

Bulletin

OF THE EUROPEAN
COMMUNITIES



Supplement 5/79

Air transport: a Community approach

Memorandum of the Commission

Commission
of the European Communities

Supplements 1979

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Supplement 5/79

Contribution of the European Communities
to the development
of air transport services — Memorandum of the
Commission

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Synopsis

1. This memorandum contains a discussion on long, medium and short-term objectives for policy with regard to Community air transport services and points to a number of measures which the Commission finds could be usefully initiated in the short and medium term to improve the market structure within the framework of these objectives. Annex II contains an analysis of the present market structure of air transport in the Community. The memorandum is designed to provoke dialogue among the Community institutions, structured around a number of radical suggestions to improve the scope for innovation in Community air services, illuminated by knowledgeable responses to them from those concerned, and thus opening the way for specific actions. In the light of this dialogue the Commission will submit proposals at appropriate stages.
2. The structure of air transport is dominated by a very large government influence, through the extensive system of bilateral agreements, on the network, the tariffs and on capacity. Direct competition on tariffs is limited for scheduled air transport but price competition does exist to a large extent from other forms of air transport and from other modes of transport.
3. The general objectives to be pursued to improve the market structure of air transport in the Community fall within the context of Article 2 of the Treaty of Rome. The activities mentioned in Article 3 of the Treaty, and among them a system of competition and a transportation policy, are not ends in themselves, but look to a purpose, i.e. to work towards the achievement of the goals of Article 2. For air transport the general objectives of Article 2 should, apart from this overriding aim, result in a harmonious development of this economic activity.
4. In view of the present structural situation of the sector and especially of the high degree of interrelationship between Community air transport and the world system (Chicago Convention, etc.), the caution of governments and industries over initiating new measures without prior reflection on the necessity and the advantages of the operation is understandable. Such action is therefore feasible only if it is possible to show the advantages which could follow from such a process in the framework of coherent Community action in the field of air transport.
5. Four operational objectives are deduced:
 - (i) a total network unhampered by national barriers with efficient services beneficial to the different user groups at prices as low as possible without discrimination;
 - (ii) financial soundness for the airlines, a diminution of their costs of operation and an increase in their productivity;
 - (iii) safeguarding the interests of airline workers in the general context of social progress including elimination of obstacles to free access to employment;
 - (iv) improvements in conditions of life for the general public and respect for the wider interests of our economies and societies.
6. The Community should follow an evolutionary method in tackling these issues and avoid abrupt changes which would not leave sufficient time for adjustment.
7. Constituents of a Community system are shown which could give incentives towards flexibility and productivity and could be developed gradually and thereby avoid unwanted repercussions. These elements would work against abuses of dominant positions and in favour

of increased productivity and thereby lower prices. It is also essential to take account of the importance of the European market in world traffic (and to outside as well as Community and other European airlines) and the wider repercussions upon European airlines' treatment and their competitive abilities on intercontinental routes from changes in Europe.

8. Several measures for short and medium-term action in order to pursue the four objectives mentioned above have been described in Part 2.

Increased flexibility in market structure and procedures to benefit users and airlines

The following measures are suggested to increase the possibilities of market entry and innovation in tariffs and services:

- (i) Wider application of cheap tariffs in the Community.
- (ii) Improved possibilities for developing new scheduled services.
- (iii) Extended scope for non-scheduled services.

A number of measures are proposed to assist in the implementation of the above mentioned measures:

- (i) Regulation applying the rules of competition in air transport.
- (ii) Criteria for state subsidies.
- (iii) Right of establishment.
- (iv) Stabilizing exchange rates for tariff construction.
- (v) Compensation for passengers adversely affected by overbooking.

Measures directly to reduce operational costs of airlines

- (i) Simplification of formalities (facilitation)
- (ii) Harmonization of technical standards for aircraft.

Action affecting staff

- (i) Working conditions of air crews and ground staff.
- (ii) Mutual recognition of qualifications of air crews and ground staff.

Action affecting safety

The possibilities of growth in air transport are limited by capacity and safety problems of air traffic control. The Commission intends to examine these problems.

External relations

Actions taken on the internal market may be dependent on or influence international developments. In order to deal with such concerns the Commission suggests:

- (i) A consultation procedure.
- (ii) Improved relations with ICAO¹ and ECAC.²

¹ ICAO: International Civil Aviation Organization (See Annex II, point 8).

² ECAC: European Civil Aviation Conference (See Annex II, point 9).

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Introduction

1. As the Council of Ministers has recognized by its moves during the last two years, the time is ripe for the Community to move forward with a series of initiatives making practical contributions to meeting its needs for further development of air transport services to suit modern conditions. In so doing, it can respond to and take advantage of recent modifications of structure and organization in world-wide civil aviation.
2. The general public in the Community and the European Parliament¹ have shown growing awareness of the importance of developments in this field. New initiatives by operators, the US Government's deregulation policy and renegotiation of bilateral arrangements between the USA and Member States of the Community (and others) have brought substantial changes on the American domestic market and on the North Atlantic, including an increased number of operators, a higher degree of competition and a wider spread of tariffs, embracing lower fares often under special conditions of sale. The question is raised whether, or in what form, similar changes should be introduced in the European sectors as well. Other factors — sometimes in conflict — notably restructuring of the International Air Transport Association,² reduced and more expensive fuel supplies, seasonal crowding of airports, the bearing on air services of air traffic control capacity and safety and costly facilities have necessarily to be taken into account by all those institutions concerned with air services.
3. Accordingly, the Commission seeks, in the present memorandum, to make a solid contribution by describing a number of practical pieces of action that could be taken relatively quickly at Community level to benefit users and the sector and to meet the requirements of the Treaty of Rome. They are designed to serve short- and medium-term objectives consistently with a coherent conceptual framework for continuing future action in air services development for the Community. The series of actions outlined — some alternative, others complementary — offers a range of reforms which would be carried into effect without undue difficulty in terms of mechanism, but yet be capable of producing radical innovatory effects in the provision and nature of these air services, their marketing and choices, including prices, offered to the public. A specific proposal has also been submitted for a Council decision to set up a consultation procedure between Member States and the Commission on relations with third countries and international organizations.
4. This is not the first Commission initiative to the Council in the air transport sector. Previous proposals have been made, notably a 'Draft Council decision on first steps towards joint action' of June 1972³ and a 'Report and proposed decision on a programme of action for the European aeronautical sector' dated 1 October 1975,⁴ which concerned essentially the aeronautical industry, but also outlined general objectives⁵ of Community action in the air transport sector. These Commission initiatives were approved by the European Parliament and the Economic and Social Committee. The Council, in June 1977, asked the Committee of Permanent Representatives to establish a working party, specially constituted to study air transport questions, in order to identify those areas of government activity, which, with advan-

¹ Report on the promotion of efficient air traffic control, by Mr Noë. Report on the transport policy by Mr Seefeld. Report on competition in air transport by Mr Corrie and Mr Haase in connection with a proposed resolution by Mr Kofoed.

² Annex II, point 11.

³ OJ C 110 of 18.10.1972.

⁴ Supplement 11/75 — Bull. EC and OJ C 265 of 19.11.1975.

⁵ The creation of a European airspace and the conclusion of agreements between the Community and third countries.

tage, could be examined at Community level at the first possible date. In June 1978, the Council approved a list of nine priority matters which includes points in the technical, economic and social fields.¹ It also stressed the need to establish working relations with two international organizations, ICAO and ECAC, and to monitor carefully the situation on the North Atlantic.

5. That first priority list offers a good basis for a number of practical Community initiatives; the Commission will continue to press forward its realization through suggestions and suitable proposals. It constituted, essentially, a series of headings, and naturally, much needs to be done to turn them into a programme. The present contribution, directed to the key aspects involved in Community air service, sets out more fully and specifically actions upon which the course for policy decisions is to be set. The preparation of these proposals and the implementation of agreed measures will require that the competent services of the Commission be adequately staffed and also dispose of the necessary resources, in particular with respect to studies. Failing this, the work cannot be done. The Commission looks to the Council to respond favourably to any appropriate proposals which it might find it necessary to make in this regard.

6. The objectives and measures suggested in the following chapters are based on the Commission's analyses of the present situation of Community international and domestic air transport as well as its characteristics.² These latter include national sovereignty based on the Chicago Convention, bilateral agreements between States covering routes, tariffs and capacity, limited competition on tariffs for scheduled air transport although larger tariff competition exists from non-scheduled air carriers and other modes of transport, etc.

7. The Treaty confers very wide possibilities for new action. The choice of legal bases is to be made from three different types of provisions. These are firstly the provisions in the chapter on transport, secondly the Articles in the Treaty conferring a general power of action (Articles 100 and 235) and thirdly the articles in specific chapters of the Treaty, such as those relating to the right of establishment and competition. These provisions open the possibility for specific measures to deal with specific problems in air transport as well as for the establishment of general procedures (mainly through Article 84 (2)). But, before deciding finally that a particular measure may be based on a particular article in the Treaty, it is necessary to know the precise objectives and content of the measure in question.

8. In this memorandum, the Commission has deliberately set out to stimulate dialogue in the Community and among its institutions by proposing ideas for possible action. On some matters it has sketched alternative possibilities: some more radical and others more tempered in detail. These are alternatives. There is no reason to be frightened of examining them. Equally, comments and ideas, which this communication may spark off from other parties concerned, are to be welcomed for consideration too. The Commission's resources and expertise in this field are sharply limited, but it would be a disservice to the Community and the sector to hang back from launching notions from a fear they will meet criticisms of amateurism. Where there are technical, administrative and business snags, demonstrable from the day to day experience of those directly engaged in these affairs, governmentally, in airlines and among agents and users, it will be quite right to rely on their being voiced and gone into, with the rest, in the fresh-minded reappraisal the Commission is out to provoke.

¹ Annex I.

² Annex II.

9. The Commission is convinced that this contribution will lead towards major and realistic contributions by the Community to better air transport service in Europe, aimed to benefit consumers substantially, while keeping firmly to the need for airline viability, and without disrupting the world-wide system.

Part 1

Objectives and field of action

Objectives

The Treaty of Rome and the general objectives

10. The general objectives to be pursued in the long run for air transport at Community level fall within the context of Article 2 of the Treaty of Rome. This article sets out the general objectives of the European Economic Community as — *inter alia* — the promotion of a harmonious development of economic activities, an accelerated raising of the standard of living and closer relations between the Member States. Article 3 provides for a number of activities to be undertaken as means and not as ends in themselves to attain these general goals. Among these activities are a common transport policy and a system to ensure that competition is not distorted. This principle of pursuing the objectives of the Treaty by a common transport policy is clearly valid for inland transportation. It is, however, evident that the same general objectives would apply also to any future legislation for civil aviation and the discretionary powers given by Article 84 to the Council are subject to the aims of the Treaty.

11. Therefore the general objectives of Article 2 should be applied for air transport as an economic sector in itself and result in a harmonious development of this activity in the whole of the Community. However, since air transport, like other modes of transport, falls within Article 3 it is clear that development of an air transport policy should take into account also the other aims announced in the interest of the Community in general. On the one hand, therefore, the aim is to secure that air transport like other economic sectors can take advantage of benefits related to European economic integration and the establishment of the common market. On the other hand, Community action should promote a system of Community-wide air transport services sufficient to assist in economic and social progress by eliminating barriers in the economic union at the lowest cost for society. It is also necessary more specifically to ensure that policy in this sector is coordinated with and contributes to the objectives of other Community policies

such as industrial policy (efficient aircraft and productivity), regional policy (regional accessibility), energy policy (rational use of energy resources) and environment (reduction of nuisances) taking into account the rules of competition and that those policies on the other hand are carried out with a view to the needs of air transport.

12. Thus air transport is placed in a conceptual framework similar to that for the common transport policy described in October 1973, in Chapter 2 of the Communication of the Commission to the Council, concerning the development of a common transport policy.¹ At the time the Commission sketched out a Community transport system aimed at realizing the objectives of the Treaty incorporating all transport modes, including air transport. The approach took account of competition, especially in passenger transport, between rail, road and air transport systems. The inherent characteristics of air transport, which to a large degree differ from those of other modes of transport, should however give rise to specific measures for this sector.

Operational objectives in the short and medium term

13. The general aims mentioned above need to be specified and expressed in operational terms before serious consideration of Community initiatives in the short and medium term can be undertaken.

14. In view of the specific characteristics of the sector, i.e. the high degree of interrelationship between European air transport and the world system (Chicago Convention, etc.), the important safety aspects and the complex market structure as described in Annex II, it is necessary to reflect in depth on the necessity and the advantages of new measures before their adoption. Action is desirable only if it is possible to show the benefits which could follow from Community action. The interested parties to whom these benefits should be demonstrated are the users, the air carriers and their workers, governments and other public authorities and the general public, who suffer nuisances caused by aircraft and perhaps contribute as taxpayers to the financing of public enterprises.

¹ Supplement 16/73 — Bull. EC.

15. The following partial objectives might be deduced from the interests of the users, the airlines, the workers and the general public taking account of the aims of the Community:

Users: a total network unhampered by national barriers with efficient services beneficial to the different user groups at prices as low as possible without discrimination;

Airlines: financial soundness for the airlines, a diminution of their costs of operation and an increase in their productivity;

Staff: safeguarding the interests of airline workers in the general context of social progress including elimination of obstacles to free access to employment;

General public: improvements in conditions of life for the general public and respect for the wider interests of our economies and societies.

16. *Network in the consumer interest:* The existing air transport system in Annex II) meets important needs of passengers through:

- (i) interchangeability of most tickets between scheduled airlines;
- (ii) a fairly consistent scheduled tariff structure within Europe;
- (iii) an extensive system of low tariffs¹ on some routes through IT, EX, IPEX and charter operations;
- (iv) the possibility for the greater part to obtain a reservation on a scheduled flight at short notice;
- (v) the cohesion of the scheduled network, i.e. it is possible in most cases to piece together a combined trip without excessive delay at the main transfer points due to coordination of timetables and fairly high frequencies.

17. It is true that these qualities relate in particular to needs of business and government travellers, which constitute the largest group of scheduled passengers in the Community. For these, speed and associated attributes, i.e. availability, flexibility and frequency are particularly important, with cost being less important since the transport activity is related to potential loss of production and working time. These needs are met mainly by scheduled air transport and taxiflights.

18. Some of the deficiencies are:

(i) A tendency towards high tariffs for scheduled air transport not only because of the tariff setting system but also because business and government account for the largest single demand associated with costly requirements as to flexibility and service level.

(ii) Limited flexibility for holiday and in particular VFR² traffic. Low tariffs — scheduled and charter air transport — do not exist on all routes and are furthermore associated with restrictive conditions which limit their use.

(iii) Limited possibilities for innovation, in particular with respect to tariffs and types of service.

(iv) A strict adherence to a bilateral system which works against the creation of some desirable cross-border services and which supports concentration of traffic between and to and from the main airports.

(v) A certain preservation of national barriers due to the bilateral agreements and the international organization of air transport between Member States.

19. These shortcomings of the system are felt in particular by leisure traffic for holidays, visits, etc. This market is concerned more with cost of travel than with immediate availability.

20. The shortcomings and in particular those relating to the preservation of national barriers are also felt for freight transport, where advantages of air transport relate, for example, to transportation of valuable goods in order to cut down on the costs linked with floating stock, essential spare parts to get production restarted, perishable products, air mail, etc.

21. From a Community point of view business, freight and mail transportation needs are vital, since they directly influence production in the Community, the market structure and in particular the integration of its economy. The present qualities of the system in meeting their needs should not be destroyed when efforts to improve the deficiencies are undertaken.

¹ Annex II-8.

² VFR = Visiting friends and relatives.

22. On the other hand the possibility of quick and cheap air transport is of growing importance for the level of perceived standards of living for a very large number of inhabitants in the Community. Particular importance may be given to the important role of air transport for the economies of peripheral regions and to the fact that tourism in some development regions is dependent on customers arriving by air. It should also be mentioned that the free movement of workers is gradually giving rise to an important group of VFR passengers.

Financial soundness of the airlines and reduction of operating costs

23. The measures which should be taken to repair deficiencies mentioned in point 18 should not harm the financial soundness of airlines. Both the general public and the airlines have an interest in avoiding the creation of losses which would be passed on to taxpayers. As a general rule the airlines should therefore offer services in such a way that their financial soundness is guaranteed on the basis of commercial management.

24. The present system, where it is difficult for the scheduled carriers to compete on tariffs, as seen in Annex II, has led to a situation where the efficient airlines are competing in other ways, e.g. on service. Such a situation tends to increase the cost level and to create some services in which important customer groups may not be markedly interested.

25. The Community could in this context have an interest in assuring an inherent pressure in the system towards higher productivity and thereby lower prices, e.g. through the introduction of a certain number of competitive elements and openings for innovation.

26. The Community's airlines exist in a worldwide context also and must at least be able to match the tariffs offered by third-country airlines. The airlines can meet this situation in three ways: by getting state aids, by charging higher tariffs on other routes (cross-subsidization) or by increasing their productivity. The first two possibilities are not attractive. Financial intervention by the State should normally be limited to compensation in respect of public service obligations. (It can hardly be an objective for the airlines to slide downhill towards loss of

management discipline through general deficits like some railways.) This principle is stated in the Treaty of Rome for inland transportation and its implementation should be pursued also for air transport. Furthermore, tariff increases within the Community arising from external difficulties would be regrettable and non-productive. It therefore becomes even more important to increase the productivity of Community airlines.

27. The way towards higher productivity is complex. In a normal industrial sector competition on price or quality exerts a pressure on commercially-managed enterprises towards productivity. This principle should also be true generally for air transport. It is at any rate difficult to prescribe productivity through regulation. The beneficial effect on productivity of price competition is highly visible in the charter sector.

28. On the other hand it is claimed that economies of scale are important in civil aviation and that this justifies concentration of scheduled air transport on few but large companies. This is not necessarily true — at any rate always — and there is much evidence to show that small operations can have cost advantages which offset the cost savings realized by large-scale operations.

29. More important in this respect is the possibility of economy of operation that a rational network gives rise to. The aircraft with associated servicing facilities represent a very large fixed cost element. It is therefore important that the aircraft are being used as much as possible, not just standing around waiting (although environmental reasons may ground them during certain night hours). In the USA airlines have been able to develop networks based on operational efficiency and they have thereby obtained very high utilization rates of aircraft. In the Community none of the Member States have a geographical area which in itself would ensure such a network and it would be necessary to establish secondary centres in other States and be able to operate between them to a certain extent, i.e. with fifth freedom rights.¹ The bilateral agreements which govern operations between countries show however tendencies towards a system with third and fourth freedom rights with fifth freedom rights becoming rarer.

¹ Annex II-1.

30. One may ask whether open competition would not produce the same result. This may well be, but it is very likely that the present system of concessions will be difficult to change. There are at least three reasons. Airlines earn important amounts of foreign currency both directly and indirectly by allowing passengers to pay in their own currency. All the States are involved financially and would not allow the companies to make losses. The last reason is related to the international nature of air transport. Fluctuations in exchange rates between the two countries involved would in an open competition have full effect on business. Member States are not prepared to accept this.

31. Competition in one form or another may, however, be useful and possible. The purpose of competition through market entry and innovation in tariffs, marketing and type and network of services would be to introduce a commercial deterrent with respect to abuse of dominant positions and to incorporate a pressure towards productivity.

32. The introduction of a greater degree of freedom within the Community concerning both access to the market, tariff setting and new services should be accompanied by:

- (i) strengthened control of state aids and a greater transparency of the financial relations between the States and their airlines to check damaging distortions;
- (ii) a full emphasis on air safety aspects in accordance with applicable international norms.

Work people

33. The provisions of the EEC Treaty on the free movement of workers are applicable in the air transport sector. For certain categories of staff, however, differences between Member States' legislation on the issue and mutual recognition of licences, certificates and other evidence of national qualification prevent the realization of free movement. This applies particularly to pilots. The dismantling of national restrictions and greater interchangeability of staff, though complex to attack, could improve flexibility and efficiency of operation.

34. A more long term objective of harmonizing the working conditions, bearing on conditions of competition between the airlines, would need

further examination. There is pressure from airline workers, trade unions and professional bodies, to equalize these conditions as between airlines of different countries, taking account of safety aspects and social progress. An inventory is at present being prepared. It is the case that Community conditions could not be dealt with leaving out of account the fact that airline activity is worldwide and competition from, e.g. Asian airlines with lower labour costs, cannot be neglected.

35. Although a further development of Community air transport no doubt will entail important employment gains in the aeronautical sector and ancillary industries, other employment effects must also be borne in mind. Lower prices and higher productivity may spell redundancies in the air transport sector unless the traffic increase (scheduled plus non-scheduled) offsets these negative effects. The traffic increase will no doubt to a certain extent be taken from other transport modes which therefore may suffer reduction in employment or financial losses. Pressures for caution when increasing productivity can be expected.

Improvements in conditions of life

36. It is in the interest of the general public that the Community in its pursuit of an air transport policy takes account also of broad objectives such as the protection of the environment, regional development, rational use of natural resources, in particular energy, and the protection of human life, i.e. the prevention of accidents. Community initiatives in air transport must strive for a reasonable balance between general public interests and those of the users and the companies. These interests may from time to time be contradictory. The effort to reduce aircraft noise emission is an example. Nevertheless a proposal to this effect is before the Council.¹

Field of action

New input at Community level

37. The new IATA structure² does give a scheduled air carrier the possibility to file a set of tariffs

¹ OJ C 126 of 9/6/1976.

² Annex II, point 14.

which would constitute a break with the present structure. Each of these tariffs must however be approved by at least two governments and it therefore seems improbable that substantial changes will be introduced based on a unilateral initiative. The Community presents the legal possibilities for assuring the implementation equally by all Member States of a multilateral agreement to open the road towards innovation. The Community may approve directives for intra-Community service based on own initiative or international recommendation.

38. The tendencies towards predominance of third and fourth freedom rights and the gradual reduction of fifth freedom rights would be contrary to Community philosophy since the existence of the Community should permit the most economic operation of its enterprises in providing services. The Community could guarantee the necessary trust and legal basis, allowing the scheduled airlines to restructure their network with everybody gaining in operational efficiency.

39. The Community could also play an important role in the reduction of operating costs of airlines, because it has the institutional possibilities to reduce and eliminate the barriers which delay airport handling and add extra staff requirements for the airlines. Such barriers stem from non-compatible national provisions. This is the justification for measures concerning the simplification of formalities for passenger and freight transportation as well as the harmonization of technical standards for aircraft.

40. The Community disposes of financial instruments, which may ease the very serious financial problem with respect to replacement of the present fleet. During the 1980s it will be necessary for the air carriers to replace most of their existing fleet, i.e. to obtain operational improvement, lower energy consumption, to conform to noise standards and also to expand their fleets. The self-financing capability of the scheduled airlines may not at present be sufficient to manage these important investments.

41. The existence of the Community financial instruments constituted by the NCI,¹ the EIB² and the Regional Fund could be helpful in this respect. Indeed the EIB and the Regional Fund have already

extended some grants and loans for infrastructure investments and for the purchase of aircraft. Not only would they be able to ease the future financial burden both for the airlines and the aeronautical industry, their use would also promote solidarity at Community level and perhaps even in a larger international setting through their extension to ACP³ countries.

The European and international context

42. Community air transport is basically an international activity governed by rules originating in the Chicago Convention and based on national sovereignty. The creation of an air transport system in the Community with domestic characteristics would therefore entail a certain number of changes in the relations with third countries and international organizations such as ICAO and ECAC. It is therefore indispensable to ensure a continuous concertation at Community level on international issues, which influence or are influenced by actions in air transport in the Community.

43. The introduction of certain other elements of Community concern in the relations of Member States with third countries and international world-wide organizations for air transport might also be contemplated. Careful thought should be given to the question as to which interests could usefully be introduced in negotiations with third countries. Three examples can be given in this connection. Although it may be correct to say that some advantages obtained by Member States in individual bilateral negotiations, e.g. with the USA, could be prejudiced by the introduction of the Community dimension, and even if the interests of Member States and European airlines may sometimes diverge, a general argument in favour of concertation of negotiating positions remains. The second concerns the possible effects of tariff reductions in operations to and from third countries on the level of tariffs inside the Community. The third is the possibility of some mutual strengthening of the position of Community countries in dealing with restrictive policies, e.g. through Middle East or

¹ NCI = New Community instrument.

² EIB = European Investment Bank.

³ ACP = African, Caribbean and Pacific countries.

South-East Asia gateways or towards transit or in third world countries.

44. The accession of Greece and later of Spain and Portugal gives rise to immediate needs of contact, consultation and coordination. The existing cooperation between the three Scandinavian countries must be considered as well as the close inter-relationship between Community Member States, Austria and Switzerland. The Commission intends to consult with those countries on air transport as appropriate. Regard has also to be had for the benefits Community airlines and their users may draw from cooperation and pooling arrangements with airlines from non-Member States.

Implications for the aerospace industry

45. The activity of the Community scheduled air carriers corresponds to about 40% of the USA carriers and 15% of the world. The share of the European aerospace industry is less than 10% of the world market. It is evident that the aerospace industry has scope for development.

46. The aeronautical sector is important both with respect to national security and communication. It is therefore important that the Community disposes of a well-developed industry. The aeronautical industry represents a high technology and high value-added industry which it is in the Community's interest to support, i.e. with a view to the contributions the industry can give for the export market. A thriving, profitable Community air transport system would naturally and without impairment to users' choice be an advantage for the Community aeronautical industry.

47. The introduction of possibilities for innovation and competition in the air transport industry will entail both possibilities and risks for the European aerospace industry. An increased activity of air transport should give rise to additional demand for aircraft which the European aircraft industry should be able to take advantage of. The risk being on the other hand that this growth in demand at least in the short term will be offset by higher load factors, better use of the existing fleet, etc. In a situation where costs of operation are important, it is thus in the interests of both the air carriers and the aerospace industry that the aircraft produced in the

Community are as efficient and competitive as possible. The present effort of the European aircraft industry, i.e. the Airbus programme is concentrated on medium-haul large-capacity aircraft. This programme must be expanded in order to obtain a higher market share since much of the developments in air transport will take place in long-haul traffic and also medium and short-haul traffic with medium and small-capacity aircraft. The environmental requirements, in particular with respect to noise emissions and the necessity of meeting the demands dictated by the new energy situation both with respect to availability and price of fuel, pose in this situation both possibilities for technically advanced aircraft but also difficulties in designing cost-effective aircraft.

48. The Commission finds the emergence of the Airbus programme and thereby the creation of an aircraft industry as a very important development. It intends to support the continuity of this structure and the diversification of programmes through its own actions and stimulation of concertation between Member States. In this context the Commission seeks to encourage and support research critical for the development of new aircraft. At the same time the Commission will stimulate contacts between the airlines and the manufacturers to allow the industry to benefit from the operating experience of the airlines and their expectations with regard to future requirements. The financial instruments of the Community mentioned in points 40 and 41 can also be used to support this policy.

49. The Community is equally interested in the development of other sectors of the aerospace industry. This is, in the present context, particularly true for industry manufacturing air traffic control equipment.¹

¹ Point 88.

Part 2

Measures

50. The following actions are conceived in order to deal with deficiencies in the present system by improving potential scope for adaptation and response to new situations and needs to attain the objectives described in Part 1. Each measure will in itself and as part of a wider evolution influence the interests of users, airlines, workers and society in general. Thus the classification which has been followed in the presentation is only indicative of the main aims pursued. The list is not exhaustive and could be developed further following the proposed discussion. The energy situation should be monitored carefully. Additional measures may be needed when it becomes clear how the medium-term situation is going to affect air transport.

Increased flexibility in market structure and procedures to benefit users and airlines

51. As shown in Part 1, the short and medium-term action of the Community should be concentrated on measures which bring increased flexibility and innovation to air transport between the Member States of the Community. The suggestions the Commission is putting forward in this respect represent an evolutionary approach, which, producing first results in the short and medium term, opens perspectives for the realization of more long-term objectives.

Potential market entry and innovation

52. Increased possibilities of market entry and innovation could be introduced whilst basically maintaining the network of reliable services by designated scheduled airlines. Full freedom of access to the market could, however, only be envisaged at long term. The short and medium-term action of the Community should therefore be concentrated on specific actions set out in points 56-64, which should be coherent with the wider conceptual framework described in points 53-55.

53. If an airline requested traffic rights in order to carry out a new route between Member States, a

new type of scheduled service, or an existing service at a considerably lower price, accompanied by new marketing measures, then it should not be prevented from being authorized — unless the airline(s) already designated decided to offer a similar service or tariff. These carrier(s) could naturally choose to refrain from matching the proposed offer in situations where they judged the new activity unprofitable.

54. If such a policy were introduced directly, it might have disruptive effects. The inclusion of certain criteria might therefore prove desirable to minimize these potential effects possibly along the following lines:

- (i) the new carrier might be asked to show that its proposed new activity would be profitable in order to avoid predatory market entry; licensing authorities could keep watch on the ability of the carrier to expand its activity in view of its resources;
- (ii) a tariff reduction justifying market entry should be of a certain minimum size, to be defined, in order to preserve a certain stability;
- (iii) the number of new traffic rights that a carrier could obtain each year under these rules could be limited to avoid sudden disruption;
- (iv) in order to give a carrier, already designated or not, the time to build up a new route, it should be possible to give protected traffic rights for a limited number of years.

55. There are many ways of phasing in such a potential for market entry and innovation, taking account also of aspects connected with State aids, safety and fair competition for the non-scheduled carriers. In order to introduce this process of augmentation of the possibilities of market entry and innovation, the Commission suggests Community action in the following fields:

Wider application of cheap tariffs in Europe

56. Intra-European tariffs are often criticized by public opinion and the European Parliament. Comparison with tariffs in force on the North Atlantic or within the USA, on which such criticism is frequently founded, does not always take into account the difference in costs between North Atlantic and domestic US operations and intra-European oper-

airons (intra-European costs being much higher-). Comparison is also often made directly between the normal economy class tariffs for intra-European services and the lower tariffs on the North Atlantic, which is misleading. It should also be remembered that there are tariffs in Europe lower than those in the USA, though burdened with restrictive conditions of sale.

57. The Commission anyhow considers that there is scope for improvement and that it is time for a rethinking of the tariff structure. The present scheduled structure has as its basis economy tariffs, which include payment for services which are useful to probably the majority of business and government travel. The economy tariff is therefore of necessity fairly expensive and ad hoc modifications of the system have been introduced from time to time to make reforms and to allow scheduled air carriers to meet competition in particular from non-scheduled air carriers. This led on certain routes to a profusion of tariffs which are not only somewhat non-transparent to most users but which may also be irrational, whilst on many other routes tariff options are limited. Changes in the tariff structure for scheduled air transport may, it is claimed, produce tariffs more suitable for the leisure market and for point-to-point traffic.

58. Given the situation as it is, the aim should be to offer users a broader range of tariffs without jeopardizing the economic situation of the airlines. An initial step could be that Member States ask the airlines to introduce travel arrangements permitting a reduction of tariffs on the most important traffic links, preferably in a multilateral framework. In scheduled intra-Community passenger services, these arrangements could provide for:

- (i) the introduction of a third class,
- (ii) the introduction of special tariffs for a certain percentage of the capacity offered on condition that the fare is paid in advance and is not refunded or is only partly refunded if the passenger decides to postpone his flight,
- (iii) the introduction of a basic, no-frills point-to-point ticket for which additional services could be purchased such as reservation, interchangeability, etc.,
- (iv) the offer of a specified percentage of weekly capacity available on the routes in question at a

tariff not exceeding 50 or 60% of the economy class tariff with suitable conditions of sale,

(v) the introduction of a European roundtrip ticket,

(vi) general implementation of standby tariffs.

59. The governments, the airlines, their regional and world associations and user associations could make appropriate proposals.

60. In Community arrangements it should be envisaged that should airlines show reticence to introduce these reduced tariffs, the governments responsible should allow the establishment of a limited number of services with such tariffs by other operators on the routes in question. Should the implementation of such arrangements give rise to conflicts, such problems could be submitted to, e.g. an ad hoc committee at Community level.

Scheduled services

61. The Commission is examining what steps it would be both possible and useful to take to develop new cross-border services connecting a larger number of regional centres in the Community countries. The possibility of liberalizing those services operated with aircraft not exceeding a fixed capacity could be examined on the basis of the findings of studies currently in hand.

62. Another, more radical, means that might be considered of opening the way for innovation in scheduled air service between Community countries might be arrangements to make operations under bilateral agreements more flexible in the following way: that if an airline of a Community country were prepared in its own commercial judgment and with the consent of the licensing authorities of the country of its own base of operation to introduce new links with points in another Community country or countries not at present served directly or by through same-flight services, or to offer services of a new type (accompanied by fare and marketing innovation), the receiving Community country(ies) should, after a certain period for consultation, no longer be enabled to reject (except

¹ Annex II-8.

on demonstrable and non-discriminatory operational, noise and pollution control and airport congestion grounds) those services, which would then be deemed to be permissible in accordance with the relevant bilateral agreements.

Non-scheduled services

63. The procedures for the authorization of non-scheduled services within the Community could be amended so that users are offered a broader range of alternatives on air transport with subsequent possibilities of benefiting from cheap tariffs. In 1956 most of the countries belonging to the ECAC concluded in Paris an agreement¹ to liberalize some operations of this type. However, authorization to carry out non-scheduled services not covered by this agreement is not automatic and the companies must in some cases request it each time from the governments concerned.

64. It is therefore proposed to examine, perhaps in collaboration with ECAC, whether the scope of the agreement could be extended ensuring automatic acceptance of some categories of services by the country of destination, for example inclusive tour package holiday charters. This would be beneficial to the users and would allow the companies concerned to plan their activities and their investment more effectively. It should be noted that in transport the freedom to provide services has to be established under the provision of the Transport Title of the Treaty of Rome (Article 61(1)).

General considerations

65. In conclusion the Commission considers that the graduated introduction of such policies would counteract abuses of dominant positions in favour of lower prices and work towards removal of obstacles which the lack of acceptance by one Member State can now oppose to the intentions of airlines of another Member State. The elements of airlines not intervene unduly in the normal licensing procedures of the Member States and would preserve the primary responsibility for their own commercial action of the airlines and the operation of scheduled services in accordance with the comprehensive framework of the bilateral agreements.

66. Furthermore the Community has necessarily to take into consideration that, notwithstanding the great importance of Community airlines' activities outside Europe, the economic basis for many of them is in intra-European activities. Modifications for the intra-European market can change their competitive position on the intercontinental market. Changes should therefore be introduced with a view to giving the airlines time to adapt.

67. Passenger services should be discussed separately from freight services as it may prove less difficult to reach agreement in the latter case.

Regulation applying the rules of competition in air transport

68. The rules of competition (Articles 85-90) form part of the general provisions of the Treaty that apply to air transport without any Council decision being necessary. The Competition Title lays down certain detailed rules for that application and procedures for the adoption of other rules.

69. The Commission currently lacks the practicable means to ensure that the airlines regularly and effectively comply with the rules of competition. In air transport there is no regulation as there is for other industries providing for an investigations procedure and penalties for conduct causing distortion of competition.

70. A transitional provision (Article 89) empowers the Commission, acting at the request of a Member State or of its own initiative, to investigate suspected infringements of the competition rules and to issue a reasoned decision finding that an infringement has been committed. But if it is to pursue worthwhile investigations the Commission generally depends on the cooperation of the authorities of the Member States, which are required to come to its assistance. No penalties exist that would act as a rapid deterrent to illicit practices. All the Commission can do is authorize the Member States to take the necessary measures. Whether action can be taken to investigate and terminate an infringement thus largely depends on the goodwill of the govern-

¹ Multilateral agreement on commercial rights of non-scheduled air services in Europe, Paris, 30 April 1956.

ments of the Member States. The Commission can, in certain cases, however, take action directly in relation to the Member States on the basis of certain autonomous powers (Article 90) to enforce compliance with the competition rules by the Member States, where necessary by issuing directives or decisions.

71. To improve this situation a regulation should be adopted for the application of the rules of competition to air transport similar to the regulations covering other branches of transport and economic life. The regulation would provide for the procedures, decision-making powers and penalties that are needed to enforce the competition rules. It would thus be a primarily procedural regulation. Its provisions would be directly applicable to both public and private sector firms, but only to the extent that they are in a position to carry on an independent business policy. Such a draft regulation will shortly be submitted.

72. Where the conduct of an airline is imposed on it by a public authority, it is the Member States who assume responsibility for the business policies of their airlines and who as a consequence are then subject to the competition principles.

73. The regulation would facilitate the investigation of restrictive practice or abuse of dominance on air transport markets where there is no evidence of such State responsibility. In these cases conformity with the Community competition rules would be called for, taking into account international factors.

74. As regards services that are affected by greater — though obviously not uniform — degrees of State intervention, the Commission's endeavour to bring greater flexibility into the structure of civil aviation will correspondingly broaden the scope for competitive conduct on the part of both airlines and States.

75. Companies entrusted with the operation of services of general economic interest (Article 90(2)) can be exempted by the Commission from the rules. Exemption from the prohibition on restrictive practices could be given, for instance, to a number of contractual clauses that do not satisfy the normal tests of the competition rules. But the principle can

only be applied case by case after due scrutiny and in the light of rulings given by the Court of Justice in relevant cases.

State aids

76. The Commission intends to work out a common approach for the application of Articles 92 and 93 in air transport on the basis of an inventory of aids to the air transport industry and in the light of the competitive problems that are found to arise. The objective of coordinating aids would be to confine State intervention within the limits of what is warranted in the common interest. The possibility of reimbursing public service obligations should be accepted.

77. In addition the Commission intends to improve its information on financial relations between Member States and public enterprises (including airlines). The Commission has already announced its intention of issuing a directive for this purpose in the second half of the year.

Right of establishment

78. The principle of right of establishment (Article 52) applies directly to air transport. At meetings between the Commission's departments and government experts on the consequences of the applicability of the general rules of the Treaty to air transport, all experts claimed that the application of this Article would pose practical and political problems, particularly over the registration of aircraft. They therefore asked the Commission to submit to the Council a proposal to introduce suitable exceptions in this case. The Commission has however not been presented so far with convincing proof that would justify such an exception and accordingly intends to ensure that this principle is respected also in the field of air transport.

Stabilizing exchange rates for tariff construction

79. In connection with the activities going on for the operation of a European Monetary System, the Commission is examining what action could be

usefully undertaken with regard to diminishing gradually the existing directional differences in tariffs for the same route between Member States.¹ Fewer and smaller fluctuations in exchange rates as between States participating in the EMS would automatically over time reduce this disparity and improve the possibilities for introducing fair competition.

Compensation for passengers adversely affected by overbooking

80. The practice of overbooking followed by airline companies has the result that some passengers who have previously reserved a seat on a specific flight in the normal way are not allowed to board. It is not entirely the fault of the airline companies to the extent that they resort to this practice to offset the number of 'no-show' passengers who have confirmed their bookings in the normal way but decide not to travel without bothering to cancel and suffer no penalty.

81. The passenger is however in a vulnerable position incurring not only considerable inconvenience but also in many cases commercial losses. It seems indicated that he needs protection, probably a compensation scheme. The Commission is examining the recent ECAC recommendation in this respect and an AEA draft system with a view to proposing a directive.

Airlines

Simplification of formalities (facilitation)

82. The Commission may take measures within its own power or submit to the Council proposals to simplify procedures and documents used in international air freight transport, particularly in the framework of its multiannual programme for the achievement of the customs union and fiscal harmonization. Measures may also be worked out for passenger traffic, even though problems of security make any action difficult. Facilitation is already on the list of priorities approved by the Council and for this reason the Commission is carrying out a study to better define the problems directly related to air transport.

Harmonization of technical standards for aircraft

83. The Council accepted the Commission's suggestion on the possibility and usefulness of harmonizing technical standards for aircraft. This examination will concern a number of standards recommended by a group of directors-general of civil aviation from certain member countries and other European countries. Such harmonization of technical standards may have positive repercussions on the aircraft construction industry and contribute to the achievement of substantial operational cost savings by the airlines.

Staff

Working conditions of aircrew and ground staff

84. The Commission has commissioned a comparative study on working conditions in air transport within the Community and has already made contact with the employers and trade unions to define the scope of this study. The results will enable it to determine what action to take.

Mutual recognition of qualifications of aircrew and ground staff

85. In order to implement the action programme approved by the Council, the Commission intends to take steps to bring about the mutual recognition of qualifications and will submit the results of a study on the subject which has been carried out by the Institut du Transport Aérien (ITA). Solution of problems resulting from the different regulations in force in the Member States would extend the practical opportunities for the free movement of workers within the Community and for the interchangeability of crews between airline companies.

Safety

86. The Council did not accept the Commission's suggestion to include air traffic control on the list

¹ Annex II, point 90.

of priorities. In fact, because of the technical nature of the subject, the military aspects of the air space problem (defence, NATO) and the fact that the Convention of Eurocontrol does not concern all Member States of the EEC and is also open to non-Member States of the EEC, a commitment by the Community is difficult. However, account must be taken of the fact that the European Parliament has conducted an extensive hearing¹ in the matter, to which the main international organizations concerned with air traffic problems were invited. The results of this hearing and the responses obtained from parties concerned together with the resolution approved by the Parliament may provide the Commission with information enabling it to better assess the advisability of submitting this matter to the Council once again with a view towards possible Community action, for instance to include cooperation between the Community and Eurocontrol and other bodies.

87. An increase in passenger and freight air transport would almost certainly also entail an increase in the number of operations. Since the air corridors and the airports at present are close to saturation and increases in traffic capacity would entail very substantial investments, it becomes important to look closely at the real possibilities for expansion in the system. The present safety record of the European system is very high. Overloading the ATC-system might, however, lead to increased hazards and reduce safety. It is also possible that saturation of certain airways and zones might in effect negate a real competition unless it is possible to accommodate new entrants. The Commission therefore intends to carry out a study to examine these problems.

88. The technological differences in ATC infrastructure and equipment pose problems not only for the capacity of the system but also for the competitiveness of the Community industries concerned. A recent example is the choice by ICAO of a USA MLS (Microwave Landing System) as the standard future system since the position of the USA was strengthened by the presentation of several divergent proposals from Community Member States. The Commission therefore finds that a study is desirable to define the operational needs which a future integrated system must meet. The study will serve as a basis for initiatives which the Commission

will take to further cooperation in these areas. It is only through such cooperation and harmonization that these industrial sectors will gain strength on the export markets where the American industry at present is predominant.

Relations with non-member countries and international organizations

Consultation procedure

89. Member States negotiate their own traffic agreements individually with other countries. Negotiations on the general organization of European and world civil aviation are also conducted within certain international organizations. Although it is probably correct to say that the interests of Member States and European airline companies may quite often not be identical (or indeed considerably diverge), this does not detract from the general argument in favour of Community consultation prior to negotiation (or, perhaps at a later stage, for Community negotiation as such in certain cases). The Commission therefore has submitted a proposal to the Council for a consultation procedure on matters of common interest raised in international organizations and in bilateral negotiations with non-Member States.

Relations with ICAO and ECAC

90. Talks are under way between the Commission's departments and the ICAO secretariat and the ECAC President in order to establish official relations and to obtain observership for the Community or the Commission with these bodies. Talks with the ECAC particularly are already fairly advanced.

¹ OJ C 140 of 5.6.1979.

Annexes

**Priority list for air transport
approved by the Council in
June 1978**

1. Common standards restricting the emission of nuisances due to aircraft;
2. Simplification of formalities (facilitation), particularly those relating to air freight;
3. Implementation of technical standards (JAR);
4. Provisions regarding aids and competition;
5. Mutual recognition of licences (aircrew and ground staff);
6. Working conditions (aircrew and ground staff);
7. Right of establishment;
8. Possible improvements to inter-regional services;
9. Search, rescue and recovery operations, and accident enquiries.

Analysis of the present situation
The international framework for air transport

The Chicago Convention

1. Civil aviation functions at present in accordance with the international rules established by the Chicago Convention of 1944 and the ensuing multilateral and bilateral agreements.
2. One of the foundations for these agreements is the principle of national sovereignty. The convention makes it clear that each State has exclusive and complete sovereignty for the airspace over its territory and decides on permissions to give rights for carrying traffic originating in or destined for its territory or even crossing it. Each country is responsible for the technical standards, the operational and safety standards etc. in respect of its aircraft and crews.
3. At the multilateral level an important step forward was realized in Chicago for non-commercial rights as to freedom to overfly and possibility to make technical landings (e.g. to take on fuel). For non-scheduled flights, such as charters and own account flights, all States which signed the Chicago Convention, and those which adhered afterwards, have extended to each other these rights. For scheduled flights, these rights exist for the 92 States (the EEC Member States included, except Italy), which have adhered to the 'International Air Transit Agreement'. For other States the transit and overflying rights for scheduled services are regulated by the bilateral agreements or dependent on unilateral authorizations.
4. By contrast the possibility to obtain commercial traffic rights is not regulated by a multilateral agreement. These rights continue to be derived from the competence of States, which accordingly have concluded a large number of bilateral agreements between them dealing essentially with the scheduled air services.
5. These agreements remain normally faithful to the general principles of the Chicago Convention, in particular with respect to the sovereignty of

national Starts and national responsibility for safety and aircraft.

6. They also extend to the airlines of the two countries concerned equal treatment with respect to operations, handling, customs, health, services, etc.

7. The bilateral agreements define the different routes, which are authorized, and the gateways, not only in the two countries concerned but also in the countries situated between or beyond those two countries. They specify that each country can designate one or more airlines to carry out the traffic rights agreed upon. These bilateral agreements establish in general criteria and procedures, consultation procedures included, to fix the level of tariffs and in certain cases also the transport capacity.

Cooperation at government level

8. The Chicago Convention also established the 'International Civil Aviation Organization', ICAO. This specialized agency of the United Nations exercises a very important role with respect to standards and rules, which it defines especially concerning technical matters, for safety and operations. These rules are normally applied by the Member States. It distributes information, statistics, has established technical assistance programmes and organizes diplomatic conferences for adaptation and development of air law, e.g. with respect to air piracy and sabotage. This organization is actually examining the organization of the worldwide tariff system. It is based in Montreal and has 144 members; among which are all the Community Member States.

9. The European Civil Aviation Conference, ECAC, is an organization without regulatory power, which nevertheless plays an important role for the development of air transport in Europe. It works by recommendations and resolutions which it addresses to its Members. These are often implemented by the countries concerned in the same way as regulations, since they are agreed by the directors-general of the national civil aviation administrations. A large part of the work is carried out by four permanent specialized committees for scheduled and non-scheduled air transport, technical matters and facilitation under the guidance of a coordination committee. ECAC organizes meetings

of the directors-general for civil aviation of its Member States, a general assembly every three years and intermediate annual plenary meetings, where the reports of the coordination committee are presented. It has at present 22 members, including all the Community Member States.

10. For air traffic control it is necessary to mention Eurocontrol. Its role is to strengthen cooperation and to organize jointly the air traffic control for the upper air space (above 6 000 m) for the contracting States. This organization was established by a convention signed in 1960 by Belgium, the Federal Republic of Germany, France, Luxembourg, the Netherlands and the United Kingdom; Ireland joined later. The convention will be renewed in 1983.

Cooperation between airlines

11. The most important cooperation between scheduled airlines takes place in the 'International Air Transport Association', IATA. It covers at present 108 airlines.¹ The airlines represent about 80 countries including all Community Member States excluding Luxembourg. IATA was created by government intervention in order to create a multilateral airlines framework alongside the inter-governmental bilateral agreements.

12. It covers a multitude of activities dealing with all aspects of air transportation. Of these can be mentioned the publication of many studies and statistics on general economic and activity issues, but also on safety and security aspects. It provides specialized services such as the clearing house for tickets, which is closely related to the interchangeability of tickets permitting the user to travel on one ticket (paid in one currency) on several stages of a trip. It has a medical committee for research in aeronautical medicine and technical and legal committees. It also develops proposals for transport conditions and handling procedures in airports. In short IATA is at the same time a centre for information and cooperation and an organization which defends the interests of its members.

¹ Eighty-nine active members operating international networks and 19 associated members operating domestic networks.

13. One of the possibilities it offers its airlines is to organize traffic conferences for coordination of tariffs. The airlines thereafter file a set of tariffs resulting from these conferences with governments which must approve them before they become applicable. Other regulations and procedures of IATA must also be approved by governments before they become applicable.

14. The general assembly of IATA approved a number of changes in its procedures and structure, which will enter into force subject to government approval:

(i) a series of alternative procedures for tariff negotiation if unanimity cannot be reached at the conference;

(ii) a new membership structure: the organization will operate with a basic membership covering technical activities and a full membership covering also the tariff coordination activities;

(iii) a greater possibility for external parties to follow the activities of the traffic conferences. This can be either, in some cases, by observers, or through submissions of comments by interested parties.

15. The need for the European scheduled airlines to strengthen their cooperation in all fields was the reason for creation of the 'Association of European Airlines', AEA. The association represents 19 of these carriers. It publishes economic and financial studies on air transport in Europe. Within the association a group of 10 large scheduled air carriers based in the Community is developing closer ties with the Community services which may develop into a regular body for consultation.

16. In this international structure other organizations may be mentioned, especially those for non-scheduled carriers.

17. The 'International Air Carriers Association', IACA, created in 1971, groups the independent non-scheduled air carriers for eight countries in Europe and America. Its role is to represent and defend its members with respect to governments and international organizations.

18. Under the auspices of IACA in December 1978 the European Federation of IACA: EURACA 'European Air Carriers Association' was created. It groups about ten European charter carriers of which five at least are based in the Community.

19. The 'Air Charter Carriers Association', ACCA, groups the majority of charter carriers affiliated to the European scheduled air carriers.

20. Seventeen international airports in Europe are members of the WEAA, Western European Airport Association.

21. At the technical level certain European airlines cooperate in KSSU¹ and Atlas.² Each of these two groups, which were created before the introduction of wide-bodied jets, has distributed various technical tasks between participating airlines especially with regard to aircraft maintenance.

22. *Commercial cooperation and pools.* Some of the scheduled intra-European and intercontinental services are carried out in pool arrangements between the airlines based in the countries at both ends of the route. For example, there is a pool between British Airways and Sabena on London-Brussels and between British Airways and Air France on London-Paris. These pools exist all over the world except for the international links with the USA. Some of these commercial agreements are desired by the governments interested in the route or they are included in their bilateral agreements. A pool agreement deals with the conditions of operation on the route, it permits the distribution of flights, to spread the frequencies and the capacity over the day and so improve the service offered to the passengers. Generally a pool agreement will include a sharing of the revenue under certain conditions without modifying any structure or creating any institution. The companies in partnership preserve their commercial identity.

23. There exists another type of commercial cooperation, i.e. a joint venture. This means the common operation by two companies of a route

¹ KLM, SAS, Swissair and UTA.

² Air France, Iberia, Lufthansa, Alitalia and Sabena.

with the same aircraft and sharing of the revenue and costs.

24. Commercial cooperation has played an important role in the development of intercontinental relations provided by European airlines. A close collaboration of a European airline with a third-world airline may strengthen its position outside Europe. Examples are UTA with Air Afrique and SAS with Thai Air. At other times a European airline may purchase its traffic rights through commercial collaboration with a third-country airline or even by managing the airline of a new State.

25. Cooperation may also take place with respect to agents, reservation systems, sales and assistance in the airports.

26. An assistance agreement provides for one airline to use the service of another for technical and commercial ground operations in a given airport.

27. A representation agreement provides for one airline to represent another commercially in certain countries and airports.

28. IATA has an extensive multilateral interline agreement. Two companies may also be linked through an interline agreement. They thereby promise mutually to accept each other's tickets.

The situation of air transport inside the Community

Enterprises and their fleets

29. The majority, but not all of the scheduled European carriers, are owned either wholly or partially by States.¹ The non-scheduled services are assured either by scheduled carriers directly, or by affiliated charter carriers, or by private carriers of which some are linked with tour operators.

30. The important air carriers in the Community amount to about 30 of which about 15 are larger scheduled carriers and about the same number larger non-scheduled carriers.² The other airlines fly second and third-level services.³ Six large scheduled Community airlines are among the 20 largest

airlines in the world ;⁴ 1 200 aircraft out of the 7 000 commercial aircraft presently in operation in the world belong to Community airlines.

31. The scheduled airlines of the Community flew in 1976 16.60% of total tonnes/km (passengers + freight + mail) of the scheduled traffic in the world.⁵ In 1976 65% of non-scheduled passenger/kms were flown by European companies.

Policy and influence of the Member States

General policy

32. Each State carries out a protectionist policy for its national air carriers, aimed to preserve its political prerogatives and to profit itself from its advantages. These may be its geographical location, the importance and composition of its national market and its special relations with this or that part of the world. This attitude is also apparent over, for example, the organization of services, where, in Europe as in the rest of the world, the States play a fundamental role.

Influence of the States on the organization of services

33. The possibility to obtain commercial traffic rights depend, as indicated in points 4 to 7, on the bilateral agreements concluded by the States and notified at ICAO.

34. Where no bilateral agreement exists or when these agreements do not contain a tariff clause the States then obey the tariff procedures contained in the 'International Agreement on the procedure for the establishment of tariffs for scheduled air services' signed by all Member States except Germany and Luxembourg.

35. Most of the links between Member States are covered by 27 bilateral agreements. These

¹ Annex II-2.

² Annexes II-3, II-4 and II-5.

³ Second level : National transport on important lines. Third level : air transport with small aircraft.

⁴ Annex II-6.

⁵ Annex II-7.

bilateral agreements do not always state precisely the real content of the decisions. They are often supplemented by confidential letters of understanding exchanged between the aeronautical authorities of the States concerned. These letters interpret, specify or even modify the provisions of the agreements. These letters may concern the creation of commercial pools or call for the creation of such pools.

36. The services and routes thus negotiated are closely interrelated at the bilateral level, where rights may be exchanged against rights somewhere else in the world.

37. Through these bilateral agreements the Member States have also the possibility to control capacity. The States do not normally refuse capacity increases agreed on by the companies.

38. Attempts at policy concertation for scheduled flights have failed because the divergent interests and bargaining situations of States and of their airlines have prevented them until now from creating a common stand *vis-à-vis* third countries.

39. On the other hand an attempt at policy concertation has taken place for non-scheduled services. Fourteen Member States of ECAC have for example in June 1975 approved the 'Multilateral understanding for non-scheduled services on the North Atlantic'. This was in order to create a joint position in dealing with the USA which wanted completely to liberalize these services, and taking into account also Canada. The character of this concertation was originally primarily defensive, but it does show a certain progress. However this agreement has since been overtaken by several agreements concluded between the USA and the Member States with respect to non-scheduled flights and by other changes in the situation for transatlantic activity.

Influence of the States on tariffs

40. The air tariffs of scheduled services in Europe are substantially negotiated on a multilateral basis between the airlines, subject to approval by governments.

At present nearly all of the European governments accept responsibility for the same international tariffs and same transport conditions, most of them being coordinated through IATA. They implement them directly in their economic provisions, in their bilateral agreements and for their licensing systems.

41. All Member States are in favour of a tariff coordination between the scheduled airlines and do not wish to fight for a too large tariff competition. The European companies are going further into means for consultation between themselves on these matters at a European level.

Administrative framework

42. The administrative framework for all the government responsibilities is rather similar in the different countries. The functions are either grouped in a traditional ministry or delegated wholly or partly to semi-government organizations benefiting from a certain degree of autonomy defined by law as for example the 'Civil Aviation Authority' ('Quango' Quasi-Autonomous National Government Organization) in the United Kingdom.

The transport policy of the USA

43. One of the promises of President Carter during his election campaign was to reduce government regulation in all areas including air transport. He further said, in relation to fighting inflation, that air transport should be as cheap as transport by private automobile.

Domestic market

44. A certain liberalization had already been taking place but, with the added pressure of the President, this policy gained momentum. A total deregulation concerning traffic rights, tariffs and capacity has now been carried out for air freight. The same type of deregulation is under way for passenger transportation, where it has in fact already been carried out to a large extent and should be completed by 1982, when the Civil Aeronautics Board (CAB) will be abolished.

45. This policy is fully in agreement with some aspects of American tradition and its consequences are understood. The immediate consequences have been a spate of low tariffs for passenger transportation in order to manoeuvre for better market position and market share as well as a certain diminution of local services. The market has in 1978 responded with a surge in traffic, which has filled the planes and thereby made the promotional fares profitable in the short term. What the long-term effects will be is however not yet known or even examined in great detail. A certain weakening of the market is already apparent.

46. It is, however, certain that, with the average revenue as low as it is on many flights, the planes must be nearly full on these flights in order to give a profit. This fact will make it difficult to meet business, professional and governmental travellers' needs for availability. The infrastructure has not been developed to take this sudden growth and large investments must be carried out now. It is also clear that the airlines will have to look hard at each route's profitability and will withdraw from those routes that are not contributing sufficiently. There might be bankruptcies among the weaker airlines after some time. There will be a tendency towards mergers as already experienced. The tariff situation is getting more and more difficult to follow for the consumer. The process might lead to a situation where each carrier network competes against each other instead of creating a total network that serves the nation best.

47. One might say that the interests of the mass market consumer has been met by this radical deregulation, but maybe not those of the business society. It should in this context also be mentioned that freight tariffs have been going up after the deregulation.

International policy

48. For its negotiation of new bilateral agreements the following policy aims have been defined by the US Government:

(i) Creation of new and greater opportunity for innovative and competitive pricing that will encourage and permit the use of new price and service

options to meet the needs of different travellers and shippers.

(ii) Liberalization of charter rules and elimination of restrictions on charter operations.

(iii) Expansion of scheduled service through elimination of restrictions on capacity, frequency, and route and operating rights.

(iv) Elimination of discrimination and unfair competitive practices faced by US airlines in international transportation.

(v) Flexibility to designate multiple US airlines in international air markets.

(vi) Encouragement of maximum traveller and shipper access to international markets by authorizing more cities for non-stop or direct service, and by improving the integration of domestic and international airline services.

(vii) Flexibility to permit the development and facilitation of competitive air cargo services.

49. These aims were defined in 1978 after the negotiation and conclusion of the Bermuda II agreement between the USA and the United Kingdom in July 1977. The US Government liked the provisions in this agreement for innovative pricing, but was not, after due reflection, happy about the limitations of the possible number of designated airlines and the capacity restrictions.

50. The real intended impact of US policy is, however, better seen in a number of more recent bilateral agreements concluded in 1978 with Israel, Belgium, the Netherlands and the Federal Republic of Germany.

These agreements exemplify three concepts:

(i) multiple designation;

(ii) country of origin rules;

(iii) the 'open sky' policy.

51. The USA obtained multiple designation in all four agreements. This means that the US Government is encouraging as many airlines as possible to seek traffic rights on all routes. This as a matter of principle without taking account of the traffic volume.

52. Country of origin rules means that trips which originate, for example, in the USA follow the US rules with respect to tariffs and conditions

of transport. The rule is especially important with regard to the conditions under which charter operations may take place. Although the other country preserves its own rules for trips originating on its territory, there will no doubt be a spill-over effect from the more liberal rules. This concept was introduced in the agreements with the Netherlands and the Federal Republic of Germany.

53. The 'open sky' concept introduces a very large degree of freedom for the two countries' carriers, both scheduled and non-scheduled, with respect to tariffs, frequency and capacity. This is the case both for third and fourth freedom transport irrespective of the nationality of the carrier. This concept was accepted by Israel and Belgium.

54. In all four agreements tariffs can be refused if they are discriminatory or predatory. These concepts have not yet been defined by the CAB nor by any of the four States. In the agreements with the Netherlands and the Federal Republic of Germany, one government can refuse a tariff on these grounds. In the agreements with Belgium and Israel both of the governments involved must together oppose such tariffs.

55. As a result of these agreements, Israel was accorded 5 new gateways in the USA, the Netherlands 2, the Federal Republic of Germany 6 and Belgium 3.

56. At the same time the CAB has issued a Show Cause Order concerning the exemption of the US antitrust laws with respect to the participation of air carriers in the IATA tariff coordinating activities. The preliminary finding of the CAB was to abolish this exemption, but it invited all interested parties to submit their comments in this respect.

57. This Order has raised a storm of protest from all over the world from governments as well as airlines. All of the Community governments and main scheduled airlines have joined in this protest either directly or through ECAC and AEA. Their two main points are (a) there is no real indication that the US policy really introduces a better system and (b) in view of the worldwide aspects of air transport a unilateral action such as this is deplorable. In the USA both the Department of State and Department of Transport have advised the CAB

to proceed with caution, the Department of Transport even saying that they were not sure that the CAB preliminary finding was correct or productive. The CAB has approved *ad interim* the new structures of IATA.

Air transport markets and structure of competition

58. In order to evaluate the degree of competition in air transport it is necessary to distinguish between: domestic markets; Community and European markets; intercontinental markets.

59. In this evaluation it is necessary to take account of the types of passenger and freight transport: scheduled air transport, non-scheduled air transport, taxiflights, rail, road and sea.

Domestic air transport

60. Five main transport modes have to be taken into account: these are scheduled air transport, rail, road, taxiflights and sea. The scheduled air service on a given route is normally assured by one air carrier on that route and there is competition between scheduled air carriers in only a few cases. In many cases, a national carrier is given the overall concession and it is with its permission that the smaller carriers exercise their functions. Rail and road transport and sea in some cases provide stiff competition which is reflected in tariff levels. The further development of fast trains in the Community will no doubt introduce a further degree of competition, e.g. in France and the UK. Freight is rarely carried by air since rail and road are too competitive.

Intra-Community and European air transport

61. The total land area of the European Community is about one-sixth of that of the United States. The European Community's GNP is about 16% less in total than that of the United States; GNP per head in the European Community is not much more than 70% of that in the United States. Furthermore, intercity rail passenger transportation is much more developed in the Community than in the USA and this is combined with the fact that the

plane becomes competitive only for trip lengths of about 300 km or more or where natural barriers such as sea and mountain exist. It is clear that the overall picture of passenger transport is significantly different between the two areas. We can therefore conclude that the potential role for air transport is naturally more limited within the Community.

62. The competition for passengers on the shorter routes is mainly between scheduled airlines themselves and between them and the other modes of transport. For the longer routes, competition is in many cases intensified by the presence of charter operators; rail and road are less attractive particularly for business traffic. For leisure travel, the private automobile and the train are very much used, charter operators offer vigorous competition on routes where they are allowed to operate. Taxi-flights provide an increasing degree of competition for business travel.

63. There is normally no price competition between scheduled airlines on single routes since the tariffs are negotiated by the airlines and approved or imposed by the governments, but competition still exists on services, type of aircraft, network, frequencies, etc. There are in fact at least two carriers on each route and in some cases up to 12. Price competition between scheduled and charter operators and between charter operators themselves is vigorous. It should be noted that this competition is sometimes non-transparent to the user, since the transport tariff is included in the total package tour price.

64. Over long distances in Europe, leisure travel was formerly carried mainly by trains and road, with some of this traffic on the scheduled airlines. The situation has now progressed to the stage where the main North/South air traffic (Scandinavia/UK/Germany — Spain/Italy/Greece/Portugal/Africa) is carried by charter airlines (either affiliated or independent) or by scheduled flights through group travel or promotional fares. It might be said that the structure of the scheduled airlines does not allow them to cater very well for sudden surges in traffic, like summer holiday travel, while the organization of the charter carriers is such as to cater for peak traffic and the nomadic nature of these traffic activities.

65. For freight, competition from rail and especially from road is very strong. Road transport has in fact turned out to be faster even over fairly long distances and in some instances cheaper. Ground delays in air freight operations, caused by official procedures, have played a part in this respect.

Intercontinental air transport

66. For passenger traffic, air transport dominates international transport. In the past, shipping carried a large volume of traffic to the USA, the East and Australia, but this has been reduced to a mere trickle.

67. There is competition on these markets between the different scheduled airlines and between them and charter air carriers. Tariff agreements have been difficult to obtain over the North Atlantic in the past decade and, since April 1976, virtually impossible. The recent CAB policy created an open market situation and permitted the adoption of additional low fares by IATA carriers which had been refused by the CAB before.

68. Developments on the North Atlantic have therefore been different from those on the long distance routes in Europe. The charter carriers, notably the American carriers, had gained a fairly large share of the leisure market, but this situation changed recently. At the moment, most leisure travel on the North Atlantic is being carried by the scheduled carriers either as groups or on promotional fares. The institutional reasons for this change have been outlined in points 48 to 57 of this Annex.

69. Overall competition over the Atlantic has become a lot more severe between scheduled carriers, especially since Laker Airways were granted the low-fare rights between New York and London. Nearly 30 airlines are presently in the North Atlantic market.

70. It is difficult to say what the long-term effects of this tariff competition will be on the total North Atlantic market.

71. Firstly, it is doubtful whether it has really become much cheaper for the users to fly on these routes. The charter tariffs were nearly as low as

most of the new scheduled holiday tariffs (including Laker). The users have, however, shown that they preferred the added flexibility introduced by the scheduled carriers and have therefore changed away from charters.

72. The total traffic on the North Atlantic has increased by about 11% in 1978. This increase is not much higher than the one experienced in other markets (Europe about 9%). It is therefore difficult to say if the new scheduled low tariffs have introduced significant improvements to the users.

73. Within the 11% there have however been large changes in the composition of traffic, e.g. charter to scheduled, non-IATA to IATA carriers, American carriers to European carriers, siphoning of traffic through London, etc.

Network

74. Between the main centres of attraction in the Community, there is a large profitable volume of passengers who form the backbone of the European network of the major scheduled airlines. In this way, the airlines have been able to place their management and maintenance centres in a logical manner near those routes. This assures efficient operation. It is also logical that the airlines try to link secondary centres to the main centres in order to utilize their aircraft in the best possible manner and obtain economies of scale. In evaluating whether or not to initiate a new service, the airlines will naturally examine its profitability from their own point of view, i.e. in particular taking into account their existing fleet of aircraft.

75. In this situation the airlines may, however, choose to overlook routes which from another airline's point of view would be profitable or which from a Community point of view would be desirable.

76. An interesting study in this respect has been carried out by ECAC.¹ This study shows that there are a number of routes where there seems at first sight to be enough passenger potential to support a service, but where no services exist. It is, however, also apparent that in most cases passengers are able to use other services through the main centres. One of the reasons for this may be the attractiveness to

travellers, especially business and government, of high frequency — itself dependent on thickness of the supporting traffic stream.

77. Similar results seem to be produced by another study² commissioned jointly by the French Government and the Commission.

78. It is difficult to judge whether from a Community point of view it would be desirable to obtain services on all of these dormant routes as, e.g. between Aarhus-Hanover, Stuttgart-Lille or Turin-Toulouse. It is clear that a number of these routes would detract from the main routes and thereby make the operations on the main routes less efficient. Some of these dormant routes might deliver passengers into the main hub of another country's airline, so that such routes have been discouraged not only by the designated airlines, but also by the governments. There are, however, a limited number of routes between second-level airports, where, taking account of regional development considerations, such services would be possible and desirable from a Community point of view.

Fares

79. It is possible here only to give a fairly cursory description of the fares structure in Europe and some of the main reasons for its present shape.

Structure

80. The two principal ways of constructing a tariff system are to:

- (i) Relate fares on all routes in a network to the distance and then adjust the tariff level as such in order to obtain a profitable result.
- (ii) Relate fares on each route in a network to the cost of operation of each individual route.

81. In Europe the scheduled tariff system is a mixture of the two methods. Method (i) is the basis of the system but tariffs on certain routes have been reduced from the normal level because of competition from other modes of transport and from charter operators. For this reason, tariffs on the short routes are generally not as high as they nor-

¹ Rapport sur les services aériens intra-européen, 1978.

² La desserte aérienne inter-régionale en Europe.

mally would be. The same is the case on several North/South routes where holiday tariffs apply to a large percentage of the total traffic.

82. The scheduled airlines have repeatedly claimed that competition on the North Atlantic has created a situation where prices have been forced down beneath a profitable level. This would imply that the European scheduled airlines, in order to carry out this traffic, would have to charge higher tariffs elsewhere or suffer trading losses. This contention cannot be verified since the Commission does not dispose of sufficient relevant information.

83. The costs per passenger are low when passenger volume is high, large aircraft can be used, seating density is high, load factors are high and distances are long.

84. It is necessary to take all these factors and more into consideration before it is possible to conclude whether a single tariff is cost-related or not.

Range

85. The European fares structure is very diverse. On many routes there is an abundance of tariffs while on other routes choice is limited. In general terms, it might be said that the routes with a large volume of tourist traffic are also the routes with a large array of tariffs. In Annex II-8 a number of tariffs which are used currently on European routes are listed.

86. The rationale behind this abundance of fares is to try to separate the different user groups and to meet their particular needs. The full fares (first and economy) are tailored to meet business needs, i.e. to allow interchangeability of tickets, no-shows, interlining, high accessibility, etc. This explains the relatively high level of these tariffs. At the other extreme are the holiday traffic rates represented by excursion fares, Apex and charter fares.

87. The differences between these two main levels are normally justified by reference to the different cost levels involved in using aircraft exclusively for one or the other type of traffic. A British study tends to substantiate this claim.¹ The

difference can, however, become obscured because, in many cases, the same seats are being sold but under different conditions of sale. The conditions of sale have been fixed so as to distinguish between the different categories of passengers.

88. Another aspect which must be taken into account is the interlining possibility in the present tariff system. A flight between Copenhagen and Rome with as many stopovers as desired, flown by one or more airlines, will, under the full fare rules, be priced in the same way as the direct Copenhagen-Rome flight, if the total distance travelled is within the normal flight distance plus 20%. This direct tariff can be considerably smaller than the sum of the tariffs for each link. The direct tariff is split up proportionately between the different links and the part an airline receives will be lower than the published full fare. The stopover system exists also for other tariff types. This interlining facility is very useful for business travel and explains in part why published tariffs on routes where there is a significant amount of interlining may be rather high.

89. The average revenue per passenger is therefore considerably lower than the economy tariff. On many routes it goes as low as about 60% of the economy tariff.

90. The ticket price is calculated in Fare Construction Units (FCUs) and then exchanged into national currencies. The ticket is then issued in the currency of the country where the trip starts. The exchange rates approved or imposed by the governments do not, in some cases, keep up to date with the changing market exchange rates. This can create a difference in directional prices. The differences are large within the Community for Ireland, Italy and the UK which, in this way, obtain lower tariffs (by up to 30% less) for passengers who originate their flights from their airports. The IATA clearing house could easily cope with exchange rates which were adjusted more quickly.

Comparison Europe/USA

91. It is difficult to make any meaningful comparison between tariffs in Europe and in the USA. The only meaningful comparison would be on average revenues per passenger. In this average it would be

¹ Annex II-9.

necessary to include charter revenue, since low fare travel is ensured by charter to a much larger extent in Europe than in the USA. Furthermore, it is difficult to get information on average revenue in Europe and next to impossible to get such information for the USA.

92. It is, however, claimed that European tariffs are much higher than the US tariffs.

93. Firstly, it must be pointed out that the fare structures in Europe and the USA are different. In the USA the system is mainly point-to-point and not interline as in Europe. The range of fares in Europe is much wider than in the USA and extends in several cases below the US comparable fares.¹ The differences in tariffs are mainly due to a difference in costs, which are normally much higher in Europe, e.g. airport and air navigation fees, fuel, administration, commission on sales, labour (less stringent regulations and easier hiring and firing in the USA), etc. These differences, which are illustrated in Annex II-11, must naturally be reflected in the level of tariffs. Some of these cost elements which are external to the airlines could be attacked directly by the Community.

94. Productivity is lower in Europe than in the USA. This can be explained partly by the smaller networks in Europe and the higher incidence of international travel. This entails a higher labour input than for domestic traffic. The network differences may also explain a difference in aircraft utilization rates. Annex II-12 shows how fairly small differences in individual productivity elements result in a large difference in overall productivity.

95. When all of these factors are taken into account, it can be estimated that the real cost difference under airline control per scheduled passenger is about 20% higher in Europe than in the USA, when account is also taken of the difference in operational characteristics between the two systems. The road towards lower prices is therefore through higher productivity and improvement of operational characteristics and conditions.

96. Nevertheless, the European airlines have been able to develop quickly and steadily. If the evolution of the average intra-European air tariffs

is compared with the standard of living in Europe, the index for the cost of living in 1964 of 100 has grown to 270 in 1978, while the index for tariffs which in 1964 was also 100, has only grown to 206 in 1978. These tariffs have therefore become relatively lower.

¹ Annex II-10.

Annex II-1

The freedoms of the air

The *first* gives the right to fly across the territory of a foreign country without landing.

The *second* gives the right to land for non-commercial traffic purposes (technical operations relating to the aircraft, the crew, refuelling, etc.), in the territory of a foreign country.

The *third* gives the right to an air company to put down, in the territory of a foreign country, passengers, freight and mail taken in the country of registration.

The *fourth* gives the right to an air company to take on, in a foreign country, passengers, freight and mail, for offloading in its country of registration.

The *fifth* gives the right to an air company to undertake the commercial air transport of passengers, freight and mail between two third countries.

Annex II-2

Percentage of capital held by the States in main EEC scheduled airlines

Air France	98.8%
Air Inter	49.90%
Alitalia	99%
British Airways	100%
KLM	78%
Aer Lingus	100%
Lufthansa	82.16%
Luxair	25.57%
Sabena	100%
SAS	50%
British Caledonian	} private
UTA	

Annex II-3

Main EEC scheduled airlines (1977)

Airlines	Staff	Fleet	Pax km flown internationally (millions)	Pax km flown Total (millions)
Aer Lingus	5 737 ¹	13 ¹	2 231	2 288
Air France	31 400	118	16 217	20 794
Alitalia	16 089 ¹	81 ¹	10 729	11 867
British Airways	52 707 ¹	184 ¹	28 773	30 243
British Caledonian	5 716	27	3 756	3 991
KLM	16 481 ¹	48 ¹	12 562	12 562
Lufthansa	27 862	92	14 220	15 038
Sabena	9 816	28	4 415	4 415
SAS	15 556	74	7 980	9 495
UTA	7 012	18	3 931	3 931

Source : ICAO,
1976.

Annex II-4

Main EEC non-scheduled airlines (1977)

Airlines	Nationality	Staff	Fleet	Pax km	Pax km total (in millions)
Bavaria Germanair ¹	FRG	743	6	1 159	1 159
Britannia Airways Ltd.	UK	1 151	16	3 876	3 876
British Airtours	UK	758	9	2 044	2 044
British Midlands Airways Ltd ²	UK	938	16	869	1 095
Conair A/S	DK	254	4	1 277	1 277
Condor Flugdienst GmbH	FRG	1 022	17	5 848	5 884
Dan Air Services Ltd ²	UK	3 159	56	4 837	4 965
Hapag-Lloyd GmbH	FRG	430	8	1 536	1 536
Laker Airways ²	UK	1 177	11	4 190	4 190
LTU	FRG	520	7	1 994	1 994
Maersk	DK	600	10	1 572 ¹	1 572
Martinair Holland NV	NL	714	25 ¹	2 384	2 384
Monarch Airlines Ltd.	UK	304	6 ¹	1 341	1 341
Scaniair	DK	522	7	2 970	2 970
Sterling Airways A/S	DK	1 354	22	4 197	4 197
Transavia Holland BV ¹	NL	606	8	1 358	1 358

Source: IIA for staff.

ICAO for other statistics.

¹ 1976.² Also operate scheduled air services.

Annex II-5

International non-scheduled traffic of passengers (1975)

Classification of the 15 first non-scheduled carriers and of the 15 first scheduled carriers

Classification	(millions of passengers/km)	
	Non-scheduled carriers	Scheduled carriers
1	<i>Condor</i> (Germany)	PAA (USA)
2	Trans International (USA)	<i>Dan Air</i> (UK)
3	<i>Sterling</i> (DK)	JAL (Japan)
4	World (USA)	Finnair (Finland)
5	<i>Britannia</i> (UK)	TWA (USA)
6	<i>Laker</i> (UK)	AVIACO (Spain)
7	Overseas National (USA)	<i>British Caledonian</i>
8	Wardair (CDN)	Air Canada
9	Spantax (Spain)	TAROM (Romania)
10	<i>Scanair</i> (Scandinavia)	KLM (NL)
11	<i>Martinair</i> (NL)	BA-Overseas (UK)
12	Balair (CH)	Flying Tiger (USA)
13	<i>British Airtours</i> (UK)	THY (Turkey)
14	Capitol (USA)	Northwest (USA)
15	<i>Conair</i> (DK)	Seaboard (USA)
Total of the 15 first carriers	41 941 (68%)	23 808 (64%)
Total of the other carriers	19 859 (32%)	13 662 (36%)
Total of all carriers	61 800 (100%)	37 500 (100%)

Source: Recueil de statistiques n° 215 de l'OACI.
NB — EEC airlines are in italics.

Annex II-6

Principal airlines in the world

Classification according to the global traffic in tonnes/km (1971 and 1976)

Airlines	Milliards of tonnes/km		Airlines	Milliards of tonnes/km	
	1971	1976		1971	1976
1. Aeroflot	—	14 446	11. DLH	1 402	2 560
2. United Airlines	4 568	5 763	12. Northwest	1 412	2 491
3. PAA	4 631	4 617	13. Air Canada	1 398	2 129
4. American Airlines	3 710	4 567	14. KLM	1 201	1 796
5. TWA	4 029	4 461	15. Flying Tiger	1 252	1 496
6. British Airways		3 434	16. Alitalia	1 125	1 363
7. Eastern Air Lines	2 614	3 247	17. Qantas		1 353
8. Delta	1 760	3 018	18. Western	874	1 341
9. Japan Air Lines	1 473	2 888	19. Continental	877	1 272
10. Air France	1 407	2 771	20. Braniff	809	
			SAS	801	
			National	775	

Source : Bulletin ITA.

Annex II-7

Total traffic of scheduled services in 1976

	Passengers/km (millions)	%	Tonnes/km (freight) (millions)	%	Total tonnes/km (millions)	%
Total of 141 ICAO Member States	762 429	100	21 449	100	93 048	100
US airlines	288 027	37.78	7 440	34.69	35 214	37.84
EEC airlines	110 878	14.54	5 014	23.38	15 454	16.61

Source: ICAO.

Annex II-8

Example of promotional fares available in Europe

London-Paris	% of round trip economy fare
<i>Public excursion</i>	
Night fare (valid 1 month)	70
Weekend fare (valid 1 month)	58
Ipex	58
Youth fare	75
Student fare	75
School party group	70
Spouse fares (valid 5 days)	50
<i>Common interest group</i>	
Groups of 10-14 passengers	95 ¹
Groups of over 15 passengers	90 ¹
<i>Inclusive tour</i>	
	36

Source : Air Tariff Manual

¹ Additional reduction of whichever fare would otherwise be applicable.

Annex II-9

Charter and scheduled airline cost comparison

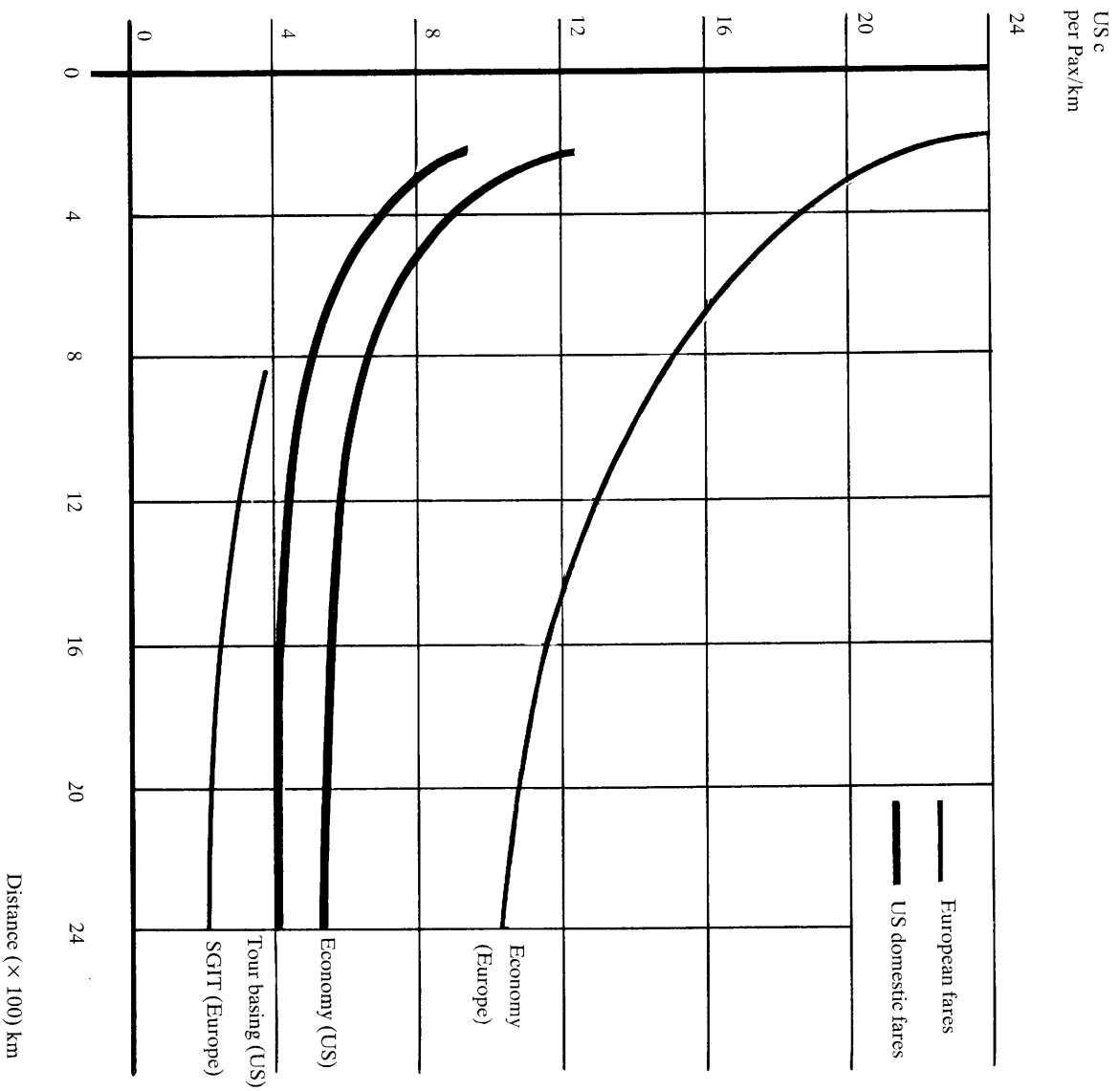
	Route A	Route B	Route C
1. Total scheduled cost per passenger	100	100	100
2. Deduct commission	92	91	91
3. Tourist class (eliminate 1st class)	86	84	87
4. Seating density	77	80	83
5. Load factor	56	59	60
6. Peak/trough ratio	60	62	63
7. Utilization	57	60	61
8. Standards (landing fees, crew complements, in-flight service)	51	51	53
9. Cost of services not applicable to charter (sales, reservation and advertising principally)	36	37	39
10. Derived charter cost	36	37	39
11. Actual charter cost	34-37	32	35
12. Variable cost	14-23	17-24	17-28

Source : Civil Aviation Authority and British Airways.

This table shows how it is possible to start with the cost per passenger per scheduled air transport and through adjusting for the differences between scheduled and charter operation characteristics arrive at an adjusted cost level for scheduled which corresponds quite closely to the charter cost level per passenger.

Annex II-10

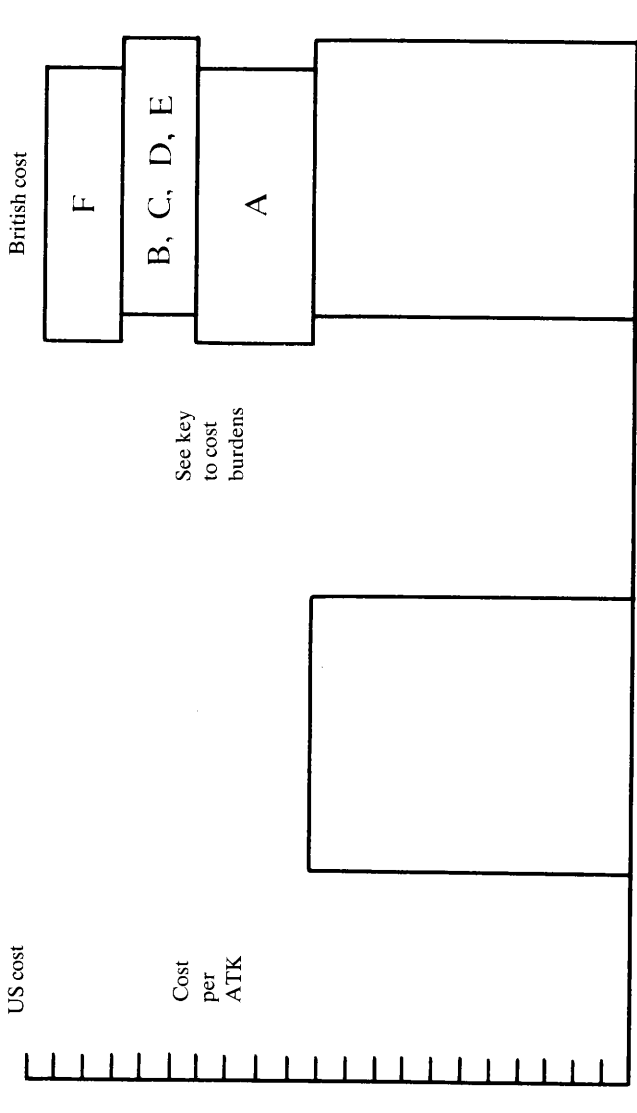
European and domestic US fares compared with distance flown



Source: IAEA.

Annex II-11

Anglo-American cost levels



Key to cost burdens

- A Costs outside control of the airline
e.g. higher European fuel and oil prices, landing fees, navigation charges and insurance rates; the size of the US air travel market.
- B Costs due to external constraints
e.g. shorter operating day in Europe due to night jet bans and travel habits; US aircraft are more economical on fuel; ability to operate multi-sector flights in the US.
- C Costs due to differing accounting policies
e.g. method of cost amortization, or allocation of costs.
- D Costs due to different customer service standards
e.g. in-flight meals, higher ratios of cabin crew to passengers in Europe.
- E Costs attributable to operating in the European multi-market environment
e.g. Agent's commission costs more than in US; higher advertising expenditure; costs of operating in 30 different countries.
- F Costs attributable to conditions of employment; work-place culture
e.g. Lower pay levels in UK and Europe; system and organization differences; supervisory ratios; job flexibility in USA.

Source: British Airways.

Annex II-12

Comparison between European and US airlines (1977)

Aircraft productivity

Averages per aircraft	AEA local Europe	US trunks domestic	US index AEA = 100
No of seats	120.4	145.7	121
Rev. pax load factor (%)	58.9	56.0	-2.9 pts
A/C stage distance (km)	709	954	135
Daily utilization (hours)	7.2	8.8	122
No of landings per day	5.2	5.5	106
A/C speed (kph)	510	595	117
Daily productivity (000 ASK)	442.1	762.9	173

Source: SAS.

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In an effort to initiate among the Community institutions a dialogue structured around a number of basic proposals aimed at widening the scope for innovation in the Community's civil aviation sector and at preparing the way for specific actions, the Commission has sent to the Council, the European Parliament and the Economic and Social Committee a memorandum on the contribution of the European Communities to the development of air transport services.

The memorandum spells out the long, medium and short-term objectives which a Community policy might pursue in the civil aviation sector and specifies a number of measures which — in the Commission's view — might usefully be taken in the short or medium term to widen the structure of the market.

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