



White Paper



UK Aviation and BREXIT: Pragmatism vs Politics

By Edmond Rose and Rob Walker, ICF

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Aviation has been an early casualty of the UK's vote to leave the European Union (EU). And no wonder. Air travel is highly influenced by economic headwinds, currency fluctuations, and an uncertain climate for business. The Brexit vote brought the prospect of the full trifecta, while the currency reaction increased dollar-denominated costs for UK carriers and reduced sterling earnings for non-UK carriers.

One of the greatest uncertainties now facing the aviation community and its investors is regulatory. The UK is not only a major part of Europe's aviation—28% of seats flying within the EU operate to, from, or within the UK—it is also interlocked in Europe's aviation agreements. The two most crucial are membership of the European Common Aviation Area (ECAA) and participation in the EU-US "Open Skies" agreement.

Pragmatically, there are plenty of interests at play both in the UK and in the rest of the ECAA which should want the UK to stay within the Common Aviation Area. Irish, Hungarian, and Norwegian carriers have significant operations between the UK and the rest of the ECAA, which potentially become disallowed if the UK is not inside the club. Airline consolidation, still proceeding more slowly in Europe than in the United States, would be hindered by having the UK on the outside. After all, one of Europe's largest existing consolidations, IAG, is anchored by British Airways, a UK carrier.

There are also strong interests in keeping the UK within the EU-US aviation agreement. If the UK is not part of that agreement, a result could be regulatory



headaches for the transatlantic joint ventures which include the largest network carriers on both sides of the ocean. UK not being part of the agreement would also disrupt the rights of EU carriers to fly between the UK and the US and UK carriers to fly between EU points and the US, even if they are only sparingly used.

So, there is a good chance that the UK will want to maintain its positions in the Common Aviation Area and within the EU-US agreement, alongside Norway and Iceland. However, politics will also play a part in what actually happens. Aviation is just one area where the UK has to negotiate with the EU.

There are also other negotiating ambitions at play. Within aviation, there are questions such as the European Commission's interest in removing ownership and control rules between the EU and the US, while many in the US have called to restrict access for foreign carriers on grounds of their labour arrangements or alleged unfair competition. The new Trump administration may be more ready to hear these siren calls. These factors could complicate and prolong negotiations and definitely add to regulatory risk.

The pragmatic outcome is therefore not a foregone conclusion. Airlines which are exposed to potential risk from changes in the UK's regulatory position in European aviation are already looking for new ways to serve their markets. That is likely to mean setting up new entities in EU countries (for UK carriers) or in the UK (for carriers from outside the UK). It is no surprise that easyJet is doing just that, making the most of the opportunity to look for the most favourable country to use as a base.

And meanwhile, the airline sector will suffer from continuing uncertainty all round. Nimble adjustment of capacity and cost will be watchwords for some time until the outlook is clearer.

About the Authors



Edmond Rose draws on his proven airline leadership experience to lead projects for airlines, investors and suppliers. He has held leadership and senior management positions with Virgin Atlantic and British Airways, and has served as a consultant to the industry on projects ranging from low cost carrier strategy to airport runway slot management. As Director of Commercial & Revenue Planning at Virgin Atlantic Airways, he led Fleet and Network Planning, Revenue Management (RM) and Pricing, Passenger Service System operations, and alliance partnership activities as well as leading strategy formulation. Edmond pioneered Virgin Atlantic's partnership strategy work that resulted in negotiating a profit-sharing JV with Delta Air Lines, then implemented Virgin-Delta code-sharing and RM cooperation. He sponsored the introduction of new fleets of A330 and 787 aircraft into Virgin Atlantic and directed its short-haul start-up project. Edmond also has a background in aviation regulatory matters and has led customer insight and loyalty work.

About ICF

ICF (NASDAQ:ICFI) is a global consulting and technology services provider with more than 5,000 professionals focused on making big things possible for our clients. We are business analysts, policy specialists, technologists, researchers, digital strategists, social scientists, and creatives. Since 1969, government and commercial clients have worked with ICF to overcome their toughest challenges on issues that matter profoundly to their success. Come engage with us at icf.com.



Rob Walker joined ICF in 2010 and has more than 10 years of direct aviation experience across a wide range of markets and projects. He is an experienced market forecaster in mature and emerging markets producing detailed bottom-up forecasts and longer term econometric-driven demand projections, which often involve airport systems with overlapping catchment areas.

Combining his airline and airport experience, Mr. Walker is an experienced master planner producing detailed traffic forecasts for design day modeling and providing air service marketing capabilities for airports. He regularly uses NetWorks—ICF's network planning model—to provide detailed market and airline traffic analysis for airlines in support of their network strategy and business plans.

Prior to joining ICF, Mr. Walker worked at British Airways and Virgin Atlantic in a variety of commercial positions, including sales and marketing, revenue management, strategy, and network planning. Working closely with other areas, including government and legal affairs and economic forecasting, he has been involved in shaping strategy for work related to growth, mergers, and fleet plans and ensuring sales targets are met.

For more information about ICF's aviation consulting services, contact

Rob Walker

rob.walker@icf.com +44 20 3096 4932

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