

Aviation Law 2016 Introduction

February 12, 2016 Larry Pascal

PRACTICES Aviation

General Economic Overview

The decline in the price of oil, one of the airline sector's largest costs, will result in important savings for the airlines of the region. However, this development (West Texas Intermediate was trading at approximately \$31 per barrel at time of writing), if sustained, may still be offset to some degree by the moderation of economic growth in many of the largest markets in the region (if not outright contraction), brought on by declining sales of commodities to China, general slowdown of economic growth in Brazil, and overall stagnating economic growth in many industrial markets such as the EU and Japan.

Open skies agreements on the horizon

Historically, the region has had a mixed approach to the liberalisation of international airline services, sometimes referred to as 'open skies.' Some countries such as Chile have embraced it, while others such as Argentina and Venezuela have restricted markets. In contrast, the EU and the US have embraced open skies, with the EU having open skies within its 28-country territory and the US having signed more than 110 such open skies agreements. In December 2015, the US and Mexico formally signed a new Bilateral Air Services Agreement that, if ratified by the Mexican Congress, will remove many existing flight restrictions between these large trading partners, including the number of carriers that can serve a particular market (currently capped at 2+2 for major metropolitan areas such as New York and Los Angeles and 3+3 for tourism destinations). In light of this development, Delta and Aeromexico have applied for antitrust immunity for service between these two markets. Competition is increasing in this market in the form of new entrants. For example, Dallas-based low cost carrier Southwest Airlines commenced service to Mexico in 2015. It also opened in late 2015 a new US\$156 million, five-gate, international terminal at Houston Hobby that will anchor the airline's service to the Latin America and the Caribbean. Also, in March 2011, Brazil and the US signed a preliminary agreement that contemplates open skies and liberalization of the Brazilian civil aviation sector and analysts are closely watching for Brazilian governmental action, particularly in light of the Rio de Janeiro Olympic Games in 2016. However, the Brazilian Government is overcoming the Lavo Jato Scandal, a hostile Congress, and low popularity in local polls and it is unclear if it will be able to obtain the requisite votes for passage for those aspects that require congressional approval.

Excerpted from *Latin Lawyer*. To read the full article, click [here](#).