

Highlights of [GAO-04-835](#), a report to congressional requesters

## Why GAO Did This Study

Transatlantic airline operations between the United States and European Union (EU) nations are currently governed by bilateral agreements that are specific to the United States and each EU country. Since 1992, the United States has signed so-called “Open Skies” agreements with 15 of the 25 EU countries. A “nationality clause” in each agreement allows only those airlines designated by the signatory countries to participate in their transatlantic markets.

In November 2002, the European Court of Justice ruled that existing Open Skies agreements were illegal under EU law, in part because their nationality clauses discriminated against airlines of other EU nations. The United States and the EU have been negotiating revisions to these agreements. Experts agree that removing the nationality clause is central to any new agreement. GAO was asked to report on (1) how prevalent Open Skies agreements are and what their effects on airlines and consumers are, (2) what the key ways that commercial aviation between the United States and the EU could be changed by the Court of Justice decision are, and (3) how the elimination of nationality clause restrictions might affect airlines and consumers. GAO’s work included both analyzing data on transatlantic air service and evaluating information from and positions of industry officials, subject-matter experts, and stakeholder groups. GAO is making no recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-835](http://www.gao.gov/cgi-bin/getrpt?GAO-04-835).

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker, (202) 512-2834, [heckerj@gao.gov](mailto:heckerj@gao.gov).

## TRANSATLANTIC AVIATION

### Effects of Easing Restrictions on U.S.-European Markets

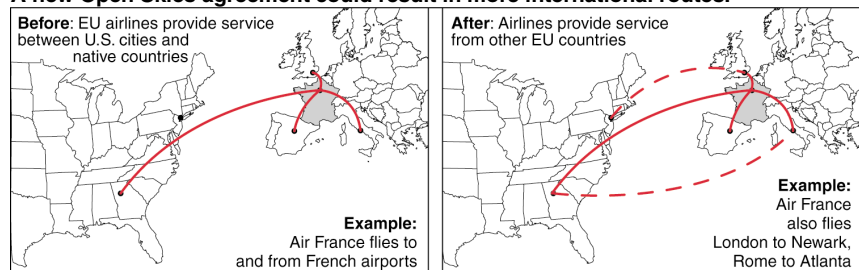
#### What GAO Found

Open Skies agreements have benefited airlines and consumers. Airlines benefited by being able to create integrated alliances with foreign airlines. Through such alliances, airlines connected their networks with that of their partner’s (e.g., by code-sharing agreements), expanded the number of cities they could serve, and increased passenger traffic. Consumers benefited by being able to reach more destinations with this “on-line” service, and from additional competition and lower prices. GAO’s analysis found that travelers have a choice of competitors in the majority of the combinations of U.S.-EU destinations (such as Kansas City-Berlin).

The Court of Justice decision could alter commercial aviation in four key ways. First, it would essentially create one Open Skies agreement for the United States and EU, thereby extending U.S. airline access to markets that are now restricted under traditional bilateral agreements. Notably, more U.S. airlines would gain legal access to London’s Heathrow airport, which is restricted by the U.S. agreement with the United Kingdom. Second, it would also allow EU airlines to operate into the United States from airports outside their own countries. Third, for EU airlines, a revised agreement could alleviate some obstacles to merging with other EU carriers or creating subsidiary operations in other countries. Finally, the possibility that EU airlines might move some operations into other EU nations raises concerns about which EU nations’ regulatory and legal systems would govern.

U.S. airlines and consumers are likely to benefit from the elimination of the nationality clause, but the benefits may not be realized in the near term. Both U.S. consumers and airlines would benefit from gaining access to markets restricted under bilateral agreements, especially London’s Heathrow airport, though capacity considerations there are likely to postpone and limit such access. Consolidation within the EU aviation industry could occur, with the effect on U.S. consumers varying, depending on whether consolidation creates additional competition or reduces it in particular markets. EU airlines could begin new transatlantic service in countries other than the airline’s own, which would provide consumers with additional competitive choices (see graphic). However, those airlines would likely face difficulties in competing successfully at another airline’s hub.

#### A new Open Skies agreement could result in more international routes.



Source: GAO.