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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION**

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

## 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 Developing the agenda for 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 the Western Balkan countries (June 2006), and finally 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 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 Algeria 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 between the parties in terms of regulations and modernise airport infrastructures and air traffic management. This objective set in the association agreement also comes up in a number of forms in a programme to assist the Algerian transport sector (20 million euros), and in particular in a Chapter dedicated to the civil aviation sector. The aim of this Programme is to improve the legislative and institutional framework of the aviation sector, and it includes measures to assist the Algerian government with drawing up the civil aviation masterplan, updating the Civil Aviation Code, creating an independent regulatory authority and modernising airports.

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

<sup>2</sup> The EU-Algeria association agreement was signed in April 2002.

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, cooperation in the field of aviation, have also offered an opportunity for Algeria to show its interest in opening negotiations with the European Community within the framework of a comprehensive 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 ground handling services) and to passengers on both shores of the Mediterranean. Existing restrictions in bilateral agreements between the Member States of the European Union and Algeria 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 AIR LINKS WITH A PARTNER OF PRIMORDIAL IMPORTANCE**

6. The economic importance and scope of its air links with the European Union make Algeria an essential partner for the rapid implementation of the Common Aviation Area objective set by the Council in 2005.
7. According to a ranking based on GDP carried out by the World Bank in 2006, Algeria is the second economic power in the African continent with a GDP of 138 billion dollars, behind South Africa and in front of Nigeria. Algeria is therefore a key country whose principal trading partner is the European Union. Trade between the two parties amounted to nearly 34 billion euros in 2006, and is increasing (by 8% from 2000 to 2005).
8. Such significant levels of trade are due to historical, cultural and even family ties which explain the essential role played by air links. Seventeen bilateral aviation agreements are also in force between the Member States of the European Union and Algeria, and they provided the necessary legal basis for carrying 2.9 million passengers between Europe and Algeria in 2007, 2.4 million of which were accounted for by the Franco-Algerian market alone. The other main aviation markets in Europe are Spain (150 000 passengers transported from/to Algeria), Italy (125 000 passengers) and the United Kingdom (120 000 passengers).
9. The relative weakness of the Algerian market compared to its neighbours in the Maghreb (8 million passengers were carried between Morocco and Europe in 2007 and 8.5 million to Tunisia) is explained by tensions in Algerian society throughout the 1990s and the resulting lack of development of tourism. The potential of the Algerian market could not be more evident, and a comprehensive aviation agreement liberalising air services will help to increase links with Europe.
10. It should also be noted that the proportion of Community carriers maintaining air links with Algeria has grown continuously since 2002, and has now caught up with Air Algerie which is the main airline flying to Europe. Air Algerie, in which the

State is the major shareholder, has made a commitment in recent years to carrying out a significant programme of reform and modernisation in order to meet the challenge of renewed competition from European airlines since the year 2000. In particular, it undertook a large-scale renewal of its fleet between 2000 and 2004 (it owns 30 of its aircraft) and has taken on board the principles of modern-day airline management, including sub-contracting certain of its activities (ground handling services, maintenance), launching passenger loyalty products, and adopting yield management. As a result in 2007 it carried three million passengers to 38 destinations in Europe, Africa and the Middle East.

11. There is a second Algerian airline created at the initiative of the oil industry which has since been taken over by the State: Tassili airlines. It focuses its activity on 'business-class' customers and is planning to extend its fleet in order to be able to compete with Air Algerie and Community carriers.
12. The dynamics of the Algerian air transport market, the marked willingness of Algerian carriers to equip themselves with the necessary tools to deal with progressive opening up to competition, and the opportunities afforded to Community carriers, are a solid basis on which to begin negotiations to reach a comprehensive aviation agreement with the European Community.
13. From a regulatory point of view, although no divergence from ICAO recommendations has been observed, Algeria is still a long way from meeting Community standards, in particular concerning the Single Sky regulations and the requirements of the European Aviation Safety Agency. The rapid implementation of the Common Aviation Area with Algeria will require additional support and cooperation measures from Europe in order to provide assistance with developing Algerian regulatory measures and re-organising certain of its structures. In terms of security, the Algerian authorities have implemented a proactive policy to secure air transport which allows the implementation of a legal framework compliant with international and European regulations, and the audits carried out by the ICAO in 2004 and 2006 validate the operational security measures at Algiers airport<sup>3</sup>. Furthermore, this process of regulatory convergence towards Community standards has been encouraged and tracked by the Support programme for the transport sector and the 'Euromed Aviation' project which put in place technical assistance plans specific to Algeria in order 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 three 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. From 1992 to 2003, the number of

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

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

intra-Community routes increased by more than 40%. The main Community carriers experienced a productivity rise of 87% from 1990 to 2003<sup>5</sup>. Algeria can therefore only profit from its progressive integration into the common aviation market and hence from the European Union's experience in the field. 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 Algeria 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 Algeria from all European airports. The current system of bilateral air services agreements between EU Member States and Algeria therefore distorts patterns of traffic and may disadvantage certain Community carriers as well as consumers in EU Member States.
16. A comprehensive agreement with the European Community would remedy this situation and the resulting increase in the number of direct links between the EU and Algeria<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 500 000 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 Algerian 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 Algerian 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 Algerian 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 a

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

<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.

comprehensive aviation agreement with Algeria, the final objective of which is the full integration of the Algerian aviation market into a Common Aviation Area with the European Union.

19. The establishment of a Common Aviation Area with Algeria will also enable the development of a regional integration process encompassing not only air links with the European Union, but also aviation links 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 Algeria in this Common Aviation Area: the liberalisation of air links between the EU and Morocco on the one hand, and the EU and Algeria on the other hand, could therefore potentially lead to the opening up of aviation markets between Algeria 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 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 Algeria 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 Algeria would therefore strengthen regional cooperation and the integration of the aviation markets of all southern Mediterranean countries.

## 5. CONCLUSIONS

21. The Commission therefore considers it important to offer Algeria scope for strengthened cooperation in civil aviation. A comprehensive 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 cooperation in the transport sector in general, with the prospect of positive benefits for both Algeria and the European Union. Efforts must therefore be made to ensure that air transport becomes a key feature of cooperation with Algeria and provides it with a new example of integration into Community structures and European markets.
23. This agreement would represent an important step towards the realisation of a Common Aviation Area between the European Union and its Mediterranean neighbours, 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 Algeria 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 this country.

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 comprehensive agreement allowing the creation of a Common Aviation Area with Algeria. 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.