Economic Studies
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Airline Passengers Saved $4 Billion through Open Skies Policy; Could Double With Additional Negotiations, Brookings' Winston Finds

"Open skies" have lowered fares 15 percent and increased international flight options for consumers

Deregulation of the airline industry through open skies agreements (OSAs) has generated at least $4 billion in passenger savings by stimulating competition that has reduced fares 15 percent and increased flight frequency, according to a new paper published in the *American Economic Journal* by Searle Freedom Trust Senior Fellow at Brookings Clifford Winston and Washington State University's Jia Yan. Recently, a coalition of American legacy airlines and labor unions have lobbied the Obama administration to restrict open skies access for some Middle East carriers.

Open Skies agreements between the US and other countries expand international passenger and cargo flights by eliminating government interference in commercial airline decisions about routes, capacity and pricing, in turn allowing carriers to provide more affordable, convenient and efficient air service to consumers, promoting increased travel and trade and spurring high-quality job opportunity and economic growth. Open Skies policies have been pushed for by both Democratic and Republican administrations for decades and aim to replace the outmoded practice of highly restrictive air services agreements protecting flag carriers.

In "Open Skies: Estimating Travelers' Benefits from Free Trade in Airline Services," the first analysis of its kind to assess the impact of OSAs on airline passengers, Winston and Yan find that further eliminating government restrictions on airline fares, routes, and the number of carriers in countries with significant airline traffic could save passengers an additional $4 billion.

Using data from the International Air Transportation Association that includes passenger travel information from 500 US and non-US international routes from 2005-2009—including 90 countries and 242 country pairings—the authors find that the short-term effect of an OSA is to reduce fares approximately 50 percent or more among the 500 international routes, and approximately 25 percent or more among a subset of 66 US international routes.

In the longer term, the authors found that fares were reduced approximately 15 to nearly 30 percent in the full sample and 20 percent on the US routes. They attribute this reduction to changes in demand, as consumers begin to choose more affordable, efficient, and convenient carriers; and supply, as carriers adapt to a more competitive marketplace by changing fares and operating behavior, and forcing weaker carriers out of the market place.

Winston and Yan find that OSAs have sizably reduced fares for all fare classifications (economy, economy plus, business and first class)—by 2009 they were roughly 40 percent. In addition, routes with OSAs have had more flights even though they had fewer passengers, with the difference peaking at close to 10 percent during 2007 and 2008.

Alternatively, the authors find that eliminating the OSAs would cause travelers to lose $3 billion annually—nearly $2 billion from higher fares and $1 billion from fewer flights. Eliminating those agreements signed before 2000 had less significant impact, but contribute to an overall savings of $4 billion annually.

These gains may in fact be underestimated because they do not account for additional factors such as fare declines and increased flights that occurred before an OSA; do not include all US international routes; and have not accounted for air traffic beyond the origins and destination in the sample, Winston and Yan write.

While OSAs have demonstrated significant importance to consumers and the airline industry, the authors also emphasize that negotiating such treaties can be difficult, and much like liberalizing trade relations, changes in aviation policy can face some significant political, cultural, and economic barriers. The authors recommend that policymakers in the US and abroad make better use of the several analyses that demonstrate significant passenger benefits to generate support for expanding those agreements and allow passengers to benefit fully from global airline deregulation.

Download the full paper.