



EUROPEAN AIRPORTS AND
TOURISM ORGANISATIONS
TOGETHER ON OPEN SKIES



Over the past months, the expansion of Gulf airlines – in particular Emirates, Etihad Airways and Qatar Airways – into the North American and European markets has given rise to an increasing controversy. Beyond this particular case, Europe's airports and national tourism organisations have a direct and legitimate interest in all matters relating to airline market access to/from Europe:

- ▶ For airports, increasing the number of destinations served and attracting more passengers and cargo through the development of their route network and the diversification of their airline portfolio is a core business imperative. It is also central to their societal benefits – which are about maximizing air connectivity for their communities and supporting economic growth and job creation.
- ▶ For national tourism organisations, getting more air connections at better value into Europe is essential to facilitate and grow international tourism arrivals. This is about maintaining Europe's number 1 position as a tourist destination and ensuring the continued contribution of the sector to the European economy.

ACI EUROPE and ETC have thus come together to participate in and influence the debate on Open Skies policies.



1.

OPEN SKIES – AN AGENDA FOR GROWTH & DEVELOPMENT

ACI EUROPE and the European Travel Commission (ETC) support **Open Sky policies** and **free aviation market access** as essential pillars for the development of a **competitive and successful travel & tourism sector for Europe**. As such, their joint position is fully aligned with the agenda for growth and development of the Global Travel Association Coalition (GTAC), which supports the continued liberalisation of international air transport¹.

Indeed, both airports and the tourism industry have benefited greatly from the creation of the **EU's integrated aviation market** in 1993 and its successive extensions:

- ▶ The abolition of regulatory restrictions on designated airlines, route rights, capacity and pricing has not only allowed airlines to choose their business model and innovate – it has also given airports **equal and increased opportunities** in terms of **route development**. This has resulted in the development of new and competitive air services with passenger numbers at EU airports growing by a staggering **+136%** since 1993.

- ▶ From the perspective of tourism, the liberalisation has allowed European destinations to **further capitalise on the weighty European markets**. The subsequent emergence and rapid expansion of low cost airlines has contributed to more competitive pricing, access to and development of secondary and tertiary cities in both established and emerging tourist destinations.

Even more importantly, beyond airports and the tourism industry, **European consumers** – individuals and businesses – have benefitted from expanded and more affordable air connectivity, initially within the EU, then more widely on routes to and from most of its neighbours. To a large extent, these developments have transformed intra-European air transport into a commodity. This has in turn supported **economic growth**, with the relationship between air connectivity and GDP coming to the fore: **a 10% increase in air connectivity yields +0,5% of additional GDP growth per capita**².

2.

GLOBAL SHIFTS – EXPANDING OPEN SKIES BEYOND EUROPE

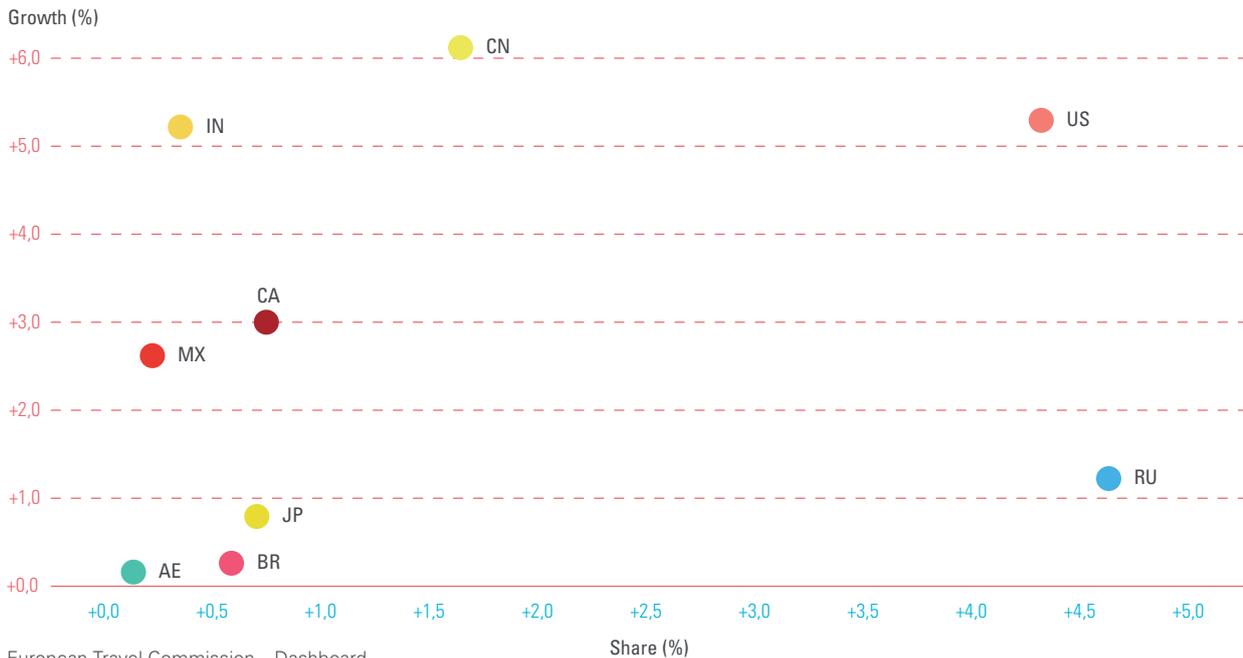
The **global economic shift** to the Asia-Pacific region and the rise of emerging countries in other World regions³ mean that Europe is increasingly becoming dependent on expanding its trading capabilities externally – so as to tap into new and future sources of wealth.

More and more, **European tourist destinations are tapping into the expanding middle-classes of emerging markets** with the expectation of attracting

rising numbers of visitors in the future. India, as one of the fastest growing outbound markets, has moved into the spotlight as the country is expected to generate more than 13 million tourist arrivals worldwide in 2015, which is only dwarfed by China's 72 million. Both markets are gaining weight as travel from China and India to European destinations is expected to increase around **6%** and **5%** per year respectively until 2020, outperforming expected growth from established European markets.⁴

1. GTAC: Powering Travel & Tourism into the Next Decade: An Agenda for Growth and Development. Members of GTAC are ACI WORLD (Airports Council International), CLIA, IATA, ICAO, PATA, UNWTO, WEF and WTTC.
2. *Economic Impact of European Airports – a Critical Catalyst to Economic Growth*, InterVISTAS – January 2015
3. IMF: 2013 was the first year in which emerging markets accounted for more than 50% (on the basis of purchasing power). This represented a significant milestone, given that these markets accounted for less than 20% of a much smaller total in 2003. This shift is considered as the biggest economic transformation in modern history.
4. ETC Dashboard, data from Tourism Economics (2015)

GUEST MIX FOR 2015 TO 2020



In this context, **air connectivity** has acquired a **new strategic relevance for the European economy**. Flying is a must when it comes to the promotion, sale and export of European products, technologies and know-how overseas. Flying is a prerequisite for foreign investments into Europe. Flying is also the only way for most international tourists to get into Europe.

This is why the **EU and national Governments need to actively support air connectivity**, in particular by

eliminating restrictions to air traffic rights and ensuring **free market access for EU and foreign airlines** – for both passenger and freight traffic. The **2006 EU-US aviation agreement** has demonstrated the benefits of pursuing such a policy. Unfortunately, only a few additional agreements have been agreed following that between the EU and US, but **this precedent needs to be replicated**, primarily with the **EU’s main trading partners**⁵.

3. EVOLVING EUROPEAN AIR CONNECTIVITY

While European air connectivity has significantly increased over the past 10 years, the **2008-2009 Global crisis has been a turning point**. Since then, the growth in total airport connectivity has slowed down and has differed widely between World regions⁶.

Within this context, EU connectivity gains have been the highest to the **Middle East**, reflecting the increased importance of the Gulf States as trading partners for the EU and the role played by the Gulf airlines – especially Emirates, Etihad Airways and Qatar Airways – in the growth of the EU-Middle East aviation market.

This performance is also linked to the **increasing role** played by **Gulf airlines in connecting the EU to Asia via their hubs**⁷. Indeed, especially since the Global financial crisis, most of the growth in EU connectivity to Asia has been driven by indirect connectivity while direct connectivity has grown only marginally.

This situation reflects the **extensive route network** that the Gulf airlines have developed in Asia, which includes many destinations not directly served from the EU. These network developments have been facilitated primarily by:

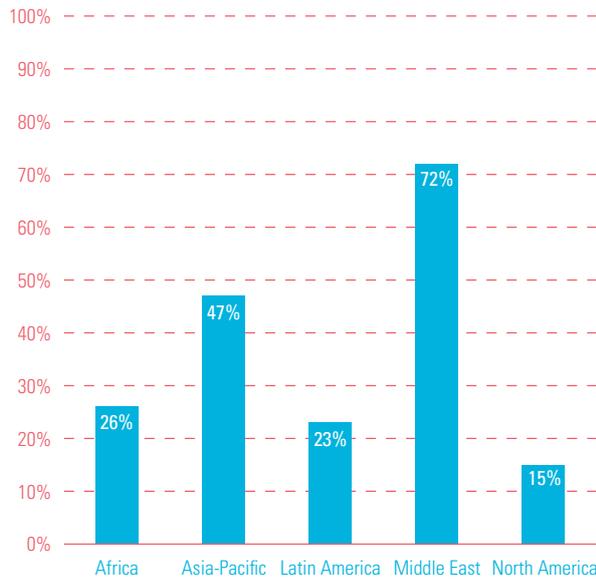
5. *Expanding Europe’s Aviation Market: Prerequisite for Global Relevance* – ACI EUROPE, June 2011

6. *Airport Industry Connectivity Report, 2015* (ACI EUROPE)

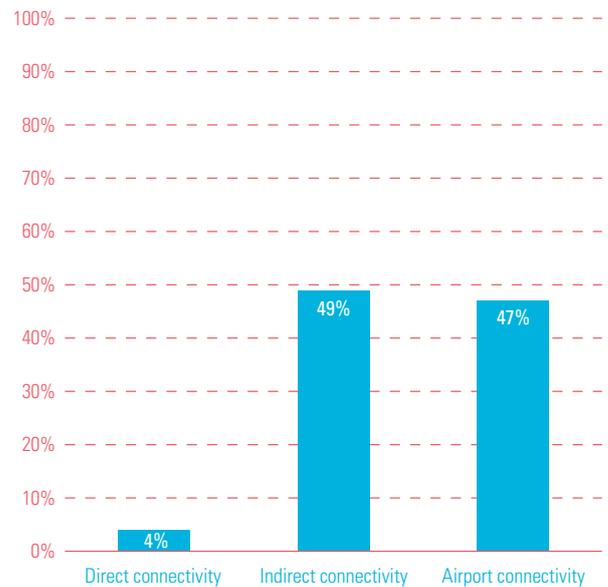
7. Dubai, Abu Dhabi and Doha airports



EU AIRPORT CONNECTIVITY TO OTHER WORLD REGIONS (2015 VS. 2008)



EU CONNECTIVITY TO ASIA-PACIFIC (2015 VS. 2008)



- ▶ The competitive advantage afforded by the **geographical location of the Gulf hubs**. Their geographical location allows Gulf airlines to serve Asian destinations with better cost/operational efficiencies when compared to EU airlines – in terms of aircraft and crew utilisation, as well as optimum connecting opportunities from Europe.
- ▶ The **ambitious national policy frameworks** put in place by the Gulf States which are **extremely**

supportive of air connectivity and which are aimed at making aviation a **major contributor to their economic development**.

This situation also reflects the less extensive network development of EU airlines in Asia, notably due to some major EU airlines facing financial difficulties and/or pursuing less ambitious strategies.

4. LEVEL PLAYING FIELD & FAIR COMPETITION

There is no generally accepted definition of what constitutes a level playing field in international aviation. However, the principles guiding aviation liberalisation and Open Sky policies require that the objective of a level playing field should be ensuring **equality of opportunity** rather than **equality of outcomes**⁸.

Conversely, restrictions placed on market access, airline designation, capacity and pricing by “**traditional**” **Bilateral Air Services Agreements** are all aimed at ensuring *equality of outcomes* through Government intervention. Focusing on *equality of outcomes* thus interferes with market forces

and hinders innovation. This results in **artificially constrained air connectivity**, more limited consumer choice and ultimately reduces wider economic benefits.

Therefore, some of the arguments put forward in order to ask for a level playing field appear **not to be relevant nor defensible**. This is the case in particular as regards:

- ▶ **Public financing of aviation infrastructure.** Public financing of airports in particular is widespread and **legitimate as part of national**

8. *What Do We Mean by a Level Playing Field in International Aviation* – Mike Tretheway and Robert Andriulaitis (InterVISTAS Consulting Inc) for the OECD

economic development policy – given its positive externalities. Even in the US, public financing of both investment and operational costs is a reality. **US airports** get more than USD €3 billion each year in federal grants for their modernisation and development and also have access to tax free bonds financing. In addition, they do not have to operate the aviation security system, whose costs are largely borne by the Federal budget. These environments are in **sharp contrast to Europe**, where public financing in airports is receding and limited under the 2014 EC State aid guidelines and where airports incur close to €4 billion in annual security costs.

▶ **Public start-up investment in airlines.**

All Governments have made airline investments at one point in time at least. **State aid** to airlines for restructuring and rescue purposes has been used by many EU Member States. It continues to be possible under EU rules – even if under more stringent conditions. In the **US**, while direct public subsidies are limited to supporting “essential air services” and redressing the impact of terrorist acts, Chapter 11 reorganisation procedures *de facto* allow airlines to shed significant costs. The *Fly America* policy also

amounts to an indirect but significant subsidisation of US airlines. In many other regions of the World, public investment in airlines has been focused on generating wider societal benefits and significant returns on investment in terms of economic growth.

▶ **Lower labour costs, social security taxes and more favourable taxation regimes.**

These elements reflect **local market conditions** and **national fiscal policies**. Different levels of labour costs, social security charges and taxes are a reality within the EU and they should not serve as a justification to restrict market access.

Should these issues be considered as involving unfair competition in aviation *vis-à-vis* the Gulf States, these same issues would also need to be addressed **with all other EU trading partners – including the USA**. This would potentially lead to a **return of protectionist aviation policies** restricting market access and other aspects of airline commercial freedom. This would be at odds with the objectives of **focusing on consumers** and **wider societal benefits** by maximizing air connectivity for Europe.

5. IMPLICATIONS FOR EUROPE – COMPETITIVE CHALLENGE

ACI EUROPE and ETC consider that **the expansion of the Gulf airlines** still raises **important challenges for Europe and its aviation policy**.

Notably, the expansion of Gulf carriers in Europe has exposed EU airlines to new competition on selected external markets – in particular Middle East and Asian markets. As a result, EU hubs have also been exposed to new competition from Gulf hubs.

As already mentioned, this new competition has contributed to the significant growth in EU airport connectivity to Asia (+47% since 2008). However most of these gains in airport connectivity are attributable to the growth of **indirect connectivity**. Indeed, the direct/indirect connectivity ratio between the EU and Asia is the lowest compare to other World regions⁹. This indicates a **sub-optimal level of direct connectivity to Asia**.

Direct connectivity is generally considered of more value than indirect connectivity as it delivers reduced travel time, which in turns delivers increases in efficiency and productivity. However, in many cases, direct long-haul flights can only be viable when connecting traffic can be concentrated to create sufficient regular demand. By virtue of their strong hub systems, the cities of Dubai, Doha and Abu Dhabi are now themselves enjoying excellent direct connectivity. We must make sure that their gain is not Europe’s loss. In order for Europe to take advantage of growth in the global economy, it also needs to ensure that it has **its own direct connections** to the developing business centres of the World, particularly in Asia – **by nurturing its own strong hub airports** as well as **promoting the development of direct intercontinental routes to/from its regional airports** facilitated by advances in aircraft technology.

9. *Airport Industry Connectivity Report, 2014 and 2015 (ACI EUROPE)*

The risk of **Europe's hubs falling behind competitors** in other regions should be a **concern for European policy makers** – especially in a context where Asia is now the largest aviation market, has become the major source of growth in international tourist arrivals and has the highest GDP of all other World regions.

To address the challenge posed by the expansion of the Gulf airlines, the **competitive position of EU airlines and EU airports** relative to their Gulf competitors needs to improve significantly. While both EU airlines and EU airports are working hard

to improve their competitive position, the **decisive factor** in the competitive gap with their Gulf competitors comes from them benefitting from a **framework of government policy and investment** which truly **embraces aviation** and **supports air connectivity**. By providing the right climate for investment to take place in infrastructure and air carriers, this approach has also challenged the overall position of European aviation, and potentially exposed Europe to being increasingly **by-passed** as a Global aviation hub – **undermining potential economic benefits** for the EU, in particular as regards tourism.

6. A NEW EU AVIATION POLICY – PROGRESSING TOWARDS OPEN SKIES

European aviation needs a **more supportive policy and regulatory framework** and both ACI EUROPE and ETC are thus calling for change in this regard. **Air connectivity needs to become core in the EU's economic development strategy.**

As part of this, ACI EUROPE and ETC consider that *"a more ambitious and robust EU external aviation policy should be pursued"*¹⁰ and therefore support the opening of **EU led aviation negotiations** with our main trading partners such as **ASEAN, China, the Gulf Countries, India, Russia and Turkey**¹¹ with the objective of:

- ▶ **Liberalising market access on international routes** between the EU and these countries for passenger and freight services.
- ▶ **Achieving regulatory convergence** on key issues related to the efficient functioning of a liberalised aviation market – including security, safety and fair competition.

Finally, ACI EUROPE and ETC support the European Commission's willingness to *"prepare a strategy to increase the competitiveness of EU aviation, which would include relations with key partners, including Gulf countries"*¹². They are calling for this strategy to address the following key issues:

- ▶ **Airport capacity & financing**
- ▶ **Aviation taxes**
- ▶ **Regulatory driven costs** – in particular as regards **security and safety**
- ▶ The effective implementation of the **Single European Sky**



10. Council Conclusions on the EU's External Aviation Policy – Addressing Future Challenges – 20 December 2012.

11. There is a reference to these countries / group of countries in the 2012 EU Transport Council Conclusions.

12. Outcome of the Transport Council meeting, 13 March 2015



ACI EUROPE is the European region of Airports Council International, the only worldwide professional association of airport operators.

ACI EUROPE represents over 460 airports in 45 European countries. In 2013, our member airports handled over 90% of commercial air traffic in Europe, welcoming more than 1.7 billion passengers, 16.8 million tonnes of freight and 20.8 million aircraft movements.

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The European Travel Commission (ETC) is the non-profit organisation responsible for the promotion of Europe as a tourist destination in third markets. Our 33 member National Tourism Organisations work together to build the value of tourism to all the beautiful and diverse countries of Europe through, in particular, cooperating in areas of sharing best practices, market intelligence and promotion, and advocacy. ETC has been operating for more than 60 years. Established in 1948, it operates as a non-profit making international organisation.

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