Position Paper

29 September 2009

2050 – The Future of Transport

Introduction

The Association of European Airlines (AEA) welcomes the European Commission's Communication on the Future of Transport. In its Communication, the Commission touches upon a wide array of topics which in its view will require active involvement at the European institutional and political level in the coming decades.

The new White Paper, which is due to be published at the end of 2010, will set the agenda for European transport policy and will form the basis for legislative initiatives to be taken by the Commission during the next 10 years. It is therefore of the utmost importance to AEA. Please find below AEA's comments and views on the future of air transport.

In order further to develop and to maintain a sustainable transport sector in Europe, AEA strongly believes that the following issues should be included in any future European transport policy:

1. The recognition of the importance of aviation for the European economy, trade, social cohesion and international competitiveness;
2. The recognition of aviation's achievements and efforts to address the environmental challenges and to find possible solutions for environmentally sustainable transport;
3. The need for an international level playing field, a coherent legislative framework and tools to mitigate imbalances;
4. The need for adequate infrastructure and funding to achieve more efficiency and co-modality.

AEA agrees with the Commission's statement that the European landscape in the next decades will probably see:

- An ageing European population and other demographic developments;
- A strong increase in the demand for air transport;
- High public deficits if current living standards in Europe are to be maintained;
- A difficult employment situation, although this might vary significantly between Member States.

However, as predicting the future is extremely difficult – if not impossible - by definition we would have to accept that even a general overview and forecast would be subject to change. The current worldwide economic and financial crisis is just one example of a development which has far reaching consequences for the transport industry in general and aviation in particular and which was not foreseen two years ago.

Air transport: a key pillar of Europe's economy, cohesion and competitiveness

The enlargement of the European Union, the liberalisation of the Single European market, and the important role that Europe plays in the global economy could not have happened without aviation. Of the ten countries which acceded in 2004, two are island States, the others are on average 19 hours' surface-travel time from Brussels. The two more recent additions are a day's drive from the political institutions, and 32 hours by train. Air services ensure that people and goods in even the most outlying regions have quick access to the industrial and business centres of Europe.

In addition to its contribution to Europe's integration and cohesion, aviation is a key pillar of Europe's competitiveness, carrying about 40%[1] of the merchandise value in the world, generating around 4.2 million jobs in Europe and contributing 225 billion EUR to European GDP, according to the Air Transport Action Group (ATAG)[2]. In addition, through these assets, air transport contributes to sustainable development.

AEA carriers alone transport 366 million passengers per year in and out of Europe. Air transport has achieved a reduction in both distance and time barriers, which has improved productivity by encouraging investment and innovation. This in turn guarantees that goods and services are readily available, as well as providing access to global markets for European business. Air transport is a key promoter of tourism across the globe, which is a major engine for economic growth. According to the same ATAG report, over 40% of international tourists now travel by air.

Benefit to the consumers

The European airline industry's key focus is to continue providing customer friendly, safe, efficient, reliable and environmentally friendly services at affordable prices, and thereby remain globally competitive. Airlines are committed to the wellbeing of their passengers, and this is demonstrated not only in the increased efficiency of services, but also in the further and consistent development of all-inclusive customer service offerings. Moreover, as a result of these high customer service standards, AEA has also supported the adoption of legislation on aviation passenger rights and is constantly striving to improve its performance in this area. Therefore, AEA believes that regulators should refrain from overburdening the industry with new regulation on passenger rights.

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[1] Source: German Government – Airport Concept 2009

[2] Source: Air Transport Action Group (ATAG) "The economic and social benefits of air transport 2008"

It must also be emphasised that European aviation's track record with regard to safety is impressive. Nevertheless, airlines are constantly working to further improve safety standards. Therefore, as is the case with passenger rights, superfluous policy and regulation must be avoided as it creates unnecessary costs for the industry.

AEA also strongly supports the further development of a security strategy for European air transport. Such a strategy must be able to adapt to a dynamic security environment and should be based on more cost efficient measures, justified by impact assessments, as well as an expedited process to facilitate mutual recognition of security measures with like-minded countries. These mechanisms – if implemented – will support a seamless, hassle-free and efficient air transport operation throughout Europe and should therefore be pursued vigorously.

AEA acknowledges the importance that the regulators place on standard setting in the industry, and the need for "interoperable, safe and user-friendly equipment." However, it should be emphasised that in order to meet these standards, the aircraft manufacturers will need to be included when preparing policy standards. Otherwise, we run the risk of building aircraft that will not meet the expectations of an integrated transport system, and will ultimately lead to further costs for both the airlines and the consumer.

Infrastructure needs and funding

Far from enjoying tax privileges, air transport pays for its entire infrastructure costs through user charges and taxes paid to national treasuries. By paying for the building, maintenance and use of its infrastructures, air transport – unlike rail infrastructure - is a net contributor to public funds. In addition, and unlike other transport modes, air transport makes efficient use of resources and infrastructure: "3 kms of asphalt, will take you everywhere in the world whereas 3 kms of rail will take you 3 kms". Air transport's occupancy rates exceed by far those of road and rail transportation.

The aviation industry is in need of adequate infrastructure development and international connectivity tailored to suit the needs of the market. This infrastructure must be cost-efficient, which means that infrastructure should be built where there is a real demand for transportation. Expansion should be self-financed by airports. It is unsustainable to artificially create demand through subsidized infrastructure and operational aid. In addition, the industry is and will remain in need of an efficient economic regulation of monopoly or quasi-monopoly suppliers of such infrastructure.

Capacity crunch

Though efforts have been made since the 1980s to allocate existing infrastructure efficiently and to adapt it to rapidly increasing traffic levels, this will prove insufficient, even in the short-term. Congestion cannot only be considered in relation to freight and passenger traffic that starts or ends in urban areas; it also needs to be addressed in the context of long-term airport infrastructure planning.

For example, countries such as China and India are addressing the demands of a burgeoning market by building dozens of new international airports, but they are not creating long-term infrastructure for the next 40-50 years. Hence, they will face the same problem as in Europe in the decades to come.

In the short term, governments in Europe need to address the issue of airport capacity. Unless urgent action is taken, more than 60 airports will become congested by 2025 and the top 20 European airports will be saturated for 8-10 hours per day.[3]

Co-modality

When addressing the future of an integrated transport policy, AEA believes that equal treatment and equal status of modes of transport should be at the heart of such a new transport policy. Different modes should complement each other. With regard to the funding of infrastructure at European airports, the TEN-T programme should be used, provided that the allocation mechanism does not arbitrarily distribute funds amongst the (non-aviation) players in the European transport market, but takes the benefits of air transport into consideration as well.

Moreover, there are certain prerequisites for the development of a sustainable case for co-modality. Firstly, key sources of long-term financing will need to be identified, which will not necessarily place the full burden on the 'user payer sources'. Secondly, an adequate infrastructure will need to be developed comprising train stations at airports, road-rail combinations, air-road combinations and sufficient frequency and flexibility of operations to accommodate the numbers of passengers necessary to feed long-haul traffic and specific freight volumes and dimensions. In addition, promoting and subsidising other modes of transportation where they are obviously ill adapted is detrimental to the sector as a whole.

To achieve a high level of consumer friendliness, such an integrated modality system must also include – inter alia – integration of security and operational systems, coordination of schedules, access to reservation systems under the same conditions and the option of integrated air/rail ticketing. Public transport within cities – e.g. underground, bus, tram, taxi, etc - could ultimately be brought into the equation as well.

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[3] Source: ATAG "The Economic and social benefits of air transport 2008"

Air Traffic Management

The long-awaited deployment of the Single European Sky is critical for the next generation of air traffic management systems, in order to meet demand and avoid gridlock by 2020. Europe and North America must also adopt a harmonised approach within ICAO's Performance-based Framework to avoid unnecessary development costs and to secure early benefits for airlines. These developments also need to be complemented by a cost-efficient infrastructure, combined with a fair and equal business environment and regulatory framework.

However, all these proposed initiatives will be ineffective unless inefficient and out-dated Air Traffic Management (ATM) systems, which are a major cause of congestion both in the air and on the ground, can be addressed. EU governments have agreed that, by 2012, European air traffic should be organised in so-called Functional Blocks of Airspace (FAB), which are determined not by national boundaries but by current and expected traffic flows. They also agreed that performance targets for ATM should be set and monitored at European level. In addition, a public-private partnership programme called SESAR was established to develop a single electronic system to gradually replace the 22 operating systems, 30 programming languages and 31 national systems currently in use.

These fundamental changes will make ATM better, more efficient, and cheaper, whilst maintaining extremely high levels of safety. AEA again emphasises the urgent need for a rapid and efficient implementation of the programme.

In addition to technological progress (the industry devotes up to 14% of its turnover to research), improvements in Air Traffic Management and other operational procedures (avoiding flying circuitous routes and holding patterns over airports), could further reduce fuel burn by between 8 and 18%, bringing enormous benefits to the environment as well.

Air transport's environmental commitment

As sensitivity to the sustainability of aviation and the scarcity of fossil fuels will become even more acute as time passes, aircraft and engine manufacturers will need to find alternative fuels based on non-fossil and/or green sources of energy. Europe may lose a major opportunity if it limits itself to regulating the consumption of fossil fuel instead of investing in biofuels. Emissions from international aviation were not included in the Kyoto Protocol due to the difficulty of allocating them to specific countries. Nevertheless, States were required to pursue the objective of limiting or reducing aircraft emissions through ICAO. As a result, a number of initiatives were undertaken (e.g. commissioning scientific and economic reports, establishing guidelines for the implementation of emissions charges and trading schemes).

One such initiative was the Emissions Containment Policy[4], developed by AEA and the other aviation stakeholders and based on four pillars: technological progress through research, infrastructure improvements, operational measures and economic instruments. This rather conservative approach based on empirical evidence suggests that the application of the policy would, in the coming decade, bring substantial reductions in greenhouse gases emitted by air transport, although the level of that reduction remains difficult to quantify.

According to ATAG, 25 million tonnes of CO_2 have already been saved in 2006-07, as a result of these measures. It must be noted that aircraft entering today's fleet are 70% more fuel-efficient, and consequently 70% more emissions efficient, than 40 years ago, consuming 3.5 litres per passenger per 100 km. The Airbus A380 and the Boeing 787 consume less than 3 litres per passenger per 100km, which compares favourably with small family cars.

As a consequence, although it may look like a quantum leap today, it may be possible for airlines to substantially improve their carbon footprint, to the point where they could be deemed "carbon-free", by 2050[5].

Regardless of the fact that aviation is responsible for only 2% of global CO_2 emissions, AEA airlines remain fully committed to reducing their emissions and are supporting a resolution adopted by the IATA Annual General Assembly in June 2009.[6] However, there needs to be a global, sector-specific and non-discriminatory framework for cost-efficient market-based measures, to ensure that the European airlines are not penalised by being the only carriers subject to stringent measures under a regional scheme.

Technology
AEA believes that technological developments and their implementation will remain a prerequisite to achieve the goal of a healthy and sustainable transport sector in the next decades.

Although technology is not an end per se, it remains a major enabler of growth. A focused and careful implementation of technological improvements, both in the air and

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[4] AEA, "Emissions Containment Policy", March 2008.

[5] According to IATA, fleet fuel efficiency has improved by 3.1% from 2006 to 2007, leading it to predict that, by 2020, aviation could ambition to cap its absolute level of CO2 emissions irrespective of its growth, and by 2050 to claim for a zero emission policy. IATA, "Strategy to Address Climate Change", June 2007.

[6] 8 June 2009: At the IATA Annual General Meeting it was agreed that (1) between 2010 and 2020, total airline CO2 emissions should be reduced by 1.5% per annum, (2) as of 2020, all international airlines commit to carbon neutral growth, and that (3) by 2050, there will be a 50% absolute reduction in carbon emissions, relative to the levels of 2005.

on the ground, could double - or maybe even triple - traffic, especially if championed by the relevant authorities. However, crucial decisions on air transport infrastructure will need to be made soon[7].

AEA welcomes the EC's recognition of the importance of increased investment in Research & Development in the interests of promoting an efficient transport system.

The external dimension
AEA's long-term goal is for the airline industry to be able to operate freely, like any other industry, in a regulatory environment which guarantees fair and equal opportunities for competition. The opening up of markets and regulatory convergence are the two crucial pillars needed to reach this goal. AEA strongly believes that the European Union has the power to achieve this objective within the framework of the mandates granted by the Council.

Mutual liberalisation of ownership and control is a key element of such a policy, as it would allow all airlines to operate under the same rules, while preserving each party's ability to progress at its own pace.

Policy would require that neighbouring countries may be granted additional opportunities through a phased approach, according to their level of convergence, depending on the implementation of the full 'acquis communautaire'.

A country's eligibility for this proposed approach would be conditional on both the absence of unilateral benefits or subsidies, and a full impact assessment to demonstrate its commercial added value for the EU industry.

An EU air services agreement can only be deemed successful when its commercial added value is such that the Community carriers and passengers can benefit from its implementation. It is thus crucial that the industry and Member States are fully involved in the consultation and negotiating process and the preparation of the mandate.

Towards a new global air transport order
The European institutions should play a crucial role by fostering a new Global Air Transport Convention, and by calling for the reinforcement of the role of recognised international platforms, such as ICAO. ICAO is currently being transformed into a global policy making body, which will cater for the differences between regions whilst

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[7] In its "The Future of Transport", the Focus Group's Report indicates that due to the ageing of the population, important amounts of public funding will be divested into non-transport related infrastructure, February 2009, p. 36.

establishing and fostering regional commonalities. The degree to which these commonalities drive market liberalisation will determine the need for further regulatory steps.

Ultimately, this would lead to the creation of more influential trans-national entities, which could better respond to evolving market requirements. Under these new parameters industry consultation would be required, for example to determine whether further consideration should be given to taking advantage of the WTO's General Agreement on Trade in Services (GATS) which provides for the use of Most Favoured Nations (MFN) status.

The role of safety agencies would shift from the identification and definition of safety standards to implementation. They would need to be overseen by a supra-national entity which would define safety standards to be applied and enforced by local agencies, so that trans-national air carriers could not escape their responsibility for safety or decide to transfer their registration to areas where safety obligations are less stringent.

Future

AEA welcomes the Commission's recognition that to reduce emissions, pollution and accidents will require "the optimisation and operation of the (transport) network as a single entity" and that the "optimal functioning of the transport system requires full integration and interoperability of the individual parts of the network, as well as interconnection between different (modal) networks."

Such a policy will require: a) the integration of European air transport and with other modes of transport; b) integration of various ATM systems, leading to a few harmonised ATC centres across the globe using standard practices, c) integration of an intelligent system of security data and physical screening, reducing the need for physical security and leading to an adaptive risk based transport security system, d), integration of communication systems/IT based on exchanges of data that connect the different elements of a journey, from road to rail, and from rail to air or sea[8]. Fragmentation is, and will remain, one of the major impediments to an integrated transport system.

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[8] This is well summarised in the Focus Group's Report, id., p. 35. "Some of the challenges to a growing demand for mobility come from the existence of a network that is not integrated, it is often overloaded and it is sometimes obsolete. The different transport modes have historically developed their networks independently of each other giving rise to co-modality frictions".

Demand for air transport will not decrease, on the contrary, but its nature will progressively evolve in line with future population trends (ageing and more eclectic due to immigration) and the globalisation of business. Key is that the customer will be able to decide his/her preferred combination of transport modes.[9]

Meanwhile, the industry will continue to be shaped by an evolving demand and an adapting supply. Passengers, freight forwarders, etc. will want to be able to use either mobile phones, internet, or multi-media devices to enter their travel requirements (destination, dates, modes of transport, payment method, etc.) The e-system they access will then provide them with all the necessary information and options to travel the desired route, using various modes of transport. This kind of holistic approach will result in a comprehensive door-to-door service.

AEA supports the need to address the entire aviation value chain. Co-operation between all the "system partners", from the airlines themselves down to the airport cleaning staff, is highly important. If all aspects of aviation do not work efficiently together, distortions to competition will remain, to the detriment of the air transport consumer.

Conclusion
In the future, AEA would like to see a seamless, sustainable, integrated transport system that has been established to meet market needs, is efficient, beneficial to the consumer, safe and emphasises the importance of co-operation of all system partners.

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[9] This is recognised by the Focus Group's Report, id., p. 30 §109, although AEA believes this is a far more prominent issue that is co-related with the need for more co-modality.