ACI EUROPE response to the European Commission consultation on an Aviation package for improving the competitiveness of the EU Aviation sector (June 2015)

ACI EUROPE's full response to the online questionnaire (including the answers to the multiple choice questions can be accessed here ACI EUROPE Answers.

1. Which of the following areas do you consider important to improve the competitiveness of the EU aviation industry? Please specify "Other"
Lack of sufficient airline competition on some routes can lead to airline & alliance substantial market power resulting in higher fares which subsequently impact accessibility and the connectivity of the regions and communities. In 2011 74% of intra-European routes where held by one airline only.

2a. Do you agree with the following statements as regards comparison of EU and non-EU carriers? Please specify "Other"
COMMENT ON 2A AND 2B. As a general remark, the title of the questionnaire refers to the EU Aviation sector. However, the questions appear to primarily reflect the airlines interest and point of view. This is symptomatic of the way some still consider international Air Transport Agreements (ATA). In our view, the interest of the passengers, the regions and communities should have been at the core of the consultation, supported by the input of the entire range of other aviation stakeholders such as airports and manufacturers as well as other interested non-aviation stakeholders such as tourism organisations and regional communities. It should be kept in mind that the primary goal of air transport agreements between sovereign countries is to foster the development of trade between nations and the welfare of consumers – not to help or protect a specific airline, even if the latter may be of importance.

When entering into or when negotiating an ATA, State authorities have to decide on the best way to reflect the general interest. For decades the general interest of the State and the interest of the State-owned airline were fully aligned. The evolution of air transport (in terms of ownership of airlines and stakeholders) and that of the European dimension means that such alignment is no longer consistent. The general interest must be decided at State level taking into account both the European obligations (such as the EU designation clause) and the interests of consumers with a view to providing the widest choice of destinations at the best possible price. This must be be supported by taking on board the views of all interested stakeholders and not just airlines.

ACI EUROPE's second concern relates to the lack of clarity or focus of the questions. For example, when referring to the notion of geographical advantage or of overcapacity, it is impossible to provide a global answer due to the diversity of non-EU regions that may be referred to. Questions that are part of 2a and 2b will be answered differently when considering US, Canadian, Gulf, Asian or African carriers and the geographical location of their hubs. This means that in light of the current public debate on the "Gulf carriers", some respondents are likely to interpret the questions concerning "non EU airlines" as referring specifically to the Gulf carriers while others won't. This will undermine the validity of some of the answers and may also affect the credibility of the consultation.

Taxation: Several EU countries impose significant aviation taxes (UK, Germany, France, Austria) which put the sector at a competitive disadvantage compared to other regions of the world while also significantly reducing the contribution that the sector could otherwise make to their economy. Studies assessing the impact of these taxes have been carried out in some countries. The European Commission should consider studying the impact of these national taxes on the competitiveness of the sector.

2b. Which do you consider are the most important three challenges or obstacles facing EU carriers when competing with non-EU carriers? Please specify "Other"

Here again the answers would depend on the markets considered - US? Africa? Asia?

2c. Can you identify unnecessary regulatory cost and procedures arising from EU legislation posing a burden and thus negatively affecting competitiveness?

Regulatory driven costs such as safety and security are high in Europe compared with other regions of the World. The EU is one of the only regions of the World where aviation security is not - at least partly - publicly financed thus resulting in an additional financial burden on our sector (yearly cost of Euro 4,2 billion a year). More cost-effective ways to carry-out security checks should be pursued allowing for a more optimal use of resources (risk based). This is already done in the US with significant results, in particular with the pre-checked initiative ($100 million of security costs saved annually and re-enforced effectiveness of security checks).

The EU Airport Charges Directive creates significant unnecessary regulatory cost, and undermines the competitiveness of the European aviation sector.

Firstly, it has a blanket scope, and applies to all airports with more than 5 million passengers per annum (mppa), as well as the largest airport in each Member State. The role of economic regulation is to avoid the adverse impacts upon users of excess market power, however in practice it is extremely unlikely that airports with 5 mppa will have such excess market power. The degree of market power will vary according to individual airports, and therefore a tailored approach should be taken to ensure that regulation is proportionate and fit for purpose. Otherwise airports and airlines are required to undertake lengthy annual processes which cannot be justified by any economic reality.

A more rational approach would be to apply the provisions of the Airport Charges Directive only in circumstances where an airport has been found to have excessive market power, and where it is determined that the benefits of regulatory intervention would outweigh the associated costs. This is the approach currently followed in the UK, and is considered best-in-class.

More fundamentally, it is widely recognised that prescriptive economic regulation removes the commercial dimension from the airline-airport relationship, and instead places the actors in a political environment, where both parties are incentivised to take opposing positions on key issues, conscious that an external regulator will attempt to broker a compromise based on these opposing views. This sets airlines and airports against each other on fundamental issues such as capacity expansion, service quality delivery and even traffic projections. This is in stark contrast to the situation in the Gulf, for example, where one of the strengths of the region's aviation sector has been the close cooperation between airports and airlines. This is based on the understanding that both parties depend on each other, and that a seamless passenger journey has to be provided to the passenger.

Global experience has shown that a proportionate approach to economic regulation causes the airline-airport relationship to shift towards a more commercial interaction, and this allows the emergence of bilateral deals between the airport and individual airlines, which incentivises specific growth plans, and delivers tailored levels of service quality to an airline and its passengers. In this respect a more proportionate and fact-based implementation of the Airport Charges Directive has the potential to significantly improve the competitiveness of the European aviation sector.

3a. In which areas should more be done to bolster international competitiveness of the EU aviation sector? Please specify "Other"

The question is ambiguous. The formulation "to bolster international competitiveness of the EU aviation sector" could lead to different answers than would a question on the importance of each matter. For example, safety and security standards are of upmost importance as such but may not be considered of the greatest importance within the context of a bilateral agreement. Likewise poor safety standards in non-EU countries could prompt passengers to fly on EU carriers and in this way "bolster" EU aviation.

*3b. Which are the three most important areas to focus on? Please specify "Other"

Airport capacity and connectivity.

4. Which instruments should the EU use in order to bolster the competitiveness of the EU aviation sector internationally? Please specify "Other"

The European Commission should recommend a lower/reconsideration of aviation tax in Member States. A fair competition clause should be negotiated as part of aviation negotiations and not as a stand alone provision.

5. The EU has signed comprehensive aviation agreements with EU neighbourhood countries (Western Balkans, Morocco, Georgia, Jordan, Moldova and Israel) and with major aviation partners (US and Canada). Negotiations have been finalised with Ukraine and are on-going with Brazil. The Council has also granted authorisations to negotiate with Australia, New Zealand, Azerbaijan, Lebanon and Tunisia. Which countries/regions should in your view be priorities for possible future EU-level negotiations of comprehensive air transport agreements? Please list countries/regions in order of importance.

- BRICS
- Turkey and other neighbouring countries
- ASEAN
- Japan, South Korea
- Mexico
- Gulf States

6. Are there any specific issues in relation to international air transport agreements that you wish to raise?

Lack of transparency regarding the negotiation of air transport agreements in some countries (not all aviation stakeholders are informed or consulted) and no access to the content of aviation agreements.

7a. Should the EU intensify its efforts at multilateral level towards free access to markets and further liberalisation of air transport through multilateral agreements? 7b. Why?

More competition, more consumer (passenger) choice, lower costs and fares, more opportunities for European businesses and ultimately more EU growth and jobs.

7c. How?

- Through more mandates granted by Member States to negotiate EU level agreements with the EU's main trading partners: BRICS countries, Turkey and neighbouring countries, ASEAN, Japan and South Korea, Mexico and Gulf States.
- The European Commission should set clear priorities in this area based on benefits to citizens, regions and communities. Furthermore, the European Commission should also get adequate resources and expertise for this important task.

8a. The EU rules on ownership and control currently allows foreign investment up to 49% of an EU air carrier while effective control must remain in EU hands. 8b. Why?

More opportunities for EU businesses in a globalised environment while allowing EU airlines to be recapitalized and restructured.

11a. Do you see the strong environmental performance of EU aviation as providing a competitive advantage? 11b. If yes, how?

Yes, as it results in lower energy/fuel costs. In the long term, it might also lead to preferential treatment at congested airports.

12. Identify the three preferred options to reduce the carbon footprint in aviation? Please specify "Other"

In 2009, the entire aviation sector (airlines, manufacturers, ANSPs and airports) through ATAG (Air Transport Action Group) adopted a series of environmental targets:
- improving fuel efficiency by an average of 1.5% per year from 2009 to 2020;
- stabilising emissions from 2020 with carbon-neutral growth;
- an aspirational goal to reduce net emissions from aviation by 50% by 2050 compared to 2005 levels. To deliver, ATAG developed a 4-pillar strategy and assessed the respective contributions of the various pillar in reaching the end targets. The 4-pillar strategy consists of:

1. The development of new technologies
2. More efficient operations
3. The improvement of infrastructure efficiency
4. A Global Market-Based Measure

Under the development of new technologies, the role of biofuels is instrumental in delivering the benefits needed to reach the 2050 goal. While several bio jetfuels have been certified and more than 1500 flights have already been powered by biofuels, a lot needs to be done to reach the industrialization phase. Public action is needed to foster the production of sustainable alternative fuels for aviation.

The 2nd pillar is related to enhanced en-route efficiency and relies on the implementation of the SESAR programme in Europe. The 3rd pillar covers the collaborative initiatives that can take place at airports and result in less fuel consumption on the ground (e.g. shorter taxiing time).

Last but not least, the aviation industry acknowledges the need for a global MBM to close the gap to the 2050 goal. However, the nature of this Global MBM was left to the discussions in ICAO. A global offsetting scheme would enable to deliver on the expected environmental performance, while ensuring that the global MBM is easy to administer and to implement for airlines and States alike.

13a. What are the social issues that need to be addressed to safeguard the competitiveness of the aviation sector?

Flexibility / Mobility of labour while maintaining minimum labour standards at EU level in order to prevent social dumping.

14. Taking into account the competition between transport modes, how can the EU best promote combining modes (intermodality) where it offers clear benefits in terms of convenience and for the environment?

The first benefit of intermodality is to increase mobility for European citizens. Therefore, we fully support initiatives from the European Commission aimed at promoting intermodality. The issue of

competition between modes should be overcome to focus on developing intermodality where it adds value to passengers. EU actions for intermodality should start with short-term actions:
- Where railway links already exist at an airport, rail and air schedules should be aligned;
 - Where there is no rail access at the airport, bus or coach shuttles to nearby rail stations should be provided;
- Public transport should be considered as part of the intermodal solution. In the medium-to long-term, there is a need to identify and promote good practices: where does intermodality work, and why?
- The European Commission should consider commissioning a study to provide an overview of all existing integrated ticketing projects and journey planners and identify potential gaps.
- In order to improve the efficiency and the effectiveness of intermodal distribution and ticketing efforts, all Commission- funded and/or –supported initiatives should be coordinated, ideally through the TAP-TSI Steering Committee and Governance structure which has already been functioning for a considerable time.

The European Commission should ensure fair and equal treatment with regard to public financing and state aid rules between competing modes of transport.

15a. Are there EU Member States or regions where air transport connections are not sufficient? For each Member State or region concerned, please describe the issue(s).
There is a strong relationship between connectivity per capita and GDP per capita. See ACI EUROPE Connectivity Report: Total connectivity per capita vs. GDP per capita (P.9) might shed some light on the issue.

15c. If "Somewhat relevant" or "Completely relevant" please explain the type of air transport connection required. Please specify "Other reason"
Air transport connections are extremely important for overall economic development. It has been demonstrated empirically on many occasions that there is a strong relationship between air connectivity growth and wider economic growth. Most recently ACI EUROPE commissioned a study which examined data on European counries' GDP per capita and air connectivity over a number of years. This work controlled for other factors that influence GDP, and found that for every 10% increase in a country's air connectivity, there is a 0.5% increase in GDP per capita.

It was also found that this relationship is two-way i.e. GDP impacts connectivity but connectivity also impacts GDP, acting as a "virtuous circle". This relationship reflects the fact that better-connected economies or countries are more able to engage in trade, to be able to attract inwards investment and tourism, and are subsequently more productive and therefore allow their inhabitants or citizens to generate higher incomes.

It is not necessarily very beneficial to attempt to specify the "type" of air connectivity required to contribute to economic development, as the nature of the connectivity put in place will already reflect the economic developments already unfolding, as part of this "virtuous cycle".

For example, direct connectivity differs from indirect connectivity, where a passenger is required to connect to their destination airport via a 3rd airport. Direct flights are generally considered to offer a better connectivity, as they are shorter, in terms of time and distance. However in practice indirect connections are in place where current market demands do not support a direct flight. Increased flows of passengers between the origin and destination, facilitated by the possibility to connect indirectly, may allow economic and personal links to develop, often allowing a commercially-viable direct connection between the two cities or regions to be established in the future. But even if not, the indirect connection may provide connectivity which would not otherwise have been available.

Moreover, it should not be forgotten that indirect connectivity also provides healthy competition to direct connectivity as it is usually priced by airlines at a lower level than direct connectivity.

Whether the connections are provided at the right time depends upon the underlying demand from passengers. Flights between two economically-important cities and which cater to business travellers may require a double daily service. But flights to tourist destinations, or catering to price-sensitive passengers (such as migrant workers) may be served by a cheaper flight which arrives or departs at a less convenient time.

Similarly, as an air link between two cities or regions grows, an airline may need to decide whether to put one large aircraft on the route, and deliver a cheaper product with a reduced choice of schedule, or 2 smaller aircraft, which will lead to more expensive air fares, but with a greater choice of departure times. Ultimately the decision will be based upon the underlying demand from passengers. Whatever decision is made will cater to and reinforce the existing links between the cities or regions.

The two-way relationship between connectivity growth and GDP growth means that the form that air connectivity takes will generally be in response to prevailing ties between two cities or regions. All other things being equal, higher quality-higher price connections (e.g. a twice-daily direct flight) will be provided where they are most suitable, while lower quality-lower price (e.g. an indirect connection at less convenient times) will be put in place when this best serves the aggregate needs of passengers.

Passengers' demands and airlines' responses can therefore in most cases be relied upon to deliver the optimal "type" of connectivity – certainly at structurally profitable larger airports. The optimal policy approach therefore is not to attempt to artificially shape connectivity, but rather to put in place the conditions to facilitate the growth of connectivity more generally. For example ensuring that there is adequate airport capacity, or that slot allocation rules are geared towards an efficient and effective use of scarce airport facilities.

17a. Should the EU help to make the concept of 'green airports'(*) a reality? (*) Rail and in general public transport landside access to airports are becoming increasingly important. It is critical to airport route development, especially long haul, and to airport growth. More and more authorities either oblige or incentivise airport operators to improve their environmental footprint. With some 50% of CO emissions of an airport being caused by landside access, public or shared transport options are crucial. "Green airports" refer in this context to airports that act on lowering CO emissions of landside access. 17b. If yes, how?

Due to the subsidiarity principle, the European Commission might support a more environmental-friendly landside access to airports through the financing and promotion of individual projects. In a similar vein as the suggestions made to foster intermodality (Question 14), an approach that would consist in identifying, promoting and rewarding best practices might be the most appropriate. A range of best practices have been identified at airports, especially within the context of Airport Carbon Accreditation. Indeed, at Level 3 of this carbon management certification programme, airport operators are requested to design stakeholder engagement plans. Surface access is one of these areas where carbon management initiatives should be demonstrated.

19a. Taking into account existing EU legislation (on airport charges, groundhandling) are there improvements that could be made to help ensure that EU airports provide efficient, high-quality services to citizens and businesses? 19b. If yes, please provide suggestions on possible actions or initiatives in these areas.

Allow airport operators to impose minimum service levels for ground handling and give them the enforcement tools to make sure that these can be upheld. However, in Member States where licensing systems are in place, withdrawal of licenses should remain a power of national aviation authorities.

A clear distinction must be made between the quality of service which is provided by airport operators and the overall experience at an airport which is dependent upon a range of different actors as well as the available capacity of the infrastructure in question.

In terms of the former, ACI EUROPE is aware of no systematic evidence that service quality provided by airport operators is a systematic problem across Europe. Indeed all the indications are that such service quality levels have been increasing in recent years. The ACI Airport Service Quality Programme (ASQ Programme) regularly questions in a standardised way a large sample of passengers at participating airports. Passengers are surveyed on their perception of a range of airport facilities and services, and asked to rank these on a scale of 1 to 5. It has been found that European airports have seen their average passenger satisfaction increase by 5% between 2008 and 2014 inclusive. With some variation, this trend was generally observed across all measures of passenger satisfaction, as well as within all categories of airports sizes. This was based on a sample of 43 European airports which participated in the ACI Airport Service Quality programme consistently between 2008-2014. Passengers at participating airports are surveyed via a standardised questionnaire on 8 elements of the passenger experience, such as 'overall satisfaction', 'courtesy & helpfulness of airport staff' and 'Cleanliness of airport terminal'.

Work has also been done to examine how European airports are embracing digital tools to improve the passenger experience. 80% of European passengers now pass through an airport with some form of free wifi, for example. 73% of passengers travel through an airport with an official branded smartphone App.

Recent work has also been completed within the industry, which has led to the publication of new Guidelines on Passenger Facilitation. At their launch the then-EC Vice President responsible for Transport Siim Kallas noted that the Guidelines "provide(d) real insight into how the passenger has become a focus of airport customer service" .

The above are all areas of service quality which are largely within the control of the airport operator. However the overall experience at the airport is dependent upon a wide range of different players, with varying relationships amongst themselves. Currently the airport operator is not in a position to coordinate these actors, nor to impose credible minimum levels of service quality where these are needed. Empowering the airport operator in this respect would allow the improvements which have already been delivered by airport operators to be extended to the wider airport experience.

ACI EUROPE believes that Ground Coordination is the only way to further improve the operational performance of airports. It ushers in a new collaborative work arrangement between all the different stakeholders at 26 an airport. Through information sharing, joint planning and tactical coordination, the Ground Coordinator can boost the effectiveness and efficiency of operations, while upgrading the passenger experience. ACI EUROPE has produced an initial presentation of the concept and is currently developing a more detailed description that will be presented to aviation partners and decision-makers.

Finally, the overall experience at an airport is very much linked to the availability of sufficient capacity. The absence of sufficient capacity can result in severe crowding and use of ad hoc temporary facilities within terminals, or delays and queues for passengers on the airfield and in the sky, for example. European airport operators have demonstrated a willingness and ability to invest in

new infrastructure, but have been held back by a range of policy and planning hurdles. While the issue of airport capacity is already being considered by the European Commission, it must not be forgotten that insufficient capacity is likely to be one of the most important, if not the most important, impediment to improvements of overall service quality within the airport environment.

In this regard, it is also important that airports are able to finance their modernisation and the development of their capacity. Incumbent airlines routinely oppose airport charges increases as a way to block the development of new capacity that would allow more airline competition - especially at congested airports. For these airlines, this issue is also related to the value of airport slots at congested facilities. This situation will become increasingly relevant as major airports congestion becomes the norm across the EU. Finally, it should not be forgotten that airlines do not pay the full cost of the airport infrastructure they use: Europe's airports are left with Euro 3-4 billion in unrecovered costs on the basis of the aeronautical charges levied on passengers and airlines.

21a. The SESAR(*) project proved to be a successful industrial partnership. Should it be extended to cover other sectors beyond air traffic management? 21b. In what way?
SESAR is a successful collaboration that should continue to coordinate the work of SESAR development. Meanwhile, its example should open the road to inviting industrial partnerships to undertake other important challenges. Specifically, the role of the Network Manager and Centralised Services would be provided more effectively and at a lower cost if they were tendered to an industrial partnership by the European Commission.

22b. If yes, which would be the action(s) to be taken to ensure that additional airport capacity can be made available where it is required? Please specify "Other"
The European Commission should set high level capacity targets for airports at EU level in line with the objectives of the Single European Sky. Member States should share information on airport capacity targets at national level. The European Commission should promote the exchange of best practice between Member States.

23. In aviation security(*), there is often a compromise between providing a smooth and efficient experience for passengers and ensuring passenger security. What areas of aviation security do you consider not currently providing a satisfactory balance?
The alleged compromise mentioned in the question above is the result of today's aviation security regime in the EU and need not be the case in the future. Currently, all passengers are treated to same with intrusive screening measures. A move to a risk-based approach would ensure assets are deployed where they are most needed. There are too many ad hoc/separate screening measures whereas there should be a more coherent approach to screening measures.

24. Do you wish to raise any other points regarding to airport security?
The EU should introduce passenger differentiation in the same way as the USA/TSA preCheck/Global Entry programmes so that lower risk passengers are subject to less intrusive screening measures. Passengers should be able to volunteer their personal information (for a subscription fee) that will be cross-checked against intelligence watchlists. Where no threat exists passengers should be allowed to use fast track screening lanes. A roadmap is required to outline requirements for each stage of such a programme.

26. Mention up to three technological developments and advance innovative concepts that you expect will transform the aviation sector in the next 10 years.
1) SWIM – System Wide Information System
2) Ground Coordinator
3) Stand-off passenger screening technologies

4) Biometric identification of passengers
5) Sustainable alternative fuels.

27a. Are there areas in which more should be done at EU level to ensure that EU airports provide efficient and quality services to people and businesses? 27b. If yes, please provide suggestions on possible actions or initiatives under these areas.
- The revision of Regulation 261/2004 - or any other piece of legislation involving air carriers' obligation to assist passengers - should ensure the presence of a local point of contact representing the air carrier at the airport, with the ability to inform, assist and compensate passengers on behalf of the air carrier.
- In order to guarantee a quality service to PRM (according to Regulation 1107/2006), pre-notification is essential. Air carriers must comply with this obligation (for instance providing passengers with the tools to pre-notify) and National Enforcement Bodies should effectively control and impose sanctions when needed.

28. Do you think that airlines and airports should intensify efforts towards the deployment and promotion of electronic services related to air transport (such as innovative IT solutions like e-tagging of luggage, electronic ID, etc.)?
Yes. ACI EUROPE supports industry initiatives on these two aspects

29. Please refer to any studies or documents that you think are of relevance for this consultation, with links for online download when possible.
- Expanding Europe's Aviation Market: https://www.aci-europe.org/component/downloads/downloads/2655.html
- ACI EUROPE contribution to the EU's External Aviation Policy: https://www.aci-europe.org/component/downloads/downloads/4201.html
- The Airport Carbon Accreditation-Annual Report 2013-2014: https://www.aci-europe.org/component/downloads/downloads/3955.html
- Report from EU Observatory on Airport Capacity: http://ec.europa.eu/transport/modes/air/airports/doc/observatory/an_aviation_stakeholders_view_on_intermodality_29-11-13.pdf
- Guidelines for Passenger Services at European Airports: https://www.aci-europe.org/component/downloads/downloads/3879.html
- The economics and regulation of on-board carriage of European airport retail sales: http://www.etrc.org/data-room/reports.html

30. Please refer to any successful initiatives at regional, national or international level related to aviation that could support the Aviation Package?
- Smart security
- ACI ASQ - ACI APEX (safety)
- Airport Carbon Accreditation
- UK approach to airport charges market power tests and the emergence of long term contracts between airlines and airports.

31. Are there any other issues you would like to highlight in relation to this initiative?
YES: THE STRATEGIC IMPORTANCE OF AIRPORT RETAIL
The following paragraphs are quoted from ETRC's paper (www.etrc.org): "ETRC contribution to the EU Consultation on how retail activity can improve the competitiveness of European Aviation" which ACI EUROPE fully supports.

"Over the past few decades, the EU aviation market has changed considerably. It is now widely agreed that Europe needs to improve the commercial competitiveness of its airports. ETRC believes that duty free and travel retail can make a significant contribution to this goal.

Creating a policy framework which will allow Europe's airports to fully exploit their commercial opportunity is a sensible and straightforward way to help solve what is becoming a systemic funding problem. Without a solid retail and commercial income, airports struggle to invest for the 31 future and to maintain world class facilities.

European aviation over the last 60 years has grown in parallel with, and been supported by, the growth of airport retailing. For passengers, the opportunity to shop at the airport has become an integral part of the travel experience.

ETRC believes that improving airport retail will make Europe's airports more commercially viable. Support and recognition for the important role played by airport retail will make that much easier to achieve. In this paper we set out our rationale and the initial policy areas which we believe need to be addressed. Fundamentally however, we wish to see the EU recognise the role played by duty free and travel retail, and to take the necessary steps to help us expand and grow the business.

Changes in the Airport market, and DFTR's contribution to airport finances

Airport retailing, which is a key element of broader commercial revenues, has been subject to significant challenges over the last twenty years. The ending of duty-free sales on intra-EU flights in 1999 removed the fiscal advantage of much of European airports' retail offering, forcing airports and retailers to re-fashion their offerings to passengers.

The accession of a further ten countries to the European Union in 2004, and two more in 2006, and most recently Croatia in July 2013, further reduced the scope for tax-advantaged shopping at Europe's airports. Retail revenues have also been subject to the same demand shocks that affected air travel in general since 2000, yet the sector has shown itself to be remarkably resilient and continued to deliver significant income to airports.

Just as the industry faced geo-political and economic challenges in the past, the move from bricks and mortar retailing towards online purchasing is making it increasingly hard to attract passenger demand in a world where individuals have a much wider choice of retail purchasing options.

Retail revenues contributed around 15% of the total aeronautical and non-aeronautical revenues of European airports in 2011, increasing from 11% in 2008. In absolute terms, they rose from €3.1 billion in 2008 to €4.1 billion in 2011. Retail is the largest single component of non-aeronautical revenues at 43% of the total and its share is growing.

The DFTR industry advocates the creation of a 'virtuous circle', whereby retail revenues may be both the result of success in attracting passengers but also a platform for assisting in the finance of future expansion and improvement of Europe's airports.

The need for such investment, combined with the pressures from airlines 32 on airport charges suggests a growing reliance on retail revenues. Anything, therefore, that holds back the development of retail revenues - whether it be government regulation, external economic shocks or airline commercial practices - runs the risk of impeding future airport development.

The growth in competition between airports

Airport competition has been growing strongly in Europe over the past two decades. Most airports, particularly the small to medium sized airports, face significant competition as airlines switch routes and bases depending on cost as well as passenger demand and passengers are able to switch to neighbouring airports.

Facing competitive pressure on aeronautical charges, and with little or no state funding, airports are seeking to develop more commercial opportunities, especially retail services. Most airports in Europe compete strongly on price and service with their rivals. Those airports which are profitable generate on average normal returns on capital, although a substantial minority (almost 50 %) are currently loss-making.

Airline competition is also strong and dynamic, driven primarily by the continued growth of the leading low cost carriers. There has been some concentration in this market in recent years, with Ryanair and EasyJet growing large pan-European fleets, two to three times the size of their next tier rivals.

Smaller airports therefore often face a strong single airline with buyer power - over 70% of the smallest airports (less than 5 million passengers per year) have one airline accounting for over 40% of traffic.

Airline buyer power can benefit passengers, if keener airport charges are passed onto passengers. But this buyer power can also undermine development of the airport, for example if airline rules, such as including airport shopping in the 'one bag' rule, undermine airport retailing, at the expense of passenger choice, experience and of airport financing of facilities.

Retail revenues make a major contribution to overall airport profits. For most small to medium sized airports, retail revenues represent at least 50% of overall net operating profit per passenger. Most importantly, this contribution arises from discretionary spending, at the passengers' choice, rather than any mandatory levy or charge.

Market Relationships

Airports are businesses which serve two main distinct but closely related markets: airlines on the one hand, and passengers on the other: airlines value the airport being popular amongst travellers and 33 passengers value the airport being able to offer a wide range of airlines and destinations.

The consequences of this model for an airport's overall financial health is that it must consider carefully the impact of changes in demand conditions for passengers at the airport which may be brought about by changes in prices and practices adopted by airlines.

Today's European aviation market is characterised by more 'footloose' airlines and airports have had to respond to this and become more commercially focused as they themselves undergo change to being privately owned or run at arms-length from government.

Unlike airlines, airports are fixed-cost businesses requiring major investments in runways, terminals and equipment, and a large proportion of their operating expenses varies little with scale. This means that airports are hugely dependent on attracting new airlines, new routes and more passengers. For many airports, it only takes a change of a few aircraft and/or the withdrawal of a few routes to markedly affect profitability.

Airports need to compete both to retain and attract this highly mobile traffic through their price and service offerings to airlines, not least because of the vulnerability of their business to the loss of routes.

The increase in the number of airports (often through use of previously military airfields) and, more importantly, the range of routes now available at airports generally means that passengers have, within reasonable travelling distance, more choice of airport available to them. Nearly two-thirds (63%) of European citizens are within two hours' drive of at least two airports. This gives significant scope for airports to compete for passengers.

In part, airports exposed to competition from near neighbours compete for passengers by competing for airlines and increasing the range and depth of routes available. But, increasingly, they also need to appeal to passengers directly through the quality of service they offer and the ease of travel through the airport.

The Passenger Experience

Research by one major UK airport places airport shopping as the sixth most important factor for passengers at the airport in contributing to their overall satisfaction assessment, behind overall comfort, cleanliness and travel information, but ahead of security, catering and baggage handling. Furthermore, airports increasingly offer innovative ways for passengers to shop at the airport. Some airports are entering on-line retailing as a complement to their physical sales outlets within terminals.

Participation in airport retail, whether shopping or merely browsing, 34 has become an integral part of passengers' airport experience - just as the resulting revenues are an integral part of airport finances. The growth of retail revenues over the years clearly demonstrates that passengers positively value the opportunity they are given; and that the choice of goods now generally available is conducive to deciding on impulse whether and what to buy.

Proposed way forward

Airport retail in Europe needs a supportive regulatory framework in order to thrive. Duty free and travel retailing in Europe requires urgent recognition of its unique nature and of its innate value. Overall a concerted EU policy is required that will encourage EU airports to invest in commercial activity.

A precedent exists in Espace Voyageur, the legal framework governing travel retail in France which allows different interpretation of regulations to take account of our particular retail channel. A similar approach at EU level would be very much welcomed. The one-size fits all approach of EU legislation often does not work well in DFTR, impeding growth. All we are asking is a greater understanding of our retail channel at EU level, and a greater willingness to help the retail channel continue to flourish.

At the outset, we have identified the following policy areas where EU support is needed to ensure that policy objectives can be met without restricting retail growth and passenger choice. However we see this very much as a starting point to be built on over the years.

Labelling/packaging

Legislation Airport retail is different to the domestic market. We sell to an international audience that speak a multitude of languages.

We stock a significant proportion of travel retail exclusive products which are packaged differently or simply not available in the domestic market. The recent introduction of the Food Information to Consumers Regulation threatens to change that considerably as all goods would have to be labelled in the language of the country they are sold in, and the relatively small production runs preclude differential labelling. Furthermore this is causing a logistical nightmare for our suppliers and distributors and is impossible to fulfil as suppliers do not know what the end market will be for the goods they ship to the retailer who may have stores in every single EU Member State. Furthermore, EU labelling & packaging rules are being supplemented by Member States introducing requirements for their own markets. This complicates even further the supply chain to DFTR, especially in smaller Member States. Passenger Rights

The dynamics of the air transport industry are forever evolving. It is now commonplace for airlines to charge for hold luggage. This has led to a significant increase in congestion for hand luggage space on-board 35 which we believe will get worse as airlines increase their hold baggage fees.

Duty free and travel retail is not the cause of this congestion, but it has been the victim of over-zealous airlines implementing strict 'one bag' rules and forcing passengers to either discard shopping or pay outrageous 'fines' to bring their goods on-board.

The only way we can stop this and give the customer confidence is by legislation. A very simple amendment to the Air Passenger Rights Regulation which will restore to passengers the right to bring on board their airport shopping in addition to their hand luggage would have a transformational impact upon consumer confidence.

Airport Security

ETRC fully supports the efforts of the European Commission and the Member States to secure Europe's airports. The introduction of STEBs in 2006 in order to protect airport retail revenues is a prime example of industry and government working together effectively.

Airport security is paramount and all stakeholders including retailers must play their role. Nonetheless we do believe that when calculating the cost of security, due attention must be given to the impact upon commercial income. Airport shops in Europe lose millions in revenue each year because of delays in processing passengers through security.

Customs Allowances

Duty free allowances for alcohol and tobacco have been in place in Europe since civil aviation began and are the cornerstone of the offer we make to our customers. These allowances need to be maintained so that passengers can shop with confidence."