Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence
Brexit: Trade in Non-financial Services—Follow Up

Thursday 30 November 2017

10.05 am

Watch the meeting

Members present: Lord Whitty (The Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Mawson; Baroness Noakes; Baroness Randerson; Lord Rees of Ludlow; Lord Wei; Lord Wigley.

Evidence Session No. 1 Heard in Public Questions 1 - 11

Witnesses

I: Dr Barry Humphreys CBE, BKH Aviation; Tim Alderslade, Chief Executive, Airlines UK; Karen Dee, Chief Executive, Airport Operators Association.

Examination of witnesses

Dr Barry Humphreys, Tim Alderslade and Karen Dee.

Q1 **The Chairman:** We have about an hour. Perhaps you could open by giving your general assessment of where we are. In your earlier evidence to us and in the aviation industry's evidence to the Commons Transport Committee, there seems to be a degree of confidence that a deal can be done on aviation almost irrespective of whatever else happens in the negotiations. Can you tell us why you think that; what your engagement with the Government on that has been; and what the process of reaching an agreement on aviation, airlines and airport matters is likely to be, including your relationship, for example, with EASA and the whole of the European skies arrangement?

Of all the sectors we have spoken to, aviation seems more confident than other sectors that things can be sorted out, and we would like to know why. Could each of you give a general indication of where you think we are?

Tim Alderslade: It is certainly true that as a sector we think we are in a good position. Looking at international aviation and the UK’s place in it, we are the third largest aviation market in the world, behind only the United States and China. We have direct access to 370 international destinations all over the world. EU countries want to access UK markets. They want to access Heathrow and UK regional airports where they have a large presence.

The UK air market is dominated by outbound traffic; it accounts for about two-thirds of our services, and the EU is incredibly important in that. We send millions of tourists across the EU, in particular to Spain, Greece and Portugal, and that is a huge injection of money into their local communities, regions and tourism businesses. That is why we believe it is in everybody’s interests to get a deal on aviation.

We have seen hugely important advances over the last 20 years in lower prices. Prices have come down by 40% over the last 20 years. We have new entrants in the marketplace and greater competition. That is great for consumers and businesses. With one or two notable exceptions around Europe—some EU airlines—nobody wants to turn the clock back to a scenario where only the rich could afford to fly.

The most important thing for us from a technical angle is that we have ready-made structures in place to replicate once we fall out of the European Union. The EU negotiates air services agreements with countries all over the world, both within the EU, obviously, and third-party countries, most famously the United States, Canada and Israel. It is mandated to negotiate with a whole batch of other countries in the Middle East and, further afield, with New Zealand and Australia. All we want to do is replicate the arrangements that the EU has in place with those countries to guarantee market access. That is why there is a degree of confidence. It is not overconfidence.

Our engagement with government has been very good and positive, with some excellent round-table discussions with the Secretary of State, Ministers and civil servants. Crucially, it is not just a DfT issue. We have been speaking to departments all over Whitehall, because they see that aviation is a sector where we do incredibly well in this country. We are a world-class aviation market, and we do not want to see that dissipate in any way. That is the basis of our confidence in the airline sector.

Karen Dee: At the risk of duplicating what Tim has already said, the position for airports is similar. We have very good engagement. As Tim said, there is widespread recognition of the importance of the role aviation plays in the UK, across the EU and globally. That is what is behind the confidence. Everybody understands how important it is, so that is great.

The UK continues to make bilateral agreements on aviation. Some of them are done by the EU, but we still do them ourselves, so in the DfT and the Civil Service we still have the skills, knowledge and experience to do that. We are not starting from scratch. That helps, because people know the sorts of issues they need to address and how to go about engaging in those conversations. Clearly, the negotiation still needs to happen, but that is what is behind the confidence. We have had very good engagement, and we feel that the message is being received well, with good understanding.

Dr Barry Humphreys: I would not disagree at all with those comments. When I appeared before this Committee about a year ago in relation to aviation, you said that it seemed to be low-hanging fruit. I thought that was absolutely spot on. It ought to be low-hanging fruit if common sense prevails.

I have spent quite a lot of time over the last year talking to stakeholders around Europe. There is widespread support among airlines, airports, tourism bodies and consumer groups for the continuation of a liberal approach to aviation. At the same time, we should not ignore the fact that there is a great deal at stake, and there are people in companies around Europe who do not share that view. There have been public statements by Lufthansa and Air France, for example, which seem to favour a return to a more protectionist approach. We should not ignore that. The whole industry needs to get its act together and lobby very strongly for continuation of the regime that has achieved so much over the last 20-odd years.

The Chairman: It may well be low-hanging fruit; it may be manifestly in everybody's interests for it to happen, but the question is how it can happen. Are the wheels in motion? In all your engagements with Whitehall, the idea of having a separate, or at least semi-detached, aviation agreement has not publicly been stated to be a government objective, because obviously the wider issue needs to be kept open in negotiations, but are you reasonably confident that in almost all circumstances you will be able to get an agreement on aviation?

Tim Alderslade: Separating aviation from the rest of the trade deal has certainly been an ask of ours for quite some time. We do not think aviation mirrors other sectors. It is an economic enabler by its nature and allows other trade and business to happen, whether pharmaceuticals, tourism, financial services or whatever it may be. We have quite a unique status in that we do not have the WTO fallback, as we all know, and in that airlines start to sell tickets many months in advance. That does not necessarily mean when those tickets are bought; for short haul it is a lot later than that. Because we face those two fairly unique issues, we have asked for aviation to be separated from the major trade negotiations. We think the Government and the EU 27 have an interest in doing that, but obviously it boils down to the overall negotiations. The DfT is not able to set out publicly that that is something it will call for, because it boils down to the discussions with the EU.

As regards transition, it looks as if we are now starting to make progress on the money and the hard border in Northern Ireland. We hope that a transitional deal will be agreed and enacted, hopefully some time in the new year. We are not overly fussed whether it is two years or three years; it will take as long as it takes. It is almost our sector's WTO fallback, because it will give us the time we need to get a deal in place that safeguards market access as closely as possible to current levels.

Q2 **The Chairman:** Can I press you specifically on EASA? There are non-EU countries that are party to EASA, but only with non-voting rights. I guess that would be the EEA countries. Are you reasonably confident that the current influence of Britain could be maintained in such an agreement? At the end of the day, it is an EU agency.

Dr Barry Humphreys: EASA and safety regulation is extremely important. It has not attracted as much public attention as the market access aspects, for obvious reasons, but, fundamentally, if we do not get the safety regulation right, there will be no air services, so it has to be addressed. I think it was the chief executive of the CAA who said that in his eight years' experience in his current job he had never seen greater unanimity in the aviation industry for the UK to continue to participate as fully as possible in EASA. That is absolutely critical.

You are quite right: there are legal issues or perhaps, more accurately, political ones, in particular the fact that EASA is an agency of the European Union and therefore is subject to the jurisdiction of the European Court of Justice. The fact remains that EASA is a technical body that reaches decisions primarily by consensus. The UK and France are the two principal contributors to EASA, and everyone I have spoken to is certainly of the view that the withdrawal of the UK would be not only a disaster for EASA; fundamentally, it would be an issue for aviation safety itself, and that is something no one should contemplate.

The ECJ has never made a decision on EASA; it has never been involved. I believe the Commission has threatened to use it once or twice, but it has got no further, so in practical terms the answer seems obvious. The UK should continue to be as full a member of EASA as possible, and the fact that it will not have a vote on the management board, and that decisions are theoretically subject to the ECJ, should not, in the view of most people in the industry, be a factor at all. That is what most people want to see.

Karen Dee: From our perspective, it is important that we understand that there is a difference between voting and influence. The UK has led quite a lot of the safety developments; as Barry said, it has been hugely influential in EASA, and it is important for the industry globally that we continue to play that role or find a way of doing so.

Q3 **Baroness Randerson:** I want to press you on the timescale. I welcome your new confidence about the ability to get the agreements you need, but timescale is a real issue. You believe you have priority and that the Government accept that. You might be interested to know that the motor industry believes exactly the same thing. It is believed across industry that everyone has a special case. They have gone to Ministers who have said, “Yes, you will be a priority”. The truth of the matter is that not everyone can be a priority.

I want to tease out exactly what the timescale should be. When Willie Walsh gave evidence to the Commons Committee, he was very relaxed about the timescales, yet I have been told by individual companies privately, and the travel industry has made clear publicly, that they need agreements in place by next March, because that is when they will be selling tickets for March 2019. Other than that, you can sell your tickets only with an asterisk, which undermines public confidence. Can you explain to us what the real timescales are? I realise that individual companies, mostly, will not risk undermining public confidence in their tickets by discussing the issue?

Tim Alderslade: From a UK airline perspective, we have said publicly and privately that we want clarity as soon as possible, and either a fully-fledged bilateral agreement with the EU that maintains market access and is as close as possible to what we have now, or transitional arrangements. We are very confident, and we are heartened by what we have been hearing over the past few days about progress on the money and on the border, and that we can get a transitional deal in place as soon as possible. That will give clarity and confidence not only to the airline sector and airports but to consumers, which is incredibly important.

It is true that airlines put tickets on sale a year ahead. Some airlines do it 10 or 11 months in advance; tour operators put tickets on sale 18 months in advance. Thomas Cook has tickets on sale currently, and we are not hearing any issues about consumer confidence and ticking down on sales. We want clarity as soon as possible, but we are looking at around September or October next year as the date when we would want some clarity. We are not saying it will be Armageddon if we do not hit that, because consumers do not necessarily buy short-haul tickets when they go on sale; it tends to be three or four months out.

We have one of the most resilient sectors in the UK. We have had scenarios in the past where airlines have put tickets on sale for flights, and the legal terms and conditions have not been completely signed off. That has happened as per normal and people have continued to buy those tickets. We have also had a number of short-term changes on APD and the liquids ban that came in recently. The industry will respond because it is resilient.

We think that consumers will respond as well, because all the evidence we have seen from the focus groups that airlines do and the consumer data they have is that people want to go on holiday. They value their week in the sun and they will sacrifice things for that. We should give them a bit more credit than some people do. They will factor this into their purchasing arrangements and plough on, because that is what they value more than anything else.

Dr Barry Humphreys: If there is to be a transition period of two years and it is agreed early next year, it will take care of a lot of the concerns in this area. The current rules will continue to apply, but if that does not happen aviation has precedents. There are what are called comity and reciprocity-type agreements. There are ample examples of those between countries where the old bilateral may have fallen by the wayside. Basically, both sides agree to continue what they have already until they reach a new agreement. That has worked perfectly well. Indeed, arguably, it might be a better approach than a transition period, although I suspect aviation will be caught up with the broader transition. The problem with the transition is that, if there are any changes to the EU rules, the UK has to accept them but has no input to them, whereas under a comity and reciprocity agreement the two sides have to agree any changes. Whether that is of any real significance is doubtful.

Karen Dee: From the point of view of airports, airlines are at the forefront of selling tickets, and we are keen to get certainty as soon as we can. Transition will help that a lot. Some of the more detailed discussions that we need to get into about customs and borders, which may have greater impact for our infrastructure, will take some time to plan. We are keen to see it come as soon as possible, and we hope the Government manage to get into the negotiations pretty quickly.

The Chairman: There is a slight corrective. Thomas Cook was mentioned. We have written evidence from Thomas Cook that continued lack of clarity would diminish customer confidence, so that is slightly less upbeat than perhaps you imply.

Tim Alderslade: I totally agree with the point that we want clarity as soon as possible. If we are in a situation at some point in the future where there are no transitional arrangements and we still do not have that clarity, that would be of concern to us, but I do not think we are at that stage yet. We have plenty of time to get this sorted out. Putting the transition to one side, we are talking about leaving the EU in April 2019, so we are almost 18 months out.

The UK airline sector will be looking for clarity from government around the late summer—September or October—next year, but we are not saying that it will be Armageddon if we do not hit that, because the sector and the airlines will carry on selling tickets. They have been quite clear about that. They will carry on operating as per normal. They will make fleet decisions; they will make decisions on where they base their aircraft based on confidence that there will be a deal on aviation, because it is in everyone’s interests and we have the structures and frameworks in place to mirror moving forward.

Q4 **Lord Rees of Ludlow:** I have another question about timescales. It is fairly clear that after Brexit there will be changes in the customs and immigration arrangements that apply between the UK and the EU, not only for passengers but for air freight. How long will it take you to prepare and put in place the necessary provision of staff and facilities? One reason for concern is that last summer we had passenger delays when the Schengen rules were tightened up at European airports, even though there was a year’s notice that it was going to happen. How confident can we be that, if there are these more severe and major changes, airlines and airports can accommodate them?

Karen Dee: It is important to separate passengers from freight because the issues are slightly different. For passengers, it will depend on how we treat incoming passengers. Airports do not do that check-in; Border Force staff undertake passport checks, so there is a potential issue for the Government in resourcing their Border Force staff, when resources are already under pressure.

If part of the deal is that we have to treat EU passengers in the same way as we treat non-EU passengers, it could create capacity problems. Building extra terminal capacity can be a challenge, particularly at some very busy airports. It is a challenge wherever you are, but it depends on whether or not the Government will accept different types of systems. We would need time if we had to provide much extra infrastructure, so the sooner we understand how the UK is to treat people at the border, the better; it is important. Our role in that is about providing the space for checks—for example, the increased use of e-gates. That will not happen overnight, so the timing of those investment decisions is crucial.

Freight is a slightly tricky issue for airports. We do not do the freight; we provide the space to facilitate it, so freight forwarders, sometimes in conjunction with airlines, are in control of that. If there is anything that means more checking for customs, such as parcels, and increases the time, freight forwarders will need more space for warehousing. If we need additional space, it takes time to provide. Computer systems are also an issue, so more pre-clearance could help. All the concerns the Committee will have heard about customs apply to aviation, as they do to road and rail.

As an industry, we very much take an interest in road freight customs procedures. We do not necessarily fly parcels from the EU to the UK and then on to the States, but Heathrow is quite an important hub for a lot of freight. Sometimes it comes to Heathrow by truck, quite often from the EU, for forwarding, and sometimes it goes out, so anything that delays the processes on the roads in and out of the UK is something we have to plan for.

Lord Rees of Ludlow: How much leverage do the airlines have over the airport authorities? We already know about the frustrations of air travel because electronic gates do not always work and things like that. Is there any way in which the airlines can put pressure on those, because it will be a big issue, will it not, if the arrangements are tightened up?

Karen Dee: We pay for e-gates to be installed, but they are part of the border and are staffed by Border Force staff, so the airports are just facilitators. We are all engaged with Border Force in improving the service.

Tim Alderslade: We agree 100% with Karen and UK Airports about improving the border operation. Making sure that the welcome to the UK is as seamless and smooth as possible is incredibly important in how the UK is perceived as a country. Putting Brexit to one side for a moment, the UK has rising passenger numbers and passenger growth at a time when we are seeing a squeeze on Border Force budgets. There is a big tension there. Technology plays a role, making sure that e-gates are up and running and working properly. Alongside the airports, we have regular conversations with Border Force to make sure that it has the resource in place and the expertise moving forward, and that it is aware of the kind of growth figures and expansion that airports and the airline sector anticipate over the next few years, so that it can properly plan ahead.

On Brexit, one of the most important things the Government have to tackle and grapple with is making sure that we do not have a situation where EU passengers have to queue for 45 minutes to get into the UK. The vast majority of the traffic, looking at the current numbers, is UK-EU. That would cause all sorts of problems at UK airports, in particular regional airports, where space is limited. We appeal to the Home Office, to Border Force and further afield in Whitehall to give us clarity. The airport sector, in particular, needs clarity to be able to plan so that, if airports need to reconfigure their terminals, they have the time to do it.

Lord Mawson: It is encouraging to hear what you are saying, but what are the longer-term implications for Heathrow, which is such an important hub for this country? Do you have any sense of how that will play out?

Karen Dee: Do you mean the border?

Lord Mawson: No, the viability of Heathrow going forward. From what you hear, are we going to lose a lot of opportunities with regard to Brexit? Are you positive about what might happen to Heathrow? Is it all very uncertain long term?

Karen Dee: The UK aviation market is already the third largest market in the world. Longer term, I do not anticipate that that will change. There is a lot we need to do, but people will want to travel, and the Government have made it very clear that they want the UK to be an open and connected trading nation. Aviation links are a crucial part of that. We do not anticipate that it should be a problem over the longer term. We need to get the Brexit deal agreed so that we have certainty and are able to plan going forward, but we anticipate that aviation is a growing market.

Dr Barry Humphreys: There is certainly no evidence at all that there will not continue to be a need for additional airport capacity, especially at Heathrow. Whatever happens with Brexit will not undermine the argument for an extra runway; indeed, the way things are going, there may be a need for two more runways before long. To be precise about the impact of Brexit depends on what deal is done at the end of the day, so it is difficult.

The Chairman: The question of Heathrow runways is probably beyond the remit of this Committee. I do not want to go down that road, so could you go to your main question, Lord Mawson?

Q5 **Lord Mawson:** David Davis told our Select Committee that even in a no-deal scenario he envisaged "some sort of basic deal" that would cover "fundamental issues such as aviation". Do you agree with his assessment, and what would be the essential components of such a deal in relation to air services? Would it necessarily be a basic deal, or could a comprehensive aviation agreement be secured in the absence of a wider FTA?

Karen Dee: As I speak for a trade association, it is quite difficult for me to speculate on what David Davis meant, but the way I would interpret it is that there is recognition that aviation is legally unique, so if we want to continue operating, we have to replace the current legal framework. I interpret that as meaning that, if the rest of the negotiations are still ongoing, we have to have some kind of legal framework, even if it is an interim one, to allow aviation to continue.

Quite what format it might take I do not know; Barry probably knows more than me. Over the years, there have been lots of different types of aviation agreements. Traditionally, aviation is negotiated in its own right anyway; it is very rare that it is part of a wider trade deal, and that is why we still do negotiations on bilateral air services. It would not be unusual for there to be discussions on aviation outside a trade deal.

Dr Barry Humphreys: A no-deal scenario in reality means falling back on the old bilateral agreements, which are not fit for purpose in the modern world. That would probably be the nuclear option, if I might put it that way. It would be very unacceptable to most people.

There are a number of alternative approaches as to what a future deal might look like, and various models: the Norwegian model, the Swiss model, the neighbourhood model and so forth. All of them have pros and cons, and probably more cons than pros. At the end of the day, certainly on the basis of the work I have been involved in, the best outcome by some way seems to be a new aviation agreement between the UK and the EU 27, possibly based on the mandate that the Commission was originally given to negotiate with the United States. That was not the agreement eventually signed, because the United States would not agree to some of the conditions, but to all intents and purposes it took the internal aviation market and stretched it across the Atlantic. If the Commission and member states were prepared to offer the United States that deal, it is difficult to understand logically why they might not offer it to the UK, but I am afraid that logic does not always prevail in these matters.

Lord Wei: You said there is a massive incentive on both sides to get something in place. To help us understand the scale of what would happen if nothing was put in place, or if, because of the way negotiations proceeded, it happened too late, what is the scale of the problem for both sides? It is a problem for both, but who gets hurt more if nothing is agreed? Is it Europe or the UK?

Tim Alderslade: I am not going to speculate about what would happen in the event of no deal. We are not yet in a position where we need to start worrying about that. We have more than enough time. With or without a transitional deal, there is time to get an agreement in place that will, as Barry says, replicate the kind of arrangements the EU has in place with countries all over the world, whether that is similar to the deal on the EU-US open skies agreements or the agreements with Canada, Israel, Moldova, et cetera. Those are good, liberal, open agreements, which, by and large, in the case of the United States, allow US and EU carriers to fly back and forth at will.

It could be the kind of situation that we have with the Swiss model. The Swiss have their own bespoke arrangements, which allow full market access, with the exception of ninth freedoms, but they get seventh freedoms as well. They get full membership of EASA. They do not necessarily have to accept the full rules of the aviation acquis; that is decided by a joint committee. Everything until 1999, when the agreement was signed, comes under the jurisdiction of the ECJ. Following that, it was decided by a joint committee with representatives from Switzerland and the Commission sitting on that body. Furthermore, Swiss nationals are able to own an EU airline. We might look to replicate that kind of thing, but, whether or not it is the Swiss model, we can probably discount the UK staying in the ECAA, because that would require the free movement of people, which is a red line for the Government, but there are templates we can replicate moving forward.

The most important and fundamental thing for the UK is that we are not Norway or Switzerland. We are the third largest aviation market in the whole world, with world-class airlines and one of the largest hub airports in the world. Nobody voted to be poorer because of Brexit, and nobody in Europe wants a situation where there is a change in the market access we have had, which has seen enormous benefits. Twenty years ago, people paid hundreds of pounds to fly to the south of Spain, for example. We are not in that situation now; we have new entrants coming into the market all the time; we have a competitive, dynamic aviation market. Whether it is the Swiss model or some sort of open skies agreement does not matter; it will be done because everybody—the EU 27 and the UK—recognises the importance of market access in a very globalised world. It would be a bizarre state of affairs if we turned our back on that. That is why there is confidence on our side that a deal will be done.

Dr Barry Humphreys: This is a European problem as much as a UK one. To give an example of why that is the case, the airline industry, as you probably know, has archaic ownership and control rules. Airlines have to be majority owned and controlled by nationals of the state in which they are based, or, in the case of Europe, by EU nationals. Post Brexit, if nothing is done, Virgin Atlantic will be majority owned by no country; it will be 49% owned by Americans; 31% by French; and 20% by British.

That is a UK problem, but Ryanair will be in exactly the same position. Ryanair post Brexit will be majority owned and controlled by either British or American shareholders. Wizz Air, a large airline based in Hungary that operates all round Europe, is in exactly the same position. These are not just UK problems; they are Europe-wide, and one would hope they could be mutually addressed.

Q6 **Lord German:** I have listened very carefully. Each time you speak, I come to the conclusion that there is confidence, but I do not know what is happening with the rest of Europe. All your opening remarks addressed what your relationships were like with the UK Government, and it seemed that beyond that there was confidence that, because our case was so strong, nothing would be denied. Can you tell us what the position is now with the other European Union states? What are their feelings on all these issues? What is their position on how the talks might progress, and is the industry in other European states, at the other end of your drop-off point in this country, making exactly the same case to their Governments as you are making here? What responses are likely? What is the mood among the EU 27?

Karen Dee: I do not have direct expertise about the mood in each of those countries, but what I can say is that AOA works very closely with ACI Europe, which is the association for European airports. ACI Europe unanimously—all the airports across Europe—take the same view as we do, which is to maintain as liberal and open an approach as possible. We find it very reassuring that all the airports believe that is the case, and that they are lobbying their own Governments precisely on those lines. As an association we are not engaged in lobbying those Governments, as we do not see that as our role; but we find it reassuring that ACI Europe is doing so, and that the industry there shares the same view of the importance of getting a deal. Of course, we understand that it is a negotiation, but as a sector we think there are real benefits to continuation.

Dr Barry Humphreys: It is very difficult to get an impression of what individual Governments are thinking, because they are just not talking at all on this subject, nor is the Commission. I have spoken to various aviation stakeholders around Europe. As Karen said, the airports are very supportive of the continuation of a liberalised approach, as are most airlines and most tourist bodies and consumer groups. If I could make one plea, it is that consumers and their representatives should be more vociferous on the subject, to emphasise the benefits they have achieved from liberalisation.

As I mentioned earlier, this is not a universal approach. There are some people who have publicly come out against liberalisation and seem to favour a return to protectionism, in particular Lufthansa and Air France. We have to recognise that. It remains to be seen how influential they will be with their own Governments.

Lord Mawson: That all sounds encouraging, but we all know that the devil and the detail sometimes catches out this confidence. I do not know how it works for you, but I assume that airlines flying in and out of Europe employ some people here, some people in France and so on. Other aspects of the Brexit deal that are not yet clear, such as employment rights, will be going on and will be outside your total control. What are the unintended consequences of all that? You are working in a global environment, employing people from different countries in Europe. Could that sort of detail catch you out because you do not have control over it, and will it have unintended consequences that at the moment none of us is aware of, or is all that covered?

Tim Alderslade: We have made it clear that we see employment as a major issue. Obviously, aviation is a global international sector and some of our members have people who work across Europe, so we want that to be addressed in Brexit negotiations.

In the airline sector, an airline such as easyJet has bases all over Europe. It is a UK airline based at Luton, but it is an incredibly successful airline that operates a huge number of intra-EU flights and cabotage services across Europe. It has bases all over the European Union; for example, it is France's second largest airline. It employs people on local contracts, both ground staff and pilots, and they will be based in the individual country.

It is not quite the sort of doom and gloom scenario some might paint, but we are an international sector, and airlines, tour operators in particular, because of the nature of the services they operate, have pilots who have to operate across Europe. We have made it clear to the Government that that needs to be a major priority for them.

Q7 **Baroness Randerson:** I want to pick up two separate points. One is the concept of the overall willingness of everyone to make agreements. The Spanish Government have publicly said they will use Gibraltar as a bargaining chip. Do you take that at all seriously?

The second point is specifically for Dr Humphreys, who was talking about the complexity of airline ownership, which is becoming more complex as airlines hedge their bets on future models. Do you anticipate any overall loss of jobs as a result of the attempt to locate abroad? EasyJet has already done it.

The Chairman: We know from past negotiations on aviation that there has been a problem with Gibraltar and the Spanish Government.

Karen Dee: AOA represents UK airports, and Gibraltar is one of our valued members. It is true that the Spanish Government have held up bits of aviation deals, because they do not want them to apply to Gibraltar. That is a big concern for Gibraltar airport and us. At AOA, we are confident that the UK Government have knowledge and understanding of the issues. We think it is in everybody's interests, but it is a negotiation. We are keen to see the deal and those discussions get under way. I cannot tell you precisely how that will go, and we are not party to precisely how those negotiations will play out, but we would not want Gibraltar to be treated in that way and it is a concern for Gibraltar.

Tim Alderslade: Can I come in on easyJet before Barry deals with the rest of that question?

The Chairman: Perhaps we could first take Lord Wigley's question, which deals with that.

Q8 **Lord Wigley:** Following what Baroness Randerson has just said, easyJet has indicated that it is establishing a base in Austria to protect its European air operating certificate and thereby its right to fly intra-EU routes. Do you know whether other airlines are taking similar steps? Could this have implications for easyJet's status with regard to UK jobs or UK tax receipts? Would it be seen as a UK airline?

Tim Alderslade: On easyJet's Austrian AOC, very uniquely among UK airlines easyJet operates a number of intra-EU flights. It flies both seventh and ninth freedoms. It flies from Germany to France and operates cabotage services within France or within other EU countries. We have told the Government that we would like seventh and ninth freedoms to be part of the overall negotiation. We believe they provide a number of benefits to the UK, and to EU carriers, such as Ryanair, which operate a number of services within the UK. It is an incredibly important part of our aviation market and for the rest of the EU 27. We would like that to be an ask, but we are realistic that it might be a step too far in the negotiation.

Therefore, easyJet has taken an entirely sensible and rational decision as an airline that operates uniquely among UK carriers. Other UK members of mine do not operate those kinds of services. British Airways, Flybe and Jet2.com operate third and fourth freedoms. They start at UK airports, fly to Europe and fly back again. That would be a minimum ask for us as a Government and a sector in the negotiation that is just about to transpire. That is why easyJet has applied for, and we hope will be granted, an Austrian AOC to allow it to operate those types of services. It already has a Swiss AOC.

As I said before, Switzerland does not have ninth freedoms and cabotage, so easyJet as a UK airline cannot operate within Switzerland. That is why it has a Swiss AOC. It is a rational process, and easyJet will now have a UK airline, a Swiss airline and an Austrian airline. It will employ people, both pilots and crew, who are based in Europe. It will use people who are already based in Europe, so there will not be job losses, and it will continue to be a UK airline based in Luton and listed on the London Stock Exchange.

Lord Wigley: In that case, the financial implications will remain as they are.

Dr Barry Humphreys: Your question related to other airlines as well as to easyJet. My understanding is that a number of European airlines either have applied or are preparing to apply for UK AOCs, so there is a two-way flow, and the net effect on jobs is likely to be quite limited. Overall, the more restrictions that are put in place on the whole industry, the more difficult it is for air businesses to operate, and there will be a negative impact on jobs in the longer term.

Lord Wigley: This underlines the need to have an early agreement, as you have already emphasised. Can I take it that you had a nod and wink from somewhere that, when the Prime Minister famously said in Florence that nothing is agreed until everything is agreed, somehow this is outside it?

Dr Barry Humphreys: Personally, I have had no nods or winks.

Lord Wigley: If it was the position that this could not be agreed until everything had been agreed, it could drive a coach and horses through what you are talking about.

Dr Barry Humphreys: Yes, but it depends on when agreement is reached and how long the transition period is.

Q9 **Baroness Noakes:** My question is primarily for you, Mr Alderslade, because it relates to a joint statement made by David Davis, Secretary of State for Exiting the EU, and you: "Brexit provides greater freedom to seek new agreements between the UK and some third countries". Which countries do you think the Government should prioritise new agreements with, and what would be new about the agreements?

Tim Alderslade: As we said previously, the EU negotiates bilaterally with countries all over the world. As a result of our membership of the EU, the ability of UK nationals and residents to fly to countries such as the United States, Canada, Moldova and Israel is bound up with our membership of the European Union. The EU is also mandated to negotiate similar arrangements with countries. It has had long-standing mandates to negotiate with New Zealand and Australia, and it has recent mandates to negotiate with Qatar and Turkey, for example. Because of the nature of EU negotiations, some of them take an awfully long time. Famously, it has been negotiating with Brazil for seven years.

What we were fleshing out in that statement was that, because we are only one country, we will have to start putting in place new arrangements with countries that are currently dependent on our membership of the EU. In future, we should be able to be much nimbler and a lot quicker in negotiating bilateral deals with countries where it is in our mutual interest to do so. In the last 12 months, for example, where we have individual bilaterals that are not bound up with our membership of the EU, we have negotiated improved terms with both China and India. Late last year, we saw a huge increase in the number of weekly flights to China, and earlier in the year we saw the opening up of Indian airports for UK carriers that want to serve India. In the future, when we identify countries where we can have more liberal and open relationships, because we are negotiating on our own behalf, we should be able to do that a lot quicker than the European Union is able to do.

Baroness Noakes: There is an existing priority list.

Tim Alderslade: I would not say there is a priority list, but it opens up an opportunity in 44 countries where we are bound by our membership of the EU. We might be able to negotiate better terms with some of them than we have currently.

Dr Barry Humphreys: There is a technical problem with the countries for which the Commission has a negotiating mandate. Once it has that mandate, individual member states are not allowed to hold negotiations in their own right, so the bilateral arrangements are cemented in place. As Tim said, that can last for several years, and it is not always a good thing. Sometimes markets evolve and you want to change things, so when we come out of the Union, that will no longer apply and we will be allowed to have our own negotiations. That is a positive.

Q10 **Lord Aberdare:** My question relates very much to third countries. Perhaps you could clarify for me what you see as the landscape of agreements with third countries after Brexit. It seems to me that we have existing EU agreements, so the first question is whether we can transition those. Might there be a problem in doing that, or might the terms change? We are talking about new bilateral agreements that the UK could agree. As I understand it, there are about 111 existing bilateral agreements that presumably stay in place. Dr Humphreys mentioned old agreements that are not fit for purpose. I am not quite sure how these things fit together and what you might see as the total picture, and the priorities within it, after Brexit.

Tim Alderslade: In the 17 countries outside the EU where as part of our membership of the European Union we are able to access those markets, it is our understanding that the Government are, as we speak, having very productive conversations. Obviously, they cannot sign anything until we technically leave the European Union in March 2019, but we are looking to have the current arrangements replicated moving forward.

There might be an opportunity in the years ahead for us to revisit some of those agreements to try to improve them in different areas; for example, it was never felt on this side of the Atlantic that EU-US open skies was a perfect agreement, for various reasons. We do not have cabotage rights and some of the ownership and control rules did not find favour in the UK. The Transport Select Committee at the time was quite critical. Having said that, now is not the time to start reopening some of those deals. We have only a certain amount of time ahead, so let us get them in place and replicated. We see absolutely no reason why we cannot do that with the US fairly quickly. There is absolute consensus on the UK side and the US side. The US carriers are lobbying for it very hard, because they do not want to go back to the incredibly restrictive arrangements before open skies was in place, when, literally, two US carriers had access to Heathrow.

To come back to the point about Heathrow, in the Brexit area nobody wants a situation where access to Heathrow is restricted. That was not good for consumers. It was not good for prices and it was not good for business, as a major hub airport. As a sector, we are asking for arrangements with those 17 countries to replicate more or less what we have now. We can then move forward and, where there are options for improving them, we can do so.

Lord Aberdare: You are optimistic that those 17 could be replicated, and indeed that if changes happen they might be more on the upside than the downside; they would be more positive.

Tim Alderslade: From what I have heard from the Government, they have had good, constructive conversations. We await further news in due course, but we see no incentive, whether it is the US, Canada or Israel, which is an incredibly important market for the UK and for the Israeli side as well, for either side to go back to more restrictive practices.

Lord Aberdare: Where might Dr Humphreys' not fit for purpose agreements come in?

Dr Barry Humphreys: I was referring to the bilateral agreements that existed before the creation of the internal market between the UK and the other 27 member states. Those agreements varied enormously. At the time, some of them were quite liberal. I was a member of the team that negotiated them. They were quite ground-breaking at the time, but that was probably 30 years ago, and they apply only to what we call third and fourth freedom services—carrying traffic from the UK to France and from France to the UK. They do not cover all the other benefits of the internal market, and they do not cover airline ownership and control. That was what I meant when I said they were not fit for purpose.

Lord Aberdare: But they are with EU member states, so presumably it would not be open to them, would it, to negotiate bilaterally with the UK?

Dr Barry Humphreys: That is an interesting question. Perhaps they would not be allowed to, and the Commission would take responsibility for that, which would be an added complication.

A further complication is that Spain-UK is the largest country pair in air traffic in Europe. The Spaniards tore up all their bilateral agreements with other European countries, so there is no agreement with Spain. For me, it all adds to the view that this is not the way to go; everything should be done to try to avoid going down that road.

Lord Aberdare: Presumably, the 111 are UK bilaterals, so they just carry on. As Ms Dee was saying, we have all the skills to do that.

The Chairman: Lord Rees, do you have a supplementary?

Lord Rees of Ludlow: I think it has been answered. It was about how much extra effort will be involved in renegotiating agreements that are now part of an EU deal.

Dr Barry Humphreys: It will be a substantial effort, but I believe the Department for Transport is on the job.

Lord Rees of Ludlow: The key thing is good will on the part of the third parties.

Dr Barry Humphreys: As far as I am aware, yes. There is always the temptation when you enter into negotiation to try to achieve something extra, but who knows?

Lord Mawson: Do you think that, with the new flexibilities and freedoms to negotiate, the price for travelling on airlines will be cheaper in the UK?

Tim Alderslade: Prices have come down by 40% in the last couple of decades. That is the direction of travel as a global sector.

Lord Mawson: What is your instinct about what all these freedoms allow us to do?

Tim Alderslade: It is probably one of the main reasons why we should not go down the road of putting up further barriers and restrictions. As Karen says, the airports do not want it; the vast majority of the airline sector does not want it, because it would go back to a bygone era when aviation and air travel was the preserve of people who had deep pockets. The liberalisation of air travel over the past couple of decades has been one of the great social advances of our age, and we do not want to turn the clock back.

Q11 **The Chairman:** We are coming to the end of our time. I have a question about air passenger duty. If you want to say anything about that post Brexit, fine; or if there is anything else you want to add to what we have discussed so far, now is your opportunity.

Karen Dee: Airports believe that currently air passenger duty hampers the UK's ability to attract airlines. Airlines have to take account of a whole range of things when determining where to base their routes. Air passenger duty is one very important factor, particularly for less commercially viable routes such as long haul or routes from regional airports. If you are competing with a nearby airport that does not apply such a high tax, it may make commercial sense for an airline to base itself on the continent. We are very keen that that does not happen, particularly if we want to improve our connectivity post Brexit with wider areas.

Dr Barry Humphreys: APD is not limited to Europe; the negative impact applies throughout the world. As an economist, it always struck me as very odd, with tourism being such an important industry for us, that we should choose to tax what is essentially an export. It is a very strange way of behaving, but that is perhaps a wider argument.

The Chairman: Indeed. I imagine you have not had a nod and wink from the Treasury that it is prepared to cut a significant slice of its income on that front. When you talk about the Government, generally you are usually talking about the DfT.

Tim Alderslade: For APD it is the Treasury and it is DCMS on the tourism side.

The Chairman: When you say you have support from government for your general approach, you are talking primarily about DfT, not DExEU or the Treasury.

Karen Dee: We have had discussions with DExEU, and we have discussions with the Treasury about APD. It has made certain decisions recently as part of the Budget, but when I was talking about our engagement with government predominantly on issues concerned with Brexit it is mostly the DfT, but we are engaged with DExEU and with the Home Office and the Border Force about those sorts of arrangements, so it is wider than DfT.

The Chairman: Thank you very much for your time; it has given us a good insight into where you think we are. We are using this session to catch up rather than to provide a major report, but we will reflect some of this to our colleagues on the main Select Committee. Clearly, aviation will be a significant part of the jigsaw in the form of the agreement that hopefully we are now beginning to move towards. That is very useful to us. Thank you very much for your time and expertise.