Cranfield UNIVERSITY

Airneth/GARS Workshop

The impacts of the EU-US Open Sky Agreement:

what will happen at Heathrow in spring 2008

The Hague, 17 April 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 destination 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/US scheduled seat capacity: change between June 2007 and June 2008

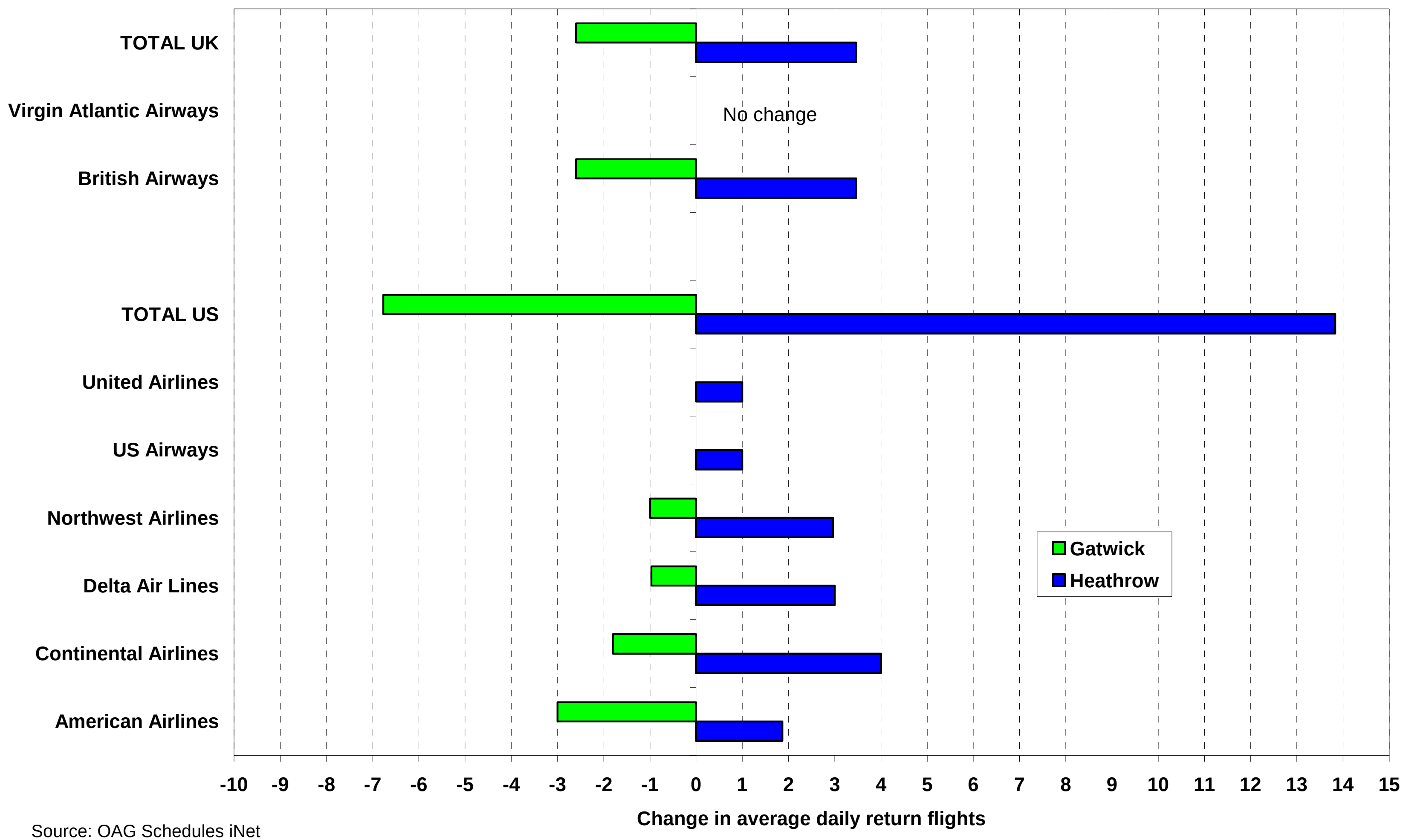
	Δ monthly seats
British Airways	29,457
Continental Airlines	27,420
Northwest Airlines	24,927
Delta Air Lines	19,260
American Airlines	13,172
US Airways	7,980
Air France	7,500
United Airlines	5,010
Air New Zealand	198
Kuwait Airways	-237
Virgin Atlantic Airways	-5,003
Air India	-5,160
Total	124,524

Heathrow/US scheduled flights: change between June 2007 and June 2008

	Δ monthly flights
Continental Airlines	120
British Airways	104
Delta Air Lines	90
Northwest Airlines	89
American Airlines	56
US Airways	30
United Airlines	30
Air France	30
Air India	0
Air New Zealand	0
Virgin Atlantic Airways	0
Kuwait Airways	-1
Total	548

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

June 2008 vs June 2007



Source: OAG Schedules iNet

Non-stop destination changes: June 2007 to June 2008

Gatwick to Heathrow:

Dallas/Fort/Worth, Houston, Raleigh/Durham, New York Newark, Atlanta, Minneapolis/St.Paul and Philadelphia

Remain at Gatwick:

Detroit, Atlanta, New York Newark, Cleveland, Cincinnati, and Charlotte

Served by new or second airline at Heathrow:

Detroit, Atlanta, Denver, Seattle

All destinations already served from either Heathrow or Gatwick in June 2007

To Stansted:

New York Kennedy from Heathrow

MyTravel Airways from Gatwick

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 previously 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, and increased demand increased price of Heathrow slots

But initial responses well short of studies' predictions

Net nine additional daily frequencies from London

Early days, but slot situation will only get worse in medium term

And what happens if no progress in Stage II ?!