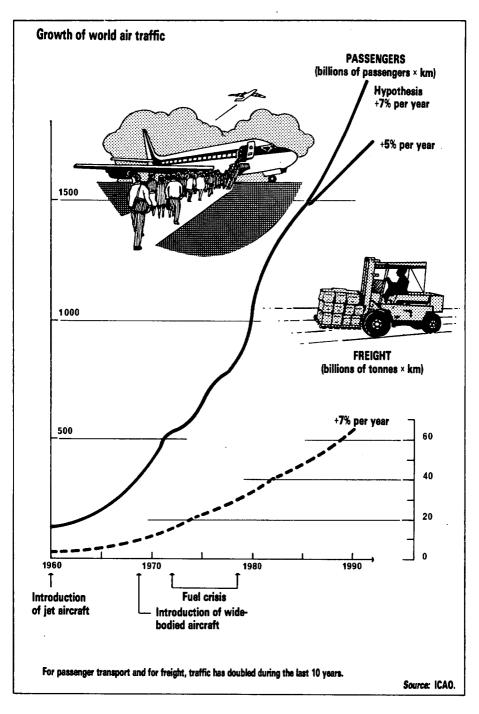


Air transport and aeronautics: towards a Europe of the skies



The implications of the Europe of tomorrow and its large internal market extend to the skies. In the years to come, the unstoppable growth of air transport and the anticipated development of the aeronautical industry will have decisive consequences:

- □ Transportation: although air transport suffered a relative decline at the start of this decade because of the economic crisis, it is currently enjoying spectacular growth. Previous estimates, which assumed an annual increase of 2 to 4 % in the numbers of travellers using European airports, have been swept away. In June 1988, the statistics showed an increase of 20 % over the preceding 18 months! According to estimates from Eurocontrol, the European air traffic control organization, an increase in traffic of at least 35 % must be anticipated between now and 1992, and a doubling by the year 2000. Whether for work or leisure, Europeans of all social classes are increasingly opting for the aeroplane. In the face of this explosion in demand, the establishment of an internal market for air transport and liberalization of the airways have become a priority.
- ☐ Industry: the reputation of the Airbus and its commercial success are well established. The aircraft is a perfect example of the results of long cooperation between European manufacturers. Other examples of technological successes derived from this cooperation are the supersonic Concorde which preceded the Airbus, the Fokker and ATR civil aircraft, the Jaguar, Tornado, Alpha Jet, Transall and Atlantic military aircraft, the Puma and Gazelle helicopters, etc. The European aeronautical industry has succeeded in affirming its identity and carving out for itself an important place in the world market. Its chances of continuing this momentum are real but not guaranteed. In order to face up to increasingly harsh competition, it now has to strengthen its technological base.

In these two key areas the Community is currently taking steps which are of prime importance for the future of Europe.

Air transport: towards a common market for civil aviation

Since the end of the Second World War, the total sovereignty exercised by States over the control of their airspace has led to an extremely rigid and compartmentalized carve-up of the air transport market between a limited number of national companies.

In 1957, the Treaty of Rome establishing the European Economic Community affirmed the absolute necessity of providing Europe with a common transport policy. However, in view of the specific circumstances pertaining to air transport — which at the time was relatively undeveloped in Europe — the Treaty made no decision on the measures which could be adopted in this area.

As a result, for 30 years civil aviation remained outside the process of European integration. Scheduled air flights continued to be subject to a system of bilateral agreements between States and negotiations between accredited carriers — companies generally either fully or partly State-owned. The sector could go on being run

according to monopolistic principles, in complete contradiction of normal competition laws. The parties involved, States and national companies, were able — often in a quite artificial way — to draw up air service operation rules that suited themselves, whether in regard to setting fares, sharing capacity or, when required, sharing revenue.

In the context of the current development of air transport, such a situation has become untenable in many respects:

☐ First, from the point of view of the consumer. The protectionist cocoon surrounding this sector was conducive to ever more flagrant distortions in the way intra-European air services were operated. The air traveller is right to be astonished when a short flight between two European towns more often than not costs much more than a transatlantic flight to New York!

In addition, even when passengers are ready to pay these disproportionate prices, they find that limits on capacity resulting from agreements between companies considerably restrict the chances of getting a seat at a time that suits their requirements.

- ☐ In relation to the needs of the European economy, as it prepares for the large internal market of 1992. Civil aviation plays a key role in contemporary society. Its strategic importance must be considered from two angles:
 - The increase in traffic speaks for itself: the aeroplane is now a means of transport indispensable for other sectors of the economy and for the free movement of goods and people. The economic efficiency of air transport has become a significant factor in the competitiveness of the whole economy. A recent European Commission study on the 'cost of non-Europe' shows that the inefficiency of existing structures, resulting from the lack of competition, leads to a considerable waste of resources, loading at least 10 % onto the carriers' costs and fares.
 - Furthermore, if aircraft manufacturers have to target the world market to make their production profitable, the dynamic development of the European transport market is a key factor on which the industry must be able to rely.

The European Commission therefore judged it necessary at the end of the 1970s to open the file on a common policy for air transport.

In 1979 it submitted its first memorandum, which took stock of the problems in the sector and proposed an overall framework in which to draw up a policy. This document enabled a wide-ranging debate to be opened on the issue, involving interested professional and economic circles as well as Community institutions, in particular the European Parliament. In 1980, the Parliament adopted two important resolutions on reforms to improve the competitive conditions and operation of this sector. Then, on the basis of Commission proposals, the Community's Council of Ministers was able to approve the first European Directives on:

	operating certain intra-Community services outside of the principal routes already in service.							
	☐ Limiting the noise levels of subsonic aircraft.							
	$\hfill \Box$ Cooperation and mutual assistance between Member States in inquiries into aircraft accidents.							
In the meantime, two major occurrences left their mark on the world of civil aviation.								
	☐ The effects of the world recession resulted temporarily in a slowing down of the growth in travel, posing serious problems of overcapacity — and therefore of profitability — for European companies. It highlighted the weaknesses of an excessively protectionist system which had been sheltering European carriers from the need to maintain rigorous control on their activities and expenditure.							
	☐ The radical 'deregulation' which took place in the United States' internal market brought about a profound restructuring of American civil aviation. Under the pressure of competition, it succeeded in rapidly adjusting its costs and prices and in neutralizing much more quickly the effects of the crisis.							
	In this new context, The European Commission submitted a second memorandum on civil aviation in 1984, drawing on the conclusions of its consultations with all interested parties and on the lessons learnt from recent developments. Here the principles for a common air transport policy were defined more precisely and in greater detail.							
	☐ The Commission specified straight away that circumstances in Europe were such that the reference framework for measures to create a true common aviation market should not be modelled on 'American-style' deregulation. Reform was also to be directed first to air transport between Member States, leaving until later the problem of improving links with third countries.							
	☐ The approach chosen was to develop the existing system of bilateral agreements between companies and Member States, so as to make it more flexible and more competitive. By increasing commercial pressure on companies, while at the same time maintaining tighter control of State aids to prevent any escaltion of public susidies, the policy is intended to:							
	 Increase the productivity and profitability of European carriers. 							

- Improve the quality and reduce the price of services offered to users.
- Allow the development of efficient and innovatory companies.
- Promote the growth of transport and thereby economic expansion and employment in the Community.

Though several proposals for directives and regulations were subject to long discussions in the Council of Ministers, a judgment handed down in 1986 by the European Court of Justice in the 'Nouvelles Frontières' cases provided particular support for the European Commission's point of view on the justification for the liberalization of European transport. By referring to this decision, the Commission was able to request 10 of the most important European airlines to put an end to various flagrant infringements of Community competition rules.

It was undoubtedly in 1987 that the decisive event occurred. That year saw the entry into force of the Single European Act, which amends and complements the provisions of the Treaty of Rome so as to facilitate the completion of the large internal market in 1992. This fundamental text expressly provides for the establishment of an internal market for air transport. Furthermore, this is one of the areas in which decisions no longer require unanimous agreement in the Council of Ministers: a qualified majority will suffice.

From then on there was no more foot-dragging. In December 1987, the Council adopted a package of air transport measures which constitute the first rules for a common air transport policy. There are three main aspects to these measures:

- ☐ A relaxation of the rules governing fares. Up to this time, any air carrier operating a scheduled route was obliged to align its fares with those charged by other companies. Now governments may no longer prevent the introduction of economic fares answering to passenger demands, provided they are based on real costs. Deep discount fares for off-peak periods or for specific passenger categories (young people, the elderly, families) must also be authorized.
- ☐ Much greater freedom as regards the sharing of capacity and access to routes. Until December 1987 the prevailing rule in bilateral agreements was for a strictly equal division of seat capacity between carriers authorized to operate on a route between two States. The Council of Ministers' decision allowed those companies who wish to do so to increase their capacity, provided the resulting capacity shares from 1988 are inside the ratio 55 %:45 %. In October 1989, the permitted ratio will be extended to 60 %:40 %.

In addition, the text opens up the possibility of new access to routes:

- Each Member State now has the right of 'multiple designation', which allows
 it to designate several companies to provide services between it and another
 Member State. This right applies to routes with passenger traffic of more than
 250 00 in 1988, 200 000 in 1989 and 180 000 in 1990.
- Carriers authorized for a bilateral service between two Member States are
 now allowed to establish services between the main airports in their own
 country and regional airports in the other country, with no limits on distance
 or size of aircraft. They also have the right to combine scheduled air services
 between the points they service, provided that no traffic rights are already
 exercised on that route.

	regional airport and have the country of the carrier as its origin or final destination; in addition, the carrier may not allocate to fifth-freedom traffic more than 30 % of its annual capacity on the whole route concerned.
	A procedure for applying Community competition rules to air transport. This final part of the 1987 package of measures comprises two regulations. The first defines in the traditional way the powers of investigation and sanction conferred on the European Commission to enable it to ensure that competition rules are respected in the air transport sector — just as happens in other sectors of the economy. The second regulation allows a series of exemptions, which permit companies to maintain a certain number of specific agreements which are indispensable for efficient coordination of air services and clearly advantageous for passengers. Several regulations defining the conditions for the application of these exemptions have been adopted by the Commission.
trai	fanuary 1988 was therefore a red letter day in the history of European air insport. However, although a first significant step has been taken on the road wards a common air transport policy and the liberalization of air transport, other pos must follow.
	In its 1984 memorandum, the European Commission reviewed various issues which it has studied closely and which should eventually be incorporated in an overall policy for this sector: control of State aids to companies, development of air freight, revision of the directive on the development of interregional air transport, a certain harmonization of conditions for charter transport, development of the capacity of airport infrastructure and the increasingly serious problems of air traffic control. On this last point, Community transport ministers have already undertaken in June 1988 to set up 'crisis cells' to deal with the consequences of the extremely lively growth in traffic and with the congestion of European airspace during the peak summer holiday periods. However, more needs to be done, especially to ensure that safety does not deteriorate. The Commission is arguing for coordinated European action in this area. Concurring with the European Parliament, the Commission has declared itself in favour of all Member States' joining Eurocontrol (the European air traffic control organization), whose role should be enlarged. The Commission also wishes that, under certain conditions, military air space could be used for civil flights.
	The Council of Ministers decided to evaluate after three years the impact of the measures adopted in 1987. It has already undertaken to adopt from 1990 a second package of measures to prepare, in a much more developed way, for the important deadline of 1992. 1993 should see the outcome of this process and the advent of a true common market for air transport.
The	e Community also facilitates investment in the air transport sector. Between 1983

and the end of September 1988, the European Investment Bank (EIB) loaned nearly

• The decision also recognizes fifth-freedom rights, by allowing companies to carry passengers between two States other than the State in which they are registered. Certain limits are provided: the route must include at least one ECU 1.5 billion¹ for projects in this field, ranging from the manufacture, repair or purchase of aircraft (ATR 72, Airbus, Boeing 737-300, MD 82) intended for internal and intra-Community routes, to the modernization and extension of airports (Nice, Norwich, London-City, Manchester, Turin, Faro, Funchal), terminals, air traffic control equipment, etc.

Aeronautical research: a new proposal for a Community programme

Before they can fly and carry people and goods, planes have to be built! Many are built in Europe, where aeronautical manufacturing is currently a key industrial sector in many respects.

- ☐ The turnover of the European aerospace industry is of the order of ECU 35 billion per annum and it employs nearly half a million people. The activities of this industry and its vast network of sub-contracting are of considerable strategic importance. The high-quality aeroplanes and helicopters manufactured in Europe play an essential role in the Community's air transport services. In many Member States, the aeronautical industry also makes a decisive contribution to the defence of the continent. Furthermore, because of its never-ending need for technological improvement and innovation, the sector stimulates the general research and development effort and has important spin-off benefits for other areas of industry. The Single European Act has given the Community new responsibilities for the scientific and technological future of Europe; it must pay very close attention to this particular factor.
- ☐ Because there has been a clear willingness to cooperate in the development and manufacture of new high-performance competitive aircraft, the European aeronautics industry has made a spectacular recovery. Its share of the world market, for both civil and military orders, increased from 5 % at the beginning of the 1970s to 25 % in the middle of the 1980s. With approximately 30 % of its revenue coming from external markets, the industry makes a significant contribution to Community exports.

Despite this generally positive bill of health, the future of the industry is not guaranteed. Not that the prospects for the market (which is the only one that counts for the future of aeronautics) is bad — quite the contrary: according to a recent study, commissioned by the industry itself in collaboration with the European Commission, the average annual value of world deliveries of aeroplanes and helicopters should increase in real terms in the next 20 years to approximately 40 % above the average for 1980-86.

¹ ECU 1 (European currency unit) = approximately £ 0.65, Ir£ 0.77 or US\$ 1.18 (at exchange rates current on 3 January 1989).

However, the competition to supply this enormous market is unbelievably severe and continuing to intensify. It comes especially from the United States, which benefits from a national market twice as big as Europe's and which deploys a formidable technological effort, both civil and military, to retain the dominant position it has always enjoyed in this sector. Competition is also beginning to come from Japan and other newly industrialized nations.

In this battle, Europe still has a chance and can hope to maintain the market share it has succeeded in winning, but the challenges are serious ones. They derive above all from the highly sophisticated technology which increasingly constitutes the basis of competitiveness in aeronautics and which is developing at an unbelievably rapid pace. Radical changes can be anticipated both in the form of new generations of aircraft (hypersonic aircraft, tilt-rotor aeroplanes, etc.) and in new concepts for computerization, new materials, etc.

The abovementioned study concludes precisely that the weak point of the European aeronautics industry is currently its capacity to renew the technological base which is the key to future aeronautical developments.

\sqcup	The industry is fully aware of the important stakes involved, but the financial and						
	intellectual efforts required for the development of new technology in this sector						
	are constantly increasing.						

☐ The amount spent on research by European manufacturers represents only a third of that spent by their American competitors. For many European companies, the cost of acquiring the indispensable technology base is already more than they can bear.

It must be clearly understood that, although European cooperation has proved fruitful for aircraft manufacturing, the European aeronautical industry does have an Achilles' heel in the dissipation and insufficiency of the research and technology effort, which still shows too much of the old fragmentation between nations and companies.

On the basis of this diagnosis, resulting from an assessment commissioned and presented by the industry itself, the European Commission decided it was essential that the problem be tackled urgently.

□ In June 1988, the Commission took the initiative of presenting an important communication analysing in detail all aspects of this worrying weakness. It considered it essential for the Community to take rapid steps to confront the challenge, just as it did with its Esprit and RACE research programmes when faced with problems in the information technology and telecommunications fields. Accordingly, the Commission proposes to launch in 1990 a wide-ranging Community programme of research and technology in aeronautics. This will focus on the key elements of the technological bases for future products, as defined by the industry itself. The programme, to be operated on a shared-cost basis, will also be open to collaboration from the universities and small and medium-sized enterprises.

□ A month later, in July 1988, the Commission was ready to define a first essential step in implementing this scheme. It proposed to the Council of Ministers and the European Parliament the immediate start of a two-year pilot phase. The aim is to work in a concrete way towards the definitive objectives of the main programme and already to put into operation management methods, cooperation arrangements and assessment criteria. The pilot phase will initiate cross-border research work by industries, research institutes and universities in a certain number of advanced technologies already identified as strategic and as posing urgent problems.

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In the fields of aeronautics and air services, the Community's scope and objectives make it the most appropriate framework in which to seek solutions for the future, ensuring both the maintenance of competitiveness and the satisfaction of users' needs

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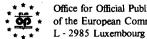
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Office for Official Publications

of the European Communities

Catalogue number: CC-AD-89-002-EN-C

ISSN 0379-3133



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