

Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence: Brexit: Future trade between the UK and the EU

Thursday 27 October 2016

11.15 am

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Members present: Lord Whitty (The Chairman); Lord Aberdare; Lord Balfe; Baroness Donaghy; Lord German; Lord Green of Hurstpierpoint; Lord Liddle; Baroness Noakes; Baroness Randerson; Lord Rees of Ludlow.

Evidence Session No. 4

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Questions 32 - 46

Witnesses

I: Brian Pearce, Chief Economist, International Air Transport Association; Dr Barry Humphreys, BKH Aviation; and Sophie Dekkers, UK Country Director, Easyjet.

Examination of witnesses

Brian Pearce, Dr Barry Humphreys and Sophie Dekkers.

Q32 **The Chairman:** Thank you very much for appearing here. Clearly, aviation has a number of issues which are very specific to it. Thank you also for your written information. This is a recorded session and there will be a transcript which we will send to you, so you are on the record.

Could you describe for us the UK-EU trade in air transport services, the way they are traded in the different sectors, passengers, freight and so forth, their relationship to the statistics and whether the statistics actually give a proper record and the different types of trade, and then move on to looking at what are the benefits of various alternative future relationships with the EU? At this stage, we are talking specifically UK-EU

and we will go on to third country arrangements later. Who wants to kick off?

Dr Barry Humphreys: Perhaps I will, my Lord Chairman. Aviation has always been treated differently from other industries in global trade. It has always had its own set of regulations and was never part of the WTO, so what evolved was a series comprising many hundreds, if not thousands, of treaties, international air services agreements, between countries which governed how aviation operated and was allowed to operate. Initially, those agreements were quite restrictive, but over the years we have seen an evolving liberalisation. What the EU did was to strip away all those restrictions and create a single market where any airline of any member state could operate freely and not be limited in any way, and that has been an enormous success; the improvement in competition and services for the consumer is there for everyone to see.

The UK was a major supporter of the creation of the EU internal aviation market. The UK fought very strongly for some time along with the Dutch and, to some extent, the Irish alongside the Commission to introduce the internal market against strong opposition from some other Member States, such as France and Germany. It was a decision of the ECJ that eventually determined that aviation was subject to the competition rules of the Treaty of Rome, which led to the negotiation of the internal market. It has been an enormous benefit to consumers and to the aviation industry. That is now put at risk, we fear, if there is any lack of clarity as to where this will go. Is that sufficient, my Lord Chairman?

The Chairman: Yes, that is fine. We may come back to that.

Brian Pearce: Perhaps I could just set the broader context for this discussion by describing what we see as the importance of air transport services. I think the key thing to understand, as I am sure you all know, is that people and companies typically do not buy a ticket or a cargo airway bill for the sake or the pleasure of doing so, but it is a means to an end for a business trip, a holiday or for accessing suppliers or markets. That is what distinguishes air transport from some other sectors. It is a key enabler for many other businesses, so one ought to think of the air transport network serving the UK and the regulations supporting that network as, essentially, an infrastructure asset to enable the success of users, such as the City of London and the high-tech industries, pharmaceuticals and others. That is the context and a reason for looking at this sector with some care because it is important for the success of other sectors.

Looking at two main functions of it, passenger transport and freight, the markets affected by Brexit are very important. In passengers going back and forth between the UK and Europe, in 2015 that represented 52% of total passenger numbers. If you expand that to include the members of the European Common Aviation Area, that is 56%, but also affected here are the third country agreements between Europe and a number of other countries, most importantly the US and Canada. If you include the passenger numbers there, that totals two-thirds, so we are talking about

a very significant part of the air transport sector. It is a similar number if you are thinking of the spending of visitors into the UK from those markets. Out of the £22 billion that was spent in 2015, £10 billion was from the European Union and £3.5 billion from the US and Canada, so that is over 60% of inbound visitor spending.

Equally, we ought not to forget freight. Often, it seems a trivial aspect of airlines' business. In tonnage, compared to what ships carry and what surface transport carry, it is, but it is very important in value because often high-value goods, pharmaceuticals and other products are carried. It has become particularly important in recent decades as industries and companies have split their production and located assembly plants in different countries, the Just-in-Time manufacturing production techniques, in particular. If you recall the week when the airspace here was closed because of the volcanic ash which came from that volcano, the name of which I will not try to pronounce, it led to the closure of many car plants, and BMW, I think, had to close some of its factories because it could not get key components which are often shipped by air. It is quite hard to quantify those effects, but it is all part of air transport being an enabler. Thank you.

The Chairman: Thank you.

Baroness Randerson: If I could ask a supplementary, do you have a figure for the value of the freight that goes to the EU?

Brian Pearce: I do not. I do have the tonnage from the CAA, which is 400,000 tonnes, which is roughly 18% of the total. I do not have the value, I am afraid.

Sophie Dekkers: I will give Easyjet's perspective on the exit of the EU. Easyjet carries 73 million passengers a year, 60% of our passengers already originate from outside of the UK and 40% of our flights do not touch UK airspace. As Barry talked about, the liberation of the EU aviation market was part of the growth and the basis on which we grew as an airline and low cost grew within Europe as well. Airlines have the freedom to fly any routes that they wish to within Europe and that has brought down fares, so average fares are now down by 40% in real terms since the introduction in 1996 and numbers of routes have increased by 180%. Exactly as Brian said, aviation is an enabler within Europe of trade, investment and tourism and, within the UK, it is a really important market. Aviation contributes £12 billion to the UK economy and directly employs 220,000 people, so it is really important, as an island, that aviation links are maintained. I would liken it to building a house where you might have discussions around how many bedrooms you have or what type of roof you have, but you will all agree that it needs to have electricity, and that is how we see aviation; it is the enabler. We would actually urge that aviation is looked at as a separate entity outside of the trade agreements because it is in both parties' interests. It is not an import or an export, it is an enabler, so certainly we would emphasise that as an approach.

Q33 The Chairman: You have all emphasised the importance of the sector. Can you now address, given that we are leaving the EU, what model you would prefer to see developed for your sector? You have talked about the European Common Aviation Area. Could we still be part of that either as an individual nation or as part of the EEA? Would it be better to have a bilateral agreement, or would it be better to have something more akin to the EU-American deal, Open Skies? Do you have strong opinions on those various options or, indeed, any other?

Dr Barry Humphreys: I mentioned before that the UK had been at the centre of the liberalisation of Europe, and what we have in Europe for aviation may attract some criticism on the margins, but, broadly, it is acceptable to everyone. The broad objective for the industry is to remain as close as possible to the status quo, so we then have to look at the various models that are available or might be created to see how close they come to meeting that objective.

One problem with the models that have already been suggested, such as the Swiss model or the Norwegian example, is that they all have certain shortcomings. For example, they might include acceptance of not only all current EU aviation legislation but all future EU aviation legislation without any input from the UK, and there are other shortcomings.

There may, however, be alternative approaches or a completely different approach that would meet the aviation industry's requirements. There is one example that I would like to mention, which is that some years ago the European Commission were given a mandate by the Member States to negotiate with the United States a very comprehensive, Open Skies deal. Obviously, that mandate was complex, but, in broad terms, what it involved was extending the EU internal market across the Atlantic and then, potentially, adding other countries to it as well. Since all the EU Member States signed up to that and it was acceptable to the Commission and offered to the United States, although ultimately the Commission failed to negotiate the full agreement with the United States, it may be that that is a useful model to start looking at an arrangement with the United Kingdom. It would require some amendments at the margin, but it would provide the fundamental market access that the industry needs.

The Chairman: Essentially, you are saying that a bespoke, quasi-Open Skies agreement would be the best outcome. Do you all agree with that?

Sophie Dekkers: Yes, absolutely.

Q34 Baroness Noakes: Can you say what the risks would be, absent that agreement? Would UK carriers end up with significantly reduced access to the European market? Within that, could you address the different sectors, which I assume are passenger and freight, but any other sectors as well would be worth highlighting?

Sophie Dekkers: I will start from Easyjet's perspective. The risk of reduced access is a technical problem, but it is one that will be solved because it is in the interests of both parties. We have a number of

benefits that come to both the UK and the EU from aviation, and there are EU airlines which are also lobbying from their side on it, Air France, KLM and Lufthansa, because it is in their interests to have access to the UK market too. There are UK and third country agreements that already exist, so we could look to go down that route to enable connectivity to continue.

From Easyjet's perspective particularly, if we look at the Freedoms of the Air, we need to be able to operate from the UK to the EU and from the EU to the UK because we have aircraft based in Europe and in the UK, so that will be Freedoms 1 to 4. We also need to enable EU to EU flying, being a UK airline, so that would be our Paris to Milan flights, which is Freedom 7, and then Freedom 9 is domestic flights within Europe, so Paris to Toulouse, for example. We operate all of those routes today and we would need a framework in place to support that going forward.

One of the things that we are doing is establishing an EU AOC, Air Operating Certificate, which will then enable us to do the intra-European flying and the European domestics, but that will not enable the UK to EU connectivity, so there does need to be a bespoke agreement, exactly as Barry said, to establish that connection between the two. It is not covered by the WTO, so we do not have that as a fallback option, but we think that it will be resolved because the parties on both sides will be keen to maintain that connectivity.

Lord Liddle: You say that it is a mutual interest, but can I push you on that a bit? Easyjet has been an enormously successful competitive airline. Are you absolutely certain that Air France and Lufthansa are going to be enthusiastic to allow you to continue to compete?

Sophie Dekkers: We are part of Airlines for Europe, which is a small group of airlines, including Air France, KLM, Lufthansa, Easyjet, Ryanair and BA, so—

Lord Liddle: I was not singling out any particular one, but it is the general point.

Sophie Dekkers: The group of us together are lobbying European governments specifically. European airlines have an interest still to connect into the UK and it helps to feed their routes through Schiphol or through CdG, so that connectivity is still quite critical for them. Obviously, competition is always a challenge, but certainly in the conversations we have had with them they are talking of, and are all supportive of, reaching an agreement that will mutually benefit both sides.

Baroness Noakes: Would either of you wish to contribute on that?

Brian Pearce: I would only add that one of the fears is that air transport will get caught up in any horse-trading that might take place in the general trade negotiations. It is quite right that market access deals are reciprocal. In a sense, there is an interest of both parties to agree, but that does vary in scale. For markets, such as Cyprus and Ireland, the UK

represents 50% of the seats flown between those two countries. With France and Germany, it is less than 10%. I certainly take Sophie's point, but there is a risk with that.

The Chairman: In effect, your advice to the Government is to take aviation out of this and to have a separate discussion on it, which could be able to be concluded.

Witnesses nodded in agreement.

Baroness Noakes: If I can ask a supplementary, what do you think the risk is to London maintaining its international hub status, given that there are other hubs available in continental Europe?

Brian Pearce: The Open Skies agreements are one critical factor because of some of the business arrangements that have been set up by airlines in the absence of the ability to merge. We have a lot of joint business ventures across the north Atlantic, for instance, which hub over London, so those Open Skies agreements are a prerequisite for those structures, which have been very successful both for the airlines and in offering consumer choice.

Baroness Noakes: So London as a hub depends on the Open Skies agreements?

Brian Pearce: To some extent, yes.

The Chairman: Let us now look at third country relationships.

Q35 **Lord Aberdare:** Going outside the EU, can you say something about the range of third country agreements that the EU currently has or is in the process of negotiating, whether those would cease to apply when the UK leaves the EU and what sort of significance that would have? You have said a little bit already about the US agreement, which is a good basis, but I think the EU has about 111 agreements with third countries. If those fell by the wayside, what would the impact be?

Dr Barry Humphreys: I think it is the UK that has 111 agreements with other countries. Most of those are not affected by our membership of the EU, with one small wrinkle, but, essentially, they are not affected. They are negotiated between the UK and an individual country and they will continue. However, the trend has been for the Commission to acquire more and more competency to negotiate on behalf of the whole of Europe, and it is granted mandates on a country-by-country basis to do that. It makes a case to the Member States and the Member States either agree or not. The United States was one example that was negotiated and Canada was another where an agreement is in place. The Commission has recently been granted mandates for a number of other countries in the Far and Middle East, Turkey I believe. In addition, it has a mandate for negotiating with all the neighbouring countries around Europe, so it is a mixed picture, essentially. For the UK, as I say, for most of its agreements, Brexit will not have a major impact.

The agreements that the Commission is responsible for on behalf of the whole of Europe account for a substantial proportion of the quantity of traffic, and they clearly will be affected. In the case of the United States, Bermuda II; it is still in place, which was set to one side, but it still exists and that would automatically come into play again. In reality, that is such a restrictive agreement that I feel fairly sure that the United States and the UK would reach a new liberal agreement very quickly and relatively easily and probably one very similar to the EU-US agreement, and the same with Canada.

With the countries around the edge of Europe, the UK is such an important market to them, especially in tourism of course, that the pressure would be there to reach early and relatively easy agreements.

Sophie Dekkers: To build on that point, we operate to Israel and Morocco, as markets on the periphery of the EU, and those would not be covered without us having a new agreement, but we have already approached the DfT to explicitly talk about these two markets, which we do have access to today, to make sure that we start those discussions to have that new agreement in place outside of everything else.

Brian Pearce: The only thing I would add, my Lord Chairman, is on the influence that the UK has had in these third country talks in the past. The UK has been a very important and very liberal voice in Europe and it is perhaps of some concern that it will have less influence.

The Chairman: The absence of the UK in Europe would reduce the liberalisation tendency within the EU, yes, which will make life a little bit more difficult. The European Common Aviation Area already goes beyond the membership of the EU, in which case the difficulties of having a bespoke agreement seem less in this sector than they might be in some others. Am I right?

Dr Barry Humphreys: That is true, partly because there is a long history of these types of negotiations and a lot of experience of doing them. There is not usually a major problem, provided both parties have similar interests. In the area that you describe, it seems likely that parties will have similar interests, so it is, potentially, different from other sectors.

The Chairman: We will move to another aspect of this with Baroness Donaghy.

Q36 **Baroness Donaghy:** I was going to ask you if we could borrow some of your negotiators for other areas. My question is about the concept of a community carrier and its implications. We are aware that all EU Member States have amended a large proportion of their global air service agreements to incorporate the concept of a community carrier. We understand that, until the UK renegotiates all of its agreements with third countries, this means that the EEA carriers will have equal traffic rights to the UK carriers in any bilateral agreements that the UK has with third countries, whereas UK carriers will cease to have reciprocal access in EEA

agreements once Brexit occurs because the UK will cease to be a community carrier. Could you please explain this point and its implications to us?

Dr Barry Humphreys: Traditionally, an air services agreement between two countries only applies to the airlines of those two countries. As a result of an ECJ decision, the Member States were told not to discriminate between European airlines. For example, if there is a bilateral air services agreement between the UK and Mexico, whereas before only UK and Mexican airlines would be designated to operate, now the UK cannot prevent French or German airlines operating under that agreement. Member States were told to go around the world and to renegotiate their agreements to incorporate this clause. Of course, that requires the agreement of the other parties. A lot of other countries agreed to that, some did not, but there are a significant number of UK bilateral agreements that incorporate this community clause. Of course, the same is true in Europe, so the French would be going around negotiating for UK airline access.

As soon as the UK leaves the EU, UK airlines will no longer be community carriers and, therefore, will not have a right to be designated under the France-Mexico agreement, but the clause allowing French airlines to operate from the UK to Mexico will still be part of the UK-Mexico agreement. All of those agreements will have to be renegotiated, which is a large administrative task, but commercially it is probably not that significant in long-haul services because hardly any airlines have actually taken up these rights.

Where that differs—Sophie referred to this earlier—is in the peripheral countries around Europe where easyJet, for example, operates from Paris to Morocco, so that is a more difficult issue, but it is caught up in the internal market negotiations rather than the specific bilateral negotiations.

Sophie Dekkers: That is part of the reason why we are setting up the EU AOC, which will enable us to operate as a European airline and have a base within Europe. We already have two operating certificates, a UK one and a Swiss one, but we are looking to set up a European one which will then give us those community carrier rights. As Barry said, for us it is only a limited number of markets which are outside the EU that it would impact.

The Chairman: We go on to the less obviously liberal parts of the EU regime.

Q37 **Lord Green of Hurstpierpoint:** Yes—ownership and control. Dr Humphreys, in the briefing that you gave to the Committee, you explained that at present an airline has to be majority owned and controlled by EU nationals to be an EU carrier. Could you amplify on what that actually means? For example, does IAG count? I do not know whether it is majority owned and controlled by EU nationals—it might or might not be true, depending on American fund managers, for instance—

but it is, of course, based in Spain and owns a rather well-known British airline. How would it be affected, how would other carriers be affected and how do you think they might respond to the loss of EU carrier status by virtue of their ownership?

Dr Barry Humphreys: Ownership and control rules have applied to aviation for many decades and they have held back the development of the industry. To give an example, aviation is a global business, but there actually is not a single global airline and most airlines are very focused on individual countries—and the reason for that is these archaic restrictions which still apply. There are two aspects to them. One is that each country defines what an airline is for its purposes. In the UK, for example, before we joined the EU, we insisted that majority ownership and control must lie with UK citizens. In other countries, there are even more restrictive rules. Separately to that, there are these international bilateral agreements which contain clauses that specify that a country has the right to reject the designation of another airline from the other party, unless that airline is majority owned and controlled by the citizens of that state. That is the traditional approach.

The internal EU market swept that all away for European purposes. You can have now cross-border ownership within Europe. For example, Ryanair is an Irish airline, but it is pretty clear that it is not majority owned by Irish citizens and the share ownership is spread quite widely. That is fine for airlines operating within the EU, but, when they seek to operate beyond the EU, they run into the bilateral clause problem. That is why, when there have been cross-border mergers of airlines that operate a large proportion of their output outside Europe—you mentioned IAG as an example—very complicated governance procedures have had to be put in place. This has applied to IAG, it has applied to Air France/KLM and it applies to Lufthansa, which owns a number of other airlines. So far, those governance procedures have not been legally challenged, so one assumes that they are watertight.

I am not a lawyer and I am not sure I fully understand all the complexities of this, but British Airways, although part of IAG, is still regarded as a British airline under the governance procedures. I do not see why that would change when we come out of the EU. However, what is important is that other airlines, particularly a number of the low-cost carriers which have shareholdings spread across Europe—I mentioned Ryanair, and Wizz Air is a major low-cost carrier based in Hungary which is another example—they will struggle to be regarded as community carriers under EU law because so many of their shares are owned by UK citizens or non-EU citizens. That is a major challenge going forward and it will have to be addressed. There are ways of doing it. You could have different classes of share ownership or you could force shareholders to get rid of their shares, but they come at a price and it is not the optimum solution.

Lord Green of Hurstpierpoint: I imagine that we will not, in fact, have to go into the legal niceties of all this because this, in general, sounds like one of the relatively easier areas to deal with, but I would push you a

little bit on it. British Airways is wholly owned by a Spanish company. Is the Spanish company itself an EU citizen or is it its shareholders who have to be EU citizens? Where does the citizen test apply?

Dr Barry Humphreys: I do not think I know the answer to that, I am afraid.

Lord Green of Hurstpierpoint: On the face of it, British Airways, for this purpose, will continue to be a community carrier because it is owned by a Spanish company.

Dr Barry Humphreys: Indeed, but there are two elements to it, as I mentioned. There is the proportion of shares owned by citizens of individual countries and there is the control element.

Lord Green of Hurstpierpoint: But all the shares in BA are owned by IAG, which is a Spanish company, so it depends on the way the citizenship test is applied.

Dr Barry Humphreys: I am afraid I am not in a position to answer that. All I can say is that there has not, to the best of my knowledge, been a legal challenge to any of these arrangements so far, and I cannot see why that would change post Brexit.

Lord Green of Hurstpierpoint: Assuming there is a reasonable deal on the community carrier.

Dr Barry Humphreys: Yes.

Sophie Dekkers: My understanding is that the citizenship is at the shareholder level and, exactly as Barry said, there is a different mix of shareholders, according to the company. We are fortunate to have a much more even split, so we are less in the situation than the other examples Barry gave, but my understanding is that it is shareholder citizenship that is the key part.

Q38 The Chairman: Following that—you touched on this with Easyjet—there is talk that the effect of leaving the EU is that you would have to have your main place of business within the EU, if you are going to be able to maintain all the benefits of being in the EU. That is not just a question of a brass plate and having an office in Vienna, but it is literally having your principal business based in a continuing EU country. Is that what you are facing up to?

Sophie Dekkers: As I mentioned earlier, we are looking to set up and establish an EU AOC. Today, all the people whom we recruit and who fly for us within France are employed on local French contracts, and it is the same for the German, Italian and Portuguese bases that we have. So all our employees in each of those markets are already employed on local contracts, so there would not need to be a significant movement of people across, and the aircraft are based in those airports. The EU AOC will enable us to operate under that framework, and that is the only change that we would need to make. We would still have 11 bases in the

UK and 140 aircraft and we would still have a Luton office, as we have a Geneva one for our Swiss AOC, and we are currently looking at what we will do for the European AOC. In people movement, that would not make a significant difference because we are already based there, it is just the legalities of it.

Q39 Lord Aberdare: I understand there are two criteria: ownership and control. Presumably it is possible to have a situation where you would qualify as an EU-owned airline, but not as an EU-controlled airline. Does that create a problem at all?

Dr Barry Humphreys: Clearly, one is easily measured and the other is a more qualitative issue. There have been cases where the authorities have challenged the degree of control exercised by non-EU companies and changes have had to be made. Normally it is sorted out relatively straightforwardly.

Lord Aberdare: Presumably you would have to be controlled in one place, but could you be joint-controlled? Could Easyjet be controlled from Europe and the UK?

Dr Barry Humphreys: I am afraid you are leaving my area of expertise; it is one for the lawyers.

The Chairman: We will turn to a more general regulatory issue. Baroness Randerson.

Q40 Baroness Randerson: We have spent some considerable time on the problems, but are there any benefits to be had from greater sovereignty and regulatory divergence from the EU? What are they and how do they balance out? Do you see, on balance, that it will cause more problems or will it be better eventually to be free of EU regulations?

Brian Pearce: I am speaking on behalf of the International Air Transport Association, so I have members on both sides of the negotiating table. From our perspective, an international air transport network needs to be harmonised and any patchwork or disruption can be quite damaging to it, so we would want any solution to seek to minimise that disruption.

Sophie Dekkers: We would not expect to see a significant divergence because the policymakers on both sides will prioritise probably three things. One is around a liberal market for consumers, one is around safety and one is around consumer protection. So it will be important on both sides to establish those things and to have those protections. We do not necessarily see there being a significant divergence as a result of those because those three key factors will need to remain in place.

Lord Liddle: You are assuming that we are going to incorporate in British law existing EU consumer protection law and keep following whatever developments there are in EU consumer protection law. That is an assumption you are making, is it?

Sophie Dekkers: Yes. Although it will not be labelled as an EU 261, we cannot foresee a circumstance where consumers will not continue to be protected to the same extent—so we expect there to be a mirrored version of that set-up for the UK, which is something that we would certainly support.

Lord Liddle: And we would mirror the changes in the future, without having any say over them?

Sophie Dekkers: Yes. All that we would say is that we would support there being continued protection as there is today.

Q41 **Lord Liddle:** You mentioned safety. How is Brexit going to affect the air traffic control system?

Brian Pearce: One of the big issues we have at the moment is the inefficiency of European airspace; it is incredibly fragmented. There are about 30 different airspace providers within Europe and that affects the flightpaths. Typically, the average aircraft has to fly an extra 48 kilometres unnecessarily, adding to delay, cost, CO₂ emissions, et cetera. There is a big project at the moment, Single European Sky, and associated technical projects. The UK has had a very important influence in that and we are worried that that influence might diminish because this is a project that is supposed to have been delivered decades ago.

Q42 **Baroness Randerson:** To go back to my question—the first part of it—your evidence is that the UK led the EU in many forms of liberalisation, and you have repeated that this morning. Does that imply in any way that the EU has held you back and, therefore, that it would be easier for Britain to go around dealing with individual countries entirely in its own way?

Dr Barry Humphreys: I do not think that has been the case. On the non-market access legislation, the rules tend to set a base level which individual Member States can then exceed. To give an example, there is a Directive on ground handling at airports, specifying that you have to have a minimum number of ground-handling companies for competitive purposes at larger airports. In the UK, we have exceeded that. That is a minimum that we long ago went beyond, so it has not had any real impact here. It has had an impact in other Member States. I do not think we would lose out at all in those terms.

If I might go back to the question from Lord Liddle, as I mentioned before, the UK has been a prime pusher of much of this legislation, so why would we not want to incorporate it into UK law, if necessary? As to the future, we would then have the option of incorporating whatever Europe agreed—but, equally, if we did not agree with it, we would not have to do so. I suppose that is a small benefit.

Baroness Randerson: Going back to the beginning of what you said this morning, you talked about the importance of those potential negotiations being dealt with separately. As I understand it, there is also urgently a time factor associated with it; it does not just have to be dealt with

separately, it has to be dealt with first. Do you agree with that point that has been put to me?

Sophie Dekkers: Yes, from our perspective, because we do not have a fallback under the WTO, it does have to be resolved explicitly. As I mentioned earlier, it will be of mutual benefit for it to be resolved, so we do not see that requesting it and it actually happening would be an issue necessarily. However, we do not have a fallback, so it would be then going through the process of individual bilateral agreements with individual countries, which will take a lot longer—that is why we are pushing for it to be separate.

Q43 **The Chairman:** On the back of that, I will ask a question I was going to ask at the end. Do we have the capacity and depth either in the industry or in the Government to negotiate the wide range of agreements that we will have to update and change? Does it exist?

Dr Barry Humphreys: The core negotiation will be with the EU. The negotiations with third countries will probably come a little later. The Department for Transport already has a team which negotiates with all the other countries I mentioned earlier. That team will have to be expanded, certainly, but I think the core expertise is there to do it.

The Chairman: We can move on to another dimension, free movement.

Q44 **Lord Rees of Ludlow:** Many service sectors have emphasised the importance of the freedom of movement to cross-border operations and to getting mobile talent. Could you say something about that from the perspective of aviation?

Sophie Dekkers: Aviation, as an industry, is international and, certainly, if you think about the qualifications and specific talent in pilots and so on, by its nature it is very transient. As I mentioned, we do base and employ people locally in each market, so that is not a significant challenge for us. What we find is that where we have European people based in our offices, it gives us that market insight and that detailed knowledge of where to grow and how to develop our network, so it is quite an important part of our business. It makes up a relatively small proportion of people in each market; the majority of the people in the UK are UK citizens and the majority in Germany are German citizens on German contracts. The industry, as a whole, is transient and it enables the free movement of people. As a business, we do operate in this way, which is slightly different from other airlines.

Q45 **Lord Liddle:** In this complex area, if you have to do a quick one, two, three on your priorities, what are they?

Dr Barry Humphreys: I think a fully liberal agreement with the Community that incorporates market access and ends up as close as possible to the status quo. I put that as number one, number two and number three.

Sophie Dekkers: That would certainly be one and two. Getting that agreement as early as possible would be in that list as well so that we are

able to move forward with certainty. As an airline, we plan 18 months ahead at least in aircraft allocation and so on, which is why we are already looking at the EU AOC, so our priority is a liberal agreement which enables us to fly as we do today and doing that separately so that it is not held up by other negotiations, because it seems quite straightforward and it is in both parties' interests to reach that.

Brian Pearce: As the representative of international air transport, we do not have a specific recommendation for the UK, but I would make an observation that there seems to be low-hanging fruit here which is in everyone's interests to grab and sort out as quickly as possible as a key infrastructure asset. The second would be to protect the wider open skies, the third-country agreements, on which some of the new structures and the hub status depend—so, early talks with the US.

The Chairman: How far have the DfT (Department for Transport) and the Brexit department engaged with your industry on the whole prospect of exit?

Sophie Dekkers: We have met with Chris Grayling individually and as an industry group and have been engaging directly with the DfT. We have reassurance from the Transport Secretary that aviation is the priority, given its international nature, compared to other transport modes. So, as a European airline based in the UK, we have been quite close to the discussions with the Government and the DfT.

Dr Barry Humphreys: The Department for Transport has also set up an advisory committee made up of people with experience of international negotiations and the aviation sector, and I am a member of that. It has only met once so far but it is a very positive sign.

The Chairman: Have you also had contact with the Brexit department?

Dr Barry Humphreys: I have not.

Sophie Dekkers: Only briefly. David Jones from DEEU was at the industry meeting that we had—but that is the extent of our discussions so far.

The Chairman: Is there anything else generally you would like to add?

Sophie Dekkers: I think we have put most of our points across.

The Chairman: There is one other specific issue.

Q46 **Lord German:** Can I raise the Gibraltar issue? You will have heard the Spanish Government talking about wanting joint sovereignty over Gibraltar. If we move to a situation where the UK had to negotiate with the European Union, is there a potential for Spain unilaterally to hold up the whole procedure over the issue of Gibraltar? Can it do that and do you see a potential for harm to the future of Gibraltar airport?

Dr Barry Humphreys: The answer to that is yes. Very clearly, it could hold it up, and experience so far has suggested that it might well be

prepared to do that. There are two major pieces of aviation legislation that currently are not making any progress because of Spanish opposition. One is in connection with airspace and the second is consumer rights. Everyone else in Europe is agreed that they should be taken forward, but the Spanish have stopped it so far. If they are prepared to stop those issues, clearly there is the opportunity for them to prevent wider negotiation—and I am not sure what the answer to that is.

Lord German: So is there a real danger of everything that the UK might want to deal with concerning the EU hinging on this very issue, if there is to be ratification by all Member States?

Dr Barry Humphreys: Yes, with one caveat: of course, Spain is highly reliant on air services and the UK is one of its major markets, so it will have some interest in ensuring that air services continue efficiently. On how that negotiation will develop, I am afraid I could not comment.

Sophie Dekkers: I would reiterate Barry's last point that inbound tourism is so critical for Spain—from the UK, in particular—that this part of the negotiation, although Spain has the right and could hold it up, we do not think that it would do because of the significant contribution that UK tourists spend in Spain. From an operational perspective, because we fly into Gibraltar from the UK, it would be counted as a domestic route, so our three routes which we already have into Gibraltar from the UK could continue to operate as UK-operated routes. The significant weight of inbound tourism to the Spanish economy, from the UK specifically, would probably mean that they would be less inclined to hold everything up for that.

Brian Pearce: There certainly is a danger and a risk, but 20% of in-and-out travel in Spain is reliant on the UK. There is also a major airline group that is linked to both, so we would hope that it would see sense.

The Chairman: Thank you very much. We have covered a fair amount of ground. If there is anything else that occurs to you once you have gone out of the room or there are further developments that you think it would be useful for us to know about, please do communicate. It has been a useful session for us to get our heads around the aviation sector, and the big print seems to be that you want a bespoke deal. Thank you all very much.