

## SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

<b>MEASURE SET</b>	<b>Airservices agreements</b>	
<b>MEASURE TITLE</b>	Origin and destination	
<b>MEASURE SUMMARY</b>	This measure includes two proposals to liberalise strategically important bilateral airtservices agreement on an origin and destination basis.	
<b>MEASURE INVOLVES</b>	<input type="checkbox"/> Behavioural Change <input type="checkbox"/> Operational Change <input type="checkbox"/> Technical Change	<input type="checkbox"/> Infrastructure Change <input checked="" type="checkbox"/> Regulatory Change <input type="checkbox"/> Policy Change
<b>WHAT DOES THIS ADDRESS?</b> <p>Air transport between sovereign states is governed by bilateral airtservices agreements (effectively treaties) between those states. Article 6 of the 1944 Chicago Convention deals with scheduled air services. This article states:</p> <p><i>No scheduled international air service may be operated over or into the territory of a contracting State, except with the special permission or other authorization of that State, and in accordance with the terms of such permission or authorization</i></p> <p>Authorisation or permission, as required by Article 6 of the Convention, is usually framed in the terms of one of the freedoms of the air. The freedoms relevant to origin and destination (point-to-point) traffic are: (i) the Third Freedom: the right to disembark revenue traffic taken on in the State of the nationality of the aircraft operator; and (ii) the Fourth Freedom: the right to embark revenue traffic whose destination is the State of the nationality of the aircraft operator. Typically, bilateral agreements have been based on the principle of reciprocity and have prescribed:</p> <ul style="list-style-type: none"> <li>• frequency of flights</li> <li>• capacity in terms of the number of seats offered</li> <li>• the routes served</li> <li>• the carriers that can operate the routes</li> <li>• fares.</li> </ul> <p>Often, relaxation of the restrictions imposed by bilateral agreements can only be made on the principle of no objection by all of the interested parties, often including airlines.</p> <p>More liberal, open skies agreements often relax the above conditions but are based on reciprocity and restrict access based on the ownership and control of the designated carriers.</p> <p>In addition, the UK operates within the European single market for air transport, where an air carrier licenced in any Member State has the right to operate services between any points within the boundaries of the single market (which includes non-EU states such as Norway and Switzerland). In addition, bilateral airtservices agreements negotiated between EU member states and third countries are not allowed to discriminate between EU registered air carriers. Furthermore, multilateral EU-level agreements exist with some third countries, those of most relevance to the UK being the USA and Canada where US/Canadian carriers have the freedom to operate from any point in the US/Canada to any point in the EU, with reciprocal rights for EU carriers.</p>		
<b>WHAT WOULD BE DONE?</b> <p>Application of this measure would require the UK to negotiate liberalised bilateral airtservices agreements with third countries for third and fourth freedom flights. The objective of this would be to remove regulatory constraints to traffic growth and stimulate the market through competition.</p>		
<b>WHAT IS THE IMPACT?</b> <p>The impacts would be those normally expected of liberalisation and a move to a more consumer-oriented market focus:</p> <ul style="list-style-type: none"> <li>• Improved competition</li> <li>• Demand stimulation</li> <li>• Increased welfare and consumer surplus.</li> <li>• There may be additional benefits, e.g. increased foreign direct investment from destinations that are currently capacity constrained because of restrictive bilateral agreements.</li> </ul>		

MEASURE SET:	Airservices agreements	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Origin and destination	Medium Term	<input type="checkbox"/>

## MEASURE SUMMARY

Proposed by:	Gatwick Airport (019), Virgin Atlantic Airways (070)		
Proposal:  ASA-O&D-1 ASA-O&D-2	<p>This measure is aimed reducing or removing the restrictions associated with bilateral airtservices agreements for point-to-point services between the UK and third countries, especially those of high priority strategically through:</p> <ul style="list-style-type: none"> <li>liberalisation on a reciprocal basis</li> <li>liberalisation on a unilateral basis.</li> </ul> <p>Within the constraints imposed by the negotiation process and the need to comply with European law, there is no fundamental reason why liberalisation on a reciprocal basis could not be achieved in the short-term. However, liberalisation in a unilateral basis is likely to provoke negative reaction and objection from many stakeholders, particularly European airlines, who would see their competitors being granted market access advantage. Liberalisation on a unilateral basis is therefore unlikely to be acceptable.</p>		
Approach	<p>There are two proposals within the measure as follows:</p> <ul style="list-style-type: none"> <li>liberalisation on a reciprocal basis, in which access for European carriers to air transport markets would be opened on a reciprocal basis with carriers of third countries</li> <li>liberalisation on a unilateral basis, in which access to the UK would be granted to third countries' carriers without the reciprocal freedoms being granted to European carriers.</li> </ul>	<p>Stated Capital Cost: Not stated</p> <p>Capacity (mppa): Not stated</p> <p>Capacity (atm): Not stated</p>	
Benefits	<p>The benefits would be expected to be those normally cited for airtservices liberalisation:</p> <ul style="list-style-type: none"> <li>increased competition on routes (for the reciprocal approach only), resulting in price reductions and generating consumer surplus</li> <li>improved direct connectivity to strategically important destinations, supporting economic growth, foreign direct investment, etc.</li> </ul> <p>In the short-term, demand is likely to be stimulated at airports other than Heathrow, where slots are not available, irrespective of the liberalisation path followed. The precise benefits would depend on the routes that were liberalised.</p>		
Issues & Risks	<p>The benefits of liberalisation only accrue when restrictive bilateral agreements are constraining demand, taking into account both restrictions on direct routes. The availability of one-stop routes through hubs might be expected to reduce the benefits of liberalised direct routes.</p> <p>Any negotiations for liberalisation would have to be negotiated in the context of the European Single Market for Air Transport whereby so individual bilaterals must comply with Community law, specifically, Regulation No 847/2004 on the negotiation and implementation of air service agreements between member states and third countries. A particular risk here is related to potential objections to liberalised agreements with third countries that are perceived to be provided their flag carriers with significant amounts of State aid, which is not allowed to EU carriers.</p> <p>In addition, the UK would only be in a position to negotiate horizontal agreements with countries that are not already engaged in comprehensive agreements at EU level. These third countries might be reluctant to accept agreements that would effectively allow unrestricted access from the UK to all EU/EEA carriers whereas the reciprocal access would only be granted to carriers registered in the third country, i.e. the agreement might not be viewed as balanced. The competence of the UK to allow unilateral, unrestricted access of third countries' carriers to the UK, especially when those carriers may be competing directly with European carriers, is not clear and requires checking. Granting unilateral access without reciprocity would affect the market position/competitiveness of European carriers.</p> <p>In addition, the UK's bargaining position is often based on access to Heathrow, which can be granted through bilateral agreements but in effect is not possible because of slot restrictions. Access to the other London or regional airports may be sufficient in the short-term but ultimately access to slots at Heathrow in the longer term would provide a stronger negotiating position. In the short-term, therefore, liberalisation might be expected to stimulate demand to airports where suitable slots are available with the risk of transferring this to Heathrow, should slots become available there.</p>		
Mitigations	None needed.		
Dependencies	Compliance with EU law, especially concerning unilateral liberalisation. Acceptance by the third countries of liberalisation allowing flights to airports other than Heathrow in the short-term might enable access to Heathrow in the longer term. Acceptance by EU carriers and institutions of a unilateral approach even		

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though it would place EU carriers at a competitive disadvantage.

## ASSESSMENT SUMMARY

<b>Strategic Fit</b>	Not stated – depends on long-term options. However, there is potential to mitigate the increase of A380s in the traffic mix through ATC rule changes.
<b>Economy</b>	Increased consumer surplus generated through increased competition on direct routes, reducing fares and generating consumer surplus. There would likely be improved connectivity with strategic destinations, generating better economic and business linkages and enabling additional foreign direct investment. The precise economic impact would depend on the routes liberalised.
<b>Surface Transport</b>	Demand stimulated by liberalisation would generate additional demand for surface access to the affected airports.
<b>Environment</b>	Stimulated demand would generate additional flights with the associated noise, GHG and LAQ issues.
<b>People</b>	Liberalisation might be expected to generate additional connectivity to the benefit of passengers for business, leisure and visiting friend and relatives (VFR) purposes. Additional flights would have a noise and LAQ impact on the communities living in the vicinity of the affected airports.
<b>Cost</b>	Not stated
<b>Operational Viability</b>	Depends on compliance with EU law and the acceptance of Community Designation (non-discriminatory access to all EU/EEA carriers to the third country from the UK) countered only by the ability of the third country's carriers to access the UK, which might be viewed as disproportionate by allowing access of many to the market on the UK side and a few to the market on the third country's side.
<b>Delivery</b>	Delivery requires negotiation of revisions to aairservices agreements