

Dismantling the Skies That Bind: Institutional Impacts of Brexit in Aviation Markets and Networks

Maximilian Bauernfeind
Austrian Ministry for Transport, Innovation and Technology

Jagoda Egeland
International Transport Forum at the OECD

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BREXIT – Background and Possible Future Development



Historical Background (I)

- **1951/57:** Founding of the EEC
- **1963 and 1967:** UK applies for membership -> rejected by French President Charles de Gaulle
- **1973:** UK joins EEC (together with Ireland and Denmark)
- **1975:** 1st referendum on UK-membership (67% in favour of remaining - turnout of voters 64%)
- Full integration into common market, but no participation in certain policy areas (e. g. Schengen-Agreement on border controls)

Historical Background (II)

- **2013:** PM Cameron announces referendum in case of re-election 2015
- **May 2015:** Tories win elections
- **December 2015:** EU-referendum act
- **1st half of 2016:** Re-negotiations of certain conditions of UK-membership to the EU
- **23 June 2016:** Referendum -> 51.9% in favour of BREXIT (turnout of voters 72.2%); PM Cameron steps down
- **13 July 2016:** Theresa May new PM
- **20 July 2016:** UK communicates not to hold EU-Presidency in 2017
- **29 March 2017:** Letter by PM May to European Council President Tusk triggers 2-year-period of Art 50 TEU.
- **April 2017:** UK elections lead to hung parliament -> tory government tolerated by Northern Irish DUP
- **29 March 2019, 11 PM GMT:** UK ceases to be member of the EU

Art 50 TEU

1. Any Member State may decide to **withdraw** from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall **notify the European Council of its intention**. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an **agreement** with that State, setting out the **arrangements for its withdrawal**, taking account of the **framework for its future relationship** with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The **Treaties** shall **cease to apply** to the State in question **from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2**, unless the European Council, in agreement with the Member State concerned, **unanimously decides to extend this period**.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State **shall not participate in the discussions** of the European Council or Council or in decisions concerning it.
A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
5. If a State which has withdrawn from the Union asks to **rejoin**, its request shall be subject to the procedure referred to in **Article 49**.

The Negotiations (I)

- EU-Team: Mr Michel Barnier (EC; FR, former EU-Commissioner, chief negotiator),
- Supported by Mr Guy Verhofstadt (EP/ALDE; BE; former Prime Minister) and Mr Didier Seeuws (Council; BE; diplomat)
- Negotiation rounds prepared by specialised Council Working Group of the EU 27 on Art 50 – permanent chair by EC, UK not admitted to meetings, followed by special COREPER and Council Meetings
- UK Team led by BREXIT Minister, Mr David Davis

The Negotiations (II)

- **29 April 2017:** European Council (EU-27) accepted negotiating guidelines for EC
- **2-phased approach**
 - Phase 1: negotiation on terms and conditions of divorce, especially on three principal topics:
 - Citizens' rights (EU/UK)
 - Financial affairs
 - UK/Ireland border
 - Phase 2: negotiation on future relation; to be opened, when European Council declares sufficient progress on phase 1
 - Principles for final agreement: level playing field, integrity of the single market (no sector to sector approach), non-member can't have the same rights like members, 4 freedoms are indivisible (no cherry-picking), EU preserves autonomy in decision making and enforcement (ECJ)
- **6 official negotiation rounds**
- **8 December 2017:** Joint EU/UK-report on progress of negotiations
- **15 December 2017:** European Council declares opening of phase 2
- **20 December:** Proposal for new guidelines on transitionary period
- **By March 2017:** Proposal for new guidelines on future relationship

Future Relationship (I)

- **Transitional period likely** (to end at the latest on 31 December 2020)
 - UK to fully apply EU-acquis
 - full financial contribution to EU-Budget and participation in EU-programmes
 - no representation in EU's decision making bodies
 - clearly defined, precisely limited in time, and subject to effective enforcement mechanisms (ECJ)
 - respective deal needed by 29 March 2019
- **In case of no deal:** unregulated BREXIT ->UK ceases to be member of the EU on 29 March 2019, 11 PM GMT

Future Relationship (II) – Possible Models for Future Cooperation

1. EEA-Membership (like e. g. NOR, ISL, LIE):

- Almost full integration into internal market, including free movement of persons – red line for UK
- No membership in customs union
- No participation of the EU's common trade policy
- Participation in some of the EU-Agencies (e. g. EASA) and programmes without right to vote
- Contribution to overall budget of EU + budget of agencies – red line for UK
- Submission under jurisdiction ECJ-jurisdiction – red line for UK
- Flight operations between members of the EEA would still be possible, as well as ownership and control
- No right to vote on EU-legislation
- EEA-membership at the moment requires membership either in EU or EFTA
- Excluded by UK -> wants to fully leave customs union & common market

Future Relationship (III) – Possible Models for Future Cooperation

2. Model CETA: Comprehensive trade agreement between EU and CAN

- Negotiations since 2009, only partially in force since September 2017, full ratification will take approx. another 2 years
- Comprises both trade in goods, as well as in services
- Limited access to EU/EEA common market
- Very limited in access for transport services:
 - only maritime transport largely included
 - aviation only liberalised as far as GATS is already going -> no inclusion e. g. of air transport services
 - Rail, road and IWT widely excluded by exceptions in the annexes
- Not preferred by some EU-MS (e. g. AT), as transport should not be part of overall trade agreements and mutual control of legislation not far reaching (principle of right to regulate enshrined in the treaty)
- **For UK market access is not going far enough -> wants CETA+++ (without further specification)**

Future Relationship (IV) – Possible Models for Future Cooperation

- 3. Swiss Model:** CH refused membership in EEA in 1992 -> package of bilateral agreements with EU (a. o. free movement of persons, Schengen, land transport, aviation)
- Partial access to single market
 - Partial submission to jurisdiction of ECJ – red line for UK
 - Outside customs union
 - No automatic implementation of EU-law, but if CH fails to do so -> blocked by EU in respective sector
 - Not part of common trade policy
 - CH contributes to EU budget and participates in some programmes and agencies (e. g. EASA)
 - **Aviation:** CH companies have access to single market and can offer services between two MS of the EU + own EU companies
 - **Guillotine Clause:** serious violation / termination of one agreement terminates all agreements
 - **Approach with sectoral access to common market is rejected by EU-27 (no cherry-picking)**
 - **For some Member States, CH light could be a model (free trade agreement accompanied by less far going sectoral agreements, such as aviation)**
 - **Not supported by UK, due to limited access to common market, contributions to EU budget and partly submission under ECJ jurisdiction**

Future Relationship (V) – Possible Models for Future Cooperation

4. Customs Union (e. g. Turkey):

- Association agreement since 1963, customs union since 1995, EU-candidate since 1999
- Customs union applies to trade in industrial and processed agricultural goods, limited migration rights, **services not included (e. g. aviation)**
- Concerning included parts: obligation to enforce rules equivalent to EU
- Trade policy: when EU signs trade agreement with third country -> TK must offer market access for that country (no reciprocal obligation) – **very dependent on EU in trade policy**
-> **red line for UK**
- No participation in EU's decision making process
- Modernisation currently under consideration
- **Not suitable for UK, due to limited access to common market**

Future Relationship (VI) – Possible Models for Future Cooperation

5. Association Agreement (e. g. Ukraine)

- No ECJ jurisdiction
- Would preserve regulatory autonomy, but
 - very limited economic co-operation
 - very limited access to common market
- Not feasible for future relationship

Future Relationship (VII) – Possible Models for Future Cooperation

7. WTO: Falling back to WTO-rules would be a consequence of unregulated BREXIT

- Most complete break of UK with EU
- No more free movement, budgetary contributions or implementing EU rules
- Major economic shock for UK and damage for EU
- EU-27 + all third countries having free trade agreements with the EU would have to apply WTO tariffs and quotas and vice versa
- Transport services only liberalised according to GATS -> air transport services not liberalised, apart from some auxiliary services (e. g. aircraft repair)

Conclusion

- Both sides are willing to conclude a fair and balanced deal
- UK so far only expressed, preference for “CETA+++”, without further specifications
- Discussion in EU-27 on future model is ongoing -> most likely free trade agreement, accompanied by sectoral agreements (e. g. on aviation an agreement comparable to the one between EU and USA or CAN)
- “Exit from BREXIT” legally possible, unlikely and practically difficult
- Unregulated BREXIT would mean falling back on WTO-rules

Thank you very much for your attention!

**Maximilian Bauernfeind
Austrian Federal Ministry for Transport,
Innovation and Technology**

maximilian.bauernfeind@bmvit.gv.at



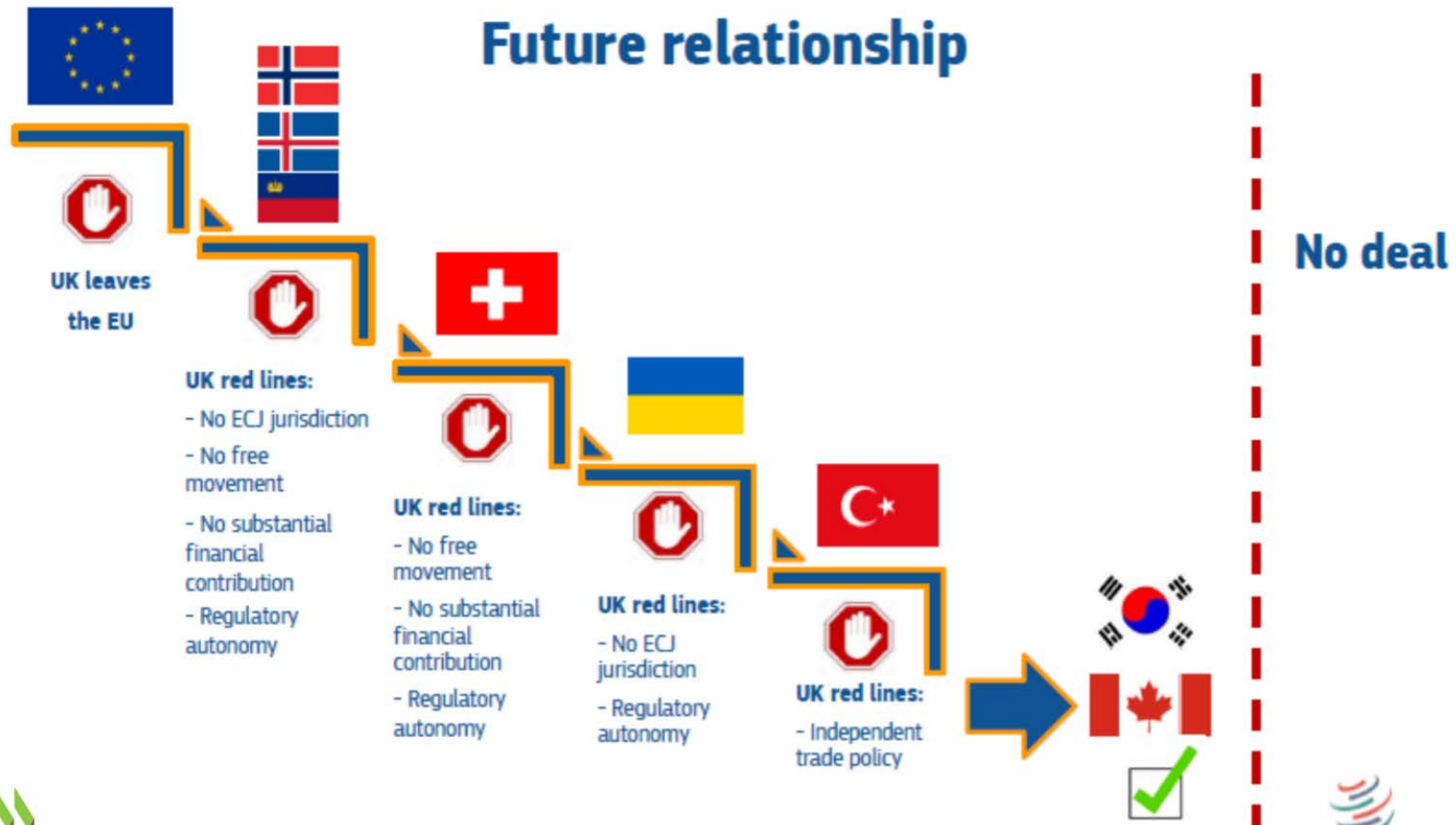
This isn't a trade negotiation as we know it

- Trade deals are normally aimed at increasing welfare for all parties involved. No matter what the outcome of the negotiation is, the result will be a lose-lose deal.
- Failure of a trade negotiation implies the maintenance of the status quo. Failure of Brexit negotiation will result in a cliff-edge exit of the UK, in which the trade relationship between the UK and the EU will be governed by the WTO rules.

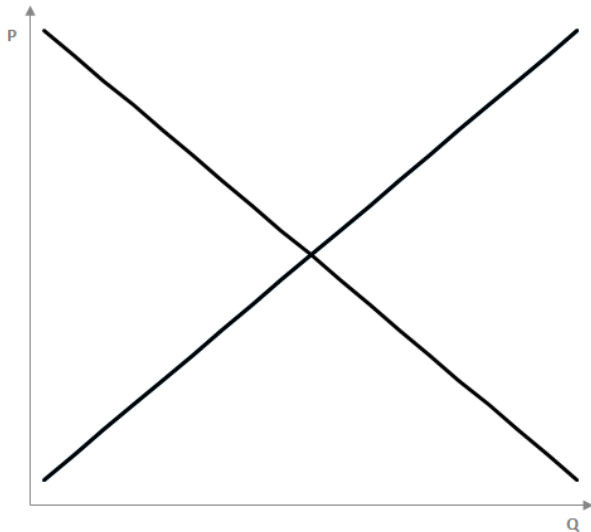
The Barnier slide



Future relationship



How will the European market for aviation be affected? A simplified view



Supply = (UK + EU + other) carriers

Demand = (business + leisure + VFR)
travellers + freight

- **Supply**
 - Market access
 - Safety certification
- **Price**
 - Economic impacts on the exchange rate
- **Demand**
 - Trade impacts on business travel & freight
 - Income and price impacts on leisure travel
 - Migration impacts on VFR travel

Impacts on supply: Market access

- The EU aviation market liberated routes that airlines could operate as well as capacity and frequencies, and tariffs that could be charged. It also relaxed ownership and control rules to one requiring EU (as opposed to national) majority.
 - NB: Corporate restructuring due to Brexit has already begun.
- Airlines sell tickets up to 12 months in advance. A transition arrangement will be needed as an agreement on aviation won't be reached by March 2018.
- UK red lines point to an Open Aviation Area between the EU and the UK as the most beneficial option to both sides. But will this option get the support it needs?

„The UK has always supported an open, liberal deregulated aviation market. ... With policy support, it ought to be relatively straightforward to agree a deal on aviation that will be ready when the UK leaves the EU.”

Willie Walsh, CEO of IAG

„Brexit is going to be a disaster for the UK economy. She [Theresa May] needs to be over there negotiating or at least removing these roadblocks, not swanning around Japan drinking tea and sake.”

Michael O’Leary, CEO of Ryanair



„Brexit means Brexit – our industry won't be exempt ...

The basic approach is for every industry to say 'hey, let's pretend that nothing has happened.' That's something the governments, and also the EU Commission, won't go along with. You can be sure about that, from what I hear."

Carsten Spohr, CEO of Lufthansa

Impacts on supply: Safety certification

- European Aviation Safety Agency (EASA) is the aviation safety regulator for all EU countries.
- As an EU agency, EASA requires its members to sign up to the European Court of Justice (a red line for the UK Government).
- The best option would be for the UK to stay in EASA, but – again – the question is whether there will be enough support for that.

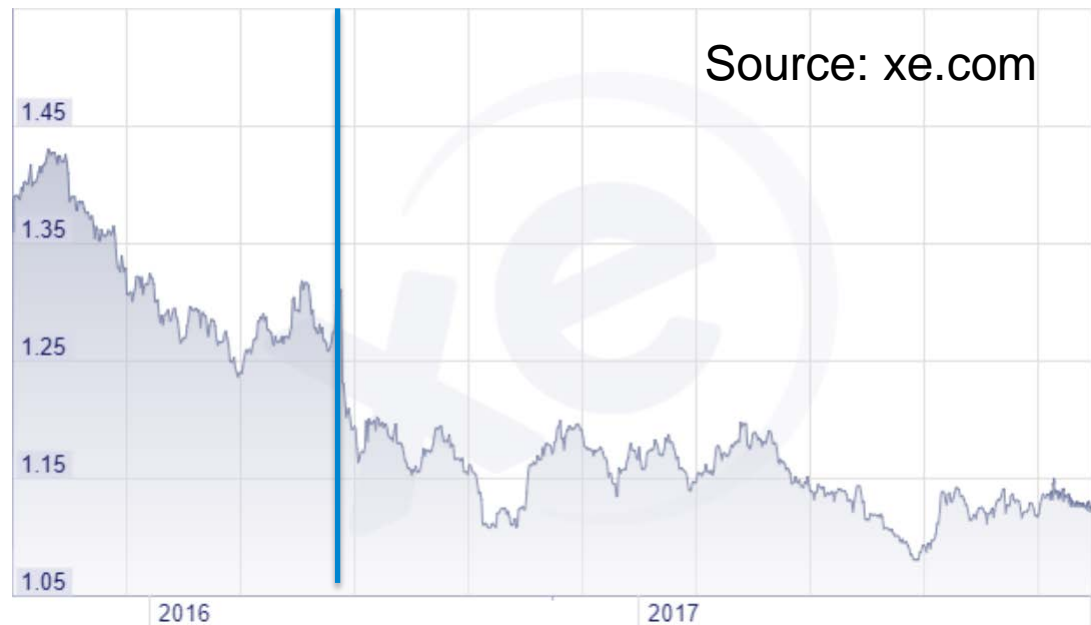
“We at the CAA are very explicit that we want to remain full members of EASA. I have to say that in my eight years in the aviation sector, I don’t think I have ever come across an issue that has more broad consensus in the sector. It’s almost universal. It makes no sense to recreate a national regulator.”

Andrew Haines, CAA Chief Executive



Exchange rate impacts

- £ depreciation due to uncertainty and negative economic shocks
- Weaker £ increases inbound demand and reduces outbound demand
- The overall impact of depreciation is expected not to be very significant for the European market, it will be more significant for the UK market



GDP impacts of Brexit

	OECD	CBI / PwC		LSE / CEP		Treasury		
	WTO/FTA	FTA	WTO	Optimistic ("FTA")	Pessimistic ("WTO")	EEA	FTA	WTO
Outcomes								
<i>Near term</i>	2020	2020		Static				
GDP (%)	-3.3%	-3.1%	-5.5%	-1.3%	-2.6%			
GBP cost equivalent per household	-2200	-2100	-3700	-900	-1700			
<i>Longer term</i>	2030	2030		Dynamic		Impact of leaving the EU after 15 years		
GDP (%)	-5.1%	-1.2%	-3.5%			-3.8%	-6.2%	-7.5%
Range	-2.7% to -7.7%			-6.3% to -9.5%		-3.4% to -4.3%	-4.6% to -7.8%	-5.4% to -9.5%
GBP cost equivalent per household	-3200	-600	-1800			-2600	-4300	-5200
Range	-1520 to -5000			-4200 to -6400		-2400 to -2900	-3200 to -5400	-3700 to -6600

Source: OECD calculations; CBI/PwC study: PwC (2016), "Leaving the EU: Implications for the UK economy", PricewaterhouseCoopers (PwC) report commissioned by The Confederation of British Industry (CBI).; LSE/CEP study: Dhingra, S., G. Ottaviano, T. Sampson and J. Van Reenen (2016), "The consequences of Brexit for UK trade and living standards", Centre for Economic Performance (CEP), London School of Economics and Political Science (LSE); and Treasury: HM Treasury (2016), "HM Treasury analysis: the long-term economic impact of EU membership and the alternatives", April 2016.

Brexit will have significant negative and wide-ranging impacts on the European aviation market

- Impacts on aviation demand in the UK will be significant, and likely more severe than for other sectors
 - Britain traditionally relies on exports of its services. The services sector is expected to be hit hardest by the new trade deal, and it is also more aviation intensive than other sectors of the economy.
 - All market segments (business, leisure, VFR, freight) will be negatively affected predominantly through income effects, reduced trade and investment, and migration.
- The extent of these changes will be defined by politics: the new trade agreement between the UK and the EU.

Thank you

Jagoda EGELAND

Economist, Infrastructure Planning Lead

International Transport Forum at the OECD

Postal address: OECD/ITF, 2 rue André Pascal, F-75775 Paris Cedex 16

Tel. + 33 (0)1 45 24 97 20, Mob. +33 (0)6 68 32 03 68

Jagoda.Egeland@oecd.org, www.itf-oecd.org