The EU's External Aviation Policy - Addressing Future Challenges

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Introduction

- Your Excellencies, Ladies and Gentlemen. *As-salamu alaykum!*

- I would like to warmly thank the General Authority of Civil Aviation of the Kingdom of Saudi Arabia for having invited the European Commission to speak at this prestigeous event. It is a real honour for me to stand here today. I wish to congratulate you with the impecable and impressive organisation of this event and thank you for your warm hospitality.

- The themes of today's seminar are extremely pertinent and the timing could - from a European perspective at least - not have been better!

- We are in the EU right now in the midst of reviewing our external aviation policy.

- This year we are also marking 20 years since the completition of the internal EU single aviation market which completely transformed what used to be fragmented and protected national markets into the largest liberalised and integrated regional aviation market in the world.

- The benefits to the European consumers and economy from the creation of the single EU aviation market have been enourmeous. Market behaviour, travel opportunities and customer expectations for intra-EU flights have changed dramatically. The number of routes served has multiplied and competition on the routes has increased as the same route is being served by more carriers with lower fares. Low-cost carriers have emerged as a result of liberalisation and now have a market share of 45% in Europe - and still growing.

The EU's External Aviation Policy

- We are also marking the 10th aniversary of the EU external aviation policy which was really kick-started by the so-called "open skies" judgement by the European Court of Justice in 2002.

- A few years later, in 2005, the EU Transport Ministers agreed on a road-map for the EU external aviation policy based on three pillars:

    o Firstly, to bring bilateral air services agreements between EU Member States and partner countries into conformity with EU law, notably by removing national ownership and control requirements and incorporating the so-called principle of EU designation;

    o Secondly, to develop a wider Common Aviation Area with neighbouring countries; and

- o Thirdly, to negotiate EU-level comprehensive agreements with other key partners on a case-by-case basis based on mandates from the EU Member States to the Commission.

- Significant progress has been achieved since 2005. Nearly 120 partner countries around the world now recognise the EU as such in aviation including through the principle of EU designation. Since 2005 we have signed comprehensive agreements with about a dozen neighbouring countries to the South and East of the EU thereby extending the benefits of the single European aviation market based on a parallel process of market opening and regulatory harmonisation based on EU rules. Further negotiations are on-going or about to start with other neighbouring countries and we hope to be able to complete the wider Common Aviation Area with all our neighbours by 2015. Since 2005, we have also negotiated comprehensive air transport agreements with the United States, Canada and Brazil.

New Challenges – New Policies?

- Aviation is fast-moving. So much has changed since 2005 and new challenges are constantly emerging. The Commission therefore felt that it was time to take a hard look on whether the EU's external aviation policy is still "fit for purpose". The Commission launched this policy review by presenting a Communication two months ago entitled "*The EU's External Aviation Policy – Addressing Future Challenges*".

- In the Communication, we have presented - in a very open and transparent way I believe - our analysis of the competitiveness of the European aviation sector in the global aviation market and the serious challenges facing notably EU airlines.

- The European airline industry - or at least an important part of it - is going through an extremely difficult period. The sustained high oil price is of course weighing heavily but it is unfortunately far from being the only factor.

- European airlines have been harder hit by the global economic slow-down than carriers in other regions as they have also been directly impacted by the sovereign debt crisis in the Euro-zone and its impact on the real economy. This week the European airports association announced that for the first time since October 2009, more than half of Europe's airports are experiencing declines in passenger traffic.

- Many European airlines are really fighting for survival in a very competitive market place – both within the EU and internationally. So no wonder that 2012 will be a bad year with expected significant losses for many carriers.

- Europe suffers from higher production costs than in other regions as well as infrastructure congestion and capacity constraints both on the ground and in the air. This represents a real threat to the licence to grow for EU airlines.

- Airlines are also hampered by out-dated restrictions on ownership and control of airlines creating barriers for access to capital and for cross-border investments and consolidation.

- On top of this, we are witnessing the rapid rise of carriers in other regions including in this part of the world. As a result of all this and of the high growth in emergent markets, there is a real shift going on in global aviation. EU network carriers are loosing significant market shares on inter-continental routes and European hubs are also loosing relative importance.

- Some fear - rightly or wrongly - that the Gulf carriers are "taking over Europe" or that Emirates will soon be Europes largest airline for long-haul flights and thereby Europe's main connector to the rest of the world.

- Some EU airlines and governments are obviously concerned about the nearly seismic changes in global aviation that we are witnessing these years. It would be wrong just to ignore these concerns. Just as aviation is of strategic importance for other countries and regions, so is it for Europe both in terms of jobs, growth and connectivity.

Open and Fair Competition

- But let me be clear: Europe strongly favours competition. This has been a fundamental lesson from the success story of the EU single aviation market which was built precisely on competition. But we also gradually realised that open competition in a market only makes real sense when it is based on a set of common rules including robust instruments to safeguard open and fair competition with strict application of competition law and state aid rules. We have therefore gone through a continuos process of regulatory convergence and harmonisation. And this is still work in progress.

- We also consider open markets to be the best basis for developing our international aviation relations – and we wish to pursue the same benefits in our external relations as we have seen from the single EU aviation market.

- However, a key message in the Commision's Communication is that in the increasingly liberalised and globalised aviation market it is equally becoming increasingly important that competition is not only open but also fair and transparent.

- I think it is a fair observation to make that there has been more mud-slinging and accusations than calm and open dialogue in recent years on the issue of whether competition in international aviation is fair or not. It has not always been easy to establish the real fact of the matter. But I believe we start to see positive signs that this may be changing. From confrontation, the global aviation industry's interaction - including with the Gulf carriers - seems to be changing towards one of partnership and cooperation.

- Responding to the challenges facing the EU aviation sector, we have made a range of proposals for a more coherent and ambitious EU external aviation policy including proposals for comprehensive EU-level agreements with a number of key partners. By being able to apply the full range of our tool-box, the EU and its Member States have collectively much to offer our partners in aviation.

- On the basis of the Commision's Communication, the EU Transport Ministers are expected on 20 December to adopt a set of Council conclusions which will set out a new road-map and guidelines for the EU's future external aviation policy and relations with the rest of the world for the coming years.

- Without revealing any secrets, I believe I can safely say that a key message from the EU will be one of a wish for more engagement, dialogue and strengthened cooperation with our partners. This also applies to countries in this region. We believe that it is in our mutual interest to develop a much closer and more open dialogue between the EU and Gulf countries. Even if such a dialogue and confidence building might initially focus on enhancing transparency and safeguarding fair competition. I hope - and it is my impression - that there is a mutual willingness for such a dialogue and we would very much welcome this.

- I would like to congratulate ICAO for now organising the 5th ICAO Air Services Negotiation Conference. You have very successfully developed an efficient market place for the global aviation community.

- You are gathered here to liberalise the world's aviation markets, to create new market opportunities and consumer benefits in a growing aviation sector.

- But despite the success of ICAN, your achievements are likely only to be incremental and many of you will meet again at next year's ICAN or in other fora for further negotiations on further incremental market opening. Why is this? Why do aviation markets continue to be restricted? Why is it that unless something is explictly allowed in air transport, it is forbidden? In maritime transport it is exactly opposite. To simplify it: there is only one freedom in maritime (and not nine as in aviation): the freedom of the sea and unless something is explicitly forbidden it is permitted!

- Is it because of fear of competition as such? I don't think so.

Regulatory Convergence – Also at Global Level

- But again, I believe the process of market liberalisation would be much more easily facilitated if it was accompanied by a parallel process of regulatory cooperation and convergence which would enhance confidence that market opening is based on open and fair competition and a level playing field. This is also why the EU does not pursue "open skies" *per se* but rather comprehensive common aviation areas with like-minded partners based on transparency, regulatory convergence and open and fair competition.

- Regulatory convergence is also needed at global level. In this respect, we believe that ICAO can and should play a more prominent and stronger role also in promoting global guidance for the economic regulation of international air transport as ICAO does in other areas.

- Europe therefore sees the ICAO Air Transport Conference in March 2013 as an excellent and important for developing guidelines and basic principles for how the future global regulatory environment for air transport should look like both in terms of liberalising market access and airline ownership and control while safeguarding fair competition and passengers' rights. Europe is in the final process of preparing our proposals to this effect which we will soon be able to share with you. We hope that the US will show its leadership in international aviation also in this respect and we also call on support from other partners and would welcome discussions on these important issues already in the run up to the Air Transport Conference including here at ICAN.

- I wish you good luck in your efforts this week to liberalising the worlds' aviation markets.

Thank you for your attention! *Shukran!*