



European Economic and Social Committee

CCMI/071
European aviation relief
programme

Brussels, 7 December 2009

OPINION

of the
Consultative Commission on Industrial Change (CCMI)
on the
European aviation relief programme
(own-initiative opinion)

Rapporteur: **Mr Krawczyk**
Co-rapporteur: **Mr Philippe**

Administrator: Adam Plezer

On 16 July 2009, the European Economic and Social Committee, acting under Article 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on the

European aviation relief programme.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 November 2009. The rapporteur was Mr Krawczyk and the co-rapporteur was Mr Philippe.

At its ... plenary session, held on ... (meeting of ...), the European Economic and Social Committee adopted the following opinion by ... votes to ... with ... abstentions.

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1. Conclusions and recommendations

- 1.1 The crisis is unprecedented; it impacts all the elements of the air transport value chain (the Value Chain), although in differing ways. In a partially deregulated environment, whereby only the last link of the chain (the airlines) has been submitted to a proper liberalisation, the other components can partly or fully mitigate the losses in revenue generated by a decreasing traffic either by making improper use of the so-called “cost recovery principle”, or by abusing their competitive position.
- 1.2 The resilience of the European aviation, and therefore its international competitiveness, is at stake. Whilst other regions in the world have taken quick and effective measures to remedy the temporary dip in passengers and cargo, their European counterparts face problems of another nature, with important negative effects on their suppliers. Governmental taxes of all sorts, still increasing costs for the use of infrastructure (airports, ATC), shortage of funding available, unilateral environmental constraints, are only a few examples of the reality faced by European aviation sector.
- 1.3 This Opinion outlines the number of short-, and mid-term measures that the decision-makers are urged to consider and implement if European aviation is to successfully combat the crisis and come out of it as resilient as it was before.
- 1.4 Restructuring of the Value Chain should be understood and followed up by all participants in the traffic: airports, air navigation service providers (ANSP), ground handlers, airlines and aircraft manufacturers.

- 1.5 EESC reminds that European aviation sector as a whole is considered to be of strategic importance for Europe, it is a vector of growth due to highly qualified/skilled staff. For this reason, measures needed to be taken to - overcome the crisis, that affects the sector - must allow to keep competences that will be necessary to guarantee the development of the European industrial and technological base.
- 1.6 In order to better anticipate future industry/sector evolutions, development of social dialogue between stakeholders and actions for training and forward-looking management of skills and jobs must be encouraged. Public and private stakeholders must engage in activities sustaining exchanges between schools and industries as well as supporting R&D necessary to develop the sector.
- 1.7 Proposals for European aviation relief program are covered in Item 9 of this opinion. They include initiatives related to:
- Infrastructure adjustment and cost,
 - Financial challenges caused by the lack of financing available and shrinking profits,
 - Environmental concerns,
 - Regulatory environment,
 - International competition.
 - Research and development.

2. **The impact of the crisis on the aviation industry**

- 2.1 In March 2009, the International Air Transport Association (IATA) predicted that losses for the global airline industry would reach USD 4.7 bn in 2009, but in May revised its estimate of the losses for 2009 to USD 9 bn, and subsequently to USD 11 bn in September. For 2010 it is to continue at a level of USD 3.8 bn.
- 2.2 In terms of demand, members of the Association of European Airlines (AEA) faced a drop in passengers of 8.2% during the first semester of 2009. Premium traffic has dropped by more than -19.9%. Cargo operators were hit by -22.1% drop in demand in the first six months of 2009. This data is confirmed by Airports Council International (ACI) with estimate of demand drop of 8.1% in passengers and 21.1% in cargo. According to ACI in the first 9 months of 2009 top European 25 airports lost 41 million passengers European Regions Airline Association (ERAA) representing carriers operating intra-Europe flight, recorded a collective drop in passenger traffic of 7.2% for the first half of 2009.
- 2.3 In 2008 the air transport sector provided roughly 1.5 million jobs in Europe, of which airlines were by far the biggest contributor, accounting for 49%. During the first semester of 2009 alone, AEA members reduced staff by 34 000 (around 8% of the total workforce), with a cascading effects on an estimated 90 000 "indirect" jobs throughout Europe, of which most are of a highly skilled nature. Airport in Amsterdam has been also an example of large scale staff reduction

- 2.4 Despite severe capacity cuts on the supply side, the operating results of the network carriers have fallen from a negative EUR -0.2 in 1st quarter of 2008 (Q1) to EUR -1.9 bn in 1st quarter of 2009 (Q1). According to IATA European airlines will be hit by the highest loss of \$3.8 bn in 2009. ACI forecasts that European airports will loose 98 million passengers in 2009, with the smallest airports being hit the hardest.
- 2.5 In Europe more than 33 carriers have gone bust, or are just about, since the start of the crisis (from September 2008 to September 2009).
- 2.6 According to the latest Analyses of the European air transport market in 2008 prepared for the European Commission Airbus has booked in 2008 41.3% orders less than in 2007, which was an exceptional year for orders.
- 2.7 From a manufacturers' point of view, 2009 so far was equally bad. As of October 2009, Boeing had secured total orders of 195, and 111 cancellations for a net inflow of 84 orders only. In the same period, Airbus had 149 orders and 26 cancellations, for a net inflow of 123. In comparison, last year both companies logged respectively 662 and 777 orders.
- 2.8 Faced with falling orders and delivery extensions and/or reductions, aircraft manufacturers see little room for manoeuvre and are trying to protect their results by cutting costs. At the same time, this influences their capacity to invest in developing new technologies and new planes.
3. **Longer-term implications for the sector**
- 3.1 The strategy adopted by the prime contractors (Airbus, Boeing, Dassault, ATR, Alenia, Safran, Goodrich, Thales, Liebherr, etc.) aims to cut development timeframes and costs, while relocating production and research also outside Europe. Suppliers and sub-contractors are compelled to adopt this strategy vis-à-vis their own partners¹.
- 3.2 Were a significant fall in orders to coincide with the contractors' strategy, this would create workload difficulties for many sub-contractors, whose survival might be jeopardised. In the same logic, company strategies including measures of relocation and technology transfers outside Europe must be questioned, in view of their social impact (on the draining of financial resources, on the loss of competitiveness and added value, on the environment and the socio-economic tissues).
- 3.3 This policy in the long term can lead to considerable highly qualified job losses in Europe. These job losses may seriously worsen the competitiveness of the industry in Europe.

¹ See also the EESC opinion on *The European aeronautics industry: current situation and prospects* (OJ C 175, 28.7.2009, p. 50-56

- 3.4 Rising unemployment, shrinking private incomes, and the confidence crisis have led passengers to cut down on travel, shun business class, and switch from airlines to alternative forms of transport.
- 3.5 If in 2001, AEA members experienced a 7% drop in revenue and took three years to get out of the red, the situation today is twice as bad. An overall loss of 15% seems to indicate that airlines will take more than three years to get back to normal.
4. Airline cost-cutting is not backed up by simultaneous action on the part of airports and Air Navigation Service Providers (ANSPs). Reactions to the economic recession are not uniform throughout the Value Chain.
 - 4.1 In addition complex network of often contradictory legislation limits the ability of the aviation industry to respond to the challenges of the crisis.
5. Airlines control directly only 37% of what constitutes their operating costs. Another almost one third, are generated by items outside of their direct control. Among them:
 - 5.1 "External" operating costs represented a total amount of EUR 50.5 bn in 2008 and even though largely uncontrolled oil price constituted the bulk of them (more than 45%), a remaining 55% (EUR 27.5 bn) of these costs are constituted, amongst others, of airport and ATC charges.
 - 5.2 Airport charges, which represented a total cost of EUR 2.8bn last year, rose suddenly by more than 5% at many airports. Only a few airports across Europe were able to complement their users' efforts with comparable reductions in their charges. On average airport charges per passenger increased by 15% in Q1 2009.
 - 5.3 Rising oil prices are a threat to airline sustainability. The price of jet fuel has risen by nearly 50% since the beginning of the year. According to IATA average fuel price will increase from UDS 61 per barrel in 2009 to UDS 72 in 2010.
 - 5.4 Similarly, Air Traffic Control (ATC) unit rates rose in Q1 2009 by an average of 3.4% throughout Europe. This increase was justified by the "cost recovery" principle that allows each ANSP to compensate for the diminishing traffic by raising charges.
 - 5.5 The idea of a Single European Sky – so far missed opportunity, which was supposed to bring cost rebates of up to EUR 5 bn per annum and improvements through more direct routing of 16 m tonnes of CO₂ emissions – will not influence the short-term economic reality Functional Airspace Blocks (FABs) will not come into force until 2012.

- 5.6 Cost structure of the airlines exposes them to the slightest fluctuation in oil prices. In the interests of the economy as well as corporate social responsibility, immediate and urgent action is required to promote the use of "revolutionary" engines and fuel. In this way, a strong support for funding R&D is essential.
- 5.7 The development costs of aviation programs are increasing constantly, thus the financing of new aeroplane deliveries is getting more difficult. When the airlines do not have access to financing by banks, the whole aviation sector is weakened
- 5.8 There is a need to study new financing arrangements for aircraft development and production by relieving industrialists and operators of cash disbursement constraints via smoothing mechanisms at the time of payment for aircraft.
- 5.9 Historically, public contracts associated with military aeronautics programmes have always supported the sector (predominantly dual) during lows in the cycle. We undoubtedly need to give immediate consideration to the possibility of ensuring such support, coordinated at the EU level, which would also facilitate the reorganisation of an industry that is still too fragmented.
- 5.10 Use of public funded support for business (eligible already under current legislation) should be evaluated on the basis of commitments to protect jobs and skills in the companies concerned.
6. An international level playing field is more than ever necessary. The crisis has prompted many governments across the world to rescue their ailing airlines. China directly subsidised China Eastern Airlines (EUR 750 m) and China Southern Airlines (EUR 320 m) in early 2009, charges at Chinese airports were suspended and jet fuel prices lowered. In India, Air India has received EUR 600 m in the form of equity and soft loans from the government.
- 6.1 Some of these carriers are known as 5th and 6th freedom operators, using Europe as an important and resourceful reservoir to tap into, such as the Gulf carriers.
- 6.2 These state-aided carriers maintain their inter-continental operations even though seat load factors are dropping dramatically. In some cases, they may even increase them at a time when European carriers, being subject to market realities, are forced to reduce them (the Gulf carriers, increased capacity - mainly through major European hubs - by 14% this year).
7. The European Community's reaction to this unprecedented crisis so far: the summer slot waiver was too little too late. The formal adoption and publication of this regulation at the end of June, almost three months after the beginning of the summer season did not allow this regulation to help industry to react more flexibly to the rapid changes of the market condition.

8. Although airline associations have upfront rejected the idea of individual state aids, several areas have been identified that needed swift action from the regulator in their combat against the crisis.
- 8.1 The objective of expected winter waiver is to support the aviation industry, and the airlines in particular, to address the economic crisis by aligning their capacity with further decreasing demand. The measure is non-discriminatory, benefits all airlines and all different business models and constitutes a short-term and isolated measure. It has to be implemented in time if its effects are to be noticed. Some low cost carriers are supporting this measure as well.
- 8.2 With the crisis hitting first financial sector though, the bulk of financial institutions specializing in aviation sector financing have either disappeared, or have reoriented their strategy towards other businesses.
- 8.3 For their fleet renewal, as of July 2009 AEA member airlines have placed orders worth up to USD 29 bn for 535 aircraft for the years to come, down from 561 at the same period last in 2008.
- 8.4 It is estimated that only up to 75-80% of these orders are, or will be, guaranteed or financed by the financial market. The remaining 20-25% will either have to be cancelled, or find alternative ways of financing that do not exist today.
- 8.5 In 2008 alone European Investment Bank has provided loans amounted to almost EUR 52 bn to projects within Member States of which only 2,7 bn has been allocated to European transport industry (airlines, airports, ATC, and manufacturing industry).
- 8.6 In its Final Report of May 2009, the ICAO GIACC recommended that ICAO should adopt three global aspirations:
 - a. in the short term to 2012: improvements in the in-service fleet average fuel efficiency at the rate of 2% per year;
 - b. in the medium term to 2020: annual improvement of 2% fuel efficiency;
 - c. from 2021-2050: global fuel efficiency improvement rate of 2% per annum.
- 8.7 It is vital, that international aviation is represented and treated as a sector at the COP – 15 Copenhagen Summit in December. It is also vital, that an agreement capping global aviation emissions is part of Copenhagen deal. The discussion should pertain to both airlines and aircraft manufacturers.
- 8.8 With a forthcoming EU ETS in 2012 it is crucial, that European carriers start gradually to replace their planes with the most efficient ones. The last generation of B737s or A320s allows reductions of their emission footprints of up to 7-8% when compared to the previous

generation. Funds should be allocated for radical innovation in engine, airframe and fuel technology.

- 8.9 The fleets in service still have a relatively high average age (which impacts airlines' results); a structured dismantling sector therefore needs to be set up. Current examples are too rare and insufficiently coordinated; a genuine European sector should be established, under the auspices of public authorities.
- 8.10 Manufacturers and their subcontractors should naturally be involved in these initiatives, which could generate additional jobs and revenue by extending industrial activity to the whole product lifecycle, right up to aircraft retirement.
- 8.11 ANSPs operate on a cost recovery basis – when traffic levels decrease, the unit cost are raised, therefore the crisis "hits twice" the airlines. ANSPs need to adjust their cost base to the changed economic environment and substantially lower traffic in the air.
- 8.12 The Single European Sky package will indirectly address the cost recovery principle by imposing performance targets onto FABs and Member States. However, it will only be introduced by 2012. SESAR, program designed to establish a single architecture is to replace the current 22 operating systems, 30 programming languages and 31 national systems currently in use.
- 8.13 Given that Member States have already adopted the Directive on Airport Charges, in times of a crisis they should act as if the key provisions of the Directive are already in effect. The Commission now effectively has jurisdiction for airport charges in the EU.
- 8.14 Last year the European Aviation Safety Agency (EASA) has gained legal competence for the safety rules related to flight operations, flight crew licensing and third country operator's oversight.
- 8.15 Safety Enhancements must continue to be supported by data-driven, risk-based analysis. Industry-led safety enhancements in partnership with governments have led to a track record of increased aviation safety and this leadership should continue as safety is core to the aviation industry. It must be guaranteed that AESA deals exclusively with safety issues.
- 8.16 The aviation sector has been waiting for a long time for a final agreement on the mutual recognition of EU and US security measures. Political decision is now needed in order to recognise the US security measures as being equivalent. This recognition will benefit 6 m passengers coming from the US and transferring at an EU airport per year.
9. European aviation sector represents an essential part of the economy, in that it contributes greatly to one of its fundamentals, i.e. mobility (of goods and of people). It represents also an important share of the strong industrial base, of technological development and of economic

growth. To keep this base on a long term perspective is of paramount importance and must be encouraged. It is also a cogwheel for the economic recovery, in these times of globalisation. Therefore the primary objectives of governments should be to ensure that the supporting pillars of their ailing economies, including aviation, are maintained afloat, but also that the conditions for a rapid return to a healthy environment are carved out. Thus EESC strongly recommends undertaking the following actions and relief measures:

- 9.1 The Value Chain (airports, aircraft manufacturers, kerosene providers, ground handlers, air navigation service providers, airlines) should be subject to the effects of the economic cycles and competition pressures as the whole. Restructuring is in progress to minimize negative effect of economic slowdown.
- 9.2 Commission should initiate all procedures in order to facilitate and implement a waiver of the 80:20 slot utilisation rule for the winter season 09/10.
- 9.3 Bearing in mind that air traffic is predicted to grow in the mid term future, by 4-5% per year, with potentially 25 000 100 plus-seater planes to be constructed over twenty years, European production capacities should be managed properly. If restructuring is inevitable, account should be taken of this aspect of maintaining capacities and skills.
- 9.4 The Committee recommends that the procedures for informing and consulting the social partners be complied with, where restructuring is undertaken. The committee encourages all social partners to develop structured and pro-active social dialogue on company, national and European level.
- 9.5 Public authorities should help vulnerable companies to retain their skills and jobs, by, for example, improving access to vocational training during periods of downturn. Public bodies could take the lead in fostering the development and acquisition of the skills necessary in the medium and long term. In this framework, EESC considers that a system of forward-looking management jobs and skills that involve the social partners must be implemented.
- 9.6 The Committee in its opinions (the latest SOC/347) emphasized the importance of a high-level school and university education as well as good links between industry and schools/universities to ensure a supply of job seekers with the relevant knowledge and skills.
- 9.7 This kind of coordinated support from public authorities (the EU, States, regions, etc.) is crucial to dealing with the effects of the crisis, which is affecting the industrial sector at a time of large-scale retirement. If skills are not retained within the manufacturing industry, it will not be able to meet the long-term challenges.
- 9.8 The European Investment Bank ought to revert back to its pre-2007 policy when European carriers were able to benefit from credits; this reverting back must be quick and be

specifically targeted at the financing of new aircraft. This would be not to finance a fleet expansion.

- 9.9 It would also be appropriate to provide for mechanisms to cover financial risks, such as those arising from fluctuating exchange rates (cf. paragraph 4.6 of CCMI/047). This could also take the form of loan guarantees based on refundable advances or EIB (European Investment Bank) loans.
- 9.10 Additional financing for research and development in aviation industry is to be provided in order to enable the sector to meet future challenges including EU ETS requirements.
- 9.11 Given the innovative and strategic importance of the aeronautics industry for Europe's industrial and technological base, strong support for R&D (jeopardised by the crisis) could be obtained through sustained efforts by the EU, from the implementation phase of the 7th FPRD and throughout the future 8th FPRD. There should be no decline in public support for R&D, in order to ensure the excellence of Europe in this field.
- 9.12 First-tier contractors suffer less from downturns than their suppliers and subcontractors, who account for the bulk of the industry's skills and jobs. A support process could take the form of pooled loans and guarantees for subcontractors. Manufacturers should back up the efforts made by suppliers, by guaranteeing them revenue and long-term workloads.
- 9.13 The Single European Sky II package has to be implemented urgently. Fragmentation of the airspace in Europe causes an additional heavy burden not only to the passengers but also to the carriers. The EESC has given strong support to SES II in its latest opinion. Aviation is a global industry and interoperability will be necessary to avoid additional burdens and inefficiencies. Therefore a continued focus to ensure SESAR and NextGen interoperability is necessary. Financing mechanism for the implementation of SESAR has to be worked out by the Commission in 2010 in order to enable broad participation in this revolutionary undertaking.
- 9.14 All Member States must be urged to accelerate the implementation of the Airport Charges Directive. The Commission should consider making use of the jurisdiction which the Directive gives to it
- 9.15 The Commission shall issue a communication to Member States and EUROCONTROL to introduce a moratorium in the ATC charges. EESC recognizes effort already made by DG TREN with regards to this issue and strongly encourages it to put further pressure on the Member States.
- 9.16 Consultation between ANSPs and airlines required under the terms of charging Regulation No 1794/2006 has to be enforced by European institutions. Further update of this Regulation is required to reflect performance scheme implemented within SES II package

- 9.17 It must be guaranteed that EASA deals exclusively with security issues. It must be ensured that the security of flights is maintained and improved.

One-Stop Security should be applied throughout the EU by April 2010 (date of entry into force of the new EU security rules of Regulation 300/2008). Furthermore, a final proposal on EU-US One-Stop Security should be presented to the Member States, based on the mutual assessment of EU and US security measures and implemented as soon as possible.

- 9.18 More international aviation agreements are needed between EU and third countries to provide an international level playing field. The agreement concluded by the Commission with Canada has been highly valued by the EESC in its opinion.

- 9.19 In general terms, the increasing incidence of regional and international cooperation between industry players (operators, manufacturers, public authorities) could help boost supply and overall activity in the sector, provided that the terms of such "trade" are socially responsible and involve all the social partners.

Brussels, 26 November 2009.

The President
of the
Consultative Commission on Industrial Change

Joost van Iersel
