Future of Open Skies
Will We Implement Phase II, and What Will It Look Like?

By Kevin Neels
The Brattle Group

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Ancient Times

• Requirements for nationhood:
  – A territory, a capital, an army, a currency and a national airline

• Distrust of market forces

• Chicago, 1944
  – All aspects of air transportation between two countries governed by a bilateral agreement
The Middle Ages: Liberalization within the Bilateral Framework

• Gradual easing of restrictions:
  – Fares
  – Capacity
  – Frequency
  – Carrier Identity
  – Points Served
  – Beyond Rights (more later)
Modern Times: Emergence of the Stateless Airline

• The cutting edge of liberalization is trying to cut the linkage between airline and nation state
• We’re not there yet, but we’re too far down the road to be able to go back easily
The Stateless Airline: How Did We Get Here?

• Post WW2 beyond rights held by US flag carriers
• International code-sharing alliances
• Rise of fifth+ freedom carriers: KLM, Singapore, Emirates
• Creation of a single European aviation market
• Cross-border airline mergers
The Stateless Airline: Are We There Yet?

- A few barriers remain.
  - The temptation to game the old bilateral system in order to extract economic concessions has proven difficult to resist.
  - Growing airport and airway congestion has injected complicated new elements into the discussions.
  - Cabotage and foreign ownership remain enormously important to key U.S. constituencies.

- These issues remain to be addressed in Phase II of Open Skies.
The British Perspective
Background and Recent Events

• Bermuda II
• Heathrow
• Oneworld – the unconsummated marriage
• British airline leaders have complained that the Open Skies agreement favors American interests over European interests
• They hunger for full access to the U.S., including cabotage and elimination of ownership restrictions.
• They have urged withdrawal from the Open Skies agreement if Phase II fails to address their concerns
So, What Is Going to Happen?
Key Issues Affecting the Outcome

- U.S. domestic politics will make British demands difficult to meet
  - Growing concerns about domestic impacts of free trade policies
  - Prospects for a Democratic administration with ties to organized labor
- Phase I does offer real benefits
- Difficulty of “unscrambling the eggs” and closing skies that have been opened