

**ASPECTS OF THE EXPERIENCE WITH LIBERALIZATION PROCESS OF
THE AIR TRANSPORT MARKET WITHIN THE TRANSITIONAL
PERIOD OF ROMANIA FOR ACCESSION AS FULL MEMBERSHIP
STATE OF THE EUROPEAN UNION**

(Submitted by Romania)

**1. SIGNIFICANT INCREASE IN COMPETITION AT THE
ROUTE LEVEL**

1.1 The Romanian air transport market has, in the last ten years, been faced with a sustained liberalization process, and has consequently seen a strong development of the air transport services carried out by European airlines to/from ROMANIA. This has led to a significant increase in competition at the route level.

1.2 In this period, frequencies and capacities on routes serving Romania have almost tripled. More destinations are now serviced on more days of the week, and a wider range of new tariffs is now offered to the travelling public. New aircraft have had to be purchased. At the same time, Romania has seen greatly increased use of co-operative marketing arrangements such as code sharing and blocked space arrangements between TAROM and other European, and in some cases North American airlines. One negative aspect of this increased competition has been a continuous depreciation of the market value of TAROM and other Romanian airlines.

1.3 The opportunities for TAROM to achieve in a short time benefits following the liberalization process of the air transport market were drastically reduced due to, first of all, the necessity to modernize its fleet (by abandoning the old aircraft, which had high operational costs) and also as a result of reducing the network served by TAROM scheduled services, because of the commercial difficulties it faced in an economy in transition.

1.4 In spite of the major potential of the Romanian market, such factors have resulted in a decreasing ability of TAROM to develop intensive, efficient air services comparable with those performed by many airlines of the EU Member States in direct competition on the same routes. Advancing the liberalization process at too fast a pace would possibly be to the competitive advantage of EU airlines.

1.5 Therefore the Romanian Government's efforts to establish a market economy compatible with the European Union principles and to enhance the ability of the state-owned enterprises to cope with competition are based on a sustained privatization process of these companies.

1.6 However, in the case of TAROM, the privatization process (which was originally planned for the year 2000) was postponed and the government decided, as a preliminary step with a view to privatization at a later stage, to concentrate on the turn-around of the flag carrier. To this end, the project "Restructuring of TAROM and preparation of the company for privatization", financed by the European Commission through the PHARE Programme, was started in October 2000 and is to be finalized shortly, Lufthansa Consulting being designated as the Consultant.

1.7 Following the implementation of some restructuring measures in the year 2001 (e.g. market-oriented network re-design/fleet size adjusted to network in order to optimize operating economies), the operating losses of TAROM were reduced to 22 billion lei from 700 billion in 2000. In accordance with the Restructuring Programme, TAROM is going to break even in 2005.

2. INVESTING IN THE ROMANIAN AIR TRANSPORT INDUSTRY

2.1 Regarding the development of the civil aviation infrastructure in the transitional period, major investments with high economic potential were started at a number of airports.

2.2 There are 17 airports in Romania - 4 of them of national interest (Bucharest-Otopeni, Bucharest-Baneasa, Constantza and Timisoara) being authorized for both international and domestic air traffic. Bucharest/Otopeni International Airport has a special economic importance, being at present in a full process of development and modernization, based on short, medium and long-term programmes approved by the Government.

2.3 There are 30 Romanian authorized air operators (9 of them hold an Air Operator Certificate, while the others have an Air Operator Authorization). By far the largest, the flag carrier TAROM is by far the largest operator with 18 B737, 2 B707, 7 ATR42 and 2 A310 aircraft to more than 35 international destinations.

2.4 The air operations performed on the domestic routes as well as the international air services have to fulfil the safety, quality and security standards and practices recommended by the international civil aviation organizations to which ROMANIA is a Contracting Party (ICAO, ECAC, Joint Aviation Authorities (JAA), EUROCONTROL). In addition, as candidate for accession to the European Union, Romania is progressively adopting EU Regulations and Directives.

3. DEVELOPING STRATEGIES FOR LIBERALIZATION OF AIR TRANSPORT

3.1 Romania became a Member State of the European Civil Aviation Conference in the summer of 1991, being an active part of its activities encouraging the implementation of the liberalization measures within European air transport. Having also full membership status of the Joint Aviation Authorities, the Romanian CAA has been permanently concentrating its efforts on ensuring that standards and requirements are properly set and achieved by air operators, with an emphasis on the implementation of the Joint Aviation Requirements/JARs as part of the national regulatory framework.

3.2 The necessary steps were undertaken so that the Civil Aviation Authority of Romania became a member of JAA in the month of December 2000, in order to perform a harmonization process of the specific national rules with the EU civil aeronautic regulations and, also to ensure common standards of the surveillance of air operators in respect of the implementation of the JAA regulations.

3.3 In the framework of gradual liberalization process of the air transport and related activities within the civil aviation field, the Civil Aviation Authority of Romania elaborated or supervised developing and restructuring programmes (for example, the restructuring of TAROM airline and preparation of the company for privatization), aiming to improve the economic results of the Romanian airlines or airports and also to meet the specific international safety and security standards and recommendations. The changes of the scheduled and non-scheduled traffic registered on three main Romanian international airports, in the last six years, is shown in Table 1.

Table 1

Aircraft movements, passengers and cargo performed/carried out on three main Romanian International Airports (Bucharest OTOPENI, Bucharest BANEASA and TIMISOARA) within the period of years 1996-2001

YEARS (1996-2001)	AIRCRAFT (commercial movement)	PASSENGERS (numbers)	CARGO (ton)
1996	33 555	1 667 808	263 963
1997	36 256	1 762 144	284 272
1998	33 218	1 841 066	478 914
1999	32 364	1 908 743	135 261
2000	38 601	2 160 642	191 207
2001	40 109	2 231 874	107 312

4. CONCLUSIONS

4.1 Starting with 1990, due to the transition process from the centralized economy to the free market economy, important changes have been made in the Romanian civil aviation sector. In addition to five air operators at the beginning of 1990, another 25 new air operators have been authorised to perform commercial air transport, aerial work or general aviation operations. However, only three of them - TAROM, CARPAT AIR, ANGEL AIRLINES - perform international scheduled air service, the most important being the national air carrier TAROM which operates 31 international and nine domestic destinations.

4.2 The tariffs to be applied by air operators do not need any approval and the State's interference is limited only to the cases of infringements of the competition rules, which are settled by the Competition Council. On domestic routes the tariffs have to be filed with the Romanian CAA and they are established in accordance with the principles stipulated in the Competition Law. On the international scheduled services, the tariffs are established and approved in accordance with the specific clauses from the bilateral air Services Agreements concluded by ROMANIA with 90 countries.

4.3 Taking into account the regulatory arrangements dealing with air carrier ownership and control recommended by ECAC, Romanian authorities intend to propose for negotiation of the future bilateral Air Transport Agreements a more liberal draft clause regarding the conditions to be fulfilled by a designated airline applying for an operation authorization, instead of the existing criterion of national ownership and effective control.

4.4 The Civil Aviation Authority of Romania reaffirms its desire to continue the implementation of liberalization measures in air transport, in order to enhance the opportunities of fair competition for all air operators and also to give due importance to the consumer interests by means of supervising the implementation of the voluntary Commitments by those national airlines or airports which already adhered to them and also advising the rest of the air operators to consider such Commitments for signing and applying.