

Open Skies in North Africa: Is Tunisia the Next Morocco?

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The Convention on International Civil Aviation in Chicago in 1944 introduced a complex system of institutions, rules and principles that still governs today's international air transport sector. Resulting from a disagreement at the time on the regulation of air services, a regime of restrictive bilateral air service agreements (ASAs) between countries came into being, which controlled market access, service levels and fares. Although this did not initially impede the growth of the industry, the rapid development of efficient and safe air travel with new long-range aircraft enabling access to markets further afield and a significant decrease in fares have made the limitations of such an approach apparent.

Although substantial progress towards 'Open Skies' has been achieved in the US and in Europe over the last decades, the African market is still struggling to liberalise its air transport sector. Positioned between Europe, the Middle East and the Sub-Saharan African market, particularly North Africa could benefit from the three major liberalisation frameworks in the region, namely the Yamoussoukro Decision with Africa, the Arab League Open Skies agreement with other Arab countries and the formal Open Skies

agreement with Europe, based on the European Neighbourhood Policy. Until now, however, only the latter has been a driving force in the progress towards liberalisation.

The European Neighbourhood Policy

The European Neighbourhood Policy (ENP) was established in 2004 with the purpose of "avoiding the emergence of new dividing lines between the enlarged EU and our neighbours and instead strengthening the prosperity, stability and security of all."¹

The ENP includes sixteen of the EU's closest neighbours: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory, Syria, Tunisia and Ukraine. After an initial outline in a Communication on Wider Europe by the European Commission (EC) in March 2003, a Strategy Paper on the ENP was published in 2004 proposing different avenues of cooperation between the EU and its neighbours, including transport.²

This commitment to cooperation in the transport sector was reiterated in the Europe 2020 Strategy published in 2010. The strategy focuses on promoting EU economic growth by deploying the external aspects of its internal policies. This is of particular relevance for transport policy, as connectivity, liberalisation of markets and more efficient border procedures all catalyse the flow of goods and people to and from its neighbouring countries.³

¹ EUROPEAN COMMISSION, EUROPEAN NEIGHBOURHOOD POLICY, *The Policy: What is the European Neighbourhood Policy?*, http://ec.europa.eu/world/enp/policy_en.htm. Last accessed 22/05/12.

² Ibid.

³ EUROPEAN COMMISSION, *Communication from the Commission to the Council and the European Parliament- The EU and its neighbouring regions: A renewed approach to transport cooperation*, online: http://ec.europa.eu/transport/international/regional_cooperation/doc/com_2011_0415_communication.pdf. Last accessed 22/05/12

Under the ENP framework, the EU Neighbourhood Transport Plan was developed with the goal of promoting transport infrastructure and market development in and with the EU's neighbouring countries. A new revised version of the plan was published in 2011 outlining twenty short- and long-term measures to strengthen transport connectivity.⁴ Additionally the European Commission (EC) adopted a *Roadmap to a Single European Transport Area – towards a competitive and resource-efficient transport system* that year with the purpose of enhancing mobility and therefore boosting growth and employment.⁵ The roadmap proposed an extension of the EU's transport and infrastructure policy to its neighbours and the liberalisation of third country markets in transport services.⁶

In the air transport sector, closer integration with neighbouring markets is based on the creation of a wider European Common Aviation Area, a measure that would affect about 1 billion people in the EU and its neighbouring countries in the south and east. In concrete terms, outlined in the 2011 action plan, this encompasses the negotiation of comprehensive air service agreements, support for the modernisation of air traffic management systems, assistance in complying with EU and international aviation security and safety standards, and the integration of neighbouring countries into the Single European Sky initiative.⁷

A dialogue with North Africa was already initiated in Paris in 1995, where the ministers of six western Mediterranean countries (Algeria, France, Italy, Morocco, Spain, and Tunisia) agreed to pursue a joint policy aimed at harmonising and extending the European transport system with the Maghreb transport

system. With regards to air transport, the conference set the objectives of harmonising air traffic control systems between Europe and the Maghreb and fostering partnerships between the six countries “in the interest of gradual and controlled liberalisation of the international air transport sector.”⁸

The consultations between the Maghreb countries and their European counterparts were eventually elevated to the level of the EU, which began to negotiate air service agreements on behalf of its Member States.⁹

The Successful Pilot: Morocco

Morocco's air traffic had been fairly stagnant until 2003 despite investments of €1.2 billion in grants and loans between 1995 and 2003 for economic infrastructure and transport through the MEDA¹⁰ Programme,¹¹ and a signed Open Skies agreement with the US in 2000.¹²

In 2004, in a step towards further air transport liberalisation, Transportation Minister Karim Ghellab presented his plan for a threefold increase in international air transport capacity. This was supported by King Mohammed VI through a letter which stated: “As we had highly recommended, the project to reform the map of the skies has just been put into effect. This will allow not just for the sector's liberalisation, but also for reducing transport costs, greater fluidity and the appropriate coordination between issuing markets and tourism zones.”¹³

In May 2005 based on the aforementioned initial dialogue, the EC commenced negotiations with Morocco

⁴ EUROPEAN COMMISSION, Press Release, MEMO/11/488 , *EU Neighbourhood Transport Plan* , 7 July 2011, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/488&type=HTML>. Last Accessed 22/06/12

⁵ EUROPEAN COMMISSION, *Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system* <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0144:FIN:EN:PDF>. Last Accessed 22/06/12

⁶ Ibid at 16

⁷ Ibid

⁸ “Towards the Development of Coordinated and Harmonised Transport Systems in the Western Mediterranean Region.” Paper presented at the Meeting of Ministers of Transport of Western Mediterranean Countries, Paris , 20 January.

⁹ In November 2002, the EU's Court of Justice ruled that several Member States (Austria, Belgium, Denmark, Finland, Germany, Luxembourg, and Sweden) had failed to fulfil their obligations under the European Community Treaty when they had agreed to individual Open Skies agreements with the United States in 1994, 1995, and 1996 (EU 2002a, pp. 2–8). This marked the beginning of new EU external aviation policy that aims to (a) bring existing bilateral agreements in line with community law, and (b) gradually adopt ambitious agreements between the community and third countries (European Commission 2005a).

¹⁰ The acronym MEDA derives from the French: *Mesures d'accompagnement*

¹¹ Frankie O'CONNELL, *Case study on the impact of the Moroccan- EU Bilateral*, October 2008, www.euromedtransport.org/image.php?id=898. Last Accessed 22/06/12

¹² Gary Clyde HUFBAUER and Claire BRUNEL, *Capitalizing on the Morocco-US Free Trade Agreement: A Road Map for Success*, September 2009, www.iie.com/publications/briefs/hufbauer4334.pdf

¹³ “Flocks of tourists flying in after Morocco-EU air traffic agreement”, *Executive*, October 2008, www.executive-magazine.com/getarticle.php?article=11101. Last Accessed 22/06/12

on an Open Skies agreement. This initiative was widely seen as the test case for the new European aviation policy.¹⁴ After five rounds of negotiations, Morocco signed an Open Skies agreement with the European Union in 2005, representing the first aviation agreement of the EU with a non-European country. As outlined in the agreement, EU and Moroccan carriers are allowed to operate to and from any point in Morocco and the EU without price or capacity restrictions. The agreement also provides 5th freedom rights¹⁵ for both sides. This will be implemented in a two-phased approach with the first stage having come into force in 2006 allowing unrestricted 3rd and 4th¹⁶ freedom rights. The implementation of the currently pending second phase depends on the satisfactory implementation of relevant European legislation, which covers the essential elements of some 28 European regulations or directives (e.g. safety, air traffic management, denied boarding, environmental and noise restrictions etc.). Once implemented, Moroccan carriers would benefit from consecutive 5th freedom rights in the EU. In turn, EU carriers could use 5th freedom passenger rights beyond Morocco to countries involved in the Neighbourhood Policy, as well as 5th freedom cargo rights to all third countries.¹⁷

Since the agreement, international traffic has increased significantly. In 2007, annual air passenger traffic reached 12.1 million out of which 10.55 million accounted for international traffic.¹⁸ Between 2003 and 2007 international traffic grew by 20% per annum, 25% alone between 2006 and 2007. About 80% of this international traffic, including the top seven O-D markets,¹⁹ was on routes directly

covered by the Open Skies agreement. When analysing capacity figures this trend can be seen for traffic after 2007, with an annual growth rate in available seats of almost 5.5%.²⁰

The Open Skies agreement with the EU has considerably increased competition for Royal Air Maroc, which is almost entirely government-owned. This, in turn, partially explains the slowness and hesitance of the Moroccan government throughout the Open Skies negotiations.²¹ Although the airline still dominates the market with over 50% market share, 22 new foreign companies have commenced operations to and from Morocco since 2004.²² 19 European carriers including low-cost airline Ryanair and easyJet, as well as carriers from the region such as Buraq Air, Etihad and Turkish Airlines were attracted by the opportunities offered by the Moroccan market.²³ Low-cost airline Air Arabia even set up a new hub in Casablanca in 2009 featuring a fleet of Airbus 320 aircraft.²⁴ The airline has, however, continued to operate profitably with US\$ 1.5 billion in revenues in 2008.²⁵

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The liberalisation of the air transport industry has had a major impact on income from tourism.²⁶ As the

¹⁴ EUROPEAN COMMISSION *Information Note: EU-Morocco Euro-Mediterranean Air Transport Agreement 2005*, http://ec.europa.eu/transport/air/international_aviation/country_index/doc/morocco_info_note.pdf. Last Accessed 22/06/12

¹⁵ 5th Freedom Right: the right to fly between two foreign countries on flights that originate or end in one's own country.

¹⁶ 3rd Freedom Rights: the right to fly from one's own country to another, 4th Freedom Rights: the right to fly from another country to one's own.

¹⁷ Charles E. SCHLUMBERGER, *Open Skies for Africa*, Washington: The International Bank for Development and Reconstruction/ The World Bank 2010, p. 63

¹⁸ INTERVISTAS-EU CONSULTING INC. *The Impact of Air Services Liberalisation on Morocco*, July 2009, www.iata.org/SiteCollectionDocuments/Documents/MoroccoReport.pdf. Last Accessed 22/06/12

¹⁹ O-D Market is defined as 'Origin and Destination Markets'. Refers to passenger travel patterns in a market or market pair.

²⁰ Own Analysis based on Data from DiIO, Online Airline Schedule Analyser, SRS Analyser (January 2012), online: www.diio.net/products/srs-analyser-1/

²¹ Royal Air Maroc, Flight Safe Database, www.flightsafe.co.uk/public/ram.html. Last Accessed 22/06/12

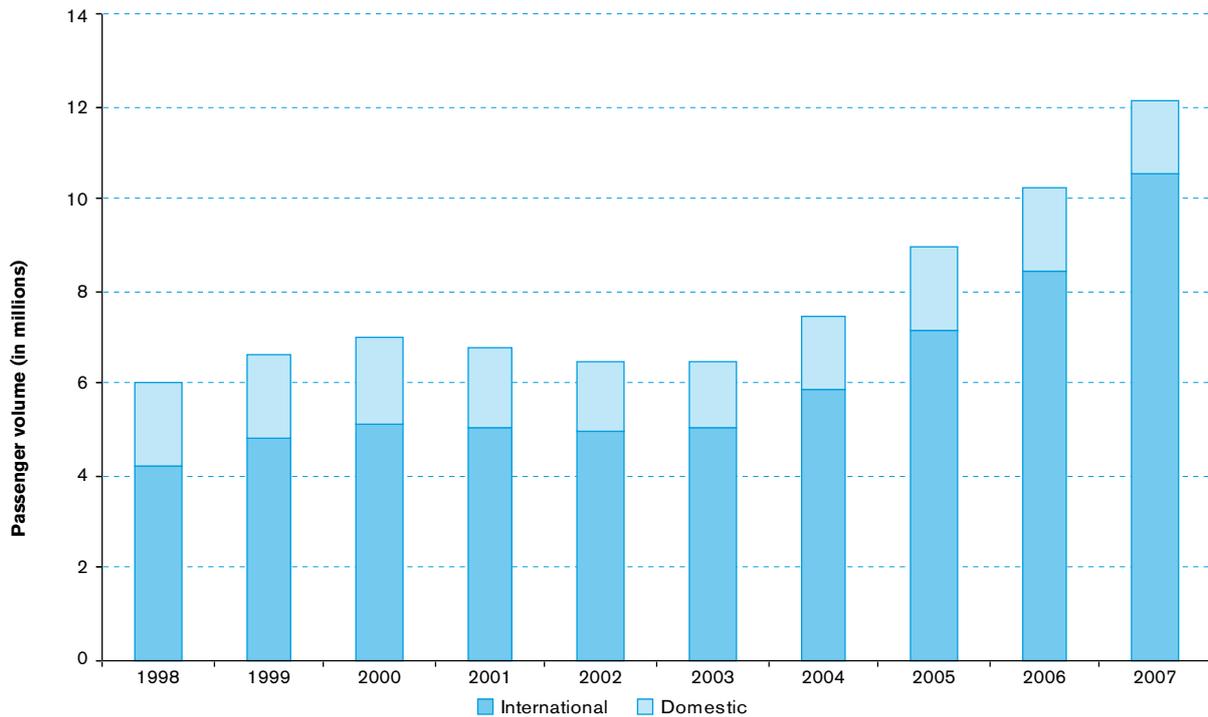
²² Own Analysis based on Data from DiIO, Online Airline Schedule Analyser, SRS Analyser, January 2012, : www.diio.net/products/srs-analyser-1/

²³ "Flocks of tourists flying in after Morocco-EU air traffic agreement", *Executive*, October 2008, www.executive-magazine.com/getarticle.php?article=11101. Last Accessed 22/06/12

²⁴ David KAMINSKI-MORROW, "New carrier Air Arabia Maroc switches to Casablanca base", *FlightGlobal*, 3 November 2008: www.flightglobal.com/news/articles/new-carrier-air-arabia-maroc-switches-to-casablanca-318306/. Last Accessed 22/06/12

²⁵ Mark PILLING, "Royal Air Maroc to be privatised: World Air Transport Forum News", *Airline Business Blog*, 30 October 2008, www.flightglobal.com/blogs/airline-business/2008/10/royal-air-maroc-to-be-privatis.html

²⁶ WORLD TRADE AND TOURISM COUNCIL, *Travel & Tourism Economic Impact 2012. Morocco*, www.wttc.org/site_media/uploads/downloads/morocco2012.pdf



Source: Morocco, Office National des Aeroports, Domestic, International and Total Passenger Volumes (1998- 2007) from *The Impact of Air Service Liberalisation on Morocco*.

World Travel and Tourism Council reports, foreign visitor arrivals have been increasing steadily since 2002, with expected growth of 6% per annum until 2020. In 2011, Morocco generated US\$8.5 billion in visitor exports,²⁷ accounting for almost 9% of the country's GDP.²⁸

There are, however, still some major markets with destinations such as Switzerland, Saudi Arabia, Tunisia and UAE, that have restrictive air service agreements with Morocco. A study by InterVISTAS in 2009 highlighted that 53 Moroccan air service agreements still had restrictions on capacity, pricing, designated airports and sometimes even approved airlines.²⁹ In some cases this may, however, be related to the policies of other countries rather than Morocco's own. The liberalisation of foreign airline ownership and control is also still restricted to an equity stake of 49%. The above-mentioned study by InterVISTA ex-

amined the positive impact the removal of these restrictions could have on the Moroccan air transport industry and the economy as a whole. In terms of fare reduction, the impact of "Open Skies" is estimated at 7%, and would create over 24,000 new jobs. However, ownership and control liberalisation, which has not yet been implemented, could have a much greater impact, resulting in 24% additional traffic, an additional 19% reduction in the average fare, and additional employment of 68,800 jobs.³⁰

The Case of Tunisia

Over the past decades, air transportation has played a significant role in the economic development of Tunisia. The growth of the tourism sector in particular, representing 6.5% of the country's GDP in 2010,³¹

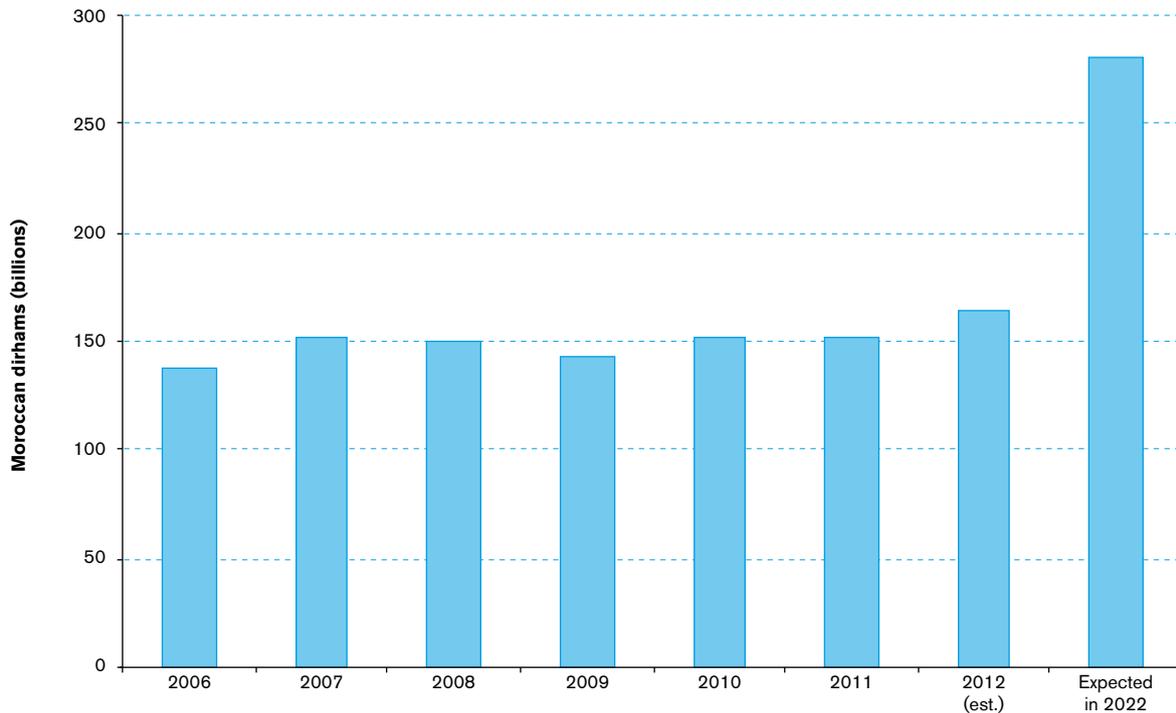
²⁷ Visitor exports: spending within the country by international tourists for both business and leisure trips, including spending on transport.

²⁸ WORLD TRADE AND TOURISM COUNCIL, *Travel & Tourism Economic Impact 2012. Morocco*, www.wttc.org/site_media/uploads/downloads/morocco2012.pdf

²⁹ INTERVISTAS-EU CONSULTING INC. *The Impact of Air Services Liberalisation on Morocco*, July 2009, www.iata.org/SiteCollectionDocuments/Documents/MoroccoReport.pdf. Last Accessed 22/06/12

³⁰ Ibid at 29

³¹ Rhona WELLS, *Destination: Tunis*, CBS Interactive Business Network Resource Library, December 2010, online: Business Library http://findarticles.com/p/articles/mi_m2742/is_417/ai_n56516366



Source: WORLD TRADE AND TOURISM COUNCIL, *Travel & Tourism Economic Impact 2012. Morocco*, www.wtc.org/site_media/uploads/downloads/morocco2012.pdf.

is highly dependent on a flexible and extensive air transport network. Due to the volatility of the sector, however, the political events of 2011 resulted in a massive reduction of tourist arrivals and triggered a crisis in the tourism and consequently air transport industry. Arriving passengers decreased by about 30% and charter flights recorded a decrease of more than 50% in traffic. Until now there are no clear signs of recovery.³²

The national airline Tunisair, created through an agreement between the Tunisian government and Air France in 1948, has profited for years from this relatively closed market, controlling 63% of the market. In 2010 the airline reported revenues of \$682 million,³³ and this year, it controlled the market with a 63% market share³⁴ – a dominance that has not changed significantly in recent years. Besides Air France, which is a shareholder of Tunisair, no other airline has been able to gain significant market share. Due to political circumstance and an unsuccessful restructuring effort,

however, the airline has had to incur recent financial losses.

Tunisia has generally experienced relatively slow average traffic growth over the past seven years with 93% of traffic originating from international routes. While international scheduled passenger traffic grew by less than 7% on an annualised basis until 2010 (only 3.43% if we include 2011), international charter passengers have steadily declined (minus 1.69% annualised until 2010, minus 9.27% with 2011). Overall, international air traffic in terms of arriving passengers grew less than 2% (minus 3.36% with 2011). Domestic traffic has been fairly stagnant in recent years although, surprisingly, it grew by 9.55% and 13.61% in 2010 and 2011 respectively. This can be explained by a significant increase in domestic scheduled and charter traffic being handled by Enfidha Airport, which was built between 2007 and 2010 with the purpose of absorbing most of the domestic charter flights that were congesting traffic at Tunis-Carthage.³⁵

³² Analysis of received passenger arrival data, DGAC Tunis Feb. 2012.

³³ Société Tunisienne De L'Air Tunisair-S.A, *Rapport General Des Commissaires Aux Comptes Sur Les Etats Financiers Arrêtes*, 31 December 2010.; Bourse de Tunis www.bvmt.com.tn/publications/news/09092011-0.PDF

³⁴ Own Analysis based on Data from DiIO, Online Airline Schedule Analyser, SRS Analyser (January 2012), online: <https://www.diio.net/products/srs-analyser-1/>

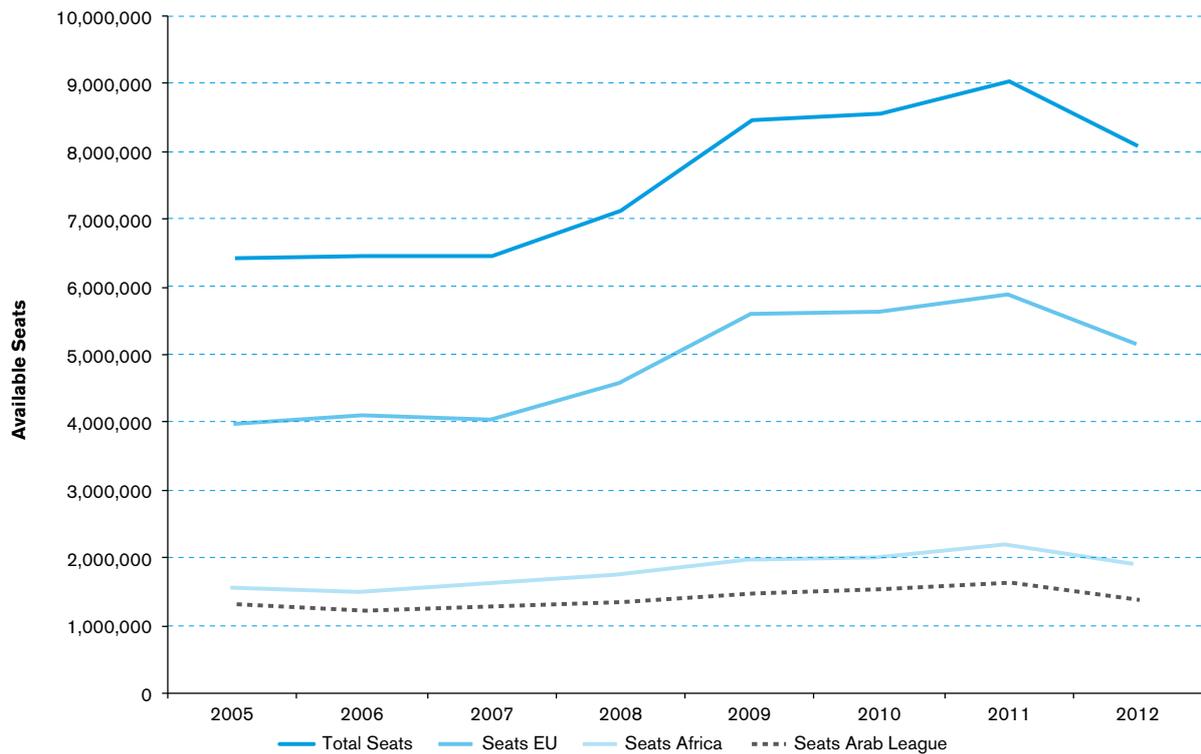
³⁵ OXFORD BUSINESS GROUP, *The Report: Emerging Tunisia*, 24 June 2007, p. 117.

CHART 32

Traffic Patterns in Tunisia

Panorama

Med.2012



Source: Own Analysis based on Data from DiO, Online Airline Schedule Analyzer, SRS Analyser, January 2012: www.dio.net/products/srs-analyser-1/

252

Domestic charter traffic from this airport tripled from 2010 to 2011.³⁶

A more detailed analysis of international traffic patterns highlights the fact that air traffic is mainly concentrated on destinations in the European Union (see Chart 32). Overall EU-Tunisian traffic represents around 63% of total traffic with minor fluctuations over the last 10 years.

Due to the large number of international destinations Tunisia's traffic network is covered by multiple bilateral agreements with countries in Europe, as well as with Africa and the Arab region. In Europe the prime focus is on the Central and Western parts of the EU with little or no connectivity to Eastern and Northern Europe as well as Spain and Portugal.

One reason for this limitation is the fact that Tunisair seems to have been less successful than for example Royal Air Maroc in capturing 6th freedom³⁷ traffic between Europe and West Africa. This is probably due to its smaller size, its more restrictive bilateral air service agreements, and its stronger ex-

posure by geographic proximity to competition from Libya's Afriqiyah Airways on this particular market segment.³⁸

In order to progress towards air traffic liberalisation, the European Union (EU) has held informal talks with the Government of Tunisia for several years. On 9 December 2008, the Council of the European Union adopted a Decision authorising the European Commission to open negotiations with Tunisia to establish a Euro-Mediterranean Air Transport Agreement, as part of the process of creating a wider Common Aviation Area with its Eastern and Southern Neighbours by 2010.³⁹

Initial talks on liberalising air traffic with the EU progressed quite well until the political events of early 2011. Subsequently, Tunisia put its pre-negotiations of an Open Skies agreement with the EU on hold until at least May 2012. This is partially due to the fact that the government was not yet confident Tunisair would be able to face increased competition with low-cost operators, such as Ryanair and

³⁶ Analysis of received passenger arrival data, Direction Générale de l'Aviation Civile, Tunis, Feb. 2012.

³⁷ 6th Freedom Rights: right to fly from one foreign country to another while stopping in one's own country for non-technical reasons.

³⁸ Charles E. SCHLUMBERGER, *Open Skies for Africa*, Washington: The International Bank for Development and Reconstruction/ The World Bank 2010 p. 130.

easyJet. Furthermore, many tour operators may be concerned that they would lose the air travel part of their package holiday deals.

Conclusion

There is little doubt that liberalisation of market access in the form of an Open Skies agreement between Tunisia and the EU would stimulate the market. In fact, given that the bilateral agreements with European countries are not yet that liberal, and that 40% of international traffic is still based on charter operators, lifting market access restrictions would immediately create a dynamic response to demand and stimulate the market. New entrants and low-cost operators would compete with the national airline, and with established European operators. In the case of Tunisia however, the main challenge stems from the fact that Tunisair has profited for years from a relatively closed market. Liberalisation of air services in the coming years would require Tunisair to restructure and downsize its operations in order to compete with new market entrants. Such a downsizing is often perceived as a political challenge, which may hinder the implementation of an Open Skies regime. However, far greater employment opportunities would be created in the tourism industry, as well as in other sectors due to the catalytic effect of these new operators.

Furthermore, a large percentage of tourists arrive on flights sold by tour operators. Even though their share has dropped over the years, tour operators

would most certainly oppose any liberalisation of air services, as they would lose an important source of revenue.

The political events of 2011 resulted in a massive reduction of tourist arrivals and triggered a crisis in the tourism and consequently air transport industry. Arriving passengers decreased by about 30% and charter flights recorded a decrease of more than 50% in traffic

Finally, foreign carriers which today benefit from a more closed market with Tunisia will probably oppose liberalisation. Air France in particular, a shareholder of Tunisair, could be opposed to liberalisation resulting in increased competition on the still relatively profitable route between Paris and Tunis.

Given the recent events in Tunisia and the considerable drop in tourist arrivals as a result, the liberalisation of air services should indeed be readdressed. The tourism sector, which has suffered most, but also general travel (visiting friends and family), could potentially be revitalised by introducing competition to air service provision. This would certainly increase tourist arrivals, but could also support the development of trade and foreign investments.

³⁹ EUROPEAN COMMISSION, MOBILITY AND TRANSPORT, International Aviation: Tunisia, http://ec.europa.eu/transport/air/international_aviation/country_index/tunisia_en.htm