

Comment: Hold the Red Herrings, Let's Have Agreements On Direct Aid and Open Skies

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The U.S. and European Union are at loggerheads over a pair of aerospace and aviation issues--namely the rival World Trade Organization suits (and associated negotiations) brought by Airbus and Boeing, and the thus-far unsuccessful attempts at negotiating an open skies agreement for air service between the U.S. and EU countries.

In the Airbus/Boeing case, the companies accuse each other of being subsidized by their respective governments, either directly via program launch aid or indirectly through research and development funding. Airbus, having received direct launch aid in the past, does not want to give this up without a countervailing reduction in governmental support for Boeing. Because the U.S. manufacturer doesn't receive direct aid, it needs to give up some or all of its indirect support, in the view of the Europeans.

On the surface, this sounds fair and reasonable. If Europe has to give something up, so should the U.S. In reality, such a pact would do nothing about indirect aid for Airbus, which is considerable, and growing. Boeing and the U.S., of course, can't give up something that they don't have--direct aid. And if they accede to the European position, there still will be an imbalance, with Airbus retaining unfettered indirect aid, including regional subsidies.

The appropriate way to address this thorny issue is to consider each of the two aid categories separately. With regard to direct or launch aid, it is difficult to see why Airbus, now a robust and profitable entity, with a full-spectrum product line and majority market share in some recent years, should need non-commercial financing to launch new products. In reality, financing firms should be shoving each other out of the way to participate in such a business.

Accordingly, it's probably time to give launch aid for large commercial aircraft a proper, but prompt, burial. Certainly governments on both sides of the Atlantic have better things to do with social welfare spending than provide direct support to what's hardly a nascent industry, or one dominated by a single country's manufacturers.

This leaves indirect aid, which includes government-sponsored research and development, regional infrastructure improvements, tax abatements and the like to be negotiated between the parties, on a fair and equitable basis.

Moving to the open skies question, both sides seem to agree that such a policy would be beneficial and desirable. However, the Europeans are insisting that Washington's restrictions on foreign ownership of U.S. airlines be eliminated before they will agree to an open skies airline regime on the Atlantic. But this is another red herring.

Why are two items connected? Is European money desperate to pour into the economically moribund U.S. airline industry? Doesn't money to finance aircraft move pretty readily around the globe already? A specific item connected with the attempted linkage of open skies and airline ownership seems to be the desire of the Virgin Group to establish its own airline in the U.S.

Even so, why would the EU risk losing the widely agreed upon benefits accruing to open skies just to aid one member country's desire to play in the U.S. airline market? The answer likely has five letters--slots. Open skies will not be beneficial unless there is relatively open access to airports on both sides of the Atlantic. In the U.S., few airports are slot-constrained, but in Europe, most of the larger, more desirable destinations are slot-controlled, and in the case of the U.K., only two U.S. airlines are now permitted to serve London Heathrow Airport, even though as many as four U.S. carriers have operated there simultaneously in the past, with no apparent difficulties.

So which airline is one of the principal beneficiaries of the current Heathrow restrictions? It's Virgin Atlantic, which, together with British Airways, enjoys a relatively privileged situation. Neither U.K. carrier wants the status quo at London's prime airport upset, which would almost certainly have to occur to implement a true open skies agreement. BA and Virgin would seem to be rather strange bedfellows, given their combative history. But preserving their advantage in Heathrow access is certainly in their mutual interest.

Negotiating an open skies agreement that will settle the airport access and slots issues equitably will be difficult enough on its own, without the burden of resolving the issue of transatlantic airline ownership regulations. In reality, these two issues are not inherently related. They need to be separated as soon as possible, so both can be negotiated successfully.

In short, there are four items that need to be negotiated, separately, between the U.S. and the EU:

- *Direct aid for the launch of large commercial aircraft programs.

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- *An open skies aviation treaty between the U.S. and EU.

- *Airline ownership restrictions.

Concluding successful negotiations will benefit both the EU and U.S. By separating them into their independent components, both parties should benefit from the ability to reach agreement on each item sooner, without getting bogged down in issues not directly relevant to the item in question.

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