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## FROM THE MD



## A call for the future of air travel in Europe

European citizens will soon vote for a new European Parliament, indirectly nominating at the same time, the next European Commission. Like past EU elections, the risk is great for decision makers to be tempted by immediate political gains at the loss of more meaningful long-term policies. For air travel, this risk is very real – despite the immense opportunity that lies ahead to deliver for all Europeans.

Three years have passed since the creation of A4E, when we identified a number of policy issues that needed immediate action in order for airlines to be able to fully deliver for consumers: minimizing the impact of ATC strikes and of an inefficient airspace, lowering the cost of airport charges, and eliminating aviation taxes.

At a time when some doubt the benefits of European integration, A4E is issuing an urgent call for future decision makers in Brussels and across European capitals to elevate aviation policy to a critical priority for the next five years. This urgency can no longer be ignored or left to wishful thinking.

Wishful thinking will not increase the efficiency of the EU's airspace and ensure consumers do not see their travel plans unpredictably disrupted. Wishful thinking will not enable the more than 2 billion passengers that are projected to be flying in Europe in 2040 to benefit from efficient and cost-related air services.

This new European Parliament and Commission will be decisive in shaping the future of air travel in Europe. Failing European aviation means failing Europeans. A4E is committed to working constructively with stakeholders in

Brussels and in the Member States to deliver on an ambitious vision for our aviation industry, passengers and businesses.

In order to meet this challenge:

- the EU needs to ensure that Member States take measures to minimize the impact of disruptions on the movement of people and goods across Europe, both in the air or on the ground
- Governments must urgently take concrete action to realise the principles of a seamless European sky for their citizens, allowing the EU to finally implement the Single European Sky initiative
- the EU needs to steer clear of quick fixes to pressing and complex environmental challenges – focusing instead on helping air transport reduce dependency on fossil fuel by supporting research and development initiatives

*Thomas Reynaert, Managing Director, A4E*

## AIRPORTS &amp; AIRSPACE

## Don't believe the airport myths on investments and capacity

In recent months, ACI Europe and its member airports have claimed that A4E's campaign for more effective EU regulation of airport charges threatens airport infrastructure development; seeks to undermine the "user pays" principle; and that the European Commission's review of the Airport Charges Directive creates uncertainty which may affect the value and attractiveness of European airports as assets.

This is a smokescreen and not credible. The review was launched in 2016 and major airport operators have continued to invest in that time. European airlines do not oppose investments in infrastructure and recognise that airport capacity constraints are a challenge. The users *do* pay, with the preliminary results of a Commission study in December 2018 showing that aviation largely covers its infrastructure costs. A4E is not questioning the user pays principle, which allows airports to recover costs through user fees. But we are questioning *how much* the users should pay.

Investments must be cost-effective and fit-for-purpose to ensure that airlines and their passengers do not pay more than necessary for airport infrastructure. That is the heart of the matter. At present, some airports "pre-finance" infrastructure, which transfers development risk onto airlines, and generate returns significantly and persistently above the cost of capital.

They can do so because some European airports have significant market power and few competitive constraints, which gives them incentives to charge excessively, run inefficient operations, make expensive or unnecessary investments, and offer inadequate service quality. By contrast, airline competition for passengers has lowered fares and increased choices.

Those gains could be limited or even reversed in the future if the Directive is not revised to tackle market power effectively. A 2017 study for the Commission recommended "more focussed regulation on airports with the highest levels of market power." Some of these airports had profit



margins far above the world average and increased charges far more than others. In addition, the skills, independence and resources of national regulators were found to be inconsistent.

When airports are also not transparent about their cost of capital, it amounts to European airlines being asked to sign blank cheques for airport investments with limited regulatory scrutiny or intervention.

That is why A4E is calling for reform. EU-wide rules that empower regulators to identify airports with SMP and, if necessary, intervene to prevent abuse would introduce checks on what some powerful airports can make users pay and thereby benefit the general travelling public.

This would cover a subsection of more than 400 airports in Europe and such economic regulation already exists in certain EU Member States like Ireland the UK. There is little evidence to suggest that a "single till" would lead to any under-investment in aeronautical assets, which has been recognised, for example, by the UK Competition Commission in the past.

Rather than scaremongering, airports should work with airlines to ensure more cost-effective infrastructure in the future through proportionate and targeted regulation. The Commission is looking at different options precisely to ensure that the market for airport services operates efficiently, which is in the public interest.

### A SHORT-TERM, LOW-COST WAY TO BOOST EUROPEAN AVIATION SUSTAINABILITY: AIRSPACE RESTRUCTURING

One of the airline industry's most important objectives is a better balance between growth and environmental targets. In the past decade, technological and operational measures have resulted in higher fuel efficiency levels thanks to airlines' investments in modern aircraft, new engine technologies, reductions in aircraft weight, higher seat load factors, and more.

A new study, "Environmental impact of disruptions and airspace inefficiencies in Europe,"<sup>1</sup> by SEO Amsterdam Economics and To70 concludes that in 2018, (compared to 2014) European airlines' emissions savings totaled 7.9 million tonnes (Mt) of CO<sub>2</sub>, equivalent to over 600,000 flights within the European Economic Area (EEA). Between 2015–2018, airlines saved around 20 million tonnes of CO<sub>2</sub>, the equivalent of almost 1.6 million intra-EEA flights.

The study found that air traffic management (ATM) inefficiencies, air traffic control (ATC) strikes and technical failures combined led to more than one million tonnes of additional avoidable CO<sub>2</sub> emissions in this same period.

Unfortunately, European airspace inefficiencies and disruptions continue to offset airlines' sustainability efforts. Congested European airspace means airlines cannot always fly the most direct, environmentally-friendly routes possible. Improved airspace design, including more widespread use

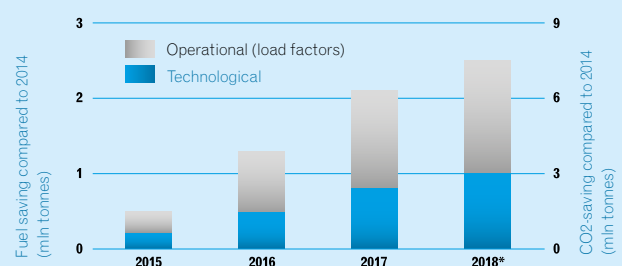
<sup>1</sup> *Environmental impact of disruptions and airspace inefficiencies in Europe*, SEO Amsterdam Economics & To70, Amsterdam, February 2019

of Free Route Airspace (preferred trajectories) and adapting airspace design to traffic flows will contribute towards making air transport even more sustainable in the future. Such optimisations represent a low-cost, short-term opportunity to boost aviation's sustainability.

In addition, using SESAR solutions like digitalisation of air navigation service provisions and optimization of Europe's airspace structure would lead to an additional 8–10% decline in CO<sub>2</sub> emissions. Sustainable fuels and new aircraft designs also offer promising solutions to reduce aviation's climate impact in the next 5–10 years.

European governments have a responsibility to act. Such reforms are critical to ensure that aviation can realize its long-term sustainability objectives, as part of Single European Sky environmental targets.

#### Airlines saved around 20 million tonnes of CO<sub>2</sub> (2015–2018) through operational and technical measures



Source: SEO|To70 analysis, \* Preliminary figures based on estimated load factors

## TAXES &amp; THE ENVIRONMENT

**An inconvenient truth:****“Green aviation taxes” are not a silver bullet**

The liberalisation of the EU's aviation market in the 1990s unleashed intense competition between European airlines which has lowered fares and increased choice. Flying is now for the many, not the few.

The democratisation of air travel in Europe is a major success story that has created economic and social benefits, allowing people to travel freely, visit friends and family abroad, experience new places and cultures and pursue business opportunities. Aviation has facilitated and supported the cross-border ties that are a hallmark of the 21st century, connecting people and ideas.

Demand for air travel is expected to continue to grow in the years to come. This growth must be sustainable. Climate change is one of the defining issues of our time and the environmental impact of transport, especially aviation, is much debated in this context.

European airlines take their responsibility seriously and have invested significantly in becoming more sustainable. Major investment has gone into developing biofuels – the most viable alternative to traditional fuel for planes – which could reduce CO<sub>2</sub> emissions by up to 80 per cent once they are ready on a commercial scale. Some airlines are already using a mixture of traditional and renewable fuels on their flights.

For decades, airlines have focused on the most meaningful action they can take: improving fuel efficiency. Aircraft fuel burn per seat has been reduced by 70-80 per cent since the 1960s. The latest aircraft consume 3 liters of fuel per passenger per 100 kilometers, which is more efficient than most passenger cars. Each new generation of planes is on average 15-20 per cent more efficient than the last. In addition, operational efficiencies and new technologies are continuously being implemented.

Progress has been meaningful and has helped to limit emissions. Yet the industry recognises that more needs to be done to reduce aviation's environmental footprint. However, it is also important to recognise that there are no quick fixes to complex issues.

Direct taxes on aviation have been considered, and in some cases implemented, as measures to address aviation's climate impact. However, such “green taxes” have limited environmental benefits. A study by the Dutch research institute CE Delft for the Netherlands Ministry of Finance found that a new tax would only have a modest effect on emissions. Analysis by a Com-

mittee of Inquiry for the Swedish government came to similar results. Revenues from existing aviation taxes have mainly gone into general government budgets and not been earmarked for environmental initiatives

And such taxes do not come without costs. Aviation is an economic enabler, supporting investment, tourism, trade, and job creation. It directly employs 2 million people in the EU and contributes an estimated €144 billion to GDP. New jobs in the industry generate additional jobs in other sectors, such as logistics and retail, and in the supply chain. As a result, aviation helped to support an estimated 9.4 million jobs and contribute €624 billion to EU GDP in 2016.

Due to strong competition, airlines sometimes choose to absorb these taxes, which affects already low margins. At other times, they may be forced to pass them on to passengers. Ultimately, such taxes increase the cost of travel and reduce connectivity, which harms national economies. That is why some countries have eliminated or reduced aviation taxes, including Austria, Denmark and Ireland.

In this context, it is worth noting that aviation is one of the least subsidised transport modes and pays high costs for the infrastructure it uses, mainly to airports and air navigation service providers. By contrast, the European Environment Agency estimated that in 2015, the annual subsidies granted to road transport amounted to €125 billion and for rail transport up to €73 billion. While air travel is predicted to grow exponentially in the coming decades, it is also worth recalling that it accounts for around 2-3 per cent of global CO<sub>2</sub> emissions at present. Road transport still accounts for over 70 per cent of transport emissions in the EU.

However, each industry must do its part. And, in fact, European airlines do pay, albeit indirectly, through the EU's Emissions Trading Scheme (ETS) since 2012. This has helped to offset some 17 million tonnes of CO<sub>2</sub> emissions per year. The international nature of aviation requires global solutions, however. And that is why the industry worked hard to come up with a comprehensive global scheme to mitigate its climate impact. It is known as CORSIA, it is the first of its kind – and it will come into force from 2021 onwards.

Currently 78 countries have signed up to CORSIA, meaning over 76 per cent of global aviation CO<sub>2</sub> emissions will be covered over the life of the scheme – with this number expected to grow as more States join over time.

EU and national governments need to ensure that EU airlines do not face an unfair double burden of adhering to both the EU ETS and CORSIA schemes. They should also support the industry's own efforts to become more sustainable. Taxes are an easy target with

limited climate benefits which do not deal with the core issue: achieving real reductions in CO<sub>2</sub> emissions. Providing incentives that reward cleaner aircraft and encourage investments in R&D and innovation are better measures. And it must be recognized that lasting and meaningful solutions requires coordinated contributions from airlines, airports, manufacturers, air traffic management and research institutes. No one will succeed on their own.

Rising to this challenge requires hard choices and clarity about which solutions will work and which will not. We also need to be clear about what we seek to achieve. The answer should not be that fewer people should fly but rather how we achieve climate-neutral flights. “Green taxes” will not help us arrive at that destination.

➔ **Airlines have helped improve fuel efficiency levels by 2% over the last decade.**

➔ **Commercial jets now have better fuel efficiency than most cars on the road.**

➔ **Each new generation of aircraft is on average 20% more fuel efficient than their previous model.**

➔ **Modern aircraft today are 75% quieter than the models that first entered into service.**

➔ **The sector has committed itself to carbon neutral growth from 2020 onwards, and to halve emissions by 2050 compared to 2005 levels.**

Source:

[https://aviationbenefits.org/media/166344/abb18\\_full-report\\_web.pdf](https://aviationbenefits.org/media/166344/abb18_full-report_web.pdf)

## INTERVIEW



### QUESTIONS FOR MICHAEL O'LEARY, OUR NEW A4E CHAIRMAN

**A4E** You have been the CEO at Ryanair since 1994, a year in which the airline carried just over 2 million passengers. Today, with 150 million passengers this year, Ryanair has become one of the largest airlines in Europe. What were some of the biggest political obstacles to Ryanair's expansion, and do they still exist today?

**MOL** This success would not have been possible without the EU'S outstandingly successful "open skies" program, which promoted deregulation, competition, and customer choice back in the early 90s. The biggest political obstacles we face today is the tendency of Brussels to re-regulate, the failure to tackle the lamentable inefficiency and the high cost of Europe's fractured national ATC providers, and the disproportionate "tax" faced by airlines under the scandalous EU261 scheme, which cost airlines, and our customers, over €1 billion each year, but competitor transport operators including ferries, coaches, and trains, face no such penalties.

**A4E** As the newly-elected chairman of A4E, what do you hope to achieve?

**MOL** We want to continue the excellent foundations that have been laid by our predecessors. We believe that A4E has made a significant impact in Brussels in providing counterbalance, promoting our best interests there and putting forward not only the voice of our airlines, but the voice of our customers – who are many times forgotten about in Brussels.

**A4E** How does Ryanair balance sustainability concerns with competitiveness?

**MOL** Ryanair will, over the next five years, invest more than \$20bn in a fleet of new Boeing 737 MAX aircraft, which have 4% more seats (allowing us to carry more passengers on each flight, increased leg room, but burn 16% less fuel per seat). We are investing heavily to widen Ryanair's leadership of carbon efficient air travel in Europe.

**A4E** Besides Brexit uncertainty, what will be the greatest challenges facing EU airlines in 2019?

**MOL** Besides Brexit, you will see significantly higher oil prices, continuing over capacity and lower fares, which has seen the closure/sale of a number of leading airlines in recent months. As always, safety and security will continue to be the No. 1 priority for all airlines.

**A4E** If you had just one ask for the next EU Administration – what would it be?

**MOL** The next EU Administration must address the ATC staffing and mismanagement crisis. It is a shocking statistic that more than 90% of all airline delays in Europe this January were caused by Air Traffic Control mismanagement, staff shortages and strikes. The disruption caused each year by less than 3,000 French Air Traffic Controllers resulting in flights operating between Germany and Spain or Scandinavia and Portugal being cancelled needs to be addressed. The needs of consumers must take priority over the narrow-vested interests of these tiny but very powerful trade unions.

**A4E** What's your view on the development of airport charges across Europe and how will that will continue to play a role in airlines' success?

**MOL** Clearly there are still very large and dominant airports, who operate as quasi-monopolies, two specifically come to mind. All of the airlines in A4E are united in pushing for more efficient airports, more competition between airports, and where we don't have that competition, we need much more effective regulation. Because it's the regulation of airport charges, and particularly airport handling, that has failed in recent years.

**A4E** ATC staff shortages and delays will continue to represent a huge challenge for airlines and their passengers this year. How is Ryanair

working ahead of next summer to lessen the expected impact?

**MOL** Like many of the airlines in A4E we are providing for additional spare aircraft during the summer of 2019. We are also working very closely with our A4E colleagues and also Eurocontrol to identify solutions to the ATC short-staffing and mismanagement, particularly in the German and UK ATC services.

**A4E** What should the EU tackle the most in the next five years?

**MOL** I think the most important thing would be to restructure air traffic control services. There should be a single upper air space. Individual national ATC providers should be able to compete with each other to win airlines' business, in much the same way that the EU transformed air travel by deregulating and opening the sector to competition. Look at the impact of the current situation not only on consumers, but also on the environment, where our aircraft are having to fly many additional hours, many additional miles, burning more fuel and creating more emissions, all because of inefficient and uncompetitive national ATC monopolies.

If I had a real vision for Europe or for what the Commission could do in the next 5 or 10 years it would be to open up air traffic control services to competition. The technology exists now to allow for that competition to take place, and that's the way to significantly improve both the environmental performance of Europe's airlines but also the travel experience of Europe's consumers.

**A4E** Finally, if you weren't an airline CEO, what would you be doing instead?

**MOL** I would be unemployed or in a straight-jacket as you have to be crazy to run a European airline!

