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COMMUNICATION FROM THE COMMISSION

Developing a Common Aviation Area with the Republic of Moldova

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1. INTRODUCTION

In its 2005 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 ultimate objective of such a Common Aviation Area is to create a large and open aviation market that is based on common rules. In June 2005, the Council of the European Union supported this objective and welcomed the progress made by incorporating EU neighbouring countries into such a framework.[2]

The Commission analysed the implementation of this process in its 2008 Communication "Common aviation area with the Neighbouring Countries by 2010: progress report".[3] It concluded that this process has shown positive results and should be accelerated.

The enlargement of the European Union of 2004 and 2007 has further reinforced the interdependence between the EU and its Eastern and Southern neighbours. In June 2006, the EU and its Member States signed the European Common Aviation Area agreement (ECAA) with the Western Balkan countries. This was followed by the signature of the first Euro-Mediterranean Aviation Agreement with Morocco in December 2006. In December 2010, Common Aviation Area agreements were signed with Georgia and Jordan and negotiations are still ongoing with Ukraine, Lebanon, Tunisia and Israel.

The creation of a wider Common Aviation Area creates benefits in various respects. It supports the

– Implementation of the European Neighbourhood Policy by facilitating the development of an integrated aviation market and the creation of better transport links between all countries involved;

– Economic development of countries that have a perspective to become a member of the European Union;

– Promotion of high-level European aviation standards and thereby helps to secure high levels of aviation safety and security across the wider region;

– Institutional cooperation between the responsible authorities such as on aviation safety;

[1] COM (2005) 79 final, 11 March 2005

[2] Council of the European Union from 27 June 2005: "Conclusions on developing the agenda for the Community's external aviation policy"

[3] COM (2008) 596 final, 1 October 2008

– Future development of the overall European aviation industry by providing a coherent regulatory framework for an enlarged market place.

This Communication addresses the specific issue of aviation relations between the EU and the Republic of Moldova (hereafter Moldova). Given its geographical location, good air transport connections between Moldova and the EU are crucial for the country's economic development.

In April 2010, the Moldovan government expressed its wish to start negotiating a Common Aviation Area agreement between the EU and Moldova. Following this request, the Commission services assessed the current situation of the Moldovan air transport sector and its oversight structures. In addition, an economic analysis of the possible impact of concluding such an agreement was undertaken.

Based on this work which is summarised in this Communication, the Commission recommends the Council to authorise the Commission to negotiate a comprehensive Common Aviation Area Agreement with Moldova. Following the logic of the agreements between the EU and other neighbouring countries, this should be based on a combination of gradual market opening with a parallel process of regulatory cooperation and gradual harmonisation. Priority areas should be market opening, freedom of establishment, equal conditions of competition and common rules in the areas of aviation safety, security, air traffic management, social conditions and environmental protection.

2. EU-MOLDOVA: POLITICAL RELATIONS

Over the last decade, the EU and Moldova have established a close relationship:

– The EU–Moldova Partnership and Cooperation Agreement (PCA) was signed in 1994 and entered into force in 1998.[4] It covers a broad range of issues including trade, economic cooperation and law approximation. According to the provisions on law approximation (Article 50 PCA), Moldova shall endeavour to ensure that its legislation (including in the transport sector) will gradually be made compatible with that of the EU. The transport area and the need for Moldova to restructure and modernise its transport systems to strengthen EU-Moldova cooperation is particularly highlighted in Article 62 of the PCA. The need to cooperate on modernising airports and air traffic management and to promote trans-European inter-connections is particularly highlighted. Negotiations on a future EU–Moldova Association Agreement, which is foreseen to replace the PCA, were launched in January 2010. The aim of this Agreement is to further deepen political association and economic integration between the EU and Moldova. The integration objective will be pursued, among others, in the transport area.

– In parallel to this process, the European Neighbourhood Policy (ENP) has been developed since 2004. It aims at strengthening the prosperity, stability and security of the EU's neighbouring countries and at avoiding the emergence of new dividing lines with the enlarged EU. This policy is implemented through

[4] OJ L 181/1998, p. 3, 24/06/1998

European Neighbourhood Action Plans (ENAPs) which are agreed between the EU and each partner country individually. The EU-Moldova ENAP was adopted in 2005 and since then the Commission has each year reviewed the progress made. ENAP provisions on transport include the development of the aviation sector and the request to better integrate Moldova into the European air transport market. The ENAP lists the measures that should be implemented in the aviation sector (in particular closer cooperation in the areas of aviation safety, security and air traffic management). The concept of a more ambitious partnership between the European Union and the partner countries is also reflected in the Joint Declaration of the Prague Eastern Partnership Summit, signed on 7 May 2009, in Prague.

– In 2007, Moldova presented a "National Development Strategy (NDS) 2008-2011" that includes a clear commitment of Moldova to incorporate the *acquis communautaire* into its national legislation and to ensure its enforcement. As regards air transport, the NDS calls for enhancing safety, airport capacity and the quality of services which are offered to passengers. Besides, Moldova adopted a "Civil Aviation Development Strategy for 2007-2012"[5] that provides a framework for the implementation of related measures in all major aviation areas. Besides, the Moldovan "Government Programme 2009 to 2013" includes specific priorities as regards aviation such as the creation of a liberalised air transport market with the view to attract low-cost airlines.

– More specifically on aviation, Moldova is actively participating in various pan-European aviation structures. It has been member of the European Civil Aviation Conference (ECAC) since 1996 and of Eurocontrol since 2000. In aviation safety, it participates in the SAFA[6] programme on the basis of working arrangement with the European Aviation Safety Agency (EASA) signed in 2006. Another working arrangement between EASA and Civil Aviation Authority of Moldova in the framework of the transition of the Joint Aviation Authorities was signed in 2009. The "Horizontal Agreement" between the EU and Moldova which brings the bilateral agreements between the Member States and Moldova in line with EU law was signed in 2006.[7]

As regards the progress achieved, the Commission issued progress reports on the implementation of PCA and ENAP. The 2010 report[8] (on implementation of the PCA and ENAP in 2009) already indicated that Moldova is a potential candidate to become part of the Common Aviation Area and acknowledged that the signature of a cooperation agreement with EASA was an important step in integrating Moldova into the European aviation safety system.

5 Government Decision No. 987 on the approval of the Civil Aviation Strategy for 2007-2012 of 30 August 2007.

6 Safety Assessment of Foreign Aircraft

7 OJ L 126/2006, p.24, 13/05/2006

8 http://ec.europa.eu/world/enp/pdf/progress2010/sec10_523_en.pdf

3. EU-MOLDOVA: ECONOMIC RELATIONS AND ITS IMPACT ON AVIATION

Given the distance to major European cities, its location as a landlocked country and the relatively poor land transport infrastructure, aviation is the single most important mode of transport to link Moldova to most EU Member States.

Economic relations between Moldova and the EU have significantly developed over the last decade. According to the Moldovan National Statistical Bureau, exports of goods to the EU grew by 6% from January to October 2010 (compared to the same period in 2009) to €439 million while imports to Moldova from the EU increased by 19.1%, to €1 billion. This brings Moldova's overall trade deficit with the EU to €561 million (an increase of 30.9%). The EU is Moldova's most important trading partner and its importance has increased since Romania joined the EU in 2007. In 2008, the EU granted additional Autonomous Trade Preferences for Moldova[9] and this has had positive effects on trade between the EU and Moldova. The future EU-Moldova Association Agreement contains the aim to establish a Deep and Comprehensive Free Trade Area, if and when Moldova would be ready to implement it and to sustain its effects. It is expected that this would give further impetus to trade relations between the EU and Moldova.

Moldova's relatively small population of 3.6 Million people and its low GDP per capita make it a relatively small (but growing) aviation market.[10]

Air traffic between Moldova and the EU comprises mainly passenger traffic (the volume of cargo carried between the EU and Moldova is relatively low). International air transport to and from Moldova is focused on Chisinau International Airport. The airport's transport figures have grown from about 200.000 passengers in 2000 to more than 900.000 passengers in 2010 which represents an annual growth rate of about 14%.[11] Chisinau International Airport has recently launched an important investment programme to increase its capacity and to modernise its overall infrastructure. The EU and the EBRD supported this programme in the framework of the Neighbourhood Investment Facility. In 2010, it was the first airport of the Commonwealth of Independent Countries (CIS) that received the Airport Carbon Accreditation in recognition of its efforts to reduce CO_2 emissions.

Traffic to the EU accounts for about two thirds of departing passengers from Chisinau. EU-Moldova passenger traffic is concentrated on links with a limited number of EU Member States. In 2009, the top five markets (Italy – 34%, Romania – 18%, Germany – 13%, Hungary – 9% and Austria – 8%) counted for more than 80% of total EU-Moldova passenger traffic. This shows Moldova's close economic relations with Romania and Italy.

The city pair with the highest passenger volume is Chisinau-Timisoara (Romania) with about 40,000 passengers, followed by Chisinau-Frankfurt with more than 32,000 passengers and Chisinau-Rome with about 22,000 passengers in 2009.

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9 Regulation (EC) No 55/2008, OJ L 20, p.1, 24/1/2008

10 According to IMF estimates, Moldova has a GDP per capita of €1,160 (in 2010).

11 Departing passengers from Chisinau. All transport figures stem from a study that was contracted by the Commission: Steer Davies Gleave: Study on the economic benefit of a common aviation area agreement between the EU and the Republic of Moldova. London, January 2011

Outside the EU, Chisinau-Moscow is the city pair with the highest passenger demand with almost 48,000 passengers, followed by Chisinau-Istanbul with about 41,000 passengers.

Moldova has negotiated air service agreements (ASAs) with about twenty countries out of which sixteen are EU Member States (Austria, Bulgaria, Cyprus, Czech Republic, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Romania and the UK). The ASAs with EU Member States are typically rather restrictive (e.g. as regards the approval of routes, frequencies, aircraft capacities or schedules). Most agreements only allow for single designation of one air carrier by each side. The current system of bilateral ASAs between the EU Member States and Moldova therefore distorts patterns of traffic with negative effects on airlines and consumers.

It is, however, important to note that in July 2010 only six EU carriers served the Moldovan market: airBaltic from Riga (Latvia), Austrian Airlines from Vienna (Austria), Carpatair from Timisoara and Tarom from Bucharest (Romania), Lufthansa from Munich (Germany) as well as Meridiana from Milan and Verona (Italy). The market share of these EU airlines on flights to Moldova was 37%. Moldovan carriers account for more than 60% of the EU-Moldova aviation market.

4. CIVIL AVIATION SECTOR IN MOLDOVA

There are two Moldovan airlines that operate routes from/to the EU: the national flag carrier Air Moldova and privately owned Moldovan Airlines:

– Air Moldova operates a relatively modern fleet to EU destinations (three Airbus A320 large civil aircraft and two Embraer 190 regional aircraft). As of January 2010, Air Moldova flew to a total of 13 destinations, 10 of them located in EU Member States (Austria, Bulgaria, Cyprus, the Czech Republic, France, Germany, Greece, Italy, Romania, and Spain).

– Moldovan Airlines is a relatively small company and operates two regional aircraft on routes to Hungary and Romania (Timisoara). The airline cooperates with its Romanian sister company, Carpatair, which has a hub at Timisoara.

Besides, there are other Moldovan carriers that operate mainly CIS-designed aircraft to other destinations than the EU. (Air Moldova also operates such aircraft but mainly to non-EU destinations.)

For the time being, the most important gateways to the international air transport network for passengers from Moldova are Frankfurt (through Air Moldova), Munich (through Lufthansa) and Vienna (through Air Moldova and Austrian Airlines).

Air fares from Chisinau to EU destinations (and vice-versa) are relatively high. This might be due to the rather restrictive ASAs and the fact that Chisinau is not served by low cost carriers. There is evidence that therefore some Moldovan air transport demand is diverted to airports in the neighbouring countries Romania and Ukraine.

Air Navigation Services, including meteorological services and aeronautical information in the Moldovan airspace are provided by the state owned Moldovan Air

Traffic Services Agency (MOLDATSA), which is separated from the Civil Aviation Administration. Moldova is a member of Eurocontrol and a partner in the regional "ATM Co-operation in South-Eastern Europe (ACE)" initiative along with Romania, Turkey and Bulgaria. Moldova is aligning, wherever possible, its national aviation legislation/environment with the Single European Sky policy.

The Civil Aviation Administration of the Republic of Moldova (CAA) administers and regulates the entire civil aviation sector. The CAA operates under the political oversight of the Moldovan Transport Ministry.

5. BENEFITS OF AN EU – MOLDOVA COMMON AVIATION AREA AGREEMENT

The creation of the EU's single aviation market since the early 1990s has significantly contributed to make the sector more dynamic and efficient and has created large economic and social benefits.

The conclusion of Common Aviation Area agreements with the Union's Eastern and Southern neighbouring countries has proven that similar positive effects on transport volumes and efficiency can also be achieved for these markets. In this respect annual growth-rates of about 12% were achieved between the EU and the Western Balkans since the liberalisation of this market in 2006 and 2010 (available seats). Similar effects can be expected for the EU-Moldova market.

To measure such effects more precisely, the Commission undertook an economic analysis of the possible effects of concluding an EU-Moldova Common Aviation Area agreement.[12] The study forecasts annual growth rates of EU-Moldovan air transport of around 15% for the period 2010-2015.[13] In a nutshell, the respective benefits for Moldova on the one hand and the EU on the other hand can be described as follows:

– The economic benefit of such an agreement to Moldova is estimated at around € 17 Mio p.a. (mainly due to lower air fares, increased air travel and the associated economic activity).[14] The analysis also shows that air fares on popular routes (such as those to Italy) will probably drop significantly as a result of increased competition.

– Due to the size of the market, the economic benefits of such an agreement for the EU will, however, be relatively small. On the other side, some EU airlines have reported problems with the rather restrictive ASAs in their day-to-day operations. Experience shows that the implementation mechanism of similar Common Aviation Area agreements helps solving such doing business issues (mainly through the Joint Committee) as it tends to be easier for European carriers to address these questions collectively (rather than individually). Besides, an EU-

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12 Steer Davies Gleave: Study on the economic benefit of a common aviation area agreement between the EU and the Republic of Moldova. London, January 2011.

13 This must be measured against a forecast of annual air traffic growth rates of around 8% in the same period in a no-change scenario.

14 If one deducted the environmental impact and the additional resources needed to cope with the administrative work stemming from the implementation of the *acquis*, the economic benefit to Moldova is estimated at around € 10 Mio p.a.

Moldova Common Aviation Area Agreement would create new market opportunities for air carriers in the EU which would like to start operations to Moldova but currently do not have the necessary traffic rights. It could also facilitate the integration of Moldovan carriers into existing alliances of EU air carriers thus allowing for the development of integrated products and better services to passengers and higher efficiency through economies of scale.

Equally important to these economic benefits are, however, overall political considerations as such an agreement would significantly support the objectives of the EU's ENP, the Eastern Partnership as well as the PCA and the future Association Agreement with Moldova.

The strong political call of the Moldovan government to conclude such an agreement is an additional important element that must be taken into account.

An EU-Moldova Common Aviation Area Agreement would establish a level playing field for all EU air carriers and allow passengers in all Member States to benefit from similar conditions and increased traffic between the EU and Moldova and vice versa. In addition, an EU–Moldova Common Aviation Area Agreement would provide the legal basis for the establishment of air services from those Member States which currently do not have bilateral ASAs with Moldova.

6. CONCLUSIONS

As a consequence of market opening, travel opportunities for EU and Moldovan passengers would improve. The number of direct connections between the EU and Moldova as well as the overall number of flights is expected to increase trade and tourism flows. There will be economic benefits for both, EU and Moldovan airlines and airports.

It will be important to ensure that the opening and the integration of the markets is undertaken in a balanced manner taking into account other important policy objectives and mitigating potential adverse impacts. In this context it will be essential to ensure that the process of market opening is accompanied by a parallel process of regulatory co-operation and/or convergence. This is particularly important in crucial areas such as safety, security, environmental protection and competition law.

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 EU's commitment to sustainable development. It is particularly 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. In the field of air traffic management, the possibility to extend the Single European Sky to Moldova would contribute to enhance current safety standards, optimise efficiency and capacity and minimise delays.

A comprehensive mandate for the negotiations with Moldova would be based on two equally important strands: on the one side market opening and liberalisation and on the other hand regulatory harmonisation of safety and security standards beyond the EU borders. In this respect the conclusion of an EU-Moldova Common Aviation Area agreement would make a major contribution to reaching the objectives of the European Neighbourhood Policy, the Eastern Partnership and the EU–Moldova Partnership and Cooperation Agreement.

In the light of the above, the Commission proposes the negotiation and conclusion of a comprehensive open aviation agreement with Moldova and invites the Council to authorise the Commission to enter into negotiations on such an agreement. The negotiations will be conducted by the Commission services, fully involving the European External Action Service (EEAS), taking duly into account Council Decision 2010/427/EU.

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.