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DEPARTMENT OF TRANSPORTATION
BEFORE THE SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO BE HERE TODAY TO DISCUSS U.S. AIR CARGO POLICY. IN ADDITION, I WILL DISCUSS THE TASK FORCE CONCEPT AS AN APPROACH TO RESOLVING "DOING BUSINESS" ISSUES AND WILL REVIEW THE STATUS OF OUR AVIATION RELATIONS WITH JAPAN AND KOREA.

STATEMENT OF UNITED STATES AIR CARGO POLICY

I WOULD LIKE TO BEGIN MY REMARKS THIS MORNING WITH OUR DRAFT STATEMENT OF U.S. AIR CARGO POLICY. ATTACHED TO MY STATEMENT FOR THIS HEARING IS A COPY OF OUR DRAFT AIR CARGO POLICY STATEMENT. I WOULD LIKE TO EXPLAIN THE PROCESS FOLLOWED IN PREPARING THIS STATEMENT. IN FEBRUARY WE CIRCULATED A DRAFT STATEMENT TO THE INDUSTRY AND OTHER INTERESTED PARTIES. COMMENTS WERE RECEIVED FROM SEVERAL PARTIES INCLUDING DIRECT AIR CARRIERS, FREIGHT FORWARDERS, INDUSTRY ASSOCIATIONS AND CONSULTANTS.

THE COMMENTS RECEIVED FROM THE VARIOUS SEGMENTS OF THE INDUSTRY REPRESENT A BROAD RANGE OF INTERESTS AND DEMONSTRATE A WIDE VARIETY OF NEEDS. THE VIEWS OF THE U.S. ALL-CARGO CARRIER DIFFERED MARKEDLY FROM THE VIEWS OF THE OTHER RESPONDENTS. WHILE

MOST RECOGNIZED ALL-CARGO SCHEDULED SERVICES AS AN IMPORTANT ELEMENT OF THE INDUSTRY, MANY VOICED CONCERN THAT THIS ELEMENT NOT BE GIVEN DISPROPORTIONATE CONSIDERATION TO THE DETRIMENT OF OTHER INTERESTS IN THIS INDUSTRY. THESE INTERESTS INCLUDE THOSE INVOLVED IN COMBINATION SERVICES, CARGO CHARTERS, FREIGHT FORWARDING, SPECIALIZED SMALL PACKAGE SERVICES AND THOSE SEEKING NEW ENTRY.

A CAREFUL ANALYSIS OF THE COMMENTS RECEIVED EVENTUALLY LED US TO THE CONCLUSION THAT A VERY BROAD POLICY STATEMENT WAS NEEDED, ONE THAT PROVIDED THE FLEXIBILITY TO ACCOMMODATE THE MULTIPLICITY OF INTERESTS IN THIS HIGHLY DYNAMIC INDUSTRY. THE DRAFT STATEMENT I AM SUBMITTING TODAY, I BELIEVE, REFLECTS THIS NEEDED FLEXIBILITY AND IS CONSISTENT WITH THE POLICY DIRECTIVES SET FORTH BY THE FEDERAL AVIATION ACT. WE HAVE PROVIDED THE DRAFT STATEMENT TO U.S. AIRLINES AND INVITED THEM AND OTHER INTERESTED PARTIES TO COMMENT ON THIS DRAFT.

WE SINCERELY APPRECIATE THE COMMITTEE'S INTEREST IN OUR AIR CARGO POLICY AND THE DEPARTMENT WISHES TO COOPERATE FULLY IN EXAMINING THIS SUBJECT. IN DOING SO, WE WISH TO DRAW A CLEAR DISTINCTION BETWEEN OUR POLICY STATEMENT, WHICH WE BELIEVE FAITHFULLY REFLECTS THE STATUTORY POLICY GOALS AND OBJECTIVES OF THE FEDERAL AVIATION ACT AND WHICH IS DESIGNED TO BE SUFFICIENTLY BROAD AND FLEXIBLE TO PROVIDE GUIDANCE AND DIRECTION IN THE VARIETY OF COMPLEX AND FAST-CHANGING SITUATIONS WITH WHICH WE MUST DEAL, ON THE ONE HAND, AND

THE IMPLEMENTATION OF THAT POLICY IN ACTUAL, REAL-WORLD CIRCUMSTANCES, ON THE OTHER. WE LOOK FORWARD TO DISCUSSING WITH YOU IN THIS HEARING ISSUES RELATING TO POLICY IMPLEMENTATIONS IN THE JAPANESE AND KOREAN SITUATIONS AND ANY OTHER BILATERAL PROBLEM AREAS YOU WISH TO RAISE. LET ME ALSO NOTE THAT WE REALIZE THE DRAFT POLICY STATEMENT WE ARE SUBMITTING TODAY DOES NOT ANSWER SOME OF THE CRITICAL QUESTIONS THAT HAVE ARISEN REGARDING THE U.S. AIR CARGO INDUSTRY. MORE NEEDS TO BE KNOWN, FOR EXAMPLE, AS TO WHY THE U.S. SHARE OF THE AIR CARGO MARKET HAS DECLINED SUBSTANTIALLY OVER THE LAST DECADE? WHY HAVE SEVERAL U.S. COMBINATION CARRIERS DISCONTINUED OPERATING ALL-CARGO EQUIPMENT? HAS THE SHIFT IN THE COMPOSITION OF AIR CARGO TRADE TO MORE IMPORTS AND LESS EXPORTS BEEN A CONTRIBUTING FACTOR TO THE DECLINE OF THE U.S. CARRIER MARKET SHARE? THESE ARE ONLY A FEW OF THE CRITICAL QUESTIONS THAT WE FEEL MUST BE ADDRESSED.

IN ORDER TO ANSWER THESE QUESTIONS, WE HAVE BEGUN AN IN-DEPTH STUDY OF THE AIR CARGO INDUSTRY. WHILE THIS STUDY WILL INCLUDE A STATISTICAL ANALYSIS OF THE U.S. INTERNATIONAL AIR CARGO MARKET, WE INTEND FOR THIS STUDY TO BE MUCH MORE THAN A FACT FINDING EXERCISE. IT WILL INCLUDE SURVEYS AND/OR INTERVIEWS WITH SHIPPERS, FREIGHT FORWARDERS, AIRCRAFT MANUFACTURERS, DIRECT AIR CARRIERS AND OTHERS WITH EXPERTISE IN THIS INDUSTRY TO LEARN WHY CERTAIN TRENDS HAVE DEVELOPED. THE RESULTS OF THIS STUDY MAY SUGGEST THAT CHANGES SHOULD BE MADE IN THE WAY WE ARE IMPLEMENTING THE CURRENT POLICY OR THAT CHANGES IN THE POLICY ITSELF SHOULD BE MADE. AFTER COMPLETION OF THE STUDY, WE WOULD LOOK FORWARD TO THE

OPPORTUNITY TO DISCUSS ITS FINDINGS AND CONCLUSIONS WITH YOU AND TO TRY TO REACH MUTUAL AGREEMENT ON WHETHER CHANGES IN THE FEDERAL AVIATION ACT OR THE MANNER IN WHICH WE IMPLEMENT THAT STATUTE ARE CALLED FOR. WE PLAN TO COMPLETE THIS STUDY BY EARLY NEXT YEAR. IN THE MEANTIME, WE WILL CONTINUE TO BE GUIDED BY THE PRINCIPLES CONTAINED IN THE FEDERAL AVIATION ACT. WE WILL ALSO CONTINUE TO RECOGNIZE THAT CARGO SERVICES HAVE SPECIAL NEEDS THAT MAY DIFFER FROM THE NEEDS OF PASSENGER SERVICES. AIR CARGO OPERATORS, FOR EXAMPLE, ARE HIGHLY DEPENDENT ON EXPEDITIOUS CUSTOMS AND CLEARANCE PROCESSING. AIR CARGO ALSO REQUIRES A HIGH DEGREE OF OPERATING AND ROUTING FLEXIBILITY IN ORDER TO RESPOND RAPIDLY TO CHANGING SHIPPER NEEDS AND TO OPERATE MORE EFFICIENTLY DUE TO THE INHERENT ONE-WAY NATURE OF FREIGHT TRAFFIC. THE AVAILABILITY OF GROUND SIDE SERVICES AND FACILITIES IS ESPECIALLY IMPORTANT TO ENABLE THE CARGO OPERATOR TO COMPETE EFFECTIVELY.

MANY OF THESE SPECIAL NEEDS FOR CARGO ARE BEING ADDRESSED AS SO CALLED "DOING BUSINESS" ISSUES IN OUR NEGOTIATIONS, WHICH BRINGS ME TO THE NEXT SUBJECT I WOULD LIKE TO DISCUSS -- THE USE OF TASK FORCES AS AN APPROACH TO RESOLVING "DOING BUSINESS" ISSUES.

TASK FORCE CONCEPT

AS THE COMMITTEE KNOWS, FOR SEVERAL YEARS THE UNITED STATES HAS BEEN ATTEMPTING TO IMPLEMENT A MORE PROCOMPETITIVE INTERNATIONAL AVIATION REGIME. IN CARRYING OUT THIS PROGRAM, THE IMPORTANCE OF

ELIMINATING UNFAIR OR RESTRICTIVE PRACTICES IN FOREIGN COUNTRIES HAS BECOME INCREASINGLY CLEAR. ONLY IF THESE IMPEDIMENTS ARE ELIMINATED CAN U.S. CARRIERS COMPETE WITH FOREIGN AIRLINES ON AN EQUAL BASIS AND TAKE FULL ADVANTAGE OF THE NEGOTIATED OPPORTUNITIES. THUS, OVER THE LAST SEVERAL YEARS, MORE AND MORE ATTENTION HAS BEEN FOCUSED ON IMPROVING THE OPERATING ENVIRONMENT FOR U.S. CARRIERS ABROAD.

ONE OF THE APPROACHES THAT HAS BEEN USED RECENTLY TO TRY TO RESOLVE THESE SO CALLED "DOING BUSINESS" ISSUES IS THE TASK FORCE APPROACH. THIS APPROACH HAS MADE SOME PROGRESS IN JAPAN AND KOREA.

THE TASK FORCE, AS A MEANS FOR RESOLVING "DOING BUSINESS" ISSUES, HAS SEVERAL ADVANTAGES. A TASK FORCE PROVIDES A FORUM FOR BRINGING TOGETHER THOSE WITH THE NECESSARY EXPERTISE TO RESOLVE THESE OFTEN COMPLEX AND TECHNICAL PROBLEMS. "DOING BUSINESS" ISSUES, BECAUSE OF THEIR COMPLEXITY, MAY REQUIRE A LARGE COMMITMENT OF TIME TO RESOLVE. A SPECIALIZED TASK FORCE CAN MORE EASILY MAKE THIS COMMITMENT THAN CAN A HIGHER-LEVEL DELEGATION. ANOTHER ADVANTAGE OF THE TASK FORCE APPROACH IS THAT IT PROVIDES THE OPPORTUNITY TO RAISE AND ADDRESS HIGHLY TECHNICAL ISSUES IN A LESS POLITICIZED ENVIRONMENT.

LAST MONTH, THE DEPARTMENT MET WITH THE INDUSTRY AND OTHER INTERESTED PARTIES TO EXPLORE THE POSSIBILITY OF USING THE TASK FORCE APPROACH WITH OTHER COUNTRIES TO RESOLVE "DOING BUSINESS"

ISSUES. THE GENERAL CONSENSUS AMONG THOSE PRESENT AT THE MEETING WAS THAT THIS APPROACH COULD BE USEFUL ALTHOUGH NO ONE SUGGESTED APPLYING THIS APPROACH NOW TO ANY SPECIFIC COUNTRY. MANY FELT THAT THE TASK FORCE WOULD HAVE THE NECESSARY EXPERTISE TO FIND SOLUTIONS TO PROBLEMS BUT WOULD NOT ALWAYS HAVE SUFFICIENT AUTHORITY TO IMPLEMENT SOLUTIONS. THERE WAS, THEREFORE, CONSIDERABLE SUPPORT FOR HAVING SOME LINKAGE BETWEEN THE TASK FORCE AND THE HIGHER LEVEL NEGOTIATING DELEGATIONS. OTHERS EXPRESSED CONCERN THAT "DOING BUSINESS" ISSUES COULD BE USED BY FOREIGN COUNTRIES TO BARGAIN FOR ADDITIONAL U.S. ROUTE RIGHTS. NEARLY EVERYONE RECOGNIZED THAT THE TASK FORCE MECHANISM COULD BE A USEFUL TOOL IN THE RIGHT CIRCUMSTANCES AND THAT WE ARE PREPARED TO USE THIS APPROACH WHEN CIRCUMSTANCES WARRANT.

UNITED KINGDOM

BEFORE I TURN TO THE SUBJECT OF JAPAN, I WOULD LIKE TO TALK BRIEFLY ABOUT AN ISSUE WE HAVE WITH THE BRITISH IN THE CARGO AREA. BRITISH AUTHORITIES RECENTLY ANNOUNCED THAT AS PART OF THEIR PROGRAM TO DEAL WITH CONGESTION AT LONDON'S HEATHROW AND GATWICK AIRPORTS, ALL-CARGO OPERATIONS WOULD NOT BE ALLOWED AT THESE AIRPORTS DURING THE PEAK HOURS AS DETERMINED BY THE AIRPORT SCHEDULING COMMITTEE. FLYING TIGERS FILED A FORMAL COMPLAINT WITH THE DEPARTMENT ALLEGING THAT THE BRITISH POLICY WAS DISCRIMINATORY AND WOULD PLACE THAT AIRLINE IN AN UNFAIR COMPETITIVE POSITION. THE MAJORITY OF THE CARGO IN THIS MARKET MOVES ON COMBINATION AIRCRAFT AND THESE OPERATIONS WOULD NOT BE AFFECTED BY THE NEW POLICY. SINCE TIGERS' COMPLAINT IS NOW PENDING BEFORE THE DEPARTMENT, I CANNOT COMMENT ON ITS MERITS.

THE U.K.'S NEW POLICY WAS DISCUSSED DURING NEGOTIATIONS WITH THE BRITISH EARLIER THIS WEEK. THE U.S. DELEGATION ADVISED THE BRITISH THAT WE COULD NOT ALLOW ANY U.S. CARRIERS TO BE PUT AT A COMPETITIVE DISADVANTAGE. THE BRITISH INDICATED THAT THIS PROBLEM MAY BE SOLVABLE WITHOUT FURTHER U.S. ACTION. NEVERTHELESS, THE DEPARTMENT IS CLOSELY MONITORING THE SITUATION AND I CAN ASSURE YOU THAT WE WILL NOT TOLERATE ANY OF OUR AIRLINES BEING PLACED AT A COMPETITIVE DISADVANTAGE IN THE U.S.-U.K. AIR CARGO MARKET.

JAPAN

I WOULD LIKE TO TURN NOW TO THE SUBJECT OF JAPAN. LAST MARCH, WHEN OUR DEPUTY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, VANCE FORT, TESTIFIED BEFORE THIS COMMITTEE, HE TOUCHED ON SEVERAL AREAS OF U.S.-JAPAN AVIATION RELATIONS. HE SPOKE OF THE LONG AND DIFFICULT NEGOTIATIONS THAT TOOK PLACE LEADING TO THE SIGNING, IN MAY OF LAST YEAR, OF A MEMORANDUM OF UNDERSTANDING (MOU) PROVIDING FOR THE RESTRICTED ENTRY OF JAPAN'S ALL-CARGO CARRIER, NIPPON CARGO AIRLINES (NCA). AS YOU KNOW, THE MOU LIMITS NCA TO SIX WEEKLY FLIGHTS OVER A TOKYO-SAN FRANCISCO-NEW YORK ROUTING. THE MOU ALSO PERMITS EACH SIDE TO OPERATE THREE NEW DAILY SERVICES BETWEEN THE UNITED STATES AND JAPAN, INCLUDING A SMALL PACKAGE SERVICE. AS YOU WILL RECALL, MR. FORT ALSO TESTIFIED ABOUT THE RECENT TRANSFER OF PAN AMERICAN'S PACIFIC DIVISION TO UNITED, WHICH WAS ACCOMPLISHED ONLY AFTER IT WAS MADE CLEAR TO THE JAPANESE THAT THE UNITED STATES WOULD STAND FIRM IN ITS POSITION THAT THE TRANSFER WAS NON-NEGOTIABLE. HE SPOKE ABOUT

DISCUSSIONS UNDERWAY AIMED AT RESOLVING A NUMBER OF SO CALLED "DOING BUSINESS" ISSUES. FINALLY, THE TESTIMONY PROVIDED INFORMATION ON THE TALKS THE UNITED STATES AND JAPAN HAD JUST CONCLUDED AT WHICH JAPAN WAS SEEKING THREE ADDITIONAL WEEKLY FLIGHTS FOR NCA AND THE U.S. SIDE WAS SEEKING RIGHTS TO OPERATE FREIGHT FORWARDER CHARTERS FROM JAPAN AND SEVERAL OTHER IMPROVEMENTS IN THE CARGO AREA.

TODAY, I WOULD LIKE TO BRIEFLY BRING YOU UP TO DATE ON THE DEVELOPMENTS THAT HAVE OCCURRED SINCE LAST MARCH IN U.S.-JAPAN AVIATION RELATIONS.

THE MOST SIGNIFICANT DEVELOPMENT OCCURRED IN JULY WHEN AN ACCOMMODATION WAS FINALLY REACHED RESOLVING A NUMBER OF CARGO ISSUES. NCA WAS PERMITTED TO OPERATE TWO ADDITIONAL WEEKLY FLIGHTS AS OF AUGUST 15 AND A THIRD ADDITIONAL WEEKLY FLIGHT BEGINNING OCTOBER 1. IN EXCHANGE, JAPAN AGREED TO ALLOW FREIGHT FORWARDERS TO CHARTER UP TO 100 FLIGHTS PER YEAR FROM JAPAN. AS YOU KNOW, THE UNITED STATES HAS BEEN SEEKING THIS OPPORTUNITY FROM JAPAN FOR MORE THAN TWO YEARS. AS A RESULT OF THIS NEW OPPORTUNITY, WE EXPECT TO SEE A SUBSTANTIAL INCREASE IN THE NUMBER OF U.S.-JAPAN CARGO CHARTERS OPERATED BY U.S. CARRIERS.

JAPAN ALSO AGREED TO MAKE SEVERAL IMPROVEMENTS IN THE OPERATING CONDITIONS FOR U.S. CARGO CARRIERS. BECAUSE OF THE SENSITIVITY OF SOME "DOING BUSINESS" ISSUES IN JAPAN, I CANNOT RECOUNT AT THIS PUBLIC HEARING ALL THE PROGRESS IN THE "DOING BUSINESS" AREA THAT WAS ACHIEVED. I CAN SAY WE ARE SATISFIED THAT THE JULY EXCHANGE

WAS A FAIR ONE AND THAT IT MEETS OUR REQUIREMENT THAT THE BENEFITS OBTAINED FOR THE UNITED STATES BE OF AT LEAST COMPARABLE VALUE TO THE BENEFITS GRANTED JAPAN. THE GENERAL REACTION TO THIS ACCOMMODATION AMONG THE AIR CARGO INTERESTS INVOLVED HAS BEEN POSITIVE. I WILL BE GLAD TO PROVIDE FURTHER DETAILS ABOUT OUR RECENT AGREEMENT WITH JAPAN IN EXECUTIVE SESSION.

ALTHOUGH THE EXCHANGE AGREED TO IN JULY ADDRESSES A NUMBER OF OUR "DOING BUSINESS" ISSUES WITH JAPAN, FURTHER IMPROVEMENTS CAN STILL BE MADE AND WE WILL CONTINUE TO TREAT THESE ISSUES AS A PRIORITY CONCERN. PROBLEMS RELATING TO THE CUSTOMS AND CLEARANCE PROCEDURES IN JAPAN FOR EXPEDITED SMALL PARCELS IS OF PARTICULAR CONCERN BECAUSE OF THE ANTICIPATED ENTRY OF A U.S. CARRIER INTO THIS MARKET NEXT YEAR. UNDER THE MAY 1985 MOU, THE UNITED STATES MAY INTRODUCE A "SMALL PACKAGE" SERVICE TO JAPAN BY APRIL 1987. A PROCEEDING IS NOW ONGOING AT THE DEPARTMENT TO SELECT A CARRIER TO PROVIDE THIS SERVICE.

ALSO, AS YOU KNOW, THE DEPARTMENT INSTITUTED THE U.S.-JAPAN GATEWAYS CASE TO SELECT THE CARRIERS AND THE CITIES THAT WOULD BE SERVED AS A RESULT OF THE OPPORTUNITIES FOR NEW SERVICES UNDER THE 1985 MOU. WE EXPECT THAT THE DEPARTMENT'S DECISION WILL BE SUBMITTED TO THE PRESIDENT IN THE NEXT FEW DAYS.

LOOKING AHEAD, NEGOTIATIONS WILL RESUME WITH JAPAN IN TOKYO LATE THIS MONTH. THESE TALKS WILL BE AIMED PRIMARILY AT REVISION ISSUES AND SETTING A FRAMEWORK FOR FUTURE DISCUSSIONS ON THESE

ISSUES. OVER THE PAST TWO YEARS, THESE SO CALLED "REVISION TALKS" HAVE BEEN SIDE-TRACKED WHILE OTHER MORE IMMEDIATE ISSUES HAVE BEEN DEALT WITH SUCH AS NCA, THE PAN AM/UNITED TRANSFER AND "DOING BUSINESS" ISSUES. IN LIGHT OF THE ENTRY OF NCA AND ALL NIPPON AIRWAYS, JAPAN MAY BE MORE RECEPTIVE THAN IT WAS TWO YEARS AGO TO OUR PROPOSALS TO ALLOW MORE OPEN ENTRY, MORE PRICING FREEDOM, AND GREATER ROUTING FLEXIBILITY IN THIS MARKET. ANOTHER JAPANESE AIRLINE, TOA DOMESTIC AIRLINES OR TDA, ALSO ASPIRES TO SERVE THE UNITED STATES. THE DESIRE OF JAPAN'S AIRLINES TO INAUGURATE OR EXPAND THEIR U.S. SERVICES CAN ONLY IMPROVE THE PROSPECTS FOR SUCCESSFUL NEGOTIATIONS.

KOREA

FOR SEVERAL YEARS THERE HAS BEEN A CONSIDERABLE AMOUNT OF CONTROVERSY IN THE U.S.-KOREA CIVIL AVIATION RELATIONSHIP. IN SEPTEMBER 1978, THE TWO COUNTRIES ARRIVED AT AN AGREEMENT THAT INCLUDED ALL THE BASIC ELEMENTS OF A PROCOMPETITIVE AVIATION REGIME, INCLUDING THE RIGHT FOR U.S. CARRIERS TO PERFORM THEIR OWN GROUND HANDLING AT SEOUL'S KIMPO INTERNATIONAL AIRPORT. THIS AGREEMENT, WHICH INCLUDED FOR KOREA ADDITIONAL TRAFFIC RIGHTS TO NEW YORK, ENTERED INTO FORCE MARCH 22, 1979. IN ADDITION AT THAT TIME, THE TWO SIDES EXCHANGED LETTERS WHICH SET FORTH AN UNDERSTANDING THAT THE GOVERNMENT OF THE REPUBLIC OF KOREA WOULD CONSTRUCT, OR ALLOW AN AIRLINE OR AIRLINES TO CONSTRUCT, A CARGO FACILITY WITH ADEQUATE SPACE TO PERMIT U.S. AIRLINES TO PERFORM THEIR OWN GROUND HANDLING.

FOLLOWING THESE AGREEMENTS, IN APRIL 1980, A MEMORANDUM OF UNDERSTANDING (THE MOU) WAS SIGNED WHICH REAFFIRMED KOREA'S OBLIGATION TO GRANT U.S. CARRIERS FULL SELF HANDLING RIGHTS AT KIMPO BY MARCH 1981. THE MOU ALSO PROVIDED FOR ADDITIONAL TRAFFIC RIGHTS FOR KOREA TO CHICAGO, OAKLAND, ANCHORAGE AND A BEYOND POINT IN EUROPE. SINCE KOREA, HOWEVER, FAILED TO MEET THE TERMS OF THE MOU, WHICH WAS NEVER RATIFIED, THE U.S. GOVERNMENT'S LONGSTANDING POSITION HAS BEEN THAT THE MOU IS NOT OPERATIVE. NEVERTHELESS, KOREA HAS PERSISTENTLY CONTINUED TO SEEK THE ADDITIONAL TRAFFIC RIGHTS SET FORTH BY THE MOU.

TO DATE, KOREA HAS STILL NOT FULFILLED ITS OBLIGATIONS UNDER THE 1979 AGREEMENT TO PROVIDE FULL SELF HANDLING OPPORTUNITIES FOR U.S. CARRIERS. ALTHOUGH THE CARGO FACILITY -- WHICH WILL PROVIDE THE NECESSARY SPACE TO PERFORM THIS ACTIVITY -- APPEARS NEARLY READY FOR OCCUPANCY, EFFORTS OF U.S. CARRIERS TO OBTAIN POSSESSION TO INSTALL OPERATIONAL EQUIPMENT HAVE BEEN DENIED.

IN ADDITION, U.S. CARRIERS HAVE EXPERIENCED A VARIETY OF OTHER "DOING BUSINESS" PROBLEMS IN THEIR OPERATIONS IN KOREA. THESE PRINCIPALLY CONCERN MATTERS ASSOCIATED WITH CUSTOMS CLEARANCE PROCEDURES AND AIRPORT FACILITIES FOR CARGO OPERATIONS. ANOTHER PROBLEM YET TO BE RESOLVED PERTAINS TO THE COMPUTER RESERVATIONS SYSTEM IN KOREA. ALTHOUGH THE TASK FORCE COMPRISED OF U.S. CARRIER REPRESENTATIVES AND VARIOUS KOREAN GOVERNMENT OFFICIALS, WHICH I PREVIOUSLY REFERRED TO, HAS MADE SOME PROGRESS, MANY PROBLEMS REMAIN.

AT NEGOTIATIONS CONDUCTED IN SEOUL AUGUST 27-29, THE KOREAN DELEGATION INFORMED OUR DELEGATION THAT RESOLUTION OF THE MAJOR "DOING BUSINESS" ISSUES, INCLUDING OBTAINING POSSESSION OF THE NEARLY COMPLETED CARGO TERMINAL, WOULD NOT BE ATTAINABLE WITHOUT U.S. AGREEMENT TO A "PACKAGE" CONTAINING A U.S. COMMITMENT FOR ADDITIONAL ROUTE AUTHORITY FOR THE KOREAN AIRLINE. THIS POSITION WOULD HAVE THE UNITED STATES EXCHANGE VALUABLE ROUTE AUTHORITY FOR THE RESOLUTION OF SOME PROBLEMS THAT WE VIEW AS ALREADY OUTSTANDING OBLIGATIONS OF THE KOREAN GOVERNMENT. OF COURSE, THE KOREAN POSITION WAS REJECTED AND THE NEGOTIATIONS CONCLUDED WITHOUT ANY AGREEMENT.

IN LIGHT OF KOREA'S STATED REFUSAL TO HONOR ITS OBLIGATION UNDER THE 1979 AGREEMENT TO PERMIT SELF-HANDLING, WE ARE LEFT WITH LITTLE CHOICE BUT TO CONSIDER OPTIONS TO PROTECT OUR INTERESTS. IN THIS REGARD, WE ARE INFORMING THE KOREANS THAT WE CONSIDER THEIR REFUSAL TO PERMIT FULL SELF-HANDLING TO BE A VIOLATION OF THEIR BILATERAL OBLIGATIONS. ALTHOUGH WE HOPE TO AVOID A CONFRONTATION WITH KOREA ON THIS ISSUE, WE CANNOT ALLOW KOREA TO DENY THE UNITED STATES BILATERAL RIGHTS OBTAINED AS PART OF A FAIR EXCHANGE.

THIS COMPLETES MY TESTIMONY. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.