**BUSINESSEUROPE**

8 June 2015

# Improving the competitiveness of the EU aviation sector

## KEY MESSAGES

**1**  Despite the challenging economic times, global air transport over the long term is expected to grow by around 5% annually until 2030. However, this growth is foreseen in particular for other parts of the world, such as Asia or the Middle East.

**2**  At the moment, many Europe-based airlines are at a competitive disadvantage as their production costs are higher than those of international competitors.

**3**  There is a need for an international level-playing field. At the same time, it is important to create an attractive investment climate to support European airlines.

## WHAT DOES BUSINESSEUROPE AIM FOR?

- Reduction of fiscal and regulatory burden and avoiding the introduction of new measures that will increase unit costs disproportionately more for European companies than for international competitors.

- Swift agreement, further optimisation and sound implementation of the previous Single Sky Packages and the Single European Sky 2+ Package to strengthen European coordination of airspace management in order to maximise the airspace available whilst optimising its use and safety and to make the European economy more competitive in the global market context, also to the benefit of the environment.

- Creating a global level-playing field. Progress towards this objective should be achieved through EU negotiated aviation agreements with the clear objective of improving air connectivity, focusing on market needs. This can only be achieved if Member States show serious political commitment.

### KEY FACTS AND FIGURES

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| Aviation in Europe supports more than 5 million jobs and contributes about 2.5% to EU GDP. |
| Despite the challenges ahead, the Commission still estimates that there will be 14.4 million flights by 2035 in Europe, 50% more than in 2012. |
| The United States controls the same amount of airspace, with more traffic, at almost half the cost. |

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BUSINESSEUROPE'S CONTRIBUTION TO THE COMMISSION CONSULTATION
TOWARDS AN AVIATION PACKAGE

## 1. Introduction: Challenging times ahead

- The efficiency of the different modes of transport in Europe, including air transport, directly affects trade flows and the competitiveness of European companies. The shift in the global economy towards Asia and other emerging countries means that Europe is becoming increasingly dependent on external trade. In this context, aviation and the connectivity it provides to European businesses both within and beyond Europe is of an increasingly strategic relevance for the European economy.

- Aviation in Europe supports more than 5 million jobs and contributes about 2.5% to European GDP. Despite the difficult economic times, global air transport over the long term is expected to grow by around 5% annually until 2030.

- However, this growth is foreseen in particular for other parts of the world, such as Asia or the Middle East. BUSINESSEUROPE shares the Commission's observations concerning the increasing difficulties for the European aviation sector mainly due to fierce international competition outlined in its 2012 Communication on external aviation policy.

- At the moment, many Europe-based airlines are at a competitive disadvantage as their production costs are higher than those of international competitors. Therefore, it is of utmost importance to reduce fiscal and regulatory burden and avoid the introduction of new measures that will increase unit costs disproportionately more for European companies than for international competitors. There is a need for an international level-playing field. At the same time, it is important to create an attractive investment climate to support European airlines.

- Another challenge is to address the airport capacity crunch that Europe is facing. It is estimated that by 2035, 12% of the demand for air transport in Europe cannot be met due to a lack of airport capacity. It will lead to more congestion, delays and increased flight cancellations throughout the aviation network, negatively impacting European businesses and the European economy.

- In this context, BUSINESSEUROPE welcomes the ongoing public consultation and fully supports the Commission's initiative outlined in the 2015 Work Programme to to present an "Aviation Package" by the end of 2015 to identify challenges and present measures for improving the competitiveness of the EU aviation sector.

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## 2. <u>The Single European Sky</u>

- Despite the challenges ahead, the Commission still estimates that there will be 14.4 million flights by 2035 in Europe, 50% more than in 2012. Therefore, effective coordination and management of European airspace is key to ensure the safe and cost-efficient flow of air traffic, thereby minimising fuel usage and costs, carbon emissions and flying times.

- However, despite previous single sky packages, European airspace remains fragmented in practice, also due to the lack of implementation of these packages. At a time when European airlines are already facing tough global competition, current inefficiencies bring extra costs of close to €5 billion a year. It adds 42 km to the distance of an average flight forcing aircrafts to burn more fuel, generate more emissions, pay more in costly user charges and suffer greater delays. For comparison, the United States controls the same amount of airspace, with more traffic, at almost half the cost.

- Moreover, the Single European Sky has mostly been developed in isolation from airport capacity. Improving efficiencies and capacity in the sky will only deliver tangible results if the airport capacity crunch that Europe is facing is properly addressed.

- BUSINESSEUROPE principally supports the Single European Sky and the Single European Sky 2+ Package[1] as proposed by the Commission. The package can further reform Europe's air traffic control system to make it more efficient and future-proof. This is not only important for airports and airlines, but also for the wider economy and European companies and citizens as users of air transport services.

<u>In particular it is essential to:</u>

- ➢ **Put in place a more efficient and sustainable Air Traffic Management (ATM) System** to ensure balanced growth and a steady increase of capacity.

- ➢ **Safeguard safety and ensure better air traffic oversight** by making the National Supervisory Authorities more effective and independent. Audits of the European Aviation Safety Agency (EASA) have shown the need for better oversight of the air traffic control organisations - or so-called Air Navigation Service Providers (ANSPs) - in the Member States. Therefore, we supports measures to ensure organisational and budgetary separation of the National Supervisory Authorities from the ANSPs that they oversee, while making sufficient resources available to carry out their supervisory tasks properly. Many supervisory authorities are currently under-resourced and dependent on the support of the entities that they are supposed to oversee, which is not a healthy situation.

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[1] For more info: BUSINESSEUROPE's 2013 <u>Position Paper</u> on the Single European Sky 2+ Package.

➢ **Introduce a more transparent and independent performance scheme** focused on safety, cost-efficiency, capacity and environment in order to set more ambitious targets, benchmark progress and better measure air traffic management performance. The Performance Review Body has a key role to play in this respect.

➢ **Avoid a duplication of tasks**, by clarifying the different roles and responsibilities (between oversight, drafting of technical rules and regulatory issues) of the EASA, Eurocontrol and the European Commission.

➢ **Gradually open up support services to air traffic control organisations to competition**, e.g. meteorology, aeronautical information, communications, navigation or surveillance services. Such support services should be separated from the core tasks of the air traffic control organisations and put out to tender under normal procurement rules to ensure both high quality and cost-effectiveness. The Commission has estimated that this could lead to 20% savings on such services.

➢ **Better meet customer needs**. To do this, in the future airlines should have a bigger consultative role in signing off on the investment plans of air traffic control organisations.

➢ **Complement the air space capacity objectives** of the Single European Sky with ground (airport) capacity objectives as part of an integrated EU strategy to support European aviation.

- In this context, BUSINESSEUROPE regrets to observe that the Commission proposals were watered down during the Council discussions and that much more flexibility was introduced by the Member States to restrict proposed competition for support services and limit the impact of performance criteria. BUSINESSEUROPE will continue to support the line taken by the Parliament on this file, which reflects much better the needs of industry while taking a realistic approach to national political constraints. We urge policy-makers to reach a final agreement on the package quickly.

- Swift agreement, further optimisation and sound implementation of the previous Single Sky Packages and the Single European Sky 2+ Package is fundamental to strengthen European coordination of airspace management in order to maximise the airspace available whilst optimising its use and safety and to make the European economy more competitive in the global market context, also to the benefit of the environment.

### 3. Supporting the EU aviation sector

- BUSINESSEUROPE supports the Commission's assumption, that the application of different regulative and fiscal EU and Member State policies on the aviation sector does have a detrimental effect on the internal market and on the competitiveness of EU-based aviation companies. The Commission should push Member States to adjust or repeal unilateral EU provisions and to urge Member States to act accordingly with regard to unilateral national provisions that distort competition. The Commission should also state that in aviation the user-pays-principle has been established already. In any case, double charging is to be avoided. In this context, Member States must understand the impact of disproportionate national aviation taxes and re-consider their application.

- Ensuring balanced and fair passenger rights is a key aspect for retaining competitiveness while guaranteeing high quality service. At the same time, airlines should not be overly burdened by circumstances created beyond their control. The existing regulation has a significant number of serious shortcomings. Extraordinary circumstances such as the disruptions caused by the volcanic ash cloud in 2010, extreme weather conditions and air traffic controllers' strikes are outside the airlines' control and should therefore be exempted from paying compensation to passengers in case of cancelled or delayed flights in these extraordinary circumstances. This piece of regulation has been challenged by both airlines and passengers, with an exceptional number of cases having been referred to the European Court of Justice for clarification. To have a clear, transparent and fair regulation is in the interest of both the airline and the passenger. BUSINESSEUROPE is calling for the urgent need to adopt a new air passenger rights regulation. Any further delay would have detrimental financial consequences on airlines and would be certainly harmful for passengers. We therefore urge the European Council and forthcoming Luxembourgish EU Presidency to continue the work on this important file that allows for clarity and protection for both airlines and passengers.

- While a high level of security should be guaranteed to create certainty and safety for transport and logistics operations across Europe, there is certainly room for streamlining and simplifying certain security procedures concerning passengers and air freight to increase efficiency and lower costs. Since 9/11, the cost for European airports of the successive layers of security measures imposed has gone from accounting for 5-8% of their operating costs to 20%. At the same time, in most countries in Europe the cost of these measures is not publicly financed, but rests on the industry and the travelling public. In the US, not only airports are operating the security system (this is done by a federal agency), but 50% of those costs are covered by the Federal budget. This places European airports and European aviation in general at a significant competitive disadvantage. Therefore, any additional security measure should be based on an impact assessment ensuring that these measures bring a real added value to security, while facilitating a seamless flow of passenger and freight in a cost-effective manner. Also existing measures need to be reassessed on the same basis to ensure cost-effectiveness, more efficiency and top-notch security. Member States in particular should engage in the discussion on how to share the responsibility for the security of their citizens and how to finance related measures imposed on airports and airlines. Aviation

security not only protects passengers and aircraft but also benefits society as a whole by preventing ground attacks and other means of assault.

- It is fundamental to support aeronautical R&D to make sure that future aircraft, engines and systems are more efficient, sustainable, less costly and quieter. Therefore, it is essential that in the debates about the Connecting Europe Facility (CEF) and European Fund for Strategic Investments (EFSI) there are still sufficient funds available to support Clean Sky, SESAR and further research in this field.

- The EU must promote and maintain fair competition between airlines of different countries, not only within the EU, but also on a global level (see also below).

## 4. The need for well-functioning airports

- More airport capacity will be key to support the EU's air connectivity in the coming years by allowing strategic airports to grow in support of the competitiveness of the European aviation industry. Focus should be on strengthening European hubs and ensuring that secondary European airports develop and are well-connected to these strategic hubs.

- EUROCONTROL foresees that by 2035, 12% of demand for air transport will not be accommodated due to a lack of airport capacity. This translates into 237 million passengers unable to fly and about 2 million flights not taking place. It is fundamental for the competitiveness of the EU aviation industry to limit the foreseen airport capacity crunch. EU airport capacity long-term objectives should be set and these should be fully aligned with the air space capacity objectives of the Single European Sky.

- Investment in airport infrastructure as part of the core network of the Trans-European network is therefore essential. Airports need to be in a condition to modernise and invest through an adequate and fair regulatory framework. Ensuring better connectivity between airports, the hinterland and other transport networks is also key in this respect.

- In addition to changes to cabin baggage and passenger screening coming into force this year, the implementation of new standards on Explosive Detection Systems for hold baggage (EDS standard 3) by 2020 – 2022 will add massive costs to airports and airlines. This costly technology (about €1 million for each new machine) comes with significant infrastructure modifications often baggage halls need to be reconfigured or rebuilt in many cases given the size and weight and operational constraints of the new equipment. It is estimated that about 3000 machines are needed for Europe's airports.

- In this context, the EU should look more carefully at best-practices from other countries to achieve high level security and safety while being more cost-effective and efficient. For instance, in the use of information / data to allow for passenger differentiation. An example is the US system which operates an efficient pre-check programme, where 50% of US domestic passengers are now passing through pre-check lanes resulting in close to $100 million in cost savings.

- Regulatory driven costs must be reduced, e.g. linked to security and safety and operational procedures streamlined and made more efficient. These costs are high in Europe in comparison with other regions. This can for instance be done through further liberalisation of the ground handling market.

**5. European aviation in a global context**

- International accessibility is necessary to secure the European export to foreign markets and for Europe to stay competitive. Aviation and sea freights as well as well-functioning ports and airports are crucial in this regard. Ensuring an international level-playing field is essential to secure global competitiveness of each transport segment. This also entails better market access, fair competition and building on international standards.

- The ultimate goal is to promote worldwide freedom of air services and investment in the framework of a level-playing field. Progress towards this objective should be achieved through EU negotiated aviation agreements with the clear objective of improving air connectivity, focusing on market needs. This can only be achieved if Member States show serious political commitment.

- It is imperative that the European policy-makers provide a regulatory Air Traffic Management (ATM) framework that is able to link to other international systems - notably the US NextGen system - to promote and maintain fair competition between airlines of different countries, not only within the EU, but also on a global scale.

- European airlines and airports compete in a global market. BUSINESSEUROPE therefore advocates a global approach to address aviation's climate impact as part of a broader package including new technology, more efficient operations and better use of infrastructure.

- Effective solutions for climate protection in air transport can only be brought about globally. BUSINESSEUROPE believes that an EU Emissions Trading System (ETS) should not put European airlines at a competitive disadvantage and hamper the progress at the International Civil Aviation Organisation (ICAO) towards a global agreement on reducing emissions from international aviation. Therefore, the only way to ensure the competitiveness of the European air transport industry is an ICAO-led solution with Global Market Based Measures. Only in this regard an international level-playing field for aviation can be established. This is where the EU must provide the momentum. In autumn 2013 the ICAO agreed that by 2016 global market-based measures for lower $CO_2$ emissions in aviation are to be concluded which will then come into force from 2020 onwards. This is significant progress. Pressing ahead with solutions in the ICAO is the right approach for climate and competition policy.

**6. Conclusion**

- The EU aviation industry is crucial for growth and the competitiveness of the European economy. Connectability is key in a global economy. Therefore, BUSINESSEUROPE supports the creation of a genuine Single European Sky and an international level-playing field. This entails the reduction of regulatory burdens, supporting innovation and building on international aviation agreements. At the same time, it is important to create an attractive investment climate to support European airlines.

- BUSINESSEUROPE looks forward to the "*Aviation Package*" that the Commission has announced for the end of 2015 to clearly outline the challenges and present measures for improving the competitiveness of the EU aviation sector. Through this package, the EU also needs to address the foreseen airport capacity crunch with the rise in demand for air transport by formulating a coherent airport strategy. Also, efforts to ensure better connectivity between airports, the hinterland and other transport networks need to be strengthened.

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