



The Daily Dish

Re-Opening the Skies

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Eakinomics: Re-Opening the Skies

Yesterday, the United States and the United Arab Emirates (UAE) signed an [agreement](#) regarding the future of their Open Skies agreement, a deal that follows on the heels of a similar agreement reached with Qatar a few months back. Open Skies [agreements](#) are trade agreements in the form of bilateral treaties that permit cross-border competition in commercial aviation. The United States has over 120 Open Skies agreements, and all but two have been enormous successes.

The new agreement with the UAE addressed a substantive problem: UAE subsidies to state-owned airlines that were forcing competitors out of the market. The subsidies are in violation of Open Skies' Fair Competition clause — in which all airlines are allowed a “fair and equal” opportunity to compete — and forced U.S. airlines to terminate their competing routes to Gulf nations. Without enforcement, UAE-owned airlines would continue benefitting from these subsidies and driving U.S. competitors out of the market.

By re-negotiating these Open Skies agreements, the Trump Administration has used its trade-enforcement [tools](#) to bring the Open Skies agreements back to their original intent. As Eakinomics noted [earlier](#), this willingness to enforce trade agreements will be an essential part of restoring the public's faith in negotiating future trade agreements.

The UAE agreement is a significant accomplishment. The UAE had resisted attempts to start discussions for three years. The Trump State Department not only got the UAE to the negotiating table, but also achieved several significant steps forward. The UAE acknowledged for the first time the existence of subsidies and the fact that government subsidies undermine healthy market competition. Accordingly, it agreed to conduct all transactions with their airlines at commercial, arms-length prices — no more cushy deals that implicitly are subsidies.

To further display its commitment to a level playing field, the UAE agreed to financial transparency — using internationally accepted standards for accounting and financial statements. Thus, outside groups (e.g., the U.S. carriers) will have the ability to monitor the UAE’s compliance with this agreement. That monitoring is an important part of the work going forward. After all, the UAE did not comply with its original Open Skies agreement; nobody should simply assume that they will comply with this one.

Finally, the UAE agreed that its airlines should not introduce any new “Fifth Freedom” flights — routes on which U.S. customers can travel to, e.g., Europe without actually setting foot in the UAE. The subsidies had driven U.S. carriers off these routes and cut back on the feeder flights from domestic places to cities with international flights. Competition will be improved across both the domestic and international networks.

The agreement is important for commercial aviation in the United States. But it may be just as important as a model for successfully enforcing trade agreements more broadly.