

EUROPEAN SCENARIO: OPEN SKY OR NEW PROTECTIONISM?

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Issues to be discussed:

- New protectionism in the airline industry as a response to the recession?
- GHG effects of the airline industry, how to internalize them?
- Airport charges and the new EU Directive

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The good message

- on-going liberalization initiatives
- Relaxation of foreign ownership rules in India and Australia
 - 49% foreign stake in Qantas
 - 49% in domestic carriers by non-airline investors
- New air service agreement EU-Canada: 4 steps towards an Open Aviation Area
 - Step 1 if foreign ownership limited to 25%: direct services between any point in the EU and any point in the Canada
 - Step 2 if Canada allows European ownership up to 49% of Canadian carriers: (since March 2009), 7th freedom rights for cargo carriers
 - Step 3 if both sides enable investors to set up and control new airlines in each other's markets: 7th freedom rights for passenger airlines
 - Step 4 if full ownership and control by the other's nationals have been granted: open aviation area including cabotage
 - Consecutive steps monitored by a new governance mechanism: EU-Canada Joint Committee

The bad message #1

⦿ EC Protectionism:

- Suspension of the 'use it or lose it' rule slot allocation
 - Competition or optimal use of airport capacity or the environment?
 - EP agreed on suspension for the summer season but high thresholds for suspension during the winter season
- Relaxation of state aid rules
 - Commission's Temporary Framework on state aid to the real economy enabled more state aid to airlines
 - Risk capital investment scheme of Austrian Airlines modified
- Anti-competitive impact of alliances revisited
 - Since 2006 the Commission examines Skyteam on possible remedies to ensure consumer benefits on the transatlantic routes
 - Since April 2009 investigations against Star and Oneworld

The bad message #2:

- ◎ US Protectionism: the proposed FAA Reauthorization Act 2009
 - Nationality clause 'further clarified': actual control = US citizens in all management positions
 - substantial ownership: test case on Virgin America
 - every three years ATI for alliances will be tested on benefits to the public
 - Intensified inspection of foreign FAA certified repair stations on maintenance services (retaliation of EASA?)

The ugly message

- Perspectives for an Open Aviation Area in EU-US stage 2 rapidly disappear
 - The negotiation conditions have rapidly changed at the US side due to the recession and presidential elections
 - Behind the concerns about consumer benefits the real concern is about US jobs: “From the political perspective, the US will not want to see the creation of global carriers unless it feels its airlines are the hunters, not the hunted,....” Ian Giles of Norton Rose.
 - US will therefore maintain the basic principles of bilateralism: nationality clause and cabotage rights remain unchanged

What else in EU-US stage 2 ?

- ⦿ Broader exchange of 7th freedom rights
- ⦿ Harmonization of security measures instead of 'made in America' measures:
 - Screening of arriving international transfer passengers
 - 'liquids and gels' rules for arriving international pax
 - Cargo screening on passenger flights
- ⦿ Harmonization of environmental measures
 - EU night curfews (national competences)
 - EU-ETS versus US-ETS depending on the results of the UN Conference on Climate Change in Copenhagen Dec. '09

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The hotchpotch of GHG reduction initiatives in the airline industry

⦿ EU ETS

- includes **all** aviation in 2012 from, to and in the ECAA (carbon leakage through Zurich, Istanbul, Dubai etc.!)
- ‘Cap-and-trade’ based on CO₂ output of aircraft
- 85% of the cap volume grandfathered, 15% auctioned, auction revenues not earmarked

⦿ New US ETS

- proposed in the Waxman-Markey Clean Energy and Security Act
- Cap-and-trade system based on fuel consumption
- for the airline resulting in a carbon tax on jet fuel
- Allocation of tax revenues not determined yet

The GHG hotchpotch II

- ◉ Aviation Global Deal Group (AF-KLM, BA, Cathay Pacific, Virgin Atlantic, BAA, Finnair, Qatar Airlines and The Climate Group):
 - Aviation to be treated as a separate sector with individual CO₂ targets rather than have emissions fall under national CO₂ allocations: integrated in Kyoto 2 on a global sectoral level to maintain competitiveness between airlines
 - Access of airlines to market-based instruments: carbon trading, CDM credits, elimination of carbon leakage
 - Cap and trade system: to be focused on the actual carbon content of fuel and not just the fuel burn
 - Simply applicable and enforceable at state and carrier level

The GHG hotchpotch III

- ⊙ ATA opposes AGD Group approach:
 - No direct funding back into aviation, no sectoral approach
 - Waiting for ICAO initiative directed at the Copenhagen Conference
- ⊙ ICAO is divided by diverging views of member states on market based measures and awaits the outcome of the Copenhagen Conference.
- ⊙ IATA only proposes technological, operational and infrastructure measures and carbon offset programs for travellers

One comment on GHG reduction

- ⦿ What about 'cap and trade' if the oil price is back at a level of \$ 150 per barrel after the recession?
- ⦿ An overwhelming economic incentive to reduce fuel burn (and as a consequence CO2 emissions as well)

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The need to regulate airport charges

- ◎ Monopoly power of hubs? A mixed picture
 - How captive are the various airport users?
 - Foreign ICA airlines: non-captive
 - Foreign Euro airlines: less captive
 - Home based carriers: captive (traffic rights, sunk costs of the hub operation)

 - Long haul business pax: captive
 - Long haul non-business pax: non-captive
 - Transfer pax: non-captive
 - Short haul business pax: captive
 - Short haul non-business pax: non-captive

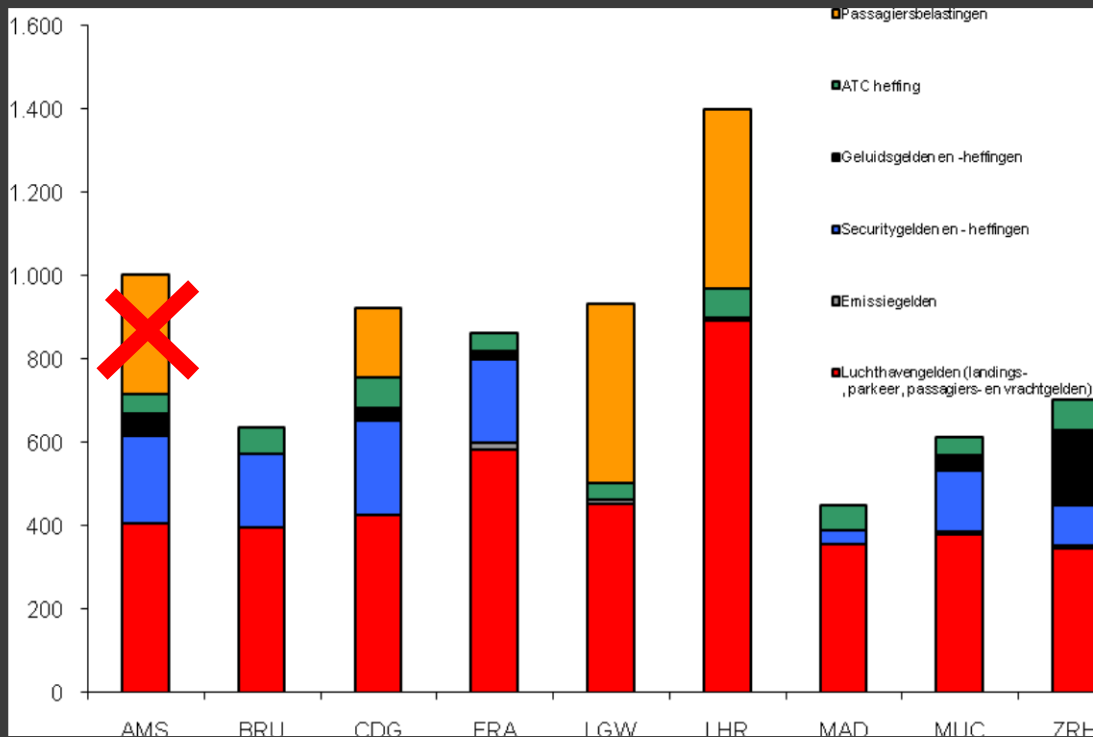
Monopoly power of hubs?

- ⦿ An airport network serving the same conurbation and managed by one operator: substantial market power, cf BAA in the London area
- ⦿ Lessons learned from the Dutch ticket Tax: cross border airports were chosen by 6% of Dutch passengers
- ⦿ Neighbouring hubs in an alliance network
 - Less captivity of the hub carrier
 - credible threat of an option out: Skyteam at AMS and CDG
 - Does the (non-captive) transfer at Rome increase or decrease as a consequence of the new role of Alitalia in Skyteam?

Other airports > 5 million pax (dir. 2009/12)

- ◉ Monopoly power depends on the traffic mix
 - Larger operational bases of footloose LCCs with minimum sunk costs
 - Frankfurt Hahn has been divested by Fraport since it did not create any value
 - It can be the opposite of monopoly: monopsony

The need to reduce airport charges at AMS as a part of a multi hub system



- Uniform basket of traffic applied to all hubs
- Ticket tax made AMS the second most expensive airport
- Ticket tax abolished and airport costs cut by the airport operator

Some lessons from the regulation of Amsterdam airport

- ◉ AMS: RoR regulation based on the dual till principle has been strongly focused on shareholders value through overemphasizing commercial activities in anticipation of an expected privatization
- ◉ Differentiation of services (art 10, dir. 2009/12) can be a dangerous trigger for far reaching price differentiation at a hub: LCC facilities at AMS versus a very costly transfer baggage handling system
- ◉ Appeal options for the airport users to a supervisory authority, i.e. the national competition authority in The Netherlands, will condition the pricing behaviour of the airport operator

Thank you for your attention!

By the way, did you use the carbon offset program for your last flight?

