



USA-BIAS

United States Airports for Better International Air Service

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INTERNATIONAL AVIATION AND THE PROSPERITY OF AMERICAN CITIES IN THE NEW ECONOMY



United States Airports for Better International Air Service

United States Airports for Better International Air Service, or “USA-BIAS”, is a coalition formed in 1989 to support the primary goal of increased international air service to and from the communities where member airports are located. The coalition’s founding premise is that air service supports economic development, and as such, is critical to each member’s continued economic prosperity in a global market.

USA-BIAS members represent communities geographically spread throughout the United States. They operate some of the largest public airports in the world including Washington-Dulles International, Dallas-Fort Worth International and Las Vegas-McCarran International Airports, and they collectively board over 100,000,000 passengers every year. The Appendix lists the members of USA-BIAS.

USA-BIAS economic concerns encouraged the U. S. Department of Transportation to create the Cities Program in 1990, to pursue “open skies” agreements throughout the world as a basic United States objective, and to enter into Phase 1 of an almost restriction-free agreement with the European Union in 2007.

USA-BIAS is most concerned with US International Aviation Policy as implemented in varying respects by the Departments of Transportation, State and Homeland Security. We offer this White Paper because we are concerned now about the impact of future US government International Aviation Policy on the users of the air transportation system.

I. Policy Recommendations

In the view of USA-BIAS members, when establishing international aviation policy the US government should, first of all:

- a). Give equal weight to the economic requirements of our nation’s cities and consumers alongside the mercantile interests of air carriers and labor unions.
- b). Give correspondingly greater weight to the economic requirements of our nation’s cities and consumers as international airline alliances such as Star, SkyTeam and Oneworld become supranational in their policy, management, or ownership.

We recognize that the concerns of airline stockholders, management and labor need to be considered in international aviation policy deliberations. But management’s duty is to its stockholders and labor’s duty is to its members; neither, however, has the national economy, the user, or the public interest as its primary concern to the degree that USA-BIAS does.

USA-BIAS members believe that the most important international aviation policy that should be implemented is negotiation of “Total Open Skies” agreements with countries around the world (agreements with no restrictions other than those necessary for safety and security). Negotiation of a Phase 2 “Open Skies Plus” agreement with the European Union should be the first step in this endeavor.



Essential to implementing such Total Open Skies agreements – and the Open Skies Plus agreement with the EU--will be liberalization of US airline ownership and control laws on a reciprocal basis so that foreign citizens will be allowed to own and control US airlines and US citizens will be allowed to own and control foreign airlines. Additionally, reciprocal 7th Freedom passenger rights as well as cargo rights should be included in such agreements, [and aviation security requirements should be harmonized on a reciprocal basis]. Finally, existing restrictions on government and government-contracted air travel should be re-examined and removed where possible to encourage greater competitive benefits to both the government and communities.

II. Flourishing International Air Service is Vital to the Economic Well-Being of Communities throughout the United States

Commercial aviation today accounts for almost 6% of total domestic output in the United States and generates nearly 9% of all domestic jobs¹. Much of this activity takes place in areas surrounding international airports because business has always gathered at the crossroads of the world's caravan routes, and today those crossroads are international airports. Historically, as soon as two population centers have come within the span of one day's journey, there has been an upsurge in travel and trade between them and a stimulus to economic and population growth at both ends. History also shows us that it is the cutting edge technology of the day which defines how our cities and economies evolve.

Early air services linked the urban centers created by the technology of steamships and steam trains. But over the last 50 years, the jet airplane has compressed all the time and cost barriers to long distance travel facilitating today's global market.

The rise and fall of American cities in the jet age is clearly linked to the availability of air service. Dallas and Ft. Worth were just two among many medium-sized American cities in 1965 with a combined total population of 1.8 million inhabitants. Dallas/Ft. Worth International Airport (DFW) opened in January 1974. Today, population of the combined metro area is 6.1 million and DFW is the fourth largest travel destination in the United States. In 1965 Dallas was behind Buffalo in population, and was not even among the top 10 metro areas of the US.

Washington, the Nation's Capital, was just a government town 50 years ago. Today it's also a major high tech center, and its technology industries employ more people than the federal government – thanks largely to Washington Dulles International Airport which opened 35 years ago.

Access to markets and to international travel are key reasons given by employers for choosing a location.

¹ Commercial Aviation and the American Economy, Campbell-Hill Aviation Group, 2006. This and the other studies referenced in this paper are available upon request to USA-BIAS.



Bilateral Restrictions Hinder Economic Development

Air service between nations today operates primarily under a 60-year old system of bilateral agreements based upon a balance of carrier benefits negotiated between the two countries involved. Over the past decades, however, air transportation has grown to become critical infrastructure; it provides a major economic multiplier for the cities linked, so the balance of benefits for the two nations joined has long since ceased to be only about a balance of carrier benefits. Air transportation has become an economic throttle and those restrictions throttle back the economy.

The largest problem faced by USA-BIAS members today in their efforts to attract international air service to match their market demand are the restrictions governing traffic and investment rights inherent in many existing bilateral agreements that have resulted from governments wishing to protect their airlines and airlines wishing to protect their turf.

The US-Canadian Open Skies agreement signed in February 1995 is a classic example of this problem and its solution: this agreement replaced an agreement which had been so restrictive for so long that a serious warp had occurred in commerce between the two countries even though they shared a common 6,000 mile undefended border.

As service has adjusted to match market demand across the US-Canadian border, we have seen \$15 billion developing in new economic activity creating more than 200,000 new jobs and requiring a large number of new short-haul aircraft.

At the stroke of a pen in 1995, the US and Canada essentially created a massive jobs program without spending a single tax dollar simply by creating a new air service agreement.

A similar phenomenon is beginning to take place today as a result of the Open Skies agreement which went into effect March 30, 2008 with the entire European Union. If Phase 2 of this agreement is implemented leading to a complete Open Skies Plus Agreement across the Atlantic, it is estimated that almost 75,000 new jobs will be created in the US annually over a 5-year period².

Shortly after its formation, 10 US cities jointly measured the benefit of new international air service to their economies (the Kurth Study). The results have since become a benchmark in the United States. The study found that when a city gains daily access to a new international market, the city experiences an economic increase of \$265 to \$720 million a year from the direct spending caused by the flight and the new air travelers. The variation is caused by the size of the aircraft used and the wealth of the markets served.

² The Economic Impact of an Open Aviation Area between the EU and the US, Booz Allen Hamilton et al., 2007



These gains however, are but the tip of the iceberg. They take no account of the much larger indirect benefits that occur when existing employers expand or when new employers locate in the city due to the improved market access provided.

Our Country's Participation in the Global Economy Requires Unrestricted Air Services

Modern innovations and the internet have produced rapid and fundamental change for society as a whole and, in particular, in the way we do business as companies and as individuals. Explosive growth in both passenger and cargo air transportation has resulted. Indeed, High Tech employers have a 50% higher demand for air travel than traditional industries because they serve world markets. *Truly open air service markets will be required to sustain the period of economic expansion stimulated by the application of information technology.*

For industries in the new economy, this linkage was examined in a study by George Mason University in the United States and Monash University in Australia. This study concludes that a new service between growing destinations in the United States and Europe was equal to a \$1.7 billion commercial investment in the US city's economy. Similar benefits are seen in the foreign city.

The analysis covered 41 US cities including traditional gateways developed in the steamship era, emerging gateways and cities with growing domestic, but no international service. The report concludes that addition of a new European service to a *traditional* well-established gateway provides minimal economic stimulus. However, addition of a new European service to a *non-traditional* gateway is equivalent to about \$1.7 billion in new commercial investment.

III. Waning US Airline Fortunes Can Be Forestalled through Liberalization of Government Restrictions

In the decades following World War II, the US airline industry emerged as the most efficient and powerful in the world due largely to the vast size and strength of the US deregulated domestic market and the pioneering routes US carriers operated around the world during a period when most foreign airlines were sluggish, state-owned monopolies. The US lost this competitive edge during the 1990's, however, as most European carriers became entrepreneurial private companies and European nations created the equivalent of an immense deregulated domestic market in which they could prosper. Today, the exclusive access of US carriers to the largest single domestic market in the world no longer is sufficient to support profitable operations for all the carriers and most have found it necessary to rely more and more upon their international services for profitability. Strong foreign carrier competition on international routes, however, is thwarting these efforts because foreign carriers have emerged as the strongest and most efficient in many of these markets.

Alliances with foreign carriers have softened this negative impact on US carriers, but unlike a decade ago when US carriers dominated these alliances through their economic strength, the shoe is on the other foot now. Control of global alliances like SkyTeam,



Oneworld and Star lies largely with the foreign carriers due to their size and economic strength.

Cross investment could ameliorate this problem, but US law today does not permit foreign ownership and control of US carriers and, thus, US ownership and control of foreign carriers is reciprocally prevented. Foreign investment in US carriers could provide substantial economic strength to US carriers but, even more important in today's market, US investment in foreign carriers could result in the return of US dominance in international aviation markets. Provision of the service that communities represented by USA-BIAS members require necessitates the existence of economically strong US carriers that are in the position to determine what service is provided. Under these circumstances, a critical strategic need for the US air transport industry is to cement its leadership position in the current international airline alliances and future mergers. To do this, the industry will need multilateral, restriction-free Total Open Skies agreements with trading partners throughout the world.

Phase 1 of the recently concluded US-EU Open Skies agreement is a major step in this direction because it opens up new transatlantic markets and the potential for increased service to our communities. But it is not enough! Satisfactory negotiation of the Phase 2 Open Skies Plus Agreement with expanded traffic and investment rights for US and EU airlines will be needed to ensure that the economic benefits of this multilateral agreement can be maintained and expanded.

Another US government policy that has long been a subject of contention with other countries is the existing restriction commonly known as "Fly America" which restricts US government personnel and government contracted personnel to flying only on US airlines. The rationale for the restriction is assurance of the availability and security of military transport in times of need by giving US carriers the exclusive benefit of all government funded travel. Foreign airlines have considered this practice protectionist and anti-competitive. At present, government personnel are permitted to fly on foreign carriers that codeshare with a US carrier. While some point to this as resolving the issue, in reality it demonstrates the intrinsic reliability of foreign airlines. This restriction makes it extremely difficult for many communities with a large government and military presence to attract air service by foreign airlines when US airlines are focused elsewhere. The policy should be reconsidered to at least narrow the scope of what is restricted, if not eliminate the policy entirely.

IV. The Way Forward

The US aviation industry today faces a multitude of very serious problems affecting its well-being: 1) the severe run up in jet fuel prices, 2) the serious downturn in both the US and world economies, 3) additional costs that are likely to be imposed to attempt to slow global warming and the cost of lengthy delays due to ground and air traffic congestion. Adoption of Total Open Skies agreements will not solve these problems, but they will better position US carrier to overcome them.



In the opinion of USA-BIAS, the United States should take the following steps to pave the way for negotiation of Total Open Skies agreements with its aviation trading partners beginning with an Open Skies Plus Agreement with the EU:

First, our government needs to acknowledge that air transport is vital economic infrastructure and give the attainment of that infrastructure the highest possible priority.

Second, our government needs to take steps to convince all interested stakeholders that it is in the best interest of the entire United States to negotiate Total Open Skies agreements throughout the world. We understand that the Department of Defense is willing to go along with this course of action provided that appropriate security safeguards are included in such agreements. Labor should be amenable when it recognizes that far more jobs throughout the US economy will be created as a result of such liberalization than could possibly be lost in the airline industry under the worst-case scenario.

USA-BIAS members foresee two key quantifiable benefits for US cities and aviation consumers that Open Skies Plus and Total Open Skies agreements offer beyond the benefits of Open Skies:

1. Expanded international service opportunities through the allowance of so-called 7th Freedom services – flights which are operated directly between a third country and the US Without 7th Freedoms, US cities are restricted to US carriers and to the foreign carrier or carriers who are citizens of the country with which the agreement has been negotiated. Why shouldn't British Airways be able to fly nonstop between Seattle and Tokyo, and Delta Air Lines likewise fly nonstop from London to Johannesburg?
2. Increased competition made possible by: a) the new service opportunities, b) the strengthening of US carriers resulting from the greater pool of capital and resources for startup and existing US carriers made possible by the elimination of the limitation on foreign investment in US carriers, c) the harmonization of conflicting and burdensome aviation security requirements on flights to and from the US, and d) the regaining of US carrier dominance in international alliances and mergers with foreign carriers made possible by reciprocal elimination of foreign investment limitations on US airline investments abroad. The presently underway negotiation of a Phase 2 Open Skies Plus Agreement with the EU is primarily focused on this latter subject of the reciprocal elimination of the limitations on foreign investment in US and EU carriers. This is an exceedingly important issue at this time because the economically weakened US airline industry has virtually exhausted its access to additional domestic capital, and because the continuing economic benefits to US communities made possible by Phase 1 are conditioned upon the successful negotiation of this issue in Phase 2.

Conclusion

USA-BIAS members support a balanced US international aviation negotiating policy--- one that grants equal weight to the interests of US airlines AND US communities.



Should airline alliances gravitate to a supranational position in the future, greater weight should be given to the economic needs of US cities.

Each of our communities seeks first to work with US flag airlines and their alliances, but often they must work with other foreign airlines to obtain needed new services. We fully support efforts to open new foreign markets and for US airlines to be able to offer their services on free and fair terms. We strongly support the expansion of competitive choice.

In an era of global markets and linked economies, the nation requires an international air transportation system that is responsive to the whole country's needs for economic development.