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English only

U.S. LIBERALIZATION EXPERIENCES

(Presented by the United States)

1. INTRODUCTION

1.1 The United States has successfully concluded 59 bilateral open-skies agreements, and an open trans-border agreement with Canada, which have had significant, positive impacts on international air services. Empirical studies conducted by the U.S. Department of Transportation (DOT) have demonstrated the beneficial effects of these arrangements in the Transatlantic and U.S.-Canada markets.

2. THE TRANSATLANTIC MARKET

2.1 Open skies agreements between the United States and a number of European countries have been in place for several years now and have fostered the development of many types of multinational, cooperative airline arrangements. Both broad-based strategic alliances and less integrated code-share relationships have changed the structure of the airline industry over the past several years. In December 1999, DOT released its first documentation of the effects of multinational alliances. That report, International Aviation Developments: Global Deregulation Takes Off, provided significant evidence of profound effects of multinational alliance development in transatlantic markets:

a) It identified pro-competitive changes in industry structure-better, more competitive service as alliances expand and overlap;

b) It documented enormous consumer benefits, both in terms of improved service and price reductions;

c) It noted important consequences of alliance development not just for air travel consumers, but for local and national economies as well, due to greatly increased air travel; and

d) It noted important benefits for domestic European consumers and airlines as increased transatlantic traffic feed enabled European carriers to significantly expand their networks.

2.2 DOT's second report, Transatlantic Deregulation: The Alliance Network Effect, was released in October 2000. It reached the following conclusions:

a) As transatlantic deregulation unfolds, competition intensifies and provides consumers enormous price benefits. In open-skies markets, for example, average fares decreased by about 20 per cent from 1996 to 1999, while the decrease in non-open-skies markets was about 10 per cent;

b) Deregulation is at the heart of transatlantic traffic growth;

c) Consumer demand and increased competition are driving airlines to access as many markets and passengers as possible in the most efficient way possible;

d) Alliance-based networks are the principal driving force behind transatlantic price reductions and traffic gains. The “alliance network effect” will therefore play a key role in the evolving international aviation economic and competitive environment;

e) A major component of alliance traffic growth stems from expanding the reach of networks;

f) Traffic on both alliance and non-alliance carriers have increased dramatically, demonstrating that deregulation and airline alliances have not simply re-allocated traffic among carriers but have stimulated additional demand. Increased supply (capacity) is a critically important component of consumer benefits in deregulated markets; and

g) International airline alliances have improved service in historically underserved regions and, as a result, have stimulated additional demand for air transportation in those markets.

3. **U.S.-CANADA AVIATION AGREEMENT**

3.1 The U.S.-Canada Aviation Agreement was signed on February 24, 1995. Under the agreement, Canadian airlines gained the right to serve any city in the United States. U.S. airlines also gained unlimited access to Canadian cities with the exception of Montreal, Toronto and Vancouver. For these three cities, new U.S. airline services were phased in over a transition period, which ended on the third anniversary of the agreement. While the agreement did not provide new 5th-freedom rights, and limits co-terminalization of cargo services, it followed the open-skies model in other respects.

3.2 In February 1998, DOT issued a report, The Impact of the New US-Canada Aviation Agreement at its Third Anniversary. The report found that:

a) The United States-Canada market is the world’s largest bilateral passenger market. Since the open transborder agreement was signed, significant numbers of international travelers have benefited;

b) Since the agreement was signed, total US-Canada passenger traffic has increased 37.2 per cent. In the three years prior to the agreement, traffic grew 4.3 per cent. On average, the yearly growth rate following the agreement was 11.1 per cent compared to 1.4 per cent before the agreement; and

c) In 1994, there were 54 nonstop markets with annual traffic of more than 50,000 passengers. In 1997, the number of markets with that level of traffic increased to 77 markets.

4. **CONCLUSION**

4.1 U.S. Department of Transportation studies have demonstrated significant welfare gains in the liberalized Transatlantic and U.S.-Canada Transborder markets. Many of these benefits are attributable to the network effects of multinational airline cooperative arrangements, which have been facilitated by open-skies and other liberalized air services agreements.

4.2 The studies are available on the Internet at: http://ostpxweb.dot.gov/aviation/index.html.

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