ACI EUROPE
AIRPORTS COUNCIL INTERNATIONAL

EXPANDING EUROPE'S AVIATION MARKET

PREREQUISITE FOR GLOBAL RELEVANCE



EXPANDING EUROPE'S AVIATION MARKET

EUROPEAN AVIATION IS STRONG. HISTORICALLY, IT HAS BEEN ABLE TO CAPITALISE ON SEVERAL FACTORS: THE FAVOURABLE GEOGRAPHIC POSITION OF OUR CONTINENT, GOVERNMENTAL SUPPORT EVOLVING INTO THE CREATION OF A SUCCESSFUL SINGLE AVIATION MARKET AND THE RELATIVE WEAKNESS OF OTHER WORLD REGIONS.

This has allowed Europe to consistently rank as the second aviation market worldwide after North America, even holding the first position for international passenger traffic. To this day, Europe's airlines and airports are a prominent force in the global aviation market.

However, this position is now under threat as a result of tremendous changes taking place in the world economy. These changes are directly impacting aviation markets, which are intrinsically linked to international trade, economic performance and mobility.

In order to protect the position of Europe as a leading aviation market and ensure that the sector continues to act as an engine of economic growth for our continent, bold moves are required. Further progress needs to be made – quickly – in aviation liberalisation.

This paper looks at the evolution of global aviation and the position of Europe from a strategic perspective. Building on the success of the Single European aviation market, it calls for an acceleration of aviation liberalisation led at EU level, based on a set of guiding principles and key priorities.

A STRATEGIC PERSPECTIVE ON EUROPEAN AVIATION: CHALLENGES & OPPORTUNITIES

European aviation is at a crossroads. The rise of new economic powerhouses in Asia and Latin America combined with slow GDP growth in Europe is directly affecting the European aviation market. Indeed, while air traffic in Asia, Latin America and Africa has experienced a dynamic recovery since 2009, Europe is lagging well behind. After losing close to 100 million passengers in the wake of the financial crisis, air traffic recovery at Europe's airports has been slow and uneven.

In the foreseeable future, the current gap in air traffic growth between Europe and emerging economies is unlikely to reverse. It is set to become a stable feature, thus reflecting diverging economic fundamentals.

Just looking at the BRICs (Brazil, Russia, India and China), these countries alone have accounted for half of the world's economic growth since 2008. In the coming years, BRIC countries are expected to grow three times quicker than the mature economies of Europe and North America. Beyond BRIC countries, the United Nations has identified another 27 emerging or potentially emerging countries with a combined population of 3 billion people – smaller but still increasingly significant markets in terms of their economies and aviation.

Emerging markets' rising middle class – purchasing power 2010:



Accepted key drivers for aviation growth in emerging countries include buoyant economies, young and increasingly skilled populations, rising living standards and a blossoming aspiration to fly. Crucially, other factors are not only boosting demand for air transport in these countries, but also challenging the position of European aviation.

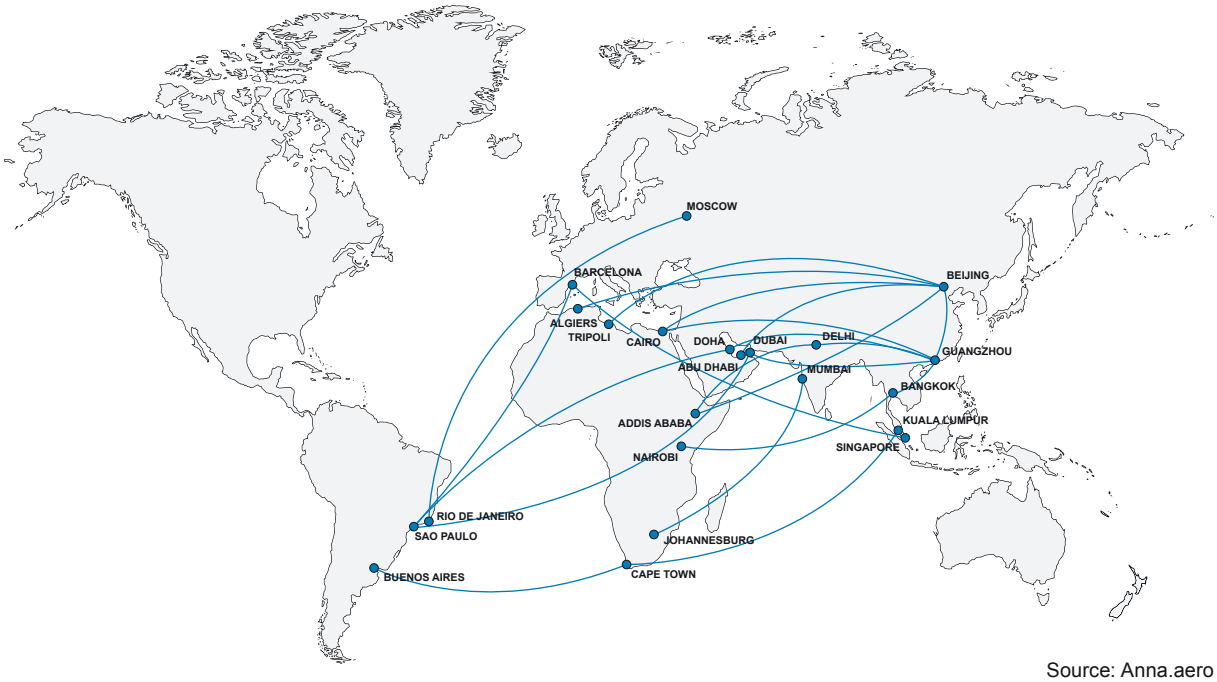
> 75%

In 2015, emerging markets are projected to account for more than 75% of global growth

Source: International Monetary Fund

The structure of world trade is changing. The classic model of the developing world almost exclusively supplying goods to the developed world and supporting its global economic hub status is receding. Increasingly, new trade links are fast developing between the emerging economies of Asia, Latin America and Africa.

→ NEW EMERGING COUNTRIES' ROUTES SINCE 2007

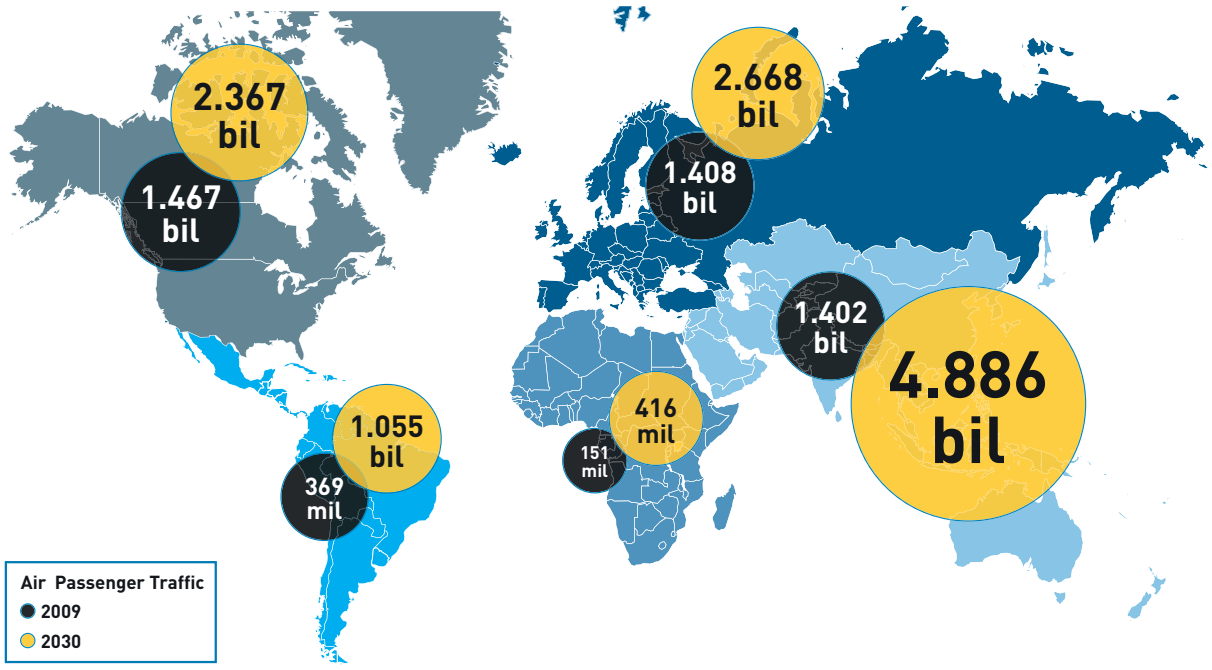


Source: Anna.aero

As a result, while direct air routes between these countries used to be fairly limited, they are now being developed along those new trade links. This means that the position of Europe as a hub for air traffic flows between other world regions will increasingly come under threat – by-passed by new direct or indirect air services between these regions.

A structural shift in global aviation is taking place. By 2030, the Asia-Pacific region will surpass all other world regions with more than 4.8 billion passengers – up from just 1.4 billion in 2009. Although the European aviation market will nearly double in size over the same period, it will maintain a distant second position with 2.6 billion passengers – still overtaking North America.

→ GLOBAL SHIFT IN AVIATION PER CONTINENT



Source: Airports Council International

Dynamic growth will also triple the size of the aviation market in Latin America, with the continent rising above the 1 billion passengers mark. While these changes bring unprecedented challenges to Europe, they also come with significant opportunities, not least the prospect of attracting and developing air traffic flows with emerging countries. We need to make the most of these new aviation powers in the making.

Related benefits for the European economy would extend well beyond the aviation sector. Indeed, the move towards a multipolar world economy will further increase the reliance of Europe on international trade, which in turn relies heavily on air transport. This evolution will only reinforce the relevance of aviation and its positive contribution to society.

In this context, it is worth noting that in the most ambitious emerging countries, aviation growth is a key priority for national economic policy. Contrary to what increasingly happens in Europe, aviation in these countries is considered as a strategic sector – an indispensable asset for boosting the competitiveness of their economies and reaching their development goals. This means that Governments in emerging countries are usually supporting their airlines and heavily investing in airport infrastructure. This also means that they would consider it thoroughly counterproductive to penalise air transport through measures such as aviation taxes. In many ways, they are behaving the way European Governments used to do not so long ago.

A UNIQUE ASSET: THE SINGLE EUROPEAN AVIATION MARKET

The establishment of the Single European aviation market in the 1990's was a bold move. By removing all restrictions on air services within the EU, including those on destinations, capacity, frequency and pricing, Europe created the largest liberalised international aviation market in the world. Today – 20 years on – it is clear that the impact has been phenomenal, with positive outcomes for all stakeholders: citizens, airlines, airports and their communities – not to mention the European economy.

New airline models have emerged – in particular Low Cost Carriers (LCCs) and incumbents have restructured, adjusting to a new market reality. This has led to significant network development throughout Europe, with new air services not just from hub and capital city airports, but also from and between regional airports. Citizens have thus reaped the benefits of increased mobility at lower costs.

Being more flexible and free to start (or cease) air services between the airport of their choice, European airlines now have access to a virtual "airport superstore" to choose from. They have been able to grow and merge, gaining market share both within Europe and beyond, often acting as leaders in the development of worldwide alliances.

This situation has considerably increased competitive pressures on Europe' airports. It has been instrumental to their business transformation – with airports having evolved from mere infrastructure providers into fully fledged and diversified businesses.



The strong position of European aviation – including its hub positioning – would not have been possible without the Single European aviation market. This is a unique asset which has fully served its purpose, allowing aviation to provide optimum connectivity for Europe, with a contribution of more than €120 billion to its economy and 3 million jobs.

However, as mentioned already, the changes under way in the world economy and in global aviation are bringing new challenges that Europe needs to address, but also new opportunities that it needs to seize. For that, an ambitious external policy is required for European aviation. Capitalising on the success of the Single European aviation market, further liberalisation beyond its present boundaries is a must and deserves political priority.

EU EXTERNAL AVIATION POLICY: GUIDING PRINCIPLES & KEY PRIORITIES ↓

The main guiding principles and key priorities for the EU external aviation policy should be the following:

1. TAKE A LEADERSHIP POSITION

Recognising the key role of aviation liberalisation to enhance the competitiveness of the European air transport industry.

With aviation markets in emerging countries booming and the European market reaching maturity, it is essential to increase our links with those markets. Europe must be in a condition to attract and develop air traffic flows to and from these countries. This is important to:

- Protect and reinforce the position of both Europe's airport hubs and network airlines as regards traffic between the different world regions – in particular on the West/East and South/East axes.
- Create new business opportunities for Europe's regional airports, as well as Europe's network and low cost airlines. The maturity of the European market has seen regional airports and low cost airlines looking at developing new international routes between the EU and its neighbouring countries – across the Mediterranean and to the East. New and more efficient aircraft technology (Airbus A320 NEO, A350, Boeing 787) will soon allow for air routes that are currently not economically viable to be opened, providing new direct medium and long haul connections.

Ultimately, aviation liberalisation is about creating a competitive market place for the benefit of the travelling public and the European economy. There is ample evidence that new air services form new economic capabilities for local and regional communities. Better international accessibility is key to attract new industries in a region and allows the area to compete for economic opportunities throughout the world.

Therefore, the EU needs to take the lead not only to protect its position as a dynamic and attractive aviation market, but also put itself in a position to compete with new and emerging aviation powers. In this regard, a "slow moving external aviation policy" would be counter-productive, with the risk of a slow decline and retrenchment for European aviation.

2. "FIRST MOVER" ADVANTAGE

Moving quickly beyond the EU and the transatlantic market.

At this point in time, aviation markets between emerging economies tend to remain subject to restrictive bilateral air service agreements. The fact that they have not yet benefited from the dynamics of a liberalisation process is slowing route development and potential aviation growth. On the contrary, Europe has already created the biggest integrated regional aviation market. Europe has also liberalised aviation with the US and Canada – even if some aspects of this liberalisation have not yet been fully achieved, mainly due to remaining restrictions on airline ownership.

Moving now to liberalise aviation between the EU and its external markets (before liberalisation efforts between emerging markets step up) would allow Europe to further capitalise on what has already been achieved. Crucially, this would both protect and reinforce the position of the European aviation market on the global stage.

This is extremely relevant in relation to the need to support the hub and network positioning of Europe's airports. It is equally relevant for supporting European airlines in the consolidation process at a global level. Additionally, "moving first" on aviation liberalisation would also play an important role for the dissemination of European technical standards, with potentially significant benefits for the European aerospace industry.

The strategic relevance of such an approach is therefore obvious – this is about putting European aviation in a condition to anticipate and adapt to the new reality of the global aviation market.

3. MULTIPLE PRIORITIES

Extending the European Common Aviation Area and reaching out to the EU's main trading partners.

The EU should urgently pursue a multiple agenda:

STEPPING UP EFFORTS TO CREATE A PAN EUROPEAN/MEDITERRANEAN AVIATION AREA extending to North Africa, the Near East, Turkey and all countries to the East of the EU except Russia (but including Central Asia).

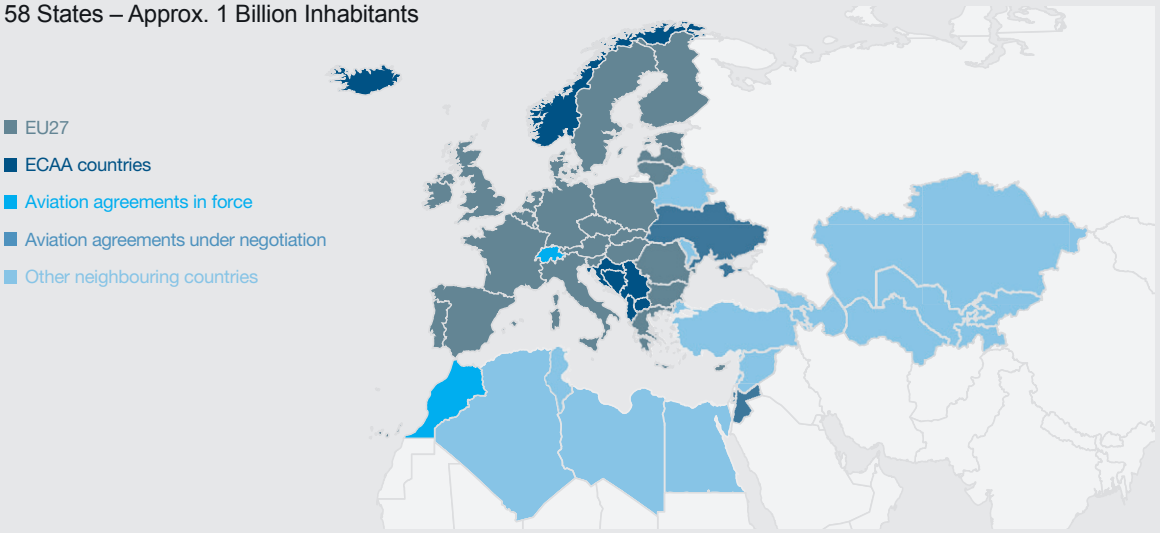
Given the existing economic, political and cultural ties between these countries and EU States, the potential for air traffic development is significant. This is a low hanging fruit which would benefit all European airlines and airports. In particular, this would offer development opportunities to secondary and regional airports due to the geographical proximity of these markets and the fact that many of these countries are experiencing significant economic growth. The extremely positive impact of the EU/Morocco aviation agreement signed in 2006, is a case in point.

EU/Morocco aviation agreement

- Total passenger traffic increased by over 22% in 2007 – from 6.6 million to 8 million.
- More than 50 new routes (from Fez, Tanger, Oujda, Gerona, Marseille, Bergamo, Gatwick etc.).
- 12 new air carriers have entered into the EU-Morocco market.
- Cross investments between the two shores of the Mediterranean: allow the development of the Moroccan air carrier Jet4You financed by European investment (TUIfly) and should facilitate the process of privatisation of Royal Air Maroc (RAM).

Source: European Commission

58 States – Approx. 1 Billion Inhabitants



Source: European Commission

While efforts have already been made in that direction under the leadership of the European Commission, they should be reinforced. This is necessary if the objective of creating the biggest integrated aviation market in the world, bringing together 58 countries with a combined population of 1 billion, is to be achieved by 2020.

Fundamentally, a new and more visible political dynamic for accelerating aviation negotiations should be sought – involving a new concept and a new type of multilateral Aviation Agreement allowing for multi-faceted integration of these markets under "one roof". This initiative could be supported by a dedicated Aviation Summit taking place on a regular basis so as to afford it visibility and help steer political support.

OPEN NEGOTIATIONS WITH THE EU'S MAIN TRADING PARTNERS IN EMERGING MARKETS: Brazil, Russia, India, China, Mexico and the ASEAN countries.

These countries are the new powerhouses of the world economy. Liberalising air traffic with them would allow Europe to tap into an impressive pool of first-time fliers. The results would drive additional air traffic to and through Europe's airports – both for point-to-point and transfer traffic beyond to other continents. A fully liberalised and reciprocal aviation regime with these countries would also create cross-border growth opportunities for European airlines through increasing airline cooperation and even mergers. These are opportunities that Europe cannot afford to miss.

Economic benefits for Europe of fully liberalised aviation agreement with BRICs:

+ €2.3 BILLION/YEAR

A significant and encouraging step has been reached with the initialization of an EU-Brazil aviation agreement in March 2011. Given the time that negotiations with India, China, Russia, Mexico and ASEAN countries would take to deliver, all possible avenues should be explored, to begin the process as soon as possible.

Going forward, the EU should look at similar negotiations with other emerging markets. These initiatives should primarily focus on those countries with a significant population and domestic aviation market to ensure a balanced result.

CONCLUSION

Avoiding the marginalisation of our aviation market is one of the fundamentals required to ensure that Europe maintains its global economic relevance. Resisting further opening of our skies and turning our airports into fortresses would be a major mistake. Europe needs to embrace the new reality of the global aviation market.

Building on significant achievements at EU level, ACI EUROPE is advocating a renewed and decisive advancement of Europe's external aviation policy. Based on an ambitious and all-encompassing vision, our proposed strategy is putting Europe's citizens and businesses first – as they will be the immediate beneficiaries of a more open and thriving European aviation market.



AIRPORTS COUNCIL INTERNATIONAL

Airports Council International Europe, founded in 1991, represents the interests of over 400 airports in 46 European countries. Our members account for over 90% of commercial air traffic in Europe. In 2009, ACI EUROPE's member airports welcomed over 1.4 billion passengers and handled 15.4 million metric tonnes of cargo and nearly 20 million aircraft movements.

www.aci-europe.org

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