

STATEMENT OF JEFFREY N. SHANE, DEPUTY ASSISTANT SECRETARY
FOR POLICY AND INTERNATIONAL AFFAIRS
BEFORE THE INVESTIGATION AND OVERSIGHT SUBCOMMITTEE
ON THE HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE
ON CIVIL AVIATION RELATIONS WITH KOREA
MAY 30, 1984

Mr. Chairman, Members of the Committee, it is a pleasure to be here today on behalf of the Department of Transportation. I am accompanied by Warren Dean, Assistant General Counsel for International Law.

This hearing has been called to review our civil aviation relations with the Republic of Korea, particularly the status of a 1980 Memorandum of Understanding between the United States and Korea. Further, there have been recent reports of efforts to link the proposed purchase of MD-80 aircraft by Korean Air Lines to discussions now underway between the United States and Korea on civil aviation matters. Before reviewing with you the state of our aviation relations with Korea, I would like to take this opportunity to state unequivocally that the United States will not contemplate, and has not contemplated any such linkage in this or any other civil aviation negotiation.

As you may be aware, in 1978 the United States and Korea entered into an ad referendum agreement which made substantial liberal changes to a 1957 bilateral agreement in such areas as pricing, capacity and entry. An important feature of the 1978 agreement was a provision granting U.S. carriers the right to "self handle," i.e., to perform their own ground handling services for cargo.

Before the 1978 agreement formally entered into force, U.S. carriers complained that they still were being denied self-handling rights. Accordingly, in March 1979 the U.S. and Korea exchanged letters clarifying the self-handling obligation. This exchange of letters contemplated within two years the construction of an additional facility at Kimpo Airport that would enable U.S. airlines to exercise full self-handling rights. The 1978 agreement and subsequent exchange of letters formally entered into force on March 22, 1979.

In 1980, cargo handling issues were again considered in bilateral talks. These discussions resulted in the 1980 MOU. This document established a specific time-phased schedule for granting additional route authority for KAL which was contingent upon the construction of the cargo handling facility. The MOU specified that Korean authorities would present a construction proposal which would contain an option permitting U.S. carriers to construct the terminal. KAL was to receive additional authority to serve Oakland one year after completion of the facility. One year after that, KAL was to receive authority to serve Chicago. Finally, after one more year KAL was to receive authority to serve a European beyond point to be mutually agreed upon. Under the 1980 MOU KAL also was to receive full traffic rights to Anchorage. In addition to the construction of the cargo handling facility, the United States was to obtain the right for its carriers to serve beyond points in China. The document also contained language clarifying transit and overflight rights for U.S. carriers operating to Korea.

Mr. Chairman, I do not intend to review in detail all the events which have occurred during the past three years in the U.S. Korean aviation market. It is sufficient for present purposes to note that the 1980 MOU has never been formally confirmed by the two governments, the cargo facility has not been built and the additional route rights never granted. The Korean Government has now approached the U.S. requesting implementation of the provisions of the 1980 MOU.

In April of this year the United States and Korea held consultations in Seoul to discuss the full range of issues pertaining to the implementation of the 1980 MOU. We are exploring with the Korean Government modifications to that document to reflect present conditions in this important market. We also seek to resolve the current operational problems of our airlines in Korea. To date, no formal offers have been made by either government, and we expect negotiations to be continued in Washington sometime this summer.

It is important to note that the 1980 MOU reflected the intention of the U.S. at that time to augment Korean route rights. The specific route package then offered was contingent upon the production of the cargo facility. Regardless of what we may think of the merits of the MOU today, we have an obligation to attempt to negotiate a resolution of our differences with the Koreans. We are formulating a negotiating position on an interagency basis now and contemplating what type of route package we may consider.

Recently, there have been reports that commercial interests both in the United States and Korea were seeking to influence the outcome of these talks because of the pending sale of MD-80 commercial aircraft to Korean Air Lines. Any such efforts would serve only to impair progress between our two countries towards the attainment of an improved market for air transport services. As required by law and international agreement, the United States will not grant international route rights to secure the sale of commercial aircraft. We have recently made our concerns in the area known to the Korean Government.

Mr. Chairman, that concludes my prepared statement. The Department welcomes your continued interest in this matter. I would be pleased to answer any questions you may have.