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**“EU-US Aviation: Rising to the challenges.”**

Thank you for that introduction John.

It is a real privilege to speak at this prestigious club, before so many colleagues and friends of both sides of the Atlantic.

Four years ago in November 2004, I had the opportunity to speak before the IAC, I had just been appointed Director of Air Transport in 2004. Talks between the EU-US had broken up in June that year, and I pleaded for the negotiations to be completed rapidly. I remember my speech was so successful that I did not get asked a single question at the end.

Today the situation is very different. Much progress has been achieved in the past four years in our transatlantic relations. The EU and the US have concluded a ground-breaking "Open Skies" agreement, we have enhanced our cooperation in safety, ATM and green skies.

Since March '08 new services have developed, stronger cooperation between airlines is being put in place. All this is good news because it benefits consumers and our economies as a whole. There is now even an airline called "Open Skies" flying from Paris to NY under the EC code.

## **The contribution of aviation**

Air transport should be an excellent example of our privileged transatlantic relationship.

First of all, because of the vital role of aviation for our economies. The airline industry provides jobs to 32 million people and generates 3.5 trillion dollars in economic activity. In 2007, 2.3 billion people were carried worldwide on airlines. This is more than one third of the world's population.

The industry should be congratulated for its performance. It is a great servant to its users.

Yet, more than ever, we all know the industry faces big challenges.

## **An industry facing challenges**

High oil prices, the credit crunch, the recent financial crisis, increased concerns about aviation security and emissions, capacity limitations on the ground and in the sky, and weakening global economic performance are just some of the problems facing the industry. This is what Giovanni Bisignani has called a "perfect storm" with losses expected to reach 5 billion dollars this year.

Airlines around the world have fastened their seatbelts for what could be a pretty long and turbulent flight.

Challenges to the industry are not new. We know that the industry has throughout its history encountered - and overcome - challenges.

The difference today, is not just the extent of the challenges facing the industry, but also the fact that the industry's room for manoeuvre is becoming more and more limited.

What do I mean by this?

I mean that the skies and airports in which the industry operates are more and more congested, the expectations of the public higher, the competition fiercer and – reflecting all this - the regulations more demanding than ever before.

## **The role of Government**

Perhaps most fundamentally, the task of finding many of the solutions lies now as much with Governments as with industry. For many in this room, this may be a frightening notion and I apologise for scaring you!

However, this does not mean that we face a big-Government vision for the future. In many ways it means identifying failures in the way that we are regulating the industry at the moment and correcting those mistakes. This may mean regulating differently, or - in some cases – avoiding or doing away with too many burdensome rules.

In many cases, Governments will not find the best solutions without the cooperation of international partners. We will be best placed to tackle major issues by working together with key, like-minded partners.

When Europe sits down with the US to discuss aviation issues, we sit down with the knowledge that the countries, on behalf of which we negotiate, are responsible for almost 60% of the global industry. Both Europe and the US have advanced, mature aviation markets and share the same aims: a safer, high performing and sustainable industry that can best fulfil the needs of its users and of our wider economy.

Together we have a common interest and a combined influence. The agreements we reach have therefore great relevance for the development of aviation in the rest of the world. It also requires us to act responsibly.

This spirit of cooperation is the inspiration for the approach both sides have adopted in their discussions in the EU-U.S. negotiations:

- Cooperation between the US DoT and Europe's DG Comp on alliance issues;
- the development of arrangements for joint security inspections,
- and perhaps most importantly, the establishment of the EU-US Joint Committee, where many of us here today, have been discussing the latest state of play on the implementation of the stage one agreement, in a very wide number of areas.

I would like to discuss today how to deal with the question of how to respond to the challenges facing the industry, I would suggest that Governments, acting together, have a key role. And the EU-US relationship is key to this search for solutions.

Where should we be focusing our attention?

I believe we should focus on three key areas where action is urgent:

- Tackling the capacity crunch
- Ensuring sustainability of air transport
- Increasing the competitiveness of the airline industry

We need to address these three key priorities if we want air transport to continue developing in an efficient, sustainable and competitive way in the years to come.

### **(1) The Challenge of capacity**

Industry has, to some extent, become a victim of its own success. We are facing in Europe and in the U.S. considerable capacity constraints, both in the air and on the ground.

In the air, the ATM systems in the US and Europe are starting to show the strain. In Europe we know that the average distance flown per route is 49 kilometres longer than a potential direct route because of the fragmentation of our airspace. This represents between 7 and 12% of extra fuel burn per flight, creating an additional 5 billion tons of CO<sub>2</sub>, or one billion euros of extra cost.

If we add other fragmentation and delay associated costs, the total cost of inefficiencies amount to more than four billion euros per year. Such waste is simply unacceptable.

To cope with these challenges at a regional level in 2000, Loyola de Palacio launched the "Single European Sky" initiative, creating a common set of rules, harmonised procedures and a single organisational framework, complemented by a technologically innovative programme called SESAR.

In June this year the Commission launched the 2<sup>nd</sup> SES package based on four pillars:

- performance,
- technology,
- increased safety,
- an action plan on airport capacity

We believe that the future European system should be based on performance targets in the fields of safety, capacity, flight and cost efficiency and the environment. This is in full alignment with the performance-based concept proposed by ICAO at a world-wide level, and confirmed two weeks ago at the ICAO assembly on the issue.

SESAR's performance-driven approach aims at enabling a three-fold increase in capacity, improving safety by a factor of

ten, reducing environmental impact by 10% per flight and cutting ATM costs by 50%. That is right: – 50%.

In the US, this is nothing new for you. Your NextGen programme envisages many of the same areas of focus. We must ensure that our ATM systems interface as well over the Atlantic Ocean as they do over the Alps or the Adriatic. To achieve this it is essential that Europe and the US work together to ensure that we reap the most from our combined efforts.

Europe will be proposing in the negotiations on a second stage agreement that we include in the final agreement a commitment on this important issue, in particular on the development of common approaches and measures to promote interoperability with the aim of creating a global, seamless ATM system.

The recent ICAO Symposium, two weeks ago in Montreal, was an excellent opportunity to present our programmes to the world, and to highlight ICAO's key role in ensuring global interoperability. I would like to pay tribute to the real partnership we are establishing with the FAA in this area, since the signature of an MOU between Jacques Barrot and Marion Blakey in Farnborough two years ago.

We are also working hard to create flexibility in the rest of the system. Ensuring that airports are not overwhelmed by traffic is a key concern on both sides of the Atlantic.

In Europe we are doing what we can to add some flexibility to the system of slot allocation in order to free up constraints and encourage slot mobility. On 30 April, the European Commission issued a Communication which gave legal certainty to the operation of secondary slot trading in Europe. The Commission acknowledged the vital role that purchases (or transfers with alliances) have had in facilitating the entrance of new operators such as Continental, Delta, Northwest, and US

Airways at Heathrow – Europe's most capacity-constrained airport.

This should be complemented by the action plan on airport capacity. The European Observatory on Airport Capacity which we will launch next month will play a key role in monitoring the capacity situation, identifying key needs and preparing for the future.

My presentation would not be complete without referring to safety. This is our permanent challenge. In spite of our efforts Europe had a tragic accident this summer. We will propose to strengthen the role of the EASA in Cologne to encompass airport safety and ATM certification, to be able to deal with these matters with a "total system approach" and avoid any loopholes in our system.

## **(2) Sustainability**

And of course capacity constraints are inextricably linked with the next area in which Governments have a role to play – that of the environmental challenges facing aviation.

For much of aviation's history, the single most important environmental issue confronting the industry has been aircraft noise. In Europe in particular, the extent to which many of our major airports have been able to expand has been dependent on the ability of the air transport industry to contain or reduce the impact of aircraft noise on the communities surrounding those airports. This has required enormous efforts, and the progress made by the industry in reducing the noise impacts of aircraft has been impressive.

But noise is no longer the environmental issue that attracts the most public attention when it comes to aviation. Aviation's impact on climate change is a headline issue in Europe, and I believe the profile of this issue is rising in other parts of the world too.

The Global Declaration on Aviation and Climate Change adopted by IATA in April this year declared that the industry is committed to a pathway to carbon-neutral growth and aspires to a carbon-free future. These are very ambitious objectives. And the declaration recognises that industry will not be able to meet them on its own.

It called on Governments to take action.

So how are we responding in Europe? Well in fact we are not "responding". Because the EU was already moving ahead with concrete action in each of these areas. The EU is fully committed to addressing as effectively as possible the climate change impacts of aviation, while ensuring that it supports the industry's own efforts to reduce its impact.

We need a comprehensive approach to be effective:

- R&D, with the "Clean Sky" programme of 1,6bn € (the highest figure in R&D) will provide results in avionics to improve the environmental performance of our industry.

- The SES, SESAR and ATM are expected also to yield significant results. Together with the US in Le Bourget last year we launched the AIRE initiative ("Green Transatlantic Flights") aimed at launching pilot flights across the Atlantic through the most efficient flight paths and continuous descent approaches to reduce emissions.

But none of these measures will be enough in the short- to medium term to offset the growth in emissions resulting from projected traffic growth. And that is why the EU believes it essential to supplement these research and operational measures with market-based measures.

Let me be clear on one thing. The fact that the EU is moving ahead with including aviation in the EU emissions trading scheme is by no means inconsistent with seeking a global approach. Quite the opposite.

Climate change is a global problem, and the only long-term solution will be a global one. This is why the EU is fully committed to working through ICAO, in close cooperation with the US, in order to identify concrete actions that will be applicable worldwide. We are also working through the UNFCCC with the goal of setting clear global targets and guidance. And we are also working on a bilateral basis with our partners around the world with the goal of ensuring that other national and regional initiatives are properly coordinated with the EU's system.

In addressing aviation's climate change impacts, the greatest challenge is to find a common approach with international partners, and there is no doubt for me that the EU and US will be together at the forefront of meeting that challenge.

### **(3) The economic regulatory framework**

The last challenge we are facing is tackling the restrictions on the commercial freedoms that airlines should be entitled to when attempting to shape their future.

At first glance, this challenge would appear to be the easiest of those I have discussed.

It is the easiest because the challenge does not involve incomprehensible technological issues of ATM compatibility, or the costly and lengthy building of new airport runways in congested cities. Nor does it involve debates on the radiative-forcing effects of aviation emissions or NOx-CO2 trade-offs. It is, at least at first glance, a debate about words.

It involves words like "traffic rights", "voting rights", "nationality restrictions" which have great significance and even symbolism, such that I have been advised by a number of well-meaning people not to use the "c-word" whilst in Washington, as it is loaded with meaning, way beyond its literal description of the offering of domestic services by a foreign carrier. I have

also been told not to use phrases like "normalisation of the industry" as that is apparently too casual a summary of such weighty issues.

I am becoming scared to open my mouth to address this issue. It is a minefield!

The reason of course is that these words represent a way of doing things in this industry that in most of the world has remained unaltered for many years: carriers owned by nationals of the same country, based and regulated in that country.

Challenges to the status quo create fear and distrust amongst those that depend on the industry as it is currently structured. However, it should not.

What Europe is trying to do is really not so new.

Since 1992, Europe has worked hard to create an aviation sector where foreign ownership and control is possible across borders, where carriers have well-developed and profitable hubs in other countries, where labour in the same company can be employed under national contracts. The world has not stopped revolving. In fact, the results have been very positive:

- 36 countries are now committed to the same aviation rules in the European Common Aviation Area, in a market of more than 560 million annual passengers.
- The number of passengers annually flying within the EU has nearly tripled since 1993.
- Unsurprisingly, the number of airline routes within the EU, has also increased 300% since 1993. It has also been pro-competitive. Number of routes with more than 2 competitors rose by 450% between 1992 and 2007.
- And crucially, there have been no compromises made to safety and security standards. In fact the record in both these areas has improved.

There is no doubt that the creation of the European Common Aviation Area has led to benefits for consumers, economies, airlines and employment:

So can the EU and US work together to maximise Transatlantic benefits? That is a key question for the second stage discussions which start again tomorrow. At those talks Europe will be proposing that we move forward and do away with the remaining constraints in the stage one agreement so that no distinction would be made between European- and US-owned carriers when operating in each others' markets, and that we encourage our carriers to expand into other markets by removing the restrictions on ownership there.

This is not a sovereignty issue. It does not dictate that the US to join the EU, or indeed the nations of Europe becoming the 51<sup>st</sup> to 77<sup>th</sup> States of the Union! It is far more prosaic; more mundane: it is simply a logical extension of the principle of non-discrimination; the sharing of approaches; the recognition of standards.

To do this, we need the US Government to agree. Can we succeed? Well it will depend on a number of factors.

Firstly, we need to agree on the general direction of change.

It is frequently observed that Governments and companies become more protectionist when facing difficult times. Some are tempted to seek security by calling for curtailed competition. For example, there are calls for re-regulating aviation in the face of the troubles there by placing price and capacity controls on aviation.

There is plenty of evidence to show that the effect of protectionism can be counter-productive. Airlines are already cutting back services and raising fares in the face of rising costs and falling demand. That is a sensible rational reaction. Proposing further artificial constraints on competition by erecting new barriers to the market is not.

This would indeed be the worst response. Europe would argue that this is an opportunity to step up the pace of change. But with a focus on responsible change that secures fair conditions for airlines, passengers, and employees.

Secondly, we all need to understand the urgency of the issue.

The conditions currently facing the industry strengthen the need for change in the industry:

- High oil prices strengthen yet further the need for companies to examine their cost base and strip out unnecessary overheads.
- The credit crunch suggests airlines may need to look afresh at their capital requirements, and consider new sources such as foreign investors and even other airlines. We need to make easier the access of international capital to the air transport sector.
- Weakening demand strengthens the need to explore new revenue sources in markets which are currently placed off-limits by restrictive international agreements.

We need to solve these issues in our 2<sup>nd</sup> stage agreement to place the industry on a firmer footing. The biggest threat is the status quo, characterised by markets which are still restricted; investors and airlines that are still limited in what options they can explore to strengthen their balance sheet or enhance their cash flow. Furthermore, there are barriers to restructuring, capital-raising, the transfer of management expertise, diversification of revenues, synergies in overheads, brand-strengthening...the list is long and covers almost all aspects of an airline's business. How can an industry fight the battles it faces with one hand tied behind its back ?

The industry needs more access to international capital. This is not an idea from the European Commission. Listen to any IATA

speech and they will tell you the same: "To be successful and continue providing jobs to 32 million people, airlines must be able to do business like any other business." Airlines need greater freedom to access foreign capital and foreign management expertise.

### **Regulatory cooperation**

Europe will also push in this second stage negotiations to reinforce our cooperation in key regulatory issues: such as competition, safety, security, ATM or the environment. Market access and close cooperation are the two sides of the same coin.

We believe we should continue the path of the 1<sup>st</sup> stage agreement and also reinforce the Joint Committee as a key instrument to manage – with the participation of industry – our Transatlantic aviation relations, to promote compatible regulatory approaches leading to mutual recognition.

And we also need to take into account the timetable we agreed for this 2<sup>nd</sup> stage of the EU-US discussions. Our stage one agreement includes an obligation on the parties to *'review their progress towards a second stage agreement no later than 2009* and, following which 2010 the suspension clause of the agreement could be activated.

It would be wrong at such an early stage of stage 2 negotiations to discuss this clause. Nevertheless, we have to be aware: the clock is ticking. We need to act urgently. Not because of the deadlines set by the agreement, but because of the need to respond without delay to the constraints facing our industry.

Europe will work very hard to address the concerns raised and is ready to work together with the US to find the solutions. We need to better understand the issues in order to propose solutions. What are the concerns about labour? Or defence? Or security? And how can these be overcome.

In this regard, we are encouraged by the incredibly helpful input that labour stakeholders and others have had in the preparations for the Labour Forum that is to be held in Washington on 3-4 December. The event is intended to gather information and views on the impact of the first and second stage reforms on labour in order to better understand the concerns and articulate the solutions. We applaud this spirit of constructive engagement which will be essential in our mutual search for solutions to legitimate concerns.

So we are doing our best to tackle the thorny issues and we look forward to this 2<sup>nd</sup> round. We are also relying on John Byerly's legendary capacity to succeed and in the excellent work of DOT officials like Paul Gretch and Mary Street.

But we are also committed to extending this Agreement to third countries. Some have already expressed their interest (Norway and Iceland), and we are ready to study US proposals in this area. This fits very well the European approach of maximising the benefits of aviation by reducing the unnecessary barriers within the sector.

## **Conclusions**

Ladies and gentlemen, dear friends,

In every crisis lies also opportunity.

There is no doubt that our industry is facing very tough times. What is needed in response, is a doubling of our efforts to give the industry the freedom, and the tools to respond, to make it stronger. To unleash its full potential by bringing down the barriers that hamper its normal development.

After all, the aviation industry has always succeeded in overcoming obstacles and past crises.

But for many of the challenges ahead, it will need the help of Governments. And not just the US Government or the Governments of Europe acting in isolation. We will have to work together. Global aviation is increasingly a team-game and not an individual pursuit.

Let us continue to work to pursue this huge transatlantic enterprise which involves developing together ideas and common approaches. The ball is no longer in the other's court. This is a doubles game now without an opponent!

The EU-US first stage agreement was a major achievement because it puts forward the strong desire to cooperate more closely. I am proud to be part of a process which has at its core a desire to bring the Governments, industries and people of Europe and the US, ever closer together.

Let us drop any ideas of who owns what - be it airlines or ideas - and instead focus on what will work for the good of aviation. Tomorrow when we sit down again to discuss a possible second stage aviation agreement, let us keep this in mind.

I would like to finish with a quotation. I am told no speech is complete without a final quote.

And let me conclude with a phrase from Loyola de Palacio, the visionary Vice-president of the European Commission who did so much to strengthen EU-US relations and sadly did not see our agreement happen. She used to say: "*For me, the only lost battle is that which is not fought*".

Let us join forces to win, in spite of the difficulties, the battle for the future of this great industry.