



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



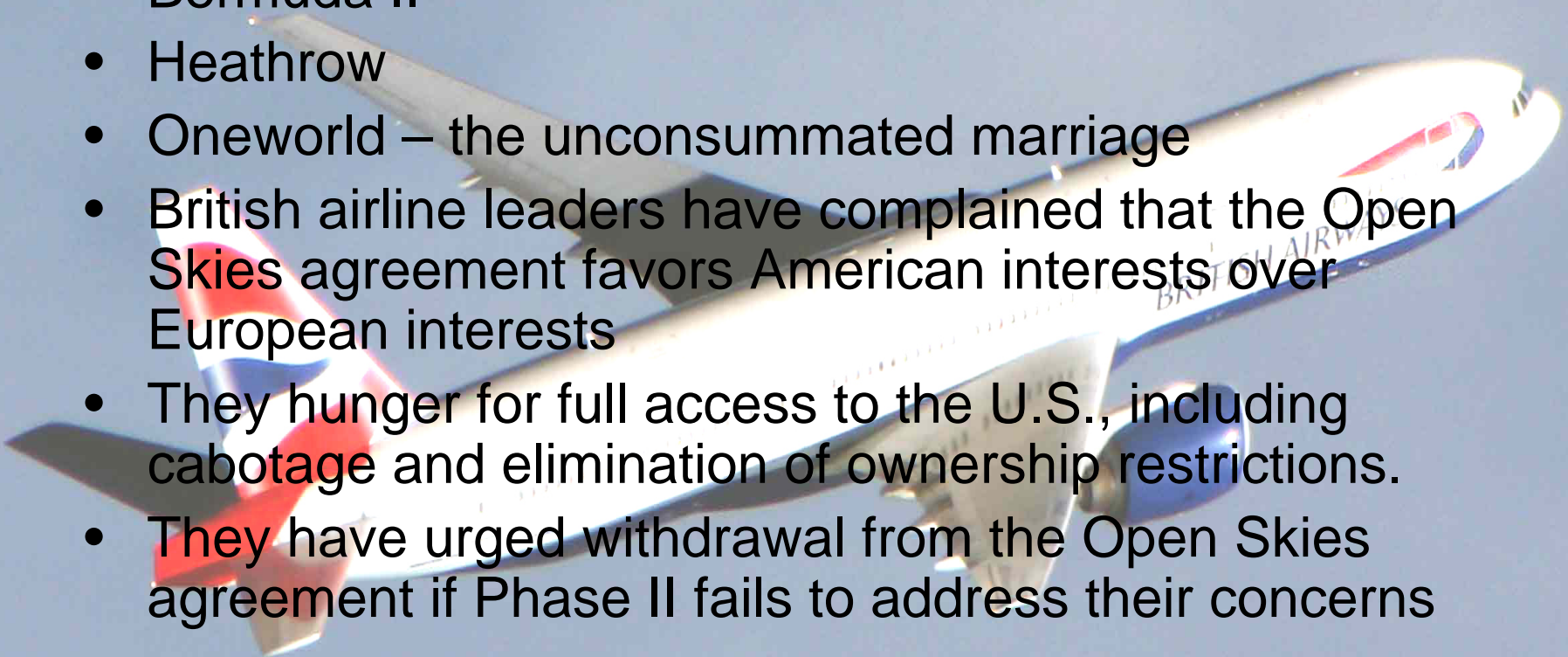
The Stateless Airline: Are We There Yet?

- 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