

Airneth Workshop

**The impacts of the EU-US Open
Sky Agreement:
what will happen at Heathrow in spring 2008**

The Hague, 6 March 2008

What will happen at Heathrow in spring 2008: Outline

- **EU-US agreement**
- **Previous impact assessments**
- **Heathrow versus Gatwick**
- **Initial airline response**
- **Slot availability and cost**
- **Conclusions**

EU-US Agreement

- **Stage 1**

Any licensed EU carrier granted right to fly between any EU airport and any US airport

7th freedom EU-US

No change to ownership and control rules

No cabotage

Fly America remains

No US domestic wet leasing

For UK-US: Removal of Bermuda II constraints

- **Stage 2**

Further liberalisation of traffic rights

Additional foreign investment opportunities

The effect of environmental measures and infrastructure constraints on the exercise of traffic rights

Further access to government-financed air transport

Wet Leasing

Previous impact evaluations

Impact of Open Aviation Area (EU wide):

Brattle Group, December 2002 for the European Commission

10% boost to traffic, fare reductions of 2-6%

US General Accounting Office, July 2004

Significant benefits from 'new' entrants to Heathrow

Doubtful of success of new EU airlines launching LHR services

Booz Allen, January 2007 for the European Commission

+ 1.4m pax in first year, + 26m passengers over five years

Included stage 1 impact for UK-US only:

InterVISTAS-ga2, June 2006, various sponsors

Increase in traffic of 29%

UK CAA, March 2007

24 additional daily frequencies

Heathrow's perceived advantages

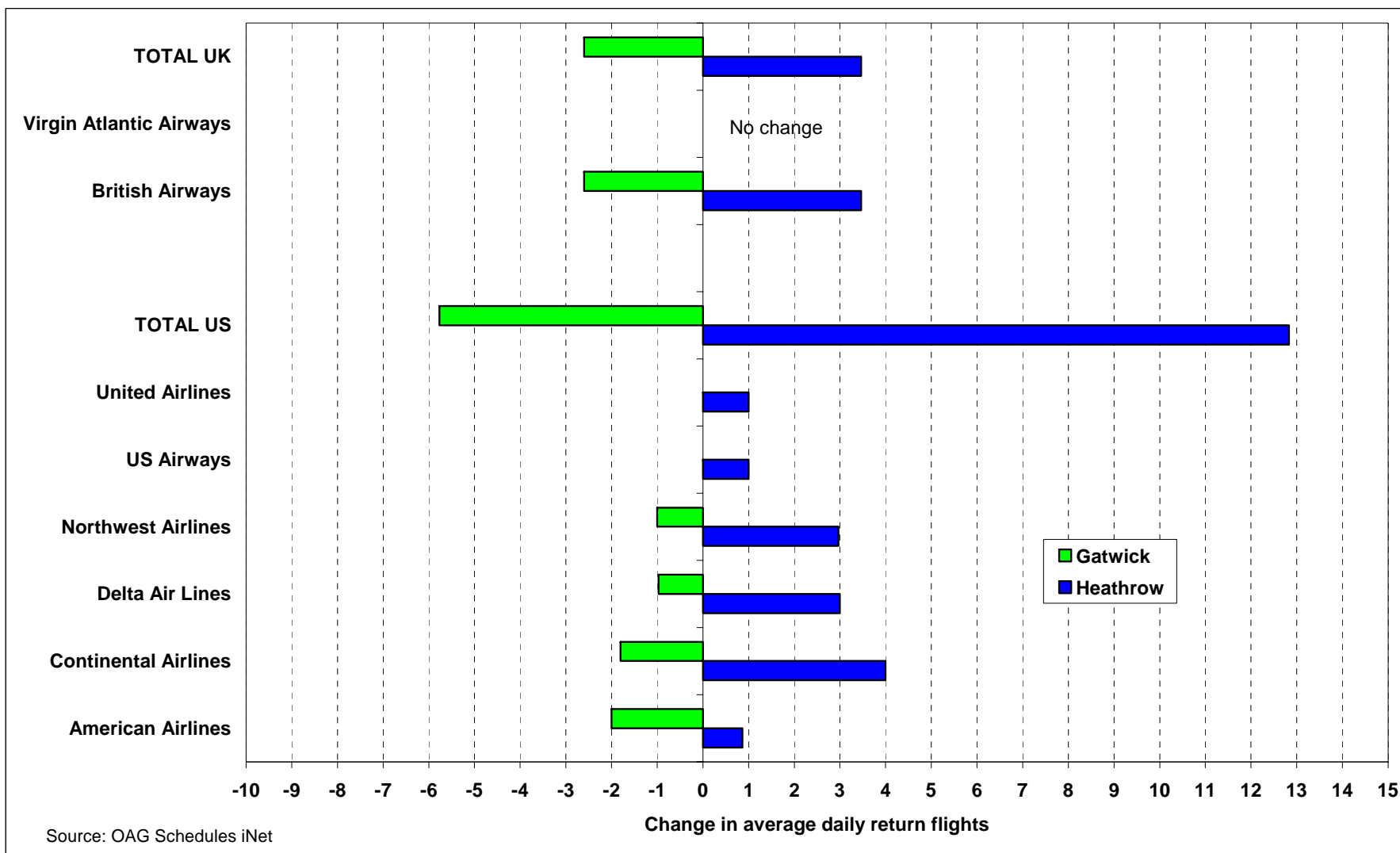
- Catchment area, especially for business traffic
- Higher yields
- Connecting possibilities
- Closer to central London

Airline responses to date

- US carriers previously denied access to Heathrow move flights there
- British Airways moves three US destinations from Gatwick to Heathrow
- Virgin Atlantic keeps existing distribution between the two airports
- Air France starts a stand-alone Heathrow Los Angeles service (daily, code share with Delta Air Lines)
- BA launches “Open Skies”
- Bmi “postpones” North Atlantic entry from Heathrow

Heathrow/Gatwick – US scheduled flights by UK/US airline

June 2008 vs June 2007



Slot availability and cost

- Heathrow severely slot constrained
- Secondary trading allowed with payments
- New slots only available through allocation system (no primary trading)
- US carriers previous limited to LGW would have new entrant status at LHR, but no slots available at required times
- Some slots for exchange/sale at inflated prices
- Other slots made available by alliance partners with existing LHR flights

Conclusions

- EU/US Open Skies Stage I agreement really all about opening up Heathrow
- Significant increase in theoretical market access, but major slot constraints
- Reaction of airlines confirmed relative attraction of Heathrow. Increased demand increased price of Heathrow slots
- But initial responses well short of studies' predictions
- Net 9 additional frequencies from London
- Early days, but slot situation will only get worse in medium term
- And what happens if no progress in Stage II ?!