

# Brexit: Changes to the Aviation Industry



On 24<sup>th</sup> December 2020, the European Commission reached an agreement with the United Kingdom ("UK") on the terms of its future cooperation with the European Union ("EU"). On 30<sup>th</sup> December, British MPs voted to approve the new legislation agreement with the Commons approving the measure by 521 votes to 73. The UK officially left the EU on 1<sup>st</sup> January 2021, with the new legislation agreement commencing. Skylark explores how the new Brexit withdrawal agreement will affect the aviation industry, focusing on four key areas: airports, airlines, passengers, and cargo.

## Airports



Airports should be largely **unaffected** by changes made to the **safety regulatory regime**. All certificates issued to airports by the Civil Aviation Authority ("CAA") will remain valid. However, airports will be largely **affected** by the UK's withdrawal of the **VAT Retail Export Scheme ("VAT RES")** and the tax-free shopping concession.

## Removal of tax-free pricing



On 1<sup>st</sup> January 2021, the UK government **confirmed the withdrawal of airside tax-free shopping** for passengers at UK airports flying to any destination. Industry campaigners, against the legislation, have calculated that the removal of the VAT exemption could result in operating profit losses of over £1 billion. Potential effects of the removal of the VAT exemption are discussed in more detail in [Skylark's recent White Paper](#).

## Removal of VAT RES



The **VAT RES** offered non-EU visitors to the EU, VAT refunds on the purchases of landside goods. However, this scheme has also been **withdrawn** in Great Britain. VAT refunds are still available to passengers if goods purchased are shipped directly abroad to their home address, and not carried in their luggage. It has been estimated by Analyst Global Blue that the withdrawal will cost the UK £6 billion a year in lost tourist spending.

## Return of duty-free pricing



The UK government has also announced the **return of duty-free shopping** for passengers travelling between the UK and the EU. All passengers now travelling outside the UK can purchase duty-free products which include liquor and tobacco. UK passengers' allowances of alcohol and tobacco purchased and carried on-board aircraft to the EU has been increased. However, the allowances are higher for passengers from the EU to the UK. This could be detrimental to UK airports' duty-free revenues, encouraging passengers to purchase duty-free products at EU airports instead. The increased import levels are more likely to benefit port and cruise operators than airports.

Further details on passenger duty-free allowances are discussed in [Skylark's recent White Paper](#).

## Will retailers continue tax-free pricing?



The multinational travel retailer World Duty Free has made a statement saying that, where possible, they wish to continue providing tax-free pricing to consumers in order to remain competitive with EU airports. Skylark assumes they can promise this price match on the basis that they will cross subsidise these categories from larger duty-free revenues. It will be critical to monitor the impact this will have on concession margins for airports in the future.

## Airlines



- **As UK airlines will now no longer participate in the fully liberalised EU aviation market**, holders of airline operating licences and air operator's certificates ("AOC") need to take action to ensure they can continue to operate in and out of the EU.
- UK airlines will no longer be considered as EU carriers and will lose existing traffic rights in the EU.
- The withdrawal agreement states that both the UK and the EU will grant each other's airlines unlimited volumes of traffic, capacity, frequency routing, regularity, routing, origin, or destination.
- For EU registered airlines, EU law continues to apply for flights to and from the EU.

## Passengers



### Flying to the EU\* from the UK

- Airport security screening will remain the same; this also applies for passengers travelling from the UK and transferring at an EU airport – no extra security screening will take place.
- Existing passenger rights continue for air passengers flying from the UK.
- Passport requirements have changed. For UK passengers flying to the EU, they must have at least 6 months left and be less than 10 years old (even if it has 6 months or more left)
- Tourists do not need a visa for short trips to most EU countries, Iceland, Liechtenstein, Norway and Switzerland. They are able to stay for up to 90 days in any 180-day period.

## Cargo



- The EU and the UK have mutually recognised each other's air cargo security stands and have agreed there will be no change to air cargo operations carried between the UK and the EU, as well as Switzerland, Norway and Iceland.