

Keynote Speech

International Aviation Club, Washington DC

July 19, 2018

Challenges for Aviation

Presentation by Henrik Hololei

DIRECTOR GENERAL for MOBILITY AND TRANSPORT

EUROPEAN COMMISSION

Ladies and Gentlemen, distinguished colleagues,

Dear American friends,

- I would sincerely like to thank you for inviting me again here today. It is such a pleasure to be in Washington DC; a great city with fantastic people. A global hub for discussing aviation, sharing thoughts and new ideas; meeting friends and enjoying the buzz.
- Thanks to the International Aviation Club and Airlines for America (A4A), I have had the honour to address this audience last year and the year before. I have been taken by your kindness and generosity and I am honoured to see so many of you present today which makes me feel encouraged and inspired to, once again, be honest and open in my remarks.
- Last year, when I was here in front of you, we also celebrated the first 10 years of the EU-US Air Transport Agreement and have now entered into the second decade. While looking back it is important to look forward and continue to build this strong, mutually beneficial, sincere and future-oriented transatlantic aviation partnership.
- Together we have created the - by far - most important aviation market in the world with more than 73 mio scheduled seats (more than US-MX and US-CA combined – 72 mio).
- Last year, the share of EU out of all US international traffic (25.9% of scheduled seats) was bigger than ever since 2012 and the number of city

pairs went beyond 300 (+12% from 2016). And for our consumer it has meant ca 300 USD saved per return ticket.

- This all reminds us that EU–US Air Transport Agreement (ATA) / Open Skies agreement has been a historic game changer that has hopefully changed the transatlantic aviation relationship forever and brought our people and businesses much closer to each other.
- Yet we must not be complacent, as other regions of the world have lately grown even faster. We had more than 50% of global market share when the ATA was signed 11 years ago; now it is only 37%. Is the time for us to shape the future of global aviation slowly running out?
- I believe that it is still possible for us to be a role model for the whole world and remain strong and globally influential. For that we must work together and prepare the next stage of our aviation relationship.
- Last year in aviation has been an exceptional, possibly even the best year ever in the civil aviation history. We had no serious safety related accidents as there were less than 70 casualties worldwide and simultaneously we managed to keep aviation secure against the constant terror threat present.
- Profit margins for the aviation sector have rarely been as generous, European carriers had collective net profits of €7.8 bn and 2017 also marked the best year for European airports since 2004.
- The passenger traffic grew last year in Europe 8.1%. In comparison North America- another mature market - grew 4.9%. This makes Europe the fastest growing mature market, which allows us to say that Europe matters in aviation and has the potential that many thought, would not be there anymore. This is good news for us in Europe!
- For the year 2018, IATA announced that it expects airlines globally to achieve a collective net profit of €24.8bn (4.1% net margin). Passenger air travel is forecasted to expand globally by 7.0%.
- However, let's see how the oil price – double now what it was last year - and other factors, like higher labour costs, upturn in the interest rate cycle could impact this in the medium term.
- According to IATA, in 2017 for the first time there were globally more than 4 bn pax and the forecast is that by 2036 this would almost double to 7.8 bn pax.

- This is very good news. Aviation is about connectivity at national, regional and global levels. Almost all inhabited points in the world are accessible today within 24h. We need to protect, cherish and support connectivity. This means that we should be open to new business models and actions that are there to further enhance connectivity.
- Last year in Europe, we celebrated 25 years of the European Single Aviation Market by surpassing the 1 billion passengers' with 10,6 mio flights, with the share of Low Cost Carriers being more than 50%. This is the tribute to what open markets can achieve and how connectivity in Europe has significantly improved over the last decades.
- I would even go further and say that one truly significant achievement of the EU has been the creation of the European Single Aviation Market. This has served Europeans, supported businesses and has also created so many new remarkable opportunities. It has connected regions, families and has been a truly positive experience.
- The Single Aviation Market has unlocked new business models and low-cost airlines have made flying affordable for people from all income groups and most importantly, Europe has become much smaller, more affordable and accessible for all of its inhabitants.
- But at the conception it took bold decisions, political courage and thinking out of the box to get there. I wonder if we would still have that today, be it in Europe or elsewhere?
- Let me also underline that the European Single Aviation Market is not only about the liberalisation of all 9 freedoms but, an equally significant decision was the abolishment of Ownership & Control (O&C) restrictions that really contributed to the emergence of a genuine European Aviation Market and truly European carriers.
- If we look at this today then I believe that, in order to enhance competition and advance investments to the European carriers, we need to re-think the O&C regulation more generally. It is very difficult to understand why we have these restrictions that are not present in any other industry?
- Yes, we have antitrust immunity, alliances and joint ventures that may help working around the limitations, but they are only a substitute for a real open legal framework and global alliances have not evolved at the same pace as markets.

- I believe in the potential of truly global carriers and, if I look at the possible challenges to the sector, then that might also be very important for the future of the industry.
- In the same spirit, let me remind you of my vision for the EU-US aviation relations that I have shared with you over the past years: a creation of a genuine Transatlantic Aviation area that combines both markets ensuring high standards, leading to high connectivity and tremendous synergies. A yardstick for the global aviation community, a lasting influence for the future development of our sector!
- This was the dream of the negotiators of the ATA and the spirit of the text of the Agreement, where we committed continuing to remove market access barriers, further enhancing at the same time the access of our airlines to global capital markets, and to lead by example. Let us not forget this common overarching goal!
- I am closely following the aviation developments on this side of the Atlantic and, at times, I am concerned that we might be moving in the opposite direction. Not only away from our commitment to the open skies but also from facts, confirmed by the very benefits have they delivered. The LoBiondo amendment that has been part of the House version of the FAA reauthorisation Bill, could risk seriously undermining the whole foundation of our EU-US ATA and put into question the whole transatlantic aviation relationship with potentially devastating effects to travel, business, tourism and cultural links between our continents.
- I am therefore very grateful to many of you here and beyond, to the US administration and stakeholders who have taken a strong stance in favour of continuing our open skies policy and respect towards EU-US ATA! We need to keep the pressure on and stand up for what we have achieved together.
- Dear friends, as a firm supporter of strong transatlantic links and close cooperation, especially in aviation, I would like to see more ambition in taking forward the implementation of our ATA.
- My experience is that EU-US aviation cooperation works very well in concrete and more technical areas, for example with FAA (BASA, ATM, and environment) or TSA (Security) or DoT.
- However, when we talk about market liberalisation, be it further traffic rights or the liberalisation of O&C, our cooperation becomes more

complicated and we have so far not lived up to the commitments as set forth in the Agreement.

- Let me remind you that in Art 21 both sides committed to continue to remove market access barriers, enhancing the access of airlines to global capital markets, and to encourage other countries to follow.
- This article provides that upon legislative change in the US, the EU will agree to reciprocally allow majority ownership of EU airlines by US nationals. Also, that upon legislative change of the EU noise regime, the US will grant additional market access to the EU and to ease current restrictions for ownership of third country airlines owned by EU interests.
- The EU has changed the noise Regulation as set forth in the Agreement but this has not transformed into granting additional rights, but rather brought us into dispute about the effect of the measures.
- Europe has raised this and explained it on many occasions in the Joint Committee (JC) but the US still considers that we have not complied with the ATA requirement.
- To me, the Agreement has all necessary building blocks in place in order to defend it, solve differences and pursue deeper cooperation. But more importantly, the Parties should have the courage to live to their commitments and not hide behind obscure reasoning. We have done so in the case of wet lease and we would expect the US to do the same concerning noise.
- Let me also say, a couple of words about the JC. I would like to see more strategic, frank and creative discussions in the context of JC about how to further develop the EU-US aviation partnership. We are not living in a static, but rather in a dynamic environment and being content with the status quo does not allow us to maintain the lead in global aviation.
- After the formal part we should spend ample time in discussing the strategic aspects of our future cooperation in a more informal setting. I would also be keen to see more discussion among ourselves about our cooperation with third countries and I think it could be useful to share our views about our relationships with China or Gulf countries as part of the overall strategic brainstorming.
- We could also alternate between roundtable, strategic JC meetings, and regular JC meetings. But for that we need ambition and vision and commitment from both sides. Let me assure you, that we have this on the

EU side and my team and I would be very committed to take this relationship further.

- Let me also point out in this context, how much I appreciate and equally envy the role that A4A plays in this cooperation. A4A is fully on top of all developments in the EU both at European and at Member States level and delivers a well consolidated input to JC discussions. Nick, Sean, Keith and the team, thank you so much for that.
- In Europe, we unfortunately do not yet have a similar partner in A4E but I very much hope it will change one day.
- As to the issues under ATA, you have heard me saying this here before that, for me, an essential area to make progress, which we have not made yet, is the liberalisation of the O&C framework.
- These are historic remnants of this global, competitive and vibrant sector. We should have the courage to change and normalise the air transport industry in this particular domain.
- I know it is a political issue and I am not ignoring the current trends and sentiment in this country but we used to show how to advance things to the rest of the world. Are we now happy and pleased to see how China and others would take over the void we, the "so-called West", is going to leave open?
- I leave it as rhetorical question but still a valid question to ask. The status quo will not last forever and as global trends start to change very soon, I am not sure anymore that we will be modelling them if we put aside the ambition and do not dare to think globally but revert to a purely national agenda.
- Let me also remind you that our ATA provides all, and now tested, dispute settling mechanisms. If we have an issue, we go to JC and if we have no solution we go to arbitration. Partners who respect each other should be faithful to both the letter and the spirit of the ATA and do not retaliate without first going through the legally binding avenues for solving disputes.
- In this context, I welcome that, despite the unprecedented regulatory delay, we have upheld our ATA in spirit and legality concerning the foreign carrier permits to NAI and NAUK. The NAIs, Levels, and every single new flight added by any US or European carrier is a positive sign that our transatlantic market is stronger than ever, more interesting than

ever and provides continuously a good growth potential. Let's keep it like that and focus on the future by creating new opportunities for our people, businesses and aviation community.

- Dear friends, people often ask me what would be the three key challenges for the global aviation industry in the next years to come. I presume there are different answers, depending from which angle to look at but let me give you my take.
- A couple of months ago I had the honour to speak at the European Aviation Club in Brussels. I underlined that for European aviation the most important issues to focus on during the next decades are the 6Cs – capacity, connectivity, competition, consolidation, cooperation and CORSIA - the environmental sustainability of global aviation.
- If I have to take a more global look and focus on just three issues then the main short, medium and long term challenge we have is the lack of available capacity on the ground and in the air.
- This is particularly true for Europe but we also see this in Asia's fast growing aviation markets. I believe that it would equally seriously hamper any significant future growth in Africa and the creation of the Single African Aviation Market and the same challenge concerns also US.
- Eurocontrol just published the "Challenges of Growth 2018", which is an excellent paper to read and its analyses clearly indicated capacity constraints being the biggest challenge in European aviation, reinforcing the same point that we have been making over the last years.
- This challenge concerns all of us - the States, aviation regulators, economic operators and, of course, it affects our travelling public. If we do not increase capacity, it is estimated that in Europe by 2040 there will be 1.5 M flights in demand more than can be accommodated, which would mean that 160 million passengers would be unable to fly. And delays could be ca 20 min per flight at peak times if no appropriate action is taken.
- Studies have also highlighted that the potential adverse impact of capacity constraints on consumers results in higher air fares and by 2035 could lead to a decrease of around 800,000 jobs and an annual loss in GDP of up to around €50 bn at EU level.

- The second biggest challenge we face today in the global scale is to me protectionism driven by an agenda influenced by renewed nationalism and wide-spreading populism. I call it the rise of lumpen-politics.
- In the beginning of my speech, I recalled the positive growth in the aviation sector. But it should not be taken for granted. Opening up the markets has fostered air travel and made people to go around the world.
- Globalisation helped to tear down the borders and create a lot of business opportunities. It made the world a better place and it has also allowed the President of IATA, my good friend Alexander de Juniac, to call aviation "the business of freedom".
- Freedom means the freedom to travel but also the freedom to provide services and do business. Opening up the markets has served this positive agenda every single time and has given a lot of new opportunities.
- Protectionism is not serving that purpose. It leaves a flawed picture of temporarily increased job security but after the first indirect effects this quickly evaporates. It is important that Europe does not fall into this growing camp but continues to fight for global open markets that serve us the best.
- Global open markets do not mean that there are no rules, on the contrary the predictable legal frameworks like Comprehensive Air Transport Agreements (CATA) serve and protect us best as they provide dispute settling mechanisms and help to forge real aviation partnerships. EU-US Agreement is the best example of that and still remains the most significant global aviation agreement.
- We also have ICAO, the only multilateral fora for aviation and we must make the best use of it. Multilateralism has been the basis of the functioning of global institutions and I wish to reaffirm our strong commitment towards ICAO and praise the excellent work they have done in raising the global bar in aviation safety.
- Aviation is a truly global industry and will need global solutions. Openness and globalisation have brought a lot of good and we all here have been pleasurably reaping the benefits of these policies and these global trends. In the past, these solutions have been delivered by US and EU but how about tomorrow?
- The third challenge for me is the current political and economic unpredictability and volatility around the globe. What do I mean by that?

Well, world politics has hardly been so unpredictable with conflicts looming in different continents. This is not giving us confidence of overall stability and would directly affect the economic development.

- It means that we must be well aware that in a globalised world the effects have a much wider influence on all of us than it used to. And this is particularly true for aviation – one of the truly globalised industries that connect people and businesses.
- The world around us is also much more connected and globalised. Events in one part of the world have repercussions in other parts of the world more than ever before.
- This in turn has internalised volatility and unpredictability to the crude oil price inter alia the kerosene price. It is without doubt that the good profits of the aviation industry would be severely hampered by the oil price and could lead to airline exits from the market as well as to further consolidation in the market.
- While consolidation can have positive effect it is very important that this would not mean a kind of consolidation that significantly limits competition and connectivity.
- In this context, let me just say that I am very pleased with the current European model of consolidation where the 5 largest carriers make up less than 50% of the market (45,4%, compared to 41% in 2009).
- Having said that I want to underline that EU and US have different markets and slightly different business models and one is not better than the other to that effect.
- Ladies and Gentlemen, we are constantly facing security challenges in global aviation. We need the highest level of security for the credibility of aviation and for our passengers and cargo.
- While we remain concerned and alert to the traditional threats such as improvised explosive devices, we have to demonstrate our capability to anticipate new threats. We cannot ignore that terrorists are constantly exploring ways to defeat our sophisticated and high-performant technology we have at our screening point.
- Over the last years, cyber security has become even more of a threat to civil aviation and we need to step up our efforts in jointly build up the cyber resilience of our systems.

- Today, we also have new concerns represented by chemical threat by the powder-like substances. Vigilance and proactivity are needed to enhance performance and detection of our technology. But it's not enough, and in addition educated and informed passengers may also significantly contribute delivering a higher level of security.
- At the same time, we must make sure that the physical and technical security measures would need to be proportionate. They should not cause unnecessary delays, hindering the smooth throughput. And last but not least, a high level of security means close cooperation with stakeholders - airlines, airports and international partners
- We have a strong track record of co-operation in aviation security with One Stop Security from the US to Europe, mutual recognition in the area of cargo and the development of the policy regarding carriage of liquids, aerosols and gels (LAGs). This is all good proof that the US and EU aviation security regimes are equally robust and equivalent in their effectiveness.
- Let me stress how much I enjoy the excellent cooperation between European Commission and TSA and appreciate the professionalism as well as the close cooperation with Administrator Dave Pekoske and his predecessor Peter Neffenger. We have never experienced such a mutually engaging relationship and I really applaud this.
- Ladies and Gentlemen, environmental issues continue to play an important role in global aviation matters. The reduction of emissions is the licence to grow for the aviation sector and if all the positive forecasts come true, then the decarbonisation agenda will become even more important, as the fast growth also requires effective mitigating measures towards the environmental impact.
- After the political agreement on the first ever global sectorial agreement on CORSIA at the last ICAO Assembly, in ICAO we are now about to agree on its practicalities. All of us, including the industry, have worked together to lead us to where we are today. I am also very grateful to the US aviation community for their support and strong commitment to this cause.
- In addition to the CORSIA agreement, innovation and alternative fuels are important elements in this basket of decarbonisation measures. New fuel-efficient aircraft and engines contribute to the environmental goals. We

are on the right path but we must make sure we constantly improve our performance.

- In the external aviation policy, Europe is proactively engaged in forging close relations with other key aviation partners around the world and is negotiating Comprehensive Air Transport Agreements that serve as the best guarantees for a truly holistic aviation relationship.
- Lately, we have made good progress in negotiations with ASEAN, Qatar, Turkey as well as Azerbaijan and we hope to conclude some of them still this year. Last year we finished and initialled negotiations with Armenia and Tunisia. We hope to open soon the negotiations with UAE and in the foreseeable future with Oman and Mexico.
- Talking about global aviation, it is essential to defend the integrity of the Chicago Convention and make sure that the international framework for civil aviation is respected and the highest level of safety is not put into question. It should not be tolerated that civil aviation is used for striving regional political aims.
- The aviation world as we knew it, dominated by US and Europe, is changing. China is set to become the largest global aviation market by the 2030s. That means that the domestic Chinese traffic is forecast to almost quadruple to 1.6bn passengers and by 2036 the domestic Chinese market will be stronger than the combined domestic US and intra-EU markets (together ca. 1.5bn passengers).
- Recent air traffic growth figures between China and Europe underpin this: in less than 10 years, Chinese carriers tripled their frequencies and during last three years more than doubled the number of routes.
- China is also actively expanding its aeronautical industry, with single-aisle and twin-aisle competitors to Airbus and Boeing in the pipeline. With such a growing aviation footprint, we should not be surprised if China will seek more influence in aviation, including in its regulatory leadership.
- This brings me back to my earlier point: our potentially diminishing leadership in global aviation and the strong need that the US and EU work closely together.
- Finally, unfortunately, I cannot avoid mentioning Brexit. I am sad about the fact that Brexit is more and more unavoidably becoming a reality. The

UK has been an indispensable partner in creating the European Aviation market and it is a sad moment to all of us to see them exit it.

- But politics is politics and the expression of people's will, spiced with manipulated facts, is now being transformed into harsh realities nobody really signed up to. I do not yet know what the EU- UK aviation cooperation would exactly look like at the end of March, 2019 and I am afraid that nobody could know that at this stage.
- What is clear is that the UK would not be able to benefit from the similar access to the EU aviation market as now and the UK carriers will not be considered European carriers anymore. The UK would also cease to be a full member of the European Safety Agency once it exits EU.
- The future EU-UK aviation relationship will depend on the general conditions of the UK exit and what kind of Brexit we will have in the end. We are preparing for all scenarios as part of our preparedness work and they are all still on the table.
- I know that uncertainty is the worst thing that the economic operators want to experience but I am afraid that, in the current state of the negotiations, there is not much more to offer and we will have to revert to this issue many times in the future. We will also keep close contact with A4A and make sure US carriers are well aware of any developments.
- Dear friends, as a very last remark I would like to say that I have now been involved in the transport/aviation sector for the best part of the last 8 years. I feel immensely privileged and blessed to have been given the opportunity to interact with all of you.
- You are great people, doing exceptional things with such a passion that is rarely present in many others sectors of the economy. Aviation is contagious and once you get hooked up it is difficult to leave. Part of that is the fascination of the business but it is also the people, all of you, who make this sector unique and special.
- This is also what a true transatlantic relationship is about – it is about people, vision, opportunities, passion, dreams and friendships. It is us who make it work and it is us who take it further.
- And my very last point: let me thank Karen and IAC for offering me the opportunity to address you. Thank you all for attending today and for listening to me. I would also be very happy to take your questions!
