

TRENDS AND DEVELOPMENTS IN INTERNATIONAL TRANSPORT  
POLICY - A EUROPEAN PERSPECTIVE.

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CHAMBER OF COMMERCE, NEW YORK, 16 SEPTEMBER, 1980.

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I am honoured to have the opportunity of introducing a discussion among the distinguished participants present here today of aspects of developing international transport policy. Before dealing specifically with air and sea transport policy, I should like to make the point that, in the European Community, questions of regulation and deregulation, freedom and control in transport were first tackled in the field of surface transport. Indeed, in the years up to 1975 or thereabouts the great bulk of the Community's transport policy-making exclusively addressed inland transport, a field where, unlike in the United States, all three modes, road, rail and inland waterway, remain very important for goods transport, and compete strongly with one another. As regards the policies which the Commission has advocated here, I can state briefly that it believes that the ideal situation would be one in which the market for goods transport by surface modes operated in as liberal a way as possible, with free price formation, freedom for firms to invest and the right for a transport operator from one Member State to offer his services freely in another. At the same time, the public authorities should be empowered to step in with corrective measures if for any reason this free market becomes seriously destabilised to the general disadvantage. I may say that it has not been easy to put this policy approach into operation in a comprehensive way, especially, perhaps, because of the special position and problems of the state-owned railways. Nevertheless, the legislation adopted over the years by the Council of Ministers goes, in our

As far as air and sea transport are concerned, the Commission would certainly accept, on general economic grounds, the proposition that these transport markets too should be organised as liberally as possible. The aim should be to secure for the consumer the benefits of the principle of comparative advantage. On the other hand, we must also take account of over-riding political requirements, which can of course have considerable force. I should add that in the European context both these transport modes operate mainly at international level: we have nothing like the enormous United States domestic air transport network operating within a single country.

So let us first of all have a look at air transport policy. This is a field where public interest is particularly strong today on both sides of the Atlantic, and where the political, economic and technological factors which shape the world-wide system of civil aviation have been subject to substantial change in recent years. The most spectacular events have been the energy crisis and the US government's deregulation policy.

The new aviation policy of the Carter Administration has obviously had significant influence in Europe. European Governments and airlines have to react to the challenge coming across the Atlantic. The European public asks whether the advantages which the new developments on the other side of the Atlantic apparently bring for the

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(passenger could not be obtained)

passenger could not be obtained in Europe as well, especially on routes between European centres. European air travellers are asking: is the air transport system in Europe efficient? Are European air fares too high? Might not more competition bring lower fares? In these circumstances the EEC has turned its attention to civil aviation policy, and it is the Commission's task to examine how the Community can contribute to sensible policy-making and satisfactory results for the consumer of air services in Europe. In reflecting on this the Commission needs, of course, to take full account of the existing international regulatory framework.

The basic objective of European economic integration - the harmonious development of the economies of the Member States - is as relevant for air transport as for any other economic activity in the Common Market. However, from the general principles of the Treaty of Rome it is not easy to deduce concrete guidelines for action in the field of air transport policy. So the Commission and the other European institutions have felt it more reasonable to base Community action in this area not on preconceived economic principles but on more pragmatic analyses of the deficiencies of the existing European air transport system and the requirement that any Community measure should make a contribution to a more efficient air transport system with the lowest possible cost to society as a whole.

This pragmatic approach is based on the experience gained in previous years in the development of a common transport policy. Such a policy must necessarily be composed of common measures based on revealed and accepted common interests of the Member States. The Commission therefore felt that it was necessary to find out where such common interests might lie in civil aviation, especially in relation to traffic within the Community.

The Commission based its analysis of the existing situation on the interests of four groups involved in air transport: the users, the airlines, the staff and the general public. The users are interested in efficient services and in value for money. The airlines are looking for financial soundness and low operating costs. The airline workers are interested in free access to employment and social progress. The general public would like to avoid having to pay subsidies to airlines out of their taxes, and avoid damage to their environment by noise and other emissions from aircraft.

Looking at the interests of these four groups, it is not too difficult to find deficiencies in the existing European system. Let me concentrate on the question of the balance between the interests of the users and the airlines. This is the area where the crucial question of "regulation versus deregulation" occurs.

In its July 1979 Memorandum on air transport policy the Commission expressed the view that the demands of some specific user groups are not fully met by the existing air transport system in Europe. These are passengers visiting friends and relatives and passengers living in less-developed regions. The Commission is concerned also by the fact that economy fares in European cross-border traffic are higher than anywhere else in the world. A different system of tariffs and a more widely-expanded network might help to meet these user interests.

Some of the reasons for these deficiencies seem to the Commission to lie in the rigidity of the Chicago Convention System, which is fully applied to air transport between Member States of the European Community. This system has certainly the advantage of being a worldwide one. It is, however, questionable whether, within the Community, we need to maintain its disadvantages. These lie in the fact that any major commercial international air transport activity in the form of either scheduled or charter services is subject to state intervention, sometimes unilateral, but mostly in the form of bilateral or multilateral agreements between governments. This introduces non-economic elements into the system which have a negative effect on efficiency. Take, for instance, the rigidity of the exchange of traffic rights on a purely bilateral "give and take" basis, detrimental to the network; the habit of demanding market shares for national carriers irrespective of their productivity; and the unilateral restrictions placed on charter services.

As the European Community is a relatively small geographical area with a large number of national civil administrations, these deficiencies of the Chicago Convention system are particularly strongly felt in our region. This has led to a perhaps excessive concentration of traffic on the main airports and, in my view, to a rather artificial separation between scheduled and charter services. There is also very little chance of market entry for smaller private carriers. As to scheduled services, the general practice of pool arrangements and the way in which fares are set produce a high fare level.

On the crucial question of "regulation versus deregulation" in civil aviation, the Commission does not suggest simply copying the deregulation policy of the United States. Such an approach could not work within the European Community, where the structure of the industry is entirely different. The main scheduled airlines of seven Member States are more than 75% owned by the States (three of them are 100% owned). Another Member State owns 50% of its main scheduled airline. Against this background, it is easy to see that Member States are, on the whole, reluctant to envisage an open sky policy without state intervention in market entry and rate setting. We also have to take into account the question of modal split between air and rail, as the railway network in Europe is very well developed and the railways also are state-owned. On some routes, rail transport of passengers compares with air travel in terms of total journey time, and is cheaper. On longer routes rail tariffs are much lower than airline fares.

The Commission believes that the rigidity of bilateral dealings, especially for scheduled air services, could be relaxed by the introduction of multinational elements at Community level. The aim would be to give the airlines more scope for using their own commercial initiative and thereby meeting user demands and needs in a more flexible way. Travellers and shippers should also be given more efficient means of voicing their interests.

Invoking the general principles of the Treaty of Rome, calling for the free movement of goods and services within the Common Market, the Commission suggests primarily a more flexible system of market entry for airlines. This should give incentives for innovation, higher productivity and, as a consequence, reasonable tariff levels.

There is a trend towards more competition in this idea. But the Commission does not deny the possible need for a certain degree of state intervention in the field of access to the market, network structure and rates. However, the Commission believes that the balance between freedom and intervention should be struck at the Community level. This should help to give more scope to the real economic interests of airlines, travellers and shippers and reduce the importance of "national interests".



The Commission is presently preparing a first concrete measure with a view to implementing these general principles. At the request of the Council of Ministers, it is currently concentrating its activity on the improvement of inter-regional cross-border services within the Community. The intention is to get practical experience of the establishment of a network between the Member States which is not based on bilateral agreements but directly on airline initiatives. The suggestion is to introduce common criteria and Community procedures for granting traffic rights and for monitoring the tariffs charged by the airlines. These procedures also envisage the setting up of consumer councils having the right to express themselves to the Member States and the Commission on the way the system is operating. A more flexible system for interregional cross-border services should contain certain conditions and safeguards, such as the exclusion of services between the biggest airports, limitations on the size of aircraft and the establishment of a restricted list of objective criteria which might justify a receiving state in opposing the establishment of new services or new types of services.

We hope with this proposal to give smaller and medium sized carriers a greater chance to offer services within the Community which are complementary to the trunk services already offered by the big flag carriers.

In addition to this proposal on interregional services, the Commission is carrying out a detailed examination of European air fares, requested in June by the Council of Ministers.

This outline shows that an evolutionary process of decision-making in civil aviation has begun at the level of the European Community. I believe that it will have an increasing influence on air transport in Europe during the Eighties.

Let me now say a word about shipping policy in the Community. A look at the statistics shows that the emphasis of EEC shipping policy must clearly be on international issues. The EEC as the largest trading bloc in the world relies on sea transport for 90% of its trade with non-Member countries, while only about 25% of trade between the Member States themselves is carried by sea. The Community is therefore interested in efficient, unencumbered international maritime transport, and we want our fleets to participate in carrying this trade, as well as other countries' trade, on the basis of fair, commercial competition. Thus we are in favour of a liberal organisation of maritime transport based on the economic philosophy embodied in the Treaty of Rome. But, of course, we know that not all the teams in the game play by the same rules. That is a fact of life and we must take it into account in our formulation of shipping policies.

Let me now give some examples of Community-level policy-formation in shipping, in the fields of the organisation of liner shipping; bulk shipping and the open registries; and shipping safety.

When I mention liner shipping I think first of the United Nations Code of Conduct for Liner Conferences. I believe the EEC has gone a long way to defuse this hotly-debated issue through its decision last year to accept the Code as the most important element of a new economic order in liner shipping between the industrialized world and the developing countries. I recall that last year, in the course of a very stimulating session with your Shipping Committee, I had the opportunity to outline the Community's approach to the Code of Conduct. I don't therefore want to go into the detail of it again here, but I would like to touch on what I believe to be a fallacious argument advanced by some opponents of our Code solution.

This is the claim that the acceptance of the Code has in itself opened the flood gates of demands by developing countries for cargo sharing in bulk shipping. The underlying reason for cargo sharing demands is the old protectionist belief, usually false in my view, that the creation of captive markets benefits one's own economic interests.

We - all the Member States and the Commission - in the EEC are against bulk cargo sharing because this would transform a reliable, efficient and low cost shipping market into an unreliable, inefficient and high cost one. Our present organisation of the bulk cargo markets is open, competitive and non-discriminatory. Anybody who offers quality service at competitive prices can succeed in this market. There are lots of success stories of shipping tycoons, including those from developing countries, who have

A word now about open registry shipping. The UNCTAD secretariat's main arguments against it are that the flag state has no real control, that the ships have a bad safety record, and that they allow trans-national companies to exploit cheap labour from the developing countries without transferring the resulting benefits to them. UNCTAD argues that a phasing out of open registries would lead to a transfer of open registry ships to developing countries' registers since developed countries are not competitive. Well, this is really a very mixed bag of shipping safety and economic arguments. Dealing with the economic argument first, I venture to say that the phasing out of open registry shipping would not lead Western shipowners to turn towards developing countries' registries because they may well fear that some of these countries do not provide political and economic stability, security for foreign investments, transferability of capital and profits and adequate maritime legal regimes.

Now take the shipping safety arguments. We should all acknowledge that the shipping safety situation is unsatisfactory in the world today, but phasing out open registries would by no means solve the problem, because accidents and lack of control are not the exclusive preserve of open registry shipping. You in the U.S. have had considerable success in your quest for more shipping safety and less pollution from ships. And we in Europe can learn a great deal from you in this respect.

The Commission is convinced, like the U.S. authorities, that one of the important keys to success here lies in stricter port state enforcement of the internationally agreed safety and environmental standards. In this context the Commission has just proposed to the EEC Council of Ministers a Directive on the enforcement of shipping safety standards on all ships using Member State ports. . The Directive would oblige the Member States, as port states, to identify sub-standard ships visiting their ports, to inspect them and to require deficiencies to be remedied before leaving the Community. The standards to be controlled and enforced would be those laid down in the IMCO and ILO Conventions and covering such matters as construction, safety and navigational equipment, overloading and pollution prevention, as well as standards of training and watchkeeping.

Mr. Chairman, Ladies and Gentlemen, let me conclude my remarks on EEC shipping policy with a few words on the U.S.-European relationship in shipping, especially as regards liner conferences. This relationship has not always been free of friction and I think that is due to different perceptions on the two sides of the Atlantic of the role governments should play in regulating the shipping industry. Shipping is a truly international industry and should in our view operate as freely as possible of rigid national rules and regulations. Our need is for a high quality, cost-efficient shipping industry which is responsive to shippers' and consumers' needs. Only where

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the self-regulating forces of the market place are inadequate, such as in the shipping safety field, or where the balance between market forces may be disturbed, as may happen sometimes in the liner conference trades, do we propose to act. We shall do so to restore healthy markets, not to stifle their smooth functioning. In this context, the Commission is now preparing a draft Regulation designed to apply the EEC Treaty's competition rules to maritime transport. These competition rules are basically just as tough as your own anti-trust rules, but they leave room to take into account the special characteristics of specific sectors of the economy. And we think that shipping, more particularly liner conference shipping, requires some special treatment.

The proposed regulation is likely to exempt liner conferences from the EEC's competition rules, on the reasoning that conferences play a stabilizing role in ensuring reliable and efficient services to shippers and consumers. Nevertheless conferences are cartels, and the possible abuse of their market power should be prevented. The proposed exemption would therefore probably be subject to certain conditions, such as the requirement to notify the Commission of liner conference agreements and other rules relating to the organisation of a liner conference (although this does not mean that they would be subject to prior authorisation); the need to give customers full and clear information as to freight rates and conditions of transport; and the requirement to avoid discriminatory freight rates and conditions, including currency and other adjustment factors. There might well be other conditions.

What we want to achieve with this proposed competition regulation is a better balance of power between conferences and shippers without adversely affecting the economic efficiency of the organisation of liner shipping. This means in a nutshell: a "yes" to the closed conference system; a "yes" to the idea of sustained shipper-shipowner consultations; but a "no" to any abuse of economic power by conferences. For the first time, the Community would have a specific competition law for liner shipping and will no longer be relying exclusively on self-regulation. However, with all respect, what we don't want to create is a second FMC. We think there are some tendencies in the U.S. towards over-regulation in shipping which affect not only your own shipping industry but ours as well.

The problems of conflicting laws and regulations in an international business like shipping can cause serious problems, which I think we must both strive to overcome in a spirit of compromise. I hope that the Commission's ideas for a competition regulation in shipping are a step in the right direction and that discussions between us will eventually lead to a modus vivendi enabling all our liner companies trading on the North Atlantic to do profitable business and provide a high level of service rather than engage in courtroom battles.

Mr. Chairman, there may well be a tendency to suggest that there is some inconsistency between the Commission's and the Community's approach to shipping policy on the one hand and air transport policy on the other. The same sort of suggestion might, for all I know, be made about the United States air and sea transport policy too! As far as the Community is concerned, I would of course wish to defend us against any such suggestion.

In both policy areas the Commission is fully convinced of the economic wisdom of a liberally-organised transport market, and we press for this wherever we think it realistic to do so. Examples would be the bulk shipping market, and also intra-OECD relationships in liner shipping. Again, we have no opposition of principle to the open registries. In some other areas of shipping we do not think that the old freedoms are any longer practicable, as for instance in liner shipping relationships with the developing countries, or in liner conference organisation, where we do not think that pure self-regulation by cartels is any longer defensible.



In air transport, similarly, the Commission certainly stands for as much loosening-up of the market as possible, and the injection of as much as we can get in the way of commercial modes of behaviour. It is simply that in Europe at the present time the limitations on the scope of such a policy are much greater. They include such factors as the high degree of state ownership of the airlines, the need to take into consideration the effect of air transport policy on railway finances, and the fact that the Community is after all a mosaic of independent states with boundaries cropping up every two or three hundred miles, and with therefore a very high proportion of international services and their attendant complications. All this greatly limits the scope for treating air travel just like any other business. Nevertheless, we do want to move as far in that direction as we can, and our forthcoming proposal for facilitating interregional movements will, we hope, set things in motion.

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