

# THE EFFECTS OF THE EU-US OPEN SKIES AGREEMENT

on Passenger Number between the United  
Kingdom and the United States



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## **ABSTRACT**

International civil aviation has been one of the most regulated industries. Since the 1970s however, the airline industry has been gradually liberalized, with domestic deregulations taking place in the United States, Japan, and other relatively developed parts of the world. The United States and the European Union signed the EU-US Open Skies Agreement in 2007. This agreement, which took effect in March 2008, liberalized the airline industry in the North Atlantic. This research aims to find the effect of the EU-US Open Skies Agreement on the number of passengers flying between the United Kingdom and the United States. I find that the open skies agreement did indeed increase passenger traffic between the United States and the United Kingdom by an economically significant margin. This finding helps demonstrate the positive impact on civil aviation of international bilateral liberalization treaties.

## **Introduction**

For most of its history, commercial aviation has been one of the most regulated of all industries.<sup>1</sup> After World War II, the Chicago Convention of 1944, at which the ICAO (International Civil Aviation Organization) was founded, established a relatively restrictive structure of government regulation of commercial aviation and bilateral agreements between two countries regarding air services. The concern motivating this structure is that the United States, given its powerful economic position after the war with the largest fleet in the world and abundant military surplus, would be in an unfairly dominant position if the market was left with free competition, hence the need of restrictive government regulations.<sup>2</sup>

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<sup>1</sup> Button, 59

<sup>2</sup> Button, 60

For the past four decades, the developed world has witnessed the gradual relaxation of government regulations in commercial aviation. The United States Congress passed the Airline Deregulation Act in 1978, withdrawing government control of route rights and price setting over the domestic airline market. In the 1990s, the European airline industry was liberalized with the founding of the European Union and European Single Market. Comparatively, bilateral deregulation in international aviation experienced a slower development as it required a mutual beneficial deal between two politically liberal governments.

In March 2008, the EU-US Open Skies Agreement took effect, removing restrictions on route rights and air fare, allowing any EU and US airline to fly between any EU city and US city. The agreement effectively nullified the Bermuda II Treaty between the United States and the United Kingdom, which permitted only four carriers (British Airways, Virgin Atlantic, United, and American) to operate between London Heathrow Airport and the US. The agreement also allows for foreign ownership in US and EU airlines.<sup>3</sup>

In this study, I will examine the impact of the EU-US Open Skies Agreement on the total amount of passengers flying between the United Kingdom and the United States. As the Agreement lifted regulations, airlines were free to start new flights between the two countries. This should have brought increased travel, trade, and faster growth of the industry. I have chosen to study flights connecting the United States and the United Kingdom for two reasons. First, the UK and US had a much more restrictive agreement before this treaty was signed. Second, as the British public voted to leave the European

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<sup>3</sup> Pittsfield, 187

Union in June 2016, this study could shine some light on what being a member of the EU mean to the British aviation industry and even the economy as a whole.

## **Background**

An Open Skies agreement is, in general, a treaty between two governments. It concerns international flights rather than domestic. It eliminates government interference in flight rights and price setting. Airlines no longer need to seek approval or bid for route rights from either of the two governments when they wants to start a new flight between two countries. The agreement is comparable to a visa waiver in international travel. If two countries have agreements on visa-free travel, instead of having to obtain a visa before travelling to a foreign country, a person can just pack up a bag and go to the other country. Open Skies is a similar agreement, only it concerns airlines instead of individuals. An airline can now fly to a foreign country without government approval from either side. Open Skies requires governments to lift restrictions in many aspects. Aside from no restrictions on route rights, there can also be no restrictions on the number of airlines operating, flight capacity, frequency, or type and size of the aircraft used. This is intended to expand passenger travel and trade by eliminating the regulation barrier on multiple aspects. Open Skies agreements are aimed at creating a more competitive market that would provide more benefits for consumers and foster faster growth.

According to the US Department of State, the United States currently has Open Skies agreements with 120 countries, and flights to these countries account for 70% of all international departures from the United States. The agreement that this research is concerned with, the EU-US Open Skies Agreement, is the most significant major agreement

in recent years, as trans-Atlantic air travel is the largest international aviation market in the world. In the US, there have been visible benefits of Open Skies as smaller cities in the United States are getting more direct connections to Europe and Japan such as Cincinnati, Salt Lake City, and Minneapolis as they gain international flights to destinations like Paris, Frankfurt, Amsterdam, and Tokyo. The Bureau of Public Affairs states that new connections between a US city and Europe generates up to \$720 million annually in new economic activity for a US city and its local region.<sup>4</sup>

Another significant effect of Open Skies is the emergence of international medium-haul low-cost airlines, such as EasyJet and Ryanair in Europe; Southwest, Jetblue, and WestJet in North American; and Air Asia, Jetstar, and Scoot in East and Southeast Asia. These airlines charge extremely low fares enabled by cost cuts from reduced staff and services and from using secondary airports with lower landing fees. Low cost carriers have been a major source of competition for the industry. These airlines have taken up significant market share and have severely threatened the dominance of legacy carriers. With newer, more efficient planes such as the Boeing 787 and Airbus A350, long-haul low cost airlines became possible. Trans-Atlantic air travel is one of the first beneficiary with WestJet and Norwegian Air Shuttle providing low fare flights between North America and Europe. More importantly, low cost airlines enable a large portion of the population who could never afford a plane ticket to be able to fly on an airplane, indirectly elevating the living-standard of a considerable portion of the world's population. This phenomenon is especially vivid in developing countries such as Indonesia, India, and Vietnam. They are not only essential to the competitiveness of the industry, but have also brought enormous

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<sup>4</sup> <http://www.state.gov/r/pa/pl/262022.htm>

benefit for the market, and they would not exist without bilateral deregulation like Open Skies, which created a free, competitive, and newbie-friendly market.

## Question

Motivated by the controversial nature of airline deregulation in general and the recent development of the United Kingdom's referendum to leave the European Union, *this study aims to answer the question "how has the EU-US Open Skies Agreement impacted the total number of passengers flying between the United Kingdom and the United States?"*

Although there is abundant literature studying the effects of US domestic deregulation in 1978, there has been no empirical study done on impacts of the open skies agreement between the EU and the US on passenger number, possibly due to its fairly recent occurrence with insufficient data available until now. I chose to study passenger number because there is reliable, precise, and accurate data on this value. It is also an excellent indicator of the condition of the civil aviation industry and the economic condition of the involved countries. It can properly demonstrate the economic impact of the EU-US Open Skies Agreement not just on the industry, but on the economies of the EU and the US as a whole. This study will help understand the direct effect of a bilateral open skies treaty on transportation and trade between two countries.

## Previous Literature

Airline deregulation in general has been a popular topic among scholars. Since, however, international bilateral "open skies" treaty is a fairly recent phenomenon, empirical studies on this subject have been almost non-existent. The vast majority of the

studies are limited to a domestic scope. Despite this shortcoming, some studies on the US airline deregulation in 1978 offers backgrounds and methods for this research.

One of the earlier and more comprehensive studies on deregulation's effect on the industry and passengers is "U.S. Airline Deregulation: Its Effects on Passengers, Capital, and Labor." (Moore 1986) The paper analyzes the effects of deregulation on passengers, both business and leisure/personal, and on airlines' capital and labor. Moore compares the number of carriers, fare changes, capacity, passenger number and departure number changes in a number of sample city pairs in each category of the domestic airline market before and after deregulation. A regression analysis of fares is done on distance, major cities, and the number of carriers in each sample route of year 1976 and 1983 to determine which factor influenced fares more before and after deregulation. Moore finds that at the point of available data, five years after deregulation, the effects appear to be "mainly beneficial," more so for long haul flights than short haul ones. Long haul flight airfare has decreased considerably while short haul flights saw some increases in fare from smaller towns. A number of smaller towns lost service, while some have gained. More people are travelling on discounted fares. In terms of capital and labor, Moore finds that stock values have gone up, more so for newly founded airlines than legacy ones, while total employment in the industry has grown. Overall, Moore concludes that deregulation has made air travel available to the greater masses and benefited passengers of lower and moderate income. Moore's paper is the basis of the methods for this research. Although Moore does not use panel data, the characteristics and data he uses in his comparisons and analysis gives insight to the basic appropriate method to evaluating the effects of airline deregulation.

Labor is an important part of cost savings in the industry, as it gives an insight on the operation efficiency of airlines as they are able to freely adjust their route structures to profit maximize after deregulation. A study that focuses on impact of deregulation on airline cost saving, done by Baltagi, Griffin, and Rich (1995), analyzes the changes in cost in the US airline industry before and after deregulation, using a panel data set of airlines. The paper examines industry trends in load factor, wages, and technological advances. It analyzes the role of deregulation in supporting technical change. The study concludes that deregulation has had a 'pervasive' effect on technical change and costs. The slow increase in load factor and adoption of new aircraft is the cause of slow technical growth. Meanwhile, 9.3% of cost saving for trunk airlines and 19.9% of that of regional airlines are attributable to deregulation. The savings mainly come from higher load factor, reduced union wage rates, faster output growth via lower fares, and a more efficient route structure thanks to the hub-and-spoke system. Baltagi et al's study gives the foundation of understanding the deregulation's role in increasing the operation efficiency of the industry, as hub-and-spoke system enabled great cost-cuts and increased revenues for both passenger and cargo transportation, which will affect the two principal factors considered in this study: passenger number and cargo tonnage.

Theory on market structure and contestability is very relevant to the study on the impact of airline deregulation. In the book, *Contestable Markets and The Theory of Industry Structure* by Baumol, Panzar, and Willig published in 1982, the authors propose the theory that if there is no cost to potential competitors entering or exiting the market, or 'perfectly contestable,' the firms will establish a price configuration that maximizes market welfare. Baumol, Panzar, and Willig state that "it is highly possible that air travel provides a real



example of contestable market". Perfect contestability was proposed by Baumol and Bailey as an alternative ideal for perfect competition. The theory suggests that in most industries since small firms are almost always impractical and cannot survive due to inefficiency and economics of scale, perfect competition is almost impossible to approximate for most industries. However, perfect contestability suggests that an industry, even if it is oligopolistic or monopolistic, as long as it maintains freedom of entry and exit, is still ideal, because the absence of the entry barrier will prevent monopolists from making positive profit and keep the equilibrium at optimal with maximum market welfare. For this to work, there also cannot be sunk cost to enter or exit. Therefore, in theory, the police of this market is potential rather than actual competition. In Baumol and Bailey's paper "Deregulation and the Theory of Contestable Markets" in 1984, the authors argue that the airline market provides a "close approximation" to contestability. Under the Airline Deregulation Act of 1978, the CAB can no longer limit new airlines to enter the industry, while the main capital of an airline, the airplanes, can be easily moved from markets to markets, thus mobile capital and small sunk cost makes this industry a close approximation of contestability, even when there is only one firm operating a route.

This theory of the airline market is tested by Morrison and Winston's paper "Empirical Implications and Tests of the Contestability Hypothesis" in 1987. If the airline market is perfectly contestable, there should be no change in welfare in markets with at least one potential competitor. The paper defines 'potential' competitor as an airline that already operates flights at point A or B but does not fly between point A and B. Morrison and Winston tests 769 randomly selected routes, each with at least one potential competitor. The result shows that none of the 769 routes have zero welfare change and

thus the airline market is not perfectly contestable. However, the airline market does prove to be imperfectly contestable, where an increase in number of actual and potential competitors reduces the differences between the optimal fare and actual fare.

There are some non-empirical papers written around the time when the EU-US Open Skies Agreement took effect, discussing the projected impact of the agreement. One paper by Eugene Alford and Richard Champley of the US Department of Commerce's International Trade Administration predicts the benefits of the agreement. The paper demonstrates the possibility of airport growth as a result of growing passenger number and cargo flow, which are variables that this study is trying to prove.

## **Model and Method**

As stated above, the goal of this study is to understand how the Open Skies Agreement of 2007 impacted the number of passengers flying between the UK and the US. To determine the size of this impact, however, I cannot merely run a regression of passenger numbers on a dummy for the open skies agreement and other covariates. the coefficient would pick up changes in passenger numbers due to the Great Recession, a period of extreme economic crisis that affected the US and the EU at around the same time as the open skies agreement was implemented. This type of regression would assign to the open skies coefficient the average change in passenger number from before the agreement to after, regardless of whether it was the open skies agreement that caused that change.

Instead, to get an accurate estimate of the impact of the open skies agreement, I turn to a difference-in-differences empirical approach. This approach allows me to compare the change in the passenger numbers between the US and the UK (which the open skies

agreement should affect) to the change in the passenger numbers between a comparison group (which ideally should be affected by all other important variables except the open skies agreement). This approach, assuming the comparison group is chosen well, should result in an unbiased estimate of the impact of the agreement.

In the main analysis of this paper, I have chosen as my comparison group all flights that both originate and arrive within the UK. These UK domestic flights are a useful comparison group because they are subject to similar market forces that influence international flights between the UK and the US, but not the Open Skies Agreement. This means that by differencing out the impact of the open skies agreement on the international flights from the impact on the UK domestic flights, I should be able to obtain an unbiased estimate.

In order to check for robustness, I have included three other control groups. To this end, this study uses the following basic regression model:

$$Y = \beta_0 + \beta_1 * \text{open\_skies} + \delta + \beta_2 * \text{GDP\_UK} + \beta_3 * \text{GDP\_US} + \beta_4 * \text{control} + \beta_5 * \text{interaction} \\ (\text{control} * \text{open\_skies}) + \beta_6 * \text{Exchange\_rate} + \beta_7 * \text{oil\_price}$$

Y represents the dependent variables including passenger number between each London airport and each city in the United States, between London Heathrow and each city in the United States, and all UK airports and all US airports. Regressions were run for each dependent variable. Data for the all variables are collected annually from 2000 to 2014.  $\delta$  represents individual flight fixed effect. Open skies will be a binary variable that takes on 0 before the agreement took effect in 2008 and 1 afterwards. GDP of the US and the UK will be part of the control variables.

In order to more accurately record the effects of Open Skies while taking the 2008 Financial Crisis into account, this study employs four control groups that concern flights between UK and areas that are not affected by the EU-US Open Skies Agreement but are affected by the 2008 Financial Crisis. These four control groups are total passengers of UK domestic flights, passenger number for each specific UK domestic flight, passenger number of flights between UK and Beijing, and passenger number of flights between UK and Japan (Tokyo, Osaka, Nagoya). To employ the control groups, difference-in-differences regressions are run with passenger numbers of UK-US flights against the passenger numbers of flights in the control groups. The control dummy variables take on the value of 1 if a sample is in a specific control group. There is also an interaction term assigned to each control group, with  $\text{interaction} = \text{control} * \text{open\_skies}$ , which takes on the value of 1 if a sample is in a control group and is dated after 2008. The experiment group is also given a dummy variable and an interaction term.

## **Data**

Each data point of the dataset used for this study represents the annual passenger number of a specific flight in one year. Data of annual passenger number of all flights used for this research, including flights between the UK and the US, Japan, China, and domestic UK flights are collected from the Civil Aviation Authority of the United Kingdom. The annual GDP of the United States, United Kingdom, Japan, and the People's Republic of China are collected from the International Monetary Fund's 2016 dataset. GDP data is collected in 2016 current price in US Dollars. Price of jet fuel and Brent crude oil are collected annually from the US Energy Information Administration. Average annual exchange rates are collected for rates between British Pounds and US Dollars, Japanese Yen, Chinese yuan

from the US Foreign Exchange Service. The dataset encompasses all transatlantic flights between the United Kingdom and the United States, and all domestic flights within the United Kingdom as provided by the Civil Aviation Authority of the United Kingdom. All data dates from 2000 to 2014.

VARIABLE	MEAN	Std. DEV	MIN	MAX
<b>TOTAL PASSENGERS</b>	257975	1859563	0	2.62E+07
<b>YEAR</b>	2006.869	4.300291	2000	2014
<b>OPEN SKIES</b>	0.454639	0.497975	0	1
<b>USD/GBP</b>	1.664951	0.16142	1.440089	2.00156
<b>CNY/GBP</b>	12.36256	1.953616	9.625691	15.22611
<b>JPY/GBP</b>	175.3326	31.19741	126.5225	235.6878
<b>GDP UK</b>	2354.049	469.82	1536.17	2991.69
<b>GDP US</b>	13733.89	2165.845	10284.75	17348.08
<b>GDP China</b>	4416.995	3021.276	1208.85	17348.08
<b>GDP Japan</b>	4779.015	570.2268	3980.9	5957.25
<b>PRICE JETFUEL (\$/GALLON)</b>	1.879467	0.86323	0.687	3.056
<b>PRICE BRENT (\$/BARROW)</b>	66.34436	31.77308	24.46	111.63

TABLE 1: Data Summary

## Results

Difference-in-differences regressions with all control groups yielded statistically significant results at the 1% level. This proves that the EU-US Open Skies Agreement positively affected passenger numbers between the UK and the US by a large scale. When regressing the passenger number between London Heathrow Airport and US cities against that of UK domestic flights, the coefficient for the UK-US interaction term is 66,919.49 while the coefficient for the total UK domestic interaction is -2,324,355, both coefficients are significant. This means after Open Skies, UK domestic flights were hit by the financial crisis and experienced a decline in the number of passengers. Meanwhile, flights between

London Heathrow and US cities, however, grew by 66,919.49, which means that the number of passengers travelling between London Heathrow and each US city has increased by an average of 66,919 people annually. Relative to UK domestic flights, ridership of flights between the UK and the US has increased by 2.3 million. The average passenger flow between London Heathrow and each US city is 631,339, while the max is about 3 million. An average annual increase of 66919 is about 10% growth in the average passenger number between the UK and the US, a considerable growth for the market. The joint-significance of the sum of the coefficients for Open Skies and the interaction term is significant at the 10% level. This result is similar to Moore's evaluation of the effects of the US domestic deregulation in 1978, where he noted an increase in total passenger number, especially in discounted fares. It needs to be noted that many US airlines moved their operations from London Gatwick Airport to London Heathrow Airport after Open Skies took effect in 2008 which could skew the result.

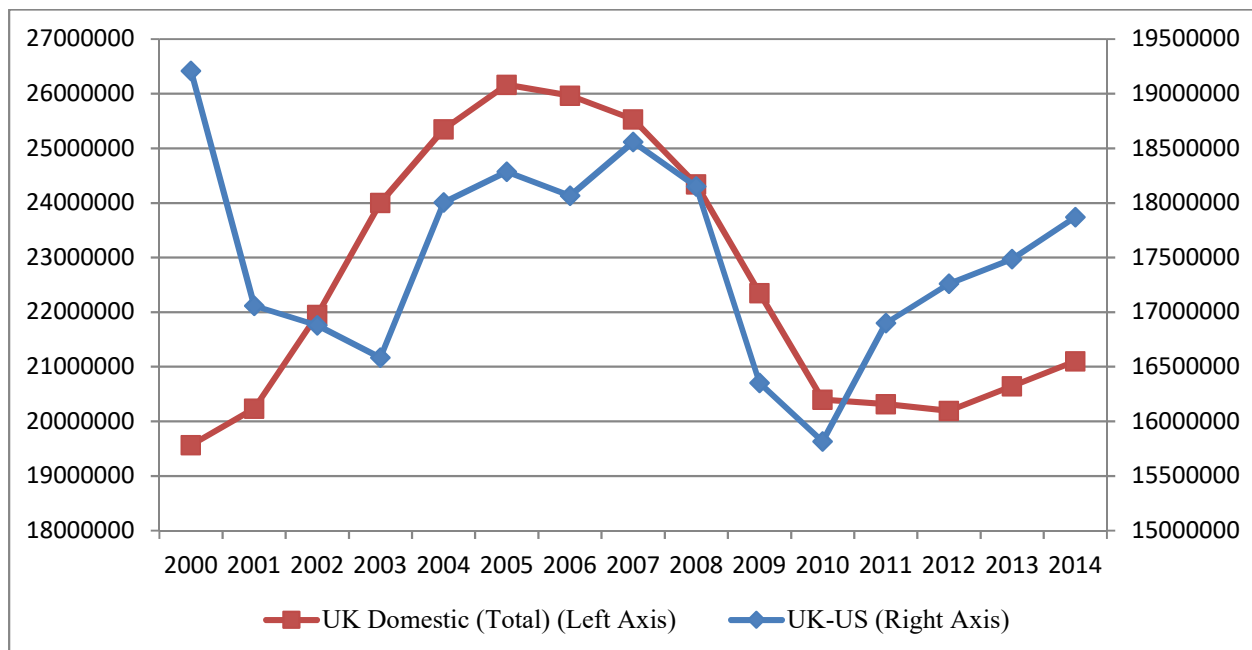


FIGURE 1: Passenger number comparison between flights from London to the US (total) (right axis), and domestic flights in the UK (left axis)

<b>Regression</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Interaction UK-US</b>	65559.74*** (.000)	65714.83*** (.000)	66163.96*** (.000)	66416.93*** (.000)
<b>Open Skies</b>	-3753.089 (.321)	-10487.46* (.100)	-7764.612 (.429)	4795.61 (.897)
<b>Price jet fuel</b>		25269.45 (.144)	15415.69 (.687)	-6294.682 (.907)
<b>Price Brent</b>		-526.5711 (.297)	-576.736 (.635)	341.2285 (.838)
<b>GDP UK</b>			7.188932 (.768)	38.66272 (.793)
<b>GDP US</b>			4.860322 (.583)	-2.440528 (.909)
<b>GDP Japan</b>			1.306904 (.837)	-20.49859 (.596)
<b>GDP China</b>			-1.568876 (.650)	-.04368 (.994)
<b>USD/GBP</b>				-74174.56 (.766)
<b>JPY/GBP</b>				--540.5256 (.680)
<b>CNY/GBP</b>				12759.01 (.435)
<b>Constant</b>	82603*** (.000)	73133.74*** (.000)	212168.6 (.113)	169129.5 (0.709)

TABLE 2: Regression of London-US w/ control UK Domestic

The two control groups for robustness checks, Japan and China, also yielded significant results. In the regression with control group of flights between the United Kingdom and Japan, the coefficient for the interaction term of the Japanese control group has a value of -393,101, significant at the 1% level meaning passenger number travelling between the UK and Japan has decreased by 393,101 people when compared to passenger number travelling between the UK and the US. This number accounts for about 40% of all passenger traffic between the UK and Japan in 2008. While air travel is experiencing a decline due to the 2008 Financial Crisis, the new deregulation protected the growth of

passenger number on flights between the UK and the US relative to flights between the UK and Japan. Open Skies cushioned the shock that the Financial Crisis had on UK-US air travel.

<b>Regression</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Interaction Japan</b>	-305342.5*** (.000)	-393210.8*** (.000)	-393325.9*** (.000)	-393101*** (.000)
<b>Open Skies</b>	-110494.7** (.014)	-27964.62** (.030)	-21360.17 (.278)	23499.12 (.732)
<b>Price jet fuel</b>		72998.36** (.032)	68974.51 (.368)	-26582.83 (.792)
<b>Price Brent</b>		-1793.53* (.073)	-2370.731 (.328)	1079.37 (.729)
<b>GDP UK</b>			41.01022 (.393)	-129.2568 (.655)
<b>GDP US</b>			-4.554689 (.800)	11.30884 (.789)
<b>GDP Japan</b>			7.09011 (.547)	-27.80556 (.715)
<b>GDP China</b>			3.554821 (.599)	10.28572 (.317)
<b>USD/GBP</b>				147367 (.754)
<b>JPY/GBP</b>				-475.4945 (.852)
<b>CNY/GBP</b>				25749.3 (.402)
<b>Constant</b>	1368969*** (.000)	252890.2*** (.000)	212168.6 (.113)	-17885.27 (0.984)

TABLE 3: Regression of total UK-US w/ control UK-Japan



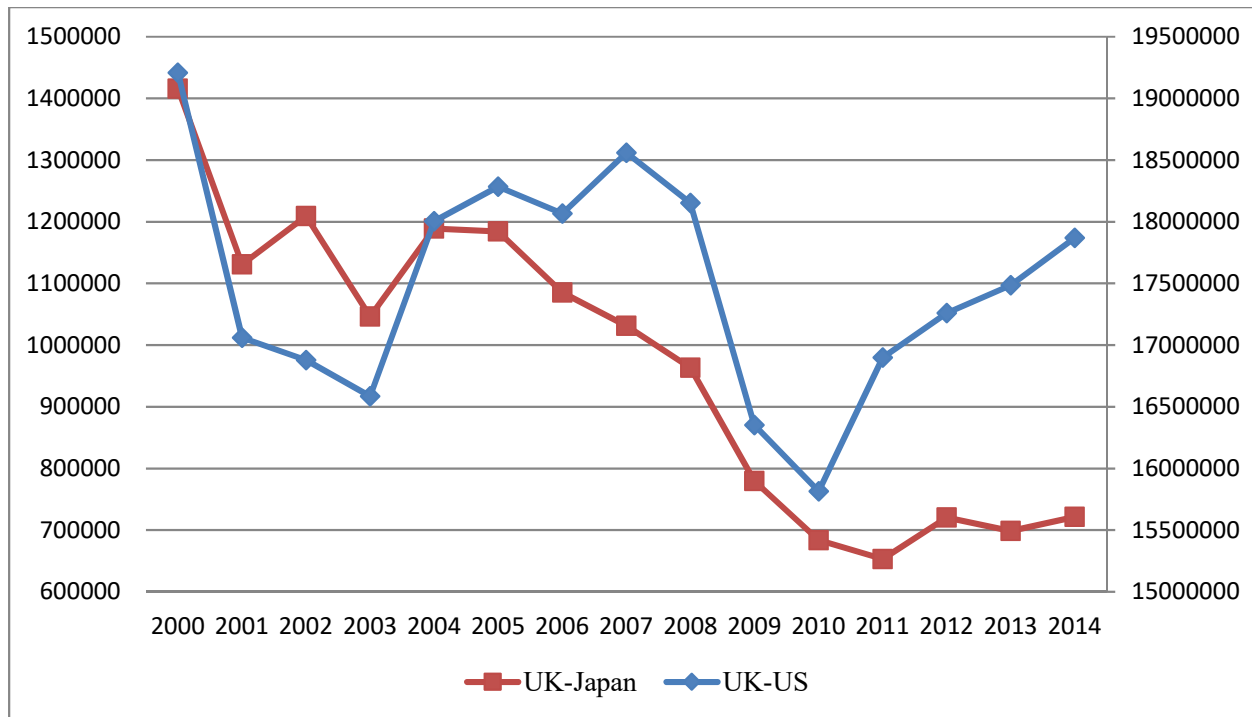


FIGURE 2: Passenger number comparison between flights from the UK to the US (right axis), and flights from UK to Japan (left axis)

A statistically significant, albeit negative result came from the regression with the control group of flights between the UK and China. The regression shows that flights to China are actually growing faster relative to flights between to the US, with the statistically significant coefficient of the interaction term being 145,050. The reason for this could be that China is a growing market and flight capacity has been expanding since the late 2000s, with new flights inaugurated and frequencies increased. Air China added more flights between Beijing and London Heathrow while starting a new flight between Beijing and London Gatwick. During this time, it also started replacing its Airbus A330s used on these routes with new Boeing 777s which have much greater capacity. It makes sense that China as an emerging and not-yet fully open market would experience higher-than-average growth. At the same time as a relatively closed economy, China is not hit as severely by the

2008 Financial Crisis as other countries were. It is therefore not surprising that flights to China would be growing faster relative to flights to the US.

<b>Regression</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Interaction China</b>	144999.5*** (.000)	144939*** (.000)	144824.8*** (.000)	145050.3*** (.000)
<b>Open Skies</b>	-24044.75*** (.001)	-29164.61** (.023)	-22508.14 (.253)	22389.37 (.744)
<b>Price jet fuel</b>		73302.9** (.031)	69044.58 (.367)	-26645.41 (.791)
<b>Price Brent</b>		-1804.45* (.071)	-2373.51 (.328)	1081.453 (.728)
<b>GDP UK</b>			41.13771 (.392)	--129.4 (.655)
<b>GDP US</b>			-4.612425 (.798)	11.27793 (.790)
<b>GDP Japan</b>			7.06773 (.548)	-27.90958 (.714)
<b>GDP China</b>			3.554697 (.599)	10.29248 (.317)
<b>JPY/GBP</b>				-477.1551 (.852)
<b>CNY/GBP</b>				25773.69 (.402)
<b>USD/GBP</b>				147817.9 (.753)
<b>Constant</b>	268757.6*** (.000)	253030.1*** (.000)	212789.6 (.112)	-17457.34 (0.984)

TABLE 3: Regression of total UK-US w/ control UK-China

All of the above regressions have a consistent adjusted R-square value of 0.98 as 98% of the variations of passenger number between the UK and the US can be explained by the independent variables.

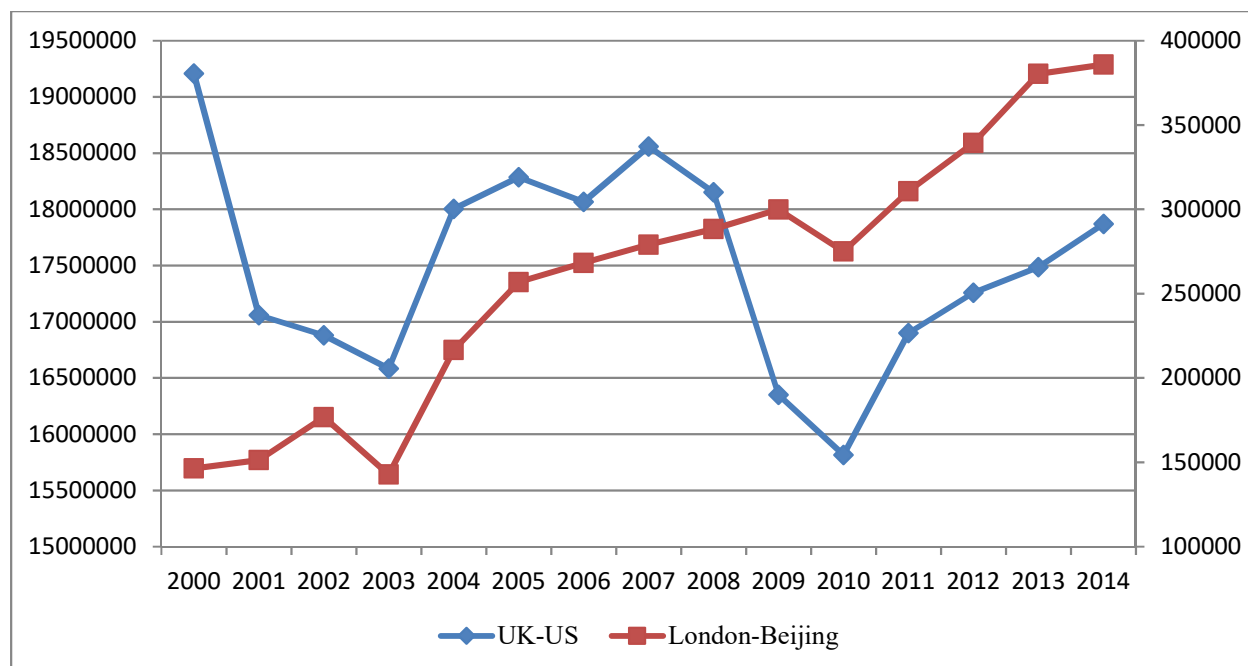


FIGURE 3: Passenger number comparison between flights from the UK to the US (left axis), and flights from London to Beijing (right axis)

## Conclusion

This finding of an increase of passenger flow between the United Kingdom and the United States relative to the UK Domestic and UK-Japan control groups in the face of the 2008 Financial Crisis suggests a considerable positive effect of the EU-US Open Skies Agreement. While this study only shows the impact of Open Skies on flights between the UK and the US, this agreement would likely bring similar growth and benefits for the entirety of the North Atlantic air travel market between the United States and the rest of the European Union, not only in terms of passenger numbers, but also cargo tonnage. The results of this study demonstrate that a deregulated and liberalized airline industry with less government regulation or restriction would lead to tremendous growth and encourage greater flow of people. It would contribute to the economic growth of both parties of the

bilateral agreement. This agreement enables a freer flow of people and goods between the United States and Europe.

## **Brexit**

In June 2016, 51.9% of voters in the UK voted to leave the European Union in the UK EU Membership Referendum. If the United Kingdom were to leave the European Union, the EU-US Open Skies Agreement would no longer apply to the UK. The agreement regulating air traffic before Open Skies came into effect was the Bermuda II, a highly restrictive agreement by today's standard, which also contrasted the principles of deregulated airline markets. Without Open Skies, a separate negotiation would have to take place and a new agreement would have to be signed to govern air travel between the United Kingdom and the United States.

This study has proven a 10% increase of passengers travelling between London and the US alone. If the United Kingdom were to exit the European Union, it is certain that there will be considerable negative impact on air travel between the UK and the US. The damage would be even greater to the British airline industry considering flights to continental Europe. A large number of British airlines currently rely on the UK's European Union membership to be able to operate within continental Europe. One example is EasyJet, which is the second largest airline in Europe in terms of passengers carried. Despite being a British airline, it has significant presence in the continent where it operates flights between cities outside the UK, with Milan being the airline's second largest hub. These are known as eighth freedom traffic rights, which is currently only possible within the European single aviation market. If the UK were to leave the EU, EasyJet can no longer operate within the

continent, and its flight between the UK and the continent would face restrictions. Civil aviation is one of the most basic infrastructures of a country's economy today. It is the prerequisite for the free flow of people and goods. It is especially important for the United Kingdom as its economy heavily relies on the financial industry. A more regulated and restrictive legal framework would not only restrict growth of air travel and cargo flow, but also hinder economic growth of a country as a whole. With protectionist, anti-free trade right-wing politicians such as Nigel Farage, Marine La Pen, Geert Wilders, and Donald Trump taking on ever more popularity in both continents, it is very uncertain whether a new agreement will be a liberalizing one. It would certainly be a step backward, in practice and in principle, if air travel between two of the world's most developed countries was to become more restrictive after liberalization.

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