



Expanding Horizons

**A report by
the Comité des Sages
For Air Transport
to the European Commission**

January 1994



Expanding Horizons

**Civil aviation in Europe,
an action programme
for the future**



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Acknowledgements

I wish to express my thanks and deep appreciation to my distinguished colleagues, the Members of the Comité, for their active cooperation, the spirit of mutual understanding and their commitment to the team task which they relentlessly demonstrated throughout the six months of our work and including the presentation of this report.



From left to right: René Valladon, Joao-Maria Oliveira-Martins, Henri Martre, Manfred Schölch, Bjarne Hansen, H.H. The Aga Khan, Herman De Croo, Pieter Bouw, Geoffrey Lipman, Jürgen Weber, Guillermo Serrano and Gonzalo Pascual.

I also particularly wish to thank the members of the permanent staff who, although small in number, skillfully managed to support on a daily basis the various undertakings of the Comité and made it possible to complete the task on schedule.

The Comité, set up by Commissioner Matutes, was able to work in total independence and nevertheless benefit from an efficient liaison with the European Commission.

Finally, I express the gratitude of the Comité to all the organisations, associations, companies and individual experts who gave us the benefit of their views and contributed so usefully to our perception of the situation.

Herman De Croo
Chairman

CHAIRMAN'S MESSAGE

An overview

Who would have predicted, one century ago when the dream of Icarus became a reality, the prominence of aviation in our society today?

Every day, more and more people use air transport for business, cultural exchanges or tourism. More and more goods are carried by air. This increasing mobility, which is scarcely affected by the present hard economic times, runs ahead of economic progress. This phenomenon is particularly true in the European Union and can only widen with the disappearance of national borders, the creation of the European Economic Area and the development of relations with the countries of Central and Eastern Europe.

Why the Comité des Sages?

The Comité des Sages was set up to reflect on the future of aviation in Europe as an essential tool for economic and social development.

Its first finding was that the European airline industry is at a crossroad. The causes of this situation have been analysed by the Comité with only one purpose: to suggest practical remedies.

For six months it has listened to the often contradictory views of many knowledgeable people. It has contacted organisations, studied the many problems facing air transport, analysed data and weighed alternatives. The Comité has reached a broad consensus both on causes and on remedies. (1)

The root of the current problems

In its early days as an infant industry, air transport depended on state support. It developed as a highly protected area of national economies, an integral part of government policy. All over the world, states exercised their right of sovereignty over airspace and their privilege to set up national carriers. Almost regularly, these carriers were used by governments as an instrument to promote trade, or their "own"

(1) Two dissenting opinions were expressed: Messrs Schölch and Valladon on the issue of ground handling services at Community airports and Mr Valladon on social issues.

aeronautical industry, or foreign political links or domestic employment - all without regard to the economic implications or commercial significance.

As a result, national air transport systems emerged, causing fragmentation and many inefficiencies. In this general trend, Europe was no exception. It still suffers from this heritage.

Some argue that basic characteristics of the airline industry are unique and therefore require their own decision-making rules and a distinct regulatory framework.

In a certain sense this is true. It is clear that, from a business point of view, international air transport is often subject to less than rational commercial decisions. These are based on traditions; national pride or simply on the fascination of an industry symbolising the ability of human beings to overcome natural limitations and to realise the dream of Icarus.

Of course, this fascination is primarily an asset. It implies an above-average willingness of managers and employees to work hard for the well-being of this industry. The crux of the problem is to reconcile this asset with rules ensuring that economically rational decision-making prevails. The European air transport industry will have a prosperous future only if decision-makers at all levels, including public authorities, manage to achieve this reconciliation. This job has yet to be done.

Today, technological progress and economic developments have profoundly changed the market for international air transport. The airline business has become a mass production industry. It markets its services in real-time at almost any point on earth. Global competitiveness has become the key to commercial survival. The need to identify and to assess strategic and practical options for managing transition from the past to the future is obvious.

At a very early stage of the work it became clear to all Members of the Comité that a major fact-finding exercise was required. For far too long debates had been largely in-

spired and conducted by those offering simplistic answers to complex problems.

The Comité was unwilling to accept misleading slogans and catchwords like "jungle of ultraliberalism" or "state support for lame ducks" which so often were the only available substitute for a solid and honest analysis.

Instead, the Comité opted for a careful collection and examination of indisputable data and facts. Hearings with well-experienced experts and senior managers were held and an analysis of all written submissions was made. The results of an external and independent study on the cost structure of the European airline industry were taken into account. The outcome of this whole exercise is presented in this report.

A costly fragmentation

Analysis shows that European airlines pay a heavy price for the fragmentation of their market in Europe. Airports and air traffic control systems are ill-adapted to present changes, because they are based on national and local interests rather than being part of a European concept. This practice has so far escaped the justifications of cost analysis and the competitive drive which would naturally result from a liberalised air transport system.

European airlines and airports also bear the cost of their own heritage: their productivity is far lower than their competitors' in other parts of the world, notably in the US.

The legal environment in Europe has changed. The Community has anticipated the coming global challenges by establishing the Single Aviation Market and dismantling the old national barriers to carrier designation and market access. But in real life, the "level playing field" in this aviation market remains somewhat rhetorical. Governments, airlines and even Community institutions are hesitant. State subsidies, ownership control and other competition-distorting factors still prevent the system from operating on even terms.

The three liberalisation packages for intra-Community air transport represent major steps towards developing the full economic potential of the Single Market. However, much remains to be done. The key recom-

mendations of this report are directly linked to a key finding: the overly-high costs of European air carriers require a major drive to increase efficiency at all levels.

The productivity gap of the European airline industry is based on various elements. Some of them are controllable by an airline's management. Others go beyond such direct control. They may nevertheless have a significant impact on the costs of an individual airline. Air traffic control and airport charges are examples of specific problems in Europe.

Above all, however, the Single Aviation Market exists so far only in law. In concrete economic terms, the structure of the European airline industry is still very much oriented towards outdated national boundaries. For the European industry to survive as a global competitor, Europe's Single Aviation Market must be transformed urgently into economic and aeropolitical reality.

What is needed

In the view of the Comité des Sages, here is what must happen:

- **The internal market must be made to work by enforcing its rules and effectively addressing sensitive issues like slots, state aids, mergers and alliances.**
- **As a matter of utmost urgency, infrastructure bottlenecks must be removed. New provisions of the Maastricht Treaty should be activated to provide Community funds needed for establishing an efficient Single Air Traffic Management System and a truly European airport network.**
- **Future efforts to harmonise national regulations must be linked to a clearly demonstrated cost-saving effect.**
- **Innovative forms of financing investments must be facilitated by updated rules on taxation and ownership in order to help air carriers overcome their current financial impasse.**
- **A genuine Community approach to external aviation relations must be quickly established because this is vital for realising the economic potential of the Single Aviation Market and for the mutual interest of Europe and its partners in the world.**

A fair balance of interests

In addition to reaping the full potential benefits of the Single European Aviation Market, another important condition must be met. It is essential to ensure the right balance of interests between the airline industry and other related areas like airport services, environmental concerns and the justified interest of the workforce in not shouldering, alone, the entire burden of the restructuring process.

The Comité analysed all these areas with a view to defining a fair balance of interests. This has been, of course, a difficult undertaking because it means identifying the borderline between objective requirements and subjective interests. Obviously, conflicts of interest are difficult to avoid when times are changing. This may explain why the relevant section of this report (1) contains two dissenting opinions. However, there was broad consensus that

- **airport managements should contribute to improving efficiency and should, therefore, open ground handling services to competition;**
- **further improvements in managing the environment are required. These improvements should be based on a careful analysis of cost-effectiveness in order not to put additional burdens solely on the European air transport industry as compared to its competitors;**
- **adaptation of employees should be facilitated by flexibility and mobility-increasing measures. In this context the possibility of Community financial support should be examined;**
- **public authorities should use identical cost imputation principles for financing investments in different transport modes and should support improvements of complementarity between these different modes;**
- **governments and public authorities should abstain from intervening for noncommercial reasons in the operations of air carriers.**

Close to the end of the work of the Comité des Sages, the European Commission's White Paper on Competitiveness, Growth and Employment, of December 1993 became available and was endorsed by the European Summit.

(1) See "Ensuring the Right Balance".

We found that the thrust of this document perfectly fits in with the main emphasis of our report. Both documents attach priority to making the Single Market fully effective and both emphasise the need for infrastructure improvements as the most promising way to create new jobs.

The Comité is convinced that extra efforts to improve air transport infrastructure will immediately generate a high return to the European economy as a whole. There is no reason to further delay urgently needed projects.

A change of mentality

After six months of listening to people, analysing problems and assessing alternatives, the main lesson I have drawn from this exercise is that old habits obviously die hard. Mentality changes are lagging behind technological, economic and regulatory changes.

Decision-makers in many air carriers, national governments, unions, financial institutions, airport managements and in EU institutions need to speed up their adaptation to the new challenges of a more and more global and competitive business environment.

The European air transport industry cannot afford a continuing lack of such mentality changes. Recognition of this very basic truth is THE key to entering better times for the industry, its employees and air transport users.

This change of mentality is, therefore, much more important than the accumulated wisdom of any Committee.



Herman De Croo
Chairman

THE ECONOMICS OF AIR TRANSPORT



A growth industry plagued by poor profitability

General

The availability of a high quality air transport system inside Europe and to and from Europe is an essential prerequisite for overall economic growth. Dynamic development of trade in general and tourism in particular heavily depends on possibilities to organise face-to-face business contacts and to travel efficiently to regions where other transport modes cannot provide an efficient alternative. Similarly, cost-efficient cargo transportation is essential for promoting trade, creating new markets and improving the productivity of manufacturing industries.

The direct impact of air transport on the general economy is clear:

- In industrialised countries, these services account for about 1% of GDP.
- In Europe, airlines employ about 400,000 people.

However, the indirect impact of air transport is less understood. Consider these facts:

- European airports (as distinct from airlines) employ about 500,000 people.
- For each person employed at an airport, there are two other jobs created in the catchment area. This means that one million people are employed in the catchment areas around European airports, solely because of the air transport industry.
- The aeronautical industry itself employs 400,000 people in Europe. Most of these workers are highly-skilled, using state-of-the-art technology that generates a higher-than-average contribution to the overall economy.
- The spill-over effect of the aircraft industry to other industries is substantial.
- Other related industries, such as tourism and shipping, are largely dependent on the air transport industry.

A report published in 1993 by the World Travel and Tourism Council (WTTTC) estimated that travel and related activities

presently directly and indirectly account worldwide for more than 10% of world GDP, about 10.7% of world capital investment, and 10.9% of consumer spending.

Overall, it is estimated that some 10 million jobs in the European Community alone are related to the availability of an efficient air transport system.

Such is the present power of the European air transport industry. But what of the future? This role will be even greater, because so many other growth industries in the next century will depend heavily on transport and telecommunications.

The importance of location in the air transport business

A priori, the essential economic role that air transport must fulfill stems from the availability of a network system and not necessarily from the homebase location of the airlines providing such services. From a user's point of view, it does not matter whether European, American or Asian air carriers provide the quantity and quality of the transportation required for economic growth in other industries. However, for a number of reasons, the homebase location of the airlines is highly important for the positive spill-over effects they have on the European economy as a whole.

Air transport serves the public in many ways. The quality of this service depends - to a large extent - on where the focussing points (hubs) of an airline's network are located. There is a natural correlation between the number of hubs and the homebase location of an airline. This makes it likely that the quality of Europe's air transport system would suffer if non-European airlines were the only significant service providers in Europe.

In addition, it is clear that an individual airline management's ability to identify market opportunities depends very largely on geographical proximity to the market in question.

Moreover, it is a simple fact of life that the aircraft manufacturing industry cannot develop its business without a solid customer base "at home".

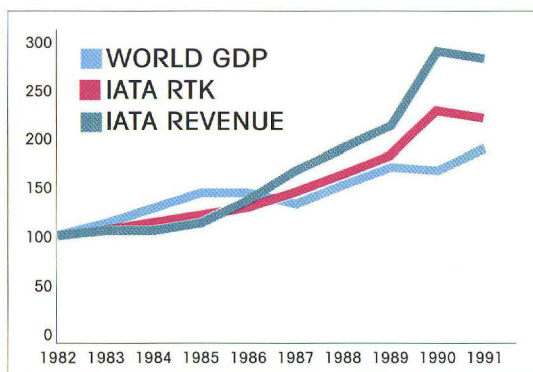
American aviation history (and other examples) illustrate the close link between the presence of a high-volume air transport industry and the potential for running an efficient and competitive aerospace industry. For European manufacturers, the presence of a European customer base is equally essential to stay in business, develop, and keep Europe at the forefront of technological development.

Therefore, a genuine European Air Transport Industry is a key industry for the overall economic welfare of Europe. The pace-making function of air transport for general economic growth and the quality of its service depend to a large extent on the homebase location of the airline. In view of this, creating stable conditions for the economic and financial well-being of the European airline industry is essential for building Europe's sustainable competitive advantage in the global air transport market. Therefore, this must be a prime concern for European economic policy.

Overall economic development: strong growth and poor profitability

In an historical perspective international air transport has undergone dynamic developments. During the 1980s world air transport increased by an average of 6% p.a. in volume terms and by 4.0% p.a. in real monetary terms. Such average growth rates are above rates of growth in GDP and indicate that international air transportation is, in addition to its importance for overall growth, already in itself a growth industry.

Graph 1: Growth of air transport worldwide.

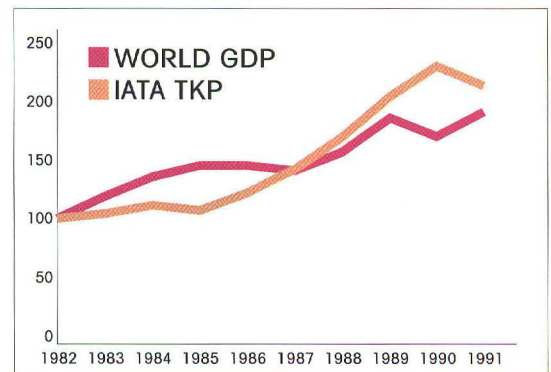


1982=100
Source: IATA - European Commission

Air Cargo

Developments for air cargo show equally favourable trends:

Graph 2: Growth in air cargo worldwide



1982=100
Source: IATA - European Commission

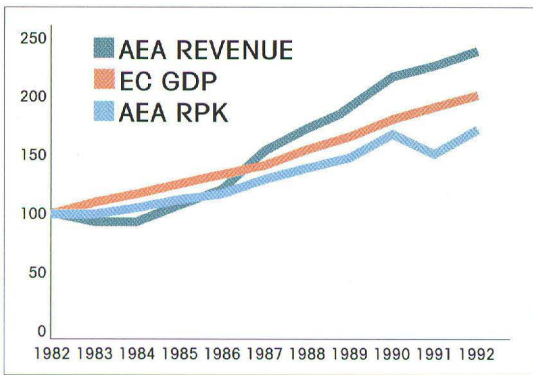
Air freight and express services are an important sector of the air transport system. The characteristics of this sector call for specific attention in Europe. Therefore, liberalising rules have been enacted in the Community alongside rules for passenger services. There is room for further facilitating the free movement of goods by air within the Single Market, in particular as regards clearances at airports. This report contains a recommendation regarding air/rail cooperation.(1) The development of air cargo fits in a Community policy on Trans European Networks.

A market relating to carriage of mail, documents and parcels has developed alongside the cargo services in response to market needs. International operators, called "integrators" essentially combine air and road transportation. With a fleet of over 1,200 aircraft they now represent an important sector of the evolving cargo market.

Trends for the European airline industry have shown similar development patterns if all modes (scheduled, non-scheduled) are considered. However, it is noticeable that carriers in the Association of European Airlines (AEA) have encountered a below-average growth in monetary terms. In other words: so-called European flag carriers are losing market share.

(1) See "Linking Modes of Transport"

Graph 3: Growth of scheduled European carriers (AEA)

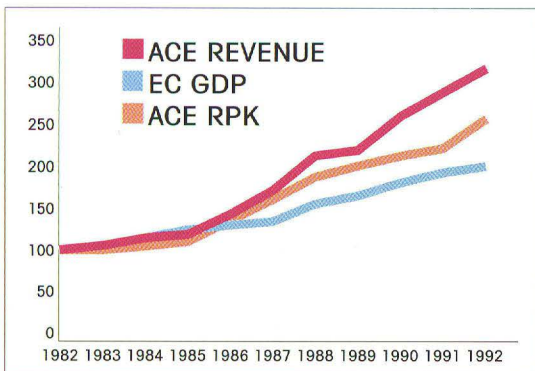


1982=100

Source: AEA - European Commission

In this context it is significant that independent air carriers in Europe (notably charters) have experienced much stronger growth. This indicates their ability to seize market opportunities in a liberal regulatory environment.

Graph 4: Growth of independent carriers in Europe (ACE)
(notably charters)



1982=100

Source: ACE - European Commission

Charters

The non-scheduled air services have developed considerably in Europe over the years and played an important role in the promotion of travel and tourism, with one out of two air passengers in Europe traveling on charter flights.

Under the new rules on market access, the distinction between scheduled and non-scheduled services has somewhat blurred as the flexibility has increased: independent carriers may choose to operate scheduled as well as non-scheduled services between Community airports. The traditionally distinct markets are now often overlapping, which offers new opportunities for growth.

The average profitability of air carriers differs significantly from profitability in other industries. However, the air carriers' favourable overall output/demand rate has never produced an above-average profit margin since 1982. Instead, airline profitability has always been extremely poor, if compared with other key industries. Since 1990, the airline industry has suffered specially high losses.

Table 1:
Net profit margin of world airline industry

Year	Margin
1982	-1.4
1983	-0.7
1984	1.9
1985	1.9
1986	1.2
1987	1.7
1988	3.0
1989	1.9
1990	-2.2
1991	-1.8

Source: ICAO

With the exception of air carriers specialised in leisure travel, Europe is no exception to the rule that scheduled air transport has generated poor profits.

Table 2:
Average profitability rates in Europe

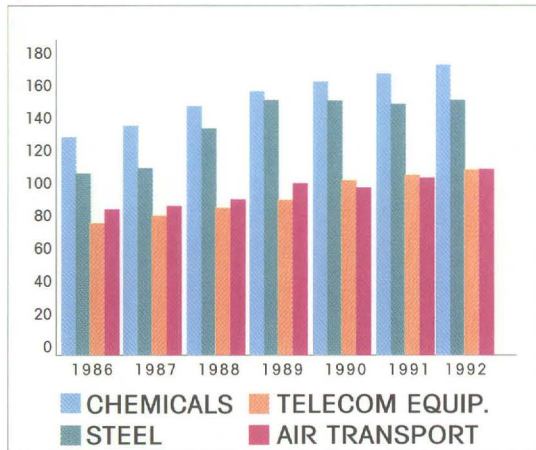
	1989	1990	1991	1992
Chemicals	5.29	3.90	2.70	1.50
Metallurgy	3.59	2.52	0.58	-0.33
Car	6.42	2.27	2.15	0.98
Telecom	7.33	7.15	5.65	3.42
Air Transport I (AEA)	1.9	-1.88	-1.15	-3.11
Air Transport II (ACE)	4.62	3.24	3.63	3.99

Source: AEA - ACE

European Commission (Panorama de l'Industrie Communautaire)

Labour productivity of the European airline industry (AEA members) is below average, if compared with other key industries.

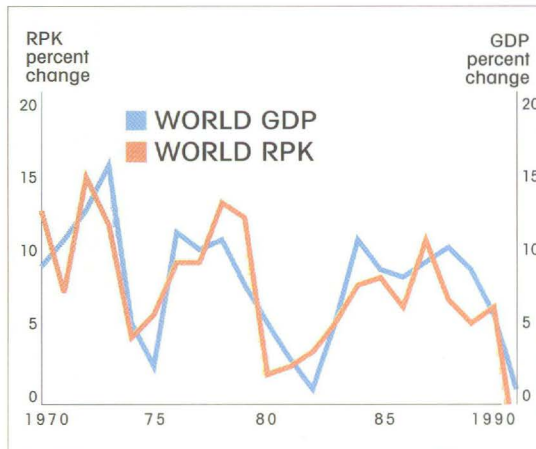
Graph 5: Turnover per employee



Source: AEA - European Commission (Panorama de l'Industrie Communautaire)

The comparison between annual percentage change of GDP and operating revenue of European scheduled airlines reflects the close relationship worldwide between GNP-growth and growth in the airline business and, thereby, the cyclical nature of both.

Graph 6: World RPK versus world economic growth



Source: Boeing

Direct employment in the airline industry grew by only 1.9% during the 10-year period

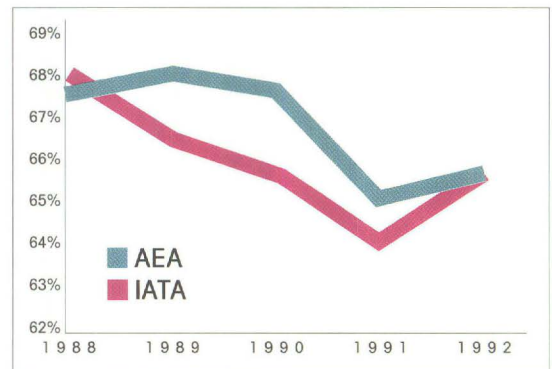
	Change in %			
	1990	1991	1992	92/90
Scheduled AEA	345	341	332	-3.8%
Charters ACE	23	25	25	+10.3%

Source: AEA - ACE - European Commission

1982-1992. IATA member airlines now employ a total of 1,490,000 people. Total employment staff of AEA members presently stands at 332,000. IATA and AEA members have reduced staff numbers by approximately 3.5% during the most recent economic downturn. However, it appears that independent European carriers (non-AEA) have increased overall employment even despite the downturn. (See table 3)

Until 1990 capacity and demand followed very similar patterns. Market disruptions caused by the Gulf War and economic recession in many parts of the world have produced an imbalance between capacity and demand.

Graph 7: Load factors



Source: IATA - AEA

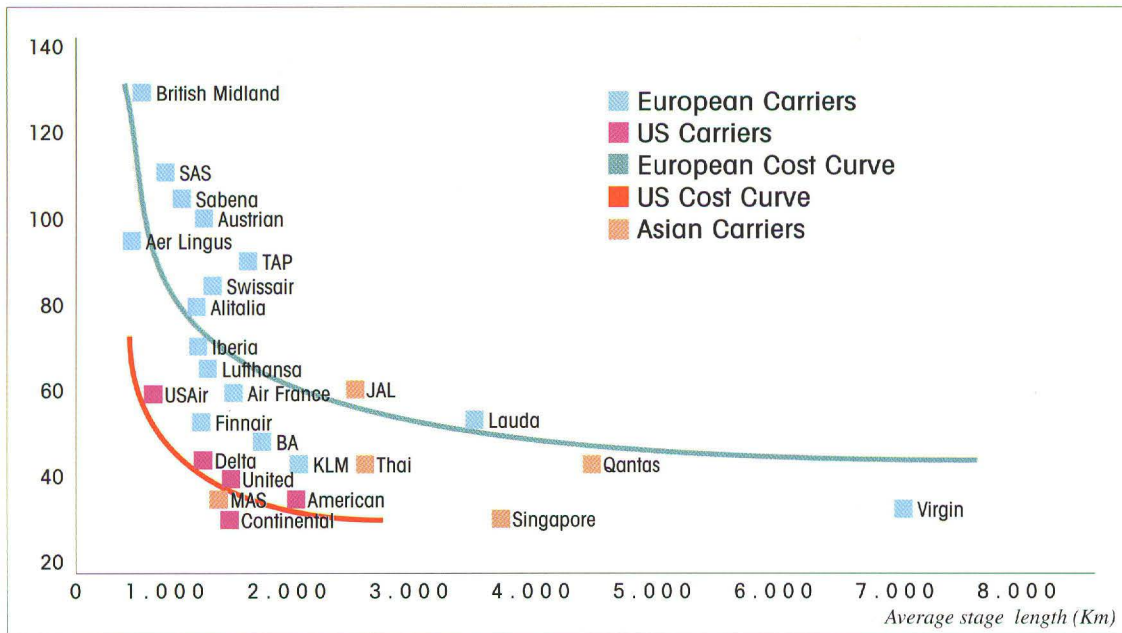
European imbalances: high costs in a competitive environment

Overall operating costs

The weakening financial position of the airline industry is a global phenomenon and the European airline industry is no exception. However, European airlines lag far behind their competitors in adapting their cost structures to prevailing market conditions. Thus European air carriers suffer from specific handicaps in the global market. Europe will need to address these handicaps to create conditions for a sustainable and competitive European airline industry.

In 1992, overall operating costs of major European airlines (AEA) measured by operating costs per ATK, were about 48% higher than the operating costs of major US airlines as illustrated by Graph 8.

Graph 8:
Operating costs in US cents per Available Tonne Kilometres 1992



Source : Avmark

Profitability and financial costs

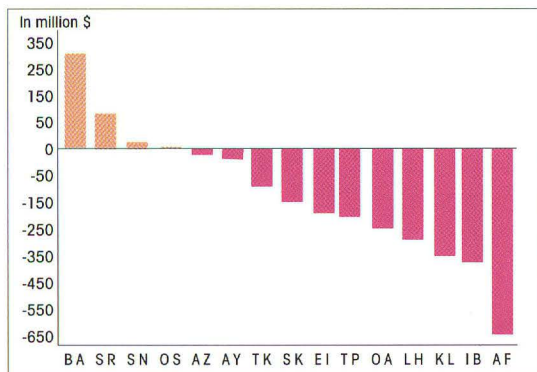
Economic recession, high operating costs and high financial costs (resulting from high interest rates and eroding debt/equity ratios) caused European airlines to lose 2.0 billion US dollars in 1992 (see graph 9).

Losses incurred since 1990 mean that cash-flow generated by European air carriers is becoming increasingly inadequate for financing future investments from own resources (see graph 10). Unless profits are restored and significantly improved, the debt/equity ratio may reach a level of 80/20 in 1995. This would undermine the airline industry's ability to finance investments through traditional financial instruments (see graph 11).

Although such a financial impasse is not unique to the European airline industry, a number of specific problems cause European carriers to suffer more than other airlines, in particular US carriers:

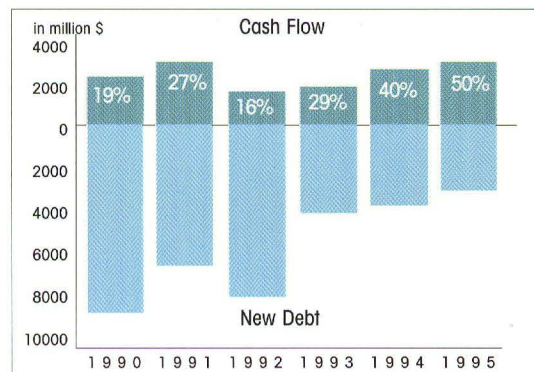
- A lack of financial instruments comparable to those provided by Chapter 11 in the US bankruptcy law.
- Less favourable terms for purchasing equipment (less favourable tax-lease treatment).
- Exchange rate risks.
- Limited access to US dollar market as a by-product of national effective control requirements.

Graph 9: European airlines' 1992 net results



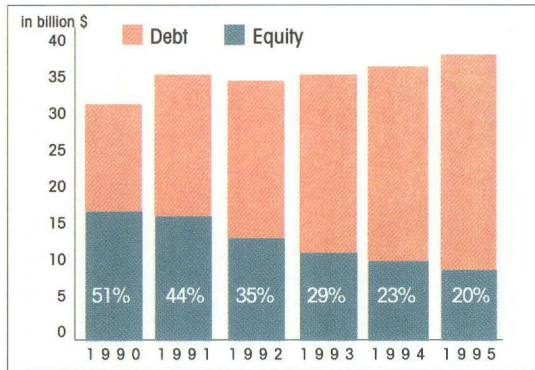
Source : Crédit Lyonnais

Graph 10: Eight largest European airlines' investment financing: cash flow and new debt



Source : Crédit Lyonnais

Graph 11: Eight largest European airlines' capitalisation: equity and total debt



Source: Crédit Lyonnais

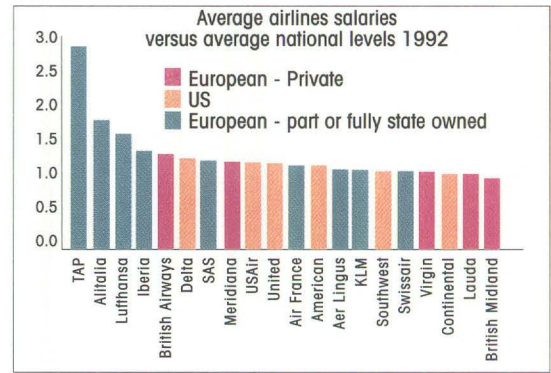
Labour costs

There is a widespread belief that high salary levels and high social costs in Europe represent a major impediment to better cost efficiency. However, the weakness of the European airline industry in the area of labour costs stems overwhelmingly from low labour productivity rather than from higher salary and social costs.

a) Airline salaries versus average national average salaries

A comparison of salaries in the aviation industry with salaries in the economy as a whole shows in graph 12 that air carriers pay - on average - higher salaries than other sectors. It should be emphasised that this is also valid for the highly-deregulated US air transport market, where labour costs have risen faster than revenue developments (see graph 12).

Graph 12: Average airline salaries versus average national levels - 1992



Source: Avmark

Note: National average refer to commercial, i.e. non-government employment

b) Salaries and social costs:

US versus Europe

On average, total labour costs (salary plus social charges) of European airlines amounted to US \$ 55,066 per employee in 1992. The corresponding amount for the US airline industry was US \$ 52,256. In other words, the US/European comparison of salaries and social costs does not indicate significant differences beyond the margin of "normal" currency fluctuations.

c) Labour productivity

Both the European and the US aviation industries pay higher-than-average salaries, and there is no substantial difference between US and European salary levels. The real difference between the two continents is in labour productivity.

Table 4 indicates that European labour costs per employee are 5.38% higher than in the US, but due to much lower labour productivity in Europe the total labour costs in Europe per available tonne kilometre (ATK) are nearly 37% higher.

User charges

Over recent years the airline industry worldwide has experienced a significant increase in costs beyond management control, notably landing charges and en route charges. Table 5 indicates that for IATA carriers cost increases in areas beyond airline management control have been considerably higher than average cost increases. Europe is no exception to this rule.

Moreover the European region suffers from extraordinarily high user charges.

Table 4: Analysis of European versus US labour costs and productivity 1992

	US-airline industry	European airline industry	Percentage difference
Financial Measurements (US \$)			
Gross salaries per employee	40,534	44,493	10.26%
Social charges per employee	11,722	10,573	-9.80%
Total labour costs per employee	52,256	55,066	5.38%
Total labour costs per ATK	15.55*	21.27*	36.76%
Social costs as percentage of total	22.43%	19.20%	-14.40%
Physical productivity			
ATKs per employee	336,019	258,908	-22.95%
Departures per employee	13.24	6.28	-52.57%
Block hours per employee	27.15	12.98	-52.19%

* US cents

Source: Avmark

Table 5:
International scheduled services 1987-92
Unit costs 1987-92 in current \$

	US\$	US\$	
	ATK	ATK	Percent
	1987	1992	Change
Flight Deck Crew	2.8	3.4	+21.4
Fuel & Oil	5.6	5.3	-5.3
Flight Eq. Deprs	3.9	5.2	+33.3
Ins/Rental			
Maintenance	4.3	4.7	+9.3
Overhaul			
Landing Charges	1.7	2.2	+29.4
En Route Charges	0.9	1.6	+77.8
Station & Ground	0.9	1.6	+12.3
Cabin Attendants	5.0	6.1	+22.0
Pass.S'vce			
Ticketing	8.2	9.0	+9.8
Sales/Promotion			
General & Admin.	2.5	2.8	+12.0
Total	39.8	45.8	+15.1

Source: IATA

Airport charges for scheduled European airlines represent 4 to 6% of the operating costs, compared with less than 2% in the United States. This relative difference has even more impact on ATC-charges where no en-route charge exists for domestic US traffic.

Graph 13: 1993 Representative airport charges in US domestic and intra-European international operations (for Boeing 737-300 aircraft) Source: Avmark

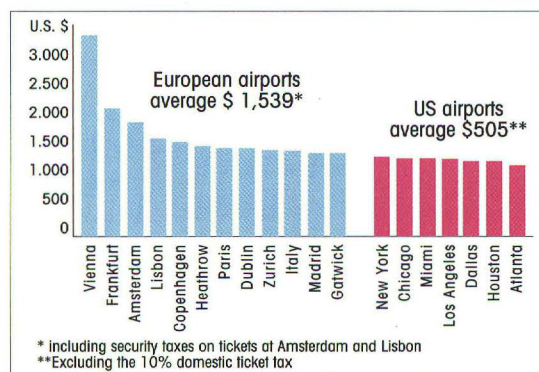


Table 6: 1992 en route navigation charges per ATK

European short hauls	5 cents
Euro-majors	2.4 cents
Asian carriers	1 cent
US majors	0.2 cents
US domestic carriers	0

Source: Avmark

Table 7:
Trends in representative airport and security charges paid by airlines at European, US and Asian airports. 1988-1993 average annual charge (%) in:

	737-300 charges *	747-400 charges *	Average of the two aircraft types
Lisbon	+13.3	+12.9	+13.1 (+16.0)
Rome/Milan	+7.6	+9.6	+8.6
Frankfurt	+9.2	+5.3	+7.2
Vienna	+6.5	+5.0	+5.7
London (LHR)	+5.9	+4.5	+5.2
Madrid	+4.4	+5.4	+4.9
Paris (CDG/ORY)	+4.0	+4.7	+4.4
Copenhagen	+3.6	+2.8	+3.2
Amsterdam	+2.2	+2.8	+2.5 (+5.6)
Zurich	+1.2	+1.6	+1.4
London (LGW)	+2.9	-0.8	+1.1
Dublin	0	0	0
European average	+5.0	+4.3	+4.6 (+5.2)
Los Angeles (LAX)	+35.4	+42.7	+39.1 (+24.3)
New York (JFK)	+16.3	+9.4	+12.8 (+12.1)
Chicago (ORD)	+7.2	+11.7	+9.5 (+8.1)
Houston (IAH)	+0.9	+8.8	+4.8 (+4.1)
Dallas/Fort Worth	+4.2	+2.3	+3.3 (+4.2)
Miami	-2.8	-2.6	-2.7 (+0.2)
Atlanta	+3.0	-8.9	-2.9 (+1.0)
US Average (excl. LAX)	+6.1	+4.2	+5.2 (+5.7)
Hong Kong	+14.6		
Sydney	+14.0		
Singapore	+0.7		
Bangkok	0		
Tokyo	0		
Asian average	+3.2		

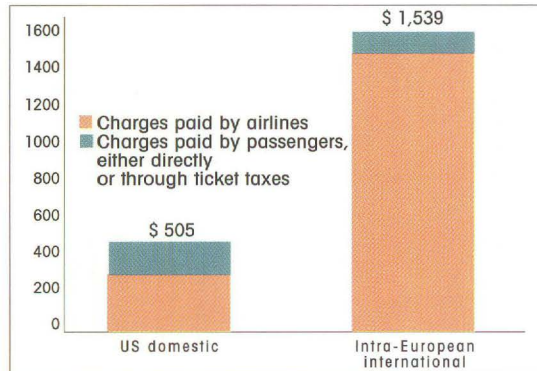
* Only what airlines pay. The figures in parentheses show change when all ticket taxes and-passenger charges paid by passengers are included.

Source: IATA airport and en route aviation charges manual - Avmark.

With regard to airport charges, US domestic flights do not require expensive border control procedures. Many US carriers own terminal buildings so that they incur airport costs themselves and pay less fees. In addition US airlines have much control over airport investments and charging policies.

Recent trends in airport charges are an additional problem for the airline industry. At certain airports, increases in charges (including security charges) have been clearly above the overall inflation rate (see table 7), thus hampering the efforts of airlines' management to improve internal cost-effectiveness.

Graph 14: Comparison of airport charges (Boeing 737-300)



Source : Avmark

Part of the differential in air navigation charges is due to differences in financing air navigation services. In Europe governments recover air traffic control costs either through the aircraft landing fee or through a separate fee. In the US, the passenger bears the burden for air navigation services through the 10% ticket tax imposed on air travel within North America. However, even inclusion of the ticket tax would not take away the significant cost advantage that the US industry enjoys in this area.

Levels of air navigation charges have reinforced the US/Europe differentials in total user charges.

Over the past five years the unit rates charged by some Eurocontrol countries have soared by double figure percentages annually. The average increases since 1988 have been as follows:

Table 8: Average annual increase in route navigation charges since 1988 (local currencies)

UK	+14.5%
Italy	+14.1%
Germany	+10.5%
Spain	+6.6%
Portugal	+6.0%
France	+6.0%
Denmark	+5.3%
Netherlands	+2.0%
Switzerland	+2.0%

Source: Avmark

Fuel Costs

The European airline industry suffers from 15% higher fuel costs compared to the US industry. In 1991/92, European airlines's fuel price per gallon was 10 US cents higher than the US. Three to four cents of this total are attributable to differences in distribution costs, a different market structure, a relatively weaker negotiating power, and perhaps weaker contracting and hedging skills. Fuel handling charges at European airports account for another one to two cents. Differences in airline networks (related to certain parts of Europe and Africa) add another cent while basic oil market differences account for four cents a gallon.

Yield development

The impact of poor cost-efficiency of the European airline industry has been additionally accentuated by declining yields. Overcapacity created by overly optimistic forecasts, plus market disruptions caused by the Gulf war and worldwide economic recession, have put downward pressure on the average level of air fares and rates, and has reduced operating margins.

Table 9: Real yield developments

	1988	1989	1990	1991	1992
<i>US cents/ATK</i>					
IATA	65.6	63.2	62.8	61.6	60.1
AEA	88.2	83.4	87.7	88.8	83.4

Source: IATA - AEA

Conclusions

The current economic and financial impasse of the European airline industry results from both the impact of recession and the industry's own major structural problems. In other words, serious problems will remain once current overcapacity is eliminated by future growth of air traffic.

Above all, a major cut in costs is urgently required. This cut must cover more than just management-controlled costs. Costs beyond direct airline management control (notably user charges) are extraordinarily high in Europe. This puts European carriers at a competitive disadvantage in the face of global competition.

Only significant restructuring efforts will allow European air carriers to restore sustainable profitability and thus break through the present impasse.

RESTRUCTURING FOR PROFITABLE GROWTH

Making the internal market work

Background

The Third Package measures and related competition, CRS and slot-rules have established legal conditions for gradually transforming the fragmented European air transport market place into a single competitive market based on equal treatment for all Community air carriers, irrespective of their place of establishment, their operating patterns and ownership.

With the establishment of the Single European Aviation Market, the tradition of 12 Member States with 12 separate flag carriers is losing its economic and aeropolitical justification.

The so-called "flag carrier" concept is now outdated, mainly because it is incompatible with the need to make the European airline industry competitive on a global scale.

The Comité believes that the Single European Aviation Market cannot become an economic reality, until all parties involved (carriers, employees, government authorities) recognise the crucial need to drop the concept of "national carriers" in favour of a market-oriented approach to decision-making.

No rollback

There is no way back to the previous era of national protectionism.

The Comité firmly advises against any rollback of liberalisation. This would be inappropriate and self-defeating. It would render the global competitiveness impossible.

The Third Package and related competition rules provide an adequate framework for the development of intra-Community air services in a market responsive environment.

The EU has gradually moved to liberalise regulations on air transport and to achieve a single market in this sector. The "First Package" (December 14 1987) contained measures by the Council on fares, capacity, market access, group

exemptions and application of competition rules. The "Second Package" (July 27 1990) contained more liberal rules in the same basic areas, leading to the "Third Package" (July 23 1992) which fully liberalised tariff setting, capacity, market access (with a temporary regime for cabotage) and introduced a regulation on operating licences.

Practical effects of the Third Package which applies since January 1 1993 have so far been moderate because the general economic recession has discouraged full use of the new opportunities. Instead, airlines' first priority has been consolidation since the inception of the Third Package.

Overcapacity in the market dates back to decisions taken before the Third Package came into force. It is obvious that many Community air carriers sharply increased capacity during the run-up to the internal market. Between 1987 and 1991 the number of seats offered on Community routes increased by 53%. (Source: Institut du Transport Aérien). Obviously, many Community air carriers have attached priority to heavy capacity expansion to prepare for European liberalisation instead of addressing first the cost problems.

Despite current economic difficulties, Member States have not used the safeguard provisions, provided by the Third Package. These provisions may be called upon when there is a drastic need to do so.

General Recommendations

- Liberalisation of the internal market as now defined by Community law should be fully implemented in the market place and all remaining discriminatory obstacles to fair competition should be removed.
- Special treatment of national flag carriers must be ended at all levels.
- Significant adverse developments should - where they occur - be dealt with by use of Third Package safeguard clauses.
- Existing safeguards against "downward spirals" in air fares and preventing serious financial damage to

the air carriers allow for temporary intervention in extreme cases. The Comité considers that these safeguards are sufficient.

Overcapacity

Background

Present overcapacity of Community air carriers was caused primarily by overly optimistic traffic expectations a number of years ago. Overcapacity was further aggravated by market disruptions due to the Gulf crisis, economic recession in many parts of the world, as well as by state aids and the far-reaching protection offered by US bankruptcy law, the so-called "Chapter 11".

Occasionally, EC competition rules may have prevented air carriers from consulting each other to rationalise capacity on routes where they were competing.

Global overcapacity has caused more than 1,000 aircraft to be withdrawn from service worldwide.

Recommendations

- The task of dealing with overcapacity must be left to airlines, working on a commercial basis. This is not a task for government authorities.
- Interference in operations of individual airlines by government authorities - apart from public service provisions under the Third Package - is not in line with the economic spirit of the Single European Aviation Market. Such interference should not be allowed.
- During the period needed to cut back present overcapacity, the application of the Treaty's competition rules should not unduly inhibit airlines' effort to solve their problems by means of voluntary agreements.
- As a policy guideline for the near future, the European Commission should not object to bilateral agreements between air carriers relating to capacity in individual markets and concluded prior to October 30 1995 (i.e. including the winter season 1995/1996), provided that:
 - a) these agreements are voluntary and that any partner may withdraw from them without penalty;
 - b) there are no legal or practical obstacles to free access to the market.

concerned by any carrier, whether or not a party to such agreement;

c) when such agreements are reached, they are, on an individual basis, duly reported to the European Commission (and approved with minimum bureaucracy). It is recommended that the European Commission clarify legally just how and when capacity discussions between air carriers can be held, and how long they can last. This clarification should be published in the Official Journal.

- The Comité furthermore urges the European Commission to carefully monitor the impact of the existing block exemption on joint ventures. In due course, the Commission should present a report evaluating the impact of this block exemption on airline restructuring in Europe.

Market access

Background

Experience has occasionally shown that current legal and aeropolitical uncertainties badly disrupt airline planning in relation to access to intra-Community routes. These uncertainties exist despite a Council Regulation on this subject which contains an entitlement of Community air carriers in this respect.

Market access rules are not always receiving sufficient, consistent or swift enough implementation from the national civil aviation authorities concerned. In particular, the implementation of certain market access rules that are hedged by safeguard clauses, such as those pertaining to cabotage or exclusive concessions, is often hampered by a reluctance of national authorities to act quickly, and by slow enforcement at Community level. This makes corporate planning very difficult and delays quick response to market developments.

Recommendation

The Comité urges the European Commission and governments of Member States to speed up coherent implementation of the rules on market access in the EU, to enforce these rules promptly and efficiently and, thereby, ensure a genuinely open competitive environment on

all intra-Community air routes. In particular, decisions on an air carrier's entitlement to enter a market should be taken by Member States' authorities within a maximum period of 15 days. Safeguards relating to cabotage or exclusive concessions should be applied in a way which is transparent and non-discriminatory, not only in legal terms, but also in its practical effects.

Tariffs

Background

Community air carriers are basically free to set fares and rates, as stipulated by the Third Package provisions.

Such freedom is a precondition for ensuring the right framework for market-oriented commercial decisions by airlines.

Therefore, Member States' and Community interventions are, a priori, unhelpful. The addition of essentially bureaucratic constraints should be avoided. It would be counterproductive in today's economic climate. In this context, it should be stressed that Third Package safeguards on fares and rates are, as a rule, applied on the initiative of Member States before the European Commission becomes involved. So far, this right has not been exercised by Member States.

Usually, in a competitive market, carriers with the lowest costs set the prices. Consequently, Community air carriers will need to change from "cost driven pricing" to "price driven costing". This is a painful but necessary process which should not be delayed or avoided by systematic use of safeguard clauses.

In specific situations yields may even fall below the cost level of all operators, even the most efficient. Because of certain economic features of air transport, such as high capital costs -which drives the need for high utilisation, and the perishable nature of the product, airlines are inclined in a competitive market to sell this product below cost. Economic recession and overcapacity exacerbate this tendency.

The continuing operation of bankrupt carriers, made possible by state aids or bankruptcy law, may yet worsen the situation.

Against this background, the exceptional use of the safeguard against "downward spirals" in prices must remain possible.

Given the overall economic environment on the one hand, and the benefits to the consumer of interlining on the other hand, the air transport industry should have an instrument for consultation on fares and rates within the framework of EC competition rules. This applies to both the EC block exemption and the US antitrust immunity.

The borderline between nonbinding tariff consultations and a price cartel is a sensitive issue which requires well-balanced action from competition authorities. This is particularly true during difficult times when the pressure to improve revenues may mean that consultation on fares and rates have a greater impact on the market, even without binding arrangements. The application of the block exemption on air fares and rates should take these facts into account. This will ensure that financial strains in the airline industry do not mean, in practice, that competition rules are applied in a more stringent way.

Recommendations

- Member States and the European Commission should, as a rule, abstain from intervention in the pricing policy of air carriers. They should act only in extreme cases.
- Where it is demonstrably required by the severity of the situation, the application of safeguards should be carried out in a simple, nonbureaucratic way. In present difficult economic circumstances, the need for increased revenues should be recognised.
- The European Commission should apply the group exemption on fares and rates in a flexible manner, taking into account the overall economic situation and its implications for pricing decisions, as well as the need to achieve a consumer-driven market.
- On the North Atlantic, Member States, the European Commission and US antitrust authorities should work towards ensuring the continuation of a flexible application of antitrust immunity for IATA tariff consultations.

Predatory practices

Background

Airlines occasionally resort to anticompetitive practices of various kinds. Price dumping, unfair marketing devices, rescheduling that targets individual competitors, slot manipulation and other practices which deprive airlines of normal access to the market clearly distort competition. They should be banned, especially when they constitute an abuse of a dominant position.

Recommendation

As a rule, competition authorities should move quickly to enforce rules against predatory practices or other practices having similar effects. Authorities should give immediate attention to complaints and make decisions promptly. To this end, interim measures should be taken when needed to avoid lasting damage to carriers targeted by these practices.

Frequent Flyer Programmes (FFPs)

Background

The purpose of Frequent Flyer Programmes is to retain a passenger's loyalty. FFPs have recently acquired added value, in marketing terms, by linkage to strategically important computer reservations systems and customer databases.

Despite their costs, which are higher the smaller the carriers, FFPs appear to be viewed by most scheduled service carriers as essential to remain competitive.

The EC Commission clearly recognises both the competitive pros and cons of FFPs and has them under review.

Recommendation

The European Commission in monitoring the evolution of FFPs, in particular the effects of FFPs on the functioning of the Single European Market, should keep in mind their value as a global competitive tool and should avoid action which limits the ability of European airlines to compete in global markets.

Airport slot allocation

Background

Priority must be given to providing sufficient airport capacity. This is a condition for equal access to airport facilities.

It is a fact that congestion at some key airports has reduced the possibility for new entrants to take advantage of new business opportunities offered by the Third Package. This means that rights which have been legally granted are in effect not available, thus negating the concept of equal treatment.

The Code of Conduct approved by the Council of Ministers in January 1993 sets out common rules aimed at ensuring neutral, transparent and nondiscriminatory decisions on the allocation of slots at congested airports. The objective is to avoid situations where, because of a lack of available slots, the benefits of liberalisation are unduly denied and competition is distorted. This is why the Code of Conduct must be uniformly applied throughout the Community. The continuation or revision of this Code will be decided by July 1 1997, on the basis of a proposal to be submitted by the Commission no later than January 1 1996.

The Code of Conduct may help to ease problems. However, considering the existing and future capacity constraints, there are doubts about its full effectiveness in the medium and long term. Application of the Code should therefore be kept under constant review, with a specific time frame for publication of what this constant review is finding.

Obviously, the best solution remains the improvement of overall airport capacity. The Comité fears that with future growth in air travel, the situation at certain Community airports will deteriorate further. Slots will again become the crucial issue for achieving real liberalisation of the market.

Recommendations

- As a matter of priority, Member States and the European Commission must increase overall airport capacity to solve the shortage of slots, anticipating future traffic growth
- The European Commission should actively monitor the application of the 1993 Code of Conduct and publish an

interim report as soon as possible. This report should say whether the Code has accomplished its main aim, that is, ensure unbiased airport access to new entrants. The report should highlight any failures and determine how they can be addressed. In that case, solutions should be proposed as soon as possible to the Council of Ministers and the European Parliament for quick implementation.

State aids

Background

With the disappearance of traditional forms of regulatory protection for national airlines, the importance of state aids has increased. This development, in conjunction with the present financial strains in the airline industry, accounts for the wave of capital injections and state aid cases submitted for approval to the European Commission. Capital injections and state aids have severely contributed to overcapacity and uneconomic pricing.

Significantly, all the cases submitted during the last three years have involved carriers that are state-owned. This in itself is a potentially significant distortion of competition between state-owned and privately-owned airlines.

Obviously, there is a problem in equitable access to public funds. Short of offering all airlines an equal discount on navigation charges levied by governments through Eurocontrol, which is entirely feasible, it would be difficult to make any system based on public funding truly nondiscriminatory. The market-distorting effects of discriminatory state aid are obvious. This is particularly true in a period of economic difficulty and overcapacity. State aid delays reduction of overcapacity.

In a competitive market, access to finance means should be equitable. It should not be based on ownership. This principle applies both ways: a state which owns an airline should neither privilege the carrier against privately-owned companies nor disadvantage its carrier by failing to assume the responsibilities of a commercially-oriented shareholder.

This principle of equal treatment, irrespective of ownership, requires a very sophisti-

cated policy on the broader issue of financial relations between states and publicly-owned carriers. It requires a clear separation between the normal commercial operations of a shareholder and state aids granted under Art. 92/93 of the EC Treaty.

One may argue that the most solid way to phase out privileged treatment of state-owned carriers would be to privatise all air carriers. The Comité, on the one hand, believes that objective economic requirements of an increasingly global market implies strong pressure towards privatisation and that governments should therefore work in that direction. This would facilitate restructuring considerably. However, the Comité understands that privatisation normally needs prior restructuring. The Comité believes that financial support to airlines, whether by governments or other authorities, should be banned if it violates the rules of the Treaty of Rome by exceeding normal commercial conditions.

For a brief transitional period, however, the Comité reluctantly recognises the need for some states to act on a genuine "one time, last time" opportunity to put airlines on a normal commercial footing. The reasons for granting exceptions are essentially political. The normal role of bankruptcies in the restructuring process is likely to encounter significant opposition. In particular, airline employees should not unduly suffer from the consequences of decades of mismanagement and political interference without some opportunity to correct matters in their interest.

The foregoing findings also relate to the need for restructuring ground handling services at Community airports. (1) These services have been organised in most Member States for a long time in the form of a monopoly or similarly restrictive arrangements. Accordingly, a basic need for restructuring exists and may require financial backing from public authorities. Therefore, the following recommendations also apply to this specific business.

Recommendations*

In the interest of consumers and of the industry itself, financial injections to air carriers (or to airport handling services) in whatever form, should, as a rule, be disapproved if they are

(1) See "Airports and Air Carriers as Partners"

incompatible with normal commercial practices.

The European Commission is urged to strictly enforce Treaty provisions concerning state aids and to elaborate clear guidelines for evaluating any exceptional application of state aid.

For a brief period, however, approval of state aids may be considered when this aid serves the Community's interest in a restructuring that leads to competitiveness. In this context, support for the transition of an air carrier (or airport handling services) to commercial viability may be in the Community's interest if the position of competitors is safeguarded.

The conditions of such approvals should include, though not necessarily be limited to, the following:

- a) a clear and genuine "one time, last time" condition;
- b) the submission of a restructuring plan leading to economic and commercial viability within a specified time frame, proven by access to commercial capital markets. The plan must attract significant interest from the private sector and ultimately lead to privatisation;
- c) the validity of such a plan and its chances of success being assessed by independent professionals hired by the European Commission to take part in the Commission's assessment procedure. Results of this assessment should be made public in conjunction with any eventual Commission decision;
- d) the undertaking on the part of the government concerned to refrain from interfering, financially or otherwise, in commercial decision making by the carriers concerned;
- e) the prohibition of the airline using public money to buy or take over another air carrier or to extend its own capacities beyond overall market development. Instead, reduction of capacity should be envisaged;
- f) acceptable proof that the competitive interests of other airlines are not negatively affected;
- g) careful monitoring, assisted by independent professional experts, of the implementation of such restructuring plan.

Mergers, alliances, forms of cooperation

Background

The concept of the national carrier no longer fits into the regulatory pattern of the Third Package.

The global competitive environment calls for European airlines to reassess the scope of their operations.

Mergers and cooperation agreements may be a useful vehicle, among others, for promoting and accelerating the restructuring process and so paving the way to significant cost savings. In no case, however, should such proposed arrangements be allowed if they seek to create a dominant position.

Recommendations

- Airlines should be left free to decide on their own optimum size and operating means.
- Recognising the overall potential advantages of alliances and mergers for users and operators, and the resulting demise of the national flag carrier concept, the European Commission should, in principle, look favourably on such arrangements.
- Competition authorities should only object if it can clearly be shown that an aim of the arrangement is to create a dominant position within the Community or within a significant regional market in the context of a merger, or if the resulting outcome is an insufficient number of competitors deemed essential to preserve effective competition in Europe.
- In this context, competition authorities shall take due account of the need to promote global competitiveness of the European airline industry.

** Not supported by Mr Valladon.
See "Dissenting opinion" on page 43*

Removing infrastructure bottlenecks

Overall infrastructure

Background

A lack of appropriate infrastructure for air transport - the capacity and efficiency of airports and air traffic control (ATC) systems - is a major obstacle to a well-balanced development of Europe's air transport system.

User charges paid by air carriers in Europe are thus much higher than in other parts of the world. These charges amount to 13.5% of the airlines' total operating costs. As a result, a Europe-based air carrier suffers from a major disadvantage against global competition. The anachronistic fragmentation of the European ATC-system is a serious problem indeed.

The Comité deplores the lack of political willingness by the EU Council of Transport Ministers to tackle this ATC problem with the urgency needed. Several attempts by the European Commission to include air transport in the EC budget on transport infrastructure have been blocked since 1990, regardless of how urgent this matter is.

Recent technological and political developments offer excellent opportunities to improve infrastructure significantly. New Treaty provisions on the creation of trans-European networks and the decisions of the recent European Council on an immediate European initiative for growth, competitiveness and employment, allow for major steps forward in developing a truly European ATC system. So far, efforts to set up such a system have been at an impasse.

This political progress is paralleled by new opportunities created by technological progress. Satellite-based ATC systems offer an enormous potential for cost-savings. They should be implemented in the EU as soon as possible. This requires a genuinely European effort to be coordinated with other regions of the world.

General recommendations

- The EU should undertake a major effort to improve air transport infrastructure and so remove bottlenecks.
- To this end, speedy implementation of the EU's action programmes on growth, competitiveness and employment will help to make funds available.
- The development of satellite-based ATC systems should become, in view of its cost-saving potential, a policy priority.
- Adequate participation of infrastructure users in the decision-making system on air transport infrastructure should be established to ensure conformity with the needs of the market.

Air Traffic Control

Background

The present European Air Traffic Control system, run from 52 different centres, is woefully inadequate. According to some estimates, 60 to 70 additional aircraft are usually in the air at any given moment because of congestion. This has drastic effects on economics of airlines, inconvenience to passengers and pollution of the air.

The principle of national sovereignty over airspace is, in conjunction with military needs, very often used as an excuse by states for not implementing urgently required ATC measures and, in particular, for failing to establish appropriate decision-making rules for various European institutions dealing with ATC matters.

The lack of coordination between military and civil air space management also creates problems. In this respect, a basic reassessment of today's military needs is required. Nevertheless, the Comité recognises that some progress has been made in this area.

The ECAC strategy for implementing the European Air Traffic Control Harmonisation Integration Programme (EATCHIP) represents an essential step towards improving Europe's ATC system in a pragmatic way. Similarly, the APATSI programme seeks to

improve the flow of air traffic in the vicinity of airports. Community support for these action programmes must continue and be reinforced. However, major institutional reforms in Eurocontrol must be envisaged in order to allow that body to make decisions much more quickly.

On the other hand, the Comité is far from convinced that such pragmatic arrangements, largely based on short-term considerations, will constitute a sufficient medium and long-term framework for further improving the capacity and the quality of Europe's air traffic management system. Major institutional measures are needed for accelerating and deepening the process towards a genuine European Air Traffic Management System. This is particularly valid once EATCHIP approaches its so-called fourth phase. The Comité believes that there are no alternatives to a truly Single European Air Traffic Management System.

New satellite-based navigation technologies offer enormous potential for increased efficiency in ATC, but require that system providers ensure the necessary coordination at a global level in order to avoid potential conflict of interests. The CNS/ATM (formerly FANS) concept provides an appropriate basis for this work.

Recommendations

- The European Union should:
 - put an end, as quickly as possible, to the current anachronistic fragmentation of ATC systems in Europe;
 - work towards completing the internal market by creating a single airspace for Europe;
 - ensure the necessary coordination at a global level of new satellite-based ATC technologies and develop a long-term ATC strategy for Europe;
- to this end the EU should:
 - reinforce its support for EATCHIP and APATSI with expertise and public funds;
 - concentrate its efforts on speeding up decision-making and improving the efficiency of these programmes (short-term);
 - actively support harmonisation and integration of air traffic control in Europe;
 - promote the development of a single

European Air Traffic Management System as a separate legal entity. This entity should:

- a) exist as a public utility that uses business principles for covering costs;
- b) ensure adequate user participation in monitoring this Single System;
- c) have financial autonomy with power to collect fees, raise funds and organise planning and procurement independently of the public sector budget;
- strengthen the Eurocontrol institutional framework with a view to establishing as soon as possible clear-cut decision-making rules including majority voting, which allow for proper management of this organisation;
- fully support early implementation of CNS/ATM technology and work towards an autonomous agency to carry out the implementation of CNS/ATM.

Airports

Capacity

Background

Many major airports within the Community are reaching the limits of their capacity. A study entitled "A European Planning Strategy for Air Traffic to the Year 2010" carried out by the Stanford Research Institute (SRI) foresees considerable capacity problems for about half of all European airports, even when present measures to increase capacity are taken into account.

It is therefore essential to reorient political decision-making on airport capacities by developing an airport system in a European context, instead of leaving such issues entirely to local authorities. The European Commission's present work on guidelines for a Community airport network system is strongly welcomed as a step in the right direction.

Recommendations

- The European Union must work towards increasing airport capacity. It should take the initiative and assume political leadership in at least four areas:

- further develop of guidelines for a Community airport network system towards an European Airport Capacity Enhancement Plan;
- make funds available for the ongoing analysis of air transport infrastructure problems, as well as for the drawing up and development of technical/ procedural improvement programmes;
- tenaciously pursue of infrastructure improvements based on European requirements (and not only defined by local or national interests);
- more actively inform the public of the positive economic, social and environmental benefits of air transport.

Legal constraints on airport construction

Background

In some EU States, plans to extend airport capacities are confronted with legal barriers which can take decades to overcome, if they can be overcome at all.

In a number of Member States, public procedures for the planning, construction or extension of airports take place in several stages and are linked with sometimes excessive legal redress for possibly affected parties. Obtaining approval several times over and dealing with several appeals against the same matter results in unacceptable delays and thus in the competitive distortion mentioned above. This further hinders the development of a truly pan-European air transport system.

Recommendation

The European Commission should examine possibilities for harmonising the legal basis and procedures within the EU territory for the planning and construction/extension of airports and should prepare proposals for a framework of guidelines for application in all Member States.

Harmonising to reduce costs

Harmonisation

Background

The airline industry needs a strong European internal market to ensure an efficient, modern air transport system.

A priori, such a system calls for the dismantling of remaining differences based on outdated national constraints and boundaries. Harmonisation, however, is not an end in itself. Its ultimate goal is to increase efficiency.

In a number of areas, action should be taken as soon as possible to promote further integration and, thus, increase the efficiency of the internal market. Therefore, such action must demonstrate cost-reducing effects.

In particular, in the current economic climate, harmonisation measures are only helpful if they are demonstrably conducive to average lowering of airline costs or to substantial improvement of standards. When legislative initiatives at EU level cannot be justified on such grounds, they should be abandoned.

General recommendations

- The Comité recommends that harmonisation measures be adopted, only when they improve cost-efficiency in areas such as air traffic control, taxation, environment, aircraft certification and licences for cockpit crew. Therefore, a cost-benefit analysis should be a central part of such proposals.
- Whenever these measures would increase the average cost burden of European air carriers, they should not be implemented.

Aircraft certification

Background

European countries have different criteria for aircraft certification. This results in unnecessary bureaucratic burdens and delays which are costly to airlines.

The Joint Aviation Authorities (JAA) are working at coordinating rules and specifications but hold no delegated authority to make decisions. As things stand now, a

mutual recognition of all certificates issued by national civil aviation authorities remains a distant perspective.

Moreover, in addition to intra-European discrepancies and singularities, differences exist between US and European specifications for US-manufactured aircraft. Again, this situation results in an extra financial burden serving no purpose at all.

Recommendations

- The ongoing standardisation efforts by the JAA should be encouraged and the JAA should be urged to speed up their work. The EU should press Member States to promptly agree on the mutual recognition of certificates based on JAA recommendations.
- Beyond this, the Comité strongly recommends establishing a Single European Certification Authority, which would (a) end the duplication of decision-making bodies and (b) be in a better position to reach agreement on mutual recognition with the US.

Training programmes and competence standards

Background

Even though they all meet ICAO standards, the national training programmes and competence standards for cockpit crew remain substantially different among Member States of the EU.

This is one reason for the difficulties encountered by airlines in recruiting pilots licenced in other Member States. This situation denies employees the freedom to work anywhere in the Community and it denies airlines the flexibility they need. This is in clear contradiction to one of the most basic tenets of the Single European Market.

The situation of other staff involved in the safety of flight operations, like flight engineers, is similar. It is equally desirable, both to improve the efficiency of the internal market and for safety reasons, that staff in air traffic control be licenced under common standards.

Recommendations

- EU Member States should recognise pilot licences issued by other EU Member States.
- To achieve this mutual recognition, the Community should establish common training and competence levels for cockpit crew. This would bind Member States and Community air carriers to the same rules.
- The first step would be to harmonise existing national training programmes and establish a single set of professional standards. The harmonisation of programmes and standards should be extended to other airline and air traffic control staff involved in the safety of air operations.

Aircraft maintenance

Background

A high level of flight safety must be maintained in Europe.

The JAA have developed a set of minimum standards and conditions for aircraft maintenance which have been incorporated into Community law. Yet, the European Commission does not have the authority to supervise the implementation of those standards.

Some airlines do their aircraft maintenance outside their home country, either in Europe or in other parts of the world.

Recommendations

- Airlines must be free to decide where to perform aircraft maintenance provided common aeronautical standards on safety are met.
- The application of standards for aircraft maintenance set under EC law should be supervised by a single Community authority. This would ensure a uniform level of safety standards throughout the EU.

Breaking financial straitjackets

The financial landscape

The economic analysis in Chapter II has shown that the financial status of major air carriers has deteriorated and that most major European air carriers have suffered heavy losses over the last years. Increasingly, cash-flow does not cover an adequate part of self-financed investment.

As a result of indebtedness, financial costs have sharply increased. A worsening debt/equity ratio weakens the borrowing capacity of air carriers. Inappropriate taxation rules compound the financial problems.

Against this background, the European airline industry's ability to finance participation in future growth is endangered. European air carriers have placed orders for aircraft deliveries amounting to 22% of the Western manufacturers' backlog. Financing these purchases may mean that the total debt of the eight largest Community air carriers will reach 60% of all revenues expected for 1995.

At the same time the debt/equity ratio may reach a totally unsatisfactory level of 80/20 unless a return to significantly improved profitability is achieved.

One may argue that a significant slow-down of delivery cycles will have to be part of the solution for this financial impasse. Present world-wide overcapacity -symbolised by more than a 1,000 grounded jet aircraft (9% of total Western built fleet) - appears to support this argument, at first sight.

However, it is expected that only 300 of these aircraft will ever be put back into service. The rest will become obsolete as a result of more recent and strict noise rules affecting aircraft of this age.

In addition, airlines have already reacted to overcapacity by cancelling orders and postponing deliveries. Since 1991, the annual worldwide production of jetliners has been declining.

However, traffic growth has now recovered to an average level of 6% a year. It is widely expected that this growth rate will be sustained in the short and medium term.

At the same time the average airline load factor (the percentage of available seats occupied by revenue passengers) has started to improve again. Overcapacity is expected to be gradually absorbed, allowing the rate of aircraft annual deliveries to increase once more from 1995/96 onward.

In the long run (until the year 2000), the demand for new jet aircraft, for the renewal and modernisation of fleets, will represent an expenditure worldwide of about \$30 billion a year, of which approximately \$8 billion will have to be spent in Europe.

The traditional methods of financing these aircraft purchases have lost part of their effectiveness due to:

- inadequate cashflow;
- insufficient profitability hampering access to capital markets;
- poor balance sheets that hurt borrowing capacity;
- reduced resale value of aircraft and the increasing risks of lessors;
- limited ability by manufacturers to underwrite customer financing;
- uncertainties about future airline market structure.

In addition to these generally valid financial constraints, European carriers suffer from specific impediments:

- access to capital markets more limited than for US airlines;
- limited access to credit insurance systems;
- financing structures less tax efficient than in the United States (e.g. leverage leases);
- purchase of new aircraft more expensive than for US airlines (5% on average, due to size of orders);
- aircraft financing denominated in US dollars, putting some European airlines at a considerable exchange rate risk;

Removing the deadlock for most major airlines' funding of future investments will require:

- a rapid return to profitability;
- a strengthening of balance sheets;
- improved access to financial markets.

Taxes and government imposed charges

Background

Taxation in various forms decisively determines any industry's ability to finance investments. Above average corporate taxation in conjunction with effective (national) control requirements puts a major disadvantage on the European airline industry because it seriously hampers self-financed investments.

Taxation policies in Europe imply, because of existing fragmentation among EU Member States in the area of corporate taxes and certain side-effects of the creation of the Single Market, additional constraints. It is possible that value-added tax (VAT) will be imposed on air travel when the present interim regime ends in 1997. An anachronistic fragmentation in the area of corporate taxation makes it difficult for air carriers to use innovative forms of financing investments on a genuine European-wide basis.

Environmental issues may lead to the introduction of a so-called carbon tax. Its basic underlying idea, i.e. to promote the use of alternative forms of energy, is not valid in relation to air transport where no alternatives to the use of kerosene is, as a commercially viable option, in sight.

More generally, high indirect taxation reduces the demand for air travel and puts additional pressure on yields.

European air carriers have to compete head-on with companies from other parts of the world. Tax treatment that is comparable to that of world competitors is important for the long-term viability of a European-based industry and for promotion of growth and employment. New taxes and charges levied directly on air travellers and cargo, add to the overall price of travel and, if unchecked, could impede growth in the longer term.

Recommendations

- European taxes and charges specifically affecting air transport should be harmonised consistently at the lowest possible level.
- The so-called carbon tax should be rejected and VAT on air transport should be set at zero-level for Euro-

pean internal traffic.

- Any additional taxation with a particular impact on European air transport, air travellers and cargo should be avoided.
- The EU should speed up work towards a genuine harmonised system of corporate taxation.
- As a significant step towards tax harmonisation for the airline industry, the European Commission should examine, as a matter of urgency, possibilities to improve access to tax lease arrangements for the purchase of aircraft by European air carriers through:
 - a) facilitation of access to fiscal positions.
 - b) inclusion of early depreciation schemes for investment in new equipment.
- To facilitate capacity adjustment and removal of overcapacity, Member States should, through a proposal to be developed by the European Commission, agree to establish, for a limited period of time (4 years), a preferential tax treatment for capital gains from aircraft sales.
- VAT on air navigation charges should be harmonised through the EU. When applied, it should be made deductible.

Aircraft procurement

Background

There are currently only three Western manufacturers of aircraft with over 130 seats and worldwide only one for aircraft with over 400 seats. When buying new aircraft, Community air carriers must be able to benefit from competition between manufacturers. They should receive treatment equal to their competitors'.

Considering the economic and strategic importance of air transport, it is important that the EU work towards:

- allowing Community air carriers to obtain the best purchase terms from competing manufacturers by fostering competition among aircraft and engine manufacturers and financial institutions;
- ensure access at any time to at least one European source of supply.

Aircraft purchases are currently paid in US dollars. Because airlines earn revenues in various currencies, they are exposed to exchange risks, and even more so if they have no or few revenues in US dollars.

Recommendations

- Member States and the EU should ensure the competitiveness of the European aeronautical industry by providing the same level of support available to the US aeronautical industry. This will enable European airlines to benefit from true competition and from the availability of at least one European source of supply.
- Member States and the EU should pursue monetary integration within the EU and seek agreement on an international monetary system eliminating distortions and providing stability.
- In anticipation of this, Community airlines should be entitled to acquire European-built aircraft in European currencies.

Access to financial markets

Background

Even if normal profitability of the European airline industry is restored, problems may remain for funding investments. In the first instance, the industry needs access to new equity.

Beyond current shareholders, such equity increases might be obtained by access to normal equity markets or by alliances with financial institutions or other industrial companies, in particular with other air carriers. In the case of European partnerships, it may be necessary to overcome restrictions resulting from the requirement for national ownership and control as included in most bilateral agreements between individual Member States and third countries. In the case of a partnership from outside the EU, access is limited by the requirement of majority Community ownership for carriers with EU status.

To pave the way towards commercially meaningful and legally feasible alliances and better access to foreign equity markets, it should be envisaged to limit ownership and control requirements strictly to what is really

necessary for compliance with EU, WEU and NATO strategic economic policies.

Even if the availability of traditional modes of financing were to improve, a "funding gap" may remain, at present estimated at 35% of overall financial needs. Therefore it is appropriate to take action aimed at easing access to current and new sources of funding.

Recommendations

- The EU and major trading partners should, on a reciprocal basis, work towards easing restrictions resulting from effective ownership control requirements in bilateral agreements.
- The EU should take appropriate action to maintain the access of European airlines to credit insurance regimes and to reach agreement to improve these in accordance with the current conditions of the market.
- The European Commission should examine ways to facilitate new financing structures for access to capital (for instance, pension funds, bond securitisations) in order to expand the number of financial options available to airline management.

Competing in a global market

Background

Markets outside the EU are of enormous economic importance to Community air carriers. For the majority of them, operations to non-European countries account for more than half of their activity and in some cases more than 70%. This can be contrasted with the major US airlines where international services account for less than 30% of total operations.

The approval in 1983 of the Council Directive on Interregional Air Services and subsequently in 1987, 1990 and 1992 of the three air transport policy packages, gradually transformed the Community's "international" bilateral system into a "domestic" system based on multilateral principles.

This development of the Single European Aviation Market is fully compatible with the Chicago Convention which governs the broad principles of international aviation.

Commercial aviation relations between Member States of the European Union and third countries remain, however, governed with few exceptions by bilateral agreements. There are currently an average of some 60-70 bilateral air services agreements between each EU Member State and third countries. These agreements are affected by considerable government influence, frequent renegotiation, and, in most cases, are based on a protectionist approach to economic issues. Member States' bilateral agreements with non-EU states differ considerably in the nature of the competitive regime they create.

As a result, such bilateral agreements with non-EU countries have a substantial competitive impact on traffic to and from neighbouring countries, and in the case of major markets, on Europe as a whole. The creation of the internal market has strengthened this spill-over effect.

By and large, the bilateral agreements ignore the new realities of the Single European Aviation Market. Their existence raises questions of conflict with key provisions of the new regulatory environment of the Community, particularly with regard to national control requirements.

These provisions hinder the designation of Community air carriers for the operation of air services from points in Member States other than the state of registration to non-EU states.

Furthermore, many bilateral agreements with non-European states, particularly those with more mature economies, are under great strain. Some are becoming rigid because of overly detailed operating conditions, while others are simply becoming unmanageable as markets globalise and interrelate. Again, these effects are reinforced by the establishment of the EU's internal aviation market.

For countries with less mature economies, however, the bilateral system appears to still work effectively, although developing countries have expressed concerns that their existing traffic rights should not be devalued as a result of an EU approach on external aviation policy.

Community air carriers are now legally entitled to establish themselves anywhere within the EU territory.

They should have the possibility to be designated to fly to any point in the world, provided the bilateral parties involved agree. In the first year of the Single European Aviation Market, they made few attempts to use their new freedoms within the Community. Not one scheduled air carrier seems to have asked to serve a non-EU destination from a Member State other than its home country. A common policy toward third countries as to carrier designation would prevent distortions and open up effective opportunities for Community air carriers.

To the extent that there are inconsistencies between the Community legislation and the bilateral agreements of the EU Member States, the Rome Treaty (Art. 234) makes it mandatory for states to eliminate such inconsistencies. This may affect existing bilateral relations and new agreements. Since EU Member States have not implemented this provision so far, there is considerable risk that such agreements could be nullified by the European Court of Justice.

The need for a common external policy

Apart from legal reasons, the compelling economic reason to establish a common external aviation policy now is to complement the internal market with rules to ensure a level playing field. There is considerable pressure from the European Commission and the European Parliament to adopt such an external policy, but Member States - for a variety of reasons - have so far been reluctant to move forward on this issue.

Without a common external policy, bilateral agreements will continue to create imbalances between Member States, lead to discrimination and weaken the Community as a whole, thus reducing the potential for increased airline efficiency made possible by the Third Package.

To maximise their effectiveness and efficiency, airlines must be able to serve any destination in the world from any point in the Community - providing of course that the non-EU state involved agrees to it.

Airlines need to expand their markets sensibly and flexibly to improve their long-term commercial viability and their global competitiveness. However, in many countries with mature economies the prospects for growth by bilateral exchanges are limited. Community-wide agreements offer better possibilities for setting up the most effective airline network. And because access to the EU market is important for many third country air carriers, a new generation of Community-wide agreements will offer Community air carriers new business opportunities.

This is in particular the case in relation to the United States today. It will become increasingly true with the major growth markets in Asia. A common external aviation policy is required to bring into play Europe as a whole.

A common external policy, developed and structured on a step by step basis in a similar way that the internal market policy was developed, will:

- benefit Europe's airlines, provided that imbalances in scale and scope of operation are taken into consideration, and provided also that true reciprocity and equal opportunity are achieved;

- increase competitive service, product and price options for travellers;
- deliver significant economic benefits of increased travel and tourism to national economies.

A common external policy will allow Europe's airlines:

- to serve the world markets from any point of their internal European systems;
- to exploit network efficiencies and become more effective global competitors;
- to benefit from a consistent nondiscriminatory regulatory framework for short and long-term decision making.

The common external policy will also allow a more consistent and transparent approach to dealing with non-European states and airlines. On the one hand it will dispel concerns about discriminatory treatment, and on the other hand it will give a basis for increased reciprocal market access across Europe as a whole.

The development of such a policy can be undertaken in full compatibility with the Chicago Convention (bearing in mind ongoing examinations within the International Civil Aviation Organization) and can be generally consistent with bilateral agreements. Specific adaptation of these agreements to reflect the legal and aeropolitical realities of the Single European Aviation Market may, however, require renegotiation of certain aspects of these agreements.

The question is, therefore, not whether there should be a common external policy, but what its component elements should be, where and when it should be applied, and how, in particular, to handle the transition from national policies effectively, equitably, without competitive distortion and major market disruptions.

Recommendations

- The Comité urges the Council of Ministers to declare within the next six months its intention to establish a common external policy under Article 84 of the Rome Treaty within eighteen months, that is before June 30 1995.

This policy should:

- seek to achieve a liberal aviation trading regime and in so doing, send a clear signal to non-European states and air carriers that EU external aviation policy will be consistent and will encourage reciprocal growth and expansion of services;
- be phased in over a number of years, but with a clearly defined timetable, in the same way that the internal market for aviation was achieved;
- build on the negotiating advantages of the whole European market;
- provide for the establishment of common rules for Computerised Reservation Systems (CRS);
- provide the basis for the development of co-operation in the application of competition rules and other conditions for doing business;
- specifically ensure nondiscriminatory opportunities to any licensed Community carrier to exercise traffic rights from any point in the Community to points in international markets;
- provide a framework for removing on a reciprocal basis, limits on cross-border ownership, control and investment;
- spell out in detail the criteria for allocation of traffic rights and carrier designation by a single authority. The allocation procedures should ensure fairness and transparency;
- take account of infrastructure constraints and the requirements of regional development;
- ensure effective coordination with the internal market policy to enable European airlines to restructure as global competitors;
- safeguard all existing traffic rights (for scheduled and non-scheduled flights) with non-EU countries to the benefit of all Community carriers.

Recognising that it is not feasible to switch immediately from Member States' bilateral agreements to fully fledged Community

agreements, the Comité recommends that the Council of Ministers first agree on principles of how to establish, step by step, the Community external policy.

A binding framework should provide for rules applying to any future negotiation. In the Comité's opinion, such regulations should ensure that:

- all bilateral agreements are transparent;
- all existing bilateral traffic rights (scheduled and non-scheduled services) are preserved;
- any new agreement is compatible with Community legislation;
- an agreed basis for interim Community dialogue with non-EU countries be set out pending development of a formal external policy.

In establishing such binding framework regulations, the key question should not be who exercises control, but how can the most effective policy be put in place with the minimum bureaucracy and distortion of competition. In this context, the principle of subsidiarity, where necessary, will be helpful when allocating, within a Community framework, negotiating tasks between Member States and the Community.

Considering that bilateral agreements must be made compatible with the Single European Aviation Market, the replacement of nationality clauses by a Community clause is an overriding priority for any negotiation.

Policy priorities in relation to specific regions

There are a number of areas where action is to be contemplated - in some cases under a "bilateral" approach and in others using the "multilaterally" oriented Single European Aviation Market as a model to further develop the Community policy on external aviation relations.

United States

This market is the largest in the world and is the most interrelated with Europe. It is ready to enter into negotiations with the Community - as recommended by the US National Commission to Ensure a Strong Competitive Airline Industry and repeatedly stated by the US Secretary of Transport.

The dialogue could initially explore the air cargo market, which is virtually deregulated

and could provide valuable experience for negotiations of passenger services. Other issues ripe for discussion are the establishment of common rules for CRS, the application of competition rules, and other doing business conditions.

A step by step approach would facilitate the progressive competitive restructuring of European carriers, leading to benefits for consumers and economies on both sides of the Atlantic.

Asia/Pacific

As the fastest growing market in the world with important trade and tourism flows to and from Europe, this market offers significant opportunity for traffic development, although market access is highly regulated in several countries in the region, the dynamics of the market place suggest an increasing pressure for liberalisation.

A number of Asian/Pacific countries have expressed specific interest in the development of the Community's common external policy and have voiced strong concerns that the European aviation market should remain open. This gives an opportunity for Europe to take the initiative in establishing on a reciprocal basis genuine open market regimes where applicable. The EU should now capitalise on this opportunity.

Eastern and Central Europe

The increasingly close economic, political and social relations between the EU and neighbouring countries of Europe are leading towards a common European ground of interest. The coming into force of the European Economic Area will extend to EFTA countries (except Switzerland) the Community's internal aviation policy. With fundamental political changes in Central and Eastern European countries, travel offers new opportunities for cross-cultural and business exchanges and improved prospects for rapid economic and political integration in the European sphere.

Recently concluded association agreements foresee the integration of these countries into the Community's aviation policy. First steps towards enlarging the application scope of Community principles should be taken soon. In the long term, the possibility to create a larger European aviation area should be contemplated.

Developing countries

The modernisation of the air transport industry in the developing countries, particularly the Africa/Caribbean/Pacific or so-called "ACP" countries, is a condition for their social and economic development. The cooperation between the EU and these nations should be improved for the mutual benefit of both parties. The existing traffic rights of developing countries' airlines in the EU should not be questioned.

With time, the progressive nature of the EU's external aviation policy should help encourage these states to integrate their airline industry into a more open world system. EU policy should also help them to expand travel and tourism services, to the benefit of their own economies. In the meantime, Europe should provide the necessary assistance for further development of safe and reliable air transport systems in these countries. The EU should abstain from putting additional burdens on them.

ENSURING THE RIGHT BALANCE

Airports and air carriers as partners

Background

Paving the way for cost savings is not only an issue of improving quantity and quality of air transport infrastructure. Additionally, it is necessary to look at rules for using this infrastructure and to ensure that such rules work as incentives for improvements to the efficiency of the air transport system. This is particularly valid in the air carrier-airport relationship.

Airports have an ambivalent role in the air transport system. They are, on the one hand, part of the overall public infrastructure providing services to aviation and ensuring the best possible links for their catchment area. As infrastructure providers they must provide facilities and services impartially to all carriers.

On the other hand, airports are forced to finance maintenance, improvements and extensions of such facilities. In addition, the overlapping of catchment areas in Europe increases competition between airports. This creates a strong incentive for individual airport managements to adopt normal entrepreneurial behaviour. Many airports are, therefore, organised as independent enterprises.

This role is further complicated by the fact that essential airport services (use of runways and apron areas) represent a natural monopoly, in particular if point-to-point traffic dominates the traffic volume. In an individual airline's perspective, priorities are somewhat clearer: because air carriers must operate in a competitive environment they have a strong interest in rules that ensure effective incentives for improving efficiency and which provide a strong disincentive against monopoly practices and pricing.

At the same time, however, air carriers have a solid self-interest in not undermining the effectiveness of airport operations and the financial stability of airports and, in particular, airports' ability to mobilise the funds needed for developing airport infrastructure and for restructuring handling services towards more efficiency.

Recommendations

- The Comité recommends that, in the interest of air transport users and the industry, ground handling services at European airports must be fully liberalised as soon as possible.
- Airports may seek exclusion or limitation of competition in ground handling services only if they can demonstrate that optimal use of their capacity would be hampered. This must be proven by objective factors such as maximum turn-around and connecting times to be safeguarded, physical or operating constraints, security, etc. In that case costs must be transparent. The formal procedure for this proof must be established by the EU.
- Rules and Regulations applying to airport construction and airport operation must seek to ensure unbiased provision of services to present and potential users and allow airport managements to operate effectively to maintain and extend airport facilities in line with air transport market needs.

Dissenting opinion of Messrs Schölch/Valladon

- *The European Commission should recognise airports as public institutions providing infrastructure to aviation, as well as independent enterprises within the aviation sector, being in competition among themselves, with all rights to an independent business policy.*
- *The Commission may urge European airports to liberalise ground handling services at Community airports only if local conditions allow this without severe negative effects on their functions as an infrastructural institution, or on their ability to invest according to the needs of further development of aviation and airports' competitiveness.*
Under all circumstances airports must remain in a position to ensure safety and security of their operations by licencing all service providers.

- Airports being classified as coordinated airports according to the Council Regulation 95/93 on common rules for the allocation of slots at Community airports should be in principle entitled to limit or exclude competition in ground handling services, provided that such limitation or exclusion of competition contributes to their ability to provide sufficient airport capacity.

- The European Commission may adopt legislation to ensure that pricing of airports is made transparent and that quality of airport services is guaranteed, where competition in ground handling services cannot fully or in part be admitted by the airports.

- The EU should clarify in its legislation that airports that open ground handling services to competition can charge sufficient fees for use of their infrastructure through self handling, third party handling or handling by agents as well as an adequate concession fee for the exploitation of the market created by the airports.

- The EU should ensure that eventual opening up of ground handling services to competition does not severely jeopardise employment and working conditions of personnel employed in this field. In particular the working conditions of all providers of ground handling services must be harmonised to prevent distortion of competition, unjust exploitation of the working force and social disruption caused by this.

Caring for the environment

Background

All transport industries by their nature have environmental consequences. The European air transport industry is no exception, but it has already invested and continues to invest heavily in managing its environment responsibly. Indeed, managing the environment is a key issue for the quality of human life, and economic activities such as air transport must increasingly prove compatible with desirable environmental standards and public sensitivity to environmental issues.

The European air transport industry has made considerable progress in reducing the environmental impact of its multi-faceted activities. This progress is clearly demonstrated in the adoption of stricter noise standards for aircraft, airport management strategies that reduce this problem, and the construction or improvement of airport complexes which are designed to superior levels of energy conservation, noise abatement and site improvement.

Moreover, these achievements are of particular merit when compared with other major regions, for example the United States. The higher percentage of Chapter 3 certified aircraft in European airline fleets (69% against 61% in the US) also indicates, among other factors, the willingness of European carriers to shoulder the costs of improving the environment despite the competitive implications of such efforts in an increasingly global market. Also, independent ratings show that a number of European airport complexes are amongst the best in the world.

Efforts in environmental management will have to continue. Improving the environmental impact of the industry is, like productivity improvements, a permanent task for policy makers and for management. However, future action must take into account the overall competitive situation of the European airline industry; and the fact that, being a global industry, a number of European airports will continue to have to accept, even with constraints, aircraft from other countries, particularly the Third World, which do not and will not meet the highest environmental standards. Any envisaged, or future, European legislation

should therefore be predicated only on a solid analysis of cost effectiveness. Such legislation must provide that the measures envisaged do not unilaterally penalise the European air transport industry, either in terms of cost or in terms of how infrastructure is used.

Reducing emissions caused by congestion on the ground and in the air is the most obvious area for reconciling the need for environmental protection while taking into account economic concerns. Some 60-70 aircraft are always in the air at any given moment because of congestion problems. Improving European air traffic control and enhancing the capacity of European airports to accommodate "Category 3" aircraft (which can safely land under most weather conditions) will have a major impact on reducing congestion-induced emissions on the ground and in the air. Some of these constraints, technically speaking, can be removed at little cost. Military airspace management in areas around civil airports, for example, creates excess fuel consumption and emissions. This could be brought to an end immediately.

Noise

Aircraft noise remains a problem for many people living near airports, even though noise levels have been substantially reduced through technological advances which more than compensated the increase in air traffic. These improvements do also flow through to Third World fleets, although after some delays.

After years of substantial improvement, it is expected that further incremental reductions in noise will become more costly. This means that the cost/benefit of further noise reduction may present a more serious challenge to manufacturers and airlines.

Consequently, future progress in decreasing the impact of aircraft noise on populations must, in view of further growth, depend more on improved land use planning around airports than in affordable technological breakthroughs. When compared to land or maritime transport, air transport is certainly causing no more damage to environment, taking into account the number of passengers or freight tonnes carried.

Considerable reductions in noise levels have been achieved by the industry since the introduction of the modern airliner, culminating in the introduction in 1990 of a tough global noise standard by the ICAO. This so-called Chapter 3 of Annex 16 of the Chicago Convention will result in the progressive removal of the noisiest aircraft from European fleets starting in 1995.

The European Commission is preparing a proposal which would mandate a further reduction in noise levels. The introduction of separate, more stringent European noise standards would result in increased costs to European airlines and put them at a unilateral economic disadvantage against their global competitors. Moreover, the benefits, because of the noise and emission inequalities of the world's airline fleets, would be only marginal at Europe's busiest airports which must continue to accept aircraft from all over the world.

Emissions

Concern about aircraft engine emissions centers on two specific gases: carbon dioxide (CO₂), which is directly derived from fuel, and nitrogen oxides (NO_x) which are formed from nitrogen in the air passing through the combustion section of the engine.

Commercial air transport accounts for 1.3% of global carbon dioxide emissions. Nitrogen oxides emissions are more difficult to estimate. Current scientific opinion is that they may make a contribution of 0.2% to global warming*.

The best way to reduce carbon dioxide emissions is to decrease fuel consumption. As far as NO_x is concerned, ICAO recommended in 1993 a 20% reduction in engine NO_x emissions from standards first established in 1981. A proposal prepared by the European Commission would ask for a further 20% reduction.

The economically most efficient way to reduce energy consumption as well as hazardous emissions is to optimise aircraft utilisation in the air and on the ground. The airlines' efforts in that direction are all too often thwarted by shortages or deficiencies in the air transport system's infrastructure, as now demonstrated by obsolete rules on

* Source : *Energy Research Centre of the Netherlands*

the use of military airspace, and the consequences of delays in the air and on the ground caused by air traffic control and inadequate airport infrastructure.

Airports

European airport construction and improvements have taken significant steps in environmental management in recent years. This has been due to the concern of all the parties involved, to improve, through better management, the environmental impact of airport complexes. Substantially increased consultation now occurs between airlines and airport designers, so as to improve the efficiency of airport complexes. Energy loads are monitored and reduced, wherever possible, noise abatement within terminals has improved noticeably, and many airports now have specific site management programmes. Within the European context, a significant factor of change for the future of airport design and management will be the disappearance of internal European frontier controls.

A rapid resolution of this issue by all EU countries will significantly simplify the management of internal spaces in European airports and in the design of new ones, and should be encouraged.

Recommendations

- Eliminating aircraft congestion in the air and on the ground is by far the most efficient way to reduce the impact of air transport on the environment. It can and must be achieved as a matter of absolute priority. The unification and modernisation of European air traffic control, and improvement of European airport capacity to make aircraft movement independent of weather patterns, are two essential steps. They will have a major environmental benefit in addition to improving substantially the economics of Europe's air transport industry.
- On the ground, the European Union should act to remove technical and bureaucratic obstacles to optimal aircraft utilisation and airport operations such as artificially restricted airport and airspace capacity, and frontier controls.
- The European Union should actively participate in the formulation of improved international standards and

refrain from unilaterally imposing additional burdens on European airlines.

- The need to reserve large parts of the European airspace for military use should be scrutinised with a view to freeing as much airspace as possible for commercial aviation.
- Where congestion has become endemic, the construction of new runways should be considered. The ban on new runways on environmental grounds may actually be counterproductive.
- The construction of residential developments around airports which negates the benefits of introducing quieter aircraft should be banned.
- The European Union should attach priority to the environmental potential of airports and reduce waste of energy through improved airport site management.

Facilitating employees' adaptation

Background

It is clear from the fact-finding part of this report that the European airline industry could and should be much more productive than it is. The thrust of this report is to show ways to tackle - on all fronts - this productivity gap. This may initially mean redundancies.

The main emphasis of this report is on taking away various obstacles to seizing new business opportunities. Because air transport will continue to be a growth industry, the priority must be to create conditions that allow European airlines to participate in this growth in a profitable way. This is the only sustainable way to maintain and to create employment in Europe and to avoid a large-scale loss of jobs to other regions of the world. The growth of air travel-related business will help to increase overall employment.

In addition, cost reductions in areas beyond direct airline management control will avoid a situation where labour alone pays the price for the required efficiency improvements.

The EU's Single Internal Market must be made fully effective. This is in line with the priorities outlined in the European Commission's recent "White Paper on Growth, Competitiveness and Employment". In this context, the emphasis of this "White Paper" on the creation of Trans European Networks also fully fits with the recommendations on air transport infrastructure contained in this report.

Supportive social policy measures may be required for increasing labour flexibility. For example, more flexible laws and company rules on part-time work, weekend work, night work etc. would, given the operating patterns of the airline industry, help to maintain and to create jobs. Additionally, measures to increase mobility and support retraining will help to overcome remaining problems in some Member States.

Recommendations

- The EU should work towards making the Single Internal Market fully effective and thus create new jobs.
- Temporary employment problems in the airline industry should, as a matter of priority, be tackled by flexibility increasing measures at company and government levels.
- Given the unequal distribution of employment problems in the airline industry and the job creation potential of travel-related businesses, measures to increase mobility will help to redeploy airline staff. Governments should envisage such measures where required by the volume of the redundancy problem.
- Governments should support retraining of airline staff by using social policy instruments.
- The European Commission should examine the possibility of activating Article 123 of the EC Treaty as amended by the Maastricht Treaty for the purpose of retraining redundant airline and airport staff. The Commission should thus make proposals to the Council of Ministers and to the European Parliament on this subject.

Dissenting opinion of Mr Valladon

Until recently, air transport has been an industry bound by government decisions. This has not prevented the industry from experiencing considerable economic, industrial, and technological development, quite the contrary.

The industry has always been able to adapt to the increasing demand of its different users' needs. In the past several years, the industry has been confronted with recession which has put into question its entire organisation, at the risk of throwing the baby out with the bath water.

At a time when through the GATT negotiations, one can hope that rules organising international markets will be put into place, it would be paradoxical that air transport follow the opposite path by orienting itself towards total free trade only based on fare wars.

Should the European Union submit to this trend or oppose it?

In other words, must Europe simply become, on a global level, a purely free-trade region, no matter what the price for employees?

This general political problem is particularly acute for international air transport, an industry which by its very nature can relocate, and even more so for its employees.

Even if the different measures recommended by the Comité are quickly implemented and have their full impact, thus giving European airlines the means to achieve a level of competitiveness comparable to US companies, who can be sure that suicidal fare wars will stop?

Once this "gap" with US airlines is closed, will there be another "gap" with Asian airlines to be closed too, when the network structures of both are fundamentally different from European airlines?

If this should be the case, the spiral of competitiveness at all costs can only result in putting into question income levels, working conditions and social security for employees, and, ultimately, in a massive destruction of jobs in Europe.

The example of maritime transport shows that this path is a dead end.

- It is not by destroying current jobs, that new jobs will be created.*
- It is not through the disappearance of national flag carriers in favour of new entrants.*
- It is by organising the European internal market to allow competition which would respect current standards of living and social benefits.*
- It is by organising the defense of European interests on the global level that air transport can come out of its present crisis.*

Linking modes of transport

Background

Air transport is just one part of the overall transport system. The relationship between modes of transport (air, road and rail) is, overwhelmingly, a complementary one. Each mode has its comparative advantages and disadvantages depending on the requirements of the market.

As a general rule, it is not up to public authorities to predetermine the use of modes. Such use depends on the priorities and needs of individual users in terms of distance, speed, flexibility, etc. to determine which mode is most advantageous.

Free choice for transport users requires that the same cost imputation principles apply to all modes of transport. This precondition clearly does not exist in the rail transport/air transport interface. The result is a certain amount of discrimination against air transport services.

However, the Comité notes a privileged treatment of railways based on concerns for road congestion.

There is both complementarity and competition between air transport and rail transport. To some extent, a competitive relationship between High Speed Train (HST) systems and air transport exists.

On the other hand, there is an enormous potential for improving complementarity between HST-systems and air transport. The issue is to make full use of this potential instead of maintaining artificial barriers to coordination, simply because of competition between the two modes.

Recommendations

- As a general principle the European Union should work towards identical cost imputation principles in order to avoid distortions of competition between modes of transport.
 - Decisions on the allocation of public funds for transport infrastructure should be based on a solid cost-benefit analysis incorporating all relevant economic and environmental (emissions, land use, etc.) factors in conjunction with such investments, without any discrimination between modes.
 - Investments in improving technical complementarity of different modes of transport infrastructure should be given a priority, especially in congested areas.
- The European Union should:
- Initiate and provide financial support for research on improvement of coordination of rail/road/air transport - including freight transport.

Air transport and government interference

Background

As an infant industry, air transport has been protected by governments and has remained for decades a part of government policy on foreign, economic and social issues. State ownership and government interference in the airlines' management decisions resulted in a number of statutory rules and constraints, air carriers often being seen as providers of government-imposed services. For example, airlines were required to operate non-profitable routes, forced to purchase certain types of aircraft, bound by state-imposed pension schemes, etc.

Certain constraints have slowly been eliminated while others have been added. Immigration policy is a prime example of this situation. In order to control the flow of illegal immigrants into Europe, some Member States require airlines to check passenger travel documents. These Member States then impose fines which increasingly penalise airlines for the transportation of inadequately-documented passengers. The result is a costly excess burden on the airlines.

All of these obligations imposed on airlines hamper their commercial freedom and are major obstacles to their ability to restructure themselves into normal commercial entities.

This does not mean, however, that the new regulatory environment in Europe necessitates total non-interference of governments. It does mean that any such intervention must be done in a transparent and nondiscriminatory way and that European air carriers must be compensated for the extra burden resulting from such interference.

For example, maintenance and development of regular air services on routes to peripheral regions occasionally require government intervention. This remains entirely possible, under the Third Package, which sets out the criteria for such government intervention.

Recommendations

Member States should remove without delay all restrictions to the commercial freedom of airlines. They should, in particular, remove any statutory rules that are incompatible with the objectives of a commercial enterprise.

They should refrain from interfering in an airline's operations for noncommercial reasons.

Where Member States decide to create a public service obligation in the form of services to an airport in peripheral or development regions, they should do so strictly in accordance with the Third Package regulation on market access.

The EU should review current immigration practices and reassess the responsibilities of government authorities and carriers. It should create a framework for cooperation between immigration authorities and airlines and refrain from imposing fines on airlines that have taken reasonable precautions, to the best of their ability and competence, in checking the validity of travel documents.

APPENDICES

The Regulatory Landscape

European Union Member States are parties to the 1944 Chicago Convention on International Civil Aviation, which globally organises international air transport. Member States are members of ICAO and remain committed to the principles and rules of the Convention. They have, for instance, acknowledged that every state has exclusive sovereignty over the airspace above its territory. Based on this and other provisions, and on the Annexes to the Convention updated by ICAO, all governments have exchanged traffic rights in numerous bilateral air transport agreements, thereby creating a closely knit network of arrangements that contain a substantial set of derived customary rules. These rules are binding to the parties to such agreements, in addition to the rules multilaterally agreed in the Convention.

It is a fact that almost all countries of the world have adhered to the Convention and are, in one way or another, bound by more or less similar exclusive bilateral rules, with the exception of recent liberal agreements.

Yet a distinction must be made between the Chicago Convention and the bilateral agreements.

The Convention is a general framework, based on largely political considerations, containing firm principles of law: state sovereignty, nationality of aircraft, equal opportunities and equal treatment for all countries, mandatory provision of air navigation facilities, etc.

Bilateral agreements deal with the provision of air services between country pairs, the Convention having failed to achieve a multilateral framework for the sharing of the freedoms of the air. Bilateral agreements contain principles and rules not to be found in the Convention, most often more restrictive than the Convention itself: for instance, the clause that requires substantial ownership and effective control of designated carriers to be in the hands of the designating state or of nationals of that state, (the so-called "nationality clause"), the predetermi-

nation and apportionment of capacities to be provided on the agreed services, etc.

The Chicago Convention operates on the principle of equal opportunities and leaves all countries free to choose the manner in which they will use those opportunities in the market place, provided the principles and rules of the Convention are observed.

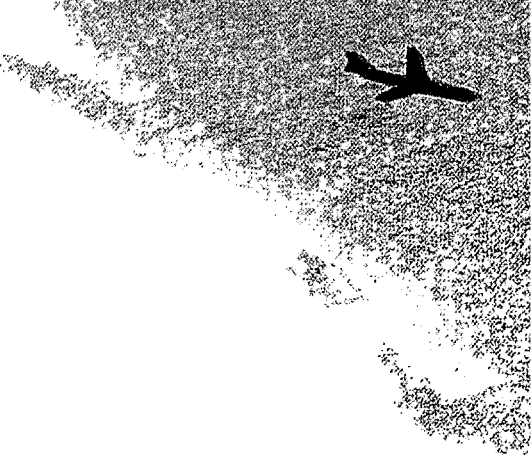
The Convention does not oppose multilateral arrangements for the exchange of rights or the setting up of multinational operating agencies. On the contrary it contains provisions to facilitate joint operating organisations and pooled services (Chapter XVI). Indeed the founding fathers of the Convention had in mind to reach one day a multilateral air transport agreement (which some of them even tentatively signed in 1944, together with the Convention).

The philosophy of the Convention is therefore compatible with a multilateral open regime of traffic rights, even though some clarification of the terms of the Convention may be helpful to apply it in the case of a regional arrangement of that nature.

The main difficulties for international law arising from regulatory changes, such as those occurring on the European scene relate to bilateral agreements, many of which reflected over the years the increasingly directive, protectionist and competition restrictive policies followed by governments.

Such agreements contain provisions now acknowledged as incompatible with the EU Single Aviation Market (such as the nationality clause for designation of airlines, mandatory commercial arrangements between designated carriers etc.). Member States are obliged, according to article 234 of the Rome Treaty, to take all appropriate steps to eliminate the incompatibilities. In other words, bilateral agreements must be renegotiated when necessary.

The aviation landscape has changed radically with the globalisation of the economy and the maturity of the air transport industry itself. Obviously, many countries, particularly in the developing world, still need



some protection for their air transport industry and will, as they are free to do, retain their bilateral agreements.

Others can enter into liberal arrangements under the umbrella of the Chicago Convention and revise their bilateral agreements to the extent necessary or simply render them irrelevant among themselves in a defined geographical area as the EC partners have done in 1992. The passage to multilateralism will not happen overnight, but a gradual transition may make a number of provisions in bilateral agreements either irrelevant or obsolete.

A blueprint for global air transport does not exist at the moment. The Chicago Convention is hospitable enough to accommodate differing air transport agreements that are based on free participation, equity and common understanding.

Statistics

IDENTIFIABLE DIFFERENCES IN COST STRUCTURES OF EUROPEAN AND US SCHEDULED AIRLINES

CATEGORY	EUROPEAN/US AIRLINE DIFFERENCE	TRENDS	REMARKS
Overall operating costs	European airline costs 21 cents/ATK or 45% higher than US DOCs 4 cents or 20% higher IOCs 17 cents or 65% higher	European unit costs increased by about 2% p.a. during 1988-92, US costs by 4% p.a.	
Labour and social costs	European costs 5.7 cents/ATK or 3% higher Average labour cost per employee 6% higher, productivity 23% lower Gross salary per employee 10% higher, social costs 10% lower	European costs per ATK, zero growth 1988-92, US grew by 3.5% European productivity grew by 5%, US by 1% European gross salaries have risen by 5% p.a., US by about 3% p.a. European social charges have risen at under 4% p.a., US by over 10% p.a.	European cost disadvantage concentrated in passenger services, ticketing and administration Social charges now more of a burden in US Generally consistent relationship between average national salaries and airline salaries
Fuel costs and fuel-related charges	European costs 0.4 cents/ATK or 6% higher Per gallon costs up to 15% higher	Same trend as in oil market but temporary differential of 4 cents/gallon developed between Europe/US in 1991/92	Higher prices reduce benefit of Europe's more fuel efficient fleet High fuel-related charges in France, Germany and Italy
Airport charges	European charges 2.6 cents/ATK or 3 times higher Costs per capacity-tonne 5 times higher	Airport fees rising at roughly the same rate in both regions, 5% p.a.	International charges still apply for cross-border intra-EC flights Terminal navigation charges in US paid by passenger via 10% domestic ticket tax and international ticket taxes Immigration and customs charges paid by passengers via international ticket taxes in US
Navigation charges	European charges 2.3 cents/ATK or 10 times higher	Double digit increases in same Eurocontrol countries No charges in US domestic market	En route charges in US are funded by passenger via 10% domestic ticket tax and international ticket taxes

Source: Avmark

Notes: Unit costs on a provisional 1992 basis

Airline operating costs per ATK (1992 vs 1991)

	ATK			Average stage length			Total operating costs			Expenses per ATK			Monetary	
	million			km			million\$			cent			Fluctuation	
	1991	1992	92/91	1991	1992	92/91	1991	1992	92/91	1991	1992	92/91	92/91	
British Airways	12,925	14,636	+13.2%	1,476	1,605	+8.7%	7,699	7,928	+3.0%	59.6	54.2	-9.1%	+2.5%	British Airways
Lufthansa	13,006	14,469	+11.3%	1,082	1,292	+19.4%	9,224	9,977	+8.2%	70.9	69.0	-2.8%	+6.0%	Lufthansa
Air France	10,376	12,038	+16.0%	1,465	1,424	-2.8%	6,304	8,131	+29.0%	60.8	67.5	+11.2%	-6.4%	Air France
KLM	6,767	7,999	+18.2%	1,911	1,919	+0.4%	3,440	3,712	+7.9%	50.8	46.4	-8.7%	-7.4%	KLM
Alitalia	4,539	5,216	+14.9%	1,117	1,134	+1.5%	3,629	3,828	+5.5%	80.0	73.4	-8.2%	-4.8%	Alitalia
Iberia	4,673	4,951	+5.9%	1,103	1,103	+0.0%	3,329	3,630	+9.0%	71.2	73.3	+2.9%	+36.3%	Iberia
Swissair	3,907	4,357	+11.5%	1,177	1,233	+4.8%	3,391	3,544	+4.5%	86.8	81.3	-6.3%	-4.1%	Swissair
SAS	3,074	3,180	+3.4%	783	784	+0.1%	3,391	3,748	+10.5%	110.3	117.9	+6.9%	-2.8%	SAS
Virgin	1,739	1,869	+7.5%	7,085	7,085	+0.0%	550	693	+26.0%	31.6	37.1	+17.3%	+2.5%	Virgin
Sabena	1,617	1,614	-0.2%	1,058	988	-6.6%	1,754	1,741	-0.8%	108.5	107.9	-0.6%	-5.8%	Sabena
Finnair	1,589	1,539	-3.1%	1,087	1,084	-0.3%	902	820	-9.2%	56.8	53.3	-6.2%	+13.6%	Finnair
TAP	1,376	1,474	+7.1%	1,476	1,660	+12.5%	1,114	1,356	+21.7%	81.0	92.0	+13.6%	-8.0%	TAP
Austrian	670	845	+26.2%	980	1,102	+12.4%	700	859	+22.7%	104.6	101.7	-2.8%	-5.3%	Austrian
Aer Lingus	739	752	+1.9%	592	621	+4.9%	457	447	-2.3%	61.9	59.4	-4.1%	-3.6%	Aer Lingus
British Midland	409	453	+10.8%	517	517	+0.0%	478	563	+17.9%	116.7	124.2	+6.4%	+2.5%	British Midland
Total Europe	67,407	75,393	+11.8%				46,363	50,978	+10.0%	68.8	67.6	-1.7%		Total Europe
American	25,921	30,297	+16.9%	1,730	1,842	+6.5%	12,081	13,658	+13.1%	46.6	45.1	-3.3%		American
United	24,834	28,084	+13.1%	1,479	1,590	+7.5%	12,151	13,165	+8.3%	48.9	46.9	-4.2%		United
Delta	21,738	26,192	+20.5%	1,105	1,207	+9.2%	10,329	12,465	+20.7%	47.5	47.6	+0.2%		Delta
Continental	14,212	14,416	+1.4%	1,319	1,390	+5.4%	5,553	5,404	-2.7%	39.1	37.5	-4.1%		Continental
USAir	10,893	11,355	+4.2%	798	848	+6.3%	6,251	6,611	+5.8%	57.4	58.2	+1.5%		USAir
Southwest	3,523	4,088	+16.0%	603	616	+2.2%	1,252	1,503	+20.1%	35.5	36.8	+3.5%		Southwest
Total US	101,122	114,431	+13.2%				47,616	52,806	+10.9%	47.1	46.1	-2.0%		Total US

Source: Avmark

AIRLINE OPERATING COSTS PER ATK (1991)

	ATK	Flight operations expenses	Maintenance and overhaul expenses	Depreciation and amortisation expenses	Total direct operating costs (DOC)	Airport user charges	En-route navigation charges	Handling costs	Passenger services exposures	Ticketing sales and promotion expenses	Other expenses	Total indirect operating costs (IOC)	Total operating costs	
	\$ Bn	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	cent/ATK	
Lufthansa	13.0	15.8	10.2	5.4	31.4	3.4	2.3	7.6	7.8	12.9	5.1	39.0	70.4	Lufthansa
British Airways	12.9	12.3	5.3	2.7	20.2	5.6	2.1	5.0	8.0	11.2	8.1	39.9	60.1	British Airways
Air France	10.4	14.5	5.3	5.0	24.7	2.8	1.4	6.9	6.7	8.2	9.8	35.8	60.5	Air France
Iberia	4.7	17.3	6.9	4.7	28.9	3.0	2.2	7.9	9.0	17.1	2.1	41.4	70.3	Iberia
Alitalia	4.5	16.8	10.3	4.8	31.9	2.6	2.6	10.9	10.3	13.7	8.5	48.4	80.4	Alitalia
Swissair	3.9	17.5	12.7	6.7	36.9	3.4	2.6	13.1	11.4	16.8	2.3	49.7	86.5	Swissair
SAS	3.0	23.1	13.0	4.5	40.6	9.6	3.1	15.0	6.5	20.9	15.8	71.0	111.6	SAS
TAP	1.4	23.8	9.1	2.3	35.1	2.0	2.8	5.5	7.2	10.9	17.4	45.8	80.9	TAP
Aer Lingus	0.7	17.3	13.3	5.4	36.0	11.5	3.7	12.7	11.8	13.9	6.4	59.9	95.9	Aer Lingus
Britannia	2.5	12.2	4.1	0.9	19.7	4.3	2.6	2.5	2.5	0.0	1.7	13.6	33.3	Britannia
British Midland	0.4	23.4	7.2	2.9	34.0	17.8	5.6	5.8	13.0	10.5	6.4	59.1	93.2	British Midland
Meridiana	0.2	28.3	10.7	8.8	48.0	4.4	3.4	19.3	9.3	13.7	10.2	60.3	108.3	Meridiana
American	26.0	13.4	5.1	3.2	21.6	0.9	0.2	7.3	5.1	8.7	2.8	24.9	46.5	American
United	24.8	14.2	6.1	2.6	22.8	0.9	0.2	6.0	5.4	12.4	4.2	29.0	51.8	United
Delta	21.8	14.8	4.4	2.6	21.8	0.9	0.1	7.5	5.4	10.1	1.7	25.6	47.4	Delta
Continental	14.2	11.9	5.2	1.3	18.4	0.8	0.2	4.9	3.6	6.7	3.9	20.1	38.5	Continental
USAir	10.9	18.1	7.0	2.6	27.7	1.0	0.0	9.2	6.4	10.0	2.8	29.4	57.1	USAir
Southwest	3.5	11.0	3.5	2.2	16.7	1.0	0.0	4.5	2.3	5.0	3.1	15.9	32.6	Southwest
JAL	12.5	17.4	6.4	6.2	29.9	2.6	2.2	7.5	7.9	11.0	3.0	34.3	64.2	JAL
Singapore	7.2	8.8	3.4	5.0	17.2	1.9		2.9	5.7	6.4	1.3	18.2	35.4	Singapore
Qantas	5.8	14.7	4.9	2.4	22.0	1.2	1.2	4.9	5.3	8.2	2.0	22.9	44.9	Qantas

Source: Avmark

Profitability of AEA airlines						
US \$ 000	1990		1991		1992	
	Net result	Turnover	Net result	Turnover	Net result	Turnover
Aer Lingus	8,300	1,235,500	-18,500	1,351,900	-195,600	1,381,000
Air France	-132,100	10,465,900	-121,416	10,196,200	-617,000	10,769,400
Air Malta						
Alitalia	-81,700	4,592,000	-27,900	4,750,400	-11,900	5,510,700
Austrian	11,500	817,700	11,200	847,400	100	1,003,800
Balkan						
BA	169,600	8,812,900	687,300	9,090,000	297,700	9,307,700
CSA	44,700	294,000				
Cyprus						
Finnair	-18,800	1,463,900	-13,200	1,285,000	-16,800	1,132,200
Iberia	-137,700	3,695,300	-346,800	3,706,300	-339,800	4,136,700
Icelandair						
JAT	-46,500	545,400	-104,900	412,600		
KLM	-346,900	3,609,000	66,200	4,189,000	-319,000	4,666,300
Lufthansa	9,400	8,962,800	-257,700	9,746,100	-250,400	11,036,500
Luxair					600	252,600
Malev	10,400	267,000	16,100	298,000	300	338,600
Olympic	-164,300	940,900	-133,900	828,500	-224,800	922,500
Sabena	-205,700	1,065,200	-68,600	1,533,200	11,700	1,708,300
SAS	-144,800	5,331,600	-239,000	5,806,800	-127,400	5,908,200
Swissair	-15,900	3,778,600	57,900	4,146,200	80,700	4,438,500
TAP	-15,300	860,500	-38,000	1,041,000	-199,800	1,110,100
THY	-20,900	653,900	-156,400	511,100	-87,300	736,500
	-1,076,700	57,392,100	-687,616	59,739,700	-1,998,700	64,359,600
	-1.88%		-1.15%		-3.11%	

Source: Airline Business, ICAO

Labour productivity of individual air carriers			
	Carrier	ATK per employee (1992)	Productivity increase 1988-1992
Europe	Aer Lingus	144,136	7.76%
	Air France	289,170	1.52%
	Alitalia	279,617	7.64%
	British Airways	298,939	6.91%
	Iberia	172,244	5.18%
	KLM	325,635	6.41%
	Lufthansa	291,196	2.92%
	SAS	172,650	6.69%
	Swissair	220,204	4.89%
	TAP	132,557	3.11%
US	American	332,256	2.38%
	Continental	412,181	-2.37%
	Delta	330,888	2.76%
	United	357,454	2.20%
	USAir	248,505	1.23%
	Southwest	372,482	5.21%

Source: Avmark

The Comité's Working Programme

Plenary meetings of the Comité

June 22 1993
July 9 1993
July 27 1993
August 30 1993
September 27 1993
October 21 1993
November 18 1993
December 10, 11, 12 1993
December 22 1993

Co-rapporteurs' meetings

External Affairs:

October 1 1993
October 28 1993

Financial Matters:

October 5 1993
October 25 1993

Intra-European Affairs:

October 8 1993

Infrastructure:

October 11 1993

Harmonisation:

October 18 1993

Industry hearings

September 9 1993 (16 presentations)
September 16 1993 (12 presentations)

Press conferences

July 13 1993
August 5 1993

Presentation of the Chairman to the Council of Ministers

November 30 1993

Presentation of the Chairman at the 49th IATA Annual General Meeting

November 2 1993

Meetings of the Chairman

- Bernard Attali, Chairman, Groupe Air France
- Pierre Godfroid, Chairman, Sabena, June 15 1993
- US Mission to EC, July 15 1993
- Eric Kirsch, Administrateur Général, RLW-RVA Belgium, August 9 1993
- Sir Colin Marshall, Chairman, British Airways, August 11
- René Lapautre, former UTA Chairman, August 19 1993
- Baudouin Gillis, Administrateur-délégué, Wagons-lits Travel, September 1 1993
- Abel Matutes, Member of the European Commission, September 20 1993
- Robert L. Crandall, Chairman and President, American Airlines, September 22 1993
- Secretary Federico Pena, US Department of Transportation, Brussels, October 5 1993
- Pierre Godfroid, Chairman, Sabena, October 14 1993
- Abel Matutes, Member of the European Commission, November 24 1993
- Karel Van Miert, Vice President of the European Commission, November 25 1993
- Jacques Broquin, President, Fédération Internationale des Cadres des Transports (FICT), Paris, December 2 1993

Washington mission

July 23 1993

The Chairman, Herman De Croo, was accompanied by:

Geoffrey Lipman, Guillermo Serrano, Eckard Seeböhm

Meetings were held with:

James E. Landry, Air Transport Association
Nat Wilson, Air Transport Association
Gerald L. Baliles, Chairman of The National Commission to Ensure a Strong Competitive Airline Industry
John H. Robson, Member of the International Issues team
Abraham D. Sofaer, Chairman of the International Issues team
Gina F. Thomas, Member of the Commission
Sylvia A. de Leon, Member of the Commission
Capt. J. Randolph Babbit, Member of the Commission
James Oberstar, Chairman of the Aviation Subcommittee of the House of Representatives

Members of the Comité

Herman De Croo, Chairman, Senator,
former Belgian Minister of Transport

His Highness The Aga Khan, Majority
Shareholder of Meridiana

Pieter Bouw, President of KLM Royal
Dutch Airlines

Bjarne Hansen, President of Maersk Air

Geoffrey Lipman, President of the World
Travel & Tourism Council

Henri Martre, Member of the Board and
former Executive Chairman of Aérospatiale

Joao-Maria Oliveira-Martins, former
Portuguese Minister of Transport

Gonzalo Pascual, Chairman of Spanair
Manfred Schölch, Vice Chairman of the
Executive Board of Frankfurt Airport

Guillermo Serrano, Chairman of the
Board of Amadeus

René Valladon, Chairman of the Joint
Civil Aviation Council (Union «Force
Ouvrière»)

Jürgen Weber, Chairman of the Executive
Board of Lufthansa German Airlines

Observer of the European Commission

Daniel Vincent, Director, Directorate-
General for Transport

The staff

Secretariat

The European Aviation Club ASBL

Prof. Jacques Naveau, Brussels
University, Chairman

André Clodong, Director

Sylvie De Schryvere, Assistant

Advisory support and liaison with the European Commission

Eckard Seebohm, Principal

Administrator, Directorate-General of
Transport, Air Transport Policy Unit,
European Commission

Christopher Ross, Directorate-General of
Transport, Air Transport Policy Unit,
European Commission

GLOSSARY

ACE

Association des Compagnies Aériennes de la Communauté Européenne

AEA

Association of European Airlines

APATSI

Airport/Air Traffic Systems Interface

ASK

Available Seat Kilometres. The number of seats made available for sale multiplied by the distance flown

ATC

Air Traffic Control

ATK

Available Tonne Kilometres. The number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown

Bilateral Air Transport Agreement

Agreement that regulates air services between two countries

Cabotage

The carriage of traffic between two airports which are located within one country

Capacity

In relation to aircraft: the payload of an aircraft available. In relation to air services: the capacity of the aircraft used on such services, multiplied by the frequency over a given period on the air routes considered

Chapter 3

ICAO noise standard

Chapter 11

Provisions of the US bankruptcy law that set out conditions under which enterprises in default may continue their activities while restructuring

CNS/ATM

Communications, Navigation and Surveillance/Air Traffic Management (formerly FANS)

Code Sharing

An agreement between two airlines to use the designation code of one airline on a flight operated by the other airline

Coordinated Airport

An airport where a coordinator has been appointed to facilitate the operations of air carriers operating or intending to operate at that airport, as per EC Council Regulation 95/93

Fully Coordinated Airport

A coordinated airport where, in order to land or take off during the periods for which it is fully coordinated, it is necessary for an air carrier to have a slot allocated by a coordinator, as per EC Council Regulation 95/93

CRS

Computer Reservation Systems

EATCHIP

European Air Traffic Control Harmonisation and Integration Programme

ECAC

European Civil Aviation Conference

Eurocontrol

European Organisation for the Safety of Air Navigation

FANS

Future Air Navigation System (now CNS/ATM)

FFP

Frequent Flyer Programme

IATA

International Air Transport Association

ICAO

International Civil Aviation Organization

Interlining

Acceptance by an air carrier of traffic documents (tickets, airwaybills, etc.) issued by another, without additional charge to the passenger or the shipper; normally on a reciprocal basis through agreements providing also for uniform procedures of reservation, re-routing etc.

JAA

Joint Aviation Authorities. Set up by ECAC to harmonise air transport regulations and standards

Load factor

The percentage relationship of revenue load carried to capacity provided. The overall load factor relates RTK to ATK. The passenger load factor relates RPK to ASK

Overcapacity

Offer (available payload) structurally in excess of demand (cfr.: capacity)

RPK

Revenue Passenger Kilometres. The number of revenue passengers carried multiplied by the distance flown

RTK

Revenue Tonne Kilometres. The revenue load (passengers and cargo) in tonnes multiplied by the the distance flown

Slot

The scheduled time of arrival or departure available or allocated for an aircraft movement on a specific date at an airport

TKP

Tonne Kilometers Performed

Trans European Networks (TEN)

According to the Treaty on European Union (Title-XII), infrastructure networks shall be established and developed in the areas of transport, telecommunications and energy. The main objective of TEN will be interoperability of national networks, linkage between central, island landlocked and peripheral regions of the European Union, as well as ensuring interconnections with Third-Countries. These networks will be financed by Member States budgets, private resources and European Union financial instruments. The Commission's White Paper (Brussels, December 1993) emphasises the priority to be given to TEN in restoring growth, competitiveness and employment in Europe.

Note: the submissions received by the Comité have been compiled in an annexe to the Report of the Comité. This annexe is available from the Directorate-General of Transport, European Commission

Copies of this report can be obtained from:

**European Commission
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