

**Speech by Ambassador Amos Tincani**  
**Head of the European Commission Delegation in Barbados and the Eastern Caribbean**  
**at the**  
**Special Ministerial Meeting on Regional Air Transport Solutions**  
**Condado Plaza Hotel, San Juan, Puerto Rico**  
**19<sup>th</sup> October 2007**

**Air Transportation – “The European Experience”**

I would like to begin with a quiz: which airline is state-controlled, receives public subsidies, has high cost structure due to robust trade unions, and has generally difficulties in coping with a liberalized environment? The reply is: The Italian airline Alitalia. This to show that there are ailing airlines everywhere, not only in the Caribbean. However the EU air sector as a whole is quite dynamic.

The Air Transportation sector plays a vital role in the regional integration of the EU and is supported by a single market for aviation, established in the 1990s. This internal market transformed a traditionally highly fragmented and regulated industry dominated by national flag carriers and state-owned airports into a liberalized market where all EU airlines may operate air services on any route in the EU. As a result prices have decreased whereas competitiveness and the quality of service have increased.

The air transport sector was liberalized in three phases, with the third phase being in operation for the past 15 years. The European Commission (EC) has now launched a second wave of liberalisation. It is now looking at updating the legal framework and in July 2006 made a proposal for the modernization and simplification of the internal air transport market. The proposal merges the three regulations in the third phase, and is the first step towards further consolidation of legislation. The Council reached a general approach on a proposal for a regulation on common rules for the operation of air transport services in the Community, which is aimed at consolidating and rationalising the content of current regulations in force on the licensing of carriers, the freedom to operate air services in the Community and the pricing of such air services. The European Parliament adopted the first reading of the resolution in July 2007. Studies are presently being undertaken with respect to a single European Civil Aviation Code.

We have also liberalized internationally. After four years of negotiations, the first stage of an EU-US Aviation agreement was recently adopted and will become effective in March 2008. As part of the agreement, any EU or US airline holding an appropriate operator's license is allowed to provide services between any city in the EU and any city in the US. Negotiations for the second stage of the agreements scheduled for 2008 will include further liberalization of traffic rights; additional foreign investment opportunities; and further access to Government-funded air transport. If no second-stage agreement is reached within twelve months of the commencement of the Review, then any Member State may notify the Commission which traffic rights it wishes to suspend with respect to its own territory. The new EU-US agreement will put to an end the quasi double-duopoly

of two EU and two US airlines that now control most of the transatlantic traffic at Heathrow, the most important airport in that market.

The creation of a European Single Sky has brought about new business models, such as Low Cost Carriers, more choice and lower fares which in turn have increased the air travel market. Successful airlines give passengers cheaper flights by establishing in traditionally secondary markets and concluding deals with less-used airports. However, in order to uphold fair competition rules within the EU Single Market, the Commission, which is the EU Competition Authority, applies competition rules on mergers, alliances, price-fixing and other such activities including the strict enforcement of State aid rules. State Aid, defined as Government support to a company thus obtaining an unfair advantage over its competitors, is prohibited by the EC Treaty unless it is for general economic development - for example where State-owned airports forego landing fees, at the expense of taxpayers.

### **The EU experience and the Caribbean**

The EU and the Caribbean aviation market are quite different and therefore only general conclusions on the former may apply to the latter. The debates at the recent IATA Caribbean conference held in Barbados, as well as a recent study on the Caribbean air transport sector funded by the EC and the World Bank show the following:

- 1 Market size and competition: it is often said in the Caribbean that *'the market is too small to support several airlines'* and that competition should be restricted rather than encouraged. This rationale is invoked to justify the acquisition by one Eastern Caribbean Airline of its only competitor in the sub-regional market. It may well be true that the East Caribbean airline market (about 800,000 people and some 10 island destinations) is too small for two competing carriers, but an alternative would be to redefine the market in a wider context. A first widening could consist, for instance of introducing the CSME single sky. Indeed there is a CARICOM Multi-lateral Air Services Agreement (MASA) but it is not operational. In the process it could be improved. A further widening could consist in operationalizing the Association of Caribbean States (ACS) air agreement, also negotiated and signed, but not operational for lack of sufficient ratifications. A third widening could consist in negotiating an open sky agreement with the EU. As an alternative to the creation of a quasi-monopoly currently taking place, the Caribbean could encourage the progressive liberalisation of air services, which would in turn bring about healthy competition, better services and cheaper fares. I endorse the proposal of the background document that *'no airline has the inherent right to survival'*. There are indeed studies that indicate that open sky agreements have served well countries different in size as Aruba and the Dominican Republic.
- 2 Air and sea transport, videoconferencing: another way to instil competition in inter-island transport is to develop more ferry services, as they exist at present between St Lucia, Martinique, Dominica and Guadeloupe. More ferry services, particularly between pairs of contiguous islands (such as Saint Vincent and Saint Lucia), could compete effectively in terms of comfort, time and price with airlines

and give consumers more choice. For businesses, the development of videoconferences through more efficient broadband IT connections would also reduce the need to travel physically.

- 3 'Cherry picking' and public service obligation: 'cherry picking' denotes the attitude of private, commercially driven, airlines that service only profitable routes. This is compared with publicly-owned airlines that may be obliged to provide a public service by flying on unprofitable routes. The technique of ensuring that unprofitable routes can be cross-subsidized by profitable ones, works only in a monopoly situation. When Cable & Wireless was a monopoly operator, it subsidized local calls and overcharged international calls. In a situation where there are several airlines, cross subsidisation is not possible and the question of efficient and transparent allocation of a direct subsidy for unprofitable routes arises. The telecom sector could be a source of inspiration. Before the mobile telephony revolution, the Chilean government wanted to increase telephone penetration in the countryside. To do this, it launched special telephone licences for rural districts where companies had to bid, not to pay a licence fee, but to ask for a subsidy to operate in rural districts. The scheme was successful: telephone penetration increased and the government achieved its objective while minimizing the subsidy paid. Likewise, if flying to country X is uneconomical, that country could launch a tender among airlines and grant the subsidy to the lowest bidder. The subsidy should be kept under constant review and be removed if market conditions improve. An interesting proposal is that overflight fees - fees paid by foreign carriers to fly over the Caribbean - could be used to finance a subsidy scheme.
- 4 Competition policy: the flip side of regional deregulation is to ensure that there is a strong competition policy and authority at regional level to 'police' the system and avoid industry concentration and monopolistic tendencies. The CARICOM Competition Commission, that the EU is assisting to establish, should be competent for competition in the airline sector, including on state subsidies.

The background paper makes a very constructive set of suggestions on the way forward. Considering the EU experience, I think that most of the potential improvements revolve around creating a bigger, more open sky in which competition can play its role more fully. A significant reduction in air fares brought about by competition and the reduction of inefficiencies would be more than compensated by an increase in traffic. The EU would be open to the proposal, if this is endorsed by CTO ministers, to look at a revised Multilateral Air Service Agreement (MASA) with a view to create a Caribbean Single Sky. The MASA could be drafted in such a way that it could be open, not only to CARICOM countries, but also to other Caribbean countries and Overseas Territories. This would be fully in line with current efforts to create a bigger regional level playing field where Caribbean enterprises can compete. The MASA could become operational among signatories as soon as a minimum of two have signed, so as to give it a kick start. The MASA could be the building block on which the Caribbean could at a later stage negotiate a bilateral open sky agreement with the EU, as we have recently done with the

USA. Again, this would be fully coherent with current efforts to conclude a Caribbean-EU Economic Partnership Agreement (EPA).

The process of regional integration in the Caribbean is among other things fuelled by measures that bring down the costs of moving regional goods, people and data. The proposed liberalisation of the Caribbean skies would deliver such reduction in costs.

I have lived both the series of national air markets in Europe up to the 1980s, as well as single European sky that we have today, and I have no doubt of what is better. I wish to Caribbean consumers of air services a comparable development in the near future. 🇺🇸