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Mr. Matthew BALDWIN
Director Air Transport DG Move
European Commission
DG Mobility and Transport
rue De Mot 24- 5/153 - 1040 Brussels

Subject: Comments on the European Commission Communication regarding the “EU External Aviation Policy – Addressing Future Challenges” of 27 September 2012 and the Relevant EU Council Decision of 20 December 2012
Submitted by the Arab Air Carriers Organization

Dear Mr. Baldwin,

Kindly find here below our comments on the European Commission Communication regarding the “EU External Aviation Policy – Addressing Future Challenges” of 27 September 2012 and the Relevant EU Council Decision of 20 December 2012.

1. Introduction

The Arab Air Carriers Organization, the regional association of Arab airlines, reviewed the Communication published by the European Commission on 27 September 2012 about the “EU External Aviation Policy – Addressing Future Challenges” and the EU Council decision thereafter of 20 December 2012 adopting the conclusions of the EC Communication and providing guidelines for the development of an external aviation policy. As the decision and its implications are of direct connection to the operations of AACO member airlines to Europe with a clear reference to some of AACO member airlines in the Communication, and since Europe represents 29% of the total Arab air transport market – the second following traffic within the Arab world – recording a 6.4% growth in 2011 over 2010, it is of high importance for us to relay our comments to the European Commission and the Council on the various points raised in the Communication.

2. Different objectives by the EU towards Arab countries

- a. The Council acknowledged the Commission's intention to engage in a dialogue with Gulf countries with a view to “enhancing transparency and fair competition”;
- b. The Council also encouraged the Commission to reach comprehensive EU-level agreements with all neighboring countries by 2015;
- c. Here we seek clarification from the EC on why there are two objectives directed towards Arab countries, one directed towards the ones on the Mediterranean and another one targeted only towards the Gulf States. We believe that the dialogue with the Gulf States should be the first step in a process leading to a similar objective as that of the other Arab countries, in view of two main reasons: geographical

proximity and the Damascus Convention, already ratified, which aims at creating a single Arab aviation market.

3. Safeguarding Competitiveness

- a. The EC suggests, as a measure for safeguarding competitiveness, “reductions of the regulatory burden”. Similarly, in its analysis of why Europe-based airlines are at a competitive disadvantage internationally, it mentions “costs related to compensation for passengers’ rights and the cost of carbon emissions”. Specifically in these two areas, we see that the EC, as a regulator, is able to reduce the regulatory burdens on European airlines and other airlines operating to Europe. We urge the EC to look into the overarching reasons behind the competitive disadvantage of European airlines.
- b. Furthermore, the Arab airlines’ share in the seats offered in the EU market is around 3.5% while the RTKs share is around 9% based on 2011 numbers. These ratios can hardly be construed as the main attribute for the competitive challenges faced by the European airlines. Those challenges are mainly the result of EU indigenous reasons, primary of which are the regulatory burden, infrastructure constraints, legacy costs and the emergence of new Low Cost business models.
- c. The EC indicates in the Communication that member states have an apparent intent to continue to grant bilateral air traffic rights to third countries without commensurate return. Records show that European airlines enjoy traffic rights to third countries, including Gulf States, just as airlines from third countries into Europe. However, European airlines are getting slots for the traffic rights they get in the bilaterals, while some airlines from third countries are not granted slots at some European airports to match their rights of traffic.

4. Aviation: A Lever of the Economy

At some point in the Communication the EC stipulates that they must properly reflect aviation’s strategic role in general. This is what we – the airlines’ community - have always asked from governments; to look at aviation as a strategic element in driving the growth and health of the economy. However, the EC, in other parts of the Communication, criticizes governments of third countries that look at aviation as a strategic sector generating benefits for the overall economy. We hope that the EC would look at those governments and their airlines as a good and healthy example of treating the aviation sector as a lever of the economy.

5. Governments’ Support

We support the EC policy in promoting open skies and free market access, and we are aware that the EU has prepared its airlines for anticipated competition resulting from introducing such a policy. Our position of course is against subsidies to airlines. Having said that, the European airlines have enjoyed their governments’ support under various forms in their long history before and even after liberalization.

6. Fair Competition Clauses in the Bilaterals

The EC is suggesting to include standard “fair competition clauses” at EU-Level in existing bilateral air services agreements between EU member states and non-EU countries and the

EU Council welcomed the Commission's intention to develop a template for a "fair competition clause" for inclusion in air services agreements with partner countries. To our knowledge, existing bilateral agreements do include clauses to ensure fair and equal opportunities for the designated airlines of both states. These clauses are meant to ensure that there is non-discrimination to all airlines; however it does not mean that there should be equal or identical legislation in place between the two relevant states. For example, it does not mean that consumer protection, environment, taxes, charges, and all related competition rules in one state should be identical to the other state. These clauses only mean that whatever rules are applied should be applied to all airlines and not to discriminate between airlines, and we believe that such principles are sufficient and are according to international competition laws and regulations. However, we do welcome an international fair competition clause to be developed under the ICAO umbrella.

7. Conclusion

- a. Airlines from both our regions are trying to find their way around the economic situation and the regulatory burdens. The limited models of partnerships allowed between airlines of both regions, due to regulatory restrictions, are being used by these airlines in order to better serve the consumer. We see that the role of the regulator needs to be reducing regulatory burdens on those airlines to better compete and cooperate in such a dynamic aviation market with the ultimate objective of better serving the consumer.
- b. Therefore, we welcome the opportunity to address the issues raised by the Communication and by the foregoing in a structured dialogue between the EC and the Arab states concerned. For that purpose we plan to actively engage our governments to prepare for such a dialogue. Moreover, we hope that the EC will also engage us, with the other stakeholders in this process.

Sincerely,

Abdul Wahab Teffaha

AACO Secretary General

ANNEX

The Story of Our Airlines

- a. Airlines from our region have introduced new competition on the global aviation map and this has resulted in triggering sometimes complaints, criticism, and accusations of subsidies from the competitors.
- b. The high load factor registered by many of our airlines proves that our airlines are not dumping capacity, but rather they are operating under-served markets, and at prices appealing to the public.
- c. Our airlines boost employment in Europe, enhance trade and tourism between the two regions, and create additional jobs and opportunities for Europeans.
- d. Our airlines pay for their fuel like any other airline around the world. Actually the cost of jet fuel constituted 37.9% of AACO members' operating expenses in 2011. This increase greatly contributed to the increase in these airlines' operating expenses that reached 19.3%.
- e. That an airline is state owned does not mean it is subsidized. Some EU airlines are still partly owned by their governments.
- f. There are natural factors that put our airlines at a competitive advantage like "location" which enabled them to offer excellent services for passengers transiting through their hubs.
- g. Quality of service of Arab airlines receives global recognition and awards throughout the years. Customers choose to travel with Arab airlines enjoying state of the art service.
- h. Our airlines offer the right price to the right customer segment.
- i. Our region offers an excellent tax environment; strategy for keeping fuel burn and maintenance cost at a minimum. Our airlines also employ modern revenue management systems, and high aircraft utilization benefiting from 24 hours operations' window, noting that this is offered to all airlines operating in the region not only Arab airlines.
- j. Airlines (Arab and non-Arab) are benefiting from well planned and sufficient infrastructure.
- k. Arab airlines have the best environmental footprint in the world. The average age of their aircraft is 7.3 years - the youngest in the world producing 15-20% lower carbon emissions per tonne kilometer than the industry average.
- l. Arab countries are developing countries where market maturity is far from being reached opening even more opportunities for growth.