The Daily Dish

Enforcing Trade Agreements

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Eakinomics: Enforcing Trade Agreements

Let's get one thing straight at the outset: I am, and have been, a stout defender of the value of trade agreements and, especially, the strategic and economic opportunities afforded by multilateral trade agreements. (Picky aside: I detest the term "free trade agreement" because "free" is an ill-defined term in this context.) For this reason, I have found myself on the other side of the Trump Administration in the debate over trade policies. Walking away from the Trans Pacific Partnership was a mistake; evaluating the success or value of a trade agreement by the bilateral trade surplus/deficit is simply wrong-headed; and the existing North American Free Trade Agreement, while imperfect and potentially subject to improvement, was and is an enormous success for the United States.

However, I have learned one thing from the recent debates: It is important to prove to U.S. voters that the federal government is willing to strongly enforce trade agreements. Simply put, these agreements must be enforced effectively to engender the trust needed to maintain and expand international commerce. If voters believe that trade agreements are simply empty promises that permit other nations to engage in distorting subsidies, non-tariff barriers, and other violations of the agreements, they will (correctly) put a veto on additional agreements.

The United States has a variety of mechanisms to enforce its agreements; my colleague Jackie Varas and I summarize them in a recent AAF paper. They can, however, be both underused — the broad public complaint — and overused — a disguised protectionism that many advocates of trade agreements fear. An interesting example at the moment is the State Department's recently opened talks with Qatar (and plans to do so with the United Arab Emirates). These talks take place in the context of an Open Skies agreement — one of over 120 U.S. bilateral agreements designed to prevent government intervention in commercial airline travel. Under Open Skies, private airlines in all partner nations have the freedom to make their own decisions about airline routes, the number of flights, the types of aircrafts, and pricing.

The United States approached discussions after American, Delta, and United Airlines alleged that government subsidies to state-owned Gulf airlines are forcing competitors out of the market. Specifically, they claim that these subsidies are in violation of Open Skies' Fair Competition clause, in which all airlines are allowed a "fair and equal" opportunity to compete. According to the airlines, the governments of Qatar and the United Arab Emirates (UAE) have given over $52 billion in subsidies to Qatar Airways, Etihad Airways, and Emirates.

Due to the subsidies, U.S. airlines have been forced to terminate their competing routes to Gulf nations. Without enforcement, airlines in Qatar and the UAE would continue benefitting from these subsidies and driving U.S. competitors out of the market. This is evidenced by the fact that over 80 percent of Gulf carrier flights to the United States in 2014 were found to be unprofitable. These carriers are willing to operate at a loss in order to capture market share.

At this writing, Qatar Airways has agreed to commit to greater financial transparency. This is an important first step toward ensuring that entities that use government subsidies are held accountable and that competition between the United States and Qatar remains open. It is also an example of the kind of trade agreement enforcement that should be accepted as everyday business.