

“Old World, New World”

Differing Perspectives and Changing Perspectives on the Airline Industry

**ADDRESS BY KARL-HEINZ NEUMEISTER, AEA SECRETARY GENERAL, ON
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When we began preparing my address to you here today, the working title was ‘Across the Great Divide’ but when we looked into the Internet to find the source for this particular quotation, we discovered it was one of the most over-used clichés imaginable. Such a distinguished gathering as this deserves better, so we decided to entitle my speech ‘Old World, New World - Differing Perspectives and Changing Perspectives on the Airline Industry’.

In any case, when it comes to civil aviation, there is far more to unite Europe and North America than to divide us. At the last count, there were about 1,370 US built jet aircraft in the AEA fleet, or on order, while the corresponding figure for US majors was 790 European-built aircraft.

Clearly, the airline industry on either side of the Atlantic contributes substantially to the prosperity of the aerospace industry on the other side.

Last year, the AEA airlines received about five billion dollars of revenue from the sale of tickets to US citizens. The US majors earned a very similar amount in Europe. Again, we are talking about a huge volume of transatlantic trade which was generated by the airline industry, to the mutual benefit of both economies.

I am always somewhat surprised when, in the event of some trade dispute or other disagreement arising between the USA and Europe the suggestion is made that steps should be taken to use the airlines as leverage.

Just recently such aviation related issues as hushkits and airport access have threatened to block supersonic flights between Europe and the US and a couple of years ago there was talk of a politically-imposed reduction in air services following a squabble over bananas, for goodness’ sake.

Those who try to serve their political agendas by dabbling in the affairs of the airlines should first consider that our success in the US and Europe is so closely linked that, sooner or later, what hurts one side, will also hurt the other.

Let us just look at the first of the trade issues I mentioned, namely hushkits. Given the amount of heat generated on this side of the Atlantic, I seriously wonder whether I must have mis-read the proposed European rule. Just where, in or around the EU, do US airlines think they can sell the estimated 1,750 converted aeroplanes, most of which are 20 years old or more, whose re-sale value they claim will be destroyed?

Whether it’s worth fighting over or not, the hushkits issue does illustrate some real differences between the USA and Europe. Europe accuses the US of bullying; the US accuses Europe of back-door protectionism. The US insists that any further round of noise reduction must be made globally through ICAO, while in Europe’s view, the US must carry a lot of responsibility for the lack of progress within that organization. Europe believes that the existing Chapter 3 standards, which date from 1977, need to be revised. Can we be sure the US shares this view?

To build the new infrastructure for aviation which the airline industry needs is politically difficult (and not just in Europe); it will be politically impossible unless we can assure people that the noise effect of the new infrastructure is tolerable. It does not come as a surprise that the EU, in its frustration at the lack of progress in ICAO, went ahead with its unilateral action.

AEA too prefers ICAO as the ideal way to solve common problems, but it has to be responsive to the requirements of the people. It cannot be used merely as a forum for the advancement of national interests - down that path lies inevitable stalemate.

If we cannot reach our primary goal, in other words a global agreement, we in Europe are willing to settle for second-best, namely a regional solution. Why? Because there is a third option, a local one, in which every airport sets its own noise rules and that is where we are now, and it makes our day-to-day operations very difficult indeed.

I would like to mention here, as an aside, that in Europe we have our own mini-ICAO, called ECAC, which amongst other things is the guardian of Air Traffic Control. ECAC is another forum in which the participating States tend to cling to power at the expense of true cooperation, with the result that the ATC system in Europe has reached its limits. Any US airline which flies into European airspace will confirm that.

We're fully aware, of course, that you in the US have your own ATC problems. As I understand it, you have few centres with large areas to control, using outdated equipment. In Europe we have the opposite situation: state-of-the-art radars which aren't permitted to be used beyond the boundaries of the ludicrously small control areas they survey.

While on the subject of airborne navigation, let me briefly touch on another area in which the US and Europe threaten to go off in different directions, and this is satellite navigation. If we discount the Russian GLONASS system, the USA has a monopoly on global position-finding with GPS, which of course is military controlled. Now GPS is a very fine system, and one which could easily meet the needs of the world's airlines, if they had access to its full functionality and guarantees as to its availability.

Since there is no move on the part of the US to submit GPS to international civil control, we are now faced with the prospect of a European global positioning system, Galileo. Another satellite network to be paid for. A second set of hardware and software in the cockpit. Another regional solution where a worldwide one would be to everyone's advantage.

So, to sum up so far: we talk the same language, but we don't always share the same viewpoint. I would argue, though, that the European and US airline industries are growing closer all the time.

One obvious catalyst for this process is deregulation. Europeans went about it a cautious, or should I say clever, way. We had the advantage of being able to observe the US experience for fifteen years before we took the plunge. When we finally liberalised, we took the process one giant step further than the US, in that we liberalised across national borders. Within our free-trade zone of seventeen countries, the concepts of foreign ownership, fifth-freedom and even cabotage have been abolished.

I came to Brussels to join AEA at about the time of the first stirrings of European liberalisation and it is no secret that a number of AEA member airlines were strongly opposed to it. In fact, a number of airlines firmly believed that, if they resisted strongly enough, they could prevent it altogether. One of my first tasks was to convince them that, in the long term, these changes were bound to occur, and that they had better start preparing for them.

In the course of this exercise, I came to the realisation that, essentially, liberalisation meant two

things:

- You can enter the other guy's markets
- The other guy can enter your markets.

Therefore, your attitude to it, positive or negative, depended on whether you perceived yourself to be stronger or weaker than the other guy.

If any proof were needed as to the effectiveness of liberalisation, 1998 produced a set of financial results for the AEA carriers where the 'traditional' profit makers were joined, and in some cases surpassed, by the 'traditional' loss makers. When the economic environment is favorable (which, sadly, it was not in 1999), we do seem to have arrived at a win-win situation.

As we have become converts to the notion of market liberalisation, we Europeans are looking to see how we can extend the concept, and its benefits, into new areas. Obviously, the European Union is going to grow in size over the next few years, so more countries will automatically become part of the Single Market for air transport.

This is an area where Europe has gone from a follower to a leader. For us, the next logical step is to begin to look at a Single Market that is greater than the one we have at present, a market that encompasses both Europe and the US. We in AEA refer to it as the 'Transatlantic Common Aviation Area' (TCAA).

Let us examine where the idea comes from. The airline industry is becoming indeed has become - global. Multinational alliances are the norm and are accepted as producing benefit for both airlines and consumers, and every major alliance has an EU-US airline partnership at its core. It makes little sense that the markets which comprise the backbone of these alliances - domestic US, transatlantic and intra-EU - should each have a different regulatory regime.

The TCAA vision contains new thinking, and that always makes people slightly nervous. But, to look at it another way, it is only the next step in a process which began more than twenty years ago in this very city. We are talking about evolution, not revolution.

Evolution will require some significant steps forward. You probably know what I mean. Take ownership rules, for example. Within our single market, access to all its benefits is open to all carriers which are majority-owned by EU citizens or entities. In your market, 75% US ownership is required.

Obviously, one goal of an EU/US Transatlantic Common Aviation Area would be to create the 'level playing field'. We would expect to see the harmonization of ownership rules and perhaps, ultimately, the abolition of them altogether. The economics of Europe are full of companies owned in the US, while the US has many European-owned companies. Why shouldn't EU and US airlines have the opportunity to behave more like industries in other economic sectors?

Now, before you turn on your "automatic pilot" reaction to what I just said, let me make a few more observations of a general nature.

We Europeans are not naive about the reluctance, and indeed resistance, of various interested parties in the United States to such change. We understand the concerns about- amongst other things - safety, labour, flags of convenience, and the presence of some players in the game who are still wholly or partially government-owned. These are legitimate issues which need to be discussed and addressed.

One of your great Presidents, Franklin D. Roosevelt, said, "The only thing to fear is fear itself". I wouldn't go that far in this case, but I would remark that fear of the unknown is a great inhibitor of

change. For my part, I often wonder: What is the US afraid of? You are the mightiest, strongest, leanest aviation industry in the world. Do you really believe that European airlines are going to flood the US market with airlines, aeroplanes and flights? That's not going to happen.

What we need to do right now is talk. Using an American idiom, since your baseball season has begun, you can't get to first base if you don't show up to play the game. From the European side, I can assure you we are ready to talk. I am particularly glad that the TCAA concept has been picked up by the European Commission and broadly welcomed by the Member States.

As a first step, we need to separate the wheat from the chaff, the unfounded fears from the constructive concerns, the red-herring arguments from the legitimate issues. We should talk with, not around, each other, and we should not have preconceived boundaries of what we will talk about.

Maybe baseball is not the best metaphor, because a baseball game has to have a winner and a loser. In our vision of the TCAA, we see liberalisation as offering another "win-win" scenario for the airlines on both sides of the Atlantic, but, more importantly, a "win-win" for consumers as well.

And here's the reason why, ultimately, European and US airlines have much more to unite than to divide them. We don't fly Boeings, we don't fly Airbuses; we fly people. Our customers have the same expectations and priorities; in many cases they are the same individuals.

Here is an area where we are still teaming from the US, and indeed following in your footsteps. Your Customer Service Commitment initiative has made such an impression on us that we are 'borrowing' the idea for ourselves!

We are intending to present to the European Commission our blueprint for an 'Airline Passenger Commitment'. While the name differs slightly from your version, the substance, I have to admit, is very similar indeed. If I can publicly thank the authors of your document, we very much appreciate the work they put into it, because it has made our task easier!

In my career in aviation, the US has always represented the cutting edge, not only in technology, but in ideas. If I had to pick one that typified the farsightedness which drove your industry forward, I would choose the CAB planning for its own 'Sunset' - if only some European regulators would decide they were surplus to requirements.

I regret to say, however, that, the more Europe has adopted US ideas, and the more European airlines have become the commercially-minded animals that US carriers have always been, the more we see that the US is not entirely a paragon of free-trade doctrine.

I urge the US to look once more to the future, and to once more play the role of leader on the global stage. Act decisively to secure the next round of noise reduction within ICAO, and to join with Europe in creating a unique intercontinental free-trade zone for aviation. There should be nothing to fear: after all, this is the 'Land of the Free and the Home of the Brave'.