EU REPORT

By Marsha W. Johnston

With the exceptions of greater choice in air carriers and consequent fares and more sophisticated security, the impact on corporate travel of adding 10 new central and eastern European countries to the European Union in May, 2004, has been and will continue to be minimal. Despite non-European doubt about the effect of the Czech Republic, Cyprus, Hungary, Slovakia, Estonia, Malta, Lithuania, Poland, Latvia and Slovenia becoming full EU member states, it's been in the pipeline for a number of years, so to most EU based businesses the event was just a recognition that things are changing

Indeed, people must discard the outdated Cold War image of the enlargement countries that is unfortunately all too widely held. A virtual revolution has taken place in all of these countries since the fall of the Iron Curtain, which has largely gone unnoticed outside of continental Europe. For example, Fortune Magazine rates Budapest as the third best European city for business environment, quality of life and workforce. The Czech mobile telecommunications market is one of the most dynamic in Europe, with two-thirds of all Czechs owning a mobile telephone. And the World Economic Forum ranked Estonia the eighth-best country in the world for putting the Internet to practical use in government and business.

Little wonder then, the conclusion of the 2003 edition of global real estate firm Cushman & Wakefield Healey & Baker's annual survey, conducted by Taylor Nelson Sofres. The survey said that the expansion of the European Union would be the most significant potential influence on business over the next ten years. It included three cities from the new member states in its Top 30: Prague (17), Warsaw (22) and Budapest (23), with Warsaw rated tops of all for the cost of staff.

One of the region's few remaining travel difficulties—a lack of choice in air travel—had been disappearing for the last couple of years with the influx of no-frills carriers, including homegrown SkyEurope. With the immediate open sky policy that is shared among EU member states, barriers to country access for all carriers disappeared on May 1.

"Because of EU enlargement, although we're a Slovak-registered company, now we can operate from, say, Poland to France or to England; within the

EU we can move freely," says Eryk Klopotowski, spokesman for Bratislava-based SkyEurope, the region's leading low-cost carrier. Before enlargement, all SkyEurope flights had to originate in Slovakia and it had to get Air Operator Certificates (AOC) from each country individually, as it did from Hungary last year, he explained. In contrast, he added, the airline began operating in Poland on May 2, without a separate Polish AOC.

The newfound ease of movement, combined with SkyEurope's wild "volume" business model that finds it selling tickets for 1 euro, has further fueled its meteoric rise. Between January 1 and October 31, 2004, SkyEurope transported 771,000 passengers, says Klopotowski, compared to approximately 120,000 for the same period in 2003, a growth of almost 600%. At least half of that, he says, is business-related travel.

The growth of no-frills carrier traffic has created headaches for the traditional airlines and travel service companies in the region, as it has throughout Europe, with the rise of Ryanair and EasyJet. Jan Brazda, general manager for American Express Business Travel Eastern Europe (includes Czech Republic, Slovakia, Hungary, Poland, Greece and Russia), says, "We do not expect the number of low-cost carriers to grow, but their market share will, and traditional airlines are also cutting commissions, so all the industry has to change. So we're leading the way in introducing management and transaction fees to our customers. That will be adopted by others, because in Hungary and Poland, the airlines have already cut the commission to 1%, so they have to adopt other business models."

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But EU enlargement creates more opportunity for traditional airlines as well. "The significance of the extension of the European Union is huge for KLM," says Paul Gregorowitsch, executive vice president of sales. "The free traffic of persons, goods, and services makes it possible to obtain landing rights more easily, giving KLM access to markets that were first closed, and then only accessible to national carriers."

Having new EU member states also means greater economic activity with existing states, generating more business traffic, said KLM's Gregorowitsch. Anticipating this development, KLM has already increased its frequency to Bucharest and Warsaw to 3 times a day each, opened an office this year in Riga, the Latvian capital, and will open next year in Talinn, Estonia.

Indeed, says American Express's Brazda, he has already seen a two-fold expansion of economic activity. "We see more presence from medium and small-sized companies, mostly from neighboring Germany and Austria, a lot of whom are in the automotive business. Our accession into the EU has given them the guarantees they were waiting for," he says. Brazda's observation is borne out by a SkyEurope survey done in June, which showed a huge movement of small and medium businesses to and from the new member states, especially Poland, Hungary and Slovakia, on their airline. "It is simply because those people are very cost conscious, and even a year ago, both in Poland and Hungary, there were only flights with state monopoly carriers or via agreements, such BA and [Polish national carrier] LOT," says Klopotowski.

The other economic expansion, says Brazda, has been the increase in new "shared service" call centers opened by multinational companies who are attracted by the region's high skill level and low cost. "The major player is DHL, which opened its European center in Prague with more than 1,000 employees. GE opened a big call center in Hungary, Accenture opened a shared service center in Prague, and Exxon Mobil is coming to Prague with a call center," he said.

Such activity has prompted further refinements in existing corporate travel services. For its part, SkyEurope introduced SkyAbo Fix and SkyAbo Flexi, two variations of its SkyAbo bulk ticket product in September. By eliminating a single price and a single set of rules for buying a minimum of 20 tickets, SkyEurope wanted to target small and large businesses differently. Thus, Flexi, at €99 per ticket, allows the ticket holder name and the date changed up to 2 hours before departure at no charge. Fix, at €75 per ticket, must be finalized two weeks before departure, with changes incurring additional charges.

At the same time, EU officials are working hard to see that the increased economic activity and related travel are conducted in safety, given the change in borders. Jose Carmona, spokesman for the European Council of Ministers for counter-terrorism, says the biggest hurdle is getting the new countries integrated into the original 15-member EU's Schengen Information System (SIS), which was designed to protect the borders by registering all people who entered. "SIS was only designed for 15 member states, so with the accession of new states, it has to be rebuilt. We have to connect to all of the national systems, which have to be protected and prepared to exchange information," says Carmona.

The EU also changed its deadline for requiring biometric identifiers in passports to accommodate its new members. "As of mid-2006 in Europe, you will

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have to have a new passport to travel, with a chip that has your fingerprint and photo. It might have happened next year without the new states," says Carmona.

Unseen to travelers but ultimately critical for easier and more cost-effective travel, is the realization of a single Air Traffic Control regime for all of Europe. Currently, Europe has over 70 ATC centers, and more than 30 interoperable systems. Bringing the whole thing together has been a goal since the 1960s, but Jean-Jacques Sauvage, head of director general's office of Eurocontrol, says EU enlargement will probably accelerate the process from an organizational and regulatory point of view. Indeed, he said, Eurocontrol delivered the first draft of regulations for the Single Sky ATC regulatory initiative at the end of November.

"All of the states that joined the EU, except the Baltic States, were members of Eurocontrol and were participating in pan-European ATC programs. Single Sky is a regulatory initiative, and now [new EU states] will have to submit to the EU legal regime. Before, Eurocontrol had no sanctioning ability," he says.

In the meantime, air traffic at Prague's airport this year is up 30%, says American Express's Brazda, its inbound conference business in Prague and Budapest has jumped, and local airlines are joining international alliances. In short, he says, "We are operating here like in any other western European country!"