

Speech by Bertrand Lebel

Secretary of the AFKL Group Executive Committee, in charge of Corporate Strategy

European Aviation Club

**Brussels,
Thursday March 31, 2011**

Dear Member of Parliament, Ladies and Gentlemen,

Coming to Brussels has always been a special honour for an Air France KLM executive.

It is true that the Air France KLM merger has been feasible thanks to the European integration process. On the other hand, Brussels delimits the borders between our languages and cultures and Air France KLM is bridging them.

Thank you then for inviting me to your club in Brussels.

My speech will comprise three parts.

First I will underline the reasons for the success of the European airline industry.

Secondly I will describe the challenges ahead of us.

And finally I will describe the conditions for a sustainable and competitive European air transport industry.

I – A positive decade for European air transport

The period running from the burst of the dot.com bubble in the USA to the collapse of Lehmann Brothers had a positive outcome on European air transport.

Three major factors contributed to Europe's ascendance.

I-1 First and foremost, the decline of US carriers.

The under-capitalization of US airlines, their cost bases, the dot.com bubble burst and last but not least 9/11 drama, led them to fight for their survival. For them, this decade has been punctuated by restructurings, giving European airlines the opportunity to define the new international air transport landscape.

I-2 The European air transport industry subsequently took full advantage of the changing regulatory environment instigated by the European Union in the early 1990s.

Indeed, a few years later, the full benefits of the Single European Sky initiative had come into play, with the development of low-costs, and notably the consolidation carried out by Air France KLM followed by Lufthansa and Swiss, and British Airways and Iberia. While Europe signed a global open skies agreement with the US, the European groups were able to negotiate balanced agreements with their American partner in the form of joint ventures.

I-3 And last but not least, the rapid growth of the emerging economies.

In these countries, the airlines' structure was insufficient to support their economic development, particularly concerning intercontinental services.

European carriers had the means to accompany the growth of the European economy on an international scale and play a key role in the globalization and influence of European companies worldwide.

Currently, European airlines carry about 30% of global intercontinental passengers. The European air transport industry not only connects European citizens and businesses to the rest of the world but is also a hub providing interconnecting opportunities, for instance: India with USA, Africa with North America, China with Latin America.

II - Three major challenges face the air transport industry over the next decade

II-1 The relative weakness of European growth

Europe has begun a regime of austerity that may last the whole decade and will negatively impact growth in a context where the latter will be already structurally weak. European air transport will therefore need to seek its growth levers on other markets.

II-2 The increasing importance of airlines in emerging countries

Logically, emerging countries such as China, India or Brazil will want to possess an equal share of traffic flows between their country and Europe. In ten year's time, the share in traffic with those countries currently standing at 65% in favour of European airlines, will probably decrease progressively to 50%. The growth of these countries' airlines on destinations between their country and Europe will be far more important than that of European airlines.

II-3 The cost of energy and the fight against global warming

Air transport will long continue to depend on fossil fuel as an energy source. The energy efficiency of air transport will be down by 1 to 1.5% per year compared to its long-term growth of approximately 4 to 5%.

This means two things:

Firstly, the energy costs on airlines' accounts will continue to rise.

Airlines, or at least those in Europe, will be increasingly forced to pay the cost of their CO2 emissions.

A delicate balance will need to be found between increasing costs, pressure on unit revenue, and the need to invest in a more fuel-efficient fleet.

III The conditions for a sustainable, competitive Europe air transport industry

As mentioned in the commission's working document "roadmap to a single European transport area-toward a competitive and resource efficient transport system".

« Maintaining a competitive European air transport system and the key role of Europe as intercontinental Hub will have a wider importance for Europe's economy ».

I strongly agree with this assumption. For us to remain as successful as in the past, key areas in the landscape drawn up by the policy maker will be of major importance. I would like to highlight three of them:

Regulation and taxation

Energy and co2 emission reduction

Infrastructure

III-1 Infrastructure

The single European sky initiative is a major contributor to the efficiency of our industry. Two major breakthroughs are promoted by the commission:

1/ shifting from a fragmented national air traffic management towards a truly genuine European framework with effective cooperation from all stakeholders

2/ the deployment of new air traffic management technologies and procedures via the so-called SESAR project.

The targets are ambitious: tripling capacity, reducing ATM costs per flight by improving safety by a factor 10 and reducing the environmental impact of each flight by 10%.

We obviously support these very aggressive goals but we strongly recommend that all the providers and institutions contributing to this initiative are accountable for those achievements.

III-2 toward a less carbonised air transport industry

Energy, as we have seen, will be a major problem for the air transport industry in the future.

Air transport will long continue to rely solely on fuel as an energy source with its increasing costs and the need to fight against its effects on climate change.

The EU should adapt its strategy and influence its policy in three ways:

Be more encouraging towards aircraft and engine manufacturers to accelerate the pace of innovation.

Adapt the EU ETS that we supported well before it was adopted by the EU in a way that restores the level playing field between actors within and outside Europe.

Freed from the legal risks that relate to its application for non-European airlines that could lead them to be partially or totally exempted, thereby enhancing the competitive imbalance to the detriment of European airlines.

Send a strong signal to companies which are able to design and produce the biofuels of the future.

One way would be to set a minimum rate of mixing for the airline business by 2020 as was the case for ground transport. This rate could be low, around 2%, but it would be a strong signal that would encourage innovative European initiatives in this field.

III-3 A new regulatory framework

In terms of regulation and taxation I would quickly like to discuss three topics:

Passengers' rights and the R261 regulation

Taxes on air transport in Europe

OMC and ownership and control

On the R261 the pro consumer policy of the commission has to be balanced in such a way that each party contributing to the value chain is accountable and not only the airlines.

Here are three examples:

The ash cloud, no reason why the industry should have to pay solely.

Snow and bad weather where ATC and airport management are deeply involved.

Geopolitical or catastrophic events such as in Cairo and Japan.

That airlines take care of their passengers in case of major irregularities which are not the fault of the airlines, this we can accept, but our industry can not alone bear all the risks and consequences of situations over which they have no control. Guidelines should be drafted taking into account the complexity of our supply chain.

The economic situation of European countries makes it easy to use airline tickets as a

support to impose taxes. The comparative weakness of our power of influence with respect to that of banks for example urges countries to introduce taxes on air tickets which are both imaginative and varied, as the EU is not left wishing to introduce an aviation tax to fund the union budget on its own.

This only contributes to reducing competitiveness vis a vis airlines that are not subject to this pressure and conversely enjoy exemption from taxes or subsidies.

This leads me to my final point. It is in Europe's strategic interest to promote new approaches at international level both in the fight against CO2 emissions, rules on traffic rights and subsidies, on rules of ownership and control.

These are complex issues that require many years to reach international agreements.

This is why we are prepared to help define innovative positions so that Europe can show its leadership position with long-term benefits for its airlines as well as for its economy and its citizens.

Thank you for your attention.

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