

AUTUMN 2017

ECACNEWS #63

European Civil Aviation Conference Magazine



FINANCING AVIATION

The Dialogue continues



CONTENTS

- 1 EDITORIAL
2017 ECAC/EU Dialogue with the air transport industry:
Why and how to finance aviation
Salvatore Sciacchitano

- 2 Investing in aviation: striking the right balance between
competition, connectivity and openness
Silvia Gehrler and Christine Mucina-Bauer

- 4 Towards more transparency, stability and predictability
in aviation investments
Fang Liu

- 7 The challenge of taking EU aviation to new heights
Henrik Hololei

- 10 Reflection on the Dialogue's conclusions:
designing the regulatory environment to meet aviation's future
Filip Cornelis

- 13 Challenges for investment in new capacity
for the European aviation industry
Stephen Perkins

- 17 Investing in aviation: Europe in need of proactive aviation strategies
and smarter regulation
Rafael Schwartzman

- 20 Challenges and opportunities for securing investment in ATM
Jeff Poole

- 22 No return to the "good old times"
Jost Lammers

- 24 Perhaps we could talk about something else now?
Olivier Jankovec

- 26 Why European passengers pay more for their flights
than they should
Thomas Reynaert

- 28 Investing on the ground for aviation
Pekka Vauramo

- 30 Boeing and aviation investment: preparing for future growth
Randy Tinseth

- 32 Views of the ECAC/EU Dialogue in Rome

- 33 ECAC spotlight: Reorganisation of environmental activities
Patrick Gandil

- 35 ECAC in brief

- 37 CASE in brief

- 39 News from the JAA Training Organisation (*JAA TO*)

ECACNEWS

#63 – Autumn 2017

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Subscription and distribution
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Printed by Imprimerie Peau.

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2017 ECAC/EU Dialogue with the air transport industry: Why and how to finance aviation

Salvatore Sciacchitano
Executive Secretary of ECAC



At the end of June one of ECAC's signature events, the *ECAC/EU Dialogue with the air transport industry*, took place. It was a unique occasion bringing together ECAC Directors General of Civil Aviation and the European Commission with air industry leaders to confront views on aviation's hot topics.

Over the course of two days, open and thought-provoking debates were held between regulators and senior aviation industry leaders on a key transport issue that bears a lot of implications for the future and success of our sector: FINANCING AVIATION.

Contributors to this issue of *ECAC News* reflect on the range of perspectives we heard in Rome, as varied and sometimes conflicting as they may be. Yet, from this diversity of interests emerged a number of recommendations that we all share and stand ready to promote.

Firstly, there is a broad agreement among the different actors of the sector – investors, airports, airlines, regulators – on the objectives of investment: an acute need to support the fast-paced growth of the sector in order to remain competitive, improve environmental performance and increase capacity and safety.

Secondly, the good news is that capital for investment in the aviation sector is available. There is no doubt the aviation sector requires substantial

investment in airport infrastructure and the aircraft fleet. But with approximately 40 000 new aircraft expected to be needed over the next 20 years, and additional capital for fleet refinancing, aviation finance represents a significant opportunity to investors.

In this issue, the ECAC Focal Point for Economic matters describes the state of play of European investment in aviation and highlights the common conclusions that emerged from these cross-fertilising debates. ICAO and the European Commission then lay out for us the institutional landscape and regulatory framework currently in place, envisaging the next steps to be taken to best support European aviation with a stable and transparent legislation. Using the example of Heathrow Airport, the International Transport Forum describes how the need for new capacity is assessed, and what challenges to investment in air transport governments need to grapple with.

Then we will look at aviation investment from the industry perspective – or rather « perspectives ». Airline, airport and navigation services associations underline for *ECAC News* the specific challenges they face, and how to address them. Individual actors, such as Budapest Airport, Finnair and Boeing also share their take on their most recent evolutions and prospects.

There are certainly challenges to investing in aviation. However, with forecasts anticipating global passenger numbers almost doubling in the next 20 years, aviation is, and will continue to be, a dynamic and rewarding sector for investors. The Dialogue continues...



Kindly hosted by ENAC in Rome, the Dialogue welcomed a keynote address from Italian Minister of Infrastructure and Transport Graziano Delrio.

From left to right: ECAC President Ingrid Cherfils, ICAO Secretary General Fang Liu, Minister Delrio and Director General of Civil Aviation Italy, Alessio Quaranta.

Investing in aviation: striking the right balance between competition, connectivity and openness



Silvia Gehrler

Director General of Civil Aviation
(International), Austria



Christine Mucina-Bauer

Chief Negotiator Air Services Agreements
for Austria

The tenth ECAC/EU Dialogue presented an excellent opportunity for lively and often provocative exchanges on crucial aviation issues in Europe. Generously hosted by the Italian Civil Aviation Authority, this important event gathered high-level European stakeholders as well as the Secretary General of ICAO, Dr Fang Liu.

The topic addressed this year was 'Challenges and opportunities in financing aviation'. Why did the Member States, the European Commission and the industry choose to debate this subject?

Forecasts predict a significant increase in the demand for air travel in the coming years, while the aviation sector continues to receive limited investment to modernise its infrastructures – both on the ground and in the air – as addressed by ECAC President Ingrid Cherfils in her opening speech: *"Investing is a prerequisite for further development of the aviation sector and to ensure its short- and long-term sustainability."*

▶ Investment in European aviation: state of play

Today, funds are injected into the sector by both public and private actors. The European Investment Bank, for example, provides between EUR 1.2 and 1.5 billion per year to the aviation sector. 60% of these investments goes to airport development, and another quarter to aircraft manufacturing as well as research, development and innovation. Stock companies such as airport operators also invest considerable amounts in order to adapt their infrastructure to the foreseen increase in passenger volume.

Without question, the dynamic aviation sector requires even more substantial investment in airport infrastructure and the aircraft fleet. According to recent studies⁽¹⁾, passengers in Europe are already paying EUR 2.1 billion per year in higher air fares due to airport capacity constraints, and it is estimated that USD 1.2 trillion are required for 7500 new European aircraft over the next 20 years.

▶ Concerns around European investment in aviation

During the two days of debate, many industry representatives underlined that investment in infrastructure should be made now in order to be ready and prepared for future developments. Constraints in airport infrastructure or in ATM would have negative effects on the whole industry and the wider economy, and in particular on the passengers. This was also pointed out by ICAO Secretary General Dr Fang Liu in her welcome address: *"Some of the most important challenges for aviation in this regard are the constraints posed by*

insufficient airport infrastructure and outdated air traffic management technologies, and the ability of governments to gain access to financial resources for aviation development and modernisation."

While there was common agreement on the need for legal certainty and stability for investors, concerns were raised over the constraints arising from overregulation: market forces should be able to play, regulation is only needed when the market does not work or when there are gaps which the market cannot satisfy. More space for profitability and flexibility was among the key takeaways put forward by participants.

▶ Need for closer cooperation between airports and airlines

Another major element arising from the debates was the need for closer cooperation between airports and airlines in an attempt to bridge the gap between their diverging positions. Indeed, airline-airport relations were often described as 'hostile'.

How can this dynamic be changed? Acknowledging that they both focus on and serve the same customers, it was recommended that airport development be more driven by demand and, in particular, consider the customer requirements of tomorrow as well as airlines' future needs for infrastructure. Airlines should consider investing in services that meet the diversity of customer demands in order to improve the passenger experience.

► Innovation and R&D

One of the crucial points raised was the need to promote investment in innovation and R&D (research and development). Digitalisation and new technologies were seen as very important tools for innovation and the evolution of aviation. In this regard, innovation should be business-oriented and meet the needs of the industry. Again, a coordinated approach between regulators, air navigation service providers (ANSPs) and the industry was considered essential to support ATM development.

► Main recommendations emerging from the debates

What outcomes and recommendations came out of this Dialogue? Of course, the conference itself was already one im-

portant outcome: bringing together all parties for discussion promotes common understanding.

One of the most positive outcomes for the aviation community was that capital for investment in the aviation sector is available. Representatives of investing bodies made it clear. They are willing to invest in aviation despite the risks and uncertainties with regard to traffic development. However, according to these investors, a stable and transparent regulatory framework is essential in order to secure long-term investment.

The following recommendations were expressed, addressing public and private investors, airports and airlines, as well as regulators:

- All parties need to work closely together to make the sector more attractive to investors. There should be a special focus on high return on investment and long-term investment programmes.
- Promoting the growth of the aviation sector should be strengthened by recognising its contribution to international connectivity and economic progress.
- More effort should be put into strengthening competitiveness as well as improving energy efficiency and environmental performance, for example by modernising the fleet with new aircraft.
- Both capacity and safety need to be enhanced to prepare for the

increase in air traffic. This would include an upgrade of the ATM system and progress on the Single European Sky.

All these recommendations aim at boosting the European air transport value chain in order to sustain its growth and profitability. Europe must remain a key player in international aviation.

► What next?

It is important to continue promoting investment both in the air – with a special focus on ATM – and on the ground, in order to create opportunities for further growth.

Regulators should place a stronger focus on strategic thinking when envisaging the evolution of regulations and review existing rules from an investment perspective – especially with regard to airport charges, airline ownership and control and slot allocation.

Last but not least, as Henrik Hololei, European Commission Director General for Mobility and Transport, stressed in his keynote address, *“aviation is about connectivity, openness and competition”*.

One of the main challenges for the aviation sector in the future will be to strike the right balance between all these areas. ■

(1) http://www.atceuc.org/uploads/docs/aci-europe-synopsis---how-airport-capacity-impacts-air-fares_web-version.pdf

Silvia Gehrler has been Director General (International) since 2013 and the head of the Department of Strategy and International in the Austrian Civil Aviation Authority since 2009. She was appointed ECAC Focal Point for economic matters in 2016. She initially worked with the Ministry for Economic Affairs and joined the Austrian Permanent Representation at the EU in Brussels in 1995, the year of Austria's accession to the EU, as Trade Policy Attachée. She also worked at the US Embassy in 1999 before joining the Austrian Ministry for Transport in 2000 where she headed the unit for EU and International Aviation. From 2004-2007 she represented Austria on the Council of the International Civil Aviation Organization as a member of the ABIS Rotation Group. Ms Gehrler received a master's degree in business administration specialising in aviation and trade from Vienna Economic University and holds a master's degree in public relations.

Christine Mucina-Bauer has been the chief negotiator for Air Services Agreements for Austria since 2013. She joined the Ministry for Transport in 2005 to work on the Austrian Presidency of the European Union, which it held in the first half of 2006. In 2009 she joined Silvia Gehrler's team. Before joining the Ministry for Transport, she worked in the Austrian Representation of the European Parliament in Vienna at the time when ten new Member States joined the European Union in 2004. Ms Mucina-Bauer studied law in Germany and Switzerland and holds a university and State's degree in law. Additionally, she holds a postgraduate diploma in European and international law.



Towards more transparency, stability and predictability in aviation investments

Fang Liu
Secretary General, ICAO

This article is an adaptation of the keynote address delivered by ICAO Secretary General Dr Fang Liu in Rome on 27 June.

It is my honour to be here with you, and to have the opportunity to raise some important concerns and priorities for European air transport infrastructure investment in the coming years.

To establish some context, we should first recognise that the European Union and its Member States support a broad spectrum of aviation projects across the globe, and that these make valuable contributions to regulatory convergence and standardisation in line with ICAO's global priorities.

The annual EU contributions to ICAO's technical assistance and other programmes is in the area of EUR 10 to 15 million, and this funding is helpfully governed under the collaborative framework established under an ICAO-EU Memorandum signed in 2012.

However this governs only part of the wide-ranging support mobilised by the EU and its Member States to provide technical assistance and support greater cooperation in aviation, both bilaterally as well as on the regional level.

An excellent example of these collaborative efforts has been the capacity-building project to mitigate CO₂ emissions from international aviation. Through this initiative, and especially the EU's EUR 6.5 million contribution, 14 participating States in Africa and the Caribbean are being greatly assisted in their efforts to set out aviation emissions mitigation strategies and Action Plans.

This project is running from 2014 through 2018, and Commissioner Bulc and I signed a further declaration at last year's ICAO Assembly signalling our shared intent to examine further joint assistance from 2018 onward.

This proactive stance reflects very well on the EU, and on the importance that its Member States attach to capacity building and assistance. This will be very important to ICAO's ongoing efforts on behalf of global aviation, and in the coming years especially for States and regions which may require more direct support as they work to participate in our Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

ICAO has been very encouraged to see that the EU Aviation Strategy, which was just recently published, highlights the near-term challenges of congestion and over-capacity. It is also reassuring that this strategic EU blueprint stresses the need for these challenges to be tackled through airport slot policies and other infrastructure-related solutions.

As many of you are aware, the global air transport network tends to double in flight and passenger volumes once every 15 years, and current forecasts and year-on-year growth figures point to it doing so again by 2030. This helps us to recognise that the challenges of over-capacity are by no means unique to Europe, but also that there is a clear opportunity to the EU to foster global leadership and

best practices by pursuing comprehensive and proactive aviation development and infrastructure planning.

I would underline that this planning should also be fully aligned with national and regional tourism and other multimodal transport investment objectives, the tourism aspects of which have especially been singled out lately by the OECD as being a key driver of economic growth and sustainable development. Its recent scoping paper from March of this year, 'Effective Policy Approaches to Quality Investment in Tourism', stresses how investments are essential to expanding the productive capacity of local economies while driving job creation and income growth.

International tourism in OECD States is expected to reach 1.8 billion travellers by 2030, and a lack of quality infrastructure, especially in the air transport sector, can be a major obstacle to the development of destinations and related businesses in the tourism value chain, particularly small and micro-enterprises.

With reduced resources for public investment, and a contraction of private investment in many countries, there is a clear need for higher-quality investment opportunities and new investment models in order to stimulate growth and improve both the economic and social returns.

This level of forward-looking investment prioritisation has been

Towards more transparency, stability and predictability in aviation investments

supported not only by the OECD, but also by the G20 when it met last year. Their shared recognition highlights the importance of long-term financing and infrastructure investment for many countries today, something ICAO has been stressing tirelessly of late in every world region.

Mainly, we have been seeking to help governments everywhere to recognise the important and sustainable prosperity returns which aviation development and modernisation investments can generate for their citizens and businesses. Some of the most important challenges for aviation in this regard are the constraints posed by insufficient airport infrastructure and outdated air traffic management technologies, as well as the inability of governments to gain access to financial resources for aviation development and modernisation.

Although aviation's socio-economic benefits are widely recognised, this has rarely translated into levels of investment necessary to optimise them.

It is important for us to acknowledge in this regard that new forces are reshaping the global investment landscape, including the economic and financial crisis, the emergence of new major outward investors, and recent indications that investment protectionism pressures may be on the rise. ICAO has therefore undertaken efforts to

assist States in building their institutional capacities, and to help them understand and address the challenges they will face when undertaking complex project financial transactions.

This includes the urgent need to strengthen capacity for States to develop business cases and analyse high-quality and dis-aggregated aviation data which can be used to accurately estimate the requirements, financial and otherwise, for identified aviation development projects. This serves to reduce investment risks and uncertainty, and to improve the capability of investors to evaluate their returns.

ICAO also encourages States to take pragmatic measures to build a transparent, stable and predictable investment climate to support avi-

ation development, for example, by engaging multi-stakeholders, diversifying funding sources, and elevating the role of the private sector.

These priorities apply whether to private investments, business reform and private finance initiatives, public-private partnerships, or various incentive schemes.

The 2016 Deloitte *European Investors Survey* stresses for us that the infrastructure sector has performed well over the last five years, and that this has particularly been the case for traditional assets such as airports. It also highlights that infrastructure investors continue to prefer assets in more traditional infrastructure markets, including Western Europe.

Some associated concerns they have voiced include increased investment competition, in particular from direct investors, the finding and retaining of good quality asset management teams under public-private project frameworks, and the regulatory risks which persist in some countries – whether in terms of excessive or insufficient investment rules.

The Deloitte survey also helpfully establishes for us that the appetite for infrastructure lending is very strong across the board, with lenders tending to offer more leverage than investors are looking to take, and favourable pricing terms with low spreads and fees.



From left to right: Alessio Quaranta, Ingrid Cherfils, Fang Liu, and Henrik Hololei, Director General, DG Mobility and Transport, European Commission

Towards more transparency, stability and predictability in aviation investments



As you know, ICAO has been seeking to augment and leverage these and similar trends by bringing States, industry, financial institutions, international organisations, donors and development stakeholders together at our annual World Aviation Forum (WAF). The first was held in 2015, and the next will be convened this November in Abuja, Nigeria, which for the first time will feature a regional component focusing on Africa, but of course, with global perspectives.

WAFs will continue to serve as global events, and very important ones in terms of improving global awareness of the overall aviation development and infrastructure investment landscape. One of its key objectives is to eventually see the portion of global Official Development Assistance being directed at air transport annually rising far above its current and quite meagre level of just 4.6%.

This is an especially important message for us to convey today given the sizeable efforts being made in every world region towards the achievement of the Sustainable Development Goals adopted by

the United Nations under *Agenda 2030*, and of air transport's critical role in helping them to do so. It is also why ICAO and its many government and industry partners cooperate with such determination towards the establishment and effective implementation of ICAO's global standard and policies by **all** of our organisation's 191 Member States.

This strong foundation of local ICAO compliance and oversight is the key prerequisite to a State or region's ability to sustainably optimise aviation's global connectivity benefits. It is also the main objective of our global assistance and capacity building under the 'No Country Left Behind' initiative we have embarked upon.

One other aspect of this equation which I would touch upon before closing today, ladies and gentlemen, concerns the success States have had in eliminating operational and/or regulatory impediments to sustainable and profitable air transport development.

Aviation today still suffers from a significantly fragmented regulatory regime, and one which must

be addressed through greater modernisation, harmonisation and the convergence of regulatory approaches.

ICAO has established a long-term vision for air transport liberalisation to better codify and align these priorities, as well as to coordinate the efforts States undertake to address them. We will therefore continue to work closely with our many global partners, governments, industry and other stakeholders to advance sustainable air transport solutions, and to highlight the steps States can take to optimise their aviation development partnerships and infrastructure assets in the decades ahead.

Consensus and cooperation are the lifeblood of everything we undertake in international aviation, and they continue to help us ensure that all States and regions can more fully benefit from the remarkable contributions which global air connectivity sustainably realises for economies and societies wherever aircraft fly.

I would call on you as you engage in your work at this event to seek out solutions which effectively integrate national and aviation development planning. The only effective and sustainable solutions before us are those which will be designed inclusive of the many and diverse social, transport and business development objectives which stand to benefit from better aligned infrastructure policy approaches.

And on that note, please let me wish you all very productive and engaging sessions ahead. Thank you. ■

Fang Liu is the Secretary General of the International Civil Aviation Organization (ICAO), having been appointed for a three-year term beginning August 2015. Prior to her appointment, Dr Liu served for eight years as the Director of ICAO's Bureau of Administration and Services (ADB). Prior to joining ICAO, Dr Liu served the General Administration of Civil Aviation of China (CAAC), where over the course of 20 years she successively held the posts of Legal Counsel, Deputy Director, Director and Deputy Director General, Department of International Affairs and Cooperation. She was responsible for China's international air transport policy and regulations, bilateral and multilateral relations with international and regional organisations including ICAO, the World Trade Organization, the Asia-Pacific Economic Cooperation (APEC), the European Union, and the Association of Southeast Asian Nations (ASEAN). During her career with the CAAC, Dr Liu was elected chair of the Aviation Group of the Asia-Pacific Economic Cooperation (APEC) and was nominated by China to sit on the Air Transport Regulation Panel in ICAO. Dr Liu earned a PhD in international law at Wuhan University, China, and a master's degree in air and space law at Leiden University, the Netherlands.

The challenge of taking EU aviation to new heights

Henrik Hololei

*Director General, DG Mobility and Transport,
European Commission*



This article is adapted from the keynote address Henrik Hololei delivered in Rome on 27 June.

It was my great pleasure to address the ECAC/EU Dialogue in Rome at the end of June. Such conferences are extremely valuable – not only because I have a passion for aviation, but because I enjoy meeting so many experts and specialists in the field of aviation.

This year is particularly special as we celebrate 25 years of the EU aviation internal market. In the past quarter of a century, the number of passengers carried on international flights has more than tripled rising from 130 to 415 million – (international and intra EU), while the number of cross-border intra-EU routes has risen from 874 in 1992 to 3764 today. The air transport sector has greatly benefited from liberalisation, and in 2014 it made a direct contribution of EUR 131 billion to GDP as well as providing 1.9 million direct jobs. Today's affordable flights have enabled so many people to travel to new places and to contribute to the growth of so many regions in the EU. It is a real success story we should be proud of.

Since the creation of the single aviation market, employment figures in the air transport sector have remained stable with a strong growth in labour productivity. The labour productivity of the sector – EUR 75 300 for air transport services and EUR 80 400 for aerospace manufacturing – is higher than the EU non-financial business economy average of EUR 44 800 per capita.

Liberalisation has boosted competition, brought rising com-

petitiveness and cut prices. There are seven times more intra-EU international routes served by more than two air carriers in 2016 than in 1992, while the increase of extra-EU routes is fourfold.

Although we have just 7% of the world's population, the EU's trade with the rest of the world accounts for around 20% of global trade. Aviation is a major contributor to the European economy in facilitating trade, and it is of strategic importance being a real enabler of growth and jobs.

► Challenges ahead

Nothing, however, should be taken for granted, as we are living in a rapidly changing environment. We face challenges that affect our business environment and we must be able to react to them.

During the last two years – and as a combination and consequence of the restructuring efforts, lower oil prices and increasing demand – European airlines' operating margins have risen to the levels similar to historic peaks. This is a good thing but also poses risks and challenges.

The increasing demand for air travel and the limited investment in infrastructure modernisation on the ground and in the air – not to mention new infrastructure – is raising new issues and really creating a challenge for the future.

We need to make these investments now in order to be prepared

for the future – but in reality not much is happening. This must be acknowledged and we must remind our political leaders about the potential consequences and effects this might have on aviation and – more generally – on the economy. We are facing a number of other issues too, that I am keen to see overcome.

Aviation is about connectivity, openness and **competition**. This approach has brought success to European aviation. We must maintain open markets but at the same time defend European interests. The Aviation Strategy is a blueprint that gets that balance right. We are now implementing that strategy.

Global security concerns and recent terror attacks are stark reminders that aviation continues to be a high visibility target to terrorists. The challenge is to be ahead of the curve in security terms. It is an area where global and coordinated action is essential. It is important to involve industry and to pursue a multilateral approach. There is no room for unilateral action and we need to remind all our partners of that. I also expect ICAO to play a bigger role and assume the global leadership here. Europe is there to support and, if need be, to help in leading.

We must also recall that confidence in aviation is built on the impeccable **safety** record this industry has developed over time and thanks to your help. Safety and security are both equally important challenges we must continue to work hard on.

The challenge of taking EU aviation to new heights



From left to right: Alessio Quaranta, Henrik Hololei, Ingrid Cherifis, Fang Liu and Salvatore Sciacchitano

Environmental issues, and in particular climate change, have been very much to the fore in recent times. It is clear that aviation has to continue to deliver its part in reducing carbon emissions. I am very pleased that last year marked the historic agreement in ICAO on the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Now it is time to put substance into the agreement and I am pleased to see that this is well on-track. We must all continue to do our utmost to deliver on this and have a robust, well-functioning and all-encompassing global scheme in place.

I am also encouraged by the fact that more and more countries are joining in for the voluntary pilot phase, thus improving the global coverage and the effectiveness of the scheme.

New business models in aviation are also challenges to be considered. Digitalisation fosters the emergence of new business models and so does the overall technological development. New aircraft types create new opportunities. We need to find ways to embrace these new business models and make sure the regulatory framework covers all eventualities.

Strikes and disrupted services cost a lot of money and create significant inconvenience for passengers, airlines and airports. We need to find ways to create more predictability, and prior warning mechanisms should be in place. Of course, social dialogue is essential here, and strong partnerships help to avoid escalations.

When talking about challenges it would be impossible not to mention the **fragmented EU airspace** and the significant costs that can be attributed to that. The Single European Sky continues to be another high-profile topic, yet progress is very limited. We must do more here but we can only do it together.

Technological solutions brought about by SESAR activities are certainly helpful and the fast deployment helps to address some of the challenges related to the efficiency of ATM. But this is not enough.

Lastly, **I must mention the challenge of Brexit**. It has already led airlines to cut routes and rethink growth plans. It has also caused currency fluctuations for airlines and has had an impact on their revenues and forecasts. Unpredictability that comes with it has a very negative effect on the economy in general, and on aviation in particular.

► Overcoming the challenges

Together, we must address these challenges. The Aviation Strategy has been conceived just for that purpose, and we are delivering. I recall three important objectives of the Strategy:

- A holistic approach to the challenges;
- Tapping into the emerging and developing markets outside Europe, where significant economic opportunities are being generated for the decades to come; and
- Tackling Europe's own internal limits to growth in the air and on the ground, thus improving the fundamentals of its own air transport industry.

Earlier this year, the European Commission adopted a package of measures focusing on connectivity. This package includes the Commission's interpretative guidelines on **ownership & control** rules. We aimed to bring more clarity – both for interested foreign investors and Member State regulators. Removing barriers to investment between airlines has benefited both airlines and passengers and has provided more connectivity in Europe. Clarity on rules should allow more investment in European aviation and ultimately bring more connections.

While in most cases market economy and its rules deliver, we have to acknowledge that in some cases the market may fail to serve the needs of local communities. In such cases **public service obligations (PSOs)** may be established to guarantee that isolated or developing regions are connected to the rest of Europe.

Our experience was that the existing rules on PSOs are neither applied in a consistent way, nor are they considered as the adequate option to offer connectivity. Therefore publishing **interpretative guidelines** shall bring clarity on the questions raised by Member States and local authorities when developing PSO regimes.

The challenge of taking EU aviation to new heights



We have also presented the Commission's proposal to replace the old Regulation 868/2004 with a new instrument called "Safeguarding connectivity and competition in air transport". In addition, we prepared a paper for ATM service continuity.

At the same time, discussions between the European Parliament and the Council on the new EASA Basic Regulation are ongoing. We expect the negotiations to be finished by the end of the year.

We are all well aware that the level of air connectivity varies between European regions. This connectivity gap may concern regions of European geographical periphery, as well as outermost regions. Measuring the level of connectivity is the first step to being able to react and close such a gap. The Commission is working in cooperation with EUROCONTROL on the development of a connectivity index. We expect that such a useful tool could be established by end of this year.

Let me also say a couple of words on **taxation** in aviation. There are hundreds of taxes co-existing in Europe. This is a burden on aviation. The question is not

whether States and regional and local governments should tax aviation or not; rather it should be clear to decision makers how new taxes affect aviation and, as an induced effect, affect other industries. We are carrying out a study on understanding the variety of taxes and how they affect the economy. Hopefully this can serve as good guidance material for governments across the EU.

The key regulation of the liberalised market is the **Air Services Regulation 1008/2008**. This year we launch its evaluation. This incorporates several domains, including rules on ownership and control,

PSO, price transparency, leasing. Our objective is to understand how the regulation really functions, where there is a need for streamlining and/or further clarification, and where current commercial aspects require adjustment in order to re-invigorate the industry.

All this work is essential to reinforce Europe's role as a leading global aviation region. Despite all the challenges we face, I am confident that we must remain positive, optimistic and be proud of our achievements on which we can build new potential and develop an even more prosperous future for European aviation. ■



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Henrik Hololei became Director-General for Mobility and Transport in the European Commission in October 2015. Mr Hololei is an economist by training and holds degrees from Tallinn Technical University and Aarhus University in Denmark. He held various positions in the Estonian government office between 1995 and 2004. He was mainly responsible for coordinating the work for the Estonian accession to the European Union, working directly with the government and prime minister. In 2001-2002 he was Minister of Economy, in 2002-2003 he represented the Estonian government in the Convention on the Future of Europe and in 2004 he moved to the European Commission as Head of Cabinet of Vice President Siim Kallas. Throughout the years, Mr Hololei has been awarded the Grand Cross of the Lion from the president of Finland, the 3rd Class Order of the White Star from the president of Estonia and the Chevalier de l'Ordre du Mérite from the president of France. In May 2014, the Estonian European Movement named him "European of the Year".



Reflection on the Dialogue's conclusions: designing the regulatory environment to meet aviation's future

Filip Cornelis

Acting Aviation Director, DG Mobility and Transport, European Commission

In this article, Filip Cornelis builds on the main conclusions of the 2017 Dialogue to draw the landscape of aviation investments from the European regulator perspective.

The 2017 ECAC/EU Dialogue recently took place in Rome. Thanks to the commitment of ECAC and the Italian authorities notably, it proved again to be a true success in gathering national, European and international aviation stakeholders and regulators for a very open exchange of views. Dialogue after Dialogue, every three years we meet to better understand the messages from the industry and other stakeholders, and explore together innovative and relevant solutions for the benefit of aviation, the passengers and European society and economy as a whole.

Just as on the past occasions, the 2017 Dialogue delivered on this expectation. It focused on issues that are the most topical in today's aviation business. In this case, financing European aviation growth is indeed a priority for all today.

We are living in exciting times where striving for efficiencies and innovative solutions outweighs efforts made in the past. As a regulator, we have to understand what stirs the development of the market and how regulation can contribute to achieving such efficiencies, while simultaneously allowing enhanced passenger service and the highest security and safety standards. Ensuring enough capacity – both on the ground and in the air – and the attractiveness of aviation companies as investment targets is also a priority.

► An encouraging investment climate

Throughout the discussions and presentations that animated the 2017 Dialogue, we understood that the climate for investment and financing is rather encouraging these days. Passenger numbers keep growing, oil prices are down, profitability is better in comparison to the peak crisis years and even before. We should never be complacent, but it seems many players in the aviation market are able to finance their future development relatively easily, which is a key asset because we believe that the aviation market should mainly be financed under market conditions.

Our role as regulators is to assist competition to thrive by developing the stable regulatory environment that industry actors need, also on the financing aspect.

First of all we must recognise that aviation is a catalyst, an enabler to boost the economy as a whole: one euro invested in aviation generates three euros for the economy. Regulators must recognise this and stimulate investment into innovation in the sector.

The European Commission has been actively working on putting together the investment instruments where they are needed and providing the relevant legal framework.

► The EU financial instruments

On the instrument side, the Connecting Europe Facility (CEF) is the main financial instrument for the development of the Trans-European Transport Network (TEN-T) under the current EU Multiannual Financial Framework. As the funding available under CEF is scarce, it is focused in particular on supporting projects concerning sustainable modes of transport, according to the strategic goals of the EU set up in the Transport White Paper. In this context, we promote TEN-T airports. These airports are part of a fully multimodal network. Airports and air connectivity were duly taken into account in the planning methodology that underpinned the current TEN-T. TEN-T airports are key passenger traffic generators feeding the flows on the core ground network corridors in Europe.

As to airport capacity expansion, strong market possibilities can be mobilised for the benefit of these projects in order to save the grant support for other projects that cannot go ahead without this support. Airports may use the potential of the opportunities offered by the Investment Plan for Europe (Juncker-Plan). This is the new way forward for financing the infrastructure projects in this sector. We also encourage the potential project promoters to examine the possibilities offered by the currently



From left to right: Silvia Gehrer, Ingrid Cherfils, Filip Cornelis, Alessio Quaranta and Salvatore Sciacchitano

open “blending call” which aims at combining the financial markets’ available capital with the classic grant support.

The aviation market is fast-developing and it will be driven more and more by digitalisation. We are not far from today’s stand-alone systems being connected and big data and data mining becoming an integral part of the business, creating new value.

Thanks to liberalisation, there have been new entrants in the market and more competition. Competition means offering a broader variety of services at lower prices on the market, for the benefit of consumers. This focus on consumers, which the whole economy will profit from, will be strengthened in the future.

▶ Evaluating the EU aviation legal framework

The European aviation sector is, to a large extent, regulated at EU level. As EU regulators, we have the responsibility to ensure that regulations in force meet today’s market needs, and necessary changes are made in a timely manner. In this context, the Commission’s Aviation Strategy adopted in December 2015 aims – among other things – at evaluating the EU aviation legal framework to verify whether it adequately addresses current challenges and the reality of today’s market. Constant innovation is a key feature of aviation in the EU. And in case it does not effectively respond to today’s needs, we need to envisage adapting the rules that trigger innovation, growth and jobs.

We have started the evaluation of several EU legislations with implications on investment, including the air services Regulation, the Airport Charges Directive and the code of conduct of computerised reservations systems Regulation.

Our objective is to evaluate the granting of operating licences, rules on the provision of intra-EU air services, public service obligations, traffic distribution rules, and provisions on the pricing of intra-EU air services.

In addition, we will assess

whether the provision regarding ownership and control (O&C) of EU air carriers is still the right one in today’s more open markets. As a matter of principle, all investments in airlines are welcome, whether from other airlines or non-airline investors. In an ideal world, air carriers should be able to source investment from anywhere as is the case for all other actors of the aviation supply chain; but this is not the case today due to O&C restrictions. In the EU, foreign investment is allowed up to 49%. In the United States and other parts of the world it is even more restrictive. We are starting a broad-ranging evaluation of this and other provisions of the air service Regulation and will be collecting stakeholders’ views in the coming months.

Ideally, O&C restrictions should be liberalised globally. A liberal global environment based on competition with common rules in place would avoid abuses and distortions and is the future for aviation. The Commission supports efforts to move forward in the ICAO Air Transport Regulatory Panel where consensus is needed. It may be a longer process, but we should keep pushing this forward and share the positive experience we have had in Europe with 25 years of liberalised internal market.

Reflection on the Dialogue's conclusions: designing the regulatory environment to meet aviation's future



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► The issue of airport charges

A highly debated topic, if not the most debated topic at the Dialogue, was the issue of airport charges. This conversation has been quite passionate between airlines and airports lately – hardly surprising as the European Commission is evaluating the Airport Charges Directive and may propose changes.

The objective of this legislation was to create a common framework for regulating certain features of airport charges at the EU's largest airports, with the aim of ensuring more efficient airport services. This reflected a concern that in the absence of an intervention, the market power of some airports could produce undesirable consequences, such as unduly high prices for their services and facili-

ties or insufficient or excessive levels of investment. Eight years after the adoption of the directive, airlines' and airports' views diverge as to whether the directive has managed to achieve its objective and whether there is a need to change it.

The Commission takes the view that modern economic regulation must put the interest of consumers – namely passengers and shippers – at the heart of the equation. Airport charges should be no exception. Sufficient and efficient levels of airport investment are essential if airports are to continue to deliver capacity, quality and connectivity. In a context where private ownership and management are increasingly the norm among EU airports, sufficient and fair return is crucial for airport investors. However, airports provide services on which a large number of businesses and citizens in the EU rely and for this

reason, investment should also be cost effective. The stability and predictability of a regulatory framework based on legitimate principles are instrumental here.

A properly designed regulatory environment must allow all actors of the aviation supply chain to find opportunities to grow. The Commission is committed to making the right proposals in 2018 and to achieve this goal we need the input of all stakeholders. The 2017 ECAC/EU Dialogue was a timely and fruitful occasion in this exercise of gathering innovative solutions that work. We now invite all participants and beyond to pursue this conversation in the months to come. ■

Filip Cornelis has been Acting Director for DG MOVE Directorate E in the European Commission, in charge of aviation since October 2015. He has also been Head of Unit for Aviation Policy since October 2016. He joined the European Commission in 1994 and covered political, economic and commercial affairs in the European Commission's mission in Kiev as deputy to the Head of Mission. From 1998 on, he worked in the Task Force for Accession Negotiations, in charge of the European Union's accession negotiations with Hungary and of negotiating Chapters 2 (free movement of persons) and 21 (regional policy) on a multi-country basis. He then led the Commission team drafting the Treaties of Accession for the 12 new EU Member States. In 2003-2004, he was seconded to the University of Pittsburgh, USA, as European Union Fellow at the Center for West European Studies. In January 2006, Mr Cornelis moved on to transport policy by joining the office of the Director-General for Energy and Transport, Matthias Ruete. He was the leading member of the office from 2008. He was then appointed Head of Unit for Aviation Security in the European Commission in September 2010. He moved on to become Head of Unit for Aviation Safety from December 2012 until October 2016.

Challenges for investment in new capacity for the European aviation industry

Stephen Perkins

Head of Research and Policy, International Transport Forum (ITF)



Europe has a successful, forward-looking and resilient aviation sector. This is reflected in passenger growth, which *ITF Transport Outlook 2017*⁽¹⁾ anticipates will continue to see moderate overall growth at around 3% annually through 2030. Its biggest challenges in meeting this potential are addressing inherited rigidities, including integrating European air traffic management, which has stalled. In terms of airport capacity there will be bottlenecks but the issue is not so much an overall investment gap; the challenge is in completing planning and consultation processes in time where there is demand for expansion and investment.

Indeed Europe has seen substantial over-investment in secondary airports, where making public funds available from central government encouraged local governments to compete to build airports. The new *Guidelines for State aid to aviation*⁽²⁾ adopted by the EU in 2014 should moderate the tendency for large speculative investments. The issue now is airports where demand already outstrips capacity or is expected to under a solid range of scenarios that account for the inherent uncertainty in forecasts.

▶ Investing in airport capacity

Government has a major role in decisions to invest in airport capacity, even where that investment is purely private, because of the asymmetry in the way the benefits of aviation and its costs fall on society. Whilst the benefits are dispersed broadly, the costs, particularly of noise, and the air pollution associated with accessing airports, are concentrated on residents around airports. Busy airports usually see strong political opposition to expansion. This is true even with community-owned airports. London Luton in the United Kingdom, for example, is owned by the municipality but the town council

delayed investment in terminal expansion, now underway, for years on environmental grounds.

Transparent deliberation over the costs and benefits, and public consultation with meaningful participation of affected communities in decision-making, are essential to achieving the consensus needed for expansion. Time has to be spent on full consultation early on to properly address the very real local and global environmental issues. If this is not done, opposition will inevitably result in unpredictable delays in decision-making and to investment later on. The process led by Howard Davies to review the need for additional runway capacity in the south east of England and where best to expand, resulting in the Airports Commission recommendation to approve a third runway at Heathrow, was exemplary. It should not be seen as a manifestation of the jibe *paralysis by analysis* but a promising example of how to arrive at a balanced decision on investment in a difficult environment frequently subject to constraints from the short-term political cycle.

The consequence of unpredictable planning delays is under-investment in capacity to meet the demand for aviation. This has an impact on air connectivity, on the size of route networks, on delays at airports and on the resilience of airports and the air traffic management system to disruption. Insufficient capacity also constrains competition where slots for take-off and landing are controlled by incumbent airlines, which is usually the case. The benefits foregone in terms of connectivity and competition can be large. These benefits are quantifiable, manifest in airline and airport revenues. In a competitive environment the benefits are passed through to the local economy, contributing to business activity across the catchment area of the airport. International airports are clearly important to business location decisions in many sectors and affect the economy at a national scale. Although research has yet to identify additional, wider economic benefits from aviation⁽³⁾, the direct benefits of aviation are large enough to be of close interest to national politics.

(1) International Transport Forum, *ITF Transport Outlook 2017*, OECD Publishing 2017.

(2) *Guidelines on State aid to airports and airlines*, Communication from the Commission, 2014/C 99/03, [http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014XC0404\(01\)](http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014XC0404(01)).

(3) That is, competition and agglomeration effects on the scale that good mass transit systems generate through their effects on labour markets that produce catalytic effects over and above transfer of the direct benefits of travel through the economy.



Heathrow expansion CGI

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► The benefits of expansion

Heathrow Airport represents an extreme case of what can be at stake. Analysis undertaken by SEO Economic Research for ITF identifies the benefits expansion can be expected to deliver. The benefits are large: from GBP 5 to over 7 billion a year. Improvements in connectivity are responsible for GBP 1 to 2 billion pounds in benefits depending on the scenario for use of the capacity (with most of the benefits to transfer passengers coming under this category). The largest share of benefits arises from relieving scarcity in the availability of slots, resulting in a reduction in scarcity rents accruing to incumbent hub airlines,

reflected in lower ticket prices and larger numbers of passengers.

The large size of the potential benefits of relaxing the scarcity constraint illustrates the value of slot rents that can accumulate, usually to airlines, at highly congested airports. The incidence and potential redistribution of such rents is something that needs to be considered carefully in the regulation of airports. The ideal way to manage these rents from an economic welfare perspective is through periodic auction, with the proceeds used to balance capacity with demand to the extent possible and

any surplus spent wisely by the government. The rent is a public good, not something that inherently belongs to the airport or airlines.

Mexican competition law prescribes just such an approach at Mexico City International Airport, which has operated at the limits of capacity for some time. 10% of slots should be returned to the airport manager for auction to the highest bidder each year (OECD 2017)⁽⁴⁾. The necessary implementing regulation has, however, never been issued given the high stakes: transfer of rents from the incumbent airlines to the airport and lack of guidance as to how they should be used. In the meantime IATA *International Slot Allocation Guid-*

Table: The Economic Benefits Expected from Construction of a Third Runway at Heathrow

	Airline Response Scenario A Hub carrier growth at Heathrow, point-to-point growth at Gatwick. 2040	Airline Response Scenario B Point-to-point growth at Heathrow and Gatwick, Heathrow remains the network hub. 2040
Benefit per OD passenger	£ 18.32	£ 37.29
Benefit per transfer passenger	£ 39.98	£ 1.18
Total benefits for OD passengers (GBP mln.)	3,403	7,301
Connectivity	1,063	1,148
Reduction in Scarcity Rents	2,294	5,762
Competition	46	391
Benefits for transfer passengers (mln GBP)	1,746	30
Total Passenger Benefits (GBP mln.)	5,149	7,331

Note: Figures for the baseline case – the Airports Commission *Assessment of Need* scenario.
Source: SEO Netcost; Expanding Airport Capacity: Competition, Connectivity and Welfare, ITF 2015.

ance is followed. The methodology this adopts strikes a good balance between the inherent high value use an incumbent hub operator can generally make of slots by virtue of the connectivity offered by its network, and the value of pressure from competitors. In implementing the guidelines, however, allocation of slots to facilitate effective competition often seems to be given insufficient attention.

The cost of expanding airports to address scarcity and how to fund it is the current focus of attention at Heathrow. Costs are high, as the airport and its users are expected to cover a large part of the costs imposed on improving surface transport networks so that increased activity can be catered for sustainably, containing road congestion and air pollution from surface access within acceptable bounds. Gold-plating of facilities is always a potential concern and subject to regulatory oversight, and the government has asked the airport to review where costs can be reduced before the government tables a bill authorising expansion in parliament.

► Who to invest in expansion

How to fund expansion here, as elsewhere, is controversial. Clearly, from the scale of the potential benefits, users are able to pay. It is in the interests of all users that the costs of financing expansion are kept as low as possible, which argues for pre-funding through increases in user charges to be used, as well as – or instead of – borrowing or raising new equity. Pre-funding is controversial, however, as the incumbent hub airline in particular is effectively asked to pay for expansion that will benefit competitors most and result in a decline in



the scarcity rents accruing to it. Finding a reasonable balance will require negotiation between the airport and the airlines. This will not be easy as interests are diametrically opposed. The alternative is a solution imposed by the regulator. The Civil Aviation Authority has a clear preference for a negotiated outcome and has asked the parties to begin discussions.

This is highly appropriate as government intervention in the market should be designed to try and achieve as close an outcome as possible to what would result in a purely competitive marketplace. Intervention should be as minimal as possible given the complexity and risks involved. Hub airports cannot readily be replicated, as a large airport able to serve both Origin & Destination (OD) and transfer markets will always be able to offer superior connectivity. Some regulatory oversight is essential, but experience in Australia and elsewhere suggests that a light-handed approach works best⁽⁵⁾. That is, a reliance on negotiations between businesses backed with a credible threat of regulation if negotiations break down and one party feels abused. For this to be effective an independent regulator is required.

► Independence at the heart of regulating

Independence is particularly important where government has a stake in the ownership of the airport or the hub carrier, or both, to ensure interests are respected in an even-handed manner and property rights protected. To give one example of the conflicts that might otherwise arise where government departments regulate *de facto*, in a downturn when airlines suffer a fall in passenger revenues, suppliers in competitive markets might respond by reducing prices and delaying investment plans. Where an airport is publicly owned it might be under pressure to behave in the opposite way, maintaining investments in new terminal facilities to shore up employment and protect the construction industry in the political constituencies around the airport.

The European Union's 2009 Directive on airport charges⁽⁶⁾ requires establishment of an independent regulator to resolve disagreements impartially. It specifies that the authority designated responsible for regulation must not have overlapping responsibilities for the operation of airports or airlines. Experience with independence in the regulation of other transport industries, for example rail, underlines that independence has to be developed proactively by the regulator if it is to be credible and endure over the long term⁽⁷⁾. This suggests that independence in the regulation of European aviation is, almost inevitably, a work in progress. Much of the success of the Australian regulatory regime is due to the power and perceived independence of the Australian Competition and Consumer Commission through regular demonstrations of its power across different sectors of the economy.

(4) Review of the Regulation of Freight Transport in Mexico, OECD Publishing 2017.

(5) Discussed in: International Transport Forum, *Expanding Airport Capacity in Large Urban Areas*, OECD Publishing 2014.

(6) Directive 2009/12/EC on Airport Charges, <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:070:0011:0016:EN:PDF>

(7) International Transport Forum, *Better Economic Regulation: The Role of the Regulator*, OECD Publishing 2011.



ITF's Ministerial Summit in 2017

► Conclusion

The challenges for getting decisions on airport expansion right are tough. Pricing is controversial, uncertainty with respect to the drivers of aviation demand is real. Most difficult of all is meeting the need for long-term planning in the face of short-term political imperatives. Policymakers can nevertheless make decision-making on airport investment more effective by developing a robust framework for assessing infrastructure need. This needs to be:

- **Transparent and collaborative** – demonstrating due diligence on the part of the government and involving stakeholder and the community in consultation that is seen to influence decisions;
- **Comprehensive** – covering a full range of alternatives and considering the way airports interact and airlines behave network-wide;
- **Robust** - accounting for risk and uncertainty by examining options, and the way airlines might respond, across a full range of scenarios. Investment and delivery risks need to be addressed explicitly in assessments.

These principles for good governance were discussed at the ITF's Ministerial Summit in 2017. They are not simply platitudes, but operational guidelines, applied to good effect to road and rail infrastructure

in Sweden for example, to urban transport systems in a growing number of cities and, as noted, to aviation by the United Kingdom Airports Commission⁽⁸⁾. ■

(8) See summary of ITF Summit discussions, <https://2017.itf-oecd.org/public-stakeholder-participation>; also *Airport Site Selection*, ITF 2017, <https://www.itf-oecd.org/airport-site-selection>, and *Strategic Infrastructure Planning: International Best Practice*, ITF 2017 <https://www.itf-oecd.org/strategic-infrastructure-planning>.

About ITF



- **The Forum** is an international governmental organisation for transport ministers with 53 member countries. It is part of the OECD family of organisations and has a secretariat located in Paris. It holds an annual Ministerial Forum in Leipzig where strategic challenges for transport are examined with leaders of industry and civic society.
- **The Joint Research Centre** undertakes economic research in support of transport policy development. It works on all transport modes and most aspects of transport economics. The Centre's work on aviation includes a number of reports on prospects for the development of passenger and freight markets, competition and regulation in the sector, and the annual Transport Outlook. Reports are available on ITF's website at the following locations:
 - <http://internationaltransportforum.org/jtrc/aviation/index.html>
 - <http://internationaltransportforum.org/jtrc/roundtables.html>
 - <http://internationaltransportforum.org/jtrc/DiscussionPapers/jtrcpapers.html>

Stephen Perkins is the head of the Joint Transport Research Centre of the International Transport Forum and the OECD. Mr Perkins' work has focused on issues of regulation, competition, investment, pricing and taxation, congestion and environmental protection. His previous experience includes energy industry restructuring and regulation at the International Energy Agency, work on economic regulation for a major gas utility, and consultancy on energy policy and environmental issues for government and industry. He holds degrees on energy economics and environmental sciences from Imperial College and from the University of East Anglia in the United Kingdom and is a member of the steering committee of the WCTRS (World Conference on Transport Research Society), responsible for international cooperation.

Investing in aviation: Europe in need of proactive aviation strategies and smarter regulation

Rafael Schwartzman

Regional Vice President Europe,
International Air Transport Association (IATA)



Aviation is an enabler for connection, trade, business, leisure, and discovering cultures. As IATA's Director General and CEO Alexandre de Juniac puts it, "we can proudly say that aviation is the business of freedom". Every day, 28 000 flights take off and land in Europe alone. 941 million passengers fly to, from or within Europe every year. The aviation industry supports 11.9 million jobs and contributes up to USD 860 billion to European GDP (4.1%).

These numbers, though impressive by themselves, are only the tip of the iceberg of what our industry brings to the economy, and to society at large. And these benefits are set to multiply. IATA's twenty-year passenger forecast anticipates that global passenger numbers will almost double in the next twenty years.

► Investment in aircraft

In terms of financing, the *sine qua non* condition to our sustainability is being profitable and stable enough for investors to consider the potential rewards are worth risking their money.

And there is no doubt the industry is going to need that money. According to the latest Airbus global market forecast some 35 000 new aircraft will be required worldwide by 2036 to meet the massive expected passenger demand (these numbers are potentially an underestimate, Boeing's forecast is even higher). Translated into a more tangible figure, this is roughly 145 new aircraft a month! At list prices, this is a cost of USD 5.3 trillion, and certainly in Europe, the expectation is that airlines will have to find this finance from the private sector.

The magnitude of the investment task underscores the need for a competitive and efficient global financial system. Airlines need

access to the most appropriate form of financing for their needs, whether it be through bank debt, export credit agency involvement, aircraft leasing or capital market funding – including direct debt financing. With all these finance methods, policy actions such as the Basel financial reforms, and changes to international accounting standards (such as IFRS16) could have potential implications for aircraft financing. Along with broader trade and investment policies affecting the industry, we urge policymakers to ensure that, as new international rules are drawn up, the air transport sector's unique needs are respected.

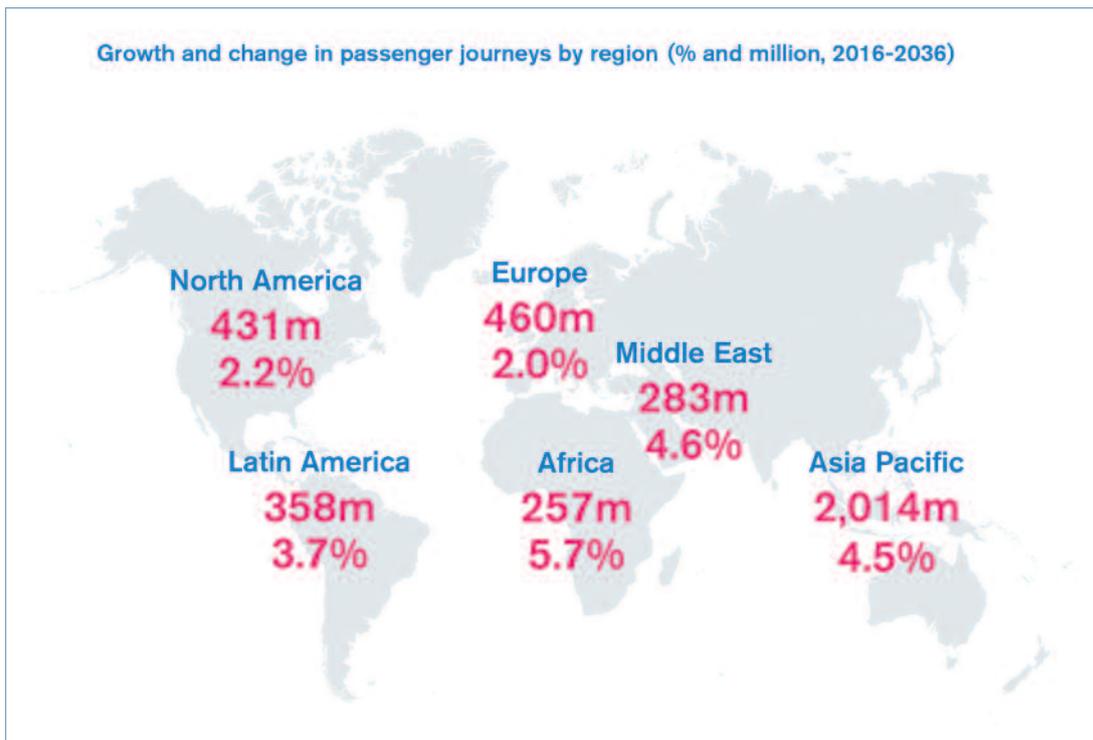
► Investment in necessary airport and ANSP infrastructure

We also need infrastructure investment from governments, airports and air navigation service providers (ANSPs) to ensure that the air transport system can grow sustainably and generate greater economic and social benefits. Delivering much needed air transport capacity for Europe is one of the biggest challenges we face, and we believe governments can and should invest in aviation, which is an integral part of the transport system, alongside road, rail, and ports.

Airport capacity is expected to fall short of forecasted aviation demand. According to EUROCONTROL, 12% of the flights will not be accommodated in European airports by 2035. We urgently need new airport capacity, not just at major hubs but in airports at all levels across Europe.

Capacity in the air is just as important as capacity on the ground. The European airspace system was designed decades ago when no one dreamed that more than 10 million flights would use it every year. And while it has been adjusted over the years to help manage traffic safely, the current airspace structure has not fundamentally changed. It can no longer achieve performance targets and simply will not cope with the travelling demand in the coming years. The current airspace infrastructure also prevents the delivery of many of the benefits that matter to airlines, passengers and communities. These include improved flight profiles that save fuel and CO₂ emissions, reduced delays through connectivity, best use of available capacity, and reduced noise over the ground.

The EU's Single European Sky (SES) project has long sought to alleviate these problems, and in terms of financing, governments and the industry have pledged billions of euros, through SESAR and other programmes, to improving



efficiency. Yet progress has been painfully slow. Therefore it is time for a new, national-centric approach to complement the top-down SES objectives. Despite the importance of efficient airspace to connectivity, the economy and society, many European countries lack a coherent national strategy to manage this vital resource. Strong and ambitious leadership at national level to define these national airspace strategies is essential. And genuine collective consultation involving the airlines is essential to plan the implementation of new technologies and make the necessary changes to airspace arrangements and procedures.

According to SEO Amsterdam (an economics consultancy), achieving the objectives of the SES would allow the European economy to grow by an additional EUR 245 billion annually in 2035. Moreover, 18 million tons of CO₂ would be eliminated, and four minutes average delay per flight would be avoided.

► Smarter regulation for a stable and profitable industry

For an airline, Europe is not an easy or cost-efficient place to do business. IATA's latest economic forecast, for example, shows European airlines making less than half the EBIT (earnings before interest and taxes) margin of carriers in North America (6.1% compared to 13.2%). As global competition further intensifies, the fear is that Europe is set to fall further behind. European governments must therefore act as facilitators and smart regulators to enable the aviation industry to unleash its full potential.

An example of a policy counterproductive to aviation growth is the continued existence of burdensome passenger taxes. The United Kingdom and Germany's passenger taxes are the worst examples, but examples continue to proliferate, with the latest in Sweden. On the other hand, several governments (notably the Netherlands and Ireland) abolished their passenger taxes after witnessing the impacts on passenger flows and

the net benefits of aviation to their economies diminish.

Regulating smartly means delivering clearly defined, measurable policy objectives in the least burdensome way. And it requires careful consideration of overall impacts. In recent years, governments have regarded airport concessions or full privatisation as a short-term revenue-raising option. But experience shows that governments should be cautious of these solutions. Privatisation has failed to deliver promised benefits in many countries – India, Brazil, France and Australia to name just a few. The concessionaire makes money, the government gets its cut, and the airlines and passengers pay the bill.

Economic regulation of monopoly providers is essential. The European Airport Charges Directive has not been applied consistently and needs reform. And the requirements for controlling ANSP charges are not being met in many parts of Europe. Until economic regulators are given

real teeth, then regrettably abuses of market power are likely to continue. Finding the solution requires collaboration from governments and industry. It is the only way to balance the investor's need for profit with the industry's need for cost efficiency and quality service.

► Financing environmental action

One area where a smarter regulation approach at global level is showing promising signs is carbon emissions. In October 2016, aviation became the first global transport sector to agree to implement an economic measure to address its climate impact through the ICAO Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which will allow the sector to cap its emissions at 2020 levels. Today, 71 ICAO States have committed to apply CORSIA from 2021 onwards, representing more than 87.7% of international air traffic.

CORSIA is a market-based measure (MBM), which is a much more effective policy option than a carbon tax. Along with investment in new technology (including sustainable fuels), improved operating procedures, and more efficient use of infrastructure, implementation of an MBM has long been one of the pillars of the industry's strategy for meeting its carbon goals.

1. Improve the fuel efficiency of the world fleet by an average 1.5% per annum.
2. Stabilise net aviation CO₂ emissions at 2020 levels through carbon-neutral growth.
3. Halve aviation's net CO₂ emissions by 2050, compared with a 2005 baseline.

To reach its ambitious goal of 50% CO₂ reduction by 2050, the aviation industry needs the full support from governments in order to encourage R&D in new aircraft and engines, but also to support the deployment of sustainable alternative fuels (SAF). Europe is lagging behind in its investments in SAF compared to other regions



About IATA

- The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 275 airlines or 83% of total air traffic. IATA supports many areas of aviation activity and helps formulate industry policy on critical aviation issues.

of the world and needs to step up public efforts to provide adequate incentives to increase the supply for aviation at a sustainable price.

► Conclusion

The air transport industry operates in one of the world's most competitive business sectors. Since 1996, the cost of an average return fare has fallen by 64%, and during that period we have seen the arrival of new carriers and the end of some famous names. Many legacy carriers have merged and consolidation is continuing, as new players enter the game. Staying in business in such a dynamic environment is extremely difficult, but thanks to

round-the-clock efforts to keep its cost structure under control, the industry has become more resilient to shocks, and more consistently profitable.

2017 should be the third year in a row that airlines make more than their cost of capital, an unprecedented achievement and a key benchmark for investors. The trend is for solid demand growth with passengers doubling in numbers over the next twenty years. This is

all good for attracting finance. But in Europe, this stability is at threat from poor regulation, high costs, and over-taxation. Through proactive aviation strategies and smarter regulation, ECAC Member States have the power to create the basis for a stable and profitable aviation industry, which will in turn grow connectivity and generate greater economic and social benefits for Europe's citizens. ■

Rafael Schwartzman is the Regional Vice President for Europe within IATA. He leads the activities in his region, the largest in the group, in building strategic relationships with aviation stakeholders, in advocating for the industry on behalf of IATA's members, in implementing new products and services, and in presiding over the secure transfer of more than USD 70 billion in the Billing and Settlement Plan and Cargo Accounts Settlement Systems. Mr Schwartzman built his career at DHL in the Americas for ten years and also worked for different air transport companies in South America. He graduated from the University of the Pacific in economics and also holds a master's degree in positive leadership and strategy in collaboration with IE Business School.



Challenges and opportunities for securing investment in ATM

Jeff Poole

Director General, Civil Air Navigation Services Organisation (CANSO)

The air traffic management (ATM) industry plays a vital role in the aviation value chain so access to funding for investment is critical. Here, the Director General of CANSO, Jeff Poole, discusses the importance of investing in ATM infrastructure to meet capacity challenges and improve safety, and the ways this can be achieved.

The aviation sector drives global economic growth, employment, trade links and tourism. In Europe it provides almost 12 million jobs and just over EUR 700 billion in GDP, and the projected annual growth rate for traffic in the region is forecast to be 3.6% in the coming decades, according to ATAG's latest *Aviation: Benefits Beyond Borders* report.

It is also important to note however that according to EUROCONTROL's *Challenges of Growth* report, the sector may face difficulty in meeting this projected demand, and the potential economic impact associated with unmet demand is estimated at almost EUR 97 billion in GDP.

This capacity gap highlights a significant challenge for all aviation stakeholders, States and regulators yet there are some clear actions that can be taken to better ensure the vital contribution of ATM.

► The public funding challenge

While it is the responsibility of the ATM industry to manage growth from a safety, operational and performance perspective, it is generally the role of States to ensure that adequate public finance is made available to invest in modern, efficient ATM infrastructure that can manage increasing demand.

Efficient and effective ATM requires long-term planning and sta-

bility. However, the necessary investments in ATM can often be underfunded with government budgets given the many competing priorities such as education, healthcare and security, and across-the-board budget cuts. In addition, government procurement processes for purchasing new systems and equipment are often lengthy, bureaucratic and costly, meaning that some States struggle to keep pace with traffic growth.

To tackle this issue and encourage States to invest in ATM infrastructure, CANSO is working with States and regulators in three key areas.

Firstly, CANSO is actively raising awareness of the important role that ATM plays in increasing connectivity, enhancing capacity, improving the efficiency of airspace, and ultimately delivering economic benefits worldwide. CANSO is working hard to ensure that all stakeholders, including States, regulators, airlines, airports and manufacturers, understand the need for and support investment in ATM. It is vital that they all work together as there is no point in having modern efficient airports and airlines without modern ATM to improve capacity and performance.

To this end, CANSO is actively engaged in the priority initiative of the ICAO Industry High-level Group (comprising ICAO Secretary General and the directors general of ACI, CANSO, IATA and ICCAIA) to promote more widely the benefits

of aviation to governments around the world and the importance of States investing in infrastructure.

Secondly, CANSO is encouraging States to develop more robust ATM implementation plans to guide funding priorities. This encourages more long-term planning and strategic balance when it comes to investment in ATM infrastructure, alongside other forms of infrastructure.

Thirdly, CANSO is seeking to ensure that States adopt a more holistic view of ATM, recognising the importance of air traffic flow management and regional airspace initiatives, rather than just operating within national boundaries.

► New operating models

To improve predictability and facilitate access to funding in ATM, CANSO recommends that States should review and optimise the basis on which air navigation services (ANS) are provided and support new operating models.

CANSO strongly recommends that air navigation service providers (ANSPs) should be allowed to operate as normal businesses within a performance-driven framework. As a first step, States should separate the responsibility for service provision from the regulatory function. Such an operational model would help to ensure that investment pro-

posals are based on solid business cases, supported by relevant stakeholders such as airlines, airports and ICAO, and focus is on system-wide, economic benefits – rather than individual State priorities. This would allow greater flexibility and potential for competition but also innovation and collaboration, resulting in cost-effective service provision that need not be based exclusively on national borders.

Cooperation between States, regulators and ANSPs is critical, and can reap significant operational and financial benefits. This is exemplified in the collaborative work that Next Generation Air Transportation System (NextGen), the Single European Sky ATM Research (SESAR) project and the Collaborative Action for Renovation of Air Traffic Systems (CARATS) initiative are undertaking through industry-wide approaches to improving efficiency and capacity globally.

Another example of the cost-efficient investment that can result from close collaboration is COOPANS, an international partnership between the ANSPs of Austria (Austro Control), Croatia (Croatia Control), Denmark (Naviair), Ireland (Irish Aviation Authority) and Sweden (LFV). It has adopted a common managerial approach, whereby the five ANSPs act as one organisation on the joint development, upgrading and harmonisation of their ATM systems. In partnership with Thales, they have implemented common software and harmonised maintenance processes across seven control centres in Denmark, Sweden, Ireland, Austria and Croatia, cutting system development costs by at least 30%.

New operating and business models in ATM can therefore en-

courage and develop strong regulatory and industry partnerships and a more value-driven, performance-related ethos – both in Europe and worldwide.

In July last year, the Italian ANSP, ENAV, became the first ANSP to complete an Initial Public Offering (IPO) of its ordinary shares on the stock market, showing how the ATM industry can transform its operations and encourage additional investment in the industry with a performance-based mentality – all essential for promoting investment in ATM.

► New investment pipelines

Given the rise of new technology and innovation in ATM, such as digitisation and automation, there is no shortage of potential new investment opportunities. New technologies build the capabilities of ATM's key players, help to harmonise systems, processes and traffic flows without reference to national borders of even land-based equipment, reduce operating costs, facilitate new entrants and competition and so transform the services available to the benefit of the whole aviation value chain. This in turn can offer attractive returns to investors.

The ATM industry has a tendency to be conservative and at times risk averse. While this has helped to build the secure and socio-economically valuable sector we have today, it is important that all stakeholders, including States and regulators, now recognise the value that investments in new technologies can bring and embrace the necessary changes.



About CANSO

- CANSO aims to be the global voice of air traffic management (ATM) in the transformation of the aviation system.

To find out more about CANSO, please visit: www.canso.org.

► Working in partnership

Partnership is a core pillar of CANSO's Vision 2020, our strategic framework for ATM. In addition to the robust partnerships with the industry on safety and operational issues, it is clear that there is a vital role for States and regulators to work with aviation stakeholders to facilitate change and find opportunities to better finance all areas of aviation, including ATM.

Within Europe we already have mechanisms to support this and we call on States, regulators and industry partners to help us in our mission to futureproof the financial sustainability of not only ATM but also the broader aviation sector in Europe and worldwide. Together we need to safeguard and develop its economic potential both now and in the future for the benefit of all. ■

Jeff Poole, Director General of CANSO (Civil Air Navigation Services Organisation) was appointed on 1 December 2012. He is responsible for delivering the CANSO strategic plan for air traffic management, Vision 2020; further expanding CANSO's worldwide membership; and strengthening CANSO's relationships with the International Civil Aviation Organization, industry associations and other stakeholders. Mr Poole previously served at the International Air Transport Association (IATA) (2004-2012) in roles including Director, Government and Industry Affairs and Director, Industry Charges, Fuel and Taxation. Prior to joining IATA, Mr Poole served at Airbus, Toulouse, where he was responsible for the development of all business aspects of the Airbus A380 programme. His final position was as Senior Vice President for Procurement Strategy and Services. His previous positions in the defence industry, including with BAE Systems, covered the commercial, contractual, business development and strategy aspects of a number of major defence programmes and businesses in the United Kingdom and internationally.



No return to the “good old times”

Jost Lammers
CEO, Budapest Airport

Budapest Airport has been operating successfully for almost 12 years now under the ownership of private investors. During this period, more profound changes have taken place than during the previous six decades of airport operation. CEO Jost Lammers tells ECAC News about some of the challenges Budapest Airport has dealt with since 2005.

Here are just a few milestones from the past 12 years that Budapest Airport had to tackle in order to survive (some issues are quite familiar to aviation experts in Europe and others are unique to the Hungarian market):

- The global financial crisis of 2008/2009 hit the aviation industry and passenger numbers dropped significantly.
- In 2012, the Hungarian national carrier, Malev, collapsed – it represented around 40% of our traffic and around 50% of corporate income.
- Due to the above, we immediately lost all 1.5 million transfer passengers and all our long-haul connectivity (New York JFK and Beijing).
- The market share of the low-cost segment jumped to 50% of our traffic.

During this period of crisis management, Budapest Airport (BUD) had to find and attract new markets, new airline partners and a new airport development programme that would fit the service needs of the very diverse airline partners and their passengers. BUD had to tailor its operations to meet the demands and service standards of “five-star” Gulf carriers (such as Qatar Airways and Emirates), which were newcomers to this destination, as well as those of ultra-low-cost airlines (like Wizz Air and Ryanair), which gained significant market share at our airport. I think it is fair to say that in a very short period of time, we witnessed the same transformation process in Budapest that will happen over a much longer timeframe at other European airports.

One of the lessons learnt was that as far as airport development is concerned, it is best to look for flexible architectural and service solutions, so that future airport infrastructure meets the demands of a rapidly changing airline mix, the challenges caused by the rapid development of digital technology, the ever-increasing costs of security, and the inevitable ups and downs of the aviation market.

Nowadays, airports are also facing much stronger competition – from other airports. During the last two decades we have seen a very robust drive by European airports to introduce strong route development and marketing strategies, offering various incentives to airlines, often supported by strong national or regional tourism organisations, all with the aim of increasing connectivity and attracting more airlines and passengers. Our airports are no longer only selling airport services, but also cities, countries or economies as attractive business or tourism destinations. Against this background, it has become extremely difficult for airports to cover their cost base through aeronautical revenues only, let alone the costs of future developments in the interests of the aviation industry itself.

There are also other threats and challenges to the stability of running an airport. With an increasing need to acquire additional income from non-aviation sources (duty



View of Budapest airport



View of Budapest airport

free and retail business, landside services, hotel operations, property lease, etc.) airports are facing new competitors beyond the perimeter fence. Airport retail is no longer just competing with the high street – it also has to hold its own against online retail competitors. Travellers are also tempted to use the “smart solution” services at and around airports, like Uber (where it still operates legally) or Airbnb, often through channels provided free of charge by airports themselves (like free Wi-Fi).

Airports in Europe have become legitimate businesses in their own right, regardless of their ownership structure (state, municipality or privately owned). Any future investment in an airport requires stability and a clear vision for the future - this is true of the regulatory environment in which they operate as well. This is even more important at European level, since airports are planning their future through investments for decades ahead. The preservation of flexibility, inherent in present EU regulations on airports and aviation, is essential for the future, the system of consulta-

tions, transparency, fair competition and non-discrimination safeguards the stability of the aviation market. Airports operate under widely different circumstances all over Europe, ranging from major international mega-hubs to small regional airports, so that “one size fits all” type regulations do not answer their legitimate demand for stability. The same need for stability is true of national and regional/local-level regulations as well.

Another important aspect influencing planning and investment at airports is the accelerating consolidation process in the airline industry. Larger and hence more powerful airlines or airline groups have emerged as a result, with much stronger negotiating power when it comes to talking with airports. I am sure that a lot of airport executives have already experienced this “wind of change” while negotiating with airline representatives over the past few years. Airlines always tend to look on airport charges as if they were unnecessary, but obligatory, payments. Yet they are the first to raise havoc in case of any malfunctions in air-

port infrastructure, for instance if a computer terminal breaks down, or an automatic door or baggage belt goes out of service. They must also understand that airport charges are not a form of hidden subsidy to ailing airlines, but a vital source of income for airports which are – together with ground handlers – independent businesses in their own right. This is the area where “user pays” principles should be fully applied.

All of this makes airport development and investment more challenging than at any other time in history. Modern digital technology and changing travel habits have put a strain on airport services, with an even shorter period of lifecycles. Aviation has become a highly competitive business for all of the industry stakeholders, including airports and ground handlers, with a much shorter response time to market changes. With this in mind, our priority remains investment in additional airport capacity and quality of service at the same time. ■

Jost Lammers has been the CEO and member of the Board of Directors of Budapest Airport since 2007 and member of the Supervisory Board of Hamburg Airport since 2016. Mr Lammers graduated in economics from the University of Witten/Herdecke and began his aviation career with HOCHTIEF AirPort in 1996. Before his current assignment to BUD, he worked as managing director at Flughafen Düsseldorf Ground Handling GmbH, after gaining professional experience at Athens International Airport. Under the leadership of Mr Lammers, Budapest Airport has been awarded the Best Airport in Eastern Europe title by Skytrax for four consecutive years since 2014.



Perhaps we could talk about something else now?

Olivier Jankovec
Director General, ACI EUROPE

Over the past two years - and especially since airlines' representation in Brussels has been overhauled - discussions about how to finance airport infrastructure in Europe have systematically led to entrenched, yet mostly sterile debates. Constant bickering about issues such as single-versus-dual tills, consultation mechanisms, cost-relatedness and transparency all come down to airlines asking for more regulatory intervention to control airports - which they essentially portray as being natural monopolists, hopelessly inefficient and earning far too much money.

The airlines' arguments are well known and I do not feel I need to repeat them here - not least because airlines always have the upper hand when it comes to attracting publicity. Of course, I can understand what pushes them to make these arguments: paying less for something is always bound to be attractive and worth a try. But their persistence has begun to give everyone a vivid dose of *déjà vu*. What truly puzzles me is how airlines are making their case with a total disregard not just for market reality, but also for policy choices already made by governments in Europe and the EU as to how airport infrastructure should be run and financed.

Let me start with market reality. What airlines are essentially saying is that while the single European aviation market has revolutionised European air transport, it has only produced perfect competition between airlines, leaving airports both untouched and unconcerned - with their shareholders enjoying the rewards of this splendid isolation from market forces. In other words, they claim that the formidable expansion of low-cost airlines and the significant restructuring of full-service airlines has not resulted in airports being exposed to increasing competitive pressures. That these airlines have the ability to move aircraft around Europe at the blink of an eye (and

they exercise that ability without remorse) and that they have accounted for the bulk of the growth in passenger traffic at Europe's top 20 airports should also be considered as irrelevant to airport competition...

All this obviously does not stand the test of any reality check. Without going into details, quite aside from the proactive route-development strategies of airports of all sizes, there is also the fact that airlines now routinely run 'beauty contests'. This is when airlines call on dozens of airports of all sizes to make their best offers, so as to "give all of the airports in our network the opportunity to secure the best outcome" from their route planning - as recently written by a major airline. This is clearly nothing more than airport competition at play, orchestrated by powerful, dominant and profitable European airlines.

It is quite remarkable how airlines' rhetoric in Brussels and other national capitals is completely at odds with the way they actually behave today in the market. But luckily, the European Commission is no fool. It has duly acknowledged the reality of airport competition. Its *Competition Policy Brief* published with the release of the 2014 State Aid Guidelines for aviation rightly states: "Now there is effective and growing competition among Euro-

pean airports, brought about by route liberalisation and airport privatisation. The major European airports compete for point-to-point and transfer traffic in order to expand both their route/airline portfolio and reduce their dependence on established hub carriers... Small regional airports have also become accustomed to market pressures, as they compete for no-frills and regional services."

But now is the time for airport regulation to reflect these new market dynamics - and to become aligned with State aid rules. If the Commission considers that State aid should be ruled out for airports with more than 5 million passengers because these airports compete, why would these same airports need to be systematically regulated ex-ante when it comes to their charges? The current evaluation of the EU Airport Charges Directive should certainly look at addressing this paradox.

Beyond new and fast-evolving market realities, the EU State aid rules for aviation are also linked to policy choices. Indeed, one of the reasons that led the European Commission to restrict the ability of EU States to publicly finance airport infrastructure was the sovereign debt crises - and the need for more fiscal discipline. Interestingly, this was something Member States were quite keen on.



Round-table debate during the Dialogue, from left to right: Thomas Reynaert, Olivier Jankovic, Simon McNamara, Sylviane Lust, Rafael Schwartzman, Jeff Poole and moderator David Feldman.

It mirrored the fact that they were actually no longer willing to pour public money into airports, nor to use airports as instruments of support for their national airlines. Instead, one by one, Member States have followed a new policy agenda requiring that all their airports be self-financed (except the smallest ones) – pushing them to become businesses in their own right through corporatisation or privatisation. Europe is now at the forefront of this business evolution, with the highest share of airports with private shareholders globally.

The consequences, in terms of the financing of airport infrastructure, are pretty straightforward – and all too logical. Without the luxury of public funding (which remains widespread in other world regions, including in the US) the money can only come from users, i.e. airlines and passengers. What is more, today's airports' shareholders, be they public or private, also expect a return on their investment in financial terms. And private

shareholders rightly benchmark Europe's airports with other investment opportunities on our continent and beyond.

Against that background, the airlines' rhetoric on airport charges only sounds like a call for a return to the good old days of airports cross-subsidising their own businesses. It regrettably makes them sound like they are living in *Alice in Wonderland* – very out of touch with reality.

It is high time that they accepted the implications of policy choices already made by the EU and national governments for airport financing. Just like Alice, it is time to grow up. And they should not worry too much – I am quite sure they are going to be alright all the same...

It is not like we, in air transport, do not have other issues that we need to address. Decarbonisation, external relations and Open Skies, Brexit, security, safety and increasingly relevant digital disruption. How about we move on to those? ■



ACI EUROPE
AIRPORTS COUNCIL INTERNATIONAL

About ACI EUROPE

- ▶ ACI EUROPE is the European region of Airports Council International. It represents over 500 airports in 45 European countries. In 2015, member airports handled over 90% of commercial air traffic in Europe, welcoming more than 1.9 billion passengers, 18.9 million tonnes of freight and 22.8 million aircraft movements. These airports contribute to the employment of 12.3 million people, generating EUR 675 billion each year (4.1% of GDP in Europe).

Olivier Jankovec became Director General of the European region of the Airports Council International (ACI EUROPE) in September 2006. Mr Jankovec first joined ACI EUROPE in March 2006 as Director of Strategy & Communications. He has more than 20 years of governmental and lobbying experience, having worked for Alitalia (2002-2006), Air France (2000-2002) and the Air Transport Directorate of the European Commission (1994-2000). Immediately prior to joining ACI EUROPE Mr Jankovec was the Director of Institutional Relations for Alitalia where he was in charge of governmental affairs at national, European and international levels. During this time, he was also Chair of the Association of European Airlines Policy Committee. In 2006 and 2007, he participated in the EU's High-Level Group on the future of aviation regulation in Europe and he is also a member of the Advisory Board of the World Tourism Forum.



Why European passengers pay more for their flights than they should

Thomas Reynaert
Managing Director, Airlines for Europe (A4E)

As summer holidays come to an end across Europe, more than 200 million people will have travelled through European skies during the past weeks. Flying has never been so cheap, safe and convenient. Not only are European cities closer to each other than they have ever been, but passengers enjoy an unprecedented and ever-growing choice in terms of where and how they fly.

The good news is, airfares can continue to go down. Over the last ten years, they have fallen by 20%. The bad news is, existing regulation from Brussels protects airport shareholders over European passengers by guaranteeing excessive profits rather than incentivising lower charges for the benefit of travellers. This summer, European passengers will again pay much more than they would if monopoly airports were effectively regulated.

In part, the issue is quite simple: should what passengers spend at airports serve to lower the price of their tickets? Or should the profits made by an airport on what passengers spend on parking spaces, shopping and overpriced coffees and burgers only benefit the airport shareholders?

This is the issue over the economic aberration that is 'dual till'. Under such a system, commercial profits made by airports are not taken into account to determine the level of charges that airlines

– and ultimately their passengers – must pay to use an airport. In other words, there is a strict separation between what passengers pay to use the "taking the plane" aspect of the airport's activities (e.g. gates, runway infrastructure), and the "selling commercial products" (e.g. shops, bars, restaurants, parking lots) aspect.

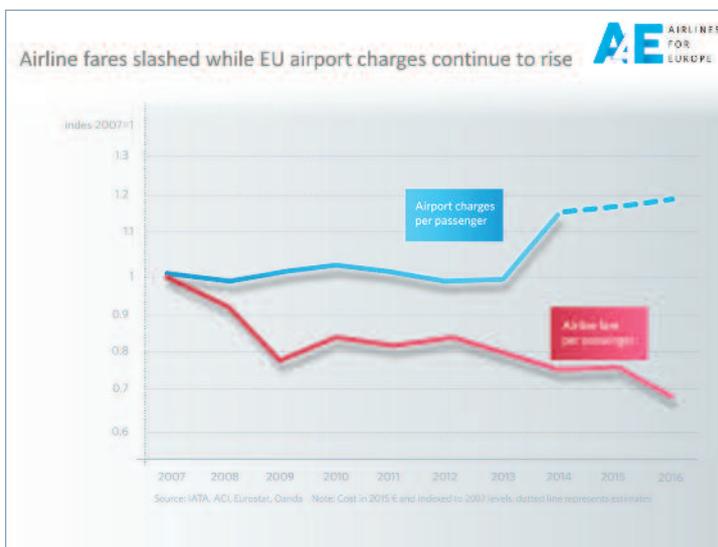
Under 'single till' – favoured by airlines – this separation does not exist. It is merely just good sense to consider that without the planes that airlines bring to airports, there

would be no passengers in these parking lots, restaurants and shops.

Good sense, yes, but more than that. Dual till would not be accepted if we were dealing with a competitive market. In this case, profits from airports' commercial activities would be used to reduce charges. Given the high competition amongst EU airlines, lower airport charges should automatically lead to lower average travel costs, and promote long-term competitiveness and growth for the aviation sector as a whole.

An airport is one business, and should be treated as such for the benefit of European travellers. Airports cannot have their cake and eat it too by unjustifiably claiming that airlines should cover the full costs of their infrastructure, while at the same time forcing an artificial split of their business to maximise excess profits from commercial activities.

In this context, one would expect the European Union to protect European airlines and their passengers against abuses by monopoly airports. Unfortunately, this is far from being the case. In 2009, the EU adopted the so-called Airport Charges Directive (ACD). Its aim was to guarantee that airport charges across the continent were





related to efficient costs at airports, and that independent national regulators in all Member States ensured meaningful consultations and effective transparency of information between airports and airlines. This has clearly failed. The ACD has failed. The EU has failed.

The dice were loaded from the start. The ACD is not economic regulation. It is merely a set of unevenly implemented vague aspirations. Unless the directive is fundamentally reformed, European passengers will remain defenceless in the face of monopoly airports and will continue to pay more than they should to fly in Europe. Already in the last ten years, at Europe's busiest airports, charges have more than doubled, prevent-

ing airlines from fully passing on the benefits of lower fares to passengers.

Reform is both desirable and achievable for the benefit of the entire industry and all travellers. Airlines are ready for it. But it would require airports to recognise that there are real issues at stake with the ACD, to ensure that costs are related to efficient investments and operations, to see beyond the immediate gains of their private and public shareholders, and to cease deflecting from these issues by randomly arguing that airlines are against more traffic, more capacity and more investment.

Sadly, it is increasingly clear that airports are not keen to do so, and

About A4E

- › Flying more than 500 million passengers per year, the 25 members of Airlines for Europe account for 70% of Europe's passenger journeys. Every day, more than 2 500 of their airplanes cross the continent, and more than 300 000 employees in the air and on the ground ensure safe and reliable operations. A4E promotes a fresh approach to defending the interests of European airlines and their passengers.

that they prefer maintaining high charges for their own immediate gains.

In the end, airlines are merely asking that their relationship with airports is one geared towards the interest of all passengers, and that the European Union creates a robust regulatory framework to achieve this. ■

Since March 2016, **Thomas Reynaert** has been Managing Director of Airlines for Europe (A4E), Europe's largest EU airline association, launched in January 2016 and founded by Air France KLM, easyJet, International Airlines Group (IAG), Lufthansa Group and Ryanair. Prior to joining A4E, as President of the United Technologies (UTC) International Operations (Europe) he led the government relations activities for Europe on behalf of UTC during 2008–2015. Prior to joining UTC, Mr Reynaert led the government relations and regulatory affairs team for Nortel Networks in Europe, Middle East and Africa (EMEA), beginning in 2000. Before that, he was director of EU public affairs for Lucent Technologies (today: 'Alcatel-Lucent'). Earlier positions include business development manager at the European Private Equity and Venture Capital Association and external relations consultant at the European Commission. Between November 2008 and May 2014 Mr Reynaert served as a member of the Supervisory Board of the UTC Company OTIS Management GmbH (Germany). From 2011 to 2015 he was chair of AmCham EU's Security and Defense Committee. He has represented UTC at the European Executive Council (EEC) since 2010. In 2014 he became a member of the Strategy Advisory Board of the Buildings Performance Institute Europe (BPIE) and of the European Advisory Committee of the Public Affairs Council (PAC). In September 2015 he was appointed a member of the Executive Committee of the European Centre for Public Affairs (ECPA).



Investing on the ground for aviation

Pekka Vauramo
President and CEO, Finnair

Without a doubt, the entire aviation industry is one of the key drivers of economic growth in the world. This is often taken for granted and investment in aviation infrastructure can lead to contentious discussions as to who needs to be the main financial contributor behind aviation infrastructure projects on the ground.

Future investments should focus on the customer experience at airports. European passengers need to benefit from the profits they generate at airports, and airlines should also benefit from bringing those passengers in. The single-till model, where both commercial and aeronautical activities are taken into account when setting airport charges, is definitely the best way to ensure that the revenue both passengers and airlines generate on the commercial side of airports will be used for their benefit.

In the interest of customers, airport charges should not be used for risky investments that are not aimed at improving the passenger experience or business environment for airlines. Examples of these risky investments are landside hotels, malls or business parks. In these cases, the risk could materi-

alise in loss recovery by charging excessive airport charges. At the end of the day, improving the passenger experience is (and should be) in the common interest of all parties involved.

► Airlines favour good investments

Airlines are in favour of investments when they are necessary, financially viable, cost effective and funded without increasing already high charges. Airport charges need to be cost-based, created by efficient operating models and reasonable levels of return on capital. For example, airports should invest in automation and digitalisation. In particular, gained efficiencies in Europe would contribute to cost efficiencies. Automatisation and digitalisa-

tion should also be enabled by regulators. For example, in Helsinki we jointly invested with Finavia, owner and operator of the Helsinki Airport, in digital initiatives that will enhance the customer experience, speed up the travel process and make the entire process more efficient.

► Existing regulation should be reviewed

In my opinion, the current Airport Charges Directive (ACD) has failed to prevent excessive charging and excess profitability, operational inefficiencies, unnecessary investments and poor quality of service. The ACD needs to provide for a meaningful and transparent consultation process where airports plan for new infrastructure investments alongside airlines and other stakeholders, especially in the early stages of master planning. An airline that would be forced to pre-finance investments may not be operating to the given airport and thus may not benefit from future investments, when they become operational. When an investment plan is robust enough, and decided in consultation with airlines, airports should have no trouble getting access to the required financing.

Airlines and passengers are the end-users of an airport's infrastructure. Any decision on the appropri-



Pekka Vauramo at the Dialogue



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ate balance between service quality and price should not be taken solely by the airport. In certain cases, investments are even pre-determined for a long period of time in a concession agreement or through legislation. This has the potential to influence how charges are eventually set, as is the case currently in certain southern European airports.

The ACD should be reviewed so that airports, airlines and other stakeholders work closer together in investing in projects that will mutually benefit all parties, while improving the travelling experience for passengers.

► Airlines, airports and governments need to work closely together

The ACD should also review the way airlines are currently pre-financing airport investments through charges. Airports should recover the cost of their investments when they become opera-

tional. The current “pre-funding” of infrastructure means that airlines and passengers end up paying for services and infrastructure that they might not use and benefit from at all in the future. Why should these parties bear the risk of future investments on behalf of the airport? If the investment case is solid, the funding should be available through normal means, with even the airline as a possible investor. The relationship between airlines and airports should be amicable and based on dialogue, with common objectives for growth and development. Additionally, the airlines and the regulator should have efficient means to influence airport decisions aiming to stretch into areas outside their normal business environment.

Governments should also get more involved in financing aviation projects as they are a key driver for economic growth. For example, all costs for security and border control should be borne by States – not airlines, nor passengers or airports. Furthermore, should new special requirements to infrastructure or security checks arise, they should

be compensated or covered by the government and not left for the entire industry to bear. The same principle applies to other areas in society.

Infrastructure investments that enable intermodal transport chains should also come from public spending, for example roads and railways connecting airports to harbours, highways and the railway networks.

Let us not forget how much aviation and modern transportation have been a catalyst for the economic growth seen in the last century. This thinking is clearly visible in the recently developing economies, especially in Asia and the Middle East, with their heavy investment for the benefit of the aviation sector. With the proper investing and planning, airlines and airports will be able to continue generating even more growth, jobs and financial security to the European community in the many years to come. ■

Pekka Vauramo has been President and CEO of Finnair since 1 June 2013. He joined Finnair from Cargotec, a Finnish cargo and load handling company, where he held different management positions between 2007 and 2013. Prior to Finnair, Mr Vauramo had been based in Hong Kong since 2010 as COO of the MacGregor Business Area. Between 1985 and 2007, he worked at Sandvik, a Swedish mining and construction company. Mr Vauramo also serves as a member of the boards of Glaston PLC (since 2011) and the Boliden Group (since 2016). During Mr Vauramo's time, Finnair has completed a major cost-saving and restructuring programme, preparing the company for a growth phase, which started in 2015. Finnair was the first European airline to receive the next generation Airbus A350 aircraft in 2015. Since then, Finnair has announced new destinations in Asia, recruited pilots and cabin crew, and is now focused on growing its operations.



Boeing and aviation investment: preparing for future growth

Randy Tinseth

*Vice President, Marketing,
Boeing Commercial Airplanes, Boeing*

When Boeing first launched the 787 Dreamliner back in 2004, none of us ever envisioned the airplane flying a nonstop route between London-Heathrow and Austin, Texas. But today, it's just one of the 150 new – and sometimes unexpected – routes opened up by the 787.

As air travel continues to evolve and become more a part of our daily lives – connecting us with family, friends and business colleagues – it is more important than ever that the aviation industry be fully prepared for the growth coming our way. And that's why every year, Boeing publishes an updated Current Market Outlook (CMO) dedicated to forecasting new airplane demand over the next 20 years. In many ways, it paints a picture of the future of flight.

This year, we raised our forecast to reflect the need for more than 41 000 new airplanes over the next 20 years valued at USD 6.1 trillion. That's a 3.6% increase in units over last year's forecast.

The market is especially hungry for single-aisle airplanes as more people start travelling by air thanks to a growing middle class and an increase in low-cost carriers. 29 530 new airplanes will be needed in this segment, an increase of almost 5% over last year.

The forecast for the widebody segment includes 9130 airplanes, with a large wave of potential replacement demand beginning early in the next decade. With more airlines shifting to small and medium/large widebody airplanes like the 787 and 777X, the primary demand for very large airplanes going forward will be in the cargo market. Boeing projects the need for 920 new production widebody freighters over the forecast period.

For the European aviation market, Boeing is forecasting a market demand of 7500 new airplanes over the next 20 years with a combined market value of USD 1.1 trillion. Single-aisle airplanes will comprise the majority of deliveries, representing a 78% share of total deliveries, or 5900 aircraft units. Although European aviation growth is slower than aviation growth in emerging economies, the region's large installed base of more than 4800 airplanes supports substantial demand for replacement airplanes. Replacement demand will account for 55% of Europe's total new airplane market.

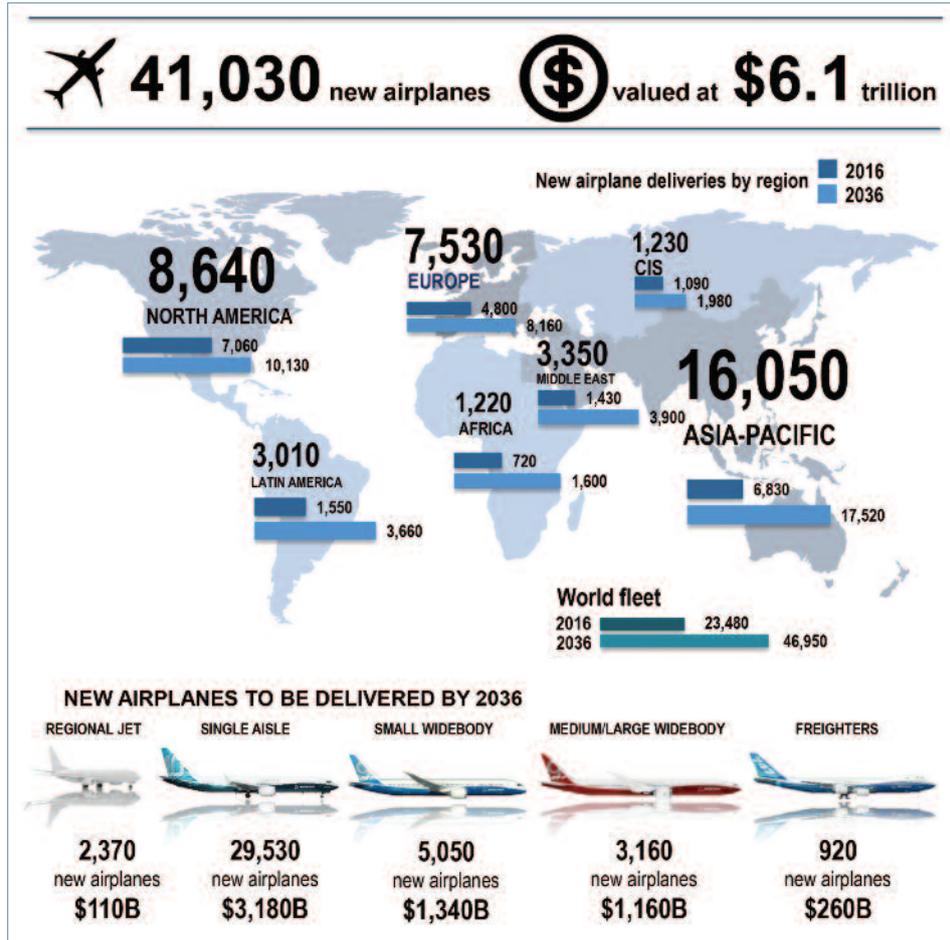
Europe's aviation market remained strong in 2016 despite lackluster economic performance, the Brexit vote and other political uncertainties, and security and terrorism concerns. Network airlines carried 4.3% more passenger traffic than in 2015, while the largest low-

cost carriers (LCC) in Europe reported an increase in short-haul passenger traffic of 12.4%. These strong traffic increases came in the face of GDP growth in Europe of only 1.8%, indicating that GDP growth is only one element driving traffic growth in the region. European airlines acquired more than 390 new airplanes in 2016, of which 78% were single aisle.

Several factors are contributing to the growth of the European airline industry but the most striking strategic development in 2016 has been the rapid rise of the low-cost long-haul (LCLH) business model. Norwegian continues to expand its long-haul operations, adding bases in Paris and Barcelona for service to North America and recently initiating the first low-cost service from London to Singapore. Strategically, the European network carriers are responding with their own LCLH subsidiaries. Lufthansa Group sub-



Randy Tinseth at the Dialogue



subsidiary Eurowings is expanding the LCLH operations it initiated last year, Level from International Airlines Group begins operations this June, and Air France-KLM's Boost has announced plans to initiate LCLH operations next year.

European network carriers are challenged to compete with LCCs in short-haul markets, and in response they are increasingly utilising their short-haul mainline opera-

tions to flow long-haul passengers through their hubs on connecting itineraries. At the same time, the network carriers are shifting increasing amounts of short-haul, point-to-point flying to their LCC subsidiaries to compete more effectively with stand-alone LCCs.

The variety of business models that European airlines are experimenting with is providing the market with more flights at lower

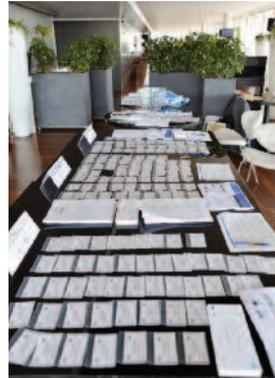
prices. Airline passengers are the main beneficiaries of these competitive changes and are undoubtedly taking advantage of lower fares and additional service choices by flying more, increasing demand for airplanes.

The aviation market has proven over and over again just how resilient it is. We must all be ready to manage the growth that's coming, creating a challenging and exciting future. ■

Randy Tinseth is Vice President of Marketing for Boeing Commercial Airplanes leading the teams responsible for global go-to-market strategies and analysis in support of sales and product strategy. In this position he has held since April 2007, he is responsible for marketing efforts across the Commercial Airplanes family of products and services – contributing to planning and product development, understanding and communicating market requirements and the market outlook. He also hosts the Boeing blog, "Randy's Journal," <http://boeingblogs.com/randy/>, which is one of the most-read aviation blogs. In 2006, he was the customers leader for the 747-8 program, responsible for developing marketing and in-service support strategies for the new 747-8 airplane, executing sales and working with the customer base. Before that position, Mr Tinseth was responsible for marketing Boeing's commercial airplanes and services to airlines, financial institutions and other constituencies globally. From 1989 to 2001, Randy held various positions in sales and marketing including manager in the Airplane Economics Group, and sales director in the North America region for United Airlines, Northwest Airlines and United Parcel Services. Mr Tinseth joined Boeing in June 1981 as a flight test engineer and holds a bachelor's degree in electrical engineering from Cornell University and a master's in business administration from Seattle University.



(A)



(B)



(C)



(D)

(A) Ingrid Cherfils and Alessio Quaranta
 (B) Italian Minister of Infrastructure and Transport Graziano Delrio with ICAO Secretary General Fang Liu
 (C) From left to right: Silvia Gehrler, Ingrid Cherfils, Filip Cornelis, Alessio Quaranta and Salvatore Sciacchitano.
 (D) From left to right: Stephen O'Driscoll, Head of Air, Maritime and Innovative Transport, European Investment Bank, Christoph Nanke, Senior Vice-President, Fraport AG, Angela Gittens, Director General, ACI World and Rob Huyser, Acting Director General for Civil Aviation, Netherlands.
 (E) Italian Minister of Infrastructure and Transport Graziano Delrio
 (F) Alessio Quaranta and Henrik Hololei



(E)



(F)

Reorganisation of ECAC's environmental activities

Patrick Gandil

*ECAC Focal Point for Environmental matters and
Director General for Civil Aviation, France*



Next November will see the launch of a new structure for environmental activities at ECAC. From up to eight working groups, environmental issues will be spread across two new working groups in the future, supervised by an overarching entity. ECAC Focal Point for Environmental matters and Director General of Civil Aviation for France Patrick Gandil presents how this structural change will streamline European efforts to tackle sustainable aviation challenges.

► The background of this reorganisation

This reorganisation is the outcome of an in-depth reflection on the organisation of environmental activities, a process that started over a year ago at ECAC.

A NEED FOR THE PRESENT STRUCTURE TO EVOLVE

In April 2016, ECAC Coordinating Committee members decided to task the Focal Point for Environmental matters with reviewing the current functioning and suggesting a new mechanism to better supervise activities and give the necessary political orientations.

In the meantime, the outcome of the 39th ICAO Assembly in September 2016 with – amongst other decisions – the adoption of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), was to have practical implications on the sharing of activities amongst existing ECAC groups, creating some overlaps and potential inefficiencies. Indeed, most of the ICAO work relating to the implementation of CORSIA is undertaken by the ICAO Committee on Aviation and Environmental Protection (CAEP).

OPTIMISING RESOURCES, FOSTERING EXPERTISE

Additionally, this reform aims at increasing the efficiency in the use of limited resources and developing expertise throughout ECAC States in the field of environment, notably by separating the “production” and “information” functions of working groups.

Finally, environmental issues have gained in complexity over the years, and the need for expertise in the matter has become a pressing problem. The Coordinating Committee and later the ECAC Directors General saw value in putting together a new structure that would better address European capacity-building

needs in order to develop the required expertise in Member States.

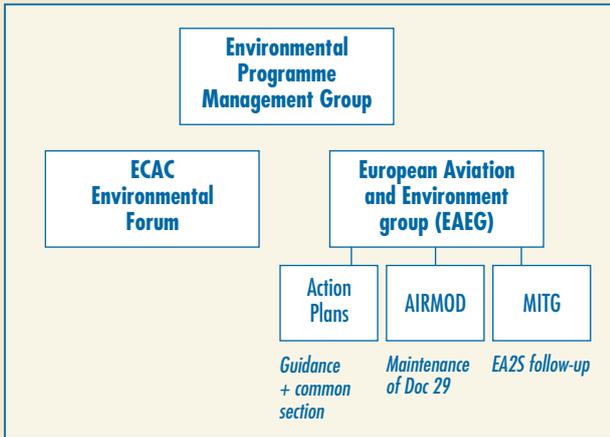
► Main future tasks in matters of environment

A starting point to design an efficient and enabling new structure for ECAC's environmental activities was to identify the tasks planned in the coming years and to establish a structure as resilient as possible to the evolution of needs. The identification of these tasks can be summarised as follows:

- Contributing to ICAO's Standards and Recommended Practices (SARPs) and guidance on CORSIA and supporting States in the implementation of the ECAC Bratislava Declaration (*adopted on 2 September 2016, the Bratislava Declaration reflects ECAC Member States' commitment to engage in the CORSIA agreement as from its first phase*);
- Contributing to ICAO's Committee on Aviation Environmental Protection (CAEP) on issues other than CORSIA, for instance relating to noise, non-volatile particulate matter, alternative fuels, etc., and preparing for the related CAEP meetings;
- Supporting European Council members with briefing material;
- Preparing ICAO High-level Conference on Alternative Fuels;
- Updating European Action Plans for emissions reduction by June 2018;
- Monitoring of European environmental modelling of interdependencies;
- Maintaining and developing ECAC's report on a standard method for noise modelling (comprised in ECAC Doc 29, 4th edition);
- Further harmonising European policies on noise, local air quality and climate change; and
- Capacity building.

► Main features of new structure

The main thrust of the proposal consists in restructuring environmental work along three main elements, according to the nature of the activities, rather than according to the subjects addressed, as is currently the case.



ENVIRONMENTAL PROGRAMME MANAGEMENT GROUP (EPMG)

This overarching group will be chaired by the ECAC Focal Point and comprise the chairpersons of the two other elements of the new structure. It will supervise all environmental activities, steer the expert groups and communicate with them through the chairs’ reports, including on the thrust of debates taking place in the Environmental Forum. The EPMG will hold biannual meetings, possibly ahead of DGCA meetings.

EUROPEAN AVIATION AND ENVIRONMENT WORKING GROUP (EAEG)

The European Aviation and Environment Working Group will be co-chaired by one representative of an ECAC Member State and one of the European Commission (except for activities not involving EU competencies). The group will be composed of European CAEP members and observers, EASA and EUROCONTROL. It will also be open to “non-CAEP members” able to bring expertise and committed to actively contributing. It will be competent for addressing the activities listed above, and any activity arising from evolving needs, following approval by EPMG.

ECAC ENVIRONMENTAL FORUM

Chaired by a representative of an ECAC State, the Environmental Forum will ensure the sharing of information and best practices throughout ECAC States. It will also be in charge of building capacity, hosting debate and fostering dialogue with the industry and environmental NGOs. It will report and provide feedback to EPMG. The Forum will comprise representatives of all ECAC States and European organisations as well as stakeholders. Potentially, non-ECAC Member States, ECAC’s sister organisations and bilateral partners could also be invited to attend. Additionally, this Forum could be the platform for developing capacity building activities as per the commitment taken by ECAC Member States in the Bratislava Declaration regarding the implementation of CORSIA. In order to ensure good overall policy coordination in Europe, the agenda will be set in close cooperation with the European Commission, in particular for issues involving competencies of the European Union. The Forum will meet once or twice a year, according to the needs.

Additionally, small temporary or permanent specialised groups could be tasked with the provision of technical input into the *European Aviation and Environment Working Group*. ■

Eventually, the reorganisation also aims at supporting the development of the necessary expertise throughout ECAC States, in particular in relation to the commitment taken in the Bratislava Declaration. After the ICAO CORSIA regional seminars, States should have more visibility on what will be expected from them for implementation. This should allow ECAC to undertake an inventory of needs and available resources, in close cooperation with ICAO, EASA and EUROCONTROL. This would represent the first step towards the development of capacity-building activities. On that basis, there will be more visibility on possible gaps to be filled. The second step will consist in exploring options for addressing them, including in close partnership with EASA, EUROCONTROL and ICAO.

Patrick Gandil has spent his career within the French Department of Public Works and Transport in several positions at headquarters and regional offices, with an exception from 1995 to 1997 when he was Deputy Director in the Cabinet of the Minister for State Reform, Decentralisation and Public Services. From 1979 to 2005, he held a number of high-level positions in this department: as Deputy Director of the regional office of “Haute Saône” (1981 to 1984), and Director of “Val d’Oise” (1994 to 1995), before heading the Airports Department at the DGAC (1997 to 1999) and the Roads and Highways Directorate (1999 to 2003). He was then called to the cabinet of the Minister where he acted as Head of Cabinet from 2003 to 2005. Mr Gandil was promoted to the post of Director General of Civil Aviation in 2007. He is currently also President of the Provisional Council of EUROCONTROL. Mr Gandil graduated from the École polytechnique in 1975, and from the École nationale des Ponts et Chaussées in 1980, where he later gave classes from 1986 to 1996. He received the distinction of “Chevalier de la Légion d’honneur” in 1999 and “Officier de l’ordre national du mérite” in 2007. Mr Gandil holds a private pilot’s licence.

► **ECAC speaks at Egyptian Ministerial event**
Sharm El Sheikh, 22-24 August

Representing ECAC, Luis Moço, Aviation Security Technical Specialist to the CASE Project, participated as a speaker in the Regional Ministerial Conference on Aviation Security in Africa and the Middle East, jointly organised by ICAO and the Egyptian Civil Aviation Authority in Sharm El Sheikh, Egypt, from 22 to 24 August 2017.

With keynote addresses from ICAO Council President Dr Olumuyiwa Benard Aliu and Minister of Civil Aviation for Egypt His Excellency Sherif Fathi, the conference was attended by representatives from 45 ICAO Member States, including 27 ministers and 35 directors general of civil aviation. Its theme focused on the 'Roadmap to Foster Aviation Security in Africa and the Middle East' in line with ICAO's Global Aviation Security Plan (GASeP).

Mr Moço gave a presentation on ECAC's longstanding aviation security engagement in Africa and the Middle East, highlighting the capacity-building activities delivered by the EU-funded and ECAC-implemented CASE Project in the region and participated in discussions aimed at promoting open dialogue between stakeholders across Africa and the Middle East.



► **ECAC Coordinating Committee meets in Rome**

ROME, 28 JUNE

ECAC Coordinating Committee members gathered for their 179th meeting in Italy, immediately after the ECAC/EU Dialogue with the air transport industry. Chaired by ECAC President Ingrid Cherfils, the meeting was joined by the European Commission to review the main outcomes of the

Dialogue and discuss the agenda of the next Special meeting of Directors General (DGCA/66(SP)) to be held at the end of August. The meeting also considered potential topics to be addressed at the next ECAC Forum on 6 December.

▶ ECAC and ACI EUROPE organise a joint workshop on security in airport design

PARIS, 15-16 JUNE

ECAC and ACI EUROPE joined forces to organise a workshop on security in airport design at ECAC's offices in Paris. Chaired by David Ryder from ACI EUROPE, the workshop gathered 50 aviation security experts from 19 ECAC Member States, Singapore, the United States, as well as airports and industry stakeholders.

The workshop provided participants with an opportunity to discuss the principles of incorporating secu-

urity features in the design of airport infrastructures, and the Appropriate Authorities' role in the review and approval of new or modified infrastructures. Participants reviewed best practice in designing airport infrastructures to combat different types of threats, including person-borne improvised explosive devices (IED), vehicle-borne IED and vehicles used as a weapon, and best practices in designing the passenger travel process through airports in order to minimise crowds and reduce potential vulnerabilities.

▶ Events to come

SEPTEMBER

- 5/ 60th meeting of the FAL Sub-group on PRMs (FAL-PRM sub-grp/60), Paris
- 7/ 2nd meeting of the Network of Chief Economists (NCE/2), Paris
- 11-12/ 36th meeting of the Training Task Force (TrTF/36), Paris
- 12/ 44th meeting of the FAL Sub-group on immigration (FAL-IMMIGRAT sub-grp/44), Paris
- 13-14/ 5th meeting of the Economic Working Group (ECO/5), Paris
- 14-15/ 22nd meeting of the Explosive Detection Dogs Study Group (EDD/22), London
- 18-21/ CASE Project Cargo security regulations and implementing procedures (CASE-McCGO-ST/1), São Tomé
- 19-20/ 27th meeting of the Cyber Threats to Civil Aviation Study Group (CYBER/27), Paris
- 21-22/ 42nd meeting of the Guidance Material Task Force (GMTF/42), Paris
- 27-28/ 27th meeting of the ANCAT Sub-group on Aircraft Noise Modelling (ANCAT-AIRMOD/27), Rome

OCTOBER

- 4-5/ 68th meeting of the Technical Task Force (TTF/68), Paris
- 11-12/ 24th meeting of the Security Forum (SF/24), Rome
- 19/ Workshop on Health Matters in Civil Aviation, Barcelona
- 20/ 55th meeting of the Working Group on Facilitation (FAL/55), Barcelona

- 23-27/ 12th meeting of the CAEP members of the Global Market-Based Measures Task Force (CAEP-GMTF/12), Brazil
- 24/ 26th meeting of the Security Programme Management Group (SPMG/26), Rome
- 26/ 32nd meeting of the Legal Task Force (LEGTF/32), Paris

NOVEMBER

- 7/ 52nd meeting of the ECAC Medium Term Objectives Task Force (EMTO/52), Paris
- 7-8/ EaP/CA Workshop on cargo and mail screening, Luxembourg
- 7-9/ CASE Project Best Practices for National Auditors - Cargo training (CASE-BPCGO-NG/1), Abuja
- 13-14/ 47th meeting of the Group of Experts on Accident Investigation (ACC/47), United Kingdom
- 14-15/ Workshop on Behaviour Detection, Paris
- 15/ 35th meeting of the Common Evaluation Process (CEP) Management Group (CEP-MG/35), Paris
- 15/ 180th meeting of the Coordinating Committee (CC/180), Paris
- 16/ 18th meeting of the Behaviour Detection Study Group (BDSG/18), Paris
- 16/ 8th meeting of the Common Evaluation Process (CEP) Security Equipment Manufacturers (CEP-Manuf/8), Paris

DECEMBER

- 6/ 10th ECAC Forum of Directors General (Forum/10), Paris
- 7/ 149th meeting of Directors General of Civil Aviation (DGCA/149), Paris



▶ CASE Project team now complete

As of 12 June 2017, Luís Moço from the Portuguese National Civil Aviation Authority (ANAC) has been in post as the Aviation Security Technical Specialist to the CASE Project team, which will increase further still the Project's capacity to deliver national activities and regional workshops for the benefit of its Partner States. Mr Moço, who had already had significant involvement in CASE Project activities as an expert released by Portugal, was in charge of quality control in aviation security for his Appropriate Authority from 2012, with significant international visibility and experience in capacity building, both in this and his previous positions.

Luís says, *"I'm both excited and honoured to join the CASE Project and to start working with the Project team and my other colleagues in the ECAC Secretariat. I'm looking forward to contributing significantly to the implementation of the Project and making a positive difference to all its operational and technical aspects. I'm aware that the challenge is to help the Project achieve even higher*

targets, in terms of volume of activities and coverage of Partner States. I'm fully committed to that goal and I believe that the team, with the support of the whole of ECAC's range of expertise, will live up to the ambitious expectations set for the CASE Project."

The priority tasks of the Aviation Security Technical



Specialist are to organise the Project's activities on site, as well as to develop and constantly improve the content of each activity, based in particular on the lessons learned from past events and the feedback received from Partner States.

▶ Third meeting of the CASE Project Steering Group Brussels, 23 June 2017

The third meeting of the Steering Group of the CASE Project was held in Brussels on 23 June 2017. The meeting was co-chaired by Olivier Luyckx, Head of the Stability, Security, Development and Nuclear Safety Unit within the European Commission's Directorate-General of International Cooperation and Development (DG DEVCO) and Patricia Reverdy, Deputy Executive Secretary of ECAC and CASE Project Director.

DG DEVCO officials were joined by colleagues from the Directorate-Generals of Mobility and Transport (DG MOVE), and Migration and Home Affairs (DG HOME), as well as the European External Action Service (EEAS).

In addition to the usual participants: EU Member States, the African Civil Aviation Commission (AFCAC), ICAO, and industry stakeholders such as ACI and IATA,

this third meeting included, for the first time, representatives of the Partner States themselves, from Benin, Senegal and Togo.

As per its previous sessions, this meeting enabled ECAC to update the Steering Group on the implementation status of the Project, in addition to presenting the planned activities for the second half of 2017. Specific activity-related questions were raised for which the input of those present was requested.

More generally, the meeting provided stakeholders with the opportunity to convey their overall views on the implementation of the Project so far, and share with the EC and ECAC their insight regarding its strategic orientation.

▶ Training of national auditors in Togo Lomé, 18-20 July 2017

Following a Best Practices for National Auditors (BPNA) – Level 1 training conducted in 2016, the CASE Project delivered a BPNA - Level 2 training in Lomé from 18 to 20 July 2017.

The course was notable for being the very first time this training had been implemented under the CASE Project and also for the fact that the participants were the same eight national auditors, representing the same organisations involved in quality control, as had attended the initial BPNA in December 2016. Such continuity supports the Project's objectives both to constantly reinforce national capacity in compliance monitoring and to help stabilise human expertise in this crucial field.

The training was opened by the Togolese Director General of Civil Aviation, Colonel Dokisime Gnana Latta, and was delivered by a trainer from ECAC and an expert released by the French DGCA. The feedback from the training course was resoundingly positive and



has led to a request to the Project to complete its support to auditors in Togo with another BPNA training offered by CASE, which focuses on cargo and mail security.

▶ Fourth delivery of CASE BPNA – Level 1 training in Mozambique Maputo, 24-28 July 2017

Eight national auditors from Mozambique's Institute of Civil Aviation (IACM) took part in a Best Practices for National Auditors – Level 1 training in Maputo, Mozambique from 24 to 28 July 2017. This course – which was the CASE Project's first national activity to be implemented in this country - was delivered in Portuguese by the CASE Project's AVSEC Technical Specialist and an expert released by ANAC Portugal.

The training – involving both classroom learning and on-site practical exercises at Maputo's international airport – confirmed the engagement of Mozambique with the Project, following its hosting of a CASE regional workshop in April 2017.

In keeping with the Project's objective to support the Partner States' capacity in the field of quality control, CASE also used this activity as an opportunity to provide IACM with a Standard Test Piece (test suitcase).



News from the JAA Training Organisation (JAA TO)

► Editorial

Paula V. de Almeida, *JAA TO Director*

In June, JAA TO proudly attended the ECAC/EU Dialogue with the European air transport industry on challenges and opportunities in financing aviation. JAA TO's representatives, Eric Schoonderwoerd and Salim Wakil, met many aviation professionals to identify the latest training needs of both authorities and industry organisations.

As usual in this section, I would like to share some of JAA TO's highlights of the past months.

- **ICAO Recertifies JAA TO as Regional Training Centre of Excellence**

We are very pleased that our organisation has been recertified as an ICAO Regional Training Centre of Excellence. To reach the RTCE status, JAA TO has undergone various extensive assessments by the ICAO Global Aviation Training (GAT) Office, starting with the nomination as TRAINAIR Plus Associate Member in 2011, to becoming the first Full Member in Europe of the TRAINAIR Plus Program (TPP) in 2012, and the first European RTCE in 2014. In 2015 JAA TO received an award for the highest number of participants in an online ICAO Standardized



Training Package (STP). JAA TO was re-assessed in March 2017 and recently received its renewed RTCE Certification.

- **JAA TO registered as a compliant Dutch Training Institute**

Furthermore, JAA TO is proud to announce that it has been registered as a Dutch Training Institute by the "Centraal Register Kort Beroeps Onderwijs" (CRKBO). Following an audit, JAA TO met all the requirements to officially become a Training Institute compliant with the Dutch law for educational centres.

- **Soft Skills Certificate Programme**

Last but not least is the launch of JAA TO's Soft Skills Programme. More information about this programme is on the next page of this section.



► Soft Skills Programme

BACKGROUND

The aviation industry is extremely innovative in finding new business models. Traditional ways of overseeing these models may no longer apply, therefore regulators need to find new ways of keeping oversight and focus on performance. This requires a change in culture and the mindsets of inspectors.

Competent Authorities face difficulties in having suitably qualified inspectors who are able to cope with the challenges posed by the increased size, scope and complexity of the regulated industry. Consequently, to respond to these challenges, the competencies of inspectors need to evolve.

Inspectors need new skills, beyond the traditional aviation technical skills, to understand the wider safety risk profile, to increasingly direct the focus of oversight resources towards the organisation's safety management capability and to understand how the organisation discharges its safety accountabilities. This has to be done taking into account how the business is structured, how the interfaces and subcontracting with other organisations are managed, and how safety risks are mitigated. In this way, inspectors should be able to challenge the robustness of the organisation's safety risk management and safety assurance processes and be able to decide on the organisation's ability to effectively comply with regulatory requirements.

OBJECTIVES

Competency reflects the knowledge, skills and attitudes needed to perform a job effectively. A competency framework describes in behavioural terms how these three elements should be best applied. Competencies have a direct impact on how well a job-holder performs.

The objective of the JAA TO Soft Skills Programme is to contribute to the development of skills expected to be acquired by inspectors to deal with upcoming challenges posed by the introduction of safety management, risk-based oversight and multinational business models in all aviation domains.

This soft skills programme will offer theory, examples and practical exercises to provide the participants with the necessary knowledge, skills and attitudes.

THE PROGRAMME

The JAA TO Soft Skills Programme is based on the outcome of the EASA Working Group on the Competency Framework for NAA Inspectors. The Programme offers Inspectors the necessary KSAs (knowledge, skills and attitudes) to perform safety oversight based on ten soft skills presented in the five-module framework below.



The modules can be taken separately or as a package. A certificate will be extended at the end of each module and a Programme diploma will be delivered after successfully completing the five modules. For more information about the Programme and registration, please contact JAA TO at +31 23 56 79 790 or send us an email at training@jaato.com. For ECAC Member States a preferential package can be offered.

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ECACNEWS is published by the European
Civil Aviation Conference (ECAC)

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