Air Transport Liberalisation: The European experience

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What is ECAC?

ECAC is…

✓ …Europe’s only pan-European forum for Directors General
✓ …a generator of guidance and best practice in aviation policy
✓ …a capacity builder in and beyond its own Member States
✓ …with EC, the coordinator of European inputs to ICAO

ECAC is not… a REGULATOR
Established in 1955

OBJECTIVE

Development of safe, efficient and sustainable European air transport.

ROLE

Acts as a pan-European aviation think-tank;

Supports crafting of harmonised pan-European positions;

Serves as a centre of expertise for its Member States.
Membership of ECAC, EUROCONTROL, EASA, EU & EFTA
• Until 2036, market growth in passenger traffic expected to continue (+ 2.3% per annum on average) over the next two decades, to reach 1.5 billion pax*.

• By 2036, forecasts:
  • + 18 million jobs (49% more than in 2016)
  • + €1.41 trillion contribution to GDP (+ 90%)*

* Source: IATA
* Source: Oxford Economics
ECAC > Early trend towards liberalisation
- Multilateral Agreement on Commercial Rights of Non-Scheduled Air Services in Europe (1956)
- International Agreement on the Procedure for the Establishment of Tariffs for Scheduled Air Services (1967),
- international agreements on capacity sharing and tariffs (1987)


> Beneficial impact on consumer welfare in the form of lower fares and more services.
Privatisation is partially a consequence of the liberalisation process:

- **Common targets**: Easier to gain competitive advantages among privately owned companies than two state-owned companies.

Key drivers of liberalisation:

- **Airports**: need for private capital to finance the cost of infrastructure.
- **Airlines**: need to limit distortions from State aids; need for investments.

- Market cannot be perfectly competitive without reciprocity;
- Ensuring reciprocity can generate forms of protectionism: 49% limit of foreign shareholding is such a case.
“Ownership and control clause” found in international air services agreements and most national (or regional - EU) legislation alike.

Remnant of the history of air transport.
“European licence”: a licence granted to an airline by one of the Member States. Allows 51%-owned by European citizens airlines to serve any intra-European route and, since 1997, also domestic routes:

Official Journal of the European Union Regulation (EC) No 1008/2008 L 293/6 Art 4:

“Member States and/or nationals of Member States own more than 50% of the undertaking and effectively control it, whether directly or indirectly through one or more intermediate undertakings, except as provided for in an agreement with a third country to which the Community is a party”. 


The 49% rule in Europe: does it really work?

- Link between private capital & citizenship can be weak and difficult to retrieve > **Risk of ineffective rule.**

- **Aggravation of the some airline industry difficulties** (cost intensive, cyclical demands, vulnerability to external shocks, and low profit margins) by the EU air carriers’ limited access to financing.

- Negative impact on the **transfer of know-how** to the EU airline business + on EU passengers **deprived of the benefits** of stronger competition.

- Negative effect on the **consolidation process** and competition on the European market (preventing cross-border mergers).
CONCLUDING REMARKS

ECAC survey on market access liberalisation (2017)
- Waiving the traditional ownership and control for designation within ECAC Member States.
- Need to harmonize the regulatory framework.

ICAO draft multilateral convention on foreign investment in airlines
- Invaluable tool for airline investment liberalisation.
- Concrete deliverable of ICAO’s Long-term Vision for International Air Transport Liberalization (agreed in 2015).
Thank you for your attention!

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