

# EU's external aviation policy - Addressing future challenges

2012/2299(INI) - 27/09/2012

**PURPOSE:** Communication reviewing EU external aviation policy and setting out the main points of a new policy.

**CONTENT:** this Communication evaluates the progress achieved since the [Commission's 2005 Communication](#) in developing an EU external aviation policy and discusses changing conditions in aviation and the need for a way forward. While the Communication considers that the policy established in 2005 goes in the right direction, it recognises that, seven years later, the world of aviation is a very different place. **European aviation urgently needs a stronger framework** where fair and open competition can thrive, and this can be ensured by a much more coordinated European approach to external aviation relations.

**Achievements of EU policy:** the paper states the achievements of the EU's external aviation policy over the past seven years, based on three key pillars have been considerable.

**1. Restoring legal certainty:** legal certainty has been restored to nearly 1000 bilateral air services agreements with 117 non-EU countries. Of these, 55 countries have agreed to amend all their bilateral agreements with EU Member States through Horizontal Agreements with the EU while the remaining countries have done so on a bilateral basis with individual EU Member States. There is, however, still work to be done with a few important aviation countries, to complete the implementation of EU designation. These include India, China and South Korea and also South Africa, Kenya, Nigeria and Kazakhstan.

**2. The creation of a common aviation area with neighbouring countries:** solid progress has been made, with agreements already signed with the Western Balkans, Morocco, Jordan, Georgia and Moldova and an agreement has been initialled with Israel. Negotiations are ongoing with Ukraine and Lebanon, and are expected to start soon with Tunisia and Azerbaijan, and at some stage, also with Armenia. The economic benefits resulting from the first of these agreements (Western Balkans and Morocco) have been estimated at a total of €6 billion between 2006 and 2015.

**3. Comprehensive agreements with key partners:** since 2005, the EU has also negotiated comprehensive air transport agreements with a number of key trading partners: the United States, Canada and Brazil. These comprehensive agreements aim at a combination of market opening, creating the conditions for fair and open competition through regulatory convergence, liberalisation of ownership and control of airlines and resolving "doing business" issues. A first stage agreement with the United States was signed in April 2007 and a second stage agreement in June 2010. The EU-US agreement has played a pivotal role in shifting international aviation agreements away from mere market access negotiations. For the first time, **a major international agreement acknowledged that conditions for competition also needed to be addressed** and harmonised to ensure fair competition. The EU and the US have developed a new template agreement that facilitates the role of aviation.

**Need for further action:** reviewing and upgrading the EU external aviation policy is urgent.

- The **pace of un-coordinated market liberalisation**, at EU Member State level with certain non-EU countries is such that action is not taken now, then in a few years' time it may be too late. And in this, Member States' apparent intent to continue to grant bilateral air traffic rights to third

countries without commensurate return, or account taken of the EU-level implications, could be a contributing factor.

- Sufficient headway has not been made in **tackling ownership and control restrictions**. These threaten to ossify the development of a global industry and deny EU carriers important new sources of capital. It is urgent to extend the scope of EU-level negotiations to a number of key and increasingly important aviation partners.

**Trends:** despite the current economic crisis, global air transport over the long-term is expected to grow by around 5% annually until 2030. Demand for air transport is primarily driven by economic growth and prosperity. With an expected average annual GDP growth rate for Europe of 1.9% between 2011 and 2030 compared, for example, with growth rates for India and China of 7.5% and 7.2% respectively, aviation growth will see a **relative shift to areas outside the EU with Asia and the Middle East** expected to become the focus of international air traffic flows. Half of the world's new traffic added during the next 20 years will be **to, from, or within the Asia-Pacific region**, which will overtake the US as leader in world traffic by 2030 reaching a market share of 38%. Due to below-average growth rates, **EU carriers will be losing market shares to non-EU airlines in most regions**. In 2003, EU carriers had a market share of 29% of all inter-regional capacity in the world. By 2025, this share is expected to have fallen to 20%. This trend means that, if nothing is done, European airlines will be less able to generate growth for the European economy. At the same time, non-EU carriers have reinforced their global position. For example, the fastest regional traffic growth in the world is expected to be in the Middle East, where by 2030 the region's airlines will represent 11% of world traffic, up from 7% in 2010.

**Main objectives of a new aviation policy:** the paper discusses the principal points of a new aviation policy, stressing the need to ensure fair competition and liberalise airline ownership.

- Regulation No (EC) 868/2004 was intended to protect against subsidisation and unfair pricing practices causing injury to EU carriers in the supply of air services from non-EU countries. However, strong calls have been made for developing **more effective EU instruments in the aviation sector** to protect European interests. The Regulation has never been used and the industry argues that it is not practicable as it has been modelled on tools used in anti-dumping and anti-subsidy for goods and is not properly adapted to the specificities of the aviation services sector. A more appropriate and effective instrument would need to be developed to safeguard fair and open competition in the EU's external aviation relations.
- In addition, the Commission proposes the development – most appropriately at EU- level – of standard **"fair competition clauses"** to be agreed and included in the respective bilateral air services agreements with EU Member States.
- Governments have still not reformed the archaic ownership and control rule. The logical starting point is the trans-Atlantic market. Since between them, the EU and US account for nearly half of global aviation, they represent a powerful bloc and the emergence of genuinely trans-Atlantic carriers would create important momentum. The time is now ripe to **liberalise airline ownership and control** in order to enable airlines to **attract investment irrespective of the nationality of the investor**. However, this important policy objective of allowing foreign investment in airlines should also be pursued more widely - both bilaterally between the EU and other key partners, and at a global multilateral level notably through ICAO. The EU should take a stronger lead in assessing how the concerns related to the current ownership and control clauses can be catered for, particularly with like- minded countries, whilst also addressing the need for airlines to access capital funding and enhancing the attractiveness of airlines in the financial markets.

Lastly, it is estimated that there would be **very significant economic benefits, more than EUR 12 billion per year, from further EU-level comprehensive air transport agreements** with neighbouring countries and key partners particularly in fast-growing and/or restricted markets. These include, notably, Turkey, China, Russia, Gulf States, Japan, Egypt and India. It is also important to finalise negotiations with Australia and to allow the benefits to start flowing from the EU-Brazil agreement, the signature of which has unfortunately been delayed.