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Co-ordination of Intra-European Air Transport

Report[1]
Committee on Economic Affairs and Development
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A. Explanatory Memorandum

1. The aeroplane does not compete to any great extent with other methods of intra-European transport.

Air transport holds a very special place in the field of intra-European transport : while there is often direct competition between road, rail and water transport, the competition between the latter and air transport is, within the Europe area, still negligible. On the most favourable route for aircraft-that between Paris and London?passenger traffic amounted in 1948 to only one-tenth of that carried by boat and train. It should also be realised that the air passenger is often in a hurry and travels only because he is assured of a rapid journey by air. The aeroplane has increased the number of personal contacts between statesmen or business men and made winter sports weekend excursions possible from various European capitals. It is no exaggeration to say that the aeroplane has to a large degree created its own clientele.

2. Co-ordination is particularly necessary in the case of air transport.

A minimum of co-ordination is more necessary in the field of air transport than in any other. Whereas in the case of rail, waterways or?to a lesser degree?road transport it is merely a question of linking the various systems together and of making the necessary readjustments, each airline on the other hand is to all intents and purposes in competition with all the others, thus making it advisable to attempt a fair division of the market, even though purely geographical Considerations may not require it.

3. Air transport?a young industry.

Such a division of the market has, however, not yet been achieved, and the European air industry is far from having attained its optimum degree of concentration. Being a young and growing industry, air transport lends itself more than any other to reorganisation on a rational basis. There are thus excellent reasons for making a distinction between air problems and those of other methods of transport, and for dealing with them in isolation (but bearing in mind the hopes of an ultimate co-ordination of all methods of transp

Present situation

4. Causes of the comparative lack of progress in air transport in Europe.

The development of air transport in Europe lags far behind that not only in highly developed countries such as the United States, but even in certain of the comparatively undeveloped countries of South America. There are many reasons for this : chief among them that there is a remarkably dense road and rail network in Europe ,that distances to be covered are comparatively short, and that Europe is divided by political frontiers and customs barriers.

5. Each country wants its own national company.

This last factor no doubt accounts more particularly for the comparatively slow develop ment of European air transport. Although its technical organisation is, as a whole, modem and efficient, its commercial organisation places it in an inferior position in respect of other companies operating on a world scale and more particularly of American companies. In most countries, there is an airline (sometimes subdivided for the sake of administrative convenience) which the Government recognises as its "chosen instrument". These airlines are to a greater or lesser degree subject to various forms of State control and are financed by the State to compensate for the obligations involved. Though it is difficult to quote figures, in view of the indirect forms this financial support assumes, it invariably amounts to very considerable sums, and there are extremely few companies which can pay their own way.

6. Disadvantages of this situation.

This chaotic situation and the resulting fierce competition is of great disadvantage both to the passengers and to the companies themselves : the timetables are not satisfactory, and it is impossible to provide an adequate rotation of aircraft to ensure their capital cost being sufficiently quickly redeemed. Finally, the resulting high costs have hitherto prevented the European companies from pursuing the policy of cheap air fares which has had such success in tho United States.

7. Increasing competition.

On the contrary, it is the American airlines which, by carrying traffic between various points in the European area (so-called "fifth freedom" traffic) are competing with the European lines and making the position of the latter increasingly difficult. German competition may quite shortly be added to this formidable American competition : at the present time Germany is prohibited by law from all air activities, and German air traffic is handled by the Occupying Powers. Present political developments give reason to think that this will not always be the case, and the re-appearance of German commercial aviation will certainly aggravate the trading difficulties of the other European companies.

8. Need for commercial concentration.

Matters would be very different if a single European air organisation existed, capable of competing with the powerful American airlines, and in which Germany would participate on an equal footing with other European countries.

9. Its favourable effects on the European aircraft industry.

Such a commercial concentration would also appear to be the only possible way of coming to the rescue of the aircraft industries of those European countries in which they still exist

Indeed, there is no doubt that, with the possible exception of the United Kingdom, the lack of adequate markets will shortly make it impossible for any European country to maintain a purely national aircraft industry without heavy financial loss.

Thus in the case of aviation, even more than in other forms of transport, the present political organisation of Europe is incompatible with modern technical needs.

For all these many reasons it appears desirable that the various European companies should combine forces and organise a rational division of labour with a view to cutting costs, reducing rates and increasing air traffic.

Efforts already made at co-ordination

10. The I. C. A. 0.

On the technical level there already exist two world Organisations which ensure some measure of co-ordination. One is the I. C. A. 0. (International Civil Aviation Organisation). This was established by a Convention signed in Chicago on 7th December 1944, and its aim is "to develop the principles and techniques of international air navigation and to foster the development of international air transport."

The I. C. A. 0. has not been successful in establishing a multilateral agreement on international airlines. The international conferences which it has organised have, however, been at least of educational value; they have served to enlighten Governments on the various aspects of the problems of international air co-operation and have to a considerable extent succeeded in standardising the bilateral agreements on which the present organisation is based.

11. The I. A. T. A.

In addition to the I. C. A. 0., there is an intergovernmental organisation called the International Air Transport Association (I. A. T. A.), a private institution which is composed of the world's leading airline companies and has existed since April 1945.

Among the results achieved by I. A. T. A. should be mentioned the establishment of its Clearing House which ensures clearance monthly of the earnings accruing to the companies and collected by them in all currencies of the world. The Traffic Committee and the 1. A. T. A. Conferences have done much to bring about the standardisation of tickets, consignment notes, conditions of transport and contracts, throughout the world.

12. Various forms of co-operation introduced by the companies.

start was made in commercial co-ordination by means of partial agreements, more especially between European companies. These agreements assumed different forms : general representation agreements whereby a company guarantees the representation of a foreign company in a given country; pool agreements whereby two companies jointly operate the same route, and assistance agreements whereby one company ensures the maintenance and servicing of the aircraft of another company.

This co-operation has also been more fully developed in other ways.

group of European firms and an American company have, for instance, together formed the International Aeronautical Telecommunications Company.

Moreover, the Scandinavian, Dutch, Belgian and Italian companies have recently put into effect a joint operational programme for the purpose of avoiding duplication, sharing the routes and ensuring adequate connections.

13. The S. A .S.

The closest form of co-operation is, however, undoubtedly to be found in the three national Scandinavian companies. The latter have founded a joint organisation called the Scandinavian Airlines System (S. A. S.). This is not a company with separate legal identity but an association in which the three Scandinavian companies are all on an equal footing, whatever their respective material contribution. This association, which was founded in the first place to operate the transatlantic routes, now covers the whole network of Scandinavian airlines. This policy has undoubtedly increased the importance of the Scandinavian companies beyond the point which any one of them could have attained individually. It seems natural to advocate such a policy when considering the means by which closer cooperation between the European air companies can be established.

The proposed remedy : a single European company

14. Establishment of charter company or syndicate of existing companies.

In replacing the above-mentioned organisations? restricted both in their scope and geographical range?by a single European Organisation, what form should this Organisation actually assume? In present conditions, failing a genuine European air company, the creation of which can only be a long-term objective, there appear to be two possible solutions : either the creation of an international company which would act as a mere chartering agent for the various national companies, and pay for their services on a miles-flown basis, or the establishment of a European association on the pattern of the Scandinavian Airlines System, with no separate legal identity but responsible for allocating routes, timetables, operational frequency, capital investment and profits between the associated companies in proportions to be fixed by common agreement.

Needless to say, the ideal solution would be the participation of all existing European companies in a joint Organisation of the first or second type, but even a regional agreement of this nature would already be a big step forward, as experience in Scandinavia has shown.

15. The national companies would continue to operate their oven transatlantic routes.

Airlines connecting European countries with their overseas territories and the great transatlantic lines would be excluded from such an Agreement, since most States insist on operat ing them under their own flags for political reasons. That is to say, the proposed agreement would, at least in the early stages, be confined to intra-European transport.

It might be thought at first sight that such a restriction would be impracticable since all European airlines extend beyond the boundaries of Europe and cover the whole world. This view would be a mistaken one : the internal European network (or rather, the European-Mediterranean network), is quite separate from the world network and its operation involves technical, economic and political problems peculiar to itself; thus the European network of British airlines is operated by the B. E. A., Scandinavian Airlines System has a separate European traffic division and the Air France company a special European-Mediterranean division. This intra-European network can quite well be compared with the internal network of the United States?as distinct from the international lines operated by the American companies.

16. The Chicago Charter permits the conclusion of regional agreements

Further*, the fact that most European countries are members of the I. C. A. 0. in no way precludes them from setting up a regional Organisation of this kind among themselves, since this possibility is expressly allowed for by Article 77 of the Chicago Charter : "Nothing in this Convention shall prevent two or more contracting States from constituting joint operating organisations for air transport nor from pooling their air services on any routes or in any regions."

It is thus quite possible to deal separately with transatlantic routes and at the same time to evolve a juridical form for the operation of intra-European lines a joint basis.

17. It is for the Governments to promote such an agreement.

This result cannot be obtained except by direct agreement between those concerned, that is to say, on the one hand, the airlines which would, be called upon to enter into association with one another, and, on the other, the Governments. In view, however, of the close relations existing between the various Governments and the airlines, as described above, and the fact that the latter frequently depend for their existence on the Governments and could not survive without financial support of the latter, it is clear that only the Governments are in a position to assume such an undertaking.

18. A Conference of Experts should prepare the Agreement.

This report therefore recommends that a conference of governmental experts and representatives of the various European air companies be immediately convened to examine the possibility by a joint association of existing airline companies to establish a single European body which would assume the operation of air routes between Member States under certain conditions still to be determined.

B. Draft Recommendation

The Committee on Economic Questions submits to the Assembly the following Recommendation :

" Th e Assembly,

Havin g regard to the Recommendation on the Co-ordination of European Communications adopted on 26th August, 1950,

" Havin g considered the position of the various European means of transport and recognising the desirability of co-ordinating them by means of establishing a European Transport Authority,

I s of the opinion that, having regard to the conditions in which the various European Airlines at present operate, the co-ordination of air transport is particularly desirable and can be realised speedily,

"Recommends that a Conference of Governmental Experts and of representatives of the various European air companies be immediately convened in order :

" 1. T o examine the possibility, by means of an association of the airline companies, of establishing a single European body which would assume the operation of air routes between Member States in accordance with certain principles which would be determined hereafter,

" 2. T o report on other possible methods of achieving closer collaboration in order to secure the economic and efficient operation of European air transport. "