BREXIT & AVIATION

Market Interdependence and Economic value

Background – ACI EUROPE position

On 24 June 2016, taking stock of the results of the UK referendum on EU membership, ACI EUROPE publicly called for the EU27 and UK aviation markets to remain integrated in the future. This position aimed at safeguarding and promoting vital air connectivity for consumers as well as continued economic development. It was based on the assumption that the UK could remain part of the EU's Single Aviation Market – possibly under terms similar to the ones currently governing aviation relationships between the EU and Switzerland, Norway and Iceland.
This call reflected the unanimously approved position of the ACI EUROPE Board, adopted in Athens on 20 June 2016.

ACI EUROPE also indicated that securing legal certainty over the continued integration of the two markets should be one of the key priorities of the future EU27 & UK relationship, so as to avoid risks in terms of connectivity and business disruption. ACI further committed to pursue this agenda on behalf of the European airport industry.

On 17 January 2017, the UK Government clarified its objectives in relation to the BREXIT negotiations and confirmed the timing for the notification of its intention to withdraw the UK from the EU as per Article 50 of the Treaty on the European Union (TUE). In particular, the UK Government indicated that the UK would not seek to remain part of the EU Single Market but that it would alternatively seek a free trade agreement with the EU "*so as to give British companies the maximum freedom to do business with the EU and vice versa*".

These clarifications from the UK Government led ACI EUROPE to revisit its position in relation to the BREXIT negotiations and the future aviation relationship between the EU27 and the UK. Indeed, with the UK Government intent on exiting the Single Market without mentioning the possibility for any exception for aviation, the ACI EUROPE position supporting the continued participation of the UK to the Single Aviation Market becomes problematic.

On this basis – and as per the position expressed by the ACI EUROPE Board at its 104TH meeting on 25 January 2017, ACI EUROPE decided to support any alternative solution that would ensure the closest possible integration of the UE27 and UK aviation markets.

The present note aims at illustrating the rationale for such position - specifically the interdependence between the UK and EU27 aviation markets & its economic value.

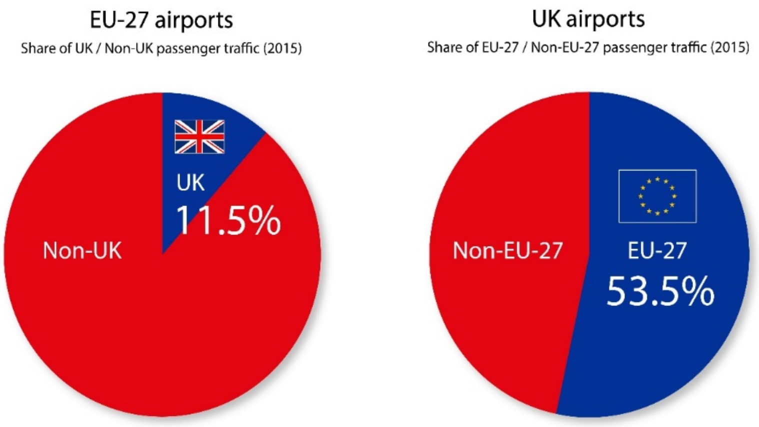
1. EU27 & UK Aviation markets interdependence

The UK has been an important part of the EU Single Aviation Market since its inception, back in 1993. Such importance is reflected in the following facts & figures:

- **UK airports account for 17.7% of the total passenger traffic handled by EU28 airports** (256.4 million passengers at UK airports out of 1.448 billion passengers at EU-28 airports).

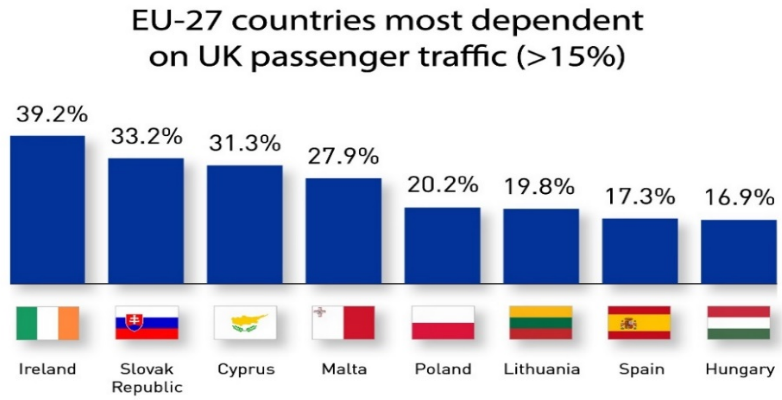
- **3 UK airports are amongst the top 20 EU28 airports**: London-Heathrow (n.1) , which is actually the busiest airport not just within the EU but on a pan-European level (with 75.1 million passengers), London-Gatwick (n. 8 with 43.1 million passengers) and Manchester (n.19 with 25.7 million passengers).

With more than **1 in every 2 passengers handled by UK airports flying to/from the EU27**, the UK aviation market is heavily dependent on the EU. With slightly more than **1 in 10 passengers handled by EU27 airports flying to/from the UK**, the EU27 is less dependent on the UK.

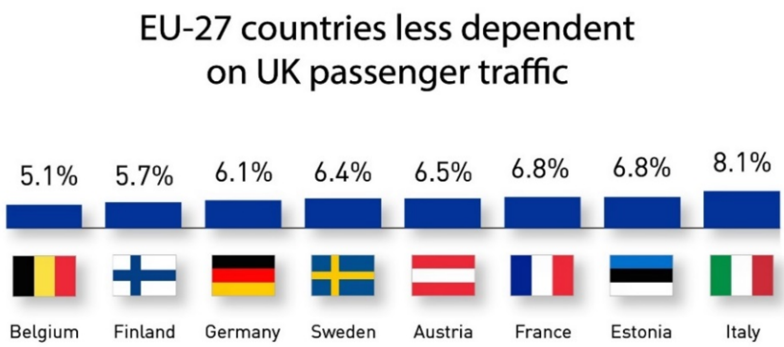


It is interesting to note that the degree of exposure of UK airports to the EU27 market has increased from 50.2% back in 2010 to 53.5% in 2015. The degree of exposure of EU27 airports to the UK market has also increased over the same period – although at a slower pace (from 10.8% to 11.5%). This reflects the fact that the growth in EU27-UK passenger traffic (+27.5%) significantly outperformed the total growth in passenger traffic within the EU27 (+18.8%) as well as the total growth in passenger traffic in the UK (+19.4%). This increasing exposure of both UK and EU27 airports on EU27-UK passenger traffic in recent years indicates a <u>growing interdependence between the two aviation markets</u>.

There are however **significant variations** in the degree of exposure of individual EU27 national markets to the UK, with **Ireland, the Slovak Republic, Cyprus, Malta, Poland, Lithuania and Spain being the most exposed to traffic to/from the UK**.



The EU-27 national markets **less exposed to traffic to/from the UK are: Belgium, Finland, Germany, Sweden, Austria, France, Estonia and Italy.**

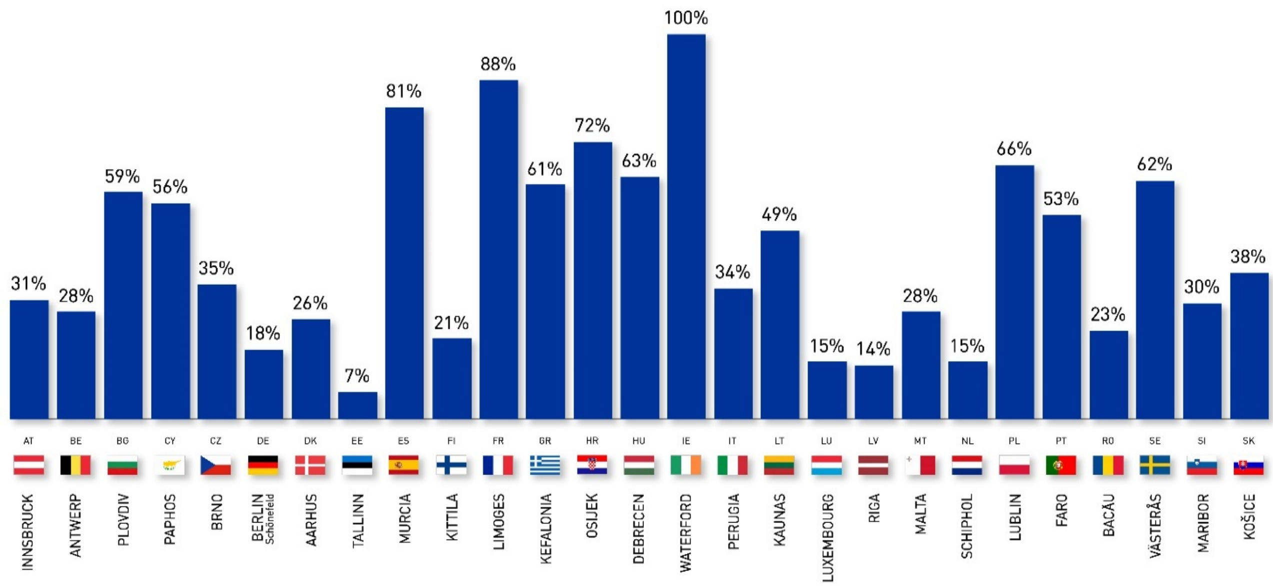


Also, an in-depth look at the EU27 market shows that there are even wider variations in terms of the exposure of individual airports to passenger traffic to/from the UK. The underlying trend is that the smaller the airport, the bigger its exposure to passenger traffic to/from the UK, as shown in the below table:

	Share of UK traffic at EU-27 airports		2015 vs. 2010	
EU-27 AIRPORTS	2010	2015	EU-UK traffic growth	Overall UK traffic growth
TOP 5 (CDG, FRA, AMS, MAD, MUC)	6.9%	7.7%	26.5%	13.2%
TOP 25	8.4%	9.3%	31.8%	18.9%
GROUP 1 (OVER 25MPPA)	7.8%	9.1%	36.4%	16.9%
GROUP 2 (10 TO 25MPPA)	10.2%	10.6%	25.8%	21.0%
GROUP 3 (5 TO 10MPPA)	13.9%	15.1%	34.0%	23.3%
GROUP 4 (BELOW 5MPPA)	13.8%	14.1%	13.8%	11.2%
GROUP 4 WITHOUT CAPITAL CITIES	13.4%	13.7%	11.4%	9.0%
BELOW 1MPPA	15.4%	16.6%	-0.5%	-7.5%

These aggregate figures are masking more extreme variations between individual airports – as per the below table which shows for each country the single airport (or one of these airports) most dependent on passenger traffic to/from the UK. Regional airports tend to be disproportionately dependent on UK traffic. The details of each EU27 airport's exposure to passenger traffic to/from the UK is attached.

Airports most dependent on UK traffic for each EU-27 country



2. Economic value of EU27 & UK air traffic

Taking the analysis one step further, the following tables show the employment and GDP supported by EU27-UK traffic for selected airports both in the EU27 and in the UK:

	Employment 2015							GDP 2015					
	Total Direct Employment	Share of direct employment due to UK traffic (# jobs)		Total Direct, Indirect & Induced Employment	Share of Direct, Indirect & Induced Employment due to UK traffic (# jobs)			Total Direct GDP (m€)	Direct GDP attributable to UK traffic (m€)		Total Direct, Indirect & Induced GDP (m€)	Direct, Indirect & Induced GDP attributable to UK traffic (m€)	
CDG	69,534	3,354	-4.8%	177,908	8,581	-4.8%		5,194	251	-4.8%	10,760	519	-4.8%
FRA	67,704	2,657	-3.9%	162,092	6,360	-3.9%		5,180	203	-3.9%	10,254	402	-3.9%
AMS	61,639	7,363	-11.9%	149,803	17,894	-11.9%		4,127	493	-11.9%	8,669	1,036	-11.9%
CPH	24,271	2,580	-10.6%	57,353	6,097	-10.6%		2,178	232	-10.6%	4,135	440	-10.6%
DUB	20,363	7,088	-34.8%	48,167	16,767	-34.8%		2,146	747	-34.8%	3,752	1,306	-34.8%
AGP	10,364	2,371	-22.9%	30,768	7,039	-22.9%		507	116	-22.9%	1,265	289	-22.9%
NCE	9,591	1,381	-14.4%	24,539	3,533	-14.4%		716	103	-14.4%	1,484	214	-14.4%
VCE	8,057	1,081	-13.4%	20,732	2,782	-13.4%		449	60	-13.4%	1,017	136	-13.4%
SXF	6,888	1,243	-18.0%	16,491	2,976	-18.0%		527	95	-18.0%	1,043	188	-18.0%
FAO	5,098	2,726	-53.5%	14,410	7,705	-53.5%		215	115	-53.5%	454	243	-53.5%
LCA	5,170	1,063	-20.6%	11,256	2,315	-20.6%		213	44	-20.6%	365	75	-20.6%
MLA	4,174	1,141	-27.3%	9,007	2,462	-27.3%		231	63	-27.3%	363	99	-27.3%
KRK	3,474	826	-23.8%	9,189	2,185	-23.8%		95	23	-23.8%	187	44	-23.8%
PFO	1,901	829	-43.6%	4,139	1,805	-43.6%		78	34	-43.6%	134	58	-43.6%
LRH	221	124	-56.1%	565	317	-56.1%		17	9	-56.1%	34	19	-56.1%

	Total Direct Employment	Share of direct employment due EU traffic (# jobs)		Total Direct, Indirect & Induced Employment	Share of Direct, Indirect & Induced Employment due to EU traffic (# jobs)		Total Direct GDP (m€)	Direct GDP attributable to EU traffic (m€)		Direct, Indirect & Induced GDP (m€)	Direct, Indirect & Induced GDP attributable to EU traffic (m€)	
LHR	76,035	22,389	-29.4%	187,677	55,263	-29.4%	5,621	1,655	-29.4%	10,881	3,204	-29.4%
LGW	29,634	18,614	-62.8%	73,145	45,945	-62.8%	2,191	1,376	-62.8%	4,241	2,709	-63.9%
MAN	18,438	10,560	-57.3%	45,511	26,066	-57.3%	1,363	781	-57.3%	2,639	1,511	-57.3%
STN	16,725	12,943	-77.4%	41,282	31,947	-77.4%	1,236	957	-77.4%	2,393	1,852	-77.4%
BRS	5,370	3,986	-74.2%	13,255	9,839	-74.2%	397	295	-74.2%	768	570	-74.2%

Overall, ACI EUROPE estimates that under the current unrestricted market access regime, **EU27-UK air traffic**:

- Supports **285.000 jobs** and is associated with **€13.7 billion GDP in the EU27**[1].
- Supports **270.000 jobs** and is associated with **€15.4 billion GDP in the UK**[2].

In addition to the above, it should be noted that a significant proportion of the intra-EU27 traffic is ensured by UK air carriers. This means that the interdependence between the EU27 & UK aviation markets is based not only on unrestricted 3RD & 4th freedom rights but also on 7th & 9th freedom rights.

Should these UK air carriers not be able to continue operating such air services – either under a UK AOC or under an alternative EU27 Member State AOC, a number of airports in the EU27 would lose air services – resulting in degraded air connectivity. There is no guarantee that these air services would be replaced by EU27 air carriers (either immediately or at a later stage). In this regard, it should be noted that on average, after the closure of a unique route (i.e. a route served by 1 airlines), only 47% of the original capacity returns within 3 years. More than 90% of closed unique routes are not operated in the year following the closure. This situation would, at least initially, lower the level of airline competition within the EU27 market [3]– with a negative impact on air fares and connectivity. Conversely, should UK air carriers no longer be eligible to a UK AOC, this could negatively impact their operations at UK airports.

In conclusion, the high level of interdependence between the EU27 and UK aviation markets and the economic value of unrestricted EU27-UK air traffic based on a common policy & regulatory regime is what leads ACI EUROPE to advocate for a post BREXIT aviation regime that should be as close as possible from the current situation of full integration afforded by the Single Aviation Market.

Brussels, 9 March 2017

[1] Direct, indirect & induced impact – as per the methodology by '*The Economic Impact of European Airports*', InterVISTAS (2015)

[2] Direct, indirect & induced impact – as per the methodology by '*The Economic Impact of European Airports*', InterVISTAS (2015)

[3] '*Airport competition in Europe*', Copenhagen Economics (2012)