УДК 339.138: 656.1

INSTITUTIONAL LIBERALIZATION OF THE AVIATION SERVICES MARKET IN THE EUROPEAN UNION

ІНСТИТУЦІЙНА ЛІБЕРАЛІЗАЦІЯ РИНКУ АВІАЦІЙНИХ ПОСЛУГ В ЄВРОПЕЙСЬКОМУ СОЮЗІ

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Abstract. *This article examines the evolution and key stages of liberalization in the air transport market within the European Union. The study outlines the development from early deregulation packages in the late 1980s to the establishment of the European Common Aviation Area (ECAA) and the implementation of the Single European Sky (SES) initiatives. Special attention is paid to institution measures, which consolidated the internal aviation market and facilitated greater market access, pricing transparency, and competition. The analysis also highlights the ongoing transformation of EU aviation policy in the context of the European Green Deal. The liberalization process is evaluated in terms of its impact on airline competition, regional connectivity, and regulatory harmonization across member and associated states. The article concludes by assessing the challenges and future prospects for fully integrating EU airspace governance and sustainable aviation policy. In the long-term perspective, the success of these initiatives will depend on the European Union's ability to adapt to technological innovations, as well as on overcoming geopolitical and economic barriers that impact the stability of the aviation sector.*

Keywords: *EU air transport market, institutions, liberalization, Single European Sky, aviation policy, competition, sustainability, decarbonization.*

Анотація. *Ця стаття досліджує еволюцію та ключові етапи лібералізації ринку повітряного транспорту в межах Європейського Союзу. Дослідження окреслює розвиток від ранніх пакетів дерегуляції наприкінці 1980-х років до створення Спільний Європейський авіаційний простір та впровадження ініціатив Єдине європейське небо. Особливу увагу приділено інституційним заходам, які консолідували внутрішній авіаційний ринок і сприяли розширенню доступу до ринку, прозорості ціноутворення та конкуренції. Аналіз також підкреслює поточну трансформацію політики ЄС у сфері авіації в контексті Європейського зеленого курсу. Процес лібералізації оцінюється з точки зору його впливу на конкуренцію серед авіакомпаній, регіональну сполученість та гармонізацію регулювання між державами-членами та асоційованими державами. Стаття завершується оцінкою викликів і перспектив повної інтеграції управління повітряним простором ЄС та політики сталого авіаційного розвитку. У довгостроковій перспективі успіх цих ініціатив залежатиме від здатності ЄС адаптуватися до технологічних інновацій, а також від подолання геополітичних і економічних бар'єрів, що впливають на стабільність авіаційного сектору.*

Ключові слова*: ринок авіаційного транспорту ЄС, інституції, лібералізація, , Єдине європейське небо, авіаційна політика, конкуренція, сталість, декарбонізація.*

Introduction. The EU aviation market represents a complex multi-level system that integrates a wide array of stakeholders, including air carriers, airports, aircraft manufacturers, and regulatory authorities. This sector exerts a significant economic and social impact by facilitating passenger and cargo transport, creating millions of jobs, enhancing the integration of regional economies, and promoting the growth of related industries such as tourism, logistics, and services.

Air transport plays a strategically vital role in the EU's logistics infrastructure, supporting the operations of over 100 scheduled airlines, a network of more than 400 airports, and 60 air navigation service providers. The sector directly employs 1.4 to 2 million people, while overall employment supported by aviation in the EU is estimated at 4.7 to 5.5 million jobs – equivalent to approximately 2.1% of the Union's GDP *(European Commission, n.d.)*.

The liberalization of the EU air transport market is a cornerstone of the broader policy agenda aimed at creating a single internal market. The removal of national restrictions on airspace access, deregulation of fare structures, and liberalization of route rights have been decisive steps toward the integration of air transport within the EU framework.

Analysis of Recent Research and Publications. Scientific studies on the liberalization of the air services market play a key role in understanding the economic, social, and environmental consequences of this transformation, providing sound recommendations for the further development of policy in this area. They contribute to the analysis of the effectiveness of deregulation measures, the assessment of the impact on competition and the integration of regional markets, and help adapt strategies to global challenges such as decarbonization and sustainability.

According to the study by Graham *(1997)*, the liberalization of the air transport market in the EU had a significant impact on the development of regional airlines, particularly in terms of enhancing their competitiveness under the new market structure. In another work, Graham *(1998)* draws attention to the geographical aspects of demand for air services, arguing that liberalization created conditions for the intensification of transport links in peripheral EU regions. The author emphasizes that the process of liberalization gives rise to significant contradictions between the neoliberal approach to aviation liberalization and other regional development strategies of the EU, which are oriented toward cohesion and European solidarity.

At the institutional level, as noted by Kinnock *(1996)*, the implementation of the Single Aviation Market project was the result of political will to overcome the fragmentation of European airspace.

The analysis of the long-term effects of deregulation of the air services market in EU countries is of considerable importance. In this context, the work of Burghouwt, Mendes De Leon,

De Wit *(2015)* indicates the formation of a new configuration of the aviation network, characterized by the dominance of large hubs and increased market concentration.

Of particular interest is the analysis of regional differences in the dynamics of aviation market development after the accession of new states to the EU. In this context, the work by Jankiewicz, Huderek-Glapska *(2016)* demonstrate that the countries of Central and Eastern Europe underwent a more radical transition to an open market, explained by the political and economic conditions of the transition period.

Similar processes at the national level are traced in the study by Pisarek *(2009),* which describes the positive impact of liberalization on the development of aviation infrastructure in Poland. The author notes that the liberalization of air transport within the EU had a significant impact on the evolution of Poland's aviation sector, contributing to changes in market structure and air traffic dynamics after the country's integration into the EU. This process also contributed to increased accessibility of air services and the adaptation of the Polish market to pan-European standards, highlighting the importance of analyzing the stages of liberalization for understanding its regional consequences.

The expansion of air links with third countries, particularly in EU–Africa relations, is studied in the work by Njoya et al. *(2018).* The analysis shows that intercontinental air connections between Europe and Africa are mainly governed by bilateral agreements concluded between individual EU countries and various African governments. The authors conclude that the liberalization of the transcontinental aviation market contributes to the growth of passenger traffic and the diversification of the route network.

At the same time, some empirical studies demonstrate the ambiguity of the consequences of air market liberalization in the EU. In particular, Abate, Christidis *(2020)* found that the effectiveness of the EU's external aviation policy largely depends on the level of integration with third countries as well as the internal consistency among member states.

The issue of liberalization of the EU aviation market is also actively studied in Ukrainian academic discourse, particularly in the context of Ukraine's integration aspirations toward the EU. Ukraine signed an agreement with the EU on the creation of the Common Aviation Area Agreement (CAAA) on October 12, 2021, during the Ukraine–EU summit. Its purpose is to integrate Ukraine's aviation space into the single European market, which includes liberalizing market access, harmonizing safety standards, and promoting the development of air services.

The study by Sokolova et al. *(2022)* is devoted to analyzing the expected effects of the implementation of the CAA Agreement between Ukraine and the EU for the domestic passenger air transport market. The authors emphasize that market opening will contribute to increased competition, lower fares, and expansion of the route network.

The purpose. The primary aim of this scholarly analysis is to conduct a comprehensive examination of the institutional aspects of the air transport liberalization process within the EU, as well as to assess its short-term and long-term implications for the aviation services sector.

Main results of the research. The process of liberalizing the aviation market in EU countries began under conditions characterized by significant differences in socio-economic and political determinants. Until the 1990s, the air services market in EU member states developed mainly based on the implementation of bilateral agreements that defined the framework of international air connections. At that time, each member state operated a national airline that maintained an extensive network of international and intercontinental routes. These national carriers acted as designated operators under bilateral air service agreements concluded by individual countries both with European partners and with states beyond the continent. However, these networks generally did not correspond to the classic hub-and-spoke model, primarily due to a lack of coordinated scheduling at key airports. In many cases, airlines – many of which were wholly or partially controlled by national governments – received state support, leading to distortions in market competition *(Button, K., 2001).*

In 1984, the United Kingdom and the Netherlands signed an agreement that significantly eased regulatory restrictions on air transport between these two countries. Key features of the

agreement included the right of any airline registered in either of the signatory states to operate flights between them, and the introduction of fare freedom, which eliminated mandatory consultations with other carriers and allowed fares to be set by the airline of origin, subject to approval by the respective state. From 1985, airlines were allowed to adjust fares independently provided there were no objections from either state, although this often resulted in inefficient resource allocation, high fares, and limited consumer choice *(Button, K., 2001)*.

It is also important to emphasize that the institutional process of liberalizing European air transport began in the late 1980s, influenced in part by transformations in the aviation policy of the United States, which focused on establishing more liberal bilateral agreements on transatlantic routes. After analyzing the U.S. experience with liberalizing air transport, the EU developed its own strategy for reforming the aviation sector. In the U.S., liberalization efforts concentrated mainly on the domestic market, involving the elimination of flight subsidies and ending the practice of assigning airlines to domestic routes by a state regulator, which in turn fostered increased competition. In contrast, domestic air traffic volumes in European countries remained limited due to natural factors, particularly the small territorial size of most states, which did not support the large-scale development of this segment. As a result, the EU faced a pressing need to establish a single aviation market that would integrate the numerous national markets of member states and to develop an appropriate regulatory framework *(Button, K., 2009)*.

The liberalization of the EU aviation sector evolved progressively through a series of legislative and institutional reforms that shifted the industry from a strictly regulated, protectionist framework to a competitive single market. This transformation unfolded in several stages, most notably through three liberalization packages adopted between 1987 and 1992. Each successive package eliminated barriers to competition, fostered deeper integration, and laid the foundation for a unified EU air transport market.

The **first liberalization package**, introduced in 1988, was a crucial initial step toward increasing flexibility in fare setting and easing the regulation of capacity sharing among airlines. It allowed carriers to offer discounted fares and negotiate flight frequencies on international routes with fewer restrictions. This stage was supported by several key legal instruments, including Council Regulations (EEC) No. 3975/87 and 3976/87, which extended EU competition rules to the aviation sector for the first time, as well as Council Directive 87/601/EEC on scheduled air service fares and Council Decision 87/602/EEC on capacity allocation among carriers.

The first package played a pivotal role in harmonizing aviation policy with EU competition law. By removing protectionist restrictions – especially in the area of pricing – it initiated the process of integrating national aviation markets and contributed to the broader development of the EU internal market. This was critical for enabling the free movement of goods, capital, services, and people, and for meeting modern expectations regarding delivery times, safety, cargo integrity, and passenger comfort.

Although the reforms were significant, the first package did not impose excessive regulatory burdens on member states. Rights granted to airlines concerning market access and pricing remained limited in scope. Importantly, the reforms did not fully encompass all five "freedoms of the air" outlined in international aviation law, particularly in the 1944 Chicago Convention, which governs international commercial air transport.

According to the Chicago Convention, the five freedoms of the air include:

1. The right to overfly another country without landing.
2. The right to land in another country for technical purposes (e.g., refueling), without embarking or disembarking passengers or cargo.
3. The right to carry passengers and cargo from one's home country to a foreign country.
4. The right to carry passengers and cargo from a foreign country back to one's home country.
5. The right to carry traffic between two foreign countries as part of a service connecting to one's home country *(ICAO, n.d.)*.

It is important to emphasize that the variation in the number and application of the five freedoms of the air is largely determined by regional specificities and the conditions stipulated in bilateral or multilateral agreements. In the European Union, since the 1990s, successive liberalization packages have significantly expanded carriers' access to intra-European air routes – going beyond the traditional five freedoms of the air outlined in the 1944 Chicago Convention. For instance, the Common Aviation Area (CAA) Agreement between Ukraine and the EU, signed in 2021, aims to harmonize Ukraine's national legislation with European standards. It provides for the expansion of market access rights but does not alter the fundamental structure of the five freedoms, which remain a cornerstone of international air law *(European Commission, 2021)*.

The **second liberalization package**, adopted in 1990, introduced several new fare-setting regimes for EU-based airlines operating scheduled services and implemented full liberalization of air traffic within the scope of the third and fourth freedoms. Additionally, it allowed for multiple airline designations on air routes, enhanced cargo transport regulations, and extended these reforms to the freight segment. A particularly important development was the **partial introduction of cabotage rights**, i.e., the right to operate domestic flights within another EU member state. This was a significant innovation given the increasing role of air freight in the overall volume of air transport across Europe. The legal framework for this stage included Council Regulations (EEC) No. 2342/90, 2343/90, and 2344/90.

As shown in the studies by Burghouwt and De Wit *(2005)*, and later by Burghouwt et al. *(2007)*, during the 1990s national flag carriers gradually transformed their traditional hub-and-spoke networks and home airports into fully functional hub systems. They implemented intensive wave-based scheduling, which significantly increased connectivity at major aviation hubs. The development of these hub-and-spoke structures facilitated the emergence of **transcontinental multi-hub systems,** often in cooperation with alliance partners in the United States. This process led to the formation of so-called *dog bone* networks – structures that dramatically stimulated passenger demand from regions located both "behind" and "beyond" the major hubs. As a result, by the end of the 1990s, a significant number of aviation hubs had emerged throughout the EU. Most of these were secondary regional hubs that connected intra-European traffic with intercontinental destinations.

A significant conceptual distinction persisted between leading American and European air carriers. European national airlines operated primarily within the boundaries of their home hubs, focusing on national and international routes without establishing new hub infrastructures in other EU member states. In contrast, U.S. carriers – following deregulation – developed multi-hub operations that spanned the entire domestic market, greatly expanding their network reach.

The **third liberalization package**, adopted in July 1991 and implemented in 1993, codified key principles such as fare liberalization, determination of flight frequencies, and technical specifications for equipment acquisition and air traffic management. This package was pivotal for achieving full liberalization of the air transport market and formally established the Single European Sky **(SES).** Notably, it introduced «full cabotage rights», allowing airlines to operate domestic flights within another EU member state. It also introduced the concept of the "community carrier", which enabled any airline under EU jurisdiction to operate flights throughout the Union, regardless of its home country, as long as it was controlled by EU member states.

This stage was anchored in five principal Council Regulations:

- Council Regulation (EEC) No. 2407/92
- Council Regulation (EEC) No. 2408/92
- Council Regulation (EEC) No. 2409/92
- Council Regulation (EEC) No. 2410/92
- Council Regulation (EEC) No. 2411/92

According to various experts, the implementation of the third liberalization package helped achieve a compromise between EU member states that had already embraced liberalization – such

as the Netherlands and the United Kingdom – and those that were still in transition, including Germany, Greece, Italy, Spain, and France *(Bartlik, 2007, p. 15)*.

The cumulative effects of the three liberalization packages were profound. Firstly, EU-based airlines gained the right to operate flights between member states without restrictions, and to perform domestic flights within other member states (except their own) under certain fare and capacity regulations. Cabotage rights were extended with the exception of premium routes, while pricing was largely deregulated. This transformation brought the EU aviation market closer to the U.S. internal market model, allowing European carriers to compete on domestic routes under relatively equal conditions. Moreover, national constraints on fare setting were abolished, advancing further integration of the market.

Low-cost carriers benefited substantially from the liberalization, gaining incentives to grow their market segment and attract price-sensitive passengers who previously favored alternative transport modes. Their rapid expansion pressured legacy airlines to cut operating costs and reduce ticket prices. As a result, within the first twelve years of liberalization, average ticket prices dropped by two-thirds *(IATA, 2006)*.

The transition toward the creation of the **SES** marked a pivotal phase in the evolution of the EU's aviation industry, aimed at eliminating the fragmentation of national air traffic management (ATM) systems. Launched in the late 1990s in response to rising flight delays, inefficiencies in resource use, and growing environmental concerns, the initiative sought to enhance safety, airspace capacity, and environmental sustainability. Its overarching goal was to establish an integrated and harmonized system adapted to the needs of an expanded aviation market and designed to promote economic growth across the European region. This effort reflects the EU's broader strategic orientation toward integrating transport markets and strengthening its competitive position globally.

In 2008, **Regulation No. 1008/2008** was adopted, replacing the previous third liberalization package. However, this did not conclude the harmonization of legislation or the development of a fully open European airspace. The realization of the Single European Sky has been implemented through two sequential stages *(European Commission, n.d.)*:

- **2001–2004 (SES I):** This phase involved the development and adoption of the first SES package. It proposed the creation of a unified ATM authority for EU member states, including Norway and Switzerland. This authority was granted responsibility for managing upper airspace levels and coordinating operations with military ATM services – an innovative approach, given that military use of airspace had previously been regulated exclusively by national governments.
- **2008–present (SES II):** The second package introduced the division of European airspace into **nine Functional Airspace Blocks (FABs),** within which air traffic management is conducted across national borders. This cross-border approach significantly increased the efficiency of EU airspace usage.

Table 1.

Stages of Liberalization of the Air Transport Market in the European Union (Updated to 2024)

Stage	Year(s)	Key Developments
First Liberalization Package	1987–1990	Initial relaxation of market access restrictions; limited cabotage rights; bilateral agreements remained dominant.
Second Liberalization Package	1990–1992	Introduction of full third and fourth freedom rights within the EU; gradual deregulation of fares; increased competition between carriers.
Third Liberalization Package	1993	Full market liberalization: freedom to operate any intra-EU route; liberalized pricing; establishment of common licensing rules for EU air carriers.
Creation of the ECAA	2006	Establishment of the European Common Aviation Area (ECAA); inclusion of non-EU countries into the single aviation market on equal legal terms.
Single European	2001–	Legal and institutional reforms for unified air traffic management

Stage	Year(s)	Key Developments
Sky (SES I)	2004	(ATM); cross-border coordination, including military-civil integration.
Single European Sky (SES II)	2008–present	Division of EU airspace into Functional Airspace Blocks (FABs); performance-based ATM; operational efficiency; environmental and climate objectives.
Regulation No. 1008/2008	2008	Replaced the Third Package; consolidated provisions on market access, carrier licensing, and pricing transparency within the internal market.
Digital & Green Aviation Transition	2020–2024	EU Aviation Strategy updated for decarbonization and digitalization; integration of the *European Green Deal* and *Fit for 55* into aviation policy; support for Sustainable Aviation Fuels (SAFs); post-COVID recovery and resilience funding for aviation modernization.

Source: created by the authors based on their own research

Functional Airspace Blocks (FABs) are key structural elements of SES, representing cross-border airspace regions that integrate national ATM systems to enhance efficiency, safety, and capacity. This organizational concept was designed to overcome fragmentation caused by the traditional allocation of airspace along national lines. The FAB concept was formalized under **SES II in 2008,** specifically through **Regulation (EC) No. 1070/2009,** with the primary objective of optimizing airspace utilization, minimizing delays, and reducing the environmental footprint of aviation.

EU legislation obliges member states to collaborate in establishing FABs, thereby reducing resource duplication. The main goals of FABs include:

- Increasing airspace capacity by 10–15%
- Reducing fuel costs by 8–12% through more direct flight routing
- Enhancing safety through the implementation of standardized operational procedures
- Promoting environmental sustainability by lowering CO_2 emissions.

During the implementation of SES II, the **European Union Aviation Safety Agency (EASA)** was granted extended competencies. As the EU's central regulatory authority, EASA is responsible for maintaining high safety standards in civil aviation and fostering its sustainable development across Europe. The comprehensive regulatory framework introduced during this phase contributed to restructuring Europe's airspace and air navigation systems. Key reforms included the separation of regulatory and operational functions, increased flexibility in the joint civil-military use of airspace, standardization of navigation equipment, unified classification of upper airspace levels, the introduction of a single charging system for navigation services, and harmonized licensing requirements for air traffic controllers *(European Parliament, 2025).*

The **SES initiative** has delivered notable outcomes: according to Eurocontrol, flight delays have been reduced by 20%, and CO_2 emissions have dropped by 8% compared to the baseline year 2000 *(Eurocontrol, 2023).*

It is imperative to emphasize that the development of the aviation services sector in European Union (EU) countries is significantly influenced by intensified regulatory pressure and market trends oriented toward integrating principles of sustainable development, particularly through a focus on the decarbonization of the aviation sector. The European Green Deal, within the context of air transport, is closely linked to the promotion of Sustainable Aviation Fuel (SAF), which plays a critical role in reducing greenhouse gas emissions within the EU's aviation industry. In accordance with EU regulatory frameworks, suppliers are mandated to ensure that at least 2% of the fuel available at Union airports complies with SAF standards by 2025, with a gradual increase to 6% by 2030 and up to 70% by 2050 *(European Commission, 2019).* However, aviation companies highlight the limited availability of SAF, contending that they are unfairly blamed for the resource deficit in the energy sector, while reaffirming their commitment to the broader industry

goal of achieving net-zero greenhouse gas emissions by 2050. In this context, on March 27, 2025, the Director General of the International Air Transport Association (IATA) expressed support for a proposal by leading European airlines to postpone the SAF transition target to 2030 as part of the sustainable use of aviation fuel in Europe, underscoring the necessity for Brussels policymakers to account for current realities *(Reuter, 27 March 2025).*

Simultaneously, the implementation of the Green Deal provisions encounters significant challenges driven by persistent increases in fuel prices, a shortage of skilled labor, and geopolitical instability affecting the utilization of certain airspaces. In this regard, the European aviation market exists in a delicate state of equilibrium between recovery processes and transformation, as political institutions and industry leaders actively work toward establishing a more resilient and environmentally oriented future *(IATA. (March/April 2019).* Furthermore, the integration of sustainable development principles necessitates substantial investments in technological innovations, such as electrified aircraft and route optimization systems, which form part of the broader SESAR (Single European Sky ATM Research) strategy aimed at modernizing air traffic management and reducing the aviation industry's ecological footprint. These initiatives, while promising long-term benefits, currently face limitations due to insufficient funding and the need for enhanced coordination between national and supranational authorities.

Conclusions. The liberalization of the aviation market among EU member states represents a complex and multifaceted process encompassing economic, institutional, and geographical transformations that significantly influence the development of the region's transport infrastructure. Over the past decades, the European Union has consistently implemented a series of strategic initiatives aimed at strengthening logistical integration within the air transport sector, notably through the elimination of fragmentation in the European airspace, the liberalization of air connectivity between member states, and the modernization of air traffic management systems. These measures, including the introduction of liberalization packages, the Single European Sky (SES), and innovative programs such as SESAR, have facilitated the establishment of one of the most interconnected and competitive aviation markets globally, characterized by enhanced service accessibility, expanded route networks, and the integration of ecological standards.

Despite these substantial achievements, the complete integration of the system remains unrealized due to disparities in the national interests of EU member states, as well as varying levels of technological readiness and institutional capacity among them. Such challenges complicate the harmonization of regulatory frameworks and coordination among national management bodies, necessitating further efforts in policy development and financing. Prospective development plans envisage the expansion of SES to the Western Balkan countries, thereby fostering deeper regional integration, and the further alignment with global standards set by the ICAO, which is a prerequisite for ensuring the competitiveness of European aviation on the international stage. In the long term, the success of these initiatives will depend on the EU's capacity to adapt to technological innovations, alongside overcoming geopolitical and economic barriers that impact the stability of the aviation sector.

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