



The Daily Dish

Testing Time on Trade

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Eakinomics: Testing Time on Trade

The distinguishing feature of the Trump Administration's economic policy has been its approach to international trade. Its "fair and reciprocal" trade philosophy has embraced tariffs as a strategic tool to force trade talks, it has focused closely on issues of bilateral trade balance, and it has signaled a surprising comfort with non-tariff barriers to trade (e.g., quotas and regional content rules in the U.S.-Mexico-Canada Agreement). The debate over the desirability of these features will continue, but one thing is quite clear: Unless trade agreements are enforced, it does not matter what philosophy drives their negotiation.

From that perspective, the administration is facing a testing period on trade. The China talks continue to drag on, reportedly largely over disagreements on enforcing the negotiated provisions. Because the talks are private, it is difficult to assess the state of play. But there is a very visible test facing the White House as well: [Qatar and the Open Skies](#) agreements for international commercial aviation.

Air Italy — the thinly disguised front for Qatar Airways — [launched](#) its inaugural flight from Milan to Los Angeles, on top of last year's Milan to New York-JFK and Milan to Miami flights. These so-called "fifth freedom" flights are fundamentally non-economic for Air Italy or Qatar Airways (which bought a 49 percent stake in Air Italy and launched the new routes). This reality raises the suspicion that Qatar continues to subsidize Qatar Airways to offset these losses. Any such subsidies are a violation of the U.S.-Qatar Open Skies agreement (there are 120 U.S. bilateral Open Skies agreements designed to prevent government intervention in commercial airline travel). The logic of this agreement was impeccable. If it was not possible to channel subsidies to the airlines, they would not be able to run unprofitable international routes, and pricing would be on a playing field level with international competitors. Any genuinely non-economic fifth freedom route would simply disappear. And over a year ago, Qatar Airways further committed to greater financial transparency. It appeared to be a big win for trade enforcement.

Experience suggests that the financial reporting is not transparent enough to stop the Qatar government from continuing to funnel billions in illegal subsidies to Qatar Airways. The issue has been [highlighted](#) by Senator Ted Cruz, who has indicated he plans to hold a Senate hearing on the matter. And it has been [acknowledged](#) by Secretary of State Mike Pompeo, who said, "Make no mistake about it. American jobs are impacted when other countries subsidize the airlines. It's not fair. It's not right."

It is crunch time for adherence to Open Skies. How will the administration react?