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**COMMUNICATION FROM THE COMMISSION**

**Creation of a Common Aviation Area with Tunisia**

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#### 1. INTRODUCTION

1. In its Communication *Developing the agenda for the Community's external aviation policy*<sup>1</sup>, the Commission stressed the importance of creating a Common Aviation Area with the countries to the east and south of the European Union which are included in the Neighbourhood Policy.
2. The ultimate objective is to bring the EU and its partners along its eastern and southern borders together within a common market with harmonised operational rules. The Transport Council of 27 June 2005 reiterated this objective in its conclusions on the future development of the Community's external aviation policy and called for a Common Aviation Area involving the EU's neighbouring countries to be put in place by 2010.
3. The dynamics surrounding this Common Aviation Area have already led the European Union to integrate the Swiss, Norwegian, and Icelandic aviation markets, together with those of nine of the Western Balkan countries (June 2006), and lastly the Moroccan aviation market following the signing of the first Euro-Mediterranean agreement in December 2006. At the request of the Council, the Commission will also open corresponding negotiations with Jordan and Israel and continue its talks with the Ukraine. Strengthening ties between the European Union and its neighbours in the aviation sector is a key element for the development of the European aeronautical industry. Amounting to nearly 20% of international flights to destinations outside the Community, air links with the EU's neighbouring countries, which cover all segments of the market (leisure, family and friends, business) represent a number of flights comparable to those to North America. In addition to increasing the potential for growth in the aviation sector, the Common Aviation Area more generally represents an excellent catalyst for regional integration and economic development and is fully in line with the objectives of the Barcelona process and the action plan implemented within the framework of the European Neighbourhood Policy. The recent project 'Barcelona Process: Union for the Mediterranean' is also based on the same logic.
4. The aim to create a Common Aviation Area with the southern Mediterranean countries makes Tunisia an essential partner for the European Union. Furthermore, the Euro-Mediterranean partnership set up by the association agreement<sup>2</sup> emphasizes the need to strengthen cooperation in the transport sector, develop cooperation

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<sup>1</sup> COM(2005) 79 final, 11.3.2005

<sup>2</sup> The EU-Tunisia association agreement was signed in July 1995.

between the parties in terms of regulations and modernise airport infrastructures and air traffic management.

5. There is therefore an inherent consistency between the different actions undertaken by the European Union in respect of the Mediterranean countries and this Common Area project specific to the aviation sector. Moreover, this project is a response to an objective shared by both sides of the Mediterranean. Exchanges within the framework of the 'EUROMED Aviation' project set up by the European Union to strengthen, together with the southern Mediterranean countries, co-operation in the field of aviation, have also offered an opportunity for Tunisia to show its interest in opening negotiations with the European Community within the framework of an overall aviation agreement. Such a Community aviation agreement would indeed allow new opportunities to be offered to the whole aviation sector (carriers, airport infrastructure managers, providers of groundhandling services) and to passengers on both shores of the Mediterranean. Existing restrictions in bilateral agreements between the Member States of the European Union and Tunisia could be overcome: limitations regarding the weekly frequencies of services provided by carriers, the number of authorised carriers, airports which can be served and fares charged would be abolished, and a regulatory convergence process could simultaneously be developed.

## **2. DEVELOPING AVIATION RELATIONS WITH A PARTNER OF PRIMORDIAL IMPORTANCE**

6. The economic importance and scope of its aviation relations with the European Union make Tunisia an essential partner for the rapid implementation of the Common Aviation Area objective set by the Council in 2005.
7. The EU is Tunisia's main trading partner: 73% of Tunisian imports come from Europe, which in turn receives 31% of Tunisian exports. In 2006 the value of this trade accounted for nearly 16 billion euros, making Tunisia one of the EU's main trading partners among the southern Mediterranean countries.
8. Europe is the departure point for 82% of the tourists who travel to Tunisia, which are an important source of foreign currency for the country. The Tunisian tourist industry, for obvious geographical reasons, is strongly dependent on existing aviation links with Europe. The European and Tunisian aviation markets are also closely linked, as attested to by the 21 air service agreements concluded between Tunisia and the Member States of the European Union: on this basis nearly 8.5 million passengers were carried between Tunisia and Europe in 2007, an increase of more than 40% over 10 years. The most important individual markets in 2007 were France (3.5 million passengers carried), Germany (1.2 million passengers), Italy (1 million passengers), the United Kingdom (650 000 passengers), Belgium (450 000 passengers) and the Czech Republic (300 000 passengers).
9. In 2006, the total number of international passengers carried to Tunisia was 10.5 million, which illustrates the relative significance of Europe. Two thirds of Tunisia's total international traffic was operated by Tunisian carriers, this proportion being even higher in air links to Europe where, in key markets such as the Franco-Tunisian market, Tunisian carriers operate 70% of the services. The largest scheduled

Community carriers concentrate their flights on Tunis in an attempt to capture the 'high end' of the market, whilst providing the connections necessary to ensure that their 'hub' remains attractive. Other Community carriers also have slots in the tourist and 'friends and family' market, but it is still dominated at this stage by Tunisian airlines.

10. The main Tunisian carrier is Tunisair, which operates 37% of the international air transport from/to Tunisia, with 3.8 million passengers carried in 2006. Set up by the Tunisian Government, it currently holds 74% of the capital, with the rest floating. The Tunisair group directly and indirectly employs almost 8 000 people and its business covers all air transport job profiles, including maintenance and airport assistance. Faced with the challenge of modernising in an increasingly competitive international environment, the Tunisair group has carried out structural reforms which have led to the setting up of subsidiaries employing almost 4 000 people. The Tunisair group itself owns a fleet of thirty Boeing and Airbus aircraft. Twenty of these aircraft have no business class section, which underlines the significance of the airline's 'tourist' clients.
11. These tourist clients are the main target of the two other Tunisian airlines operating internationally, Nouvelair and Karthago, which are charter airlines set up on the initiative of the tourist industry (hotels, travel agencies).
12. Founded in 1989 by the leisure group 'Tunisian Travel Services (TTS)', Nouvelair is based in Monastir and serves 25 countries (120 airports), mainly in Europe. With its fleet of 13 Airbuses, Nouvelair carried almost 1.5 million passengers in 2006, i.e. 16% of the international air transport market in Tunisia. Karthago Airlines, which was set up in 2002 to introduce charter flights to and from Djerba, is owned by the Karthago group and uses chartered aircraft to meet the seasonal needs of the tour operators. This airline, which is unusual as it is listed on the stock exchange, accounts for 6% of the international aviation market in Tunisia. The similarity between their commercial models and the fact that they each depend on a different reference airport (Monastir and Djerba) have led Karthago airlines and Nouvelair to consider working in partnership or even merging. Such a consolidation of the Tunisian aviation market would be consistent with an aviation agreement with the European Community and would enable Tunisian carriers to better position themselves in a deregulated aviation market and to resist any resulting new competition. Indeed, the logical move towards liberalisation of the markets which would be initiated by such a Community agreement would mean that the Tunisian authorities would no longer be able to set the fares for the European airlines serving their country, nor to oppose the traditional restrictions relating to the ownership and control of a Community airline.
13. The commercial potential of a Common Aviation Area between Tunisia and Europe is therefore considerable for consumers, carriers and airports. Additionally, as the study for the 'Euromed Aviation'<sup>3</sup> project shows, the existing regulatory framework in Tunisia is sufficiently solid and developed to envisage a rapid harmonisation of legislation on the basis of Community standards, which is also one of the key

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<sup>3</sup> Mission report for the Euromed Aviation Project in Tunisia (MED No 2006/132-039).

objectives of this Common Area. The Tunisian aviation authorities have undertaken to carry out a reform based on the European model to separate the supervisory and auditing functions from the operational functions. Similarly, it has been observed that in the areas of aviation safety and air navigation services, standards are comparable to the best in Europe in terms of regulatory compliance with the standards and practices recommended by the ICAO, EASA regulations, and the Eurocontrol Safety Regulatory Requirements (ESARR). This process of regulatory convergence towards Community standards has, moreover, been encouraged and tracked by the 'Euromed Aviation' project, which put in place a technical assistance plan specific to Tunisia to meet the needs identified in the country.

### **3. BENEFITS AND ADDED VALUE OF A COMMUNITY APPROACH**

14. The civil aviation sector (including infrastructure, operators and other industrial sectors) is a significant component of the European economy. Air carriers alone represent around 0.6% of the European Union's added value and employ more than 400 000 people (0.4% of the total number of people employed in the non-financial market economy)<sup>4</sup>, whilst the sector as a whole employs around 3 million people in the European Union. The creation of a single aviation market since the early 1990s has significantly contributed to making the sector more dynamic and efficient and has created major economic and social benefits. Between 1992 and 2003, the number of intra-Community routes increased by more than 40%. The main Community carriers saw productivity rise by 87% between 1990 and 2003<sup>5</sup>. Tunisia can therefore only profit from its progressive integration into the common aviation market and thereby benefit from its experience of the European Union in this area. The extension of this common market, based on the liberalisation of traffic rights coupled with regulatory harmonisation, will also create added value for the European industry and its users.
15. At this stage, the Member States have in general terms negotiated with Tunisia restrictive air service agreements on the opening up of markets, but limiting the opportunities for carriers and passengers. Mechanisms involve the setting of the capacities of carriers which are also not always able to set their fares freely. Similarly, these bilateral agreements do not allow Community carriers to serve all airports in Tunisia from all European airports. The current system of bilateral air services agreements between EU Member States and Tunisia therefore distorts patterns of traffic and may disadvantage certain Community carriers as well as consumers in EU Member States.

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<sup>4</sup> Eurostat, Statistics in focus, 37/2005, ISBN 1561-4840.

<sup>5</sup> Annex to the Commission Communication *Developing the agenda for the Community's external aviation policy*, COM (2005) 79 final.

16. A global agreement with the European Community would remedy this situation and the resulting increase in the number of direct links between the EU and Tunisia<sup>6</sup> would significantly increase trade and tourist flows. Using the example of Morocco and the single European market, an increase in traffic of about 15-20% per year is envisaged for the first few years following the implementation of the agreement: in terms of volume, this would be an increase of about 1.5 million passengers. These forecasts, which assume that existing macroeconomic conditions and policies will continue, will undoubtedly need to be revised upwards in view of the very strong potential for growth of the Tunisian market.
17. It is expected that a large share of the economic benefits would be reaped by the European airline industry and the wider European economy. This could also allow Tunisian carriers to be integrated into existing commercial alliances alongside Community carriers and thereby allow integrated products and better passenger services to be developed.
18. This opening up of aviation markets must be accompanied by a parallel regulatory convergence process in certain key areas such as safety, security, the environment and regulations on State aid, thereby guaranteeing fair competition with the objective of applying high aviation standards on both sides of the Mediterranean. With regard to environmental issues, the agreement must be consistent with the Community's commitment to promote the sustainable development of air transport: it is therefore important that the agreement does not limit the European Union's capacity to use regulatory or economic instruments in order to alleviate the undesirable secondary effects of the growth in air traffic, in particular with regard to its contribution to climate change, air quality and noise pollution in the areas around airports. The relevant level for implementing this process of converging Tunisian legislation with that of Europe can only be the Community level. This will involve issuing a negotiating mandate to the European Commission to allow it to negotiate an overall aviation agreement with Tunisia, the final objective of which is the full integration of the Tunisian aviation market into a Common Aviation Area with the European Union.
19. The establishment of a Common Aviation Area with Tunisia will also enable the development of a regional integration process encompassing not only aviation ties with the European Union, but also aviation between the southern Mediterranean countries themselves. It is this objective which has led the European Community to insert into the aviation agreement with Morocco a geographical extension clause anticipating the participation of a country such as Tunisia in this Common Aviation Area: the liberalisation of aviation links between the EU and Morocco on the one hand, and the EU and Tunisia on the other hand, could therefore potentially lead to the opening up of aviation markets between Tunisia and Morocco. Nevertheless, even if the underlying objective is identical and they interact with each other, it seems preferable, at this stage, to negotiate these aviation agreements separately with each of the southern Mediterranean countries, in particular in order to protect the

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<sup>6</sup> Following the Euro-Mediterranean agreement signed with Morocco in December 2006, traffic rose by 18% to a figure of nearly 8 million passengers carried between the EU and Morocco in 2007.

objective of the European Neighbourhood Policy and to respond to these countries' desire for 'privileged bilateral relations' with the European Union which also allows greater flexibility and differentiated approaches.

20. Giving the Commission a mandate to negotiate with Tunisia would also show the European Union's determination to achieve the political objectives set by the Council in 2005 and to open up its aviation market, subject to parallel regulatory convergence, with all its neighbouring countries. Putting in place a Common Aviation Area with Tunisia would therefore strengthen regional co-operation and the integration of the aviation markets of all southern Mediterranean countries.

#### **4. CONCLUSIONS**

21. The Commission therefore considers it important to offer Tunisia scope for strengthened co-operation in civil aviation. A global aviation agreement with this country would both cover the traditional commercial aspects of air service agreements and also establish an ambitious framework for developing cooperation at the regulatory level in terms of safety, security and traffic management and facilitate industrial cooperation with these countries.
22. The civil aviation sector offers significant opportunities to strengthen co-operation in the transport sector in general, with the prospect of positive benefits for both Tunisia and the European Union. Efforts must therefore be made to ensure that air transport becomes a key feature of cooperation with Tunisia and provides it with a new example of integration into Community structures and European markets.
23. This agreement represents an important step towards the realisation of a Common Aviation Area between the European Union and its Mediterranean cousins, a key objective of Community policy on external relations in the field of air transport and, more generally, a significant element in the EU's external policy. This agreement with Tunisia in the area of air transport would bring considerable added value both politically and economically and could serve as a model for similar agreements with the other southern Mediterranean countries and therefore contribute to the regional integration of these countries.
24. In the light of the above, the Commission proposes that the Council give it a mandate to start negotiations with a view to concluding a global agreement allowing the creation of a Common Aviation Area with Tunisia. The Commission will work closely together with Member States and all relevant stakeholders in further developing and achieving the objectives set out in the proposal for a Council Decision.