



Directorate-General
for Energy
and Transport



EUROPEAN
COMMISSION

EU-US Second Stage

The Future of Transatlantic Aviation

Brdo, Slovenia, 15 May 2008

● Outline

- Part 1: **stage one – a reminder**
- Part 2: **stage two – why?**
- Part 3: **Europe's vision for transatlantic aviation**
- Part 4: **stage two – delivering transformation**
- Part 5: **conclusions**



● Part 1: stage one – a reminder A truly groundbreaking agreement

“Open Skies +”

“Open skies” elements:

- 3rd, 4th and 5th freedoms without limitations for both sides – US side gets intra-EU fifths.
- Liberal agreement on code-share.
- Full cargo 7ths for the 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.
- Joint Committee with full involvement of all stakeholders



Part 1: stage one - a reminder Transatlantic aviation (partly) unshackled

A transformative agreement for Europe and the US

Transatlantic market is a significant and valuable volume in itself: around 48 million passengers/year.

Already witnessing:

- 8% more EU-US flights scheduled in summer 2008 than 2007.
 - » >20% more Heathrow-US flights. Further large increases in services from Ireland (doubling of direct services) 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



● Part 2: stage two - why? An unrivalled aviation relationship

Aviation a key facilitator

- Aviation central to the macro-economic, social and political relationship.
- Both markets represent **more than 50 per cent of global aviation**.
- US and European industry combined carries close to **1.5 billion** people a year (US Air transport industry carried over 712 million passengers; EU over 650 million pax in 2004).
- **30 times the approximately 50 million passengers** that fly *between* the EU and US.
- Cargo: Combined **US and EU freighter fleet accounts for more than 70% of the world total**
- Both mature markets with **similar regulatory approaches**



● Part 2: stage two - why? Reflecting commercial realities

Airlines do not relish a world without further reform

- Airlines exposed to more commercial pressures than many other sectors and are regulated more strictly.

“The US-Europe agreement is a step in the right direction creating many new opportunities. But we lost a great moment for fundamental change. Governments must understand that we have a modern business to run and we need the freedom to sell our products where markets exist and to merge or consolidate where it makes business sense.”

IATA.



● Part 2: stage two – why? Facilitating economic growth

Premier global trading relationship

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.



● Part 2: stage two – why? Reflecting a shared philosophy

Neither side disputes the general principles...

“By removing the impediments to trade and investment, increasing integration of markets, and enabling more dynamic private commercial activity, we seek to enhance economic growth and innovation across the Atlantic, make progress towards integration of the transatlantic market and strengthen our joint leadership in the global economy.”

Declaration on trade and investment, EU-US Summit, June 2005.

“We believe that transatlantic economic integration will maximise economic benefits for our citizens through competition and stronger growth, while maintaining high standards of safety and protection. Seeking, through the use of good regulatory practices, to bridge our current regulatory divergences and avoid the creation of new ones is essential to advancing economic integration.”

Joint TEC Statement, 13 May 2008.



● Part 2: stage two – why? Consumers benefit from choice

Status quo not in the interest of consumers

- Profitable industry is also needed for necessary investment in aircraft, IT and infrastructure (ATM, airports, etc.)
- Consumers benefit from efficiency savings and better / smoother connections brought about by closer interoperability and savings in overheads.
- Cross-border cooperation including investment choices likely to result in limited concerns about network overlaps. Connectivity likely to improve in terms of scope and reliability.
- Competition rules best placed to determine where there might be harm and require remedies where appropriate.



● Part 2: stage two – why? **Employees benefit from a healthy industry.**

The interests of employees and airlines are aligned

- Healthy industry best able to serve employees as well as customers and investors.
- Bad experience of **bankruptcy driven by limited restructuring options** on both sides of the Atlantic.
- Expanding market opportunities, removing restrictions and closer regulatory standards **will be beneficial for jobs.**
- Foreign-owned airlines in the EU and US would be **subject to EU and US law including labour protections.**



Part 3: Europe's vision for transatlantic aviation A Common Transatlantic Aviation Area

Completing the job

Type of Agreement	Freedom to set fares	Freedom of movement				Foreign ownership and control	Regulatory Cooperation
		3/4ths	5ths	7ths	Cabotage (8/9ths)		
Traditional Bilaterals	X	X	X	X	X	X	X
"Open Skies"	✓	✓	✓	✓ cargo	X	X	X
Open Aviation Area (OAA)	✓	✓	✓	✓ pax	✓	✓	✓



● Part 3: Europe's vision for transatlantic aviation EU-US second stage: the agenda

- **The second stage priorities as set out in the first stage agreement (Article 21):**
 - » 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.
- **Also want to examine further regulatory cooperation.**
 - » **Safety, security, environment, etc.**
- **There is a clear timetable for delivery.**
 - » **This should not be an open-ended negotiation. Both sides are committed to delivering within the agreed timescale.**





Part 3: Europe's vision for transatlantic aviation EU-US second stage: foreign investment opportunities

- **We should seek to reform ownership and control rules on a bilateral basis.**
 - » European law allows it under certain conditions through Community agreements
 - » Conditions for reform are set, allowing concerns regarding security, safety, labour standards, etc. to be met.
 - » We are prepared on a reciprocal basis to remove ownership restrictions for US investors.





Part 3: Europe's vision for transatlantic aviation EU-US second stage: further liberalisation of traffic rights

- **The agreement should provide reciprocal access to domestic markets and remove restrictions on 7th freedoms for passenger and cargo services for both sides.**
 - » Evidence shows that this is feasible and desirable.
 - » Regulatory solutions exist. Have not experienced problems.
 - » We have the opportunity in the agreement to meet any concerns raised.



● Part 3: Europe's vision for transatlantic aviation **EU-US second stage: full fair and equal opportunity**

- **We should look to remove any remaining discriminatory practices.**
 - » Complete the task of reforming “Fly America”
 - » Do more to allow the leasing of foreign aircraft with crew for domestic markets?





Part 3: Europe's vision for transatlantic aviation EU-US second stage: closer regulatory cooperation

- **We should build on the experience of the first stage to see what more can be done to align our regulatory positions.**
 - » Significant progress in the first stage.
 - » Are already feeling the benefit of this cooperative approach.
 - » From compatible approaches (first stage) to consultation and mutual recognition (second stage) in areas such as safety, security, ATM services and the environment.
 - » Strengthening the Joint Committee,



● Part 4: stage two – delivering transformation Learning the lessons from stage one

We are not blind to the concerns: answers to be found through joint work.

- National defence: Impact on the CRAF programme
 - » *ownership and control normalisation;*
 - » *domestic market access; and*
 - » *Fly America.*

- Security: Impact of foreign ownership of U.S. airlines and domestic access
 - » *ownership and control normalisation; and*
 - » *domestic market access.*

- Employment: maintaining protections for labour
 - » *ownership and control normalisation;*
 - » *domestic market access; and*
 - » *Provision of aircraft with crew.*



Part 4: stage two – delivering transformation Europe committed to finding solutions

Building upon the experience of both sides to inspire solutions

US domestic liberalisation and successful “Open Skies” policy

More than 30 years of experience of price, capacity and destination normalisation in domestic and international aviation.

(1978-present)

European Common Aviation Area

More than 10 years of experience of cross border ownership, cabotage and regulatory convergence in domestic and international markets.

(1992/5-present)

EU-US “Open Skies Plus”

(2007 – present)

EU-US Open Aviation Area

Full market access, investment rights and regulatory cooperation

(2008 - ????)



● Part 4: stage two – delivering transformation **What we should aim to achieve**

Our ultimate aim is a strong and efficient transatlantic aviation market in which:

- Full market access is guaranteed
- Removal of ownership and control restrictions on a bilateral basis
- Closer cooperation on the application of competition rules and control of state aid
- The highest standards ensured through consultation and mutual recognition in areas such as safety, security, the environment, and passenger rights
- Close cooperation on ATM issues (NextGen / SESAR / Single European Sky)



Part 5: conclusions

The rewards justify the effort

- The potential of a second stage agreement is many times the size of the first stage agreement
- The balance of benefits is clear. These reforms are essential for the industry, consumers, employees and the wider economy.
- Europe's aim for the second stage is realistic. We simply want to step back from regulating where it is not necessary to facilitate the operation of our industry.
- We are not looking for harmonisation of rules within a single market (Membership of the Europe Union not necessary!), but instead high standards through regulatory cooperation in the transatlantic market, where carriers are free to operate and invest on both sides.
- Ready to work hard to meet areas of concern. Europe is committed to approach these issues with a positive and open mind in our mutual best interests.

