The open skies policy review

Transportation, Airlines

The Open Skies policy is based upon a mutual air carrier understanding to which the U. S. Government works hand in hand with other countries. This notion pertains to rights of passengers from all nations and cargo carrier amenities with the hopes of creating a free-market arena. To be efficient as possible, an agreement needs to be made between two or more nations that will in turn, form reciprocity to include numerous countries that all have the same goals. With this being accomplished, countries can join and agree upon a fundamental set of rules instead of making deals with each individual country regarding jet travel and commerce.

Since the invention of airplanes, most countries have made an effort to take to the skies and specialize in air transportation how they know best. America is the dominating nation when it comes to volume of airplanes, airports and general aviation. Post World War II when aviation became an accepted form of travel, air carriers have been competing for passenger volume and status. At some point, certain nations began to realize that they were either ahead of the aviation curve or behind it. With that being said, certain nations were able to monopolize the industry and take advantage. In response, countries began to form bilateral or multilateral trade treaties regarding aviation practices.

The first progressive steps taken to achieve this took place by the Convention on International Civil Aviation which is commonly referred to as the Chicago Convention. This was in December of 1944 and signifies the birth of the International Civil Aviation Organization. This organization was primarily used to help make flying safer and to bolster the process of creating aircrafts. This was in response to multiple fatalities and engine malfunctions. Essentially this was a responsive solution with the hopes of creating order and boundaries with the new era of flight and transportation. The Chicago Convention also spelled out the " Freedoms of the Air"*. This was a collective of rights concerning a nations ability to fly internationally. They set the foundation for commercial aviation networking. (See Appendix page for detailed list of the Nine Freedoms of the Air.)

Now jump ahead to the early 1980's where the United States first started to pursue a treaty like the Open Skies agreement. America worked hand in hand with the Dutch Airline, KLM where it enacted trade immunity between Northwest Airlines and the Dutch carrier. This resulted in the phenomenon known as " code sharing" where two or more airlines form a sort of coop with flights that in turn, benefits both carrier tremendously. They then split the profit and each has a full flight. They year 2001 saw the first giant multilateral agreement between four other major countries concerning the problems of cabotage, military and government personnel, taxes and predatory pricing.

In 1992, the modern Open Skies agreement was put into place. It was designed to limit government involvement in airline decision making with the hopes of allowing a better free market. More carriers with less taxes would yield better completion and lower prices. With this, routes, capacity and pricing in international markets have declined and more affordable service has come around. Open Skies agreements have vastly expanded international passenger and cargo flights to and from the United States, promoting increased world travel, trade, enhanced productivity and the creating of high quality job opportunities domestically and abroad. This is due to the increased competition and consolidation of world air carriers. Less efficient companies would be acquired by larger ones, or they would be forced to adopt the business practices of more efficient airlines. If all high cost carriers reduced their costs to the international benchmark level, ticket prices would drop by 4. 2% which at first glance does not seem like a lot but that is about three billion dollars. Over time these cost savings will generate revenue and result in lower fares.

Obviously, with every agreement, there are two sides to the story. The inherent positives of the open skies treaties are clear. Fundamentally, with increased competition, the laws of economy dictate that airlines will be forced to compete and reduce prices. As a result, the companies will want to generate more revenue and will look for other cost saving techniques. Cooperation between carriers would be logical as improved coordination on transatlantic flights via code sharing would help keep fares low while maximizing efficiency. While this increased completion is beneficial to the world traveler, the staff and pilots of these airlines are the ones effected. With more airline competition, companies are going to be in need of revenue so there might be more carriers but they might be cutting back hours and routes. Code sharing is not beneficial for pilots as it does take away routes. Some countries are also rumored to not be playing by the rules and offering cut backs, favoritism and subsidies to “ nation airlines”. They would argue they are doing nothing wrong but government funding to an airline allows them an unfair competitive advantage with the rest of the world. This breaks down the ethical concepts of a free market economy. These government backed airlines are able to beat out competitors pricing by low balling undercutting ticket prices.

In a fair market, this would be a perfect scenario. Open Skies would promote world commerce, benefit not only the passengers but the nations and airline companies. Competition would be at an all time high as more efficient ways of traveling would be sought after. However, American, Delta and United Airlines have accused Emirates and Qatar Airlines of receiving such government subsidies. It is rumored that they have received 52 billion dollars in aid since 2004. Recently these companies have provided a 210 page rebuttal refuting the notion that they have received funding. Unfortunately, with the companies being private, access to incriminating evidence is not easy to come by. New terms might need to be amended to prevent future foul play.

Another company that is cutting corners is Norwegian Air. They have essentially " beaten the system" by creating hub and spoke bases not in their own nation of Norway. Norway has some of the highest taxed and strictest policies governing air commerce. Norwegian Air has set up subsidiaries in Ireland and Taiwan which is where most of their fleet is based. As a result, this company can charge much less for international tickets as they are able to pay their employees less and side step hefty taxes in their parenting nation.

In retrospect, Open Skies agreements are necessary, however they are in dire need of being amended. Either a new system must be enacted with stricter policy or harsher implications for foul play. The aviation industry is only going to grow as planes achieve higher efficiency. The world is becoming more accessible and countries wishing to partake in air travel should work harder to developing a system that yields the highest return while still being fair.