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COMMUNICATION FROM THE COMMISSION

Developing a Common Aviation Area with Georgia

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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 the EU's 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 of sharing the same rules in relation to market operations. The Council of the European Union expressed support for this objective on 27 June 2005 in its “Conclusions on developing the agenda for the Community’s external aviation policy”, in which it welcomed the progress towards developing a wider Common Aviation Area by 2010 incorporating countries neighbouring the EU.

The improvement of aviation relations with EU neighbours, with the final objective being to create a Common Aviation Area, is an important step for the further development of the European aviation industry in economic terms. Destinations in neighbouring countries 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 European 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.

Georgia was one of the first countries to sign a horizontal air services agreement with the European Community, with the aim of bringing existing bilateral air transport agreements with Member States into conformity with Community law. The agreement was signed on 3 May 2006 and entered into force in March 2008.

Georgia, in its drive to establish closer cooperation with the EU, has shown interest in the opening of negotiations on a comprehensive aviation agreement, and has also shown its determination to reform the framework for international air transport jointly with the EU. In May 2008, the Georgian Minister of Economic Development expressed in a letter to the European Commission Georgia's readiness both to further expand aviation relations with the European Union and to start negotiations for a Common Aviation Area Agreement with the EU.

This shows Georgia's strong commitment to engage in aviation negotiations with the Community that may result in further integration of the markets.

The current proposal follows the recommendation of the Extraordinary European Council held in Brussels on 1 September 2008 to step up relations with Georgia and, inter alia, to create a deep and comprehensive Free Trade Area once the necessary conditions for this have been met. In this context, the opening up of aviation relations will play a key role in connecting more closely the economies of the EU and Georgia.

¹ COM (2005) 79 final, dated 11.3.2005

With this Communication the Commission therefore recommends that the Council authorise the Commission to negotiate a comprehensive agreement on a Common Aviation Area with Georgia combining market opening with a parallel process of regulatory cooperation 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

EU-Georgia relations overall are regulated by the Partnership and Cooperation Agreement (PCA) which entered into force on 1 July 1999. Bilateral relations have further intensified since the Georgian "rose revolution" in 2003 and the endorsement of the European Neighbourhood Action Plan in November 2006. This plan aims at deepening the economic integration and political cooperation of Georgia with the EU. Further cooperation in the field of aviation is mentioned as one of the concrete actions to support this political objective in the EU country strategy paper 2007-2013 for Georgia.

The EU is Georgia's main trade partner, accounting for 31% of Georgia's total external trade, 34% of its exports and 31% of its imports². EU-Georgia trade has been growing over the last three years, but similarly to Georgia's trade with the world in general, it remains non-diversified particularly as regards Georgian exports to the EU. Georgia's main export products are mineral oils, ores, metal scrap and agricultural products, whereas the EU exports to Georgia machinery and transport equipment in particular. In 2007, total turnover of EU-Georgia bilateral trade was 1.6 billion Euros. The Georgian economy has experienced strong growth in the last two years (more than 10% annually). Although the war in August 2008 and the financial crisis may lead to a slowdown of the economy, there is a likelihood of continued growth in the future. Major economic activities in Georgia include mining of manganese and copper, small industry (drinks, metals, machinery) and agricultural products. In particular the services sector has shown strong growth in the recent past, from 54% of the total economy value added in 2003 to 65% in 2007. Household spending in the CIS countries is growing faster than in China or India with around 10% growth per annum.³

Georgia was a major tourist destination in the former Soviet Union. Although the tourist industry is still underdeveloped, Georgia clearly has the potential to attract European tourists to the Black Sea coast or its world heritage sites and monuments. The relevant income growth in Georgia over the past years has led to an upsurge in outbound tourism of more than 12% p.a., in particular to European destinations.

The Georgian aviation sector

The airline market in Georgia is characterised by the dominance of the local Air Zena – Georgian Airways, which operates to a number of capitals in the EU. In 2007, 590 000 passengers travelled on scheduled flights from Georgian airports, 36% of

² Source: European Commission: http://www.delgeo.ec.europa.eu/en/trade/enpi_csp_georgia_en1.pdf

³ Airbus Global Market Forecast 2007-2026, p.101

whom were transported by Georgian airlines and 64% by foreign airlines. The strongest foreign airline in Georgia is Turkish Airlines.

Since 2004, the Georgian government has been following a very open policy which has led to the significant traffic increase described below. Georgia has opened up restrictions in several bilateral agreements with EU Member States. In 2007, Georgia signed an Open Skies agreement with the US. This open policy will further increase air traffic between Georgia and third countries. From 1999 to 2007, overall traffic growth per annum in Georgia totalled 7.4%. From 2007 to 2008, the number of flight frequencies from and to Georgia increased from 112 to 148, and the number of foreign airlines from 13 to 19. Due to the deteriorating political relations with the Russian Federation, there is a clear shift of aviation connections from Russia to Turkey, Ukraine and EU countries. Thus, in 2008, Istanbul replaced Moscow-Domodedovo as the main international destination from Georgia's capital Tbilisi, with more than 7 000 seats per month.

Georgia's main airport is Tbilisi International. The country's aviation infrastructure was improved significantly with the inauguration of the new Tbilisi International Airport terminal in February 2007 and the recent upgrade of the airports in Batumi and Kutaisi. In particular, the airport in Batumi could benefit from its Black Sea location and proximity to the Turkish border.

The transport administration in Georgia has recently been restructured. While the Transport Department in the Ministry of Economic Development of Georgia is responsible for the development of aviation policy, oversight and control activities are carried out by the United Transport Administration in the same Ministry. Within the United Transport Administration, the National Civil Aviation Authority is responsible for the operational and technical oversight of air operators, service providers and airports. In the field of air navigation, "Sakaeronavigatisa" is the independent Air Traffic Management service provider in Georgia.

EU-Georgia aviation relations

The EU and Georgian markets are closely connected. Georgia is a full member of ECAC and, since 2006, candidate member of JAA (Joint Aviation Authorities). It has applied for membership in Eurocontrol. Georgia has bilateral air services agreements with 14 Member States, which highlights the importance of aviation relations to this neighbour of the European Union. Main European airlines present in the Georgian market are Lufthansa, Czech Airlines, Air Baltic, Austrian Airlines and British Mediterranean.

Passenger and cargo traffic between the EU and Georgia is still at a relatively low level (210 000 passengers in 2007), but has been increasing significantly since 2004 with growth of around 14 percentage points per year. Connections with EU Member States have increased markedly. This reflects also the shift in the orientation of the Georgian aviation market from the Russian Federation to the EU, Turkey and Ukraine in particular following the deterioration of political relations between Russia and Georgia. The most important bilateral markets of Georgia in the EU are Germany (39% of the EU-Georgia market), Austria (17%), Latvia (14%) and the Netherlands (9%). Connecting flights to the EU and to the transatlantic market are

clearly demand drivers. A single dedicated freight carrier operates scheduled freight services between Georgia and the EU.

Industry forecasts predict an average annual growth rate of 7.2% for traffic flows between the EU and CIS countries from 2007 to 2016, which is well above growth rates in the EU internal market.

As to technical cooperation, the EU has launched in the framework of the Tacis / Traceca programme two important regional aviation projects from which Georgia is benefiting, one in the field of ATM and the second in the field of safety training.

3. FURTHER STRENGTHENING RELATIONS WITH AN IMPORTANT NEIGHBOUR - 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)⁴, while the whole sector employs some three million people throughout the EU. The creation of a single aviation market, in progress since the early 1990s, has significantly contributed to making the sector more dynamic and efficient and has produced 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 2002⁵. 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 an approach can create added value in the interests 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 Georgia, with which the EU would like to establish a privileged relationship.

The Member States and Georgia have traditionally negotiated bilateral air services agreements with a reduced level of market opening and strict market conditions for operators. Although some agreements have started to become more open, others still allow only for single designation of an air carrier by each side, which practically restricts market access to two carriers. The current system of bilateral air services agreements between the Member States and Georgia may disadvantage a number of 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 would allow passengers in all Member States to benefit from similar conditions and increased traffic between the EU and Georgia. It would help Georgia to raise its safety and security standards and thus facilitate the use of air services for consumers and industry in both Georgia and the EU. In the area of safety in particular, efforts will be

⁴ EUROSTAT Statistics in focus, 37/2005, ISSN 1561-4840

⁵ Annex to the Communication from the Commission "Developing the agenda for the Community's external aviation policy" COM (2005) 79 final

needed to ensure that the aviation authorities are fully able to perform their oversight functions. Improving the administrative capacity in Georgia to implement EU standards in the fields of competition, market regulation, safety, security and environment will be essential in order to make the Common Aviation Area with Georgia a success. During the negotiations, specific attention should therefore be paid to regulatory cooperation and assistance in order to strengthen the Georgian aviation sector. Open markets need a framework that ensures fair competition and high standards of safety and security, thereby ensuring a level playing field and fair competition based on equal opportunities.

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, particularly as regards air quality and noise levels around airports and through the contribution to global climate change.

Although it is too early to draw final conclusions, recent experience with EU aviation agreements has shown that the negotiation of a Common Aviation Area agreement or Euro-Mediterranean agreements has a large and significant effect on the growth of scheduled air traffic between the EU and the partner country. In the case of Morocco, scheduled traffic has grown by more than 25%, while absolute growth in passenger air traffic has totalled at least 10% p.a. since the signature of the agreement.

Significant economic benefits from an EU-Georgia Common Aviation Area can therefore be expected, although they may be lower than in the case of Morocco due to geographical factors and because tourism and other relations are less developed. It is nevertheless clear that market opening and the mutual recognition of aviation standards would benefit aviation markets thanks to the traditional close economic and trade links between the EU and Georgia.

As a consequence of market opening, travel opportunities for EU and Georgian citizens would significantly improve. The number of direct connections between the EU and Georgia as well as the overall number of flights is expected to increase significantly, thus boosting trade and tourism flows between the EU and Georgia. A sizeable 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 Georgia but do not currently have the necessary traffic rights. It could also facilitate the integration of Georgian 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. Provided that the political situation remains stable and Georgia continues its overall economic and political reforms, the very first year of an EU-Georgia Common Aviation Area is expected to result in an additional 25 000 passengers and consumer benefits of at least 9 million Euro.

It is of political and economic interest to the EU to ensure the implementation of common standards compatible with European standards in its economic and transport relations with neighbouring countries, in line with Article 58 of the EU-Georgia Partnership and Cooperation Agreement of 1999. This can best be done through a

comprehensive agreement negotiated at Community level providing for mutual recognition of aviation standards and procedures. The final aim of the agreement will be the integration of the Georgian aviation sector into a Common Aviation Area with the European Union and the harmonisation of legislation through mutual recognition in key areas of EU aviation legislation to the extent possible.

Proposing a comprehensive mandate for the negotiations with Georgia would demonstrate the EU's commitment to open markets, to seeking regulatory convergence of safety and security standards and to the sustainable development of its neighbours. An EU-Georgia aviation agreement could have wider economic implications for air transport between the EU and other neighbouring countries on its eastern borders and could increase regional cooperation. It would also send a clear political signal to Georgia and the Caucasus countries that the EU is ready to integrate them as far as possible into its internal market. As mentioned above, Georgia has declared its readiness to launch the process of integration into a Common Aviation Area with the EU. This will be dependent on Georgia'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 it important to offer Georgia comprehensive scope for strengthened cooperation in civil aviation. The agreement with Georgia would establish an ambitious framework integrating wider aviation issues such as regulatory cooperation in the fields of aviation safety, security, air traffic management, technology and research as well as "doing-business" issues and industrial cooperation.

The civil aviation sector offers significant new opportunities for further strengthening transport sector cooperation to the mutual benefit of Georgia and the EU. Steps should therefore now be taken to ensure that air transport becomes a key area of closer cooperation between the EU and Georgia, thus offering Georgia a further means of 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 eastern neighbours, which is a key objective of EU external aviation policy and an important element of EU external policy in general.

A Community-level aviation agreement will be able to fulfil Georgian 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 Georgia could – in the long term – encourage further countries in the region and help increase regional cooperation in the Caucasus. In the light of the above, the Commission proposes the negotiation and conclusion of a comprehensive open aviation agreement with Georgia and invites the Council to authorise the Commission to enter into negotiations on such an agreement.

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