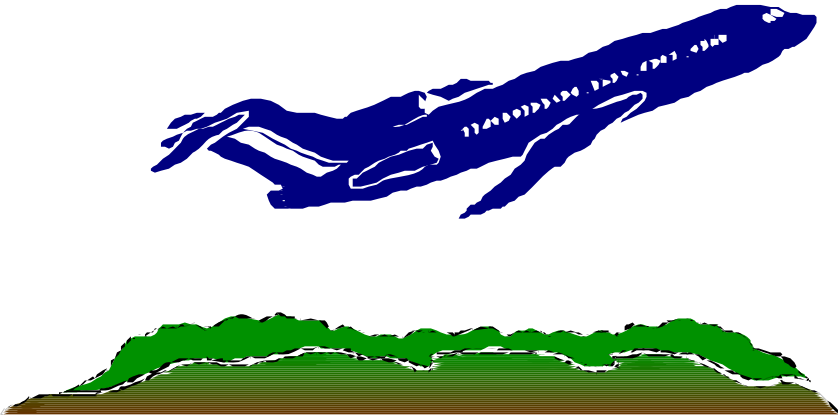




Center for Research and Policy Making



FLYING CHEAP TO MACEDONIA A MISSION IMPOSSIBLE?

Skopje, September 2006

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Introduction:

Macedonia, "the pearl of the Balkans" is a small country situated in the southeastern part of Europe. It abounds in natural beauties and rarities, lakes, mountains and spas. The main tourist resorts are located around the three lakes of Ohrid, Prespa and Dojran, which are the country's best tourist attractions¹. These are the facts about Macedonia that are usually stated in the brochures published by the Ministry of Economy (Tourism Department). Since the beginning of June Macedonia is also being advertised world wide through a promotional commercial on the global television network CNN. The commercial will be broadcasted 253 times in a period of 3 months and is estimated that it will be seen by 117.5 million people.² This could be a good way promoting the natural and cultural heritage of Macedonia attracting larger number of tourists. In Montenegro the number of foreign tourists increased for 40% after a year of broadcasting commercials on CNN.³

Besides commercials a key factor for someone to visit a country is the existence of a developed air transportation system. A number of low budget airlines operating in the country means that masses of visitors could come. For example, British youth often organizes its stag parties in the Baltic States, in Estonia in particular. The more airlines fly to Macedonia the more visitors one can expect. An increase in the number of air companies flying to Skopje means competition and probably lower prices. Having low budget airlines doing business in Macedonia would

¹ "Republic of Macedonia- Cradle of culture, land of nature". Ministry of Economy of the Republic of Macedonia- Tourism department, 2005, pp.2.

²<http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=5&tabid=0&EditionID=518&ArticleID=11177>

³<http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=0&tabid=65&EditionID=519&ArticleID=11201>

increase the benefits even further. The cheaper the prices, the bigger the motivation for Westerners to come to Macedonia to stroll along the shore of the Prespa lake.

Are there many flights to Macedonia at the moment? Are the tickets expensive? Let us compare the airports in Skopje and Sofia:

Flights from Sofia Airport to ⁴ :	Flights from Skopje Airport to ⁵ :
*flights to same destinations	*flights to same destinations
Amsterdam- <i>Bulgaria Air</i>	Amsterdam - <i>MAT</i>
Budapest- <i>Wizz Air, Malev</i>	Budapest - <i>Malev</i>
Dusseldorf - <i>Lufthansa</i>	Dusseldorf - <i>MAT</i>
Frankfurt - <i>Lufthansa</i>	Frankfurt- <i>Cirrus Airlines</i>
Istanbul- <i>Turkish Airlines</i>	Istanbul - <i>Turkish Airlines</i>
Milan - <i>Alitalia</i>	Milan - <i>Alitalia</i>
Prague - <i>Czech Airlines</i>	Prague - <i>Air France, Czech Airlines</i>
Rome - <i>Alitalia</i>	Rome - <i>MAT</i>
Vienna - <i>Austrian Airlines, Viaggio Air</i>	Vienna - <i>Lufthansa, MAT</i>
Zurich - <i>Bulgarian Air</i>	Zurich - <i>MAT, Swiss Air</i>
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Athens- <i>Hemus Airlines, Olympic</i>	Antalya - <i>Turkish Airlines</i>
Alicante <i>Bulgaria Air</i>	Belgrade - <i>Jat Airways</i>
Barcelona - <i>Bulgaria Air</i>	Ljubljana - <i>Adria Airways</i>
Berlin- <i>Bulgaria Air</i>	Zagreb- <i>Croatia Airlines</i>
Beirut - <i>Hemus Air</i>	
Bratislava - <i>Sky Airlines</i>	
Brussels- <i>Bulgaria Air, TAMOR</i>	
Bucharest- <i>Hemus Airlines ,TAMOR</i>	
Cologne- <i>Hemus Air</i>	

⁴ <http://www.sofia-airport.bg/flights/departs.asp?lang=eng&Mv=up&PageNo=5>

⁵ <http://www.airports.com.mk/avdep2.asp?date=7%2F2%2F2006&month=7&year=2006>

Cairo - *Hemus Air*
Dubai - *Hemus Air*
Kiev - *Aerosvit*
London - *British Airways*
Larnaca - *Hemus Air*
Lisbon - *Bulgaria Air*
Madrid - *Bulgaria Air*
Malaga - *Bulgarian Air*
Mallorca - *Bulgarian Airlines*
Malta - *Air Malta*
Manchester - *Bulgaria Air*
Moscow - *Aeroflot Airlines*
Munich - *Lufhansa*
Palma de Mallorca - *Bulgaria Air*
Oslo - *Hemus*
Paris - *Air-France*
Tel Aviv - *EL AL, Bulgaria Air*
Tirana - *Hemus Air*
Tripoli - *Hemus Air*
Varna - *Hemus Air*
Warsaw - *Lot Airlines*

There are quite a few air companies, including low-cost carriers, flying to Bulgaria. In Macedonia there are only few airlines that operate to a limited choice of destinations. Not surprisingly Bulgaria is among the countries in Southeastern Europe that has cheaper air tickets than Macedonia. The budget airlines make the difference.

Prices of return air-tickets to selected destinations in Europe

Flights from	Destination	Costs of Ticket Regular airline	Costs of Ticket Budget airline
Skopje	Milan	236 Euros	
Athens			80 Euros ⁶
Skopje	Frankfurt	230 Euros	
Athens			164
Skopje	Prague ⁷	210 Euros	
Sofia			132 Euros ⁸
Skopje	Frankfurt	230 Euros	
Sofia			59.99 Euros ⁹
Skopje	Milan	236 Euros	
Tirana			120 Euros ¹⁰

Flying to Europe can be cheap when using low budget airlines. Budget airlines that operate in neighboring countries like: **Easy-Jet** (Croatia and Greece¹¹), and **Wizz-Air** (Greece, Bulgaria, Croatia¹²) offer very cheap flights to their costumers and operate to destinations throughout whole Europe. Getting to Frankfurt from Skopje costs about four times more

⁶http://en.wikipedia.org/wiki/Eleftherios_Venizelos_Airport<http://www.skyscanner.net/flights/uk/GR/>

http://www.aegeanair.com/aegean/en/news/news2.asp?news_id=63#

⁷<http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=2&tabid=0&EditionID=518&ArticleID=11174>

⁸ <http://www.air.bg/en/promotions/&id=7>; <http://wizzair.com/skylights/cgi-bin/skylights.cgi>

⁹ <http://wizzair.com/skylights/cgi-bin/skylights.cgi>

¹⁰ <http://www.skyscanner.net/gbp/flights/tia/mila/cheapest-flights-per-month-to-milan-from-tirana.html>

www.belleair.com

¹¹ <http://www.easyjet.com/EN/routemap/>

¹² <http://wizzair.com/index.shtml>

than from Sofia. Traveling to Milan with a regular air carrier from Skopje is about three times more expensive than getting there from Athens with a low costs airline. Not only Macedonian citizens have few direct flights but they are expensive as well.

Few tourists fly to Macedonia. In 2005, a total of 197,216 tourists visited the largest number coming from the neighboring states: Serbia and Montenegro (28,312), Greece (27,809), Bulgaria (17,120), and Albania (12,718). Most of them traveled by cars and buses.¹³ To attract others the government should think allowing low budget airlines fly to Macedonia.

Budget airlines expend operations all around to Europe. Some like **Ryan Air**, for example, have become major players in the market. Ten years since founding it has a network around Europe increasing the number of passengers from 5,000 to 30,946,000.¹⁴ Operating from secondary European airports such as Brussels Charleroi and Frankfurt Hahn, Ryan Air's profit is bigger than the one of British Airlines.¹⁵ Growing and modernizing constantly, the company at the moment is researching new communication technologies so that passengers can book tickets through their mobile phones.

There is no special secret how Ryan air and other low budget airlines function and make profits. They only fly short-haul destinations, less than 1500 km, and use point -to-point bases and often use one type of aircraft. On the board there are no free food and drinks, no seat numbers (which reduces the turnaround time) and is less cabin crew. Booking of tickets is possible only through the internet. There are no official representatives

¹³ See *Republic of Macedonia- Cradle of culture, land of nature*, Ministry of Economy of the Republic of Macedonia- Tourism department, 2005, p.5.

¹⁴ <http://www.ryanair.com/site/EN/about.php?page=About&sec=story>

¹⁵ Ibid.

on the airports reducing administrative costs. Low-cost airlines operate from secondary, regional airports, where they benefit from the low airport charges and low station costs. In Germany Ryan Air, flies from Frankfurt-Hahn airport, paying 4.25 euros charge per departing passenger and no landing fees. Regular airlines, using the main Frankfurt Main Airport, pay 13 euro charge per departing passenger and 1.75 euros landing fees.¹⁶

What legal conditions should (low-cost) airlines fulfill so that they can operate in Macedonia? In Macedonia airlines can operate only if they register in the **Directory of Civil Aviation Authority** as a regular air career. **The Civil Aviation Authority (UCVP)** functioning within the Ministry for Transport issues, changes and extends air career licenses.¹⁷ To become a regular career an air company should fulfill a number of technical requirements.¹⁸ In addition, a company needs to pay a number of taxes and fees.¹⁹

Airport charges are key factor in attracting low budget airlines. Around Europe secondary or alternative airports attract low-cost airlines because of their lower airport fees. Macedonia has no secondary or regional airports. The main airports are controlled by the government and cannot do much to attract low budget airlines on their own. Moreover, airport authorities cannot set the rate for the handling charges for the use of the platform and the airport building, the government does.²⁰ These prices

¹⁶ <http://www.ryanair.com/site/EN/about.php?page=About&sec=story>

¹⁷ Article 2, item 1, the Law on Civil Aviation, Official Gazette of R.M. 14/2006.

¹⁸ The company should obtain an Air operation Certificate; Certificate of reinsurance (applies to the non-EU air companies); Certificate of Registration; Radio Station License, and Noise Level.

¹⁹ The fees for 'over flies' the rate of which is set by the Government are paid to UCVP through Eurocontrol, the European Organization for the safety of air navigation. Other fees and taxes are paid for landing (according to the weight of the aircraft), air traffic control, and the use of lights.

²⁰ Article 56, the Law on Civil Aviation, Official Gazette of R.M. 14/2006

are comparable to those of Bulgaria's main airports.²¹ However, aircompanies flying to Bulgaria can use secondary airports, where the charges are about 40% lower than those at the main airports.

Moreover, in Bulgaria, the state controlled airports are to be given to private companies to manage. A German consortium has just been awarded the concession over the Varna and Burgas airports for the next 35 years.²² The law in Macedonia envisions concessionary use of the domestic airports. Chapter four of the Aviation Law speaks about giving concessions for construction and usage of a new airport, for reconstruction and usage of the existing airports and also for giving airport services.²³ A concession can be given to a domestic or foreign legal entity through a public tender organized and introduced according to the regulations in the Law for concessions."²⁴ There have been talks of giving concessions for the use of the airports in Macedonia for years. Nothing has been made final yet.

Other hurdles await low budget airlines wishing to do business in Macedonia. While there are 12 air companies that operate in Macedonia as regular air companies the domestic air carrier Macedonian Airlines (MAT) is a crucial player on this market. According to the Contract between the government and MAT, MAT is defined "as only regular air transporter flying from the Republic of Macedonia."²⁵ This means that MAT has the right to fly to all the countries with which the Government has signed bilateral or

²¹ For example the passenger charge in Macedonia costs 12 euros for international and 2,55 euros for domestic flights, while the same charge in Bulgaria is 9 euros for international and 1,5 euros for domestic flights

²²<http://www.kapital.com.mk/DesktopDefault.aspx?tabindex=1&tabid=65&EditionID=526&ArticleID=11352>

²³ Article 87 item 1, the Law for Aviation, Official Gazette of R.M. 14/2006

²⁴ Article 88 item 1, the Law for Aviation, Official Gazette of R.M. 14/2006

²⁵ Agreement between the Government of Republic of Macedonia and Macedonian Airlines (MAT), signed on 26.06.2000, article 3.1, pp.3.

multilateral agreements.²⁶ However, "the Government agrees that other air companies that work and are registered can perform charter traffic according to the rules of AIP (Aeronautical Information Publication) with a *previously written concordance* of the regular air transporter MAT."²⁷

This means that other air companies that would like to fly to the same destinations as MAT does, have to ask for a permission to do so. MAT has the right not to give such a permit. Why would it when this would introduce competition and decrease their profits? When Air Vardar, based in Skopje, wanted to fly to several destinations, such as Basel and Graz it was turned down by MAT. Since MAT flies to Zurich "it was not a surprise that it used the privileged position on the market."²⁸

What can be done to remedy this situation? The problems with fair competition in the air traffic business are not Macedonian only. In order to set a single European Air Market and fair competition for all air carriers the EU is enforcing a new legal framework that will include not only member states but also others, including Western Balkan countries. While by tradition air services agreements have restricted the right to operate flights between two countries to the national airlines of both countries, such nationality restrictions have been found incompatible with EU law. Since the establishment of a common aviation market in the EU, all EU airlines are entitled to have non-discriminatory market access. The nationality restrictions in bilateral agreements are being removed in order

²⁶ Until now days R Macedonia has signed bilateral agreements with Albania, Austria, Belgium, Great Britain and North Ireland, Bulgaria, Holland, Croatia, Italy, Israel, Spain, Switzerland, Turkey, Ukraine, SCG, Sweden, Denmark, Norway, Hungary, Germany, Russian Federation, Slovakia, and for ratification wait the agreement with BiH, France, Estonia, Egypt, Poland, Slovenia.

²⁷ Agreement between the Government of Republic of Macedonia and Macedonian Airlines (MAT), signed on 26.06.2000, article 3.4

²⁸ CRPM Interview with Sabri Alija, director of Air Company "Air Vardar", May 2006

to allow all EU airlines non-discriminatory market access to third countries. By 2006, a total of 62 countries in all continents have recognized the EU common market in their air services agreements.²⁹ More horizontal negotiations are currently underway with countries in different geographic regions.

In December 2004, the Council of Ministers authorized the European Commission to start negotiations with eight South-East European partners (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro and Kosovo) on a "European Common Aviation Area" (ECAA) agreement. The negotiations opened in March 2005. In order to give the ECAA partners time to prepare for the full application of EC aviation law, the EU developed a country-specific gradual approach: Once ECAA partners have fully implemented the EC aviation law, ECAA airlines will have open access to the EU market.³⁰ The transitional arrangements were negotiated in October and November 2005 with each ECAA partner individually. The text of the ECAA agreement was agreed upon by all parties in December 2005.

After signing the ECAA agreement each Southeast European country should adopt and ratify it in the national Parliament in order for the agreement to enter into force. Transitional arrangements are envisioned for the essential standards of the EU aviation law to be applied in all Balkan countries.³¹

²⁹ See European Commission news at: <http://uk.ihs.com/news/eu-en-aviation-market.htm>

³⁰<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/582&format=HTML&aged=0&language=EN&guiLanguage=en>

³¹ Convergence of national legislations with the EU Aviation Law should be made in issues such as economic regulation, aviation security, airport security, air traffic management, environmental protection, passenger protection and competition rules.

The arrangements of the second transitional period are specific for each country. Macedonia needs to terminate or bring in line with EU law the contract between the Government and MAT. Eventually MAT would lose its status as a 'national airline' able to prevent new air companies that would like to enter the Macedonian market. After the ECAA agreement is enforced the Macedonian sky would become competitive fully part of the European air traffic market.³²

In **February 2006** a new Aviation Law entered into force in Macedonia.³³ It is harmonized with the EU aviation directives (EU Civil Aviation Law) and was a starting point in the process of implementing the ECAA. On **9 May 2006** in Luxemburg the Macedonian Minister for Transport and the Director of the Department for Civilian Air Traffic signed the ECAA agreement. This is key step taken by the government for the liberalization of the air traffic business. The Macedonian Parliament now needs to ratify the Agreement, in order for the ECAA to enter into force. On 24-26 October 2006 a delegation from EU is coming to Macedonian UCVP to coordinate the process of implementing the ECAA with the UCVP authorities.³⁴

³² Council of the European Union, Brussels 20 March 2006, Inter-institutional file 2006/0036 (CNS)

³³ See Official Gazette 14/2006.

³⁴ CRPM interviews officials in the Law Department in UCVP

Recommendations:

Few foreign tourists fly to Macedonia. The tickets are expensive and the destinations to fly to are limited. In order to attract high number of tourists flying to Macedonia, the government can ease the conditions for low budget airlines to establish operations in the country. Businessmen, artists, Macedonian students abroad, guest-workers, and long time emigrants would also benefit from the lowering of the prices of air tickets for flights to and from Macedonia. For these reasons the Center for Research and Policy Making recommends the following:

1. The Macedonian Parliament should complete the process of ratification of the European Common Aviation Area (ECAA) Agreement as soon as possible, because it is the first step that should be taken in order this Agreement to enter in force.
2. The new government should analyze the conditions under which the Macedonian Airport(s) can be given for concession.