Air Travel Cronyism Falls Short in Senate

It's that time of year again, when millions of Americans travel to visit friends and family for the holidays. The experience will be a headache for many, thanks in part to the government's security theater, though also due to unfriendly airline practices. But believe it or not, it can get worse.

High-profile public relations disasters, often dealing with overbooked flights, show that the airline industry has room to improve customer service. However, it has improved on many metrics since the industry was deregulated in 1978, most notably on affordability.

Even taking into account recent fee increases, the post-deregulation cost of flying has dropped considerably, despite rising fuel prices. Low-cost carriers like Southwest and JetBlue brought greater price competition to the market and helped drive prices down. This could only occur once the government stopped controlling all aspects of the industry, like who could compete, what routes they could fly and what prices they could charge.

There's little threat of full-scale reregulation of the airline industry, but there are efforts underway to thwart competition. For instance, legacy U.S. carriers have been clamoring for several years for the government to protect them from foreign competition.

Bilateral Open Skies agreements allow airlines from partnered countries to operate routes between their countries and restrict government interference. They opened international markets to U.S. carriers and greater competition. But Delta, American and United, along with their unions, have argued that the governments of Qatar and the United Arab Emirates are providing unfair subsidies and that their state-run carriers should have their U.S. routes frozen.

This is ridiculous. As my colleague Gary Leff, the author of the famous blog "View from the Wing," tells me, "U.S. airline employment is at a long term peak. And Delta has no problem taking advantage of subsidies — fuel tax breaks in Georgia, subsidies for its oil refinery in Pennsylvania, and having moved pension obligations onto the federal Pension Benefit Guaranty Corporation in bankruptcy. Delta even shares revenue on routes across the Atlantic with Alitalia which had been subsidized by Etihad. Delta owns a stake in the most subsidized Chinese airline, China Eastern."

"The issue," he adds, "isn't free markets versus subsidies but 'subsidies for me but not for thee' while lobbying the federal government to pick the pockets of American consumers despite U.S. airlines earning nearly half the world's commercial aviation profits."

What none of the U.S. airlines say, according to Leff, is that Open Skies treaties with the UAE and Qatar benefit the United States. These airlines bring not just tourism and business, but partner with U.S. carriers Alaska and JetBlue, supporting jobs. As he notes, "the Open Skies treaties notably don't forbid subsidies, where they talk about 'fair competition,' they specifically refer to removing barriers to flights by foreign airlines, not adding barriers as American, United and Delta lobby for."

It's notable that instead of filing a complaint through the Department of Transportation for independent review, the U.S. airlines lobbied for political intervention. They pushed for executive action under the guise of enforcing Open Skies agreements. Thankfully, the Trump State Department this week announced it won't reopen the deals or freeze routes, rejecting the special interest pleading in the same fashion as did the Obama administration.

Recently, Sen. Johnny Isakson — a Republican from Delta's home state of Georgia — attached a provision to the tax reform bill that would impose a corporate tax rate on foreign carriers whose home country doesn't have a tax treaty with the United States and isn't served by an American carrier at least twice per week. That would have broken an international agreement that carriers pay no taxes on gross income they earn when flying into the United States in exchange for the U.S. airlines benefiting from the same treatment abroad.

The tax would have hit as many as 14 countries and territories instead of just the two frequently targeted: Qatar and the UAE. More importantly, it could have kick-started a round of retaliatory tax hikes on U.S. airlines, which all similarly benefit from various taxpayer subsidies, with consumers ultimately caught in the crossfire.

Preserving international competition in air travel is to the benefit of both consumers and the numerous other U.S. airlines that have benefited from the opening of international routes. Thankfully, this protectionist tax hike was removed before the Senate passed the bill.

While the cronies are defeated for now, I would stay alert. U.S. airlines won't give up the fight to thwart foreign competition, even if it means playing dirty and dirtier tricks.

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