

Written evidence submitted by the Airport Operators Association (AOA) (FRE0030)

1. Introduction

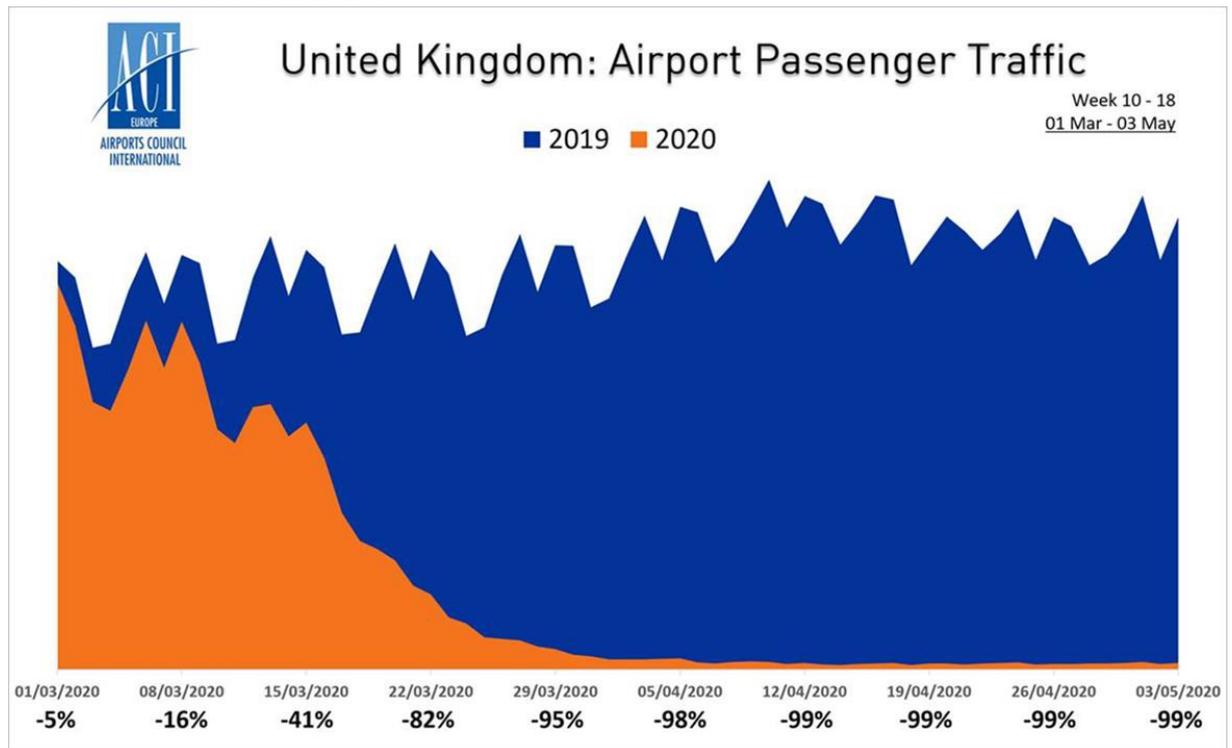
- 1.1. Founded in 1934, the Airport Operators Association (AOA) is the national voice of UK airports. We are a trade association representing the interests of UK airports and our members include over 50 airports, as well as more than 150 Associate Members, made up of companies representing a wide range of suppliers in the aviation industry.
- 1.2. The AOA welcomes the opportunity to respond to the House of Commons Future Relationship with the European Union Committee inquiry on the progress of negotiations on the future relationship. Aviation is a sector which is critical to the economic success of the United Kingdom, especially after the implementation period of the Withdrawal Agreement, when connections with the wider world will be essential to forming new trade links. Airports are the vital nodes within that sector and have a number of viewpoints on decisions needed to be made in the coming months and the nature of our future relationship with the European Union.
- 1.3. This submission directly responds to the questions raised in the letter to AOA Chief Executive Karen Dee, from the Committee Chair, dated 7 May 2020. The AOA has included additional information where it felt that it would be of interest to the Committee's work.
- 1.4. Finally, it is worth noting that some of the details contained within this submission may be subject to change as a result of the ongoing COVID-19 crisis. The crisis has disproportionately impacted global aviation above almost any other industry; the sector faces challenging times ahead to restart and recover.

2. Background

- 2.1. Before the COVID-19 crisis, the aviation and travel sector contributed more than £92bn to the UK economy annually, supporting a million jobs and providing more than £8bn in tax revenues to the Exchequer. Most crucially, it is aviation that provides essential connectivity for exporters, inward investors and other businesses, including tourism. It is this enabling factor for other economic sectors which makes aviation so essential to future economic growth and the recovery from the current crisis.
- 2.2. Aviation is essential to our trading relationships around the world: 40% of the UK's non-EU trade by value travels by air, predominantly in the belly-hold of passenger planes. Across all sectors of the economy, £87.3 billion of UK gross value added (GVA) is currently dependent on air freight exports. Heathrow Airport is the UK's largest port by value.
- 2.3. UK airports are also a vital facilitator for both inbound and outbound tourism. Nearly three-quarters of inbound visitors arrive by air, accounting for more than 80% of all inbound visitors' spending.
- 2.4. The COVID-19 crisis has crippled the aviation sector. Sharp decreases in passenger

numbers has corresponded to severely reduced revenues for airports, airlines, air navigation service providers and ground-handling agents. At the moment, many UK airports have zero scheduled passenger arrivals or departures. A further economic shock at the end of 2020, precipitated by the lack of an adequate future trading arrangement with the European Union, would be an additional hindrance in the long recovery predicted for the aviation industry.

2.5. The below chart visualises the comparison between UK airport traffic levels in 2019 versus the situation in 2020.



2.6. In aviation terms, the United Kingdom and the European Union are as interdependent and integrated as any other sector.

- 2.6.1. At UK Airports more than 55% of passengers are travelling to or from the EU-27. While 12% of all travellers through EU-27 airports, have the UK as their origin or destination.
- 2.6.2. EU27-UK air traffic supports 270,000 jobs in the United Kingdom and is linked to £13.6bn of UK GDP.
- 2.6.3. In terms of air freight and supply chains, a significant proportion of air freight from the UK to Asia, Latin America and Africa connects from the UK's smaller airports via European hubs that have better connections to those parts of the world than the UK does. Equally, the majority of (west-)European freight to the US transits via the UK, predominantly London Heathrow.
- 2.6.4. Air freight is vital for the UK economy: it enables the transshipment, import and export of goods which otherwise might not be possible to trade. Time-sensitive and high-value goods frequently use the aviation sector because of the fast and secure delivery provided by this industry. It represents typically around 1% of volume but 35-40% by value of the UK's trade. This includes products as varied as Scottish salmon, machine parts, pharmaceuticals and fast fashion. Any interruption to the flow of these goods in the supply chain could result in value loss: food may go off or manufacturing production lines

might come to a halt without the right parts.

3. The AOA's asks on the Future Relationship

- 3.1. The AOA's position on Brexit and the nature of the UK's future relationship with the European Union has remained largely unchanged since 2016. The overriding principle of our priorities on Brexit is that an outcome as close to the current status-quo as possible is most desirable.
- 3.2. The AOA welcomed the previous Government's replacement of EU-negotiated air service agreements with third countries with UK bilateral agreements. Particularly the completed agreements with the United States and Canada provided much needed confidence for passengers in booking. The UK Government should ensure that they continue to provide consumer confidence while negotiating a new UK-EU air services agreement that includes liberal aviation freedoms.
 - 3.2.1. The new political declaration, released in late-2019, stated the following: *"The Parties should ensure passenger and cargo air connectivity through a Comprehensive Air Transport Agreement (CATA). The CATA should cover market access and investment, aviation safety and security, air traffic management, and provisions to ensure open and fair competition, including appropriate and relevant consumer protection requirements and social standards. The Parties should make further arrangements to enable cooperation with a view to high standards of aviation safety and security, including through close cooperation between EASA and the United Kingdom's Civil Aviation Authority (CAA)."*
 - 3.2.2. In the later published, "The Future Relationship with the EU: The UK's approach to negotiations"¹, the UK Government set out its ambition to secure third and fourth aviation freedoms.² The AOA felt that this lacked further ambition. While it was expected that third and fourth freedoms would likely be the settled outcome after negotiations – potentially with some fifth freedoms and possible seventh freedoms for cargo – without further ambition at the outset for aviation freedoms up to seventh and ninth these would never be achievable.
 - 3.2.3. The AOA has continued to stress that a CATA should be negotiated separately from the wider future relationship negotiations. It is international convention for air service agreements to be conducted separately from broader trading arrangements. For the UK aviation sector, this separation would help to limit the risk of no CATA having been agreed by December 2020, and thus a disruption to air services.
 - 3.2.4. It is the AOA's hope and expectation that, if the UK Government does not request an extension to the implementation period, beyond December 2020, and that no substantial progress has been made in the future relationship negotiations by June 2020, that both parties will begin, once again to look at contingency arrangements for critical sectors, including aviation.
 - 3.2.5. The UK Government's negotiating teams should continue to liberalise our

aviation relationships with third countries.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf

² For an explanation of aviation freedoms, please see 'Freedoms of the Air', International Civil Aviation Organization

<<https://www.icao.int/Pages/freedomsAir.aspx>>

- 3.3. The second major ask of the AOA on Brexit is to ensure continued close UK engagement in the European Aviation Safety Agency (EASA). While the AOA understands the UK Government position of leaving all organs and agencies of the European Union, on aviation safety and certification continued close cooperation should be a priority.
- 3.3.1. EASA, together with the Federal Aviation Administration (FAA) of the United States, is one of the two major aviation regulators globally. These two bodies lead the way on innovative regulation and set the global standards which most other authorities use as a baseline or follow in some form. The UK's CAA has traditionally had a disproportionate influence in the work of EASA, with a large contingent of the European agency's staff derived from the UK and with UK expertise leading the way internally in EASA. This has resulted in EASA generally taking the risk-based, proportionate approach to aviation safety regulation that is favoured by the UK.
 - 3.3.2. As losing this influence in a major aviation regulator is undesirable, the AOA has sought reassurances from the Government and the CAA that this will not have an adverse impact on UK aviation. The CAA has given the UK aviation sector assurances that in the fullness of time it can exercise the certification and design functions, collectively known as the "State of Design" function, in a UK-only regulatory regime. This should, however, not come at the expense of its other functions. The CAA will need to recruit significantly to bring this scarce expertise in-house and will have to recoup these costs from the aerospace industry that will be regulated under the new functions. The recruitment should not come by repurposing existing staff, to the detriment of existing functions, some of which are already significantly under-staffed.
 - 3.3.3. The new political declaration, released in late-2019, stated the following: *"The Parties will also explore the possibility of cooperation of United Kingdom authorities with Union agencies such as the European Medicines Agency (EMA), the European Chemicals Agency (ECHA), and the European Aviation Safety Agency (EASA)."*In the later published negotiating position of the UK, the Government committed to the negotiation of a Bilateral Aviation Safety Agreement (BASA).
 - 3.3.4. The AOA would hope that this possibility of cooperation evolves into the closest form of relationship possible between the CAA and EASA, while still satisfying the Government's political objectives of separation from EU agencies.
- 3.4. The final main ask of the AOA on Brexit is for the Government to maximise the regulatory and legal opportunities presented by the departure from the EU. There may be aviation regulations which, once changed, could deliver better results for UK passengers and business. The AOA would counsel that any changes to UK aviation regulation should not necessarily hinder any mutual recognition agreements that are agreed with the European Union as a result of the CATA or BASA.

3.4.1. There are also wider opportunities for the UK Government to invest and pump-prime the British aviation sector following the country's departure from the EU. This could include state aid rules in relation to Public Service Obligation routes, leaving the UK more freedom to better connect its regions together and to the core. Another example would be the removal of the double Air Passenger Duty paid on both UK domestic outbound and return flights as well as a return of duty-free sales for passengers travelling to the EU. However, we would reiterate that this should not undermine our ability to agree an ambitious CATA.

4. Government and European Engagement

4.1. Throughout the process to conclude the Withdrawal Agreement, which took place over the last two years, the AOA had been engaged in numerous fora with the Government. This included direct communication with Department for Transport, Home Office, Department for Exiting the European Union Ministers and officials over that period. The AOA was also involved in some ad-hoc groups established specially to examine Brexit issues, including the Home Office's Border Delivery Group. It was understood that a similar level of engagement would continue for the second phase of negotiations pertaining to the future relationship with the European Union.

4.1.1. In early 2020, as the UK Government sought to establish its negotiating mandate, the Department for Transport engaged at a Ministerial and official level to ascertain the aviation sector's main priorities for the future relationship. Since the negotiating mandate of the UK and EU were agreed, further AOA interaction with the UK Government on Brexit has been limited.

4.1.2. It is understood that much of the Department for Transport's limited resource is now focused on the COVID-19 response and recovery efforts. Similarly, the AOA's policy focus has shifted to one of responding to the COVID-19 outbreak, with less attention paid to ongoing Brexit negotiations.

4.2. The AOA has mainly kept up-to-date on developments in the future relationship negotiations through our membership of the Confederation of British Industry (CBI), which as we understand, is still engaged with Government on Brexit. The AOA has only limited official engagement with Government on Brexit and aviation since early March, mainly high-level feedback on the progress of the negotiations, based on the public statements of the UK negotiating team.

4.3. The AOA is engaged with the EU institutions on a regular basis, though the majority of the AOA's engagement with the European institutions in Brussels is through our sister association in Europe, ACI EUROPE.

4.3.1. During the negotiations over the withdrawal agreement, when the risk of a no-deal exit from the European Union was high, the AOA was highly engaged with the institutions in Brussels. This was particularly the case in January-March 2019 where the AOA met with several member states, MEPs and DG MOVE to press home the risks associated with a no-deal without appropriate contingency measures in place for the aviation industry.

5. Sectoral Preparedness

5.1. Before 31 October 2019, when there was still a real and present risk of a no-deal exit from the European Union, the UK aviation sector had found itself in a relatively stable position. The UK and EU sides had unilaterally declared contingency arrangements which would enable basic connectivity (3rd and 4th aviation freedoms, time-limited relaxation of ownership & control regulations, time-limited recognition of safety and certification issues, and security equivalence recognition). The net outcome of these

contingency arrangements would have essentially resulted in minimal change for consumers on day one of a no-deal, thanks to airlines in particular mitigating any issues by setting up EU and UK subsidiaries to continue flights no longer possible under such an agreement (e.g. UK domestic flights by non-UK operators). The long-term impacts of such mitigations, particularly in added business complexity and possible higher overall business costs on the consumer and UK connectivity, remain unclear.

5.1.1. This is not to say that the industry was not still concerned with the prospect of a no-deal. The broader expected economic damage from a no-deal would likely have a substantial effect on demand for air travel, as has been the case with previous economic downturns. There were already signs of such an impact: bookings and passenger numbers were down for the week of 31 March and 31 October as well as a couple of weeks following, as passengers factored in uncertainty over travel – despite the contingency arrangements in place. This impact was likely part caused by the Government’s wider “prepare for no-deal” communications campaign, which stressed the challenges in a no-deal scenario rather than also highlighting where measures had been put in place to provide consumers with the confidence of limited to no impacts, such as in travel. The AOA and the wider travel sector repeatedly asked the Government to reflect the contingency measures in their communications to the public, but to no avail.

5.2. The preparedness required of the UK aviation sector depends entirely on whether a Comprehensive Air Transport Agreement between the UK and EU exists by December 2020. With a CATA, limited work would be needed to ready the sector for what would be a change in name but involve little practical differences, especially if the CATA was ambitious and included a broad range of aviation freedoms and mutual recognition on safety and security standards.

5.2.1. However, in the absence of a CATA, contingency arrangements would be needed, as were put in place before potential no-deal outcomes in 2018 and 2019. The AOA’s experience with these contingencies were that they were only announced close to the deadlines in question, increasing uncertainty for the aviation sector. Because of the insistence from the European Union that the withdrawal agreement could not be divided up into smaller, specific agreements, contingency measures were “unilateral” actions from the UK and EU; but the UK mirrored those granted by the EU in terms of aviation access, visa arrangements, citizens’ rights and mutual recognition.

5.2.2. Without further experiences to benchmark, the AOA would predict that agreement on unilateral contingency measures would follow a similar pattern in the lead up to December 2020 without a CATA in place. This would precipitate uncertainty, lead to conservative scheduling from airlines, and hamper the recovery of the aviation sector from the COVID-19 crisis in the UK and Europe.

5.3. Finally, it is worth, once again, stressing the disproportionate and overwhelming impact the COVID-19 crisis has had on the aviation industry. Traffic levels in 2020 have fallen to 99% of the equivalent travelling days and weeks in 2019. Many forecasts and analysis for the future of the aviation sector indicate that there will be a long road to recovery ahead, with some of the most pessimistic forecasts predicting that traffic levels will only return to pre-COVID-19 levels by 2022. This will have a huge impact on the revenue and commercial viability of airports and

airlines in the coming years. Any further disruption, beyond the already unprecedented situation facing the industry because of the virus, such as a disorderly exit from the withdrawal agreement's transition period, would be disastrous for the UK aviation.

May 2020



Committee on the Future Relationship with the European Union

House of Commons, London, SW1A 0AA

Email: freucom@parliament.uk Website: www.parliament.uk/freucom

07 May 2020

Karen Dee
Chief Executive
Airport Operators Association

Dear Ms Dee,

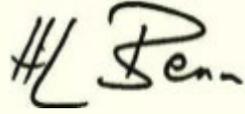
The House of Commons Committee on the Future Relationship with the European Union is inquiring into the progress of the negotiations between the UK and the EU. Under normal circumstances, the Committee would hold regular oral evidence sessions in Westminster. However, measures to prevent the spread of the coronavirus make this difficult.

The Committee wishes to gather as much evidence as possible to inform its deliberations and I am writing to you to ask whether you would be willing to help us with our work by making a written submission. We welcome general responses to our [call for evidence](#), which was published on 4 March. We also hope that you would be willing to answer the more specific questions set out below on issues that fall within your area of expertise. Submissions need not address every bullet point and can include other matters that you think are relevant to the negotiations and should be drawn to the attention of the Committee.

- What are your sector's key asks of the UK Government in the negotiations? What things must the negotiations deliver for your sector? Are there any things that, while not essential, the negotiations could helpfully address?
- How did the Government consult with your sector about its needs? What evidence can you identify to show that the Government has understood the needs of your sector?
- Has the Government asked businesses and representative bodies about the effect of any of its or the EU's proposals on your sector? How concerned are you about the proposals on transport in the EU's draft legal text? What problems arise from the text as drafted? Have you seen any draft legal text from the UK Government?
- How is the Government updating your sector on the outcome of negotiating rounds and has it involved your sector in planning for future rounds?
- How is your sector trying to lobby the Commission or influence its thinking? What input has your industry/sector had into the discussions of the MEPs, including members of the relevant EP committees, who are considering and helping to develop the EU position?
- What evidence can you identify to show that your sector is able to prepare for the end of the transition period in December? What do you see as the biggest opportunities and how confident are you that your sector can take advantage of them? What evidence can you point towards to show that the Government understands and is mitigating the main risks?
- How much time does your sector need to prepare for any new arrangements? Is there an absolute cut-off date by when businesses in your sector need to know what the new arrangements will be if they are to prepare successfully?
- The pandemic has the potential to change fundamentally the transport industry and travel patterns. How best can the two sides ensure they are negotiating for a settlement that will reflect such changes?

The Committee staff will be happy to discuss the inquiry, any issues raised, or the process for submitting written evidence. You can contact them at freu@parliament.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'H Benn'.

Hilary Benn
Chair of the Committee