

Brexit Mapping – The Wider Repercussions

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Two Challenges:

1. Economic Impact on Demand

- a) UK GDP 2.5-3.5% lower by 2020 compared to no Brexit - will impact on UK travel demand
- b) Falling value of Sterling will impact on cost of tourism – in 2016 46m UK residents flew to Europe and 19m Europeans to UK

2. Regulatory Impact on Air Transport

Will current rules/regulations continue ?

Complex Regulatory Challenges?

1. Three Liberalisation Packages (1988,1990,1993) plus Reg. 1008/2008 in 2008

All EU airlines have access to all intra-European markets including routes outside their own state, e.g. Norwegian flies LON-Madrid, easyJet Paris-Athens (7th freedom)

» while Ryanair flies Rome-Milan (9th Freedom)

- No control on capacity
- No price controls
- Right of establishment in any other EU state
- Concept of “EU airline”

Complex Regulatory Challenges?

1. Three Liberalisation Packages (1988,1990,1993) plus Reg. 1008/2008 in 2008

Have created a liberalised European aviation area for EU member states

- No capacity controls
- No price controls
- “EU airlines”

2. But subject to numerous Regulations and Directives

- Some aviation specific e.g. on passenger rights , airport charges ,safety....
- Others not aviation specific eg. competition rules .state aid, mergers etc

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3. **EU agreements with third countries** e.g. Morocco, Israel , Canada , Jordan or 2007 EU:US “open Skies”

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4. **Intra-EU agreements** e.g EASA , Single European Sky, Eurocontrol, European Investment Bank etc

Complex Regulatory Renegotiations?

- Liberalisation, market access, traffic rights, ownership
- EU Regulations and Directives
- EU aviation agreements with third countries
- Intra-EU bodies

Sectorial agreement for aviation will be needed. [Market access is key](#)

Four potential market access models available!

Four Alternative Options for UK Negotiators

1. Follow Norway – Join European Economic Area - NO
2. Sign Swiss type bilateral agreement with EU - NO

Norway and Swiss models both require acceptance of

Jurisdiction of European Court of Justice
Free movement of labour

But are dependent on having an UK-EU trade agreement

But UK Govt has rejected a Norwegian or Swiss style trade agreement

Four Alternative Options for UK Negotiators

1. Follow Norway – Join European Economic Area - **NO**
2. Sign Swiss type bilateral agreement with EU - **NO**
3. Sign bilateral agreement with EU to join Common Aviation Area - **UNATTRACTIVE**
4. Sign new bilateral with each individual EU state or revert to old Bilaterals - **NO**

Most likely is new special UK-EU aviation agreement

Crucial issues to resolve :

Ownership and control is KEY

Traffic rights – 3rd/4th , 5th, 7th and 9th

Future EU Directives and Regulations – on state aid,
slots, airport charges etc

EU bilaterals with 3rd countries e.g Morocco, USA, Canada

Safety (EASA membership)

Jurisdiction of ECJ

“EU airlines” must be substantially owned (over 50%) and effectively controlled by **nationals** of a member state

Ryanair , Wizz will not be when UK exits

EasyJet is already 48 % EU owned

IAG will not

Norwegian ??

Will corporate restructuring be enough ?

Ideal would be to use **equivalence of UK and EU ownership** or “principal place of business”

Position Paper :

Air France/KLM and Lufthansa Group Airlines

(11 May 2017)

- UK carriers should be granted access to the internal market if there is full “regulatory convergence”
- If no regulatory convergence then new UK-EU agreement to grant unlimited 3rd and 4th freedom rights
- Intra-EU rights should be reserved for EU airlines
- Cabotage rights only for EU carriers
- Uk citizens should be treated as third country i.e. as non-EU
- EASA and Eurocontrol membership of Uk should be retained

UK Government's European Union Withdrawal Bill

As of March 2019 will import into UK law all existing EU Regulations including 140 or so aviation specific regulations

A UK court may have regard to decisions of the European Court of Justice if it considers it appropriate to do so

An UK-EU aviation Agreement seems inevitable but will take longer than March 2019 to negotiate

Given the complex issues to be agreed on

Interim decision may be option to continue as at present on basis of “comity and reciprocity”

The 2007 US-EU “Open Skies” Agreement?

- ✓ EU and US airlines can fly between any two points .eg BA “Open Skies”flies Paris-New York and Norwegian flies Gatwick-New York
- ✓ No price or capacity controls
- ✓ But ownership restrictions on both sides.

New UK-US agreement easy and rapid because of policy convergence

W.Walsh “.....one second after Britain leaves the EU there will be an Open Skies treaty with the US”(30 Oct.2017)

UK Transport Secretary Chris Grayling “ **It is inconceivable that planes will stop flying . It is not going to happen** “ (Oct 2017)

Michael O’Leary , CEO Ryanair “**We are very cautious about the amount of capacity we are allocating to the UK over the next 2-3 years...**(Aug. 2016)

“The trouble with today ...

is that the future is not what it used to be”

Paul Valery : French Poet
1871-1945

