriers have expanded from 1 % of seat capacity to 28 % in 2006.

The enlargement of the EU in 2004 demonstrated again the benefits of the single air transport market. Freed from the restrictions imposed by government, air traffic in the accession countries more than doubled within just two years.

SESAR: the next generation in air traffic management

In order to ensure the safety and efficiency of air traffic over the next 30 years, the EU has launched the SESAR programme for the development of a new-generation air traffic management system. A technological leap is needed to ensure safety and efficiency of air travel in increasingly congested skies. Such improvements in air traffic management would also reduce the climate change impact of aviation. This initiative involves all aviation players in the design of the ATM system.
Ultimately, the SESAR programme is designed to allow for a 50 % reduction of the costs of air traffic management, a 10 % reduction of emissions per flight, a tripling of ATM capacity and an improvement of safety by a factor of 10.

Number of routes (city to city EU-27)

Source: OAG schedules
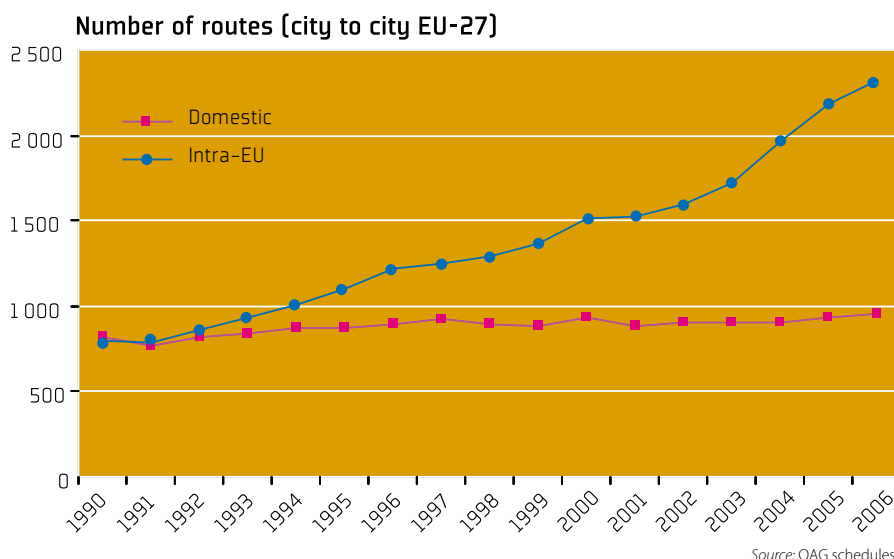
SPREADING ITS WINGS: THE EU'S EXTERNAL AVIATION POLICY

Building on the success of the single market for air transport, the EU is aiming to create similar benefits for the airline industry and airline users for flights to non-EU countries. This external aviation policy follows the same approach of regulated competition as the single market:

Creating new economic opportunities

International air transport is still organised very much around national airlines. Such nationality restrictions deprive passengers of choice and airlines of market and investment opportunities. Removing these restrictions will produce benefits both for passengers and for the air transport industry.

Ensuring safety, security and sustainability of air transport

Governments have an important role in air transport. They need to ensure the safety and security of air transport. In its external aviation policy, the EU wants to ensure the highest possible degree of safety, security, and environmental and passenger protection.

The open skies judgments and the need for change

Bilateral air services agreements usually confine access to the international routes between the two countries concerned to their national carriers only. Such nationality restrictions are an obstacle to cross-border investment and they are not in line with free movement of services and capital, which is one of the basic principles of the EU.

In landmark rulings in November 2002, the Court of Justice of the European Communities ruled that eight bilateral agreements with the United States were contrary to the EU Treaty: these rulings came to be known as the open skies judgments.

Legal certainty was needed. The Court's rulings meant that all of the bilateral agreements between EU Member States and other countries contained illegal elements. All these agreements needed to be modified.

Extending the single market

Following the Court's rulings, the EU developed its external aviation policy. Based on a proposal from the European Commission, EU transport ministers agreed in June 2005 on a comprehensive roadmap for this policy with objectives more ambitious than only ensuring legal certainty.

Extending the single market to neighbouring countries is a key EU objective. And global agreements with key partner countries will aim to achieve the best framework for the air transport industry and the travelling public.

An ambitious policy built on three pillars

Updating bilateral agreements

Following the open skies judgments, nationality restrictions in the bilateral agreements had to be replaced with a Community designation clause.

This adaptation is being done in two ways. Firstly, EU Member States are obliged to insert the Community clauses in their bilateral negotiations. Secondly, horizontal agreements are used. On the basis of a horizontal mandate given by EU transport ministers, the European Commission adapts the provisions of all agreements concluded between EU Member States and a third country. This kind of agreement is very efficient since it only takes one agreement to modify up to 27 bilateral agreements. By September 2007, 27 such horizontal agreements had been negotiated with countries as diverse as Chile, Singapore, Malaysia, Australia, Lebanon, Georgia and the United Arab Emirates.

More than 500 bilateral agreements had been brought into conformity with EU law by mid-2007, covering nearly 100 partner countries.

A common aviation area with the EU's neighbours

Developing closer aviation relations with neighbouring countries brings many benefits. As well as economic advantages, there are clear benefits in terms of enhancing the safety, security and efficiency of air transport in the EU's neighbourhood. Aviation is an important element in the overall European neighbourhood policy. The objective is to create a common aviation area by 2010.

In June 2006, an agreement establishing the European common aviation area (ECAA) was signed. This agreement integrates partner countries in south-east Europe (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and the UN Mission in Kosovo) into the single market. The ECAA partner countries will adopt EU air transport laws and regulations. In parallel, the air transport markets are gradually being liberalised.

Once ECAA partners fully implement the EU's aviation rules, ECAA airlines will have open access to the enlarged European single market in aviation. This will create new market opportunities in an integrated market of 35 countries and more than 500 million people. At the same time, the agreement will lead to uniformly high levels of safety and security across Europe.

In addition, the EU negotiated an air transport agreement with Morocco. This was the first time the EU as a regional group signed a complete aviation agreement with a non-European country. The agreement with Morocco, signed in December 2006, follows the same principles of market opening combined with regulatory convergence.

As a next step, the EU hopes to extend the common aviation area to include Ukraine. Ukraine is an emerging aviation market with high growth potential — the number of passengers flying between the EU and Ukraine increased from 1.2 million in 2003 to 1.8 million in 2005. Following the entry into force of a horizontal agreement in October 2006, the European Commission launched negotiations on a comprehensive aviation agreement with Ukraine in February 2007.

In the end, all countries neighbouring the EU on both its eastern and southern borders are invited to be part of one aviation area.

Success over Siberia

A longstanding problem in relations with Russia has been that of Siberian overflight payments. In 2005–06, for example, EU airlines were obliged to pay more than USD 330 million to the Russian company Aeroflot to obtain the right to fly over Russian territory to Asian destinations. At the EU–Russia summit in November 2006 in Helsinki, Finland, the European Commission succeeded in reaching an agreement with the Russian government. As a result, the royalty payments were to be gradually phased out and completely abolished by 31 December 2013. This provided for a 'new start' with Russia which should lead to close cooperation on all important aspects of aviation such as safety and air traffic management.

The global agreements

At the same time, the EU is seeking comprehensive aviation agreements with other key partner countries. Such agreements always follow the twin objectives of market opening and regulatory cooperation in matters such as aviation security and safety. This is a completely new model of air transport agreement. It is not about open skies but common skies, establishing a framework that improves the competitiveness of airlines and ensures the highest degree of safety, security and sustainability for the travelling public.

The United States

The objective is to establish an open aviation area between the EU and the USA. This would create a single market for air transport between the two, in which investment could flow freely and in which airlines would be free to provide air services without any commercial restrictions.

After four years of negotiations, an ambitious first-stage air transport agreement was signed at the EU–US summit in April 2007 in Washington. The agreement removes all restrictions on flying between the EU and the USA. It is estimated that the agreement will create up to EUR 12 billion worth of benefits for consumers on both sides of the Atlantic.

The agreement ensures a high degree of cooperation between the EU and USA in areas such as the application of competition rules to air transport, aviation security and tackling the climate change impact of aviation. Further liberalisation of market access and investment opportunities would be an important part of the second-stage negotiations from 2008 onwards.

Canada

With 8 million passengers a year, Canada is the second-biggest non-European air transport market for the EU. Air traffic between the EU and Canada doubled between 2000 and 2005. Negotiations with Canada on a comprehensive aviation agreement are due to start in November 2007.

Australia, New Zealand and Chile

The European Commission proposed in September 2005 opening comprehensive aviation negotiations with Australia, New Zealand and Chile. These three countries largely share the EU's market-driven and consumer-oriented approach. This should mean a positive outcome, setting benchmarks for air transport agreements worldwide.

China

China is the world's most populous nation and one of the world's fastest-growing air transport markets. The number of seats available on non-stop flights between the EU and China rose from 275 000 to 5.4 million between 1990 and 2004. In 2004 alone, passenger air traffic in China grew by 38 %. At the EU–China aviation summit in 2005 in Beijing, a joint declaration on cooperation was signed, describing the wide area of cooperation sought.

India

In recent years, the Indian air traffic market has been among the fastest growing in the world. In 2004, air traffic in India increased by around 25 %. As India is becoming a strategically important market for European airlines, aircraft manufacturers and service providers, a joint action plan was agreed at the EU–India summit in 2005, laying the foundations for closer cooperation in the future.

Pursuing cooperation within the multilateral framework

Through intense cooperation with EU Member States, the European Commission also wants to ensure that the voice of Europe is heard within the International Civil Aviation Organisation (ICAO). The main aim of the European policy in ICAO is to further improve the safety, security and environmental record of international aviation. In order to foster the influence of the EU in ICAO policies, the European Commission opened an office in Montreal, Canada, in September 2005 and appointed a representative to ICAO.

Extra-EU-27 transport of passengers by air: share by world regions (2005)

Other Europe: (non-EU-27): 31%
(Evolution 1999-2005: +75%)

North America: 23%
(Evolution 1999-2005: +9%)

EU-27

North Africa: 11%
(Evolution 1999-2005: +53%)

Near & Middle East: 8%
(Evolution 1999-2005: +59%)

Far East & Australasia: 13%
(Evolution 1999-2005: +39%)

Central America & Caribbean: 5%
(Evolution 1999-2005: +29%)

Rest of Africa: 5%
(Evolution 1999-2005: +39%)

South America: 4%
(Evolution 1999-2005: +61%)

Source: Eurostat.

Engaging in technical cooperation with the world aviation community

The EU follows a comprehensive agenda of development cooperation and technical assistance to partner countries, based on the experience of the single market and the objective of improving aviation safety worldwide. Such cooperation is pursued with individual countries or on a regional basis, as the following examples show.

• The EU contributed to the EU–India Civil aviation project. More than 260 activities were completed over five years and over 3 500 Indian experts were trained in accordance with European safety standards and practices.

• The EU also contributed to the EU–China cooperation project and to the EU–Asia cooperation project. Project partners gained knowledge and benefited from practical assistance in the field of aviation, while the EU deepened relations, improved safety and raised awareness of European practices.

• In Latin America, the EU financed two technical assistance projects to raise levels of safety. Firstly, it contributed to a programme to help the South American aeronautical authorities to ensure continued airworthiness and oversight of safety. Secondly, it provided support to the Central American Aviation Safety Agency in overseeing safety in central American countries.

• The EU has provided practical assistance to the Agence pour la sécurité de la navigation aérienne in Africa, including support for a three-year training programme to enhance aviation safety. It is starting a project to strengthen the institutional capacity of the African Union.

• To support the western Balkan partners in implementing the ECAA Agreement, the EU is providing their civil aviation authorities with legal advice on EU aviation rules, as well as technical assistance and training in the area of safety, security and ATM.

• Meanwhile, the three-year Euromed aviation project will contribute to the development of the Euro–Mediterranean transport network and will promote economic integration among the Mediterranean partners. The project aims to: support an open, healthy and competitive aviation market in the region; promote improved aviation safety, security and regional ATM cooperation and harmonisation; and elaborate a roadmap for the implementation of the common aviation area.

# CLEAR SKIES AHEAD:
NORMALISING AIR TRANSPORT

In spite of its international character linking people and countries, the air transport sector is still constrained. The integration of markets in Europe has demonstrated the benefits of common skies: more choice for passengers, lower prices, high levels of safety and security, better service and a competitive air transport industry.

Most aviation experts expect that in the future the air transport industry will become a more normal industry with cross-border mergers, global companies and international competition. Nationality rules have become obsolete in a globalised economy. The EU has already contributed — via its agreements with the USA and with neighbouring countries — to the reform of the legal framework for international flights. This means more economic opportunities for the air industry and more choice for air transport users.

The EU has established a completely new approach for air transport agreements. Opening the skies is combined with establishing common rules. The aim is to contribute to enhancing the safety, security and sustainability of air transport worldwide. The EU is taking a lead both in the liberalisation and the regulation of air transport.

The ultimate goal is the normalisation of international aviation policy. In a rapidly globalising economy, the aviation industry should be treated more like other global industries. Gradually removing unnecessary regulatory barriers will allow both the airline industry and air transport users to fully reap the benefits of an open, competitive market.

EUROPEAN COMMUNITY AVIATION AGREEMENTS
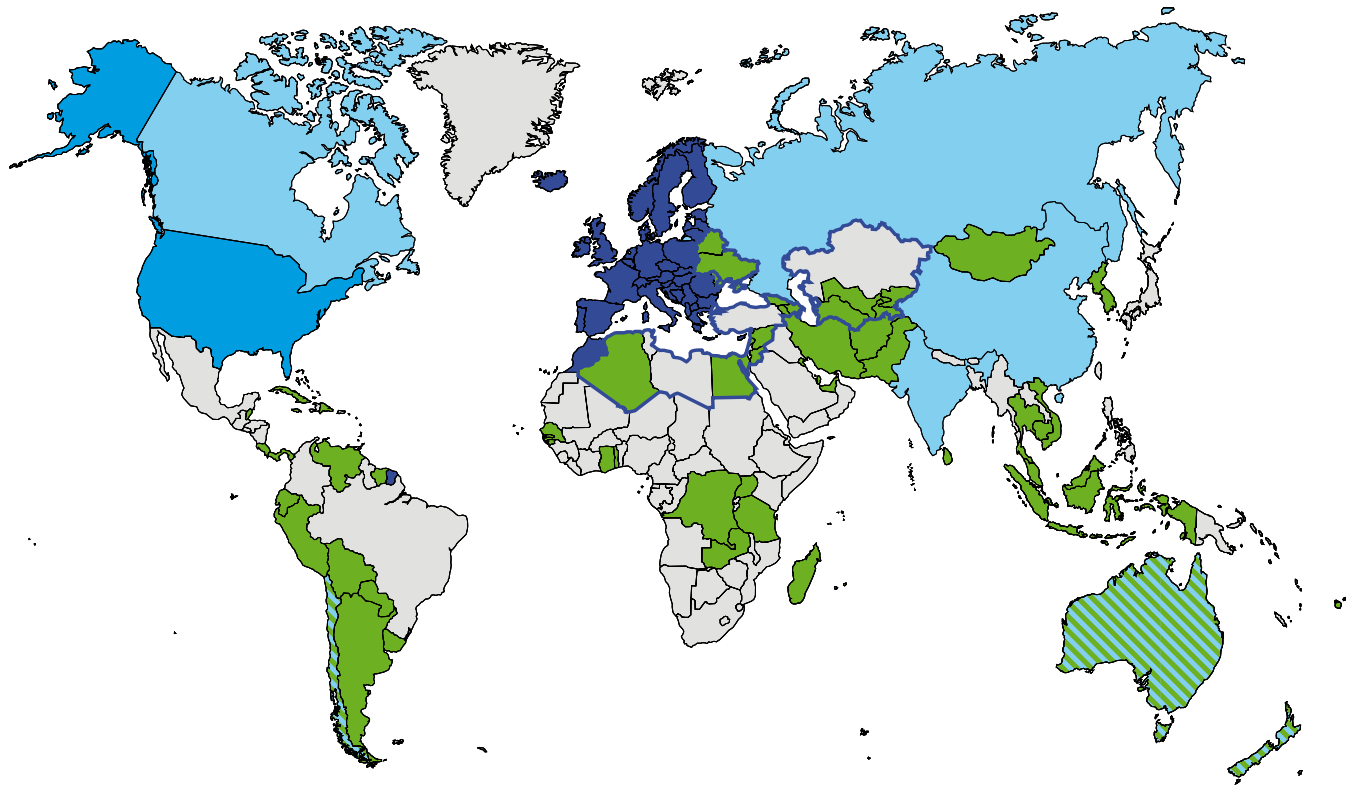
European common aviation area + Switzerland
Common aviation area by 2010
Global agreements
Global agreements proposed (Canada, Russia, China, India, Australia, New Zealand, Chile, Jordan, Lebanon)
Countries that accepted Community designation clause (either under EC horizontal agreement or bilaterally)
Community designation clause under negotiation

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