

From EU-Aviation liberalization to open sky and beyond

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Aviation liberalization in Europe

Speaking from experience

- Europe has benefited from the creation of the single aviation market in the mid-1990s
 - One of the ‘success stories’ of the European Union;
 - More than 130 scheduled airlines;
 - Sectoral contribution to EU GDP: € 120 billion;
 - More than 3 million people employed in the sector
 - Number of airline routes within the EU has increased 300% since 1993;
 - Pro-competitive: Number of routes with more than 2 competitors rose by 450% between 1992 and 2007

- However:
 - Benefits of normalisation only felt on intra-EU routes
 - Vital to lift barriers beyond Europe's borders to gain maximum benefit
 - A long haul flight to this external dimension

- The EU-US Open-Sky agreement
 - Replacing
 - 16 bilateral Open Skies
 - 5 restrictive bilateral agreements
 - 6 EU-member states without any agreement
 - Signed on 30 April 2007
 - Applied from 30 March 2008
 - A crucial first stage

Why is the EU-US agreement so important?

Premier global trading relationship and aviation market

Trade and Investment

- Close commercial, demographic and political relationship
- 40% of world trade
- The EU and the US are each other's largest trade and investment partners
- Every day, over € 1.7 billion of transatlantic trade (goods and services) take place
- Stock on investment = € 1.6 trillion, generating employment for about 12 million workers
- EU-US population 800 million

Aviation

- Aviation vital to the success of these relationships
- US Air transport industry carried over 712 million passengers; EU- 650 million pax.
- Transatlantic market is a significant and valuable volume in itself: around 48 million passengers / year
- Cargo : Combined US and EU freighter fleet accounts for more than 70% of the world total
- Both mature markets with approximate regulatory structures

Source: Booz Allen Hamilton Report, 'The economic impacts of an Open Aviation Area Between the EU and US', January 2007

What are the new rights for EU airlines?

- the recognition of all European airlines as 'Community air carriers' by the US, allowing for the consolidation of the EU aviation sector and the compliance with the November 2002 Court cases in the so-called 'Open skies judgments'.
- The possibility for any 'Community air carrier' to fly between any point in the EU to any point in the US, without any restrictions on pricing or capacity. This freedom did not exist before 30 March
- The possibility to continue flights beyond the US toward third countries ('5th freedom')
- The possibility to operate all-cargo flights between the US and any third country, without a requirement that the service starts or ends in the EU ('7th freedom')

- So-called '7th Freedom rights' for passenger flights between the US and a number of non-EU European countries, i.e. direct flights between the US and Croatia or Norway
- A number of access rights to the US 'Fly America' programme for the transport of passengers and cargo financed by the US Federal Government
- More freedom to enter into commercial arrangements with other airlines (code-sharing, wet-leasing etc.).
- Rights in the area of franchising and branding of air services to enhance legal certainty in the commercial relations in between airlines
- Possibility of antitrust immunity for the development of airline alliances

- Rights for EU investors in the area of ownership, investment and control of US airlines; Rights in the area of inward foreign investment in EU airlines by non-EU European investors: Rights in the area of ownership, investment and control by EU investors of airlines in Africa and non-EU European countries

EU-US first stage: major advances in regulatory cooperation

Enhanced cooperation leading to mutual benefit

Security

- Joint inspections of airports
- Commitment to work towards <one-stop> security

Environment

- Laid the foundation for Atlantic Interoperability initiative to Reduce Emissions (AIRE) project

Competition

- Enhanced cooperation between DG COMP and the US DoT compatible regulatory approaches in competition analysis

State aid

- Creates forum for discussion of state aid

EU-US first stage: analysing competition in a liberalised international market

Better mutual understanding and action : Avoiding and solving problems

- DG COMP and DoT have started work on joint project on airline alliances:
 - explores growth of airline alliances, their effect on airline competition, and possible changing role under the EU-US agreement
 - will present results in mid-2009

- Adding to understanding of growth of alliances:
 - Will help competition bodies in Europe and US take a more consistent approach in applying their laws
- First 'Joint Committee' meeting 15-16 April 2008

First results

- 8% more EU-US flights scheduled in summer 2008 than 2007
 - >20% more Heathrow-US flights. An increase of 19 daily services. Further large increases in services from Ireland and Spain
- European airlines operating from outside their home country:
 - AF: Heathrow to Los Angeles
 - BA's 'Open Skies': Paris (CDG) to New York

- Anti-trust applications:
 - Sky team
 - KLM/AF/Northwest/Delta/Alitalia/Czech
 - Oneworld
 - Iberia/Finnair/Malev/American
- Additional transatlantic investment:
 - Virgin Group's 25% investment in Virgin America, May 2007
 - Lufthansa's 19% stake in JetBlue, February 2008

Forecast

- Next 5 years: 25 million extra pax; € 12 billion benefit; and an extra 80.000 jobs in the US and EU
(source: Booz Allen Hamilton Study)

Engaging in second stage negotiations

- Objective : create a fully Open Aviation Area (OAA) between the EU and the US
- Starting in May 2008 in Ljubljana

The priorities as set out in the agreement:

- Further liberalization of traffic rights
- Additional foreign investment opportunities
- Effects of environmental measures and infrastructure constraints on the exercise of traffic rights
- Further access to Government-financed air transportation
- Provision of aircraft with crew

Conclusions

- EU-US agreement big boost to competition in the transatlantic market
- Evidence from Europe is there are further competitive benefits from OAA
- An example to be followed