



Directorate-General
for Energy
and Transport



EUROPEAN
COMMISSION

EU-US Aviation Agreement: Promoting a competitive industry

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● Europe's aim: to “normalise” aviation

Aviation dysfunctional – an “anomaly”

- The anomaly: few economic sectors as global as air transport, yet few subject to as many controls.
- Past (and present): international regulation stuck in a “time warp”.
 - » Myriad bilaterals
 - » Bunkered regulatory systems with “them and us” attitudes
 - » Zero-sum game
- Future: create fit-for-purpose regulatory framework which reflects modern realities and needs of the industry and its users.
 - » Enhanced regulatory cooperation and convergence.
 - » Free access to domestic and international markets
 - » Free movement of capital
- In short: “free the sector” from barriers which are hampering normal development of the industry.

● What's wrong with “abnormal” industry?

Not fulfilling its potential

- Higher costs for operators...
 - » Restricted flows of capital
 - » Replicated overheads
 - » Lower innovation
 - » Limited sharing of managerial skills
- Limited product for consumers...
 - » More limited choice
 - » Fragmented product offering (where is seamless travel?)
 - » Successful companies cannot expand beyond national boundaries. Limited to their national (or regional) markets.
- Alliances best attempt at overcoming these issues, but they are still only a second-best solution...

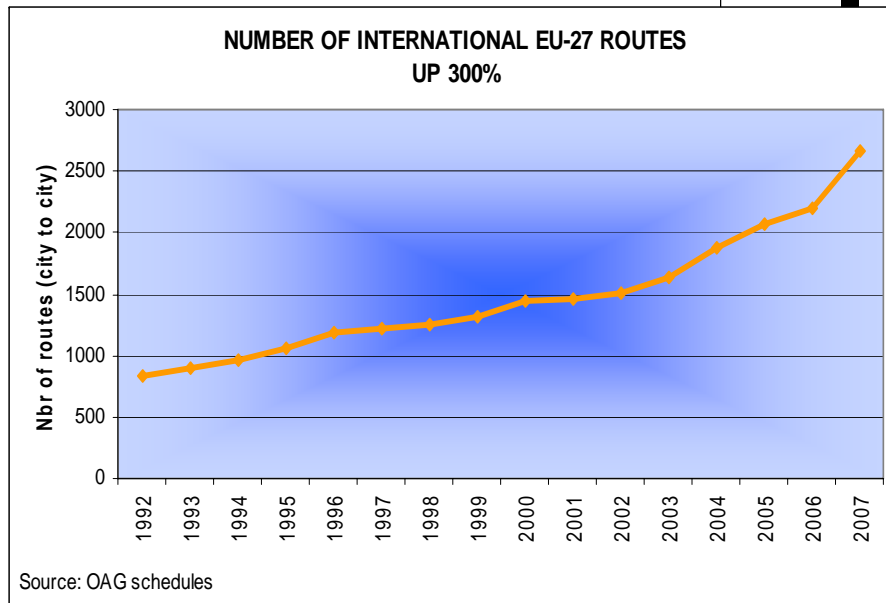
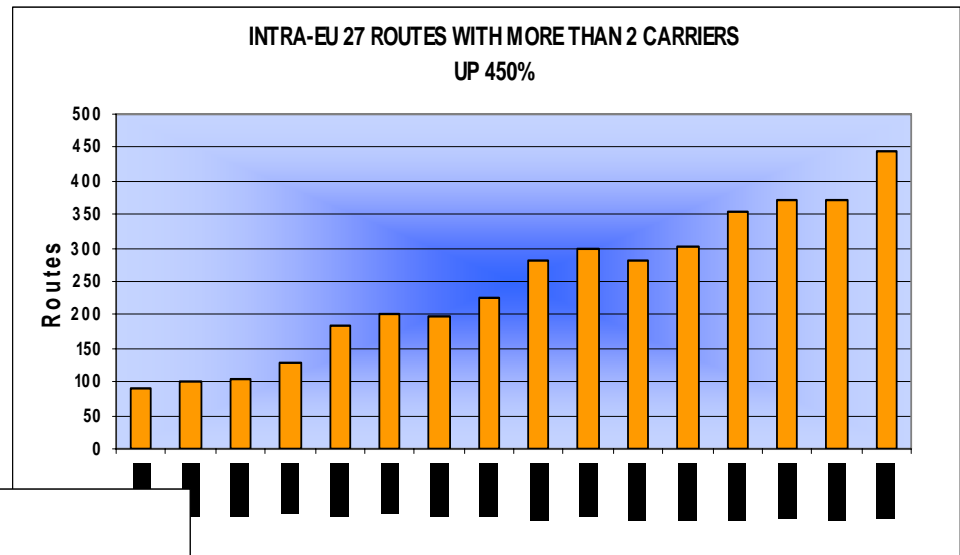
● Aviation normalisation in Europe

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

Aviation normalisation in Europe

Speaking from experience



- However, benefits of normalisation only felt on intra-EU routes.
- Vital that barriers beyond Europe's borders lifted to gain maximum benefit.
- This external dimension needs willing partners...

● Why is EU-US so important?

Premier global trading relationship and aviation market

Trade and Investment

- Close commercial, demographic and political relationship.
- 40 per cent 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

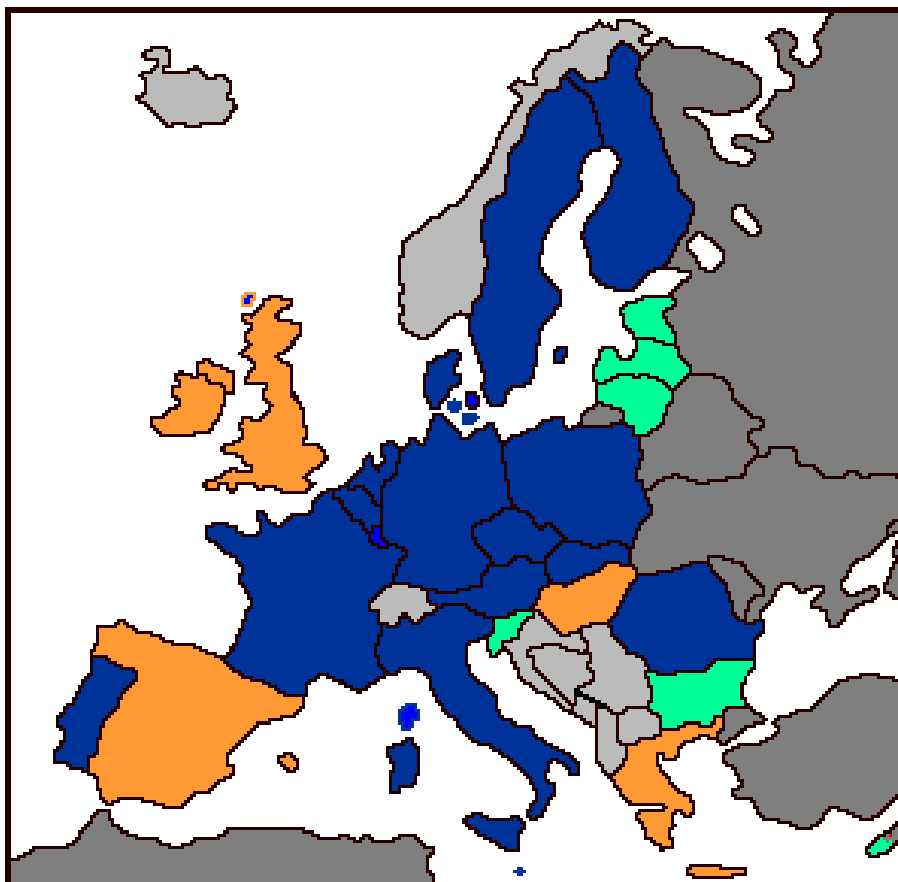
- Aviation vital to the success of these relationships.
- US Air transport industry carried over 712 million passengers; EU: 650 million pax.
- Transatlantic market is a significant and valuable volume in itself: around 48 million passengers/year.
- Cargo: Combined US and EU freighter fleet accounts 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.



● EU-US first stage: reforms overview

A single EU-US agreement replacing 27 others



- 16 Open Skies
- 5 Restrictive bilateral agreements
- 6 EU Member states without any agreement



● EU-US first stage: basic overview

“Open Skies +” agreement: breakthroughs in areas of regulation and traffic rights

“Open skies” elements:

- 3rd, 4th and 5th freedoms without limitations for both sides.
- Liberal agreement on code-share.
- Full cargo 7ths for European side.

“+” elements:

- Rights for EU investors in the ownership and control of other EU, US and certain third party airlines.
- Rights in areas of franchising and branding.
- Deepened regulatory cooperation on safety, security and competition.

● 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 to achieve 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

- 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.

● EU-US first stage: forum for regular dialogue

Avoiding and solving problems

- Diverging EU-US requirements could be the main threat to fair competition in a liberalised environment.
- «First» Joint Committee meeting 15-16 April 2008.
- Intended to avoid rather than solve problems, through cooperation and information sharing.

● EU-US first stage: big competitive benefits

A transformative agreement for Europe and the US

Already witnessing:

- 8% more EU-US flights scheduled in summer 2008 than 2007.
 - » >20% more Heathrow-US flights. An increase of 18 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 "OpenSkies": 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 five years: 25 million extra pax; €12 billion benefit; and an extra 80,000 jobs in the US and EU (Source: Booz-Allen-Hamilton Study).

● EU-US second stage: the priorities

We are only half way there

- **The priorities as set out in the agreement:**

- » Further liberalisation 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.

Type of Agreement	Freedom to Set Fares	Freedom of the Air				Foreign Ownership & Control	Regulatory Convergence
		3/4ths	5ths	7ths	Cabotage (8/9ths)		
Traditional Bilaterals	X	X	X	X	X	X	X
"Open Skies"	✓	✓	✓	✓ Cargo	X	X	X
				X Pax			
Open Aviation Area (OAA)	✓	✓	✓	✓	✓	✓	✓

● EU-US second stage: essential for competition

The choice is clear

- Deal:
 - » Freedom to decide granted to airlines.
 - » Scope for trans-border consolidation.
 - » Potential for global airline brands and seamless travel experience
 - » Prospect of financially sustainable future.
 - » Consolidates first stage competitive benefits.
 - » In the interests of the industry, Government, consumers and passengers.
- No deal:
 - » Impoverished and unstable industry staggering from one crisis to the next.
 - » Temptation for more explicit or implicit Government intervention.
 - » Possible “unwinding” of first stage rights and associated competitive benefits.

● Conclusions

- EU-US agreement big boost to competition in the transatlantic market.
- Evidence from Europe is there are further competitive benefits from OAA.
- Second phase aims to achieve these benefits.





Thank you for your attention!

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