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Europe Regional Media Briefing

Rafael Schwartzman
IATA Regional Vice President, Europe



European aviation recovery is sluggish and faces relative decline compared to other regions

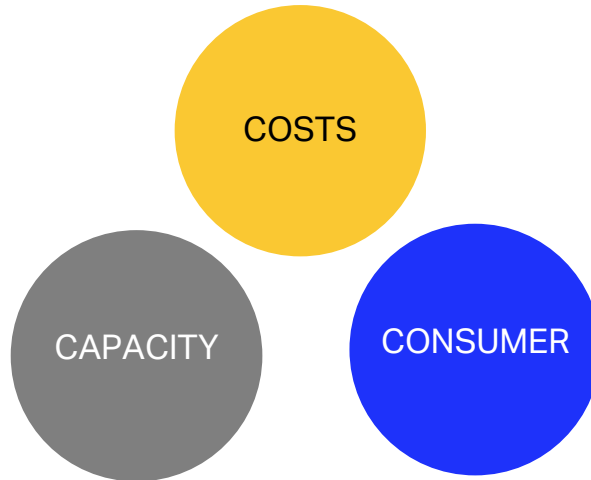
- April RPK up 9.3% year-on-year
- Europe is still 0.3% below March 2019 levels. In contrast, the Americas is 5.6% up on 2019
- Over the next 20 years, Europe will add 656 million extra passengers, but the Americas will add 844 million.

RPK (by airlines region of registration)	Industry	Europe	Americas
Q1 YoY	16.90%	11.30%	7.70%
March 24 vs. 19	1.20%	-0.30%	5.60%
CTK (by airlines region of registration)	Industry	Europe	Americas
Q1 YoY	13.20%	12.60%	5.10%
Passenger Forecasts (by trip origins)	World	Europe	Americas
CAGR (2023 - 2043)	3.80%	2.30%	2.70%
Net increase in passenger numbers 2023 - 2043 (Millions)	4,154	656	844



Europe is at a crossroads. Its economy is losing dynamism and competitiveness compared to other regions. This slide seems to confirm concerns about relative decline when it comes to air transport. While first quarter growth was strong, we can see that in March this year compared to March 2019, Europe is some 0.3% lower whereas the market in general has exceeded 2019 levels. And it is clear from the 20-year growth forecast that Europe's relative decline is set to continue. More worryingly, current regulatory trends look set to accelerate this decline, not reverse it.

How do we restore competitiveness? The Three Cs



If competitiveness is slipping, how can Europe regain it? There are three key areas which I call "the three Cs".

Cost

Capacity

And Consumer.

It's vital the next generation of European politicians being elected this year tackle these three issues in collaboration with the industry.

COSTS:
Europe is getting more expensive to do business

- 1) ANSP charges are rising
- 2) Taxes and environmental costs are going up



Let's start with Cost. Europe is getting more expensive to do business.

Regulators have the power to affect three of the most important cost elements of aviation: service charges, and taxes and environmental levies.

ANSP charges rising while performance falls

Airlines are paying an extra EUR1.5 billion in charges since 2022.

Some of the largest markets are the worst offenders:

- UK is up 29%
- Germany is up 27%
- Spain is up 22%

Despite these increases, delays look set to be worse than in 2019.

The Single European Sky is moribund. The agreement struck earlier this year killed off meaningful reform.



Air Navigation Service Provider costs are rising steeply, by EUR1.5 billion in the last two years. If this increase was justified by improved performance, increases might be acceptable. But we know that this summer, delays are likely to be worse than in 2019. Perhaps the Single European Sky would have been the opportunity to reboot performance, but at the beginning of 2024, hopes for an ambitious SES collapsed. The deal that was agreed delivers almost nothing in terms of independent regulation or more stringent targets. It was a huge opportunity missed. As a result, the likes of Germany (+27% charges increase) Spain (+22%) and the UK (+29%) will continue to miss their capacity, efficiency and environmental goals.

Taxes are going up



- Taxes are up in Germany, UK the Netherlands, Denmark, Hungary...
- But good news that proposals for a jet fuel tax have been shelved for now



The second cost item is rising taxes. In May we saw Germany increase its passenger tax by around 19%, and the UK further increase Air Passenger Duty. The Dutch, the Danes and the Hungarians have all launched or increased taxes. We believe aviation taxes are self-defeating because they either reduce connectivity or spending power in the economy by more than the value of any short-term cash grab. And environmentally they make almost no difference to emissions. On the issue of environmental costs, these are also rising – for example, the phasing out of ETS allowances.

At least the possibility of a jet fuel tax has, for the moment, been shelved. Such a tax would only have increased the distortions within the single market or hugely damaged the competitiveness of Europe and its airlines compared to other important aviation markets on Europe's periphery.

Europe is increasingly constrained

- Europe cannot expand connectivity if its airports are increasingly constrained
- Even worse, at some airports there are proposals to *reduce* already scarce capacity

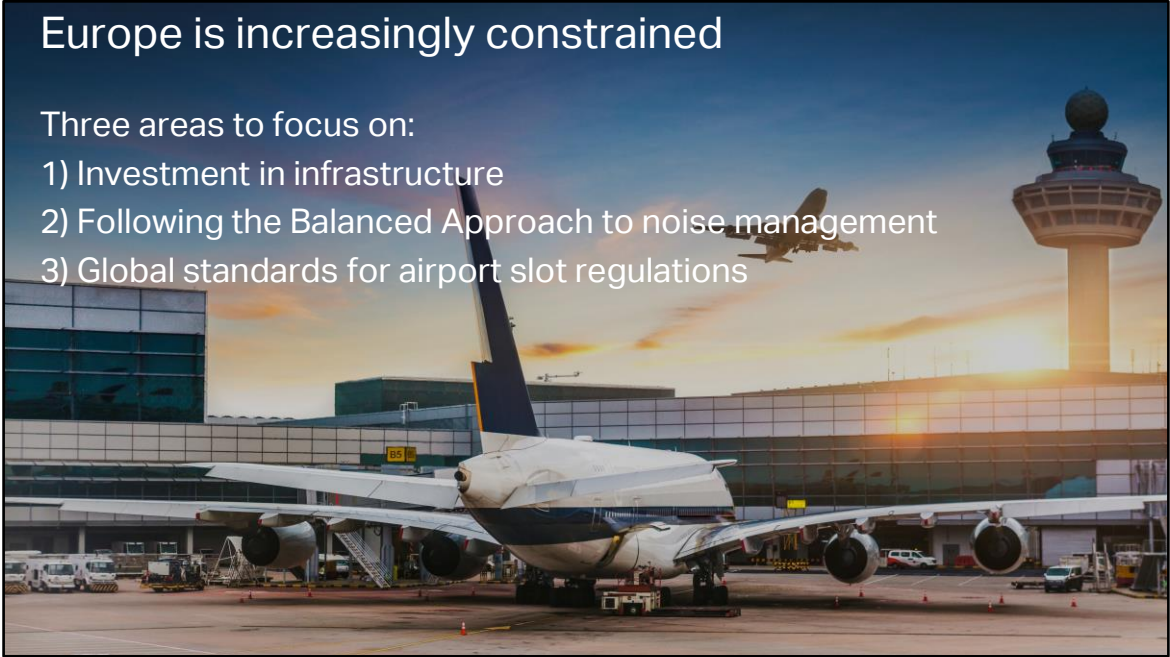


The second 'C' is Capacity. Europe cannot continue to expand its connectivity to the rest of the world if it doesn't have the room. There is still a lot that could be done to use the infrastructure we have more efficiently. What is even worse, in some cases the capacity we have could be *reduced*. This would be a disaster for the European economy.

Europe is increasingly constrained

Three areas to focus on:

- 1) Investment in infrastructure
- 2) Following the Balanced Approach to noise management
- 3) Global standards for airport slot regulations



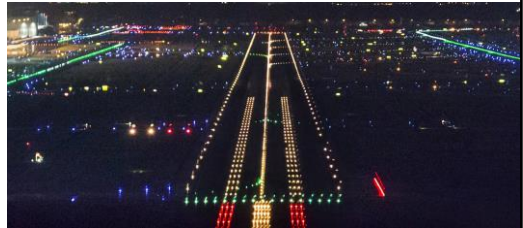
There are three key issues to focus on:

- Investment in infrastructure
- Following the Balanced Approach to noise management
- Following global standards on airport slot regulation

Infrastructure – making the best of what we've got

Investment in new runways and terminals is desperately needed but if this is politically unachievable, there is still much that can be done:

- New stands
 - Digitized processes
 - Ensuring adequate staffing
 - Better security technology
-
- Demise of meaningful SES means capacity targets will be missed



Firstly, investment in infrastructure. Even if new runways are politically impossible, there is much that can be done to improve the capacity of existing infrastructure. New stands and terminals, better use of digitization to improve passenger flows through the airport and new scanners to speed up security could all help. Schiphol recently reduced its slots on the basis that it couldn't find room to park all the planes! With such a tight squeeze on future airport development, it is essential that infrastructure is used efficiently. Why is that that Gatwick can get over 40 million passengers through a 1 runway airport while Schiphol struggles to get more than 60 million through a 6 runway airport? We see a similar challenge with air traffic control. The demise of a meaningful SES means many of the targets for more capacity in the air will be missed.

Noise restrictions

- Growing political pressure for reducing capacity on grounds of noise.
- Amsterdam, Brussels and airports in France are key examples.
- The Balanced Approach is an international agreement for managing noise issues
- The BA puts noise in context of wider benefits of airport connectivity and sets a proactive, methodical approach to noise mitigation.

Under the BA, operational restrictions can only be considered as a last resort. This was the basis of our legal challenge to the Schiphol reduction.



There's a significant threat to airport capacity from Governments mandating flight cuts on the grounds of reducing noise. A global agreement, the Balanced Approach to Noise Management, which is enshrined in EU law, is in place to ensure that decisions about airport operations are made after full consideration of the economic implications, as well as the needs of local residents. Under the Balanced Approach, a whole range of options must be considered, and operational restrictions can be imposed only as a last resort. Some politicians are trying to ignore the Balanced Approach, which the industry has robustly sought to defend. For instance, at Schiphol airport, the government announced a reduction of slots in defiance of the BA and was forced to back down. We are seeing a similar situation developing at Brussels airport. Major hubs are essential connectors for both passengers and cargo, and governments should look to their own land-use planning and stop building residential accommodation in noise affected zones. Meanwhile the industry continues to invest in ever-quieter aircraft and more precise flightpaths.

Slot rules cannot conjure up more capacity

- Airport slot regulation is there to make best use of the capacity that exists – it is not a magic bullet to create extra capacity
- Airports could help deliver more capacity by improving their capacity declaration
- The European Slot Regulation could be brought more in line with the Worldwide Airport Slot Guidelines, which would maximize the efficiency of global schedules



My last point about capacity is the airport slot rules. We need to be clear here: the slot rules make the best use of the capacity that exists. They cannot conjure up new capacity from thin air. Nevertheless, if there are obligations on all stakeholders, more can be done. For example, airports should declare and update their capacity in a timely manner to ensure the slot rules work effectively. Schiphol and Lisbon airports are recent examples where this has not worked smoothly.

Moreover, anything which undermines the successful global harmonization of the slot rules could actually make utilization of capacity less efficient. The European Slot Regulation is mostly aligned with the Worldwide Airport Slot Guidelines, which is vital to ensure the smooth running of the global aviation network. Regulators should be very careful before undermining this essential foundation of the global aviation system.

CONSUMER issues. Increasing burden of regulation is hurting travel competitiveness

Consumer issues cover a wide range of regulatory initiatives across Europe. Some of these need reform, others need effective implementation.

Two issues we'd like to highlight:

- EU261
- EES & ETIAS



Our final competitiveness 'C' is Consumer issues.

Consumer issues cover a wide range of regulatory initiatives across Europe. Some of these need reform, others need effective implementation. All have the potential to affect the competitiveness of aviation, travel or connectivity into or across Europe.

I'm going to focus on two today:

- **EU261** consumer protection rules
- The **EES and ETIAS** border management programs

EU 261 – it's high time it was revised

- EU261 is a drag on connectivity and competitiveness that costs EUR5 billion a year + EUR1 billion in costs
- The 2013 revision proposed:
 - A clear definition of extraordinary circumstances
 - New thresholds for delay compensation
 - Standardized complaint procedures
 - Harmonized enforcement
 - Cap on duty of care
- 261 has not led to reduced delays for passengers due to the lack of shared accountability across the aviation system – that must change.



The EU261 Regulation is very badly drafted and by the Commission's own admission has a large number of grey zones and gaps which have created confusion for carriers and consumers alike. It is a drag on connectivity and competitiveness that costs EUR5 bn per year in compensation and a further EUR 1 bn in legal and administrative costs.

It is time to finally make progress with the 2013 Revision to EU261

A Proposed Revision has been on the table since 2013. Its progress has been held up by political disputes that had nothing to do with passenger rights. The 2013 proposal has a number of key advantages:

A clear definition of extraordinary circumstances: The proposal includes a binding but non-exhaustive list of circumstances exempting airlines from compensation, such as severe weather events, security incidents, and air traffic control restrictions. **Thresholds for delay compensation:** Consumer feedback collected for the Commission is clear that passengers would prefer to arrive "better late than never". The proposal introduces "delay brackets" (5, 9, or 12 hours) depending on the flight distance. These would grant airlines a reasonable timeframe to resolve technical issues, source replacement aircraft and crew or rebook passengers on alternative flights if needed, rather than cancelling flights altogether.

Standardized Complaint Procedures: The proposal aims to standardize procedures, streamlining the process and ensuring a consistent experience for passengers across different airlines and member states.

Harmonized Enforcement: The current regulation suffers from inconsistencies in enforcement across member states. Harmonized enforcement measures would ensure a level playing field for airlines and provide passengers with clear expectations.

A cap on Duty of Care: The proposal includes provisions to cap airlines' duty of care obligations in extraordinary circumstances, to avoid carriers being exposed to open-ended obligations in *force majeure* scenarios such as the ash cloud event and the COVID-19 pandemic where airlines have absolutely no influence.

Finally, it is important to note the Regulation has not led to reduced delays for passengers due to the lack of **shared accountability**. You would think that given these enormous costs disruption would have declined and on-time performance would have improved. In fact the opposite has happened because so many delays in Europe are outside airlines' control. The main cause of increased delays is due to air traffic control – and the failure to progress with the Single European Sky project – yet EU261 doesn't impact on ANSPs. Take the NATS disruption in August 2023 – it cost airlines GBP 100 million but didn't cost NATS anything.

European Entry-Exit System (EES)

- EES: We're concerned that urgent and coordinated action from EU and Member States is needed, including:
 - Adequate time between final decision and deployment
 - Proper readiness by States
 - Harmonized framework for the implementation of a transition period (e.g. app to pre-enrol)
 - Lack of communication campaign to the public
 - Lack of on-going support helpline for carriers to assist travelers

The EU is preparing for the launch of two new border management initiatives that will bring changes to the way in which travelers enter up to 30 European countries for a short stay:

- **Entry/Exit System (EES)** will collect travelers' passport details & biometrics and replace the stamping of passports at the border with electronic recordings from Q3 2024 onwards
- **European Travel Information and Authorization System (ETIAS)** is an authorization to be issued to visa-exempt travelers prior to their trip, that will be launched in 2025. Similar travel authorizations are required by US, Canada or Australia, among others.

These changes will significantly impact the operations from carriers operating to Schengen countries as well as other aviation-related stakeholders.

Regarding EES, the industry is concerned there are critical unresolved items which will require urgent & coordinated action from both EU and Member States prior to its implementation.

- Adequate time between final decision and deployment, as the status of States real readiness is neither homogenous nor optimal and contingency measures are not yet harmonized or robust enough.
- Ensure a proper readiness by States at their border crossing point. This refers both operationally (including process and staff) and technologically (IT readiness in live environment).
- Harmonized framework for the implementation of a transition period in which Member States can use measures to alleviate the impact of EES at the border (app to pre-enrol or signal omission of biometrics)
- The delayed communication campaign to the public and
- The lack of on-going support phone for carriers to assist travelers

The industry remains committed to collaborating with the authorities for a successful implementation.

European Travel Information Authorization System (ETIAS)

- ETIAS: a growing number of unofficial websites have been advertized. We urge travelers to only refer to the official ETIAS site: [Europa.eu/etias](https://europa.eu/etias)
- We would appreciate journalists relaying this message to your readers.

On the ETIAS front, a growing number of unofficial and/or fake websites have been advertised, pretending to provide official information about the EU's upcoming travel requirements. We urge travelers to please refer exclusively to the official ETIAS website: europa.eu/etias. The media can play an important role in relaying this message to your readers.

CONCLUSION

- Europe's economy is lacking dynamism and losing competitiveness.
- This is something which increasing numbers of European policy makers have begun to realise and are pledging to reverse.
- Through a focus on controlling costs, increasing capacity, and reforming consumer regulations, aviation's competitiveness can be enhanced, enabling it to play a strong role in strengthening the economy of Europe as a whole.



To conclude, Europe's economy is lacking dynamism and losing competitiveness. This is something which increasing numbers of European policy makers have begun to realise and are pledging to reverse. In general, Europe should stop trying to act unilaterally, and focus on global standards, particularly in the areas of slot rules and environmental regulation.

Europe is at a crossroads. Competitiveness can be restored by focusing on controlling costs, increasing capacity, and reforming consumer regulations. By reinvigorating air connectivity across within Europe and beyond, aviation can play a strong role in strengthening the economy of Europe as a whole.

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