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Business travel



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### Negotiating a storm

# Airlines and travellers could be among the biggest losers from Brexit

Jun 28th 2016, 11:29 BYMR.



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Alamy

DESPITE predicting that a Brexit vote would not “have a material impact on our business”, shares in International Airlines Group (IAG), the parent company of British Airways, have plummeted by one-third since Friday. Shares in easyJet, the London-based low-cost carrier that relies heavily on open skies across Europe, have crashed just as dramatically. Even airlines at the heart of the European project are suffering: Lufthansa, Germany’s flag-carrier, is worth 17% less than it was before the referendum (see chart). Traders seem convinced that Britain’s divorce from Europe is bad news for the entire industry, whether due to the gloomy economic outlook, currency volatility, resurgent travel restrictions or the prospect of

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a full-blown break-up of the European Union.

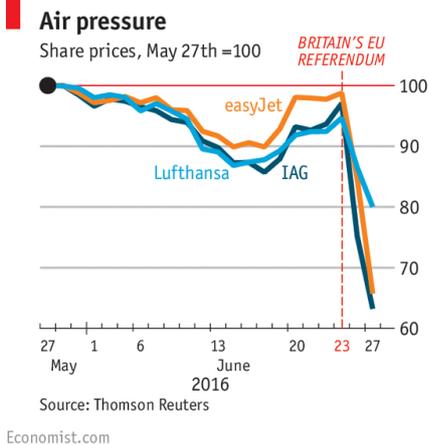
Their paranoia is understandable. Europe's liberal aviation framework has benefited airlines and passengers immensely since the 1990s, boosting competition, lowering prices and thus creating new demand. It may sound hackneyed, but deregulated skies truly have democratised travel for Europeans. No one who books a one-way fare from London to Budapest for the cost of a takeaway meal (at least before taxes are added) can help but marvel at the efficiency of the continent's aviation market. The social benefits that accompany this freedom of movement are profound: affordable leisure breaks, economic opportunities for business and enriched family ties. It is worrying, then, that many industry experts, such as Peter Morris, chief economist at Ascend Flightglobal, fear the spoils have been thrown away by Brexiteers. Mr Morris writes:

“ In an upcoming divorce [between Britain and the EU], of course, we will no longer be in the realms of common sense, and we cannot take a continued framework for granted. Anything from travel visas to a return to bilateral route negotiations is on the table. All we can say is that it will surely never be that good again for UK-based airlines and their passengers. ”

The International Air Transport Association (IATA), the industry's main trade group, thinks British air-passenger numbers could fall by 3-5% by 2020. Its forecast assumes that British businesses will rein in corporate travel and British families will defer holidays as the economic storm clouds gather. The depreciation of the pound, which will make foreign travel more expensive, will compound the damage. (A corresponding rise in visitors to bargain Britain is unlikely to offset the shortfall; Britons currently account for about two-thirds of traffic at domestic airports.)

In the long term, much will depend on negotiations to determine the country's new relationship with the EU. Here, as in the wider political and economic debate, forecasting is more an art than a science, clouded by unknown variables and ingrained political prejudices. The least painful scenario is that Britain would stay within the Single Aviation Market, which gives airlines unfettered access to EU airports. That would effectively render aviation immune to Brexit. Yet the most likely path to this destination—joining the European Common Aviation Area (ECAA)—has parallels with broader membership of the European Economic Area (EEA). In both cases, signing up to the club means handing over some decision-making to Brussels. For the ECAA, British aviation law would need to comply with European standards in areas such as safety regulation, environmental targets and competition rules. Brexiteers may consider this the first wistful glance of a rekindled affair with Brussels. If Britain cannot force its way into the Single Aviation Market, it will need to hammer out either a co-operation agreement or a traditional bilateral treaty with the bloc. This would give London greater control over policy, but probably at the cost of restricted market access. Traveling between Britain and Europe could become harder and more expensive.

Jeopardising the proven benefits of liberalisation in this way seems irrational. But saving them will depend on the mood and fairness of the divorce proceedings with Brussels, in which aviation will be just one of many grievances. Crucially, Britain will not come to the negotiating table empty-handed. London is both the financial capital of Europe (at least for the time being) and its most popular tourism destination. Plus, Heathrow is the continent's biggest hub airport. Anything that damages outbound demand from London will diminish inbound capacity in equal measure. Reduced supply means higher airfares for all. Given that Europeans will surely continue to visit and do business with Britain, intentionally harming British aviation would be an own-goal by Brussels. As Ernest Arvai, an analyst with



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Air Insight, summarises:

“ We don't expect London to shrink into a destination nobody wants to visit...London Heathrow isn't going to lose traffic, and will still need a third runway for expected traffic growth. London will remain a key economic centre and the natural connection between English-speaking North America and Europe from a business perspective. Britain's stature in the world is not dependent on EU membership...Aviation will be just fine, thank you. ”

With bitterness the prevailing emotion on both sides of the Channel, it is to be hoped that such pragmatism triumphs.

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