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## The European civil aviation industry confronted with the global financial and economic crisis

### Report<sup>1</sup>

Committee on Economic Affairs and Development

Rapporteur: Mr Patrick BREEN, Ireland, Group of the European People's Party

### Summary

The European air transport industry, which in normal times provides employment for over 3 million people in the European Union alone, has been put under severe pressure by the recession. European airlines were the worst hit by the economic crisis in 2009, with losses reaching US\$3.8 billion out of a world total of US\$9.4 billion.

Although prospects have improved with the recent recovery of global economic activity, the European air transport industry faces a range of emerging and intensifying challenges such as increased competition from the Middle East hubs, United States airlines and other forms of high-speed transport, environmental, safety and security concerns and rising fuel costs. This situation has not been helped by the disruption of air traffic caused by the recent volcanic eruption in Iceland, resulting in huge economic losses in general and for the airlines in particular.

The answers to such challenges will certainly include industry consolidation, alliances and cost-reduction as well as fine-tuning the response to demand, all in the context of a supportive and above all better co-ordinated European regulatory framework extending beyond the European Union to embrace the whole of the Council of Europe area.

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1. Reference to committee: [Doc. 11852](#), Reference 3548 of 29 May 2009.



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## A. Draft resolution<sup>2</sup>

1. As the instigator and parliamentary forum of the European Civil Aviation Conference (ECAC) - which brings together the aviation authorities of the large majority of the Council of Europe member states - the Parliamentary Assembly regularly takes stock of the European civil aviation industry, an invaluable asset vital to the development, competitiveness and sustainability of the economies of the member states in the context of continuing globalisation.
2. Thus, air transport directly accounts for about 2.5% of the Gross Domestic Product (GDP) of the European Union, and around 8% indirectly, maintains over 3 million jobs and contributes more than €30 billion to the region's trade balance. In normal times the airlines carry some 40% of the European Union's imports and exports, by value, and transport about 366 million passengers every year to and from the continent.
3. As may be expected, the 2008-2009 recession has put the civil aviation industry under severe pressure. According to the International Air Transport Association (IATA), European airlines were the worst hit in 2009, with losses reaching \$3.8 billion out of a world total of \$9.4 billion, and a forecast \$2.2 billion net loss in 2010 out of a global total of \$2.8 billion. Yields have fallen substantially and revenues are not expected to reach 2008 levels until 2012 at the earliest. Several airlines have gone out of business and consolidation of the industry is likely to continue. Among the key reasons for the poor performance of European carriers were their exposure to the decline in premium class long-haul travel, delays in reducing capacity and the relatively slow economic recovery in the region. This situation has not been helped by the disruption of air traffic caused by the volcanic eruption in Iceland, resulting in huge economic losses in general and for the airlines in particular. The Assembly considers that national and European civil aviation authorities should better coordinate emergency responses to such events in future.
4. In addition to the decline in both passenger and freight demand caused by the recession, the European airlines have had to face difficult operational challenges such as tighter credit conditions, the constant pressure to reduce greenhouse gas emissions, volatile fuel costs and a European regulatory authority determined to liberalise the economic environment in which the airlines operate. In this context, and in view of the likely further consolidation of the European airline industry through mergers and acquisitions, the Assembly urges the European Union to show flexibility in its competition policy.
5. The Assembly welcomes the progress made by the European Union in rationalising the use and control of air space over Europe, in particular through the development of the 'Single European Sky' policy and emphasises the need to extend it to the wider Europe through negotiations with Council of Europe member states outside the European Union, including Russia. As a first step, the Assembly calls on Russia to join the European Civil Aviation Conference.
6. The Assembly also welcomes the increasing role of the European Air Safety Agency (EASA) in harmonising European air safety regulations. From 2012 the EASA will assume responsibility for the rules governing the European Union's air traffic management and navigation services, and from 2013 it will also oversee airport safety procedures. The aim is to have a focused, comprehensive approach to air safety management and to overcome regulatory gaps and duplications by means of a single certification process. In due course, EASA will also assume the current functions of Eurocontrol, which will in turn become operationally responsible for implementing the 'Single European Sky'. Once again, the Assembly urges the European Union to extend this air safety regime to the wider Europe through negotiations with Council of Europe member states outside the European Union.
7. The Assembly underlines the need to eliminate any distortions in the economic environment in which the European civil aviation industry operates, in particular with regard to taxes, charges and in the financing of the air industry, including the subsidisation of aircraft production and purchase. In this context, governments should divest themselves of all financial interest in the airline industry.
8. Although it seems that public resistance to full body scanners now in use and planned at many airports may not be as high as expected, questions are being asked about the human rights, health, and cost-benefit implications. Their use may infringe discrimination law if specific or vulnerable groups are singled out and may contravene passengers' right to privacy under human rights law. Moreover, doctors are concerned to know what the health effects of such exposure might be. In economic terms, full body scanners are very expensive to purchase and maintain. European airlines and their passengers will be particularly concerned by the fact

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2. Draft resolution adopted unanimously by the committee on 27 April 2010.

that in Europe such security-related costs are passed on to passengers, whereas in the United States security costs are borne by government. This represents a distortion of competition. The Assembly calls on the European Union to seek acceptable solutions to these problems.

9. The Assembly is concerned that United States airlines enjoy considerable advantages in conducting their operations and business in Europe, compared to the conditions under which European airlines must compete in the United States. It therefore urges the European Union immediately to step up its efforts to equalise these conditions. European airlines should have the same access to the United States market as American airlines enjoy in Europe, notably in terms of investment and landing rights.

10. The Assembly welcomes the airline industry's commitment to improve fuel efficiency by an average of 1.5% annually to 2020 and to stabilise carbon emissions with carbon-neutral growth from 2020, so as to cut overall industry carbon emissions by 50% by 2050, compared to 2005 levels. This is to be achieved in part through the introduction of new-generation aircraft and technical innovation together with improved operations management and flying techniques. The reduction will also be spurred by the introduction of global emissions trading, which IATA embraces, although it expects this will add around \$5-7 billion a year to costs. In this context, the Assembly welcomes the European Union's 'Clean Sky' initiative and urges it to study ways to prevent such perverse effects of emissions trading as encouraging airlines to fly to Asia via Middle East hubs.

## B. Explanatory memorandum by Mr Breen, rapporteur

### 1. Background

1. Air transport directly accounts for about 2.5% of European Union GDP, maintains over 3 million jobs, and contributes more than €30 billion to the region's trade balance. The sector's indirect impact is even greater: according to the Association of European Airlines (AEA), it supports around 8% of Europe's GDP. Based on projected growth, air transport could contribute an additional 1.8% of GDP over the next twenty years, equivalent to €200 billion annually. In fact, as European integration has progressed, it has become clearer than ever that efficient air connections boost productivity and employment, help to attract investment and act as a spur to innovative, high-value development and growth. The airline industry is thus one of Europe's most valuable assets, its structure and network built up over a long period of growth, but now subject to many challenges.

2. In the most challenging economic period of modern times, the industry is naturally under severe pressure. This report will examine the extent of the downturn and the strategies being adopted in response. In addition, the industry faces a multitude of further operational and policy challenges, some of which are global and some specific to Europe, and which the report will also outline. It should be noted that the report focuses on the air transport industry rather than on the aircraft manufacturing industry, although they both form part of the same value chain. The latter is of course complex enough to provide the subject of a separate report.

3. The rapporteur would like to thank all those who gave their precious time to provide their valuable insights into the present condition of the European airline industry, including the Chief Executive Officers of Ryanair, Mr Michael O'Leary, and of Air France/KLM, Mr Pierre-Henri Gourgeon, and the staff of the European Civil Aviation Conference (ECAC), set up in 1955 as a result of a Parliamentary Assembly initiative and today comprising 44 member states – all the members of the Council of Europe except Andorra, Liechtenstein and the Russian Federation.

### 2. Introduction: the shape of European aviation

4. In recent years, as the global airline industry has expanded, differing regional approaches to regulation and competition have developed. In Europe, a single market was established for aviation in 1992, which now encompasses the 27 members of the European Union, plus Iceland, Norway and Switzerland. This process has brought profound changes, boosting the industry's size and at the same time reshaping it, bringing new opportunities and challenges. It has also brought a unified approach to aviation standards and safety, with all airlines obliged to register in a place where they do a substantial part of their business, and to comply with national, European Union and international standards. This compliance is audited and checked by the European Aviation Safety Agency (EASA).

5. In general, airline deregulation has encouraged trade and economic growth, while offering increased choice and lower prices for consumers, especially through the growth of "low-cost", point-to-point airlines. More than 60 low-cost operators have been launched in Europe over the last decade, pioneering the use of direct web-based sales, based upon a "Days to Go" price curve and ancillary charging, while often serving smaller destinations, adopting off-peak schedules and using secondary airports.

6. Today, there is a low-cost airline choice on 30% of European routes, rather less than in the United States but much more than in Asia. While vulnerable to cash-flow difficulties, several – in particular Ryanair and EasyJet – have been successful by pursuing aggressive expansion. Their profitability lies in cutting out intermediaries such as travel agents, achieving high load factors that improve efficiency and in carrying fewer associated costs; excluding fuel, their costs per passenger are around half that of traditional airlines. As a result, Ryanair – which is now Europe's biggest short-haul airline – and EasyJet have the strongest balance sheets of any carriers in Europe today.

7. As the low-cost segment has expanded, Europe's traditional network operators have been forced to cut their own costs, improve efficiency and lower short-haul prices. Moreover, they have sought to redefine themselves by focusing on the more profitable aspects – long-haul flights, premium business travel and freight – so far unaddressed by low-cost operators. In a booming world economy and with the industry growing at 6% annually, this worked well. With buoyant credit markets, they were able to raise funds for investment. And once established as stand-alone businesses, airlines have undertaken a wave of takeovers and mergers – most significantly, between Air France and KLM – and cross-shareholdings, with Lufthansa and SAS particularly active in taking stakes in smaller airlines. British Airways and Iberia have merged to form Europe's third largest airline. Ryanair even took a stake in a network carrier, Aer Lingus, as part of a takeover attempt.

In addition, carriers have made joint training and servicing agreements and many have signed up to network alliances, in particular Oneworld, Star Alliance and Skyteam, to obtain a wider marketing presence and global routings.

8. With the industry in Europe consistently growing at between 5% and 6%, this pattern allowed carriers of all types to achieve big profits. Ryanair and EasyJet recorded profits of €451 million and £201 million respectively in 2007, while Lufthansa, British Airways and Air France made operating profits in excess of €1 billion. Indeed, by 2007 the international airline industry as a whole had more than recovered from the shock of September 2001, achieving net profits of nearly US\$13 billion, and with passenger and freight revenues up by around 50% since the year 2000. Despite rising oil prices, this buoyancy continued into 2008; but the prolonged financial crisis, which triggered a sudden collapse in consumer confidence, brought about the most severe recession encountered in the era of globalisation, unprecedented in scale and speed. Given its sensitivity to international trade, the airline industry was immediately affected.

### 3. The impact of the economic crisis

9. In the final quarter of 2008, airlines scrambled to revise their business models and reduce capacity. Cuts were sharpest in Asia, where the early effects of the crisis were most severe, and on American domestic routes, with reductions in excess of 10%. In Europe, however, where the slot regulations in force hindered the adjustment of carrying capacity,<sup>3</sup> demand fell substantially faster than supply. And while overall passenger traffic was somewhat bolstered by pre-bookings, premium business traffic declined by around 40% in the space of a few months and cargo volumes fell by more than 22% in December 2008 alone.

10. According to the most recent estimate of the International Air Transport Association (IATA), published in March 2010, airlines lost some US\$15.9 billion in 2008. And while European carriers were the least financially impacted in that year, they fared the worst of any region in 2009, with losses reaching US\$3.8 billion, out of a global total of US\$9.4 billion, and US\$2.2 billion net loss in 2010 out of a global total of US\$2.8 billion. Amongst the key reasons for the poor performance of European carriers, IATA cite their exposure to the decline in premium long-haul travel, the delays in reducing capacity, and the slow economic recovery in the region.

11. Nevertheless, IATA reports that a rebound in international traffic has been evident since the end of 2009. Cargo volumes – seen as a “leading indicator” of economic growth – which fell by 1.2% in 2008 and 11.1% in 2009, were expected to grow by some 12% in 2010, although in December 2009 they were still expected to end the year below their 2007 levels. Following a decline of 2.9% in passenger traffic in 2009, IATA forecasts growth of 5.6% in 2010, bringing passenger numbers almost back to their 2007 level. However, for 2009 as a whole, airline revenues remained 15% lower than in 2008, business travel (which accounts for less than 10% of the airline industry’s passengers but is often up to 30% of its receipts) down by some 17% and overall yields per passenger kilometre down by 14%.

12. Unfortunately for Europe (and North America), these improvements are largely centred on Asia and Latin America, whose emerging markets are driving the global economic recovery and whose airlines are benefiting accordingly. As IATA Director General and CEO Giovanni Bisignani puts it: “We are seeing a definite two-speed industry. Asia and Latin America are driving the recovery. The weakest international markets are North Atlantic and intra-Europe which have continuously contracted since mid-2008”.<sup>4</sup> Indeed, among the “network carriers”, mostly national airlines, represented by the AEA, passenger boardings were down by 5.8% in 2009 over the previous year. This represents a loss of around 20 million passengers surpassing by far the 14 million traffic loss recorded in 2002 in the aftermath of 11 September.

13. The AEA Secretary General, Ulrich Schulte-Strathaus, commented in December 2009 that “2009 has been a disastrous year for European airlines, but the traffic and capacity figures tell less than half the story. The real damage has been inflicted by the collapse in revenues, to which falling ticket prices, particularly in the premium-travel segment, have contributed far more than depressed traffic levels. The marginal traffic increases we are beginning to see will scarcely impact our revenue base as long as yields continue to wallow

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3. . In 1993 the EEC introduced (and has since revised) a regulation enforcing common rules for the allocation of arrival and departure time slots at congested airports. Airlines are reluctant to abandon these entitlements even in difficult times, for fear of losing their competitive positions (“use it or lose it”). Hence they tend to assert their landing and take-off rights even with close to empty planes, forcing them to maintain capacity. This is uneconomic to say the least and saps the airlines’ profitability. Fortunately the European Union introduced a slot waiver for the summer of 2009, but this ended in October 2009.

4. IATA press release No. 8, 11 March 2010.

around 15% below last year's levels. The only effective source of relief is in mitigating costs and a number of service providers are already putting up their tariffs for next year, knowing that the airlines have no alternative but to pay. The political will to encourage airlines to continue to deal with temporary overcapacity in the market, through slot flexibility, seems to be lacking".<sup>5</sup> In February 2010 he added: "We have seen, quite clearly, that airlines and their passengers cannot sustainably be treated as a cash cow by national treasuries, to be taxed and taxed again. This lesson ... must be taken on board by our regulators. We have adapted, in the face of the downturn. There has been an increase in the tempo of the consolidation process. The importance of economies of scale, of coherent networks and optimised fleet structures, has been re-emphasised. For niche markets, the key is a consistency of service, tailored to the specificities of the market. We understand these priorities; it is important for our regulators to understand them too".<sup>6</sup>

14. From a global perspective, IATA reports "a much stronger recovery in demand seen by year-end gains that continued into the first months of 2010. Relatively flat capacity translated into some yield improvement and stronger revenues". However, IATA has warned that some 1 300 new aircraft are due for delivery to airlines in 2010, raising capacity by 2.8% and maintaining downward pressure on fares. In March 2010, the chief executive of Air France/KLM revealed that the airline had still not reached break-even point, but that he expected the airline to return to profitability in the spring of 2011.

15. Unfortunately the prospects for recovery will not have been helped by the disruption of air traffic caused by the volcanic eruption in Iceland, resulting in huge economic losses in general and for the airlines in particular. IATA's initial (and "conservative") estimate of the financial impact on airlines is in excess of US\$200 million per day in lost revenues. In addition to lost revenues, airlines will incur added costs for re-routing of aircraft, care for stranded passengers and stranded aircraft at various airports.<sup>7</sup> The rapporteur considers that national and international civil aviation authorities should better co-ordinate emergency responses to such events in future.

#### 4. How the crisis is reshaping the industry

16. Although long-term forecasts for aviation growth remain bullish, the nearer-term view is therefore still relatively gloomy, at least as far as Europe and North America are concerned. Moreover, the industry faces a host of associated challenges, in particular the cost of fuel and access to credit. As the Chairman of the AEA, Ivan Misetic, put it, "this is not a cyclical feature in an industry which is used to business cycles. It is a structural upheaval, and we must adapt structurally".<sup>8</sup>

17. In winter 2008-09, low-cost airlines with strong cash positions responded aggressively with drastic fare cuts, and the offer of "free" seats. Indeed Ryanair, which now achieves 20% of its revenue from ancillary charges, expected to increase traffic by 10% in 2009, and continued to launch €1, €5 and "free" seat offers throughout that summer and into the autumn. At the same time, it continues to find creative ways to cut costs and raise charges, with measures such as the abolition of free airport check-in. Despite recording its first net loss since flotation, due to hedging costs and the declining value of its Aer Lingus stake, it still has underlying profitability and still plans to double passenger numbers and profits between 2007 and 2012. EasyJet, whose passenger volumes rose 2.9% over the winter 2008-09, also hopes to remain in profit for the year. Recently, both carriers have taken advantage of their operational flexibility to reduce routes and frequencies, and continued to update their fleets, so that they seem well positioned for the future. Alongside its interest in Aer Lingus, Ryanair has even suggested that it plans to start a long-haul airline of its own. All the same, in a sign of the sector's difficulties, even Ryanair had third quarter year-on-year losses of €101.5 million in 2008 and €10.9 million in 2009. It recently called off negotiations for a major new aircraft order from Boeing.

18. Network carriers have accordingly been forced to cut prices further, despite their high fixed overheads and heavy "legacy" costs, such as pensions. On the one hand, they see dramatic falls in premium and long-haul traffic, while on the other they are forced to maintain less profitable short-haul services so as to maintain

5. AEA press release, 23 December 2009, "European airlines' traffic drop in 2009 likely to surpass 4%".

6. AEA press release, 5 February 2010, "AEA airlines – 20 million fewer passengers in 2009".

7. IATA press release, 16 April 2010.

8. AEA press release, 28 May 2009, "Airline chiefs call for joint initiatives to overcome crisis".

their connectivity. Meanwhile, cross-shareholdings have declined dramatically in value to those who bought them and often represent additional demands for cash. Therefore, at Europe's major carriers, substantial restructuring is under way:

- The continent's largest airline, Air France/KLM, which announced its first loss since its merger six years ago, is reducing its headcount by around 3 000 and has announced a further 1 500 voluntary redundancies. It is also deferring placed orders and is among a number of airlines to have delayed taking delivery of the A380 superjumbo. The first was nevertheless delivered on 30 October 2009 and is operating between Paris and New York, substituting for normal-capacity aircraft and thus saving on fuel and carbon emissions. Cargo capacity was cut by 15% and passenger capacity by 5% over the winter of 2008-09, involving a reorganisation of flights within Europe and to North Africa and the Middle East. With business class revenues per passenger having fallen by 27% in the first part of 2009, the airline is considering scrapping business class altogether on short and medium-haul routes.
- At British Airways, the chief executive has spoken of a "fight for survival". Usually, some two thirds of BA's profit comes from North Atlantic routes, much of it from premium customers. But in the last financial year, BA recorded its worst-ever loss: £401m, £331m of which was chalked up in the first three months of 2009. By then, BA had cash reserves of less than £1.4 billion and obtained guarantees from its pension fund and issued bonds to investors, so as to ensure operations into 2010. During the summer of 2009 some 800 staff agreed to work for a period without pay, but some 5 000 jobs are likely to be lost this year, while working conditions and benefits are being tightened. A major strike was only just averted in December 2009, but following the breakdown of negotiations in March 2010 flight attendants staged intermittent walkouts. The company was expected to report a loss of some £600 million for the year ending 31 March. BA cabin staff salaries nevertheless increased by 5% in 2009, according to the British Civil Aviation Authority. Meanwhile, a variety of savings and charges have been introduced, including the removal of further short-haul capacity and fees of up to US\$90 for advance seat selection.
- With its intra-European business down more than 30% in 2009 and premium traffic down 15%, Lufthansa is reported to be planning to reduce its headcount at its parent company, which both manages the group and operates Lufthansa jets, by 15%. Meanwhile, the airline has been compelled by court action to take up its option to complete the purchase of British-based BMI, but has already opened up BMI's books to rivals and is believed to be open to the sale of all or part of the business. This is highly significant, given that BMI's original attraction to Lufthansa was its 11% share of landing slots at Heathrow, until recently worth US\$25 million each.

19. As larger airlines restructure, analysts expect that global alliances such as Star, Oneworld and Skyteam will expand, deepen in scope and become more meaningful. While the original focus was on linking flight systems, frequent flyer schemes and through-ticketing, there is an increasing emphasis on management co-operation and cross-shareholdings. Air France/KLM now shares profits with Delta on those routes where they carry each others' passengers, and this sort of integration is expected to become widespread, with greater sharing of staff and materials, and even joint purchasing of services and aircraft.

20. Over the last year and a half, many airlines have taken the opportunity to retire older aircraft – though it is often expensive to phase out planes that are still being paid for. In the United States, ironically, the advanced age of many airliners has made capacity reduction easy; in the space of a few months, United Airlines were able to ground nearly 100 fully-depreciated Boeing 737s. And while some aircraft orders – placed at the height of the boom – have been deferred, worldwide deliveries are still running at around 100 per month because of high cancellation penalties. This means that the global airline fleet has in fact expanded during 2009 and capacity has been cut by reducing the utilisation of each aircraft, which increases unit costs and is a worrying sign for future profitability. As pointed out above, this trend is set to continue in 2010.

21. To pay for these previously committed orders, it is estimated that airlines had to raise some US \$25 billion of capital in 2009. Given the state of credit markets, new orders have unsurprisingly fallen sharply, with up to 40% of deliveries by Airbus in 2009 being supported by finance guaranteed by the French, German and United Kingdom export credit agencies.<sup>9</sup> But there is a compelling case for airlines to optimise the fuel

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9. The financing and subsidisation of aircraft purchase and production is a complex subject beyond the scope of this report. Suffice it to say that the two major rival aircraft producers, Boeing and Airbus, have both been involved in WTO proceedings involving allegations of illegal subsidies from governments. According to the *Wall Street Journal*, the USA appears to have been successful in its case against the European Union involving US\$20 billion in "launch aid" to develop new Airbus models, while a decision in the European Union's similar case against the USA involving Boeing is still pending. See <http://online.wsj.com/article/SB125206164068986193.html>

efficiency of their fleets. The first signs of economic recovery – particularly in Asia – triggered a relatively steep rise in oil prices, the prospects for which we will examine in the next section. Earlier in 2009, lower prices obviously helped the industry, but not by as much as had been hoped, and the benefit has been further limited for European carriers insofar as the dollar, in which oil is priced, strengthened against the euro and other currencies in the last quarter of 2008 and the first six months of 2009. Also, because many carriers had “hedged” their fuel costs at previously high rates, they are now carrying this extra cost. And meanwhile, the continuing credit crunch has increased the difficulty of servicing any debt taken on as part of fuel-price hedging.

22. In fact, tight credit conditions pose many dangers for a debt-intensive business such as air transport. There are obvious risks for those with cash flow difficulties; but it is also harder to obtain finance for restructuring, and even large United States airlines with healthy balance sheets have found it expensive to raise debt, American Airlines and Southwest Airlines paying up to 11% on secured debt and United Airlines 17%. In Europe, as IATA has pointed out, the previously strong cash position of Europe’s larger airlines has so far enabled them to raise capital – and so long as restructuring is pursued, there is cautious optimism that this credit-worthiness can be maintained. In fact, the shares of major airlines have rebounded worldwide, as investors show greater confidence in their survival.

23. But the problems for other airlines are still acute, particularly for smaller national carriers without partners, and low-cost operators with weak cash positions. These airlines find themselves squeezed between the larger airlines and aggressive low-cost operators, with little ability to raise credit and therefore unable to obtain working finance. During the summer of 2009, the AEA protested at a decision in principle by the European Investment Bank (EIB) to cease funding for the airline industry, while the European Regions Airline Association (ERA) applied, on behalf of its 65 members, for access to EIB loans, as enjoyed by other hard-pressed industries such as car-making. However, as EIB President, Philippe Maystadt, explained to the Assembly’s Committee on Economic Affairs and Development on 19 March 2010, according to its statutes, the EIB can only finance investment projects, and not bail out industries. The EIB could, for example, finance the research and development of new, more environmentally friendly engines.

24. The small island national airlines such as Air Malta, Cyprus Airways, Icelandic Airlines and Aer Lingus appear particularly vulnerable, since they may be seen as maintaining an essential lifeline to mainland Europe and elsewhere but are subject to seasonal variations in demand from tourism, with strong competition from low-cost and charter carriers. Their ability to access credit has been strongly curtailed by the crisis. Partnerships, code-sharing, leasing out of aircraft in low season and the development of strategic routes and hubs to the Middle East and Asia may help alleviate their difficulties.

25. For a small island like Ireland with its export-dependent economy, the abrupt downturn in civil aviation has had an immediate severe impact and serious implications in the short term for connectivity and sustainability of the country’s aviation infrastructure. In competing directly with the largest and most successful low-cost carrier in Europe, Ryanair, the key Irish flag carrier, Aer Lingus, had been sustained in recent years by profitable growth of long haul operations on North Atlantic routes. The combined effect of the sudden jolt to traffic growth from the latter part of 2008 followed by rising fuel costs and falling business class numbers on the primary revenue-earning routes in 2009 has brought on the latest round of cost cutting which the Aer Lingus management have pronounced as essential to the sustainability of the carrier. The extent of the adjustments required to bring the airline to competitive fitness is underscored by Aer Lingus initiatives to restore a hub operation in the United Kingdom, to reactivate proposals for opening a transatlantic base in the United States, and recruitment there of lower-cost in-flight crews.

26. Already some operators, such as Sterling, Zoom and FlyLAL, have ceased flying, while others have been sold or merged. In a flurry of recent deals, Olympic has been sold to an investment group, Air France/KLM has taken a 25% stake in Alitalia, which had already been partially sold and partially merged with Air One, and both BMI and Brussels Airlines have been taken over by Lufthansa. At one stage in winter 2008-09, there were rumours that Lufthansa would also take over SAS, as it struggled to divest itself of its subsidiary, Spanair (in which it now holds only a minority stake). Globally in 2009, according to IATA, 30 airlines went bankrupt, 14 of which have disappeared

27. Further consolidation in the industry seems inevitable, with some predicting that Europe will eventually have only two or three major network carriers and a handful of low-cost operators. While painful and disruptive in the short term, this consolidation has the potential to create a more robust and prosperous industry in Europe after the current crisis, so long as route coverage and competition are maintained. But in developing their forward strategies, airlines face a number of operational and policy challenges that affect their business model. We will now look at some of the most important, beginning with the environmental impact questions the industry faces, and particularly its dependence on fossil fuels.

## 5. Operational challenges faced by Europe airlines

### 5.1. Environmental challenges

28. There is no doubt that aviation poses a number of environmental challenges, especially in a continent with a high density of population such as Europe. Substantial progress has been made to reduce noise levels, with modern aircraft around 75% quieter than the first jet planes, a reduction of around 20 decibels. More work is being undertaken, especially with the increasing frequency of flights expected in future at major airports. Current European efforts should reduce noise by a further 6 decibels by 2010, and 10 decibels more by 2020.

29. Understandably, the expansion of airports, though sometimes necessary to meet higher traffic levels and accommodate larger aircraft, is unpopular and requires great sensitivity. Given this, a public commitment to improving management techniques and technology, and a clear track record of success in reducing local impacts, is essential. It is worth noting that such questions are playing a part in shaping Europe's aviation industry today, with recent capacity increases at the hubs of Star Alliance and Skyteam in continental Europe giving these alliances an advantage over the Oneworld group, whose main regional hub is the capacity-constrained Heathrow, where government plans for a third runway have been set back by a judge's order for a new inquiry into its impact on traffic congestion and climate change.

30. Indeed the most fundamental issue is greenhouse gas emissions. In 2003, flights departing from the EU's then 25 member states accounted for 3.4% of their total CO<sub>2</sub> emissions, according to the AEA. Given the industry's previous and projected growth, addressing this is a major goal. With improvements in materials, technology, handling and route-planning, modern aircraft are as much as 70% more efficient than thirty years ago and each new generation of aircraft represents an improvement of 15% to 20%. So the current surge in the retirement of old planes should have a strong positive effect.

31. In addition, airlines are changing operational techniques to reduce fuel usage at airports and reducing superfluous weight carried by aircraft. To develop new technologies, European airlines are working with governments and manufacturers, committing up to 14% of their turnover to assess the potential of ideas such as alternative fuels, which was recently trialled by Virgin Atlantic. There are several joint programmes under way to organise research, in particular the "Clean Sky" initiative, one of the largest European research projects ever created. With a budget estimated at €1.6 billion, shared between the European Commission and the industry, it is intended to speed up breakthrough technologies and their implementation over a five year period.<sup>10</sup>

32. Although aviation emissions were not specifically addressed at the Copenhagen Conference on Climate Change in December 2009, IATA members had already put forward a set of industry proposals at the UN climate change summit in September, including commitments to improve fuel efficiency by an average of 1.5% annually to 2020, and to stabilise carbon emissions with carbon-neutral growth from 2020, so as to cut overall industry carbon emissions by 50% by 2050, compared to 2005 levels. This is to be achieved by the new-generation aircraft and technical innovation just described, plus improved operations management and flying techniques. It will also be spurred by the introduction of global emissions trading, which IATA embraces, though it expects this will add around US\$5 billion a year to costs and it may have perverse effects such as encouraging airlines to fly to Asia via Middle East hubs (see paragraph 61).

33. In addition, IATA is looking to the development of algae-based fuels as a substitute for today's kerosene-based ones – which they believe could eventually reduce carbon emissions by up to 80%. Several test flights have taken place using such bio-fuels, and their certification for aviation is expected in 2010, which should lead to a rapid increase in use. Of course, there are still issues to resolve surrounding sustainable bio-fuel production, and questions over how effective such fuels will really turn out to be, but the effort is surely worth making. Tackling airline emissions is not only the right environmental choice, it is also a win-win commercially, with the industry's reliance on expensive, finite, high-intensity crude oil being its greatest long-term challenge.

34. Following the inconclusive outcome of the Copenhagen conference on the issue of aviation's contribution to global warming, the AEA confirmed that its members remained firmly committed to a powerful and meaningful programme to halve the industry's carbon footprint on a global scale. "The airline sector went to Copenhagen with a clear vision of halving current CO<sub>2</sub> emission levels by 2050", said the AEA Secretary General, "with interim targets for consistent emissions efficiency improvements in the short term and carbon-neutral growth from 2020. An intensive development programme for new technology aircraft, engines and

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10. Details can be found at [www.cleansky.eu](http://www.cleansky.eu) Additionally, the industry has established its own website, [www.enviro.aero](http://www.enviro.aero), which showcases innovations and provides detailed research data.

fuels, backed by market-based measures, has put aviation ahead of any other emitting sectors in making genuine commitments to powerful and meaningful targets". The airlines, he said, would continue to press for a Global Sectoral Approach for aviation and seek to arrive at the same political consensus within the International Civil Aviation Association (ICAO) as they had achieved within IATA.<sup>11</sup>

35. In this regard, the AEA highlights the European Union's planned inclusion of aviation in its regional emissions trading scheme by 2012, which it believes will cost airlines up to €7 billion, and points to the external competitive pressures faced by the industry, which we will look at in section 6. It suggests that rather than implementing this scheme unilaterally, Europe should lead calls for a global carbon "cap and trade" system in the framework of the ongoing international negotiations on climate change, and seek to incorporate the European scheme within it. This is in line with the proposals made by IATA.

## **5.2. Fuel costs**

36. In the first part of 2008, soaring oil prices had driven fuel costs up from around 20% of an airline's budget to around 35%. By the end of the year, oil had fallen back sharply, trading at around US\$40. By the end of 2009, however, the price had recovered to just under US\$80 and IATA's most recent financial projections have assumed a US\$79 average price for 2010, up considerably from the US\$62 average for 2009. Given that each extra dollar on the oil price adds US\$1.6 billion to costs, the cash pressures on airlines are likely to be intense, forcing them to try to push up fares or increase charges.

37. Furthermore, there are predictions that, driven by growth in emerging economies, prices could exceed last year's levels once economic recovery is attained. Many forecasters suggest that this pattern, with periods of high prices interspersed by periods of extreme volatility, will become routine as demand increases and reserves appear to decline. At the least, the increasing volatility and uncertainty of oil prices is a huge management challenge, with the inability to predict its price being potentially more detrimental than the price itself.

38. Fuel price hedging has recently become a popular "insurance policy" against rising prices, but experience in 2009 highlights the risks involved. Iberia, for instance, overspent by €118 million on fuel, due to hedging arrangements set up in 2008, and both Ryanair and EasyJet have been similarly impacted. At Air France, losses arising from hedging will continue into 2010, and the company is not currently undertaking any hedging operations. Moreover, as previously suggested, not only is hedging risky, but continuing weakness in the credit markets makes it difficult to do.

39. Despite the airlines' emphasis on fuel economy, not all of what can be done is within their control. In Europe, flight diversions and capacity delays are estimated to cause up to 18% of emissions, and the poor co-ordination of air traffic control accounts for up to another 7%. Improvements in these fields formed part of the climate change proposals made to the UN conference. We will now look at steps being taken to address these issues, along with other developments in Europe's regulatory framework.

## **5.3. Regulation and infrastructure**

40. It is not only the airline industry that will need to adapt to new circumstances, but also the institutional and regulatory environment and the physical infrastructure they rely on. Although the airlines themselves now form a single market, the context in which they operate has remained in some cases fragmented, inefficient and unaccountable. The industry therefore welcomes a series of initiatives under way that should improve their prospects, and has some further recommendations to make.

41. The industry has long been concerned by the waste and duplication involved in having some 60 air traffic control areas operating across Europe. Therefore, it warmly welcomed the launch of the "Single European Sky" in 2004 and its revised version adopted by the EU Council on 7 September 2009, which will reduce these to 9 "functional airspace blocks", with co-ordinated planning and agreed performance targets. This should help to ensure that flights get the clearances, routes and altitudes they request, which will improve punctuality and reduce fuel consumption. It should also replace monopoly pricing with an independently agreed charging system, though airlines regret that this will not begin until 2012. For as traffic levels have dropped, various air traffic control authorities across Europe have compensated by raising their charges. Early in October, for example, the Polish navigation service announced increases of 32% for flights across Poland, and 62% for flights using Polish airports.<sup>12</sup>

11. <http://files.aea.be/News/PR/Pr09-041.pdf>

12. More information on the Single Sky is available at [www.eurocontrol.int/sesar](http://www.eurocontrol.int/sesar).

42. With the European Union expecting that air traffic in Europe could double over the next fifteen years, an increasingly harmonised approach to air safety issues is clearly desirable. Following an agreement reached in March 2009, the European Air Safety Agency (EASA) is set to increase its role, becoming the “one-stop-shop” of safety strategy. From 2012, it will assume responsibility for the rules governing the European Union's air traffic management and navigation services, and from 2013, it will also oversee airport safety procedures. The aim is to have a focused, comprehensive approach to safety management and to overcome regulatory gaps and duplications by means of a single certification process. In due course, EASA will also assume the current functions of Eurocontrol, which will in turn become operationally responsible for implementing the “Single Sky”.

43. The AEA, which supported the creation of EASA, has welcomed the extension of its responsibilities. However, it has warned against any tendency by EASA to “reinvent the wheel”, pointing out that many previous safety agreements work perfectly well and do not necessarily need to be redrafted from scratch. It also suggests that EASA has become a particular target for lobbying by the unions, and cites recommendations arising from a recent study on flight time limitations for aircrew, which could, for instance, result in two co-pilots being required rather than one in some cases. The current recommendations have the support of bodies such as the International Federation of Airline Pilot's Associations and the Flight Safety Foundation, although airlines suggest that some long-haul routes could be rendered uneconomic. In France, for example, the airline trade body suggests that up to 25% more pilots might be needed, without any quantifiable increase in safety standards. EASA, though, maintains that operational details will require resolution between the unions and airlines themselves, and points out that its own draft proposals have still to be issued. It expects a blueprint for new rules to be ready by mid-2011, following public consultation, so as to be implemented in 2012.

44. Fees and charges levied by individual airports are an increasingly important issue, especially for network carriers. While low-cost airlines can negotiate on the basis that they can move, or suspend their flights – which several have done – the network carriers tend to be tied to specific, major airports. Some of these have responded to reduced business by insisting on higher fees. Frankfurt, for example, announced increases taking effect from January 2010, although these were deferred to later in the year on account of the difficult financial situation faced by the airlines. For their part, the airlines have welcomed an EU directive that will force transparency on such charges and will subject them to the scrutiny of an independent regulator, while expressing disappointment that the directive is not due to come into force for two years.<sup>13</sup>

45. Under the long-standing “use it or lose it” rule, airlines have been unwilling to reduce flight frequencies during the downturn, in case they lose that particular airport slot altogether. For the 2009 summer season, the rule was suspended by the European Commission; and although bodies such as IATA feel that the continent's carriers were damaged by the lateness of the decision, it all the same enabled some reduction in capacity. No decision was made to continue the waiver for the winter season, a move for which the airlines urgently pressed. This lack of flexibility in planning ahead and responding to markets represents a competitive disadvantage for European operators over those in other regions, such as Asia, which were able to curb capacity rapidly during the downturn, and are now expanding again.

46. As was pointed out at the ECAC Plenary Session in Strasbourg in July 2009, it is vital that Europe can also successfully plan for long-term expansion. Given future projections for global air travel, the need for more capacity will be unavoidable, if gridlock, inefficiency and a loss of competitiveness are to be prevented. ECAC members underlined that in many states, the complexity and slowness of the planning system presented at least as much difficulty as the raising of capital for new projects. Much depends, in their view, on being able to identify and make use of spare capacity in the system, and innovations such as Single Sky will also make a noticeable difference, but there nevertheless remains a need for new infrastructure. This includes additional airport and transit facilities, as well as investment in navigation and control technology. ECAC emphasised the need for European authorities to think through the consequences of this, and to factor these into their regulatory approaches, given the lead times commonly involved in such projects, so as to meet future capacity needs.

47. Although some contest this, many in the industry feel that air travel attracts both too much taxation, and is the subject of too many individual tax initiatives. The AEA points out that air transport entirely finances its own infrastructure costs via taxes and charges levied, and is frequently a net financial contributor to states, unlike other forms of mass transit. In the case of Germany, it suggests that air transport pays back around €10

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13. Directive 2009/12/EC of the European Parliament and the Council of 11 March 2009 on airport charges.

per 1 000 km travelled, while rail requires a net public subsidy of €50 per 1 000 km. It has therefore been vociferous in opposing additional passenger taxes; over the last couple of years, such taxes have been withdrawn in Denmark, the Netherlands and Malta, while a planned tax in Belgium was shelved.

48. However, there is now pressure on governments to find revenue to pay for the national stimulus packages introduced to alleviate the crisis. In Ireland, the introduction of a €10 air travel tax has been the subject of much debate since it was introduced in December 2008 in response to the country's worsening financial situation. Three airlines, Ryanair, Aer Lingus and CityJet, issued a joint statement protesting against the tax. The Irish Government's Tourism Renewal Group has urged the minister for tourism to abolish the tax, claiming that the departure tax has damaged competitiveness. The impact of the tax has been felt very much at Shannon Airport, with Delta Airlines, US Airways and CityJet already ending their services from the airport. Ryanair also has plans to pull 75% of their routes from Shannon Airport, citing the travel tax as the main reason for their decision. This comes at a bad time since, by agreement between Ireland and the United States, Shannon is the only European airport that now provides full US Customs and Border Protection pre-clearance facilities for transatlantic flights to US destinations. A second station is scheduled to open at Dublin Airport towards the end of 2010.

49. It has to be said that the subject of competition between airports, in particular regional airports, in seeking to attract airlines has been fraught with controversy, with airlines and airports involved in mutual recrimination. For example, Air France has complained to the European Commission that Ryanair flouts competition rules by receiving "subsidies" from at least 25 French regional airports in return for agreement to service them. Such "subsidies" can take the form of fee reductions, marketing aids or other preferential treatment. Ryanair points out that such reductions are perfectly legal according to the European Court of Justice and are based on increase in traffic frequency. Such problems have beset Strasbourg Entzheim International Airport. Passengers wishing to travel to and from this hub of European activity were particularly disappointed when, as a result of an Air France complaint that Ryanair was receiving favoured treatment from the airport, the low-cost airline decided, allegedly in response to inducements, to move its operation to Baden-Baden. This included its popular London connection set up in competition with Air France. Air France, having thus succeeded in ridding itself of its direct competitor, has since ceased its direct flights between Strasbourg and London. Such manoeuvres can only be described as an abuse of the monopoly position of a major European airline, harmful to passengers and to European competition and efficiency of air transport. The question also remains whether Europe's largest low-cost airline is not abusing its position in seeking favoured treatment from European regional airports at the expense of the established carriers.

50. Overall, industry bodies are calling for the rapid implementation of European Union legislation, and a carefully considered approach that maintains competitiveness, efficiency and flexibility. As the AEA's Chairman described to the European Union Transport Commissioner in a meeting in summer 2009, "The airlines want to manage their own way out of the crisis, and that means removing barriers and creating pathways back to prosperity".<sup>14</sup>

51. Nevertheless, the European Union institutions have not been deaf to the plight of the air transport industry. Thus on 17 December 2009 the European Economic and Social Council published an opinion "on the European aviation relief programme", calling attention to the effects of the crisis at all steps of the value chain.

## **6. Emerging threats and opportunities for European airlines**

52. The airline industry has become increasingly competitive, both within regions and inter-continently, and also faces competition from other travel providers. Several of these competitive trends are worth examining in more detail, since they have a direct bearing on the industry's position in Europe.

53. Within the continent, airlines face an increasing challenge from long-distance, high-speed rail services. These are generally part of state-subsidised networks, where the infrastructure is at least partly paid for, and no additional taxes apply to travellers. They can therefore offer reasonable fares and are understandably popular, especially given their image of being "environmentally friendly". The AEA points out that short-haul air travel can be competitive with rail in carbon terms, particularly when the local source of power generation relies on fossil fuels, and suggests that efforts to improve mass transit arrangements to and from airports would improve this still further. All the same, the success of high-speed rail seems assured, and this will force airlines to abandon some short-haul routes, to maintain them as connection services, or – as Air France is considering – to operate rail connection services of their own. In any case, the expansion of high-speed rail

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14. <http://files.aea.be/News/PR/Pr09-020.pdf>

will further add pressure on airline profitability, as Iberia has found in the case of the new Madrid-Barcelona line. Thus while it is true that high-speed rail threatens to undermine air travel, it also represents an opportunity for combined air-rail solutions, such as reaching Strasbourg via Roissy-Charles de Gaulle airport and then onwards from the TGV rail station.

54. Although it seems that public resistance to full body scanners now in use and planned at many airports may not be as high as expected, in particular after the attempted bombing of a transatlantic Northwest Airlines flight on Christmas Day 2009, questions are certainly being asked about the human rights, health, and cost-benefit implications. As the United Kingdom Equality and Human Rights Commission has pointed out, their use may infringe discrimination law if specific or vulnerable groups are singled out, and may contravene passengers' right to privacy under the Human Rights Act. Moreover, doctors are apparently particularly concerned to know what passengers undergoing such scans are being exposed to and what the effects of such exposure might be. In economic terms, the cost of full body scanners is very high, in regard to both purchase price and maintenance. European airlines and their passengers will be particularly concerned by the fact that in Europe such security-related costs are passed on to passengers, whereas in the United States security costs are borne by government. This represents a further distortion of competition.

55. European airlines still face many restrictions on their operations outside Europe and particularly in the United States. Although the United States market has been deregulated for domestic carriers, barriers are still in place for foreign operators, and the continuing lack of a level playing field in EU/US aviation represents a particular threat to Europe's liberalised industry. After years of negotiation, a first-stage "open skies" agreement was signed in 2007, ending the artificial constraints on transatlantic slots, and this is credited with expanding traffic by 8%. But while United States carriers are now allowed to operate intra-EU flights, European airlines are not permitted to operate intra-US flights. And foreign ownership of United States carriers is still restricted to 25%, even though American firms can take up to 49% of European airlines.

56. The European Commission and the region's airlines are united in seeking further progress, so that open skies can be fully achieved, and so that the United States market becomes as accessible to Europeans as the European market is to them. In March 2010 it was announced that the United States-Europe agreement had now been expanded to include more co-operation on security, safety and competition, providing also greater protection for United States airlines from local restrictions on night flights at European airports and including a provision on the importance of high labour standards in the airline industry. The terms of the 2007 agreement were confirmed indefinitely. However, the revised agreement does nothing to change existing limitations on foreign participation in ownership of United States airlines. The rapporteur believes that the European Commission should immediately step up its efforts to ensure that European and United States airlines compete on equal terms. European airlines should have the same access to the United States market as American airlines enjoy in Europe, notably in terms of investment and landing rights.

57. Restrictions on cross-ownership and other regulatory hurdles have done much to determine the loose nature of today's global airline alliances, as airlines do what they can to improve connectivity. And this trend, as one analyst has described it, of "moving from domestic efficiencies to global efficiencies", is still restrained, with American Airlines, for instance, having now waited more than a year for federal approval of a flight-sharing agreement with British Airways and Iberia. But an interesting example of the potential that exists is Lufthansa's 2008 acquisition of a 19% stake in the United States domestic low-cost carrier Jetblue: as part of the relationship, Lufthansa pilots are trained on smaller aircraft in the United States, while Lufthansa has helped Jetblue to establish a cargo operation. And in August 2009, the carriers signed a flight-sharing agreement that will cover 180 Lufthansa destinations worldwide and 12 JetBlue cities in the United States and Puerto Rico.

58. In recent years, there has been substantial investment in aviation capacity in the Middle East, particularly in the Gulf. Indeed, this has been the only region in the world to continue to register strong growth in airline traffic during the recession. Without the constraints of planning laws and environmental restrictions, with substantial state investment and with strong partnerships in place between airlines and airport operators, several important new hubs have been established enjoying high load factors, so that the Middle East now accounts for more ex-region intercontinental connections than Europe. This traffic is likely to continue rapid growth in future years, helped by the introduction of larger aircraft, and a much lower charging and tax base than is available at European airports. Europe therefore risks an accelerating loss in share of its premium intercontinental traffic.

59. Under the terms of Europe's emissions trading scheme, a carrier will incur a lower charge by flying from Europe to Asia via the Gulf, despite the increased emissions involved, because the second leg of the journey will be exempt from European Union charges. Similarly, a carrier linking New York and Bombay will avoid all charges by transiting in Dubai rather than Europe, despite the extra emissions. On top of this, the additional

distance-cost incurred by the airline will be offset by the fact that fuel is substantially cheaper in the Gulf than in Europe. There will therefore be an incentive for European services to use the Middle East as a hub point, and for extra-European services to avoid Europe altogether, creating a considerable competitive disadvantage for European carriers and for European business in general. Airline capacity is likely to shift more quickly toward the Middle East, encouraging multinational enterprises to choose the region as their operating base.

60. This development underlines the expansion and rebalancing of the intercontinental travel market, which is likely to be even more striking as recovery takes hold, and which Europe will need to address if its airlines are to remain world leaders and the continent is to retain its place as a key global hub.

61. The threats and opportunities outlined here point the way to aviation's future. Competition will of course be a key element, with emerging economies playing an ever greater role in driving, and hosting, international traffic; consolidation will also be a priority, with airlines needing to join forces to tackle the challenges they face and become more efficient. And international co-operation will therefore be increasingly important in managing the expansion of this complex industry, while guaranteeing safety and spreading best practice. In late 2008, ECAC signed a Joint Work Programme with the Arab Civil Air Commission, including provisions for economic information exchange and joint workshops. Similar agreements have since been drafted for signature with the civil aviation authorities in Latin America and Africa, and this must be seen as an important step in planning for the growth of an industry which, while extremely vulnerable to economic shocks, is vital for economic development.

## **7. Conclusion**

62. The European civil aviation transport industry has developed over many years into a major and vital asset essential to the growth of the European economy and to Europe's competitive position in the world at a time of continuing globalisation. The European region is characterised by dense passenger and freight traffic carried by a wide variety of airlines supported by a vast network of airports and other aviation-related infrastructure. The European air transport industry could be described as the very lifeblood of Europe's economy, and it is not surprising that it has suffered a considerable setback as a result of the recent recession. Nor is it surprising that Europe's economy has suffered huge losses as a result of the air traffic disruption caused by the recent volcanic eruption in Iceland, further weakening the airlines' already fragile financial situation.

63. Unlike the production of cars, the response to reduced demand for passenger and freight transport cannot be an immediate reduction in the number of goods produced. Service must be maintained even if capacity is reduced. Fixed overheads are therefore high and the temptation is to undercut competing airlines by offering cut-price seats, further reducing yields. This illustrates the particular vulnerability of airlines in recessionary times, and explains the difficulties that airlines have faced over the last two years.

64. Although prospects have improved with the recent recovery of economic activity, there are emerging and intensifying challenges in the form of increased competition from the Middle East hubs, United States airlines and other forms of high-speed transport, environmental, safety and security concerns and increased fuel costs. The answers to such challenges will certainly include industry consolidation, alliances and cost-reduction as well as fine-tuning the response to demand, all in the context of a supportive and co-ordinated European regulatory framework. The rapporteur therefore proposes that the committee and the Assembly endorse the recommendations outlined in the draft resolution accompanying this report.