As families and friends reunite for the year-end holiday season, it is easy to take mobility for granted. But the business that supports global connectivity—aviation—is balancing on a knife edge. For 2013, airlines will make a 1.3% net profit margin. In Europe, the situation is even more precarious. The prognosis for the European airline industry is another profitless year in 2013. And if we focus just on the network carriers that provide Europe with the global connectivity critical for trade, commerce and ultimately jobs, we expect a EUR 1.3 billion loss, according to the Association of European Airlines.

Europe’s economic woes are among the biggest drivers of the poor performance of the continent’s airline sector. But that is not the whole story. The problems facing Europe’s industry transcend current economic conditions.

Let’s compare Europe to North America. North American airlines are expected to contribute the most to industry profits next year—some $3.4 billion. They face the same high fuel costs and lackluster economic performance as European airlines. And they are growing more slowly—0.4% compared to 2.2% in Europe.

What is driving better performance in North America? The degree of consolidation and restructuring is one aspect. The North American carriers are further advanced. It has been painful and involved bankruptcy procedures for all the major carriers. It was a difficult and painful process. But today they are weathering the economic difficulties better than their European counterparts.

On top of this, and to a far greater degree than their counterparts in most other regions, European airlines face significant structural hurdles to sustained profitability—starting with the cost of airport and airways infrastructure. For example, the Spanish government has allowed AENA to raise airport charges by 38% overall—and by 50% at Madrid and Barcelona. This was done literally overnight from 1 July with no industry consultation. And to make matters worse, the airport has a license to increase airport charges by 5% on top of inflation from 1 January. Research by the Board of Airline Representatives in Spain indicates that this could shrink arrivals by 2.9 million people with a cost to the Spanish economy—primarily owing to reduced tourism—of up to EUR 1.6 billion.

This increase is out-of-step with reality, to put it mildly. The European Commission has responded positively to calls for an investigation. And we are hopeful for a swift conclusion because the economic damage of this misguided decision is already mounting.
Air traffic inefficiencies are another unnecessary burden. Guiding a flight through European airspace costs twice as much as it does in the US, according to EC estimates. The Single European Sky is meant to remedy this with a 2020 target to reduce the average ATC cost per flight from EUR 800 or EUR 400. Spain is addressing this issue. But it is almost alone, and EU-wide the project is behind schedule, missing targets and, as a result, not delivering the economic benefits that are expected.

And lastly, Europe does not present a business-friendly atmosphere. Taxes are high and regulations are onerous. Passenger rights legislation is a case in point. Airlines, passengers and regulators all want travelers to get their destination without delays. But the EU has chosen to place the entire responsibility on the airlines, regardless of the root cause of the disruption. But making an airline compensate passengers financially for walkouts by air traffic controllers or airport staff, or volcanic eruptions, adds costs to airlines (making the industry less competitive), but does nothing to get passengers to their destination on time.

Growth and jobs should be at the top of every European government’s priority list. Aviation facilitates both. Nearly 8 million European jobs are supported by the industry and EUR 475 billion of European economic activity depends on aviation. In Spain alone, 10% of the economy is dependent on tourism—an industry that relies on aviation-enabled connectivity.

A clear policy vision is needed that values aviation. Safety and security are paramount. Governments also have a responsibility to ensure cost-efficient infrastructure—particularly with monopoly providers. Spain’s leadership in tackling the high costs of air traffic control must be urgently extended to reverse the cost increases at Spanish Airports. That will set the playing field on which airlines can compete to further develop the connectivity that is critical to Spain’s economy.

In a dynamic industry characterized by intense competition it is survival of the fittest. Spain’s airlines are responding. Some are growing strongly by developing new business models. Others are at the leading edge of the European consolidation and restructuring process. These innovations are helping to ensure the connectivity that supports Spanish jobs. Government should facilitate change and the economic benefits that will follow—not stand in the way.