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It gives me great pleasure to speak to you today about transatlantic relations in air transport and the potential for developing a closer relationship between the European Union and the United States.

Over the past ten years, it has been a cause of great disappointment to the European Commission that we have not been able to establish closer trade relations between Europe and the US in this field. Over the past decade, we have watched Europe and the US work very effectively together in other trade negotiations, in particular in the WTO, to bring more open markets, higher standards and greater competition in many industries.

However, in air transport, we all know that business is still carried out on the basis of bilateral agreements that are full of restrictions. These restrictions, often intended by governments to protect and nurture the airline industry, in fact seem to have hindered its development. The bilateral approach to trade, coupled with a fragmented approach to other issues, like competition and standards, have deprived airlines of the same opportunities that are available to other industries. They have also deprived consumers of potential competition and lower prices.

Fortunately, I believe we are now on the verge of a breakthrough in Europe's approach to air transport relations with the US. This is for three reasons:

- a) The global airline industry, in particular after the events of the eleventh of September last year, urgently needs a new commercial environment. It is finally calling into question the straitjacket of restrictions on international investment and on traffic rights. The low-cost domestic operators are doing all right - but the international network airlines recognise increasingly that they need more flexibility to change than the current bilaterals allow.
- b) The EU has made huge strides in integrating all aspects of its market, and most recently, its standards. Not only does the EU represent a Single Market, it also represents a single set of safety, security and environmental standards. With EU interests so integrated, it makes sense for all its Member States to work together when negotiating with foreign countries.
- c) The European Court of Justice in Luxembourg is about to make a landmark judgement on the conduct of air transport negotiations. The Commission has argued that air transport negotiations should not be treated differently from other trade negotiations. We cannot prejudge the Court's ruling, but we expect that it will lead to a more coordinated European approach.

So, in the coming year, I think it is likely that we will see the start of closer contacts between the EU and US with the prospect of a more open market, more agreement on essential standards and greater competition.

Today, I would like to set out for you some of the factors that will govern this relationship and some of the problems we will need to overcome. I would like to explain why we believe a broad EU-US agreement - what we call the "Transatlantic Common Aviation Area" - would be the best way of combining new commercial opportunities, new potential for international investment and a guarantee of high standards.

Let me first say something about the main differences in approach between the EU and US:

- In evaluating the Transatlantic Aviation Market it is always important to keep in mind that US-EU traffic represents 3.25% of total traffic for US carriers, whereas it is some 6.5% for Community traffic. This difference leads to a totally different perspective on the transatlantic relationship.
- Another major difference is that in the EU we have gained some experience with the development of an integrated aviation market, covering 15 national markets. This experience has convinced us that it will also be possible to build a multilateral transatlantic market. The US has until now always approached international aviation relations from a bilateral perspective, whereby the open skies agreements have served to liberalise, but not to fundamentally change the traditional market ordering.
- Finally, there is of course a major difference in the fact that the US has always been able to operate internationally as a single entity, whereas in the EU there has, so far, not been a common approach towards external relations. The implications are that European carriers have to operate from a fragmented market and that the consolidation of the European aviation industry is much less advanced than in the US.

But having said that there are differences, there are also many points we have in common:

- Both the US and the EC network carriers are in difficulties caused by the strong expansion of low cost carriers; the strong position of labour; and the very cyclical character of the industry. On top of that the terrorist attacks in the United States have had a profound impact on the aviation sector.
- Both sides believe that the aviation industry worldwide should be deregulated and be subjected to normal market forces. However, policy considerations such as safety, security and environmental concerns have in recent years resulted in substantially increased government involvement in the industry. These considerations will continue to play an important role.

- Both sides are facing major problems in the near future as a result of the enormous increase in demand. ATM systems and airport systems will have to be adapted urgently to meet this demand. This will require the development of new technologies and mechanisms to allocate the available capacities.

We believe it will be important to cover all aspects of air transport - not just the market, not just competition, but also issues like safety and security. If airlines are to have greater freedom to trade, they must also be able to satisfy governments and passengers that they continue to operate to the highest standards.

- The EU/US aviation markets are increasingly interrelated and interdependent:
 - Airlines co-operate in alliances, the competition authorities work closely together to assess the competitive impact of these co-operations;
 - Both sides realise that aviation safety can only be improved by international co-operation, hence close collaboration between safety authorities, including FAA/EASA;
 - Following 11 September 2001, the attention has been focussing on security and also here there is very close co-operation between the EU and the US, inter alia by the establishment of a joint security platform.;
 - Environmental problems are being addressed in international bodies such as ICAO. There is increasing recognition in the US that the problems we face in Europe need to be addressed, otherwise they will lead to further capacity reductions at the main European airports.
- This interrelationship needs to be recognised. Both sides have experienced that in cases where measures have been adopted without taking into account the interests of the other side, major problems arise. For Europe the adoption of the so-called hush-kit regulation is such an example. For the US the introduction of security measures following 11 September is also an example. For measures in these areas to be introduced, it is much better to consult each other and ensure a smooth application - where possible by the authorities co-operating in the enforcement - than to take the measures unilaterally and face major opposition. The initiative to meet regularly between the 2 administrations and the industry prepares the ground for a negotiation and should promote a better mutual understanding.
- Obviously EU and US carriers continue to compete, just as EU carriers compete between them and US carriers are in competition. The role of the governments is to ensure that this competition takes place fairly, that there are no abuses of dominant positions, and that there is an adequate network to support the economic development of the various regions.

Our vision is for a framework agreement that can address these multiple concerns and balance new commercial opportunities against a guarantee that standards will not be compromised. We have called this proposed agreement the TCAA or Transatlantic Common Aviation Area.

In the Community it has been recognised already some years ago that this new aviation environment requires a new regulatory approach. In a global economy, where airline alliances span the globe and competition is increasingly between networks, rather than individual airlines operating from individual countries, the role of government has changed. They are no longer the protector of the interests of flag carriers, but their task is to ensure that all airlines respect safety and security standards and that competition remains fair.

- The TCAA concept is based on the idea that the European and the US aviation markets are increasingly integrated and that governments should co-operate closely to exercise these changed tasks effectively and coherently. Community Member States have accepted this approach and have recognised that it implies complete liberalisation of all remaining market access barriers. Therefore, the approach is very liberal and it is a mystery for us **why the US Government reaction so cautious**, since the TCAA embraces many of the principles it stands for. I hope that we will be able to move forward.

Conclusions:

For a number of reasons, as I explained earlier, we feel that the time is very much ripe to start negotiations and work towards a new, more cooperative and more open approach to transatlantic air travel.

- If another crisis situation develops, all airlines, European and American alike will face very difficult times. The pressure on governments to provide protection, or to support the industry financially, will be extremely strong and we risk a return to strict government control over this industry, including state subsidies. The experience gained after the 11 September crisis, whereby also the US government was forced to provide large-scale support to its airlines, should teach us in this respect.
- Some would say that because of the problematic situation of the industry, the time is not ripe to start a negotiation on a global EU-US aviation agreement. I say, on the contrary, the current crisis demonstrates that the airline industry is economically weak and unprofitable and we should give a clear signal that governments support the changes in the industry, but will do everything possible to maintain safety and security of operations.
- It is my strong belief that in a TCAA type of arrangement, where airlines would be able to enter into merger arrangements and where governments are committed to act together, markets and policies would integrate and a much more robust industry would emerge. By building a framework for action, we would avoid the risk of one side taking measures which could damage the other.

I therefore hope that by this time next year, we will have started to see some real progress. As underlined at several occasions by Ms de Palacio, it has long been an unsatisfactory situation that the industry that does so much to enable and facilitate global business has been deprived of and protected from the commercial freedom of other industries. The EU and the US have the

opportunity to change that and to work together not only to open up the transatlantic market, but to lead the whole global industry towards more openness and higher standards. It is high time that we responded to that challenge.