

# Brexit: Airlines

Looking for a safe landing

September 2016



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## At a glance:

- Decision to Brexit has created a lot of uncertainty surrounding bilateral deals
- If UK economy dips, this will impact the number of trips abroad Britons take
- Leaving the EU complicates how airlines obtain airport slots, staff flights and sell products

Airline stocks around the world tumbled as the news of Brexit filtered through. Shares in listed UK airlines lost as much as a third of their value. So was this a knee-jerk reaction to uncertainty or the reflection of a change to the sector's long-term fundamentals?

The UK's airline sector certainly merits the global attention. It is the EU's biggest airline market and home to some of its biggest airlines. That lofty position is supported by a number of

European agreements — agreements that have now been plunged into uncertainty.

For example, a UK-owned airline can fly Paris-Berlin just as easily as London-Madrid. At a global level, the EU gives UK carriers access to other markets via bilateral deals — the most important being Open Skies with the US. The EU has similar deals with Canada and Australia, others in the wings with New Zealand and Brazil, and potentially more to be signed with China, Turkey, the Gulf States and the ASEAN organisation.

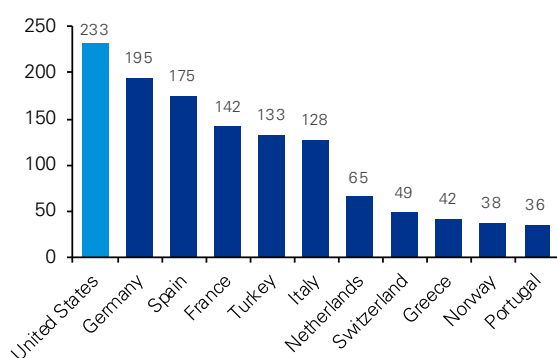
A future with the UK outside these agreements would represent a drastic change, not only to the UK's aviation market but also to the European Union and global stakeholders beyond. So what are the UK's options?

To maintain access within the EU, perhaps the most straightforward would be **renewed membership of the European Common Aviation Area (ECAA)** — a liberalised aviation market for states inside the EU, and some outside, based on the principles





## EU air passengers by country



Note: Represents ECAA countries plus candidate countries  
 Source: Eurostat  
 (a) Amongst a sample of airlines and based on change in share price between 28 May and 28 June 2016.  
 (Source: Google and Yahoo Finance)

of free market access and so on. The potential issue for the UK is that its founding treaty effectively mandates as a condition the free movement — a touchstone issue for Brexiteers during the campaign.

Second, it could negotiate an **'umbrella' bilateral agreement** with the whole of the EU. The Swiss have done this already, but that was part of a much wider trade deal, and — crucially — required Switzerland to agree to the EU's four freedoms on the movement of goods, services, capital and labour.

If negotiating with the EU is too hard or required too many concessions, the UK could negotiate a **series of bilateral**

### agreements with individual EU states.

For example, 39% of Ireland's incoming passengers are flying from the UK, while for Spain it is a fifth. These countries are more likely to favour a deal that keeps the visitors coming. However, if the airline wants to fly more complex routes, involving multiple countries, then the agreement of all of those other countries is required. A series of apparently straightforward negotiations quickly turns into a spiders' web of inter-related negotiations.

For European airlines flying beyond Europe, the EU has 50 pan-EU aviation agreements with non-EU countries. The UK would have to renegotiate or update these if EU law didn't apply.

Agreements such as Open Skies goes still further. This is a comprehensive agreement with a global strategic partner, which has fundamentally changed the market for trans-Atlantic travel and led to a number of joint ventures, such as IAG with American and Virgin Atlantic with Delta. These give airlines the right to cooperate on capacity, scheduling, and even pricing under anti-trust immunity rules.

Leaving the EU complicates other issues too, such as how airlines obtain airport slots, staff their flights, and even sell ancillary products.

And we haven't even raised the issue of demand. Passenger numbers from a country and that country's GDP correlate closely. If Britain's economy does dip, it will almost certainly impact the number of trips abroad that British people take.

In the longer term, the UK's growth will depend far more on more connections to the fastest growing parts of the world, such as South East Asia. It is no secret that the UK has had a protracted debate about where to site new airport capacity to reach these markets. A decision on where to build it and starting to roll would send a declaration of intent at this vital moment — that the UK is open for business.

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CREATE | CRT070328B | October 2016.