

## ACI EUROPE Contribution to the EU's External Aviation Policy

(Brussels, September 2014)

Over the past decades, Europe's airlines and airports have been a prominent force in global aviation. A significant part of that success has come from the EU economic integration process and the creation of the Single market, with EU aviation liberalization process playing a key role.

### ***European Aviation's Global Position Challenged***

However, a number of factors are now clearly challenging this position:

- 1) The global economic shift to the Asia-Pacific region, as well as the rise of emerging countries in other World regions** (Latin America and potentially also Africa) as economic powerhouses.

2013 was the first year in which emerging markets accounted for more than half of World GDP<sup>1</sup>. This represents a significant milestone, given that these markets accounted for less than 20% of a much smaller total – and is considered by many as the biggest economic transformation in modern history. While growth rates in some notable emerging markets (BRIC) have slowed down, the shift towards emerging economies will continue.

What is especially notable, is that these countries are no longer just seen as speculative investment opportunities – they have become core business growth opportunities. Indeed, for any business based in Europe that wants a market growth of more than +2%/year, looking beyond the home European market is a must.

All this means that Europe is increasingly becoming dependent expanding its trading capabilities with emerging markets – so as to be able to tap into new and future sources of wealth.

- 2) Global transport is being reconfigured as a result of Globalisation and the above mentioned economic shift.**

Exports are becoming more and more important, and international trade is a key factor for achieving efficiency and cost reductions<sup>2</sup>. But changes in the flows of the World economy are directly impacting Global transportation, which is being reconfigured to match and support new and powerful flows – especially the so-called south-south trade.

South-south trade reflects the fact that emerging markets are increasingly trading with each other, on the back of the rapid growth of their middle class. It is growing very fast, and already accounts for 30% of World trade. As such, it creates new transport needs and market opportunities for transportation providers.

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<sup>1</sup> IMF (GDP expressed on the basis of purchasing power)

<sup>2</sup> "Without the efficiency and cost reduction driven by international trade, a personal computer would still cost USD 3000" – Andrea Leonel, Treasury Services, JP Morgan

For European aviation, it means that its Global hub position is being challenged by the development of direct air routes between emerging markets and the advent of new hubs outside Europe which are capturing indirect traffic flows between emerging markets.

### **3) The European aviation market is progressively reaching maturity.**

While there is still room for growth in terms of intra-European demand, future growth over the next 20 years is expected to be half the level of growth of the past 20 years (1,8%/annum v. 3,6%/annum)<sup>3</sup>.

This means that external markets and emerging countries in particular should be considered a source of growth for the future.

### **4) Europe has lost out in terms of direct connectivity since the Global financial crisis**

The Global financial crisis has marked a turning point as regards the EU's air connectivity. Indeed, based on ACI EUROPE's *Airport Industry Connectivity Report*:<sup>4</sup>

- Direct connectivity from EU airports has decreased by -7% between 2008 and 2014. Connectivity gains for EU airports have therefore been entirely due to gain in indirect connectivity – with a large share being channeled via Turkish & Gulf hubs.
- While EU hubs have been more resilient than small regional airports, their direct connectivity gains have been unimpressive (+2,1%). Overall, they have lost a 10% market share in onward connectivity (share of indirect connectivity from Europe).
- The relevance of the top 3 EU hubs on the intercontinental market has considerably diminished. Back in 2004 they offered a level of intercontinental connectivity level that was three times the level offered by the top 3 Gulf hubs. Today, the 3 Gulf hubs offer a level of intercontinental connectivity that is twice the level of the top 3 EU hubs.

While air connectivity is primarily influenced by market forces and technology, policies and regulations also have a key role to play. The above figures are pointing to Europe being increasingly by-passed as an aviation hub and significant player in providing global connectivity. Beyond aviation, this is also impacting the European economy, more specifically its global outreach - and its ability to support and enable trade with its main partners and emerging markets.

## ***EU Aviation Policy Strategic review***

The challenged position of Europe on the global market – and its impact on the European economy calls for further consideration to be given to the EU's external aviation policy as a way to support air connectivity and its positive externalities. This is fully in line with focus announced by the incoming President of the European Commission on Growth, Investments and jobs.

- *Better alignment between bilateral and EU negotiations*

In this regard, the system of restrictive bilateral agreements regulating aviation relations between individual EU member states and the rest of the world is an obstacle to air connectivity growth – as it

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<sup>3</sup> 2035 Traffic Forecast - EUROCONTROL

<sup>4</sup> Released at the 24<sup>TH</sup> ACI EUROPE Annual Congress, June 2014 (Frankfurt) – see [www.aci-europe.org](http://www.aci-europe.org)

limits the development of existing air services and the establishment of new air services. For EU airports and their communities more specifically, such agreements limit their ability to attract new services and improve the connectivity of the communities they are serving – thus hindering the ability of the sector to deliver increased consumer benefits and local economic growth.

While replacing all existing bilateral agreements by EU negotiated agreements promoting free market access and ensuring a reasonable level of regulatory convergence on key aspects (safety, security, competition) will take time, *agreed principles* should allow to progressively align the conduct and results of these bilateral negotiations while they still take place.

These *agreed principles* should include:

- Agreement that aviation negotiations need to reflect the strategic relevance of aviation and the connectivity it affords for the European economy.

This means that the objectives of these negotiations should be re-balanced where necessary to reflect the full spectrum of the interests involved – in particular consumers, businesses that rely/depend on aviation and job creation.

Systematic impact assessments should be conducted, so as to assess and review the interests of all interested stakeholders. They should serve as the basis for a transparent and formalized determination of the objectives.

- Agreement that the conduct of these negotiations should give the opportunity to all key interests at stake to be consulted for the determination of the specific to be pursued. This means that airports should in particular be involved, as they are best placed to represent not only their interest but that of the Communities they serve (since both are keen to maximize and develop air connectivity).
- Airports should also be given the opportunity to be represented at these negotiations.

These *agreed principles* should be formalized and apply both to bilateral and EU negotiations. This would also allow for a greater convergence between bilateral and EU negotiations.

- *Aligning the EU's internal and external aviation policy*

As regards EU negotiations, the formulation of a clear strategic direction at the level of the overall EU transport policy is needed. As evidenced by the last ECAC/EU Dialogue with the air transport industry (Vienna, 3-4 July 2014), there seems to be a wide consensus about the need for a more strategic direction for the EU transport policy. However, when it comes to determining which strategic direction needs to be followed, the consensus disappears on what such strategic direction should be.

This lack of clearly defined and aligned strategic direction for the EU transport policy has certainly impacted the ability to progress on external relations. It has been a key factor in the resistance of some stakeholders to a more liberal and forward looking agenda – based on liberalized market access as well as liberalized ownership and control.

Two interrelated issues need to be considered in defining a clear and aligned strategic direction:

- The Competitiveness of the European aviation industry, with a focus on the Single European Sky, airport capacity, Security costs and other regulatory driven costs as well as labour costs, – especially in the light of how these issues/costs compared with other countries that are now Global players in aviation.

- The benefits of a liberal and progressive EU external aviation policy for the European Economy based on:
  - ✓ Free market access and liberalized ownership and control.
  - ✓ A reasonable and achievable level of regulatory convergence.

These two issues need to be apprehended jointly and should form the basis of a comprehensive review of the EU Transport policy.

- *Moving forward on external aviation policy*

While moving forward on the EU's external aviation policy will require a step change in the way internal aviation policy is dealing with the challenge of the competitiveness of our aviation industry, ACI EUROPE refers to its publication - *Expanding Europe's Aviation Market: Prerequisite for Global Relevance*<sup>5</sup> for a proposed set of guiding principles which can be summarized as follows:

- Take a leadership position globally on aviation liberalization.  
Recognising and supporting the key role of aviation liberalization to enhance the competitiveness of Europe - as part of the forthcoming EC Growth, Investment and Jobs Package.
- Make the most of a "First Mover" advantage.  
Moving quickly beyond the EU and the Transatlantic market before emerging countries start liberalise air traffic between each other (and thus risk marginalizing further Europe as a global aviation hub).
- Pursue multiple priorities.  
Create a Pan-European/Mediterranean aviation area, and open market access with the EU's main trading partners: BRICS, Mexico, ASEAN countries and Japan.

***In conclusion***

Given the marginalization challenge faced by European aviation and the connectivity challenge faced by the European economy, it is time to set a new approach not just to the EU's external aviation policy but to the whole of the EU's Transport policy.

This new approach is based on the increasingly strategic role that aviation plays for the European economy – and its competitiveness. It focuses on aligning internal and external aviation policy so as to support the European aviation industry and unleash its potential as a primary enabler of growth and job creation – by providing the connectivity needed for Europe's further integration and Global outreach.

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<sup>5</sup> Released at the 21<sup>ST</sup> ACI EUROPE Annual Congress, June 2011 (Lisbon) - see [www.aci-europe.org](http://www.aci-europe.org)