

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

<b>MEASURE SET</b>	<b>Airservices agreements</b>	
<b>MEASURE TITLE</b>	Behind and beyond	
<b>MEASURE SUMMARY</b>	This measure is aimed reducing or removing the restrictions associated with aircservices agreements for behind and beyond services travelling from an origin airport through a UK airport and on to third airport, where either or both of the original origin or final destination is outside of the UK.	
<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 aircservices 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, for behind and beyond services is usually framed in the terms of two freedoms of the freedoms of the air: (i) the Fifth Freedom: the right to take on revenue traffic whose destination is the territory of any other contracting State and the privilege to disembark traffic originating from any such territory. The overall journey must begin or terminate in the State of the nationality of the aircraft operator and (ii) the Eighth Freedom: the right to carry traffic within two points within the territory of a foreign State on a route where the overall journey originates or terminates in the State of nationality of the aircraft operator. Often, these types of route are precluded by bilateral aircservices agreements and their negotiation is complex because it involves agreement by three parties (in the case of fifth freedom routes).</p> <p>Within the context of the EU, 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. Thus US carriers already have the right to fly through the UK to/from other European destinations/origins. Negotiation of fifth freedom routes through the UK from other origin/destinations would likely be complicated and impact on the EU-US agreement: note some of this type of fifth freedom routes already exist, e.g. from India to the US via Heathrow operated by Air India and from Pakistan to the US through Manchester operated by Pakistan International Airways). There would likely be strong opposition to granting fifth freedom rights to carriers where there is a perception of state aid or unfair competition both from the EU and US. Furthermore, pseudo-fifth freedom services are already offered through the UK using airline code shares (e.g. Abu Dhabi to New York via Manchester on a code share between Etihad and American Airlines).</p>		
<b>WHAT WOULD BE DONE?</b>		
Restrictions to the operation of Fifth Freedom routes would be lifted for strategic routes (and Eighth Freedom routes to allow non-EU carriers to offer through-services via a UK gateway from their home countries to a UK destination).		
<b>WHAT IS THE IMPACT?</b>		
<p>As with liberalisation of Third and Fourth Freedom services, 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:	Behind and beyond	Medium Term	<input type="checkbox"/>

## MEASURE SUMMARY

Proposed by:	Birmingham Airport (009), Gatwick Airport (019), IoD (039)
Proposal:  ASA-B&B-1 ASA-B&B-2 ASA-B&B-3	<p>This measure is aimed reducing or removing the restrictions associated with bilateral airtservices agreements behind and beyond air services via or within the UK, to and from third countries, especially those of high priority strategically through:</p> <ul style="list-style-type: none"> <li>granting Fifth Freedom rights through LGW, LTN and/or STN as well as regional airports</li> <li>granting Eighth Freedom rights through LGW, LTN and/or STN</li> <li>granting Fifth and Eighth Freedom rights with LHR as the intermediate airport.</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 such routes could not be achieved in the short-term.</p>
Approach	<p>There are three main proposals within the measure:</p> <ul style="list-style-type: none"> <li>Fifth Freedom rights beyond/behind LGW, LTN and/or STN where flights would originate in another country, be permitted to pickup and drop-off passengers at one of these airports before proceeding to a third country (this right generally exists for flights using UK regional airports - TBC)</li> <li>Eighth Freedom rights through LGW, LTN and STN where either one or the other of the ultimate origin or destination airports is in the UK</li> <li>Fifth and Eighth Freedoms rights with LHR as the intermediate airport.</li> </ul>
Benefits	<p>Could, potentially, overcome the barrier of no-home network carrier at LGW, LTN and STN to enable hub type services through those airports thereby improving London's connectivity and, if Eighth Freedoms were allowed, improving the connectivity to the UK regions that is under threat through LHR. The measure might also have the potential for increased competition between London airports to destinations where demand is currently constrained and might stimulate additional demand through fare reductions. The precise benefits would depend on the routes addressed.</p>
Issues & Risks	<p>There are very many stakeholders with conflicting interests and strategies; the behaviours that are likely to be incentivised by liberalisation might be perverse and the outcomes of liberalisation are uncertain. Decisions should be based on a thorough socio-economic impact assessment supported by scenario and SWOT analysis to understand likely outcomes are, with the associated costs, benefits and risks. Complexity of negotiating and agreeing triangular agreements for Fifth Freedoms, compounded by the existence of EU-third country comprehensive agreements for some potential partners of great interest in the UK's position as a North Atlantic hub. Potential negative impact on UK (EU) carriers of allowing access to domestic markets that are otherwise covered by EU Sixth Freedom operations (i.e. connecting through a European hub on an EU carrier). A particular threat might be allowing access to the US through LHR for Middle Eastern carriers.</p> <p>Commercial feasibility of airlines operating behind and beyond through services in the world of airline alliances and code shares that give additional flexibility (e.g. choice of appropriate gauge of aircraft per segment).</p> <p>Objection by interested parties in the negotiations, e.g. EU carriers that could have dominant market positions eroded through additional access to markets by third-party carriers.</p>
Mitigations	None needed.
Dependencies	<p>The need for a comprehensive strategy that prioritises potential negotiations to conclude agreements with third countries that are of strategic importance but also most likely to deliver benefits based on, for example, the market, the competitive situation and the capability and likelihood of carriers to take up the freedoms provided, taking into account airline/alliance strategies.</p> <p>Constraints imposed by the need for compliance with EU law and existing EU level (comprehensive) agreements, especially those concerning the US and Canada, which might be expected to be the most desirable destinations.</p> <p>The need for agreement by the States at both ends of the routes and the potential need for no-objection from affected stakeholders (airlines).</p>

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## ASSESSMENT SUMMARY

<b>Strategic Fit</b>	Not stated – depends on long-term options.
<b>Economy</b>	<p>Fifth and Eighth Freedom services through LGW, LTN and STN could encourage non-EU carriers to provide through services at those airports. This could result in enhanced (non-stop) connectivity both for London and one-stop via London for the UK regions (Eighth Freedoms). It could also result in increased competition within the London airport system and on constrained routes, thereby imposing price discipline and possibly stimulating demand. This would result in consumer surplus benefits.</p> <p>There might be similar benefits with through routes via LHR although take-up might be limited by airline alliance arrangements and strategies. The specific impact on the economy would depend on which routes were liberalised.</p>
<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>	<p>Liberalisation might be expected to generate additional connectivity to the benefit of passengers from London and the UK regions.</p> <p>Additional flights would have a noise and LAQ impact on the communities living in the vicinity of the affected airports.</p>
<b>Cost</b>	Not yet known.
<b>Operational Viability</b>	<p>Principal issues/risks to viability are:</p> <ul style="list-style-type: none"> <li>• compliance with EU law and existing EU level (comprehensive) agreements especially concerning the US and Canada</li> <li>• no-objection by stakeholders (EU airlines) whose competitive position/advantage might be undermined</li> <li>• complexity of negotiating triangular agreements that would have to include Community Designation</li> <li>• willingness of airlines to take up the opportunities, given alliance strategies for connecting through LHR and other major hubs.</li> </ul>

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Delivery	Delivery requires negotiation of revisions to aircservices agreements on a trilateral basis. this is further complicated because North American destinations are likely to be at one end of the routes and a comprehensive multilateral agreement already exists between the EU and the US.		