



HOUSE OF COMMONS

Transport Committee

Oral evidence: [Aviation and Brexit](#), HC 531

Monday 30 October 2017

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Members present: Lilian Greenwood (Chair); Paul Girvan; Huw Merriman; Luke Pollard; Iain Stewart; Graham Stringer; Martin Vickers; Daniel Zeichner.

Questions 1 - 100

Witnesses

I: John Holland-Kaye, Chief Executive, Heathrow Airport; Sophie Dekkers, UK Director, easyJet; Tim Hawkins, Corporate Affairs Director, Manchester Airports Group; and Willie Walsh, Chief Executive, International Airlines Group.



Examination of witnesses

Witnesses: John Holland-Kaye, Sophie Dekkers, Tim Hawkins and Willie Walsh.

Q1 **Chair:** Welcome, and thank you for coming along today. For the record of the proceedings, please give your name and position in your organisation.

John Holland-Kaye: I am John Holland-Kaye, chief executive of Heathrow airport.

Willie Walsh: I am Willie Walsh, chief executive of International Airlines Group.

Sophie Dekkers: I am Sophie Dekkers, UK director for easyJet.

Tim Hawkins: I am Tim Hawkins, corporate affairs director for the Manchester Airports Group.

Q2 **Chair:** We would like to begin by asking about the immediate implications of the Brexit negotiations, and the Government's progress, for the aviation industry. This question is to all of you, perhaps starting with John. The Secretary of State was very confident that, even without a transitional deal for aviation, "The day after we have left the European Union, the world...will look very similar to the day before." Do you think that is an accurate portrayal of how things might unfold for passengers, airlines and airports come 1 April 2019, without a transitional deal?

John Holland-Kaye: We are encouraged by the fact that the Government are now talking about an implementation period. An implementation or transitional period now seems the most likely outcome. If we do not have one of those, how will the world look? I share the Secretary of State's confidence that arrangements will be put in place to make that happen. The reason for that confidence is partly the actions I have seen Government taking, such as the negotiations happening behind the scenes with the United States and other markets to make sure we have arrangements in place with them. From an EU point of view, it is just as much in their interests as ours to have continuity after Brexit, both because of the importance for them of trade by air, given the trade deficit between the EU and ourselves, and for important areas such as tourism. For places like Spain, it is inconceivable that they would want any discontinuity.

An extreme position, where there might be no flights for a period of time, starts to put at risk the huge value that sits with slots at Heathrow for some of the big European airlines. Lufthansa probably has nearly \$1 billion-worth of value attributable to the slots at Heathrow. That is not something they will give up lightly. There will be pressure within the EU to make sure that a sensible, pragmatic deal is put together in the event that there is not an implementation period.

Willie Walsh: I share the view. I think the Secretary of State is optimistic and I share his optimism that the world will continue as it has.



There are issues to be dealt with, and I am confident that they can be dealt with well in advance of the beginning of April 2019. There are some areas where I would be concerned, but those relate principally to whether the UK will continue to participate in EASA, which I think is critical. I do not believe the UK is in a position to replicate the oversight that would be necessary for the industry in the period available, so some arrangement where the UK can continue to participate in EASA, the safety regulator, needs to be agreed. It would not be a massive problem, but it would create a problem that would be best avoided, not just for UK airlines; it would have implications for a number of European airlines as well. Sensibly, people should work to the UK continuing to participate in or closely align with EASA following departure from the EU.

Sophie Dekkers: I share a very similar view on behalf of easyJet. We are very confident that there will be a new agreement, for a number of different reasons. One is that aviation is beneficial to both the EU and the UK. It is not a trade as such; it is an enabler of economic growth, so everyone has a shared interest in seeing it continue. We understand that other European airlines, such as Air France, KLM and Lufthansa, are also supportive of there being UK-EU agreement, so it is not a one-sided view from the UK.

We have been working really closely with the DFT, the Department for Exiting the EU and No. 10. They all share the view that aviation is one of the priorities once we get into the second phase of negotiations, and one that should be progressed with speed. We have also been working closely with our European counterparts, the member states and the EU institutions. They share the clear view that an aviation agreement needs to be made.

To add to Willie's point, we would have a similar view that we should continue to be part of EASA and follow its guidelines as well. That is to the benefit of UK airlines and European airlines, too.

Q3 **Chair:** Tim, is there anything you want to add?

Tim Hawkins: Not a great deal. It is clear that we need a new aviation agreement, and we are encouraged by the fact that that has become a reasonably high-profile issue well understood on both sides. I am also encouraged by the fact that this is not a particularly difficult technical exercise in terms of precedent and example. There are lots of examples, precedents and templates to draw on for the kind of agreement we are seeking with the EU.

No deal for a transition should not be thought of as being synonymous with no deal for aviation. Where there are not transition agreements more generally, we think there are routes through for an agreement to be reached on aviation. Separating the terms of trade and wider trade from the right to travel is an important principle.

Q4 **Chair:** Everyone seems very confident that a deal will be done, but I am



HOUSE OF COMMONS

interested in what things would look like if there is not a deal, because we have been told that that is theoretically possible. What would the economic costs of no deal be for passengers, the aviation sector and the whole UK economy?

Willie Walsh: To be honest, it is a very hypothetical question because I am pretty confident that there will be an arrangement in place. It is about the definition of what arrangement is in place. It will potentially impact on some airlines more than others, but I do not agree at all with the prospect of there being no flying between the UK and Europe. It goes well beyond that. It would bring the whole of Europe to a standstill. It is not just about isolating the UK, because some of the issues being speculated on are not unique to UK airlines; they impact on all European airlines, principally in relation to ownership and control.

I would go further. The concept of EU ownership is not accepted worldwide. When IAG was formed in 2011, we recognised that there are many countries around the world who do not accept the concept of EU ownership, and continue to look for nationality—British Airways needs to be UK-owned and controlled; Iberia needs to be Spanish-owned and controlled. We put a structure in place in 2011, before the merger took place, to demonstrate that British Airways is UK-owned and controlled. That has been tested. We continue to fly to many parts of the world that do not accept the concept of EU ownership. That applies to both Iberia and British Airways. We have been doing that since 2011.

We have not put a similar structure in place for Vueling and Aer Lingus; we did not need to, because their operations came under the concept of EU ownership, but we can replicate those structures without too much difficulty. It adds a bit of complexity to our business, but it is complexity that we already have embedded in our business in the case of British Airways and Iberia. Indeed, that complexity has been replicated in other areas, like Air France-KLM or the Lufthansa group, so it is not unusual.

I will allow easyJet to speak for themselves, but they have secured a European AOC, in effect replicating a structure similar to what we have in place in IAG. My view is that there are technical ways of addressing any scenario. As an industry, we are well capable of adapting to whatever scenario exists and, therefore, we will come up with structures or systems to demonstrate our compliance, as we do today. While it might add some complexity, that is as far as it goes from our point of view.

Q5 **Chair:** Sophie, doesn't the fact that you have set up an AOC in another European country suggest you are preparing for the possibility of a no-deal scenario?

Sophie Dekkers: The reason we set up the European AOC is that we now have an Austrian base for our European airline. Currently, we already have 100 aircraft based in Europe, and we employ 4,000 crew and pilots there already. They are based on local contracts; for example, the French are on French contracts and so on. That was already the



structure. What we put in place with the European AOC is protection of that part of the business to make sure there is no disruption to it. Fifty per cent of our passengers already originate from the EU27, and 30% of our flights already do not touch the UK. Paris-Milan, for example, is one of our thickest routes and that does not touch the UK. What we wanted to do, which was within our control, was to set up the EU AOC to protect that part of European flying—the intra-European flying—that would not be certain on the back of a deal.

They are almost two separate things. We still need to have the UK-EU deal in place, and we are confident that it will be in place, because, as I mentioned earlier, it is in the interests of both sides. What we set up the EU AOC to do was to protect the intra-European flying that we may not be able to continue as a UK airline operating that flying in the future. Setting up the EU AOC was to protect the intra-European flying that we already do today. That is slightly separate from the UK-EU; there is no specific mitigation we can set up on the AOC to do that.

Q6 Chair: Is that a recognition that you do not think those intra-European flights will be possible within a new deal?

Sophie Dekkers: It is to reflect the fact that we believe there will be a deal between the UK and the EU, but there could be provisos around UK airlines operating in Europe and there could be reciprocal provisos for European airlines operating internally within the UK domestically. We are one of the few airlines that is exposed in that way. That was why we set up the EU AOC. We already had a Swiss AOC, so we are used to operating with two. This just brings in a third one to protect what we already do.

Willie Walsh: To put it into context, we have seven AOCs in IAG: two based in the UK, three in Spain, one in France and one in Ireland. This is not unusual. It is probably more complex than it would need to be if we could create a single AOC and operate everywhere in the world. We cannot do that, so we already have these structures in place. As Sophie pointed out, easyJet have had a Swiss AOC for some time.

Ryanair used to have a UK AOC many years ago. They had a UK and an Irish AOC. They now operate under a single AOC, but there are many airline groups that operate their airlines with multiple AOCs. Although we have only seven AOCs today, we are creating an eighth; we have created a new airline in Spain that will in due course get its own AOC as well. This is complexity, but it is manageable complexity and it is complexity we have dealt with for many years.

Q7 Chair: All of you seem to be starting from the standpoint that there will be a transitional deal, and you seem to be rather reluctant to tell me what no deal would look like. Does anybody want to volunteer to tell us what no deal would look like, unthinkable though it might be?



Willie Walsh: No deal goes back to what Sophie said. No deal would create a potential issue where a European airline today can operate from the UK to parts of Europe other than the country of its domicile. For example, easyJet is a UK airline but can fly between two other European countries. Ryanair is a European airline today based in Ireland, but it can and does fly significant flights from the UK to other parts of Europe. If there is no deal, it may bring into question whether Ryanair can continue to operate between the UK and other European countries, but, as easyJet has done, a potential way around that is to establish a UK subsidiary with a UK AOC and comply with the traffic rights under UK and European regulation.

These issues face the industry already, today. I do not think they are complex. As Tim said, we have a history of bilateral agreements between countries for many years. Although aviation is not covered by WTO as the fall-back position, there is precedent. Indeed, today we still operate under a complex system of bilateral air service agreements between the UK and many other parts of the world outside the EU, or to countries that do not recognise the concept of EU ownership and control.

Q8 **Chair:** I understand that you are saying that you would find a way round it if that were the situation. Do you think it would have an impact on jobs in the aviation sector if you had to do that?

Tim Hawkins: We are saying that we recognise the theoretical risk at the end of a long process, but we are confident that there are a range of practical and pragmatic ways of addressing that risk, which mean that we do not end up there. The key issue we are looking at, and are keen to raise the profile on, is the time at which agreement is reached—from our perspective, the earlier, the better—in the next phase of negotiations. The earlier that confidence can be created for passengers and airlines, the better. You stay ahead of creating any uncertainty that affects decisions they might otherwise have made. As to exactly when that is, I do not think there is a golden date, but generally the principle is the earlier the better for certainty.

Q9 **Chair:** Does anybody else want to volunteer a date within which it would become problematic if you do not have a transitional deal, or the outlines of a deal are not known?

Willie Walsh: A number of airlines have said that they typically sell one year in advance, although very few tickets actually get sold one year in advance, and in recent years it has changed considerably. When I am looking at my forward bookings, I rarely look beyond the next three months. A number of airlines would like absolute clarity on this six months in advance. That would certainly help everybody, but I would not be prepared to say that there is a drop dead-date. Others have done that and have had to change their view. At this stage, we are reasonably relaxed about it.



HOUSE OF COMMONS

I would prefer to see some certainty around the UK's participation in EASA, or a description of what the alternative will be, as soon as possible, because that may require us to put some internal structures in place. To me, that is more relevant, but I do not have a deadline as to when I would like to see it, other than that I would like it to be sooner rather than later. We deal with a lot of complexity in our business and we can manage this. Politicians like heaping complexity on our business, and I am sure you will continue to do so for some time to come.

Q10 Chair: Can you clarify the issues around EASA membership that you would need to address? Is that a priority?

Willie Walsh: It is understanding what rules we need to comply with. The UK could say, "We will comply with EASA rules. We will follow EASA," or they could say, "We will follow FAA rules." I do not believe the UK will be able to replicate a UK structure like it had in the past under the UK CAA. The expertise that existed within the CAA has long since gone, and much of it is used at European level. We need to understand which programme we are going to follow, because that could have implications for the way we maintain and operate our aircraft. I suspect it will not, but clarity around it would be helpful.

Q11 Huw Merriman: Mr Walsh, I think you said that six months before the UK is due to leave the EU you would start to see significant bookings being made.

Willie Walsh: I didn't actually say that, but a number of airlines have indicated that.

Q12 Huw Merriman: Two weeks ago, the Secretary of State came before us and made mention of the need to ensure there is a deal in place by summer 2018. Is that round about the timeline you would recognise, and have you had discussions with the Secretary of State to say it is absolutely key that that date is met?

Willie Walsh: I have had discussions with the Secretary of State. I have not said that a date next summer would be absolutely essential. I am pleased that the Secretary of State is taking that view. I think that in some form he is being conservative about that, because there is scope to go beyond that date, probably towards the end of October 2018—six months before. I fully accept that the UK will leave. Whether there is a transitional arrangement from the beginning of April onwards I do not know, but six months before the March deadline would be helpful, but not essential.

Q13 Huw Merriman: I am very buoyed by the confidence that all four of you reference. You know your industry better than anyone. Surely, it comes down to a timetable. Has the industry agreed a skeleton timetable with the Secretary of State? He says summer and you say September. The timing of this is absolutely crucial. What discussions have taken place across the industry to make sure that timetable is abided by?



Willie Walsh: To the best of my knowledge, we have not participated in an industry debate on this. I have expressed a view on behalf of IAG, and I am pretty sure that all the other UK airlines, and, I know, many European airlines, have also expressed a view to the Secretary of State. My view, as I have expressed here, is that it would be nice to have certainty as soon as possible. I do not believe it is essential to have it by summer next year. It becomes more relevant if it is by the end of October, but I am happy to operate in an area of uncertainty right up until the last minute, because we will deal with it. We will put the systems in place to be able to cope with it. The more certainty we have, the less work I have to do to plan for it. That is why I say some form of certainty on these issues would be helpful, but I do not believe it is essential.

We have had to do this before, so we will adapt and we will adapt quickly. This industry has new regulations imposed upon it at very short notice. To go back to the liquids ban, there was no notice. You have to cope with it, and we do. There might be some short-term disruption when you get absolutely no notice of a change, but the industry keeps flying. The industry keeps operating and very quickly adapts and changes the rules and ways of operating to comply with the new regulations that get put in place.

Q14 **Huw Merriman:** I am confident that your airline is ready for uncertainty up to the last minute, but what about your passengers? How can they deal with that same uncertainty?

Willie Walsh: The certainty I give my passengers is that we will continue to sell our tickets and we will continue to deliver. That is what we do. We are confident that that will be the case. I have made it clear. I have said publicly that our intention is to continue to sell tickets, because our intention is to continue to operate. I do not have some of the complexity of others. British Airways does not fly between other European countries. It flies from the UK to Europe and from the UK to the world, but it does not operate between two other European countries, so I have less to worry about, or less complexity to deal with. I have had to deal with the complexity of ownership and control already, because, as I said earlier, there are many countries in the world that do not recognise the concept of EU ownership. Therefore, we have had to demonstrate British ownership and control of British Airways, and put in place a structure that demonstrates that.

Q15 **Chair:** Mr Merriman was concerned on behalf of passengers. Would you be prepared to book a flight in April 2019 without a deal being in place?

John Holland-Kaye: Yes, I would, and I am sure we all will. I do not think it is unusual in the airline industry for tickets to be sold on the basis that traffic rights that are under negotiation will be agreed in time. That is part of the flexibility of the airline industry. Willie knows far more about this than I do.



Tim Hawkins: We have a strong interest in and a desire to continue growing through the period of the UK leaving the EU. We want new services and new capacity added at our airports, and we have the spare capacity to do that. Those discussions with airlines about adding new services will take place in the period up to the point when capacity for summer 2019 is allocated, round about this time next year. We want confidence to be in place to underpin those conversations about new services, not just a stick and hold for the same services as we had the year before. We want new services to come to our airports. That is why we are pushing for, and wanting, that confidence and clarity as early as possible, so that when we talk to airlines they know they can operate those services and they come to the top of their wish list.

Q16 **Chair:** Do you think passengers will have the confidence to buy tickets if there is no deal in place beyond the summer or autumn?

Sophie Dekkers: What we have found previously, when we do research on passengers, is that the last thing they will give up is their summer holiday. The British consumer now has the psyche that that is what they have earned. In research we have done, consumers said they would not buy their children a new pair of shoes but they would still make sure they went on their summer holiday, because they feel they have earned the right to have it. We would not foresee any change post April 2019.

We would look to next autumn as a similar timeframe in terms of putting flights on sale for the following year. We probably cannot get an industry view. We could have a very aligned view because we both operate as scheduled carriers. Charter airline tickets are already on sale for the summer of 2019. You can already buy your flights for summer 2019 from charter airlines, so they are already in place.

From our perspective, in terms of changing what we are doing, and looking at contingency planning, we are still very much committed to growth in the UK. We have already announced the aircraft we will put in for next year, and we will be doing the same in early spring for the following year because that is the cycle we work in. We do not foresee a big change. We have grown by 3 million passengers this year, so we are not suddenly going to say, "We're not going to grow in the UK and we'll move all our planes out." That is not what we are doing. We are adding more planes in the UK this year and next year. That is our view.

We do not have a contingency plan at the moment, because we feel there is enough time between now and next autumn to get the bones of an agreement in place and to have enough certainty about what we will be operating in April 2019. There is still plenty of time for us to do that. We are not looking for something complex; we are looking for something straightforward and simple. That is why we do not think there should be too much concern about there being no flying from April 2019.

Q17 **Chair:** The question is whether passengers share your confidence. That is the concern.



HOUSE OF COMMONS

Sophie Dekkers: The feedback we have had from passengers so far has not indicated any concern, and the fact is that charter airlines are already selling their seats. They are not saying that they see a drop in bookings for summer 2019.

John Holland-Kaye: I think passengers would expect that we and politicians will sort this out, and it should not have any impact on them.

Q18 **Paul Girvan:** That was in relation to confidence within the community. It is also about confidence within the airlines. My understanding is that easyJet has moved part of its operations to Austria. What exactly are the implications of that?

Sophie Dekkers: We have not actually moved anything, but we have set up a European AOC—operating certificate—to be able to certify the aircraft that already operate within Europe.

Q19 **Paul Girvan:** Is this a bit like what I would call brass-plating, which is another name for a business just moving an office?

Sophie Dekkers: We have set up a full operating airline, so it will have all the structures, people and procedures in place under the Austrian AOC regulations, and the European headquarters will be in Vienna, Austria, for that part of the airline. The 101 aircraft we already have in Europe will be registered to that airline rather than the UK airline. We are not moving anything as such, but just making sure that we have the registration rights and the operating airline set up in Austria to be able to continue intra-European flying.

Q20 **Paul Girvan:** I appreciate that point, and I apologise for labouring it. I often see that as moving part of a business offshore, for want of a better way of putting it. The mother ship, which has been based in the UK for so long, now ends up moving, and you are covering your bases. It probably makes good business sense from that perspective, because you never know what Europe might want to do—I am not saying that it is what we might do—in enforcing or putting forward terms and conditions as to the way you operate within Europe, never mind other countries outside. I am looking at other airlines that operate from within the United Kingdom, not only as a base. I am thinking of Emirates, which is a fairly large player in the market. How do they operate within the United Kingdom without the European rules, and how does that happen?

Willie Walsh: They do not need to comply with EU rules because they fly to the UK under an open skies agreement between the UK and the UAE, and will continue to do so, in the same way as British Airways will continue to fly to Dubai, Doha and Abu Dhabi. These fall under separate bilateral agreements that sit outside the EU. The EU covers a number of jurisdictions, including those within Europe or broader Europe—Norway and Switzerland, for example. It covers the EU, US, Israel and maybe a couple of others. Other than that, we continue to operate under bilateral agreements. There is a separate agreement between the UK and the United Arab Emirates, the UK and Qatar and the UK and South Africa—



HOUSE OF COMMONS

you name it. Those exist and will continue to operate, and are in no way affected by the UK decision to leave the EU at the end of March 2019.

There is one issue that does need to be put in place. UK airlines—so it is an issue for British Airways—operate under the EU-US open skies agreement, but I am absolutely confident that there is perfect alignment between the UK and the US in relation to open skies. The US negotiates from a position of what they call the model open skies agreement, which I know the UK could sign up to in a second. There is nothing to negotiate; that is the way we operate. There is perfect alignment in terms of interests. I have no worries whatsoever that, one second after the UK leaves the EU, there will be a UK-US open skies agreement in place. I think the Secretary of State has stated that himself. I agree 100% with his assessment on that.

Q21 Chair: But it is the case that the majority of transit is covered by EU arrangements, not by individual bilaterals?

Willie Walsh: Within Europe. We fly to 170 countries, and probably 140 of them are dealt with by bilateral arrangements.

Q22 Chair: But in terms of the share of flights, isn't the majority of it covered by EU deals?

Willie Walsh: Our short-haul operation is principally within Europe. Therefore, in terms of the number of flights, yes, it would be covered by the EU today, but we operate British Airways flights all round the world.

John Holland-Kaye: If we take as an example Heathrow, which is the most international airport in the UK, about half of our passengers come from either the UK or other European countries. Between 5% and 7% of those are UK only, so for us, European passengers going backwards and forwards are a very significant proportion of our business. The US is about 17%. These are very important for us, but it is a much bigger proportion for every other UK airport. I go back to the earlier point. I am confident that we will have arrangements in place before we leave the EU that will make sure we can keep on flying.

Q23 Daniel Zeichner: I am struck by your confidence that there will be a transitional arrangement. First, can you say what the transitional arrangement will look like? Secondly, what is the process for deciding it? Who has to agree it?

Willie Walsh: I do not know whether there needs to be a transitional arrangement. A new arrangement can be put in place. I do not see the need for a transition, because the issues that need to be negotiated are not that complex. We operate under a system of bilateral agreements. I would like to think there will be a comprehensive air transport agreement between the UK and the EU that will enable airlines to continue to operate as we do today. I have no interest in seeing Ryanair prevented from flying from the UK to Europe. That would be a travesty. You could argue that it is in my commercial interest for that to happen, but for the



HOUSE OF COMMONS

consumer interest it would be a disaster. The idea that politicians will create an obstacle like that is to me unthinkable. I do not think this is an area where there needs to be a transition.

There might need to be a transition in understanding how the UK will participate in EASA, whether that is full participation or some form of associate membership. That is the bit that requires some form of clarity, and there may be a transition from full participation with voting rights as we have it today to some other form of membership. That is the only area where I think transition is required. Everywhere else you go from what exists today to what you want tomorrow.

In trying to negotiate a transitional arrangement, you are adding complexity. You may as well just negotiate the final deal. I do not think it is that complex, provided you have alignment of interest, which I believe there is. Aviation is probably the best example of where Europe has worked. It has definitely worked in the interests of EU consumers. Over 1 billion people will fly this year. They have benefited significantly from liberalisation. I do not believe the UK or Europe wants to see that change. As far as I am concerned, the arrangements can be put in place well before the end of March 2019, and we do not need transition, with the exception of what I have said in relation to EASA where some transition may be required.

Q24 **Daniel Zeichner:** Whether it is a transition or a new set of arrangements, who has to agree that? Is it the other member states or the European Parliament? Who has to do that?

Willie Walsh: Normally, the Commission gets the authority to negotiate on behalf of the EU. At the moment, the Commission is negotiating with Qatar, for example. There is not an EU-Qatar open skies agreement, and the Commission has been delegated to negotiate that. This would be a Commission negotiation. As I understand it, the UK will negotiate with the Commission on a new comprehensive air transport agreement between the UK and the EU27.

Q25 **Daniel Zeichner:** What I am getting at is the extent to which it gets tied up with other parts of discussions and agreements. Do you have any sense of that?

Willie Walsh: It has been said by all four of us that this is an area where the alignment of interest is so close that we do not believe that to be the case.

John Holland-Kaye: If there needs to be a transitional arrangement or implementation period, I think it would be on the same terms as we have today. It would be a continuation until whatever new arrangement is negotiated and formally put in place.

Q26 **Daniel Zeichner:** Just in case your optimism is misplaced, how much work has been done on looking at what you would fall back to? Obviously, you do not have a WTO situation; you would be going back to some quite



HOUSE OF COMMONS

old arrangements. How difficult or straightforward is that?

Willie Walsh: For me, it is not that difficult, because British Airways as a UK airline does not today operate between two other EU countries.

Q27 **Daniel Zeichner:** But for a European-based and owned airline running flights out of the UK, it could be quite significant.

Willie Walsh: For Ryanair it could, but clearly the UK Government would have the ability to say they were happy for Ryanair to continue to operate. It is as simple as that. I would be surprised if the UK Government came up with a different position from that.

Q28 **Daniel Zeichner:** I am still trying to get to who has to agree that in that situation. The other day, the Secretary of State for Exiting the European Union suggested that the final arrangements could go to a one-minute-to-midnight situation. In that situation, who has to agree to allow those Ryanair flights to keep running? We have seen how disruptive it can be.

Willie Walsh: In that situation, it would be the UK Government.

Q29 **Daniel Zeichner:** The UK Government and?

Willie Walsh: The UK Government today can say that everybody is welcome to fly in here. Everybody is welcome. The current UK Government, and many Governments historically, have taken the view that that is in the interests of consumers, and have taken a very liberal approach to allowing access to the UK. They have often demonstrated that they would be happy to do that without the rights being reciprocated, because they see it as fundamentally pro-consumer.

I have not seen anything to indicate that there would be a change of attitude towards that, not just in relation to this Government but historically. Previous Labour Governments have done the very same. They have taken the open and constructive view, in the interests of consumers, that the UK will facilitate access. Historically, the UK has been very progressive in opening the UK to airlines from other countries.

Q30 **Iain Stewart:** On a point of clarification, and I refer to markets outside the EU where the UK's traditional bilateral agreements have been superseded by EU's third-party ones, my understanding is that generally with trade this country will be looking to flip over the existing arrangements—I think 35 to 40 countries are covered by those—into UK law, so there will be continuity. Is it your understanding that the airline arrangements will form part of that general process, or would you be looking for a specific agreement outside that?

Willie Walsh: To go back to what I said, from my point of view the principal issue is replacing the EU-UK open skies agreement with a UK-US open skies agreement. You cannot assume that the US will continue to operate under the EU-US open skies agreement and will say that the UK still complies. Today, the UK is a signatory to that agreement, but as a



HOUSE OF COMMONS

member of the EU. Formally, you would require to replace the EU-US open skies agreement with a UK-US open skies agreement.

I do not believe that will be an issue of any concern, principally because the US and the UK have traditionally been perfectly aligned, and the US industry—the US airlines—want it. Their concern is greater than my concern would be around that, because they have benefited significantly from the open skies agreement that replaced Bermuda II. That had restricted access to Heathrow, where only two nominated US airlines were allowed to fly into Heathrow. That was removed under the EU-US agreement. I know that all the US airlines want to see that continue, and I am assuming that the UK would want to see it continue as well.

Q31 **Martin Vickers:** It is encouraging to hear what the four of you have had to say over the last half-hour or so, unlike the doom and gloom that many commentators and politicians have been trying to put forward. Do you anticipate that jobs will be secure and investment plans will continue and that, as you have shown in the past, there will be ability to move into new markets? In parts of the world that have growing economies, will you still have the flexibility you need to expand into those areas?

Willie Walsh: When we make decisions on aircraft purchase, typically they are 25-year decisions, so we make them well in advance. We continue to buy new aircraft for delivery in the future, so we are putting our money where our mouth is. The issues, for me, go beyond the things we are talking about here. I would like to see the UK address air passenger duty, which is a huge impediment to the development of the UK economy. It is restrictive and puts the UK at a huge disadvantage, particularly in a post-Brexit environment where we will want to be more competitive. To have a tax that people have to pay to leave the country, having come here to spend their money, is nonsense. There are issues in relation to visa policy that the UK should address. I am not saying that you should have open borders, but you have to have visa policies that are fit for purpose and will enable us to attract tourists from parts of the world where today it is difficult.

My concerns do not relate specifically to Brexit. I will be honest. I voted to remain—I don't mind saying that—but life has to go on, and life will go on. The issues the UK will need to address in a post-Brexit environment are air passenger duty, visa policies and—I will say this—the exorbitant cost of expanding Heathrow to make sure that we get that done properly.

Sophie Dekkers: From easyJet's perspective, the aircraft purchase timelines and cycle will continue. APD is the biggest factor in where we base the aircraft, rather than anything else. In my role, I have to write a business case every time an aircraft comes into the fleet. I say that I want to base it in Manchester or here, that I will fly these routes, that this is how much money I will make and this is how many passengers we will carry. But my business case is up against that of my European counterparts already based in Paris, Switzerland and so on. There are



HOUSE OF COMMONS

four other country directors who do the same in Europe. Their business case instantly looks significantly stronger than mine because of APD.

The biggest factor, as we continue to grow as an airline, is that there are more things that we can control in the UK economy in terms of growth and stifling growth. We are growing anyway, but how much more could we have grown if my business case had not had at least £13 a seat added on top of it? More than anything else, that is a factor in our projection of growth and where we are going to grow. As I said, we have already added new aircraft for next year in the UK, and we anticipate continuing to do so post-2019.

Tim Hawkins: We announced in July a £1 billion transformation programme for Manchester airport, on the back of our confident prospects for that airport, the region and the northern powerhouse as a whole. We have done that because it puts us in a strong competitive position to offer the product that airlines want. You will have seen from some of our recent route launches to San Francisco, Beijing, Hong Kong and Singapore, and the likes of those kinds of services, that we need to make that investment to attract those airlines. You have already stirred up the nest on APD, because what Sophie is talking about on short haul we are facing in the long-haul market as well. The UK faces a real contradiction. It talks about wanting more connectivity with global markets, but it has a tax on connectivity, particularly for long haul, that prohibits that kind of development.

Chair: I think we all understand the aviation sector's view on APD; it has been well rehearsed.

Q32 **Graham Stringer:** When the Secretary of State came here, he was very positive about aeroplanes continuing to fly. I think he had a bit of a caveat about cabotage within the EU. Would it be your worry that point-to-point flying would be okay, but where aeroplanes went from Manchester to Frankfurt to Prague, if such a route exists, that might be stopped?

Sophie Dekkers: From easyJet's perspective, we have set up the European AOC to protect that intra-European flying, because it makes up a big proportion of our flying. We had less certainty over that, and we set up the AOC to protect the flying that we already do.

Q33 **Graham Stringer:** Does that mean you share the Secretary of State's view that cabotage might be a problem after the country leaves the EU?

Sophie Dekkers: That is a possibility. Yes.

Q34 **Graham Stringer:** You are also making the case that aviation is exceptional compared with, say, trade in automobiles or other cases. By staying within the European common aviation area, is there not the implication that freedom of movement and other EU rules would have to be followed, which looks like one of the big stumbling blocks in the negotiation? In that sense, aviation is not an exception.



HOUSE OF COMMONS

Willie Walsh: I do not think I am arguing that the UK should continue to stay within the ECAA. There are alternatives. A comprehensive air transport agreement can take many forms. I am not arguing that the UK has to continue to operate exactly as it is today. It is clear that there are certain issues that would not be acceptable to the UK Government, but I do not believe that that will necessarily stop the remaining EU27 and the UK reaching a comprehensive agreement on air transport.

John Holland-Kaye: Our view is that aviation is the enabler for all other trade sectors. There are many sectors, such as pharmaceuticals, which have a very short supply chain, a short shelf life and high value and travel by air. There is no point in having a World Trade Organisation agreement that allows trade to happen if you cannot get your goods to market. That is why aviation is one of the keystones of the UK economy, and we need to make sure we get it right in order to allow all the rest of the parts of the economy to thrive.

Willie Walsh: The UK has an open skies agreement with the US through the EU. It does not mean that everybody in the EU or in the UK has freedom to work and live in the US, or vice versa. There are precedents and structures in place; we do not have to create a new structure. We have many of them in place.

Q35 **Graham Stringer:** But that is the rule at the moment within the European Union. I was saying that, if you get the freedom to fly within Europe, the EU would make that a condition. But you are not concerned about that; you think it can be done?

Willie Walsh: I do not know whether the EU would, but I think they are completely separate issues.

Q36 **Graham Stringer:** You haven't said this, but you indicated that failure to get an agreement to continue to fly would have an impact on, say, the Spanish economy, and it is probably also true of Greece and Portugal. I do not want to put words into your mouth, but does that mean you think there is an asymmetric impact for the United Kingdom and the EU, with a bigger impact on the EU, if there was a complete failure to reach an agreement?

Willie Walsh: I would not say it is asymmetric. It is certainly different for each member state. Tourism represents about 7% or 8% of Spanish GDP; it is a significant part of Irish GDP. There are countries where tourism is absolutely critical to their economy. If you balance it, the interests may not be perfectly symmetrical between the UK and the EU27, but there is a large degree of symmetry between the UK and the EU27.

John Holland-Kaye: As an airport sector—I am sure airlines are doing something similar—we are working with other European airports, particularly regional ones, to make sure they make the case for why connectivity and maintaining as close as possible to today's arrangements



are in the interests of the EU. Spanish, Greek and other airports are lobbying their MPs and the European Commission.

Q37 **Graham Stringer:** At the two airports, are you making any contingency arrangements whatsoever? Will you have to change the configuration of border controls within airports?

John Holland-Kaye: We cannot move our airport; we are fixed. In addition to the movement of the open aviation market, there are two other areas we are concerned about. The first is how we get people through the border, where we were encouraged by the White Paper the Government put out over the summer. Our view is that people who have the right to come to the UK, whether they are from the EU or other countries, should have as quick and seamless a journey through the UK border as possible, to show that Britain is open for business. That can happen regardless of the deal we come to with Brexit.

The second area is goods travelling through the port. Heathrow is the biggest UK port by value. A lot of it travels on Willie's planes, under your feet when you are flying. It is vital that we have a deal that allows for the free movement of goods through that port. That does not mean that there will not be arrangements in place for how we manage customs, but we need it as free flowing as possible. Again, I was encouraged by the Government's White Paper over the summer, which had a vision of that. It should be a competitive advantage for the UK as a trading nation when we leave the EU to have a free-flowing border. We will have to find out exactly how that works, and that is why an implementation period might be useful. We will work with the Government to make sure that it works effectively.

Q38 **Graham Stringer:** Mr Walsh, you talked about the European Union having the rights to negotiate with the United States. Douglas Alexander transferred those powers some years ago. Last week, I asked the Secretary of State whether he had done an analysis of what the impact of that had been and where the benefit had been—whether it had been in the UK, whether we had a benefit or a disbenefit, whether the EU had, or whether the United States had. Was the implication of your answer that that transfer had benefited the United States more than the UK or the European Union?

Willie Walsh: It is a very good question. At the time of the negotiation back in 2007-08, I took the view that it probably was more beneficial to the US than to the UK, and probably more beneficial to the US than to the EU. I was quite vocal about that at the time. I probably would not change my view, other than to say I would not like to see the arrangements in place today turned back. The days when we operated under restrictive bilateral agreements like Bermuda II have long since passed. My view at the time was that the EU could have been tougher in the negotiation with the US, and pushed for more liberalisation, which they committed to in the second-phase negotiations but which never materialised.



HOUSE OF COMMONS

Q39 **Graham Stringer:** In terms of ownership of airlines operating in the United States?

Willie Walsh: Yes.

John Holland-Kaye: If we look at the end result, the UK is the market leader in the world for access to the US market. If you want to base your business to do trade between the continent of Europe and the US, there is no better place to be based than in London, because of the connectivity there. It is a fantastic competitive advantage for the UK, so we have won overall from that. Increasingly, Manchester benefits from direct flights to more cities in the US, so there is a competitive advantage for the UK that we want to protect.

Chair: We want to turn to the longer-term impacts of Brexit on aviation.

Q40 **Luke Pollard:** I am quite keen to understand the implications of Brexit for ownership of airlines and what it means for the UK potentially being out of the aviation deals that it has at the moment. This question is particularly for the airline witnesses. Are you expecting to need to make any changes to the ownership of entities within your business models, in particular to satisfy EU criteria that entities are majority EU-owned?

Sophie Dekkers: From easyJet's perspective, it is not a significant issue, because today 49% of our shares are already EU-owned, so it would not take much to get to 51% anyway. If that was the case, we do not have a big barrier to get there from where we are today.

Willie Walsh: As I have already pointed out, for British Airways we already have to demonstrate British ownership and control. That structure has been in place since 2011. We have to comply with the rules globally, and in many countries they do not recognise the concept of EU ownership and control. We already have a structure in place that demonstrates UK ownership and control for British Airways and Spanish ownership and control for Iberia. We will put a similar structure in place with regard to Aer Lingus in Ireland, if necessary. This is the complexity I talked about. Absent the decision to leave the EU, we would not have to replicate that in the case of Aer Lingus.

Q41 **Luke Pollard:** There is a potential situation in easyJet's case, where you have to re-engineer ownership with share buy-backs and things like that, to satisfy potential criteria.

Sophie Dekkers: Potentially, but it is only 2% of the shares, so only a small percentage would be needed to do that. Because our major shareholder is European, we are able to operate very close to majority ownership already. We are at 49%; we only need to get to 51%, so it would not be a significant change if we needed to do that. We are not too concerned about it.

Willie Walsh: This is a big issue for European airlines. People think it is a UK issue; it is not. All the UK capital invested in European airlines



HOUSE OF COMMONS

becomes foreign after the UK leaves the EU. People looking at this as if the UK has a problem are mistaken. It is an industry-wide issue that will become apparent. That is why there is an interest in addressing it in a sensible way. The vast majority of capital invested in airlines is either from the US or the UK, so the issue goes well beyond ownership and control for UK airlines; it goes to the issue of ownership and control for all airlines in Europe.

Q42 **Luke Pollard:** Do you think the level of uncertainty, albeit with your confidence, has had an effect on your investors favouring investing in the UK airline sector in particular?

Willie Walsh: No, I do not believe it has. I have no evidence to support that, and certainly the questions we get from investors typically do not centre around issues like that.

Sophie Dekkers: We have certainly not seen anything that would indicate any concern in that way.

John Holland-Kaye: From an airport point of view, we are significant infrastructure investors. Our shareholders are completely committed to their investment in the UK, which is becoming a cheaper investment when looking at expansion and all the work we are doing together with IAG and other airlines.

Q43 **Chair:** Thinking about the wider economic impacts of the UK leaving the EU, obviously when the economy is going well, the aviation sector goes well, and vice versa. Some forecasts predict a permanent downward shift in economic growth once the UK has left the EU. Do you think the economy and aviation sector can defy expectations post-Brexit, as they have done since the referendum?

Tim Hawkins: We saw predictions of economic growth slowing dramatically post-referendum. That did not happen. We have seen very strong growth over the last five years, and that sustained itself over the last couple of years and since the referendum. We maintain confidence in our airports, our catchments and the economic growth within them. We have invested in Manchester, we are on the verge of investing in Stansted and we have a market that is capacity constrained. We have growing demand, so we are still very confident about the prospects of growth at our airports.

Sophie Dekkers: From easyJet's perspective, the positioning of our airline as a value airline is fortunate. As we saw in 2008-09, in times of downturn, people turn to more value airlines. We certainly have not seen significant change. Since the referendum, we have carried an additional 3.4 million passengers from the UK. We have added more seats, and next year we are adding more aircraft to UK regions as well as to London. With our business model, we do not see that downturn; if anything, we see business travellers switching to easyJet when times are tighter. We are



projecting continued growth, and year-on-year growth for the next five years.

Willie Walsh: We are a fantastic value airline, and we have seen no evidence of any slowdown. Traditionally, the rule of thumb in the airline industry was that airlines grow as a multiple of GDP. People would say it is one and a half times or twice GDP. That rule of thumb does not really apply any more, for the reason Sophie gave: the model has changed.

In an environment where the UK economy suffers, you might expect growth to slow down. It is inevitable. Have we seen any change since the referendum? For British Airways, we saw a change in the lead-up to the referendum, where there was definite evidence of a slowdown in UK corporate activity as they tried to assess what the uncertainty meant. That has recovered. Uncertainty in business tends to lead to some decisions being postponed, but they are not normally cancelled. People want to understand what it means. As soon as they get their heads around it, life goes on. A downturn in GDP would have some effect.

The bigger impact on us was the devaluation of the pound. The airline industry is principally a dollar-cost industry, and the pound devaluing against the dollar meant that our costs increased in pound or euro terms. IAG reports its profitability in euro, so the devaluation of the pound against the euro meant we had a translation impact. In 2016, the combination of the translation and the transaction impact of currency was a negative €460 million. That is a one-off hit, unless the pound keeps devaluing. You get these fluctuations in currency. The major devaluation that happened immediately after the referendum hit us hard, but we are not seeing that this year; it has pretty much washed through. There are issues that will impact on business, but, as both Sophie and I said, we just get on with it.

Q44 **Chair:** What would be the impacts on all your businesses if the pound settled at a lower level than pre-Brexit? Is there any impact?

Sophie Dekkers: As Willie said, we had a similar one-off hit. A lot of our costs are in euros because we fly into European airports, but we report in pounds and our fuel costs are in dollars, so we had a double hit. If the pound settles where it is now, we have taken that hit of £110 million. We did some consumer research to understand whether a lower pound versus the euro would deter people from travelling to Europe. We found that it did not make a difference to consumers, because once you are abroad the cost of things is generally quite cheap anyway, depending on where you go. It really had not registered.

We had a natural concern as an airline, and that was why we did quite a detailed piece of research with consumers to understand whether they would change their behaviour, whether they would switch to a staycation or whether we would see a big drop in demand, but there is recognition that the British weather will never be great, unfortunately, and it is much more guaranteed if you fly. It was interesting, and surprising to me, how



apathetic the British consumer was to the pound/euro exchange rate change. It did not have an impact on their behaviour and the likelihood that they would travel abroad for their holidays.

Q45 **Chair:** What about from an airport perspective? Has the change in currency level impacted your business?

John Holland-Kaye: We have seen pros and cons. As Sophie said, we have seen more people from international markets coming to the UK. People have continued to go on holiday. They may have gone for a slightly shorter period, or downgraded the hotel they stay in, but they have still protected their summer holiday. We have seen a big growth in cargo. Exporters have taken advantage of the change in exchange rates to be more competitive globally. From an economic point of view, overall we see more benefits than downsides so far.

Q46 **Huw Merriman:** I hope I am not putting words into your mouth, but you seem to be confident in your industry and that it will grow post Brexit. One of the witnesses added the proviso that, if industry and politicians find a solution, things will continue as they are. On the basis that you seem to have accepted the people's verdict and moved on, how confident are you that this place—Parliament—is going to give you the stability that you no doubt need to allow your business to go forward through Brexit? In particular, with respect to the EU (Withdrawal) Bill, which now has 131 pages of amendments, is there a concern that the law on day one after leaving the EU will not be in place and as stable as you need it to be?

Willie Walsh: I have no doubt that you will make it more complex than it needs to be. We deal with these issues. If I were making the decisions, I would probably move a lot faster, but I am not. I appreciate that you go through the trouble of being elected and have to answer to your constituents and that is a difficult job, but at the end of the day we will get to where we need to get to. If there are some speed bumps along the way, we will deal with them.

John Holland-Kaye: To pick up an earlier point, normal people expect us to sort this out. They expect to go on their summer holidays in 2019, and the very fact that they expect you to sort that out means that you will sort it out.

Q47 **Huw Merriman:** Perhaps I could probe a little. You say that normal people expect you to sort it out. They also expect MPs to sort it out at the moment, but the mood music at the moment is not looking too positive as far as the EU (Withdrawal) Bill is concerned. Have you made representations to Government about certainty? Can the Houses of Parliament get their act together in the same way as industry, or are you just working on the basis that we will get there eventually?

Willie Walsh: I have not made representations, and I am not going to. As politicians, you understand the issues that need to be addressed. I do not think I could add any value to that.



Sophie Dekkers: Perhaps the only other thing to add is that the DFT has a single focus on aviation. Unlike other Government Departments that have multiple focuses to resolve with the EU, the DFT have reassured us that this is their single focus. At least we know we are their priority and that they will not be distracted by trying to juggle multiple agreements at the same time.

Tim Hawkins: Aviation and air travel are not part of the WTO framework probably for the very reason that the right to travel should not be confused with the terms of trade. There needs to be effort to keep those two things separate, and to establish those rights and provide that clarity as early as possible, to give confidence to airlines and passengers. To try to keep it away from those wider uncertainties would be a sensible thing to do.

Q48 **Huw Merriman:** Taking that one stage further, Mr Hawkins, do you see this as a really good opportunity? We are talking about air space within the EU. The reality is that you operate in global skies. Could this be the opportunity to look more at a global regulatory framework? Mr Walsh, I think you mentioned that you have 140 destinations out of 170 that are outside any form of agreement. Could this be the catalyst for something more positive on a global basis, or is that too ambitious at this stage?

Willie Walsh: It is too ambitious at this stage. I would like to think that it could be, but I think that is too ambitious. Let's keep it focused on what we need to do and not make it any more complex than it needs to be.

Q49 **Paul Girvan:** I am encouraged by the positivity we are hearing from the industry in relation to the opportunities in the way forward. I may be pointed in the way I put this. The OECD have been wrong on so many points and predictions up to now. As an industry, what do you think about getting back our fiscal controls and our opportunity to do away with or deal with APD to make us competitive? I am looking at it very parochially because I represent Northern Ireland. We are competing with an airport 100 miles down the road that has no air passenger duty. Therefore, people use that road. When we have control, without the state aid rules imposed upon us by Europe, is the opportunity there for us to actually open up to additional markets and make ourselves more competitive on the world stage?

Willie Walsh: On APD, there is a lot that could be done today, but it is not being done. I suspect that in time it will be easier, but the UK Government could address APD in the morning if they wanted to. I do not think there is any reason for the UK not to abolish APD. It is not a European issue. I accept what you say—

Q50 **Paul Girvan:** It was brought in as a carbon tax at one stage.

Willie Walsh: Yes. I think everybody has acknowledged that it is not a carbon tax. It was brought in to suppress air traffic. In an environment where the UK wants to be more competitive, and will need to be more competitive and will need to trade with the rest of the world, having a tax



HOUSE OF COMMONS

that is designed to suppress that is contradictory. Sophie is right to put it in the context of easyJet's £13. If you want to fly anywhere else in the world, to the nations we want to trade with, you are talking £75 plus. These are not insignificant figures given that, exactly as you say, people will get in their car and drive from Belfast to fly out of Dublin to save £13—adding to the carbon, because they are certainly not reducing it by doing that. We need to get clear what the objective is.

John Holland-Kaye: While we are looking for opportunities that might come out of Brexit, the clearest one is that we get on and do things that we have known we needed to do for a long time but have been putting off. APD is a good example, as is sorting out the border controls so that people who have the right to be here can get through quickly and easily. We need to get on with the Heathrow expansion. These are all enablers that we have talked about for a long time. Now let's just get on and make them happen.

Chair: We would like to move on to talk about how and what we negotiate in a long-term agreement with Europe.

Q51 **Iain Stewart:** You have all expressed refreshing optimism that we will get an agreement. Looking at the ideal future agreement, Mr Walsh, you said that continuing UK participation in the ECAA is only one option and that there are other options. There is the Swiss model, for example. What would be your ideal framework? Is it just the status quo, or would you like us to use this opportunity to have a different agreement with the EU?

Willie Walsh: It would be nice if there was a more liberal agreement, but I do not think that needs to be the objective. Securing what exists today, which has been hugely beneficial to consumers, should be the focus. I am very relaxed about the form of that. What I have talked about is a comprehensive air transport agreement—a comprehensive bilateral agreement between the UK and the EU27. It does not have to be exactly what we have today. It is not beyond the ability of either the UK or the EU to negotiate a comprehensive air transport agreement. The EU has demonstrated that it can do that because it is out there doing it today, and the UK has a long history of being able to do that for air transport, and continues to look to modernise the bilaterals, always with a view to making them less restrictive and more liberal. That is exactly what the policy has been for many years, as far as I am aware, and it continues to be the policy today. I would like to see that continue.

Sophie Dekkers: We would absolutely support that. We would want a very liberal aviation agreement to continue between the EU and the UK so that all airlines can fly without restriction. As I mentioned earlier, certainly the EU and the UK are very used to negotiating bilaterals, so it should not be a big stepping stone. What we are looking for is continuation of the liberalised aviation market.

Q52 **Iain Stewart:** Do the airports concur?

John Holland-Kaye: Yes. We would agree with that.



Tim Hawkins: Yes.

Q53 **Iain Stewart:** My takeaway from that is that it does not have to be continuing membership of the ECAA; it could be something else. Looking at the issue from the EU27's perspective, what do you think they would like to achieve? I understand and agree that it is in their economic interest to have continuing good relationships. Do you think they will be arguing for continued UK membership of the ECAA, or would they want to take this as an opportunity to negotiate something different?

Willie Walsh: It depends. Air France would love it to be as restrictive as possible because they hate competition. They are against competition and therefore, I would argue, against the consumer. I think most other airlines in Europe would be pro-consumer and would want a liberal environment.

It goes beyond just access to the UK. It potentially brings into question some of the arrangements with the US. The EU airlines, although there is an EU-US open skies agreement, actually transfer a lot of their customers through the UK. They want to be able to continue to do that. It is in their interests to do that. In most cases, the interests are aligned. Certainly from my experience of talking to other airline CEOs around Europe, with a few exceptions, most of them want to see what is in place today continue. Those who do not, I would argue, are trying to take a very narrow view to protect themselves against competition, and would love to go back to the days when flying was restricted to a small number of very wealthy people. That is not going to happen.

Q54 **Iain Stewart:** In terms of the lobbying that is happening, are you aware of your counterparts actually exerting pressure either on the Commission or on individual member Governments to make this happen? We do not want to delve into Brexitology as to what is going on behind the scenes, but do you detect that there is that very strong movement from your counterparts?

John Holland-Kaye: Certainly in the airport sector, there is a very clear and consistent message through ACI Europe, which represents 500 airports across Europe. We are completely aligned with the UK and the EU27 in terms of the message, particularly making sure, as I mentioned earlier, that regional European airports are having their voice heard on this. They are some of the areas that have benefited most from access to markets. You would not have expected that you could get from Girona to Glasgow, or from Latvia to Newcastle. Those kinds of routes happen now in a way that they would never have done before. That is a benefit for all of us in this part of the world.

Tim Hawkins: What we are picking up is the sense that the influencing going on in the EU27 is getting to a point where the priorities from their side reflect ours in terms of an early discussion around aviation issues when we enter the next phase of negotiations. There is some sense that the aviation issues are separable from other issues. If that is borne out at



HOUSE OF COMMONS

those discussions, I think the member states will be pushing those priorities and saying that they are equally important to them, rather than using them as a competitive tool to get the issues sorted and then move on.

Sophie Dekkers: A number of airline groups, such as IAG, have airlines based in each of the European countries, and will be lobbying their individual member states as appropriate. TUI are another example that we are aware of who are also lobbying their relevant Governments. Even Air France-KLM, although they may not be open to the full agreement and full liberalisation, have certainly said that they want a UK-EU agreement because they want to be able to access flying across the channel. Even those that are a bit more resistant to full liberalisation have recognised the need to have an EU-UK agreement and will be lobbying their Governments appropriately for that.

Willie Walsh: The Dutch have probably been the most liberal. They were the first country to negotiate an open skies with the UK. For KLM, the UK is a huge market. It is probably one of the most important markets that they operate to. They will not want to see that damaged in any way.

Q55 **Chair:** You have said that there are some exceptions to those wanting a liberalised agreement. Is there a risk that some of the exceptions could lead to individual countries vetoing an agreement between the UK and the EU?

Willie Walsh: I do not believe so.

Sophie Dekkers: No; I do not think it is at country level. The exceptions are more at airline level. As I say, it is not between the UK and the EU; the exceptions are more around what happens with intra-European flying. Certainly the feedback we have had from member states we have been talking to is very positive about getting to a UK-EU agreement.

Q56 **Chair:** Is there a risk that an individual EU country could veto an agreement of the sort that you all say you need?

John Holland-Kaye: I cannot think of any EU country that does not benefit from having the open aviation market that we currently have, even France, which we talked about earlier. Air France-KLM have just bought a very significant investment in Virgin. They would not be doing that unless they wanted to continue to have cross-border freedom of movement for flights between the EU, the UK and the US.

Q57 **Chair:** Clearly, one possible outcome is that there have to be new bilateral agreements with individual countries. How much more difficult would it be for the UK to negotiate an equivalent agreement if it was going down that path?

Willie Walsh: It is more difficult because you are dealing with 27 rather than one, but not impossible. I suspect that with some countries it would be relatively easy. With some countries it may be more complex, but I



HOUSE OF COMMONS

imagine that the UK would prioritise the countries that generate the greatest value, which is reciprocal. There is pretty good symmetry on this issue.

John Holland-Kaye: The biggest countries tend to be France, Germany and Spain. They are the big decision makers in Europe, which makes it more unlikely that we would get to that kind of situation.

Tim Hawkins: It is likely that the Commission would seek the mandate from those member states to negotiate as a bloc rather than see all of those arrangements put in place separately. It would simplify that process.

Q58 **Chair:** But if we had to go to the situation of negotiating bilaterally, what would be the implications for airline operations, for example?

Sophie Dekkers: I don't think there would be any significant implications. As was mentioned earlier, the UK are used to negotiating bilaterals with other countries anyway, or third countries. It is not something they are not familiar with doing or not set up to do. Yes, if you have 27 to do that is a task, but it is certainly not something insurmountable. We are not asking for anything different from what we have today. We are not asking to be excluded from EASA or the EU 261 compensation or anything like that. We are not asking for anything different from what is offered today.

Q59 **Chair:** Would you be concerned about the timescales? You have already set out what you think would be desirable for creating certainty. If there had to be 27 bilateral agreements, would that concern you?

Willie Walsh: It would take longer, but I agree fully with what Tim says. That has been the history with the Commission. They want to get the mandate to negotiate, and the Commission has been successful. I would be very surprised if that is not the case, because it goes against everything the Commission has been doing in practice in recent years, going back to 2005, I think it was, when the Commission established that they had competency in this particular area.

Q60 **Chair:** I know we have already touched on the US-EU open skies agreement, and you think it will be possible to negotiate an agreement with the US to ensure that the current benefits are maintained, but what would be the implications for the aviation sector if the UK should fall back on the Bermuda II bilateral agreement, which obviously was reached and modified a long time ago?

Willie Walsh: The UK would be fundamentally stupid to do that, and I do not think anybody would want to do it. I do not think anybody wants to restrict access to Heathrow to two nominated US carriers. That is the difference between Bermuda II and the open skies agreement in real terms. It allows any US carrier, if they can get slots at Heathrow, and they all have, to get full access to Heathrow. I am sure Heathrow will be arguing that that should not change. I would not argue it. I am not



looking for it to change. I do not want an environment where we have artificial restrictions in place, so I am quite happy for the US carriers to continue to have full access to Heathrow. This is an area where the UK and the US have always had perfect alignment in what they want in terms of open skies. The UK could sign up to the US model open skies agreement in a heartbeat. There is nothing in that that would cause any concern for the UK.

Q61 Chair: I am not sure I would always share your confidence that the UK Government will not do anything fundamentally stupid, but I will perhaps leave that one there.

The UK and Airlines UK put out a joint press statement suggesting that Brexit gave the UK "greater freedom to seek new agreements between the UK and some third countries." Sophie, from your perspective, which countries should be top of the Government's agenda?

Sophie Dekkers: We only operate to two countries that are outside the EU27, which are Israel and Morocco. For us, they are relatively quite a small proportion of our passengers. There was an agreement in place previously with the UK and Israel, so we could fall back on that. From our perspective as an airline, our growth is still very much focused on Europe. That is where we see ourselves growing. Growing beyond that, the peripheral countries that touch Europe would be our focus. As I say, it is only Israel and Morocco for us and we would be talking about a relatively small number of flights compared with our overall operation.

Willie Walsh: Those negotiations go on today. The UK can still negotiate. It just has to ensure that any negotiation has an EU ownership clause recognising it. The UK has negotiated recently with China. It has negotiated with Russia. They go on all the time. I do not think there is a need to change the priority. The EU has negotiated with Qatar, but today the UK already has a pretty liberal agreement with Qatar. The UK has an open skies agreement with the UAE, so the EU is behind the ball in terms of that. In most cases, the UK is already ahead of the game. The issue is that the UK could operate at a much faster pace than the EU, but the EU is prioritising countries that already have open skies deals with the UK or liberal bilateral agreements with the UK.

Q62 Chair: Are you confident that the UK can actually negotiate better deals than we would get as part of the EU?

Willie Walsh: I think they can, because you are looking after the interests of one country rather than 28 as it is now, or 27 going forward. Some countries have particular issues over protection of their state airlines, or former state airlines, that tend to influence the way they approach those negotiations, trying to shield them. The UK has never done that, to the best of my knowledge. Certainly for as long as I have been in this industry I have never seen the UK do that, and I do not expect the UK to change and to start doing it. The UK has traditionally had a liberal approach to negotiating bilateral agreements with other



HOUSE OF COMMONS

countries. It tends to operate at a faster pace than the EU, so I would expect that to continue.

Q63 **Huw Merriman:** There are clearly many areas of regulatory overlap for the UK's membership of the ECAA, particularly around safety and consumer protection. Mr Walsh has already talked about safety being a priority, but what priorities generally would the panel consider the Government should take into account, in respect of retaining regulatory consistency with the EU?

Willie Walsh: It is absolutely top of the list, with EASA. We do not want multiple regulatory regimes in place that make it unnecessarily complex. There have been huge advances in the area of safety because we have had a common system across Europe. The UK has contributed significantly to the development of that. There are many UK nationals working within EASA who will continue to contribute significantly to that. It is in the interests of the industry globally that we continue to participate and have a common regulatory environment for aircraft design, aircraft certification, aircraft operation and aircraft safety. There is absolutely zero justification to move away from it.

Sophie Dekkers: I absolutely support that. For us, EASA is a really important safety regulator. As Willie said, it is one that we have all contributed to, and the UK has contributed in particular to the development of the framework that we have there. The whole industry supports maintaining the same structure and framework going forward. We certainly would not ask for anything different, and would look to have a replication. We do not want different regulations in different countries, because that adds complexity. We want to work to the highest levels. Why would we not want to continue with EASA for that reason?

Q64 **Huw Merriman:** Moving to airline compensation, the EU has put a whole series of regulations in place that have given consumers good powers when getting compensation for delays and cancellations. We have also seen that Thomas Cook stated that they will not compensate for anything directly related to Brexit. Obviously, that is different from the confidence you have brought to this room. How do you feel about the future for compensation? Do you believe that the compensation will remain as is? Can it actually be improved? Perhaps that is something I should ask of Heathrow and Manchester, in terms of your passengers.

Willie Walsh: They don't pay compensation.

Q65 **Huw Merriman:** On a more serious point, they are impacted if the airlines do not pay compensation, because their business model goes. A lot of passengers are reliant on the EU regime at the moment, in order to ensure that they are compensated and that airports grow.

John Holland-Kaye: I am not sure that I would see EU 261 as a particular driver of aviation growth as a whole. As an industry, we want some level playing field with other transport sectors, and aviation is picked out in particular with 261. There would be more flexibility to have



HOUSE OF COMMONS

a regime that is appropriate to how the UK wants to protect consumer interests, rather than having something designed specifically for the EU.

Q66 **Huw Merriman:** Do you see an opportunity for automatic compensation? This has been raised before. Airlines know who is on their flight, whether that flight is delayed and what the account details are to reimburse anyone who is delayed, without the need for extensive applications for compensation. It has also been said that EU regulations prohibit automatic compensation. Is that something you believe can be further liberated to the benefit of consumers?

John Holland-Kaye: It is not something I have given any thought to. Probably the airlines have had more focus on that.

Willie Walsh: The bottom line is that somebody will pay for it. Fares will go up. The reality is that the airline does not have a direct relationship. When we carry customers, not all of them have booked directly with us. Therefore, we do not actually have a direct relationship with all our customers, and we do not have all the details of all our customers. This is an issue that the airline industry has been highlighting. Many airlines have changed that model and many airlines will change it. Complying with that today would be extremely difficult, if not impossible.

Q67 **Huw Merriman:** But you know who is on your flights.

Willie Walsh: Yes, we know.

Q68 **Huw Merriman:** And you know if they are delayed.

Willie Walsh: But we do not have the details of all our customers.

Q69 **Huw Merriman:** It cannot be beyond the wit of man to work out who the booking operator is.

Willie Walsh: You would be surprised. This is an area where, in some cases, travel agents are very protective. The relationship is not with the airline; the relationship is with the travel agent. You cannot change a bit of it without changing all of it. You are opening up a very interesting area that I would certainly enjoy going down, because I can see benefits to me on the one hand, and maybe implications for me on the other. Overall, I would see it as significantly beneficial to me if that were the case.

Q70 **Huw Merriman:** You said there would be a cost.

Willie Walsh: There will be a cost. Not everybody claims.

Q71 **Huw Merriman:** That is what I was going to say. The costs for your airline would be because more people would receive compensation that they are currently not getting because the process is so cumbersome.

Willie Walsh: Yes, and we will pass that cost on to the consumer, like we always do. We do not operate as a charity. We operate as a commercial business. Clearly, we will do everything we can to minimise our exposure, but a lot of the issues are outside our control. If there is an



HOUSE OF COMMONS

air traffic control strike, we have zero control over that, yet I have to pay the compensation. If there is a breakdown on the baggage belts at the airport, I have zero control over that, but I have to pay the compensation if my flights are delayed.

Q72 **Huw Merriman:** I can see that you may feel aggrieved by that, but the concern would be that, when there is more ability to set our own framework, you might be pressing for those rights to be watered down for consumers.

Willie Walsh: No, no, I am not saying that; absolutely not. EC 261 2004 has been in place since 2004. It has been interpreted by various court judgments, both in the UK and in other countries. I am not in any way trying to change it. It is what it is, and we operate to it. We fully comply with our obligations under EC 261, and will continue to fully comply with our obligations under the legislation.

Q73 **Huw Merriman:** As a rough figure, do you know the proportion of your passengers who are compensated for delays by having gone through the process?

Willie Walsh: Yes.

Q74 **Huw Merriman:** What would that be?

Willie Walsh: I am not prepared to disclose that. That is commercially sensitive.

Sophie Dekkers: From easyJet's perspective, there are two separate things. One is that there needs to be a review of EU 261 generally. I think all airlines across Europe would agree with that.

Willie Walsh: And the Commission has agreed with that.

Sophie Dekkers: Yes, and the Commission has agreed. That is separate from us as the UK wanting to do something different. Let's separate those. One is that we think EU 261 should be reviewed. In terms of automating compensation, there is one rule that means that due to money-laundering you cannot refund a credit card with more than a person has paid for the flight. You can imagine that, for an easyJet flight and an IAG flight, most of those are less than the amount of compensation you pay. We are not allowed to refund automatically, because the amount we would be paying back would be more than they paid for the original flight. Money-laundering regulations prevent that.

In addition, we are not allowed to store credit cards. As Willie said, a proportion of bookings go through a travel agent. The travel agents are very protective because they want to sell them the car hire and the hotels. They do not want the airline doing that, which is why they do not pass passengers' details to us. We ask very strongly that they provide them, because in a case where we need to change the flight details we need to be able to contact the customers and not have to rely on a third



HOUSE OF COMMONS

party to pass that on. It is Chinese whispers, as it were. There are plenty of reasons today why we could not do that even if we wanted to do it.

What we are working on is how we can make it as easy as possible. We have a web form and we commit to refund the majority within five days. Those are things we can do today, but that is separate from the UK being part of the EU. There needs to be a total review of EU 261, but what we want going forward is parity. We do not want someone sat on a flight on one of our Austrian aircraft to be entitled to something that someone flying on the UK aircraft is not entitled to. That adds complexity and even more cost to what is already very expensive. As it stands today, we would support parity in some form or another, as we go forward, but that is not to say that we do not think there is a very strong case for review of EU 261 separately.

Q75 **Huw Merriman:** Mr Walsh, train operators would tell me what proportion of refunds they are paying. Why would you regard that as commercially sensitive?

Willie Walsh: Because we do not disclose it. I am not prepared to disclose it.

Q76 **Huw Merriman:** I know you do not disclose it, but why would you consider that to be giving us sensitive—

Willie Walsh: Because it is commercially sensitive and I am not prepared to disclose it.

Q77 **Huw Merriman:** What are you concerned about, from a rival's perspective?

Willie Walsh: We disclose what we disclose, and we fully comply with all of our disclosure. I am not prepared to disclose anything that other people do not have to disclose, for commercial reasons.

Q78 **Huw Merriman:** That is why I am very interested in automatic compensation. It sounds as if, with a few amendments to the legal process, we can get there in the same way that other industries may compensate where there are third parties. The industry does not want to talk about numbers for reasons that I do not understand.

Willie Walsh: Sorry, I do not represent the industry. I represent IAG.

Q79 **Huw Merriman:** Yes, your own company.

Willie Walsh: Yes, but the question was to me and I am giving a direct answer. I am not prepared to disclose something on commercial grounds. It is not an industry disclosure; it is an IAG disclosure. I am happy for other airlines to disclose it if they wish to.

Q80 **Chair:** Obviously, that gives us concern about the number of passengers who are missing out on their compensation, if you are not prepared to tell us the proportion.



HOUSE OF COMMONS

Willie Walsh: I do not think they are missing out on it. Every passenger has the right to claim. That is the structure. The structure is that the passenger claims. That is the way it is set up. We comply with the legislation. You are in charge of the legislation. If you wish to change it, clearly that is something you would do.

Huw Merriman: I am very pleased that I have a ten-minute rule Bill slot to do exactly that.

Q81 **Chair:** If we knew the size of the problem, it would be useful information. If a very large proportion of passengers are able easily to exercise their rights, there would be less need for legislation. Your answer seems to suggest that the proportion of passengers who are able easily to exercise that right is small.

Willie Walsh: I did not say that. I do not think I gave any clues as to whether it is small, large, or complete.

Q82 **Chair:** In the absence of any information, we would be concerned that many passengers are not able easily to exercise their rights. Certainly there have been a number of cases in the media where people have found it difficult to exercise their rights.

Willie Walsh: I would disagree. I think passengers are very capable, and it is very easy to exercise their rights. That is the case. There is nothing to demonstrate that that is not the case. All it takes is for the customer to submit the application, and it is dealt with. There is a framework to do that.

Q83 **Chair:** If they know what they are entitled to in the first place.

Willie Walsh: I would be surprised if people do not know what they are entitled to. It has been well publicised what people are entitled to.

Chair: It has been well publicised recently, because people were being denied the compensation to which they were entitled.

Q84 **Daniel Zeichner:** I want to go back to the safety point. My understanding is that, if we are part of the European Aviation Safety Agency and we are not part of the European Union, we do not have voting rights in that. Presumably, over time that will mean that we have less influence over it. Given that it is fair to say that we have had quite a lot of influence in the past, that would not be a particularly good thing. What would be your view?

Willie Walsh: I would agree 100% with you. It would be a retrograde step, but, as I understand it, it would be impossible as it is structured today for the UK fully to participate in it with voting rights. That is my understanding, as it stands today.

Q85 **Daniel Zeichner:** What do you think the longer-term implications of that would be?



HOUSE OF COMMONS

Willie Walsh: The influence of the UK in that area would diminish. I do not think it would disappear, but clearly it is much more effective if you have a vote and you are sitting at the table with a vote, rather than sitting outside the room.

Q86 **Graham Stringer:** On the EASA regulations, when EASA was set up, the predecessor to this Committee said it was dysfunctional. It operated very poorly to start with. Are you satisfied with the way it operates now?

Willie Walsh: Personally, yes. I would not describe it as dysfunctional.

Q87 **Graham Stringer:** Not now, but when it was first set up. There were clearly gaps in its operation, which were identified both by the industry and by this Committee.

Willie Walsh: I do not think that is unusual with the establishment of any new body. It has certainly advanced the interest of safety in Europe, including the UK, from an aircraft operating, licensing and regulatory point of view. It has been a positive development. It may have had issues, like all new bodies, when it was first established, but I think it is a very competent body today.

Q88 **Luke Pollard:** I want to turn to EU 261 again, briefly. This was an area I came across quite a lot when I was at ABTA, in terms of the regulations being reinterpreted by courts during periods as they were passed. I am interested to get your view on what would happen if there is a review of 261 from a European perspective, but the UK sits outside that regulatory framework. If you were looking for parity between the regulations, is it your interpretation that a reformed 261 within the EU27—with us still effectively operating the old 261 model, because we would be mapping over all protections, or to quote the Secretary of State “no less protections” on our passengers—would be the most favourable option? Would the most favourable option be to map across a revised 261 model to create that parity?

Sophie Dekkers: From an airline perspective, for simplicity, we would absolutely support the mapping across of EU 261. We do not really want cases where it depends on what registration the aircraft has as to whether or not people are entitled to compensation because the mapping has become disconnected in some way. We would certainly support any replication of changes that happen in EU 261 within Europe for the UK consumer as well. Everyone round the table would want our UK consumers to be as protected as EU consumers, regardless of which aircraft they are sitting in.

Q89 **Luke Pollard:** In particular, I am thinking about the differentials between a reformed EU policy—effectively becoming the EU default for the European market, including the UK default—and the UK having no influence on the shape of that, sitting outside the EU27. Is that a concern that you would feel?



HOUSE OF COMMONS

Willie Walsh: As it works today, it applies to passengers departing an EU airport. The UK will no longer be part of the EU. With the US for example, because it applies outside Europe as well, if you are operating a European airline, departing the US and flying into Europe, compensation applies. If you are flying on an American-registered aircraft, it does not apply. We have it today. I imagine that going forward it would be possible to have a different regime—similar but different. I heard what the Secretary of State said when he appeared before the Committee. I imagine that it would not have to be exactly the same, and maybe the UK will not want it to be exactly the same. If you are departing an EU airport in one direction, it will apply departing a UK airport in the other direction.

Q90 **Luke Pollard:** The nub of the question I am trying to get at is this. Are you expecting the UK simply to be forced, by virtue of being a very small player—albeit an economically important small player—to adopt EU regulations on aviation protections and regulations in the future?

Willie Walsh: It does not matter where you are from in the world. If you are departing from an EU airport—

Q91 **Luke Pollard:** But if EU 261 is reformed and there are policies like that—similar to the air passenger rights regime being reformed en bloc from the EU perspective—are you expecting the UK as a first default simply to map over the output of the EU, even though they are not necessarily in the EU any more, simply because of the size, shape and negotiating power that the EU will have in future?

Willie Walsh: No. I do not think it is anything to do with the size and shape of the negotiating power. It is to do with simplicity. Maybe I incorrectly interpreted the Secretary of State as saying that that is what would be in place, and that EU EC 261 would continue to apply. If Europe adapts EC 261 going forward, I did not hear him saying that he would necessarily apply exactly that. It may be, or it may be some other form, but I do not think it has anything to do with negotiating power or size. It is simply that the EU would apply it if you were departing an EU airport, as they do today, with every country. Then it is up to the other country to decide whether they want to apply it, or apply some different form of compensation.

Q92 **Luke Pollard:** You could have a situation where you have an EU 261 and a UK 261.

Willie Walsh: Yes.

Q93 **Luke Pollard:** With delay legs. I am thinking in particular about where a plane does multiple sectors, and the obligations mount up, with a 261 from the EU and a 261 from the UK.

Willie Walsh: Yes. The most recent decision of the European Court confirmed, in relation to airlines operating from the UK to an intermediate point and then beyond, that the compensation applies from start to finish rather than just from the starting point. If it is going from A to B to C, it



HOUSE OF COMMONS

is A to C that applies and not necessarily just A to B. A number of US and middle east airlines have applied an interpretation that, if the delay takes place between airport B and C, it does not fall under the EC 261 compensation.

Q94 **Chair:** Before I let the panel go, or before I give you an opportunity for final comments, I hope you will not mind, Mr Holland-Kaye, but you are appearing in front of us at a time when the Committee is very concerned about the news yesterday of a serious breach of security involving Heathrow and the loss of sensitive information. So, could you tell us what you already know about what happened and what you are doing to investigate what happened?

John Holland-Kaye: Yes, thank you. I should start by saying that we take safety and security very seriously. I am very disappointed that this incident happened. We immediately set up an internal investigation to find out what happened. That is ongoing, and we have involved the Metropolitan police in that investigation. We are also setting up an independent internal inquiry, so that we can look at our processes to make sure that we do not put ourselves in that situation again.

From the information that I have seen on the USB stick that was reported in the papers, there was nothing there that causes us any security concerns. From what I have seen, Heathrow is completely secure. We will be reviewing that with a critical eye to make sure that, if there are any procedures that need to be changed, they are changed quickly to ensure that we stay ahead of the game. We are working with the security services on that.

Chair: Do other members of the Committee want to ask further questions?

Q95 **Graham Stringer:** Will you keep the Committee informed as you progress through your inquiries?

John Holland-Kaye: I would be happy to give an update once we have completed our investigations.

Q96 **Chair:** Can I ask when you anticipate completing that work?

John Holland-Kaye: It is too soon to say at the moment. We are part way through the investigation of what happened, and we are just setting up an independent review of our data management processes. I imagine that will take some months to complete.

Q97 **Graham Stringer:** How independent is independent? Does it mean completely external people?

John Holland-Kaye: I expect it to be managed by an external party, and we clearly need to make sure that we choose the right independent external party, but reporting, through our operational risk sub-committee of the board, to the board.



HOUSE OF COMMONS

Q98 **Graham Stringer:** Will the bulk of that report be made public, if it is not security sensitive?

John Holland-Kaye: I imagine that the vast majority of it would be sensitive, so I would not expect to make that public. It will be an internal review. It is important that we manage security around aviation very carefully, as the Committee will understand. We will be happy to discuss with the Committee how we could keep you apprised in a suitably secure way.

Q99 **Chair:** On that basis, would you be prepared to write to us setting out further details of your investigation, and obviously findings, in due course?

John Holland-Kaye: Yes, of course; I would be happy to.

Q100 **Chair:** Thank you very much members of the panel for appearing before us. Are there any issues or comments you want to put on the record before we close?

Willie Walsh: No.

John Holland-Kaye: No.

Tim Hawkins: No.

Sophie Dekkers: No.

Chair: In which case, thank you very much for your time.