



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 9.11.2007
COM(2007) 691 final

COMMUNICATION FROM THE COMMISSION

Developing a Common Aviation Area with Israel

1. INTRODUCTION

In its Communication “Developing the agenda for the Community’s external aviation policy”¹, the Commission highlighted the importance of creating a Common Aviation Area with its Eastern and Southern Neighbours. The final objective should be to bring together the EU and its partners along its southern and eastern borders, with the aim to share the same rules in relation to market operations. The Council of the European Union on 27 June 2005 supported this objective in its “Conclusions on developing the agenda for the Community’s external aviation policy” in which it welcomed the progress in developing a wider Common Aviation Area by 2010 incorporating EU neighbouring countries.

The improvement of EU aviation relations with other neighbours with the final objective to create a Common Aviation Area is an important step for the further development in economic terms of the European aviation industry. Destinations in neighbouring countries of the EU represent 19% of the international traffic beyond the EU, slightly less important than traffic to the markets in North America. The EU has already integrated the aviation markets of Switzerland, Norway and Iceland, and in June 2006 the Community and its Member States signed the European Common Aviation Agreement (ECAA) with the Western Balkans, followed by the signature of the first Euro-Mediterranean Aviation Agreement with Morocco in December 2006.

Israel is a key partner for the EU in the Middle-East and in the context of the European Neighbourhood Policy. EU relations with Israel are governed by the Euro-Mediterranean Partnership established through the EU-Israel Association Agreement and the regional dimension of the Barcelona Process. The Association Agreement highlights the objective to strengthen cooperation in the field of transport (Article 53), provides for regulatory cooperation between the parties, especially in the areas of aviation safety and security, and encourages technological and research cooperation in the transport sector including aviation.

Furthermore, in December 2004 both sides endorsed a joint EU-Israel ENP Action Plan to support Israel’s objective to further integrate into the European economic and social structures. The Action Plan entered into force on April 2005. The concrete priorities outlined in the Action Plan are an increased cooperation in the field of civil aviation, including air traffic management (involvement in the Single European Sky), safety and security issues, a mutual recognition agreement on airworthiness and exploring the possibilities for a comprehensive aviation agreement.

Israel, in its drive towards closer cooperation with the EU, has shown interest in the opening of negotiations on a comprehensive aviation agreement, and has shown its determination to reform the framework for international air transport jointly with the EU. An Israeli inter-ministerial committee was established to study the issue of deepening aviation relations with the EU, and in April 2007 adopted a recommendation for Israel to open without delay comprehensive aviation negotiations with the EU.

¹ COM(2005) 79 final, dated 11.3.2005

Regarding the legal framework, and as a consequence of the “Open Skies” judgements of the European Court of Justice on 5 November 2002, the bilateral agreements between Member States and Israel have to be amended since some of their provisions, in particular the provisions that do not authorise Community air carriers to fly to Israel unless they leave from their countries of origin, are not in line with Community law. The Commission has been given a “horizontal” mandate to negotiate with third countries such necessary corrections to bilateral agreements. The Commission’s use of the horizontal mandate since 2005 has proven efficient in rendering a very significant number of bilateral agreements compatible with Community law.

The European Commission has invited Israel to open horizontal negotiations with a view to resolving the legal issues raised by the European Court of Justice in the "Open Skies" cases and creating a solid basis for the further development of EU-Israel aviation relations. The Israeli side has indicated its preference to conduct horizontal negotiations in parallel with negotiations on a comprehensive aviation agreement. It is to be noted that a similar approach has been successfully followed in the course of the aviation negotiations with Morocco, where a horizontal agreement was initialled by the parties soon after the opening of comprehensive aviation negotiations.

With this Communication the Commission therefore recommends that the Council authorises the Commission to negotiate a comprehensive agreement on a Common Aviation Area with Israel combining market opening with a parallel process of regulatory co-operation and/or convergence notably in priority areas such as aviation safety, security, environmental protection and the application of state aid and competition rules aiming at ensuring a level playing field and fair and equal conditions for competition.

2. THE EXISTING FRAMEWORK

The EU is the largest trading partner of Israel, who is in turn one of the EU’s biggest trading partners in the Euromed area, with total trade amounting to almost € 23 billion in 2005. The EU is the leading source of imports for Israel, and its second most important destination for exports. Excluding diamonds, total trade with the EU represented 35% of Israel’s total trade. Under the Euro-Mediterranean Association Agreement, the EU and Israel have agreed to liberalize the trade in industrial products.

Israel was the first non-European country to be associated to the European Community’s Framework Programme for Research and Technical Development. Israel’s special status is the result of its high level of scientific and research capability and the dense network of longstanding relations in scientific and technical co-operation between Israel and the EU.

The EU and Israel have also initialled an agreement on Israel’s participation in Galileo, Europe’s satellite radio-navigation programme. This clearly demonstrates the commitment of Israel towards a stronger integration in the EU programmes and activities.

As regards cooperation in the transport sector, successful discussions with the EU for a Joint Israel-Palestinian Transport Office to assist practical aspects of joint transport sector planning have taken place.

As far as aviation is concerned, the EU and the Israeli markets are closely connected. Israel has bilateral air services agreements with most Member States which highlights the importance of aviation relations to this key neighbour of the European Union. The EU market is the most important one, accounting for 4.54 million of the total 8.59 million (or 54%) of international air passenger movements to and from Israel. Similarly, for the EU Israel is the most important aviation market in the Middle-East with a strong growth potential. Passenger movements between the EU and Israel, despite security concerns, grew at an average rate of 2.7% between 1995 and 2005. This figure is expected to further increase, in accordance to the average growth of 6.6% of the number of passengers travelling between Europe and the Middle East in the 2005-2009 period forecasted by IATA. The largest individual two-way markets are currently France (661,000 passengers), the UK (651,000), Germany (626,000), Italy (579,000), Spain (364,000) and the Netherlands (266,000).

The capacity provided in the total EU-Israel market is quite evenly split between Community and Israeli air carriers. This is presumably due in part to the provisions of the bilateral air services agreements between Member States and Israel, which generally restrict designation to one air carrier on each side, and differ capacity arrangements to the requirements of both air carriers. It seems that a significant part of the carriage of Israeli passengers via EU markets is 6th freedom traffic en route to the US.

Israel is also a growing tourism market for Europe. In 2004, 1.5 million tourists visited Israel, 89% of which (1.34 million) arrived by air. This represents an increase of 42% over 2003, but still only 56% of 2000 levels. Even this modest recovery would suggest a significant potential of rapid growth depending on the political situation. As most tourists arrive by air, growth in tourism will result in enhanced demand for air services. As regards outbound air traffic, the number of Israeli passengers travelling to other countries has exceeded substantially the number of foreign visitors to Israel since 2000.

The Israeli aviation sector

The airline market in Israel is characterised by the dominance of El Al Israeli Airlines. El Al is the only Israeli carrier operating scheduled services to/from Israel, though charter airlines Arkia, Israair and Sun d'Or operate services to short and medium-haul destinations. Sun d'Or is a wholly-owned subsidiary of El Al. For Israeli airlines, point-to-point service profiles have dominated.

For Community carriers who are global operators and can distribute traffic to a range of intercontinental destinations, Israel is an interesting 6th freedom market, as well as a meaningful origin and destination market. For smaller and/or newer carriers, notably the new class of low cost carriers, Israel offers selective point-to-point service opportunities.

Israel has bilateral air services agreements with 21 Member States as well as with a significant number of other international partners. Israel is a long-standing member of the International Organisation of Civil Aviation (ICAO) and is a signatory to other important multilateral aviation agreements. However, the Israeli aviation policy has remained careful and conservative, and so far Israel has been reluctant in the air transport field to liberalise historic agreements with Member States. The invitation by the Israeli Government to open Community level aviation negotiations shows a clear move towards exploring to opening up of air transport markets with the EU.

As regards regional integration of air transport markets, Israel has so far tried through bilateral efforts to selectively widen and intensify its relationship with neighbouring and regional states. Such efforts have been severely constrained by the difficult political issues of the region. The EU approach towards establishing a Common Aviation Area would provide Israel with new opportunities for regional cooperation, including regulatory harmonisation through achieving high Euro-Mediterranean common standards.

In the regulatory field, Israel takes its ICAO obligations very seriously and proactively supports consistency and quality in international aviation regulation. Israeli air transport has a solid safety performance record and its aviation security is probably the most stringent in the world. Its interest and performance in the area of environmental protection is a very positive example. Israel's airline employees enjoy good social protections and exhibit a high level of professionalism. Licensing of airlines is carried out in a stringent manner. The subject of continuing the exemption of air transport under the competition rules is now under active debate.

Israel applies high standards in the operation and regulation of its air transport, which provides a solid basis for regulatory convergence with the EU acquis on aviation through mutual recognition. EASA and Israel have already signed a working arrangement covering airworthiness certifications.

3. FURTHER STRENGTHENING THE RELATIONS WITH A KEY NEIGHBOUR

In May 2007, following the recommendations of the Israeli inter-ministerial committee, the Israeli Government formally proposed to the Commission to open comprehensive aviation negotiations.

Israel is indeed adopting a more liberal approach towards air services between Member States and Israel, and is granting better access to the Israeli market. Besides increased weekly frequencies, Israel also agreed in some cases to reciprocally increase the number of Community air carriers that are authorised to operate between the respective Member States and Israel. This shows Israel's strong commitment to engage in aviation negotiations with the Community that may result in the further integration of the markets.

4. BENEFITS AND ADDED VALUE OF A COMMUNITY APPROACH

The civil aviation sector (including infrastructure, operators and other industrial actors) is a significant component of the European economy. Air transport operators

alone account for about 0.6% of the EU's value-added and employ more than 400.000 people (0.4 % of the total number employed in the non-financial business economy)², while the whole sector employs about 3 million people throughout the EU. The creation of a single aviation market since the early 90s has significantly contributed to make the sector more dynamic and efficient and has created large economic and social benefits. Between 1992 and 2003, the number of intra-Community routes increased by more than 40%. The main Community carriers experienced a productivity rise of 87% between 1990 and 2002.³ Nevertheless, the full potential of the internal market is unlikely to be achieved until the Community acts as a single coordinated entity in its aviation relations with third countries wherever such co-ordinated efforts can create added value in the interest of the European aviation industry and users. Moreover, the experiences which the EU has gained in this respect are considered highly valuable by third countries. This is even more valid for Israel with which the EU would like to establish a privileged relationship.

The Member States and Israel have traditionally negotiated restrictive bilateral air services agreements with a reduced level of market opening and strict market conditions for operators. Most agreements still allow for single designation of an air carrier by each side which practically restricts market access to two carriers. Moreover, in many cases designation and frequencies are negotiated on a city-pair basis which further restricts market access. The current system of bilateral air services agreements between the Member States and Israel therefore distorts patterns of traffic and may disadvantage several Community air carriers as well as consumers in some Member States. A Community level aviation agreement would establish – at the highest possible level – a level playing field for all Community air carriers and allow passengers in all Member States to benefit from similar conditions and increased traffic between the EU and Israel.

There would be significant economic benefits from an EU-Israel Common Aviation Area. Market opening and the mutual recognition of aviation standards would benefit aviation markets thanks to their geographical position and the traditional close economic and trade links between the EU and Israel.

As a consequence of market opening, travel opportunities for EU and Israeli passengers would significantly improve. The number of direct connections between EU and Israel as well as the overall number of flights is expected to significantly increase trade and tourism flows between EU and Israel. An important share of the economic benefits is expected to be reaped by the European airline industry and the wider European economy. A Common Aviation Area would create substantial new market opportunities for air carriers in the EU that would like to start operations to Israel but do currently not have the necessary traffic rights. It could also facilitate the integration of Israeli carriers into existing alliances of Community air carriers thus allowing for the development of integrated products and better services to passengers and higher efficiency through economies of scale.

² EUROSTAT Statistics in focus, 37/2005, ISSN 1561-4840

³ Annex to the Communication from the Commission "Developing the agenda for the Community's external aviation policy " COM(2005) 79 final

Obviously, it will be of paramount importance to ensure that opening and integration of markets is undertaken in a balanced manner that takes into account other important policy objectives and mitigates potential adverse impacts. It is essential to ensure that the process of market opening is accompanied by a parallel process of regulatory co-operation and/or convergence with regard to safety, security, environmental, state aid and competition law aspects thereby ensuring a level playing field and fair competition based on equal opportunities. Open markets need a framework that ensures fair competition and high standards for safety and security. With regard to environmental issues, the agreement must be consistent with the Community's commitment to sustainable development. It is important that the agreement does not restrict the EU's ability to apply regulatory or economic instruments to mitigate unwanted side-effects of growth in air traffic, notably on the air quality and noise levels around airports and through the contribution to global climate change.

It is of political and economic interest to the EU to ensure the implementation of common standards compatible with European standards in its economic relations with the Mediterranean partners (see also Article 47 of the EU-Israel Association Agreement). This can only be done through a comprehensive agreement negotiated at Community level which provides for mutual recognition of aviation standards and procedures. The final aim of the agreement will be the integration of the Israeli aviation sector into a Common Aviation Area with the European Union and the harmonisation of legislation through mutual recognition in key areas of the EU aviation legislation.

Proposing a comprehensive mandate for the negotiations with Israel would demonstrate the EU's commitment to open markets, to seek regulatory convergence of safety and security standards and to the sustainable development to its neighbours. An EU-Israel aviation agreement could have wider economic implications for air transport between the EU and other neighbouring countries on the Southern Borders of the EU and could increase regional cooperation.

As this Communication has shown, Israel has declared its readiness to launch the integration into a Common Aviation Area with the EU. This will imply Israel's capacity to harmonise its aviation standards with those of the EU through mutual recognition, thereby establishing a solid legal framework for aviation relations.

5. CONCLUSIONS

The Commission therefore considers important to offer to Israel a comprehensive scope for strengthened co-operation in civil aviation. The agreement with Israel would establish an ambitious framework integrating wider aviation issues such as regulatory co-operation in the fields of aviation safety, security, air traffic management, technology and research as well as "doing-business" issues and industrial co-operation.

The civil aviation sector offers significant new opportunities for further strengthening transport sector co-operation and mutual benefits of Israel and the EU. Efforts should therefore now be made for air transport to become a key area of closer co-operation between the EU and Israel thus offering Israel a further example for

integration into European structures and markets. The agreement will be an important step towards the realisation of a Common Aviation Area between the European Union and its Mediterranean neighbours which is a key objective of EU external aviation policy, and an important element of EU external policy.

A Community level aviation agreement will be able to fulfil the Israeli aspirations to be better integrated into European aviation structures and to combine the benefits of market opening with cooperation in the regulatory, technical and industrial fields in order to achieve a level playing field for operators and advantages for consumers.

The substantial political and economic added value of an air transport agreement with Israel could – in the long term – encourage further countries in the region and help increasing regional cooperation in the Middle-East.

In the light of the above, the Commission proposes the negotiation and conclusion of a comprehensive open aviation agreement with Israel and invites the Council to authorise the Commission to enter into negotiations on such an agreement.

The Commission will work closely together with Member States and all relevant stakeholders in further developing and achieving the objectives set out in the proposed Council Decision.