Open Skies: Opening Up Opportunities

What changes will the EU-U.S. "Open Skies" agreement bring to airlines and what benefits can travel managers expect?

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"A good start" is how many experts have described the EU-U.S. Open Skies agreement, due to come into effect at the end of March. Although it falls short of full liberalization, the deal opens up significant opportunities for airlines on both sides of the Atlantic. A more competitive marketplace—at least in the short- to medium-term—will undoubtedly produce benefits for customers.

What the EU-U.S. Open Skies deal will change

Implementation will take place in two phases. The first marks the end of highly restrictive bilateral agreements between individual EU nations and the United States. Previous regulation limited traffic rights on international routes and at airports, providing an unfair competitive advantage to some airlines. Notably, American Airlines, British Airways, United Airlines and Virgin Atlantic have held a comfortable oligopoly on Europe's busiest and most profitable transatlantic route, London Heathrow to New York JFK. Removing such barriers already represents a major step forward.

What will happen in the second phase is less clear. Negotiations must start before the end of May this year and conclude before the end of November 2010. Europe has, however, reserved the right to withdraw from the agreement. This may happen if the United States does not provide "cabotage" rights to EU carriers (discussed below) or if other contentious issues are not resolved.

Main changes in Phase 1 (starting March 30, 2008):

- **All EU and U.S. airlines will have the right to fly transatlantic routes to and from the airports of their choice** without restrictions on capacity, frequencies and types of aircraft. Airlines may propose transatlantic services that originate and/or terminate outside the open aviation area as long as they include a stop-over in the home region (EU or U.S.). The deal also provides for unlimited code-sharing between EU, U.S. and third-country airlines.

- **Airlines will no longer face restrictions on transatlantic fares.** Up until now, they have had to register fares and governments have been able to block any they considered anti-competitive. A prohibition remains, however, on U.S. airlines undercutting prices on intra-EU flights.

- **European airlines will be able to open up their capital to European investors from outside their home country without compromising traffic rights.** Previously, carriers qualified for traffic rights on the basis of national ownership. (They had to remain majority-owned by national stakeholders to benefit from their home country's bilateral agreement with the United States.) Now, European airlines will be considered "Community Carriers" (i.e., majority-owned by European stakeholders and regulated by European authorities). In this way, the Open Skies agreement opens the door to airline consolidation within the EU.

- **Global airline alliances will benefit from streamlined U.S. regulatory processes.** European airlines will pre-qualify for immunity from U.S. anti-trust laws when planning commercial cooperation with other EU and U.S. carriers. (Immunity enables airlines to jointly discuss pricing, coordinate flight schedules and other aspects without risking legal action.) In addition, U.S. authorities have committed to giving "fair and expeditious" consideration to all applications.

- **Global distribution systems (GDSs) operating in Europe will have the right to introduce services in the United States and vice versa**, providing they comply with local regulation. European regulators may not impose more stringent GDS regulation on the U.S. systems, nor may U.S. regulators impose tougher regulation on those from the EU.

Main changes expected in Phase 2 (starting November 30, 2010):

- **EU carriers should enjoy "cabotage" rights in the United States.** This means they will be able to pick up passengers in the United States before going on to a destination in the country or beyond. U.S. airlines already have cabotage rights in the EU and are therefore at an advantage, although this remains theoretical since none have exercised this right in recent years.

- **U.S. laws on airline ownership and control should be relaxed**, although this is not guaranteed. Currently the United States prevents any foreign investor from holding more than 25 percent of voting rights in an American carrier, while the EU authorizes up to 49 percent foreign ownership. And last July, U.S. officials proposed to tighten the restrictions, a move that many governments and industry leaders have criticized as a step in the wrong direction.

- **Further liberalization and cooperation should be achieved in key areas** such as safety, security, taxation, government subsidies and the environment. In addition, the EU may gain access to the "Fly America" program, which currently prohibits government employees from flying with non-American airlines except in very limited cases.

Benefits for travel managers and corporate travelers

Industry leaders have almost unanimously welcomed the agreement, recognizing the benefits it will bring for customers, as well as for the economy as a whole. European Commission Vice President and Transport Commissioner Jacques Barrot predicts that transatlantic passenger numbers will increase by 26 million, with 80,000 new jobs and billions of euros in economic benefits within five years. For travel managers, a number of concrete improvements are likely:

- **A wider choice of routes and schedules.** In theory, the Open Skies agreement will increase the number of transatlantic routes available to customers, in terms of city pairs and airports. In particular, direct flights to secondary cities may increase. Likewise, frequency of service may rise. In practice, this will depend on carriers' ability to secure the relevant runway slots, which are already scarce at many airports such as London Heathrow and Gatwick, Paris Orly, Frankfurt, Dusseldorf and Milan Linate.

  Alliance members are likely to share some of their existing slots, while other airlines will attempt to acquire new take-off and landing slots at a high price—up to €15 million (US$20 million) per pair by some estimates. Already, numerous carriers and airline alliances have announced plans to launch new services or expressed interest in doing so. (See the table on Pages 30-31.)

- **New opportunities for negotiations with preferred providers.** As carriers reshuffle their networks, companies may be able to reconsider airlines or alliances previously excluded from negotiations for failing to offer a key destination or airport like London Heathrow. In the future, they should have a wider choice of European airlines to fit their traffic pattern—currently U.S. airlines dominate the major transatlantic routes.

- **Lower fares.** As the regulatory barriers to market entry go down, the number of players competing on key routes is expected to rise. In the short- to medium-term, competition will increase from traditional airlines expanding or reorganizing their services, as well as new niche players offering business-only or low-cost services. Although transatlantic fares are already low for many routes and classes (e.g., LHR-JFK in economy), evolving market conditions could still see fares drop, especially in business class—some analysts predict savings of 5-10 percent. In the longer term, however, accelerating consolidation and increased cooperation among alliance members could lead to less competition on some routes and therefore higher prices.

- **Improved service.** More intense competition is likely to encourage airlines to further improve service for business travelers. This may lead to faster check-in procedures, enhanced airport lounge comfort and better on-board features such as fully horizontal flat beds. As airports continue to struggle with overcapacity, however, congestion and delays are unlikely to improve significantly in the foreseeable future.

Opportunities on the horizon

A bumpy ride may be ahead for airlines as the industry reshuffles with new services, new players, consolidation and ultimately a shake-out of weaker competitors—from specific routes or from the market altogether. Some experts predict that just half the number of international airlines will survive in Europe and the United States.

In addition, the route to full liberalization is by no means clear: phase two negotiations between the two sides are likely to be tough. Yet there are high hopes that the current Open Skies framework will lead to a fully competitive global market, as well as bring deeper transatlantic cooperation on other key issues impacting aviation.

Until then, companies should keep an eye on alternate carriers and evolving fares on key routes. Although the full impact of Open Skies on the travel program may not be felt for some years to come, new opportunities are bound to appear on the horizon for those carefully watching. ■

New services coming up…

The following are a selection of announcements made by airlines since the EU-U.S. Open Skies agreement was signed.

Airline/Alliance	Plans
Aer Lingus	New long-haul services from **Dublin** to **San Francisco**, **Orlando** and **Washington Dulles**.
Air France and Delta Air Lines	• Formal joint venture to share costs and revenues on flights between Europe and America, including Canada and Mexico. • In the first phase, beginning April, the two carriers' combined 19 flights are expected to increase their current seats by 45%. • New Delta service from **London Heathrow** using Air France slots. • New non-stop flights from **New York JFK** to **Lyon**, **JFK** to **Paris Orly** and **Salt Lake City** to **Paris CDG**.
British Airways	• Reorganization of flights from **London Gatwick and Heathrow**, as the airline moves into the new LHR Terminal 5 (e.g., flights to **Dallas** and **Algiers** will depart from Heathrow, while flights to Warsaw will shift to Gatwick). • More frequent flights between **London** and **New York, Seattle, Washington** and **Orlando**. • New non-stop service to the U.S. from **key European destinations** outside the U.K., starting with flights to **New York** from two or three cities.
Continental Airlines	New twice-daily direct services from **London Heathrow** to **New York Newark** and **Houston George Bush Intercontinental**.

Delta Air Lines	Nonstop services between **Edinburgh** and **New York JFK** starting May 1, as part of a major route expansion (20% more available seat miles) from the airline's U.S. East Coast hub.
Eos Airlines	New services between **London Stanstead** and **New York Newark** starting in spring 2008, and between Paris (airport not yet announced) and **New York JFK** starting next autumn.
KLM	New daily direct services from **Amsterdam Schiphol** to **Dallas Fort Worth** starting March 30.
Ryanair	A new transatlantic airline serving five or six U.S. cities, including **Baltimore** and **Providence**, starting in 2010.
oneworld partners British Airways and American Airlines	No plans to file for anti-trust immunity, according to British Airways, given the expected concessions required for a successful application (including giving up Heathrow slots).
SkyTeam partners Air France, Alitalia, CSA Czech Airlines, Delta Air Lines, KLM and Northwest Airlines	New or expanded services on **24 transatlantic routes**, if anti-trust immunity is granted by the United States.
Star Alliance partners bmi and United Airlines	**Code-sharing on transatlantic services**, pending U.S. authorization (bmi does not plan to operate its own transatlantic flights from Heathrow, where it already owns slots, in order to focus on expansion in other markets).
United Airlines	New daily flight between **Denver** and **London Heathrow** starting March 30.
US Airways	New service between **Philadelphia** and **London Heathrow** starting March 29.
Virgin Atlantic	Potential investments of up to £100m (US$135 million) to add daily flights to **New York** from several European cities, including **Amsterdam, Frankfurt, Milan, Paris** and **Zurich.** The carrier is also seeking permission to code-share with U.S. airlines.

Source: CWT Travel Management Institute, based on airline announcements