

STATEMENT OF  
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SECRETARY OF TRANSPORTATION  
BEFORE THE  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
CONCERNING INTERNATIONAL AVIATION POLICY  
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Good morning Mr. Chairman and members of the Committee. I appreciate this opportunity to participate in your comprehensive examination of international commercial aviation. The type of hearing you are holding today on broad policies and goals is helpful. It serves as a guide we can use in each of our individual bilateral matters.

The importance of this subject is highlighted by the fact that world aviation now accounts for more than \$1 trillion in world output and 22 million jobs. It functions as a primary bridge between nations and peoples, and a powerful stimulus for the enormous rise in tourism, trade, crossborder investment, high tech manufacturing and other industries.

Before I talk about the opportunities in aviation, I want to start with a problem which recently surfaced in California, and that's the security of our transportation system. All the trade and tourism we're working to develop cannot be impeded by the actions of a few individuals.

After the Unabomber threats, I flew to Los Angeles and personally reviewed the security. I have tasked the Transportation

Department and the FAA to work closely with the law enforcement officers to ensure the security of the flying public.

Right from the beginning, the Clinton Administration recognized the huge contribution that commercial aviation makes to international trade and development, and the corresponding need to remain responsive to the needs of both the users and providers of air transportation.

Within a month of being sworn into office, the President traveled to Seattle to meet with Boeing's workers and management. He assembled all the major airline and aerospace industry leaders to develop strategies to help the then-ailing industry. I was with the President when he went around the table asking each airline CEO what his recommendations were. Following that meeting, the President and Congressional leaders appointed the National Commission to Ensure a Strong Competitive Airline Industry which produced recommendations in a 90-day review. We are now implementing many of those recommendations, and they are working.

The Administration also took major steps to address the federal deficit problem. The resulting economic recovery and period of expansion have been the most important factors in the recovery of the U.S. airline industry. U.S. airlines enjoyed significant increases in traffic, revenues and load factors in 1994, compared to the previous year. This positive development has strengthened

our airlines' ability to compete in international markets. In 1994, our airlines reported an operating profit of \$500 million for their international operations and our share of the growing international market increased to 53%. We expect 1995 to be significantly profitable.

Moreover, this administration recognized that it must have a detailed framework for conducting international aviation to ensure that this important function produced the most significant public benefits. Accordingly, it developed a new U.S. international aviation policy statement. This major initiative provided the first comprehensive articulation of U.S. public policy for this critical economic sector in nearly two decades.

Our policy statement defines our fundamental policy goals and describes the initiatives that we are taking to achieve those goals.

Our overall objective is to open international air service markets. At first blush, this means finding and maintaining new opportunities for our great airline industry. We take this responsibility seriously, and have attempted to perform it conscientiously. The airlines, however, are not the only parties whose legitimate interests we must consider. The needs of travelers, shippers, airports, and cities, among others, must

also be taken into account because of the impact of aviation on their vital interests.

In these circumstances, we have looked beyond the specific interests of individual airlines and have developed an aviation policy that considers all of these important concerns to arrive at what we believe best serves the national interest.

Enhanced competition and greater service opportunities will lead to significant benefits for travelers, shippers and communities, greater general economic development, and greater financial rewards for carriers and their employees.

We are committed to developing programs, initiatives and strategies which promote this objective, by:

- \* Increasing the variety of price and service options available to consumers;
- \* Enhancing access of U.S. cities to the international air transportation system;
- \* Providing carriers with unrestricted opportunities to develop types of service and systems based on assessments of marketplace demand;
- \* Ensuring that competition is fair and that the playing field is level by eliminating marketplace distortions such as state subsidies;
- \* Encouraging the development of the most cost-efficient and productive air transportation system that will be best equipped to compete in the global market at all levels and with all types of service.

As to the last point, it is our firm conviction that an open aviation regime will provide the most effective framework for that system. In this way, all airlines would have the greatest freedom and opportunity to develop the systems they need to meet consumer demand for air service. As you know, that demand is no longer just local and regional -- it is now global. Many airlines are now attempting to meet that demand as effectively and rapidly as they can with today's constraints. As a result, we are witnessing the initial integration of world-wide air services through arrangements such as codesharing, joint marketing agreements, and crossborder investments:-

Our policy statement recognized that the trend towards globalization of air services through efficiency-enhancing networks and alliances is here to stay, and that this development offers great public benefits for all nations. It also recognized that both the growth of international aviation and the ability of U.S. airlines to meet the demand for global air service have been seriously hampered by the diverse positions of our trading partners, their varying degrees of willingness to liberalize aviation, and by the framework that has governed international air service for more than fifty years. I am referring to the bilateral system created by the Chicago Convention of 1944. Under that system, no service can be provided unless bilateral government-to-government agreements permit it. Indeed, there are now more than 1000 such agreements setting out exactly what

airlines can do. In many cases these agreements operate to limit competition and the ability of airlines to establish worldwide service.

Against this background we determined that we must develop a new approach for dealing with the old problem of bilateralism and for otherwise creating freer trade in aviation services. We needed to go beyond the traditional methods for managing trade in aviation services and to devise innovative pathways for achieving our liberal aviation objectives.

Our policy statement addressed this critical issue by stating that we would embark on that new direction by, among other things, working hard to build a coalition of like minded trading partners committed to the principles of free trade in aviation services; developing new incentives for encouraging market reform; and devising alternatives to the bilateral system. Moreover, we emphasized that we would adopt a practical approach for expanding air service and eliminating restrictions on airline operations. We would, in particular, work closely with our trading partners to address their concerns, advance liberalization of air service regimes as far as possible and withhold benefits from those countries that are not willing to move forward.

Applying these principles, we decided to pursue the following strategy: First, we would renew efforts to achieve liberal agreements with those countries with which our aviation relationships lagged behind progress in other trade areas, such as Canada.

Second, we would offer liberal agreements to a country or group of countries if such agreements could be justified economically or strategically. In the past, we were prepared to offer these market-oriented arrangements only to our major trading partners based on a strict balance of benefits analysis.

The new approach recognizes that there may be overriding strategic value -- and, perhaps, economic value -- in concluding open-skies agreements with smaller countries.

Third, we would give priority to building aviation relationships between the United States and potential growth areas in Asia, South America and Eastern Europe. We recognize that the high growth areas in international aviation will be in these rising markets.

Fourth, we would emphasize the importance of sound economic analyses based on the best available data in developing policies and strategies for achieving our aviation goals.

Fifth, we would offer transitional agreements, among other innovative market-opening mechanisms, to those countries which are not prepared to enter into an unrestricted air service regime immediately. Transitional agreements provide for the phased removal of restrictions and liberalization of the air service market. This approach contemplates that both sides agree, from the beginning, that a completely liberalized air service regime come into effect at the end of a certain period of time.

Sixth, we would maintain maximum leverage to achieve our procompetitive objectives for those countries that are not willing to work with us to liberalize our respective aviation markets.

Seventh, we would act vigorously to defend our existing rights and to protect our airlines.

Mr. Chairman, we have already implemented all of these initiatives, and I would like to report today on the results of our efforts. Since November, we have liberalized our aviation relationship with Canada, opened the skies with eight countries in Europe, improved our analytical capabilities and expanded air service in many markets including the United Kingdom, Peru, Brazil, and Ukraine. We are now preparing for further aviation discussions with Germany and the United Kingdom that could produce additional benefits. At the same time, we have firmly

resisted efforts to reduce U.S. rights in other instances, and have taken steps to increase our ability to respond rapidly to airline "doing business" problems abroad.

In February, I joined President Clinton to sign our new aviation agreement with Canada. On that day, we effectively deregulated the largest single bilateral aviation market in the world. This magnificent achievement was made possible by a shared commitment to liberal aviation principles and to working together to find effective solutions to problems that had previously inhibited the implementation of those principles. The net result was a creative transition agreement that significantly expanded transborder service and fare options immediately while providing for a fully open air service regime in fewer than three years. The value of this agreement to our economy has been estimated to be in the range of \$15 billion per year. In a matter of three months, we have had an immediate 25% increase in transborder service, with major benefits to cities, consumers, and the economies of both nations.

Last month, we signed open-skies agreements with eight countries in Europe, and we anticipate a ninth signing shortly. This development represents a dramatic breakthrough in our strategic plan to encourage increased service, competition, and airline efficiencies. For the first time, we were able to reach accords with multiple countries that lay the foundation for providing our

industry with the aviation infrastructure it needs to meet the growing demand for worldwide air service. These agreements allow our airlines to build and/or enhance their service networks between the United States and major gateways in Europe, and beyond those gateways to third countries. They also provide our airlines with enhanced flexibility to conduct their operations, by permitting them to capitalize on the new opportunities with their own aircraft or under commercial arrangements with foreign airlines. We believe that these agreements not only assist the development of global systems, but encourage neighboring countries to seek similar arrangements with us.

As the Secretary of Transportation, I have spent much time working with fellow ministers from around the world. Last November in Tampa, I hosted a meeting of 12 Western hemispheric transportation ministers and I was in Denver last month at the meeting Secretary Brown and Ambassador Kantor hosted with trade ministers. I stated to our hemispheric associates that in 10 years there will be an 80 percent increase in air traffic between North and Latin America, and that we need to prepare now to be ready for that growth.

I also hosted a meeting last month of 18 APEC transportation ministers and we included in our sessions industry leaders. We discussed the importance of opening aviation markets in Asia for all air carriers. Then I took the ministers around the country

to showcase American technology. In fact, I went back to Boeing, but this time with customers. Many of the Asian airlines are purchasing Boeing's 777, and that will mean jobs for Americans.

I also traveled to Europe last month and met with all of the Ministers of Transportation in Europe. I emphasized that we will continue to work with the European countries to reach prompt and fundamental liberalization of air services with the United States.

In addition, I made clear that we do not exclude working with the European Union itself - when it has the clear authority to negotiate with us and its members are prepared fully to open their markets. I recalled in this context our two previous efforts to work with the European Union on the liberalization of our cargo sector and that the Union at that time did not have the ability to proceed with those efforts. I also emphasized that full liberalization with the EU cannot be realized unless restrictive practices are eliminated. These practices include impediments to our airlines obtaining adequate gatespace, providing effective ground services, marketing their services, as well as the very significant, unfair and conticompetitive subsidization of foreign airlines. In this regard, I reminded the Europeans of my previous strong protests of government airline subsidies in Europe.

We are also acting on a commitment we have from Germany to establish a fully open air service regime. Negotiators representing both countries are now meeting in Berlin to discuss this subject. We are bringing fresh ideas and proposals to the table that should help settle outstanding bilateral issues and demonstrate the overriding value of promptly eliminating existing restrictions on service in the market. I am hopeful that our continuing dialogue will lead to a more liberal regime with Germany, considering that both countries enjoy the benefits of liberal practices in other important sectors of our overall trade relationship, and that we no longer see any reason why aviation should remain an exception to this hugely successful and mutually beneficial approach.

Moreover, we are moving forward in our aviation relationship with the United Kingdom. When I appeared before your Subcommittee on Aviation, last month, I noted that I was dissatisfied with that relationship because of its restrictive features and because the British have thus far been unwilling to take major steps to open the market. Indeed, that our U.K. market share is now 42% is not only frustrating for me, but indicates why we have been fighting hard to open that market. Our current two stage approach to liberalization with the U.K. should help rebalance that relationship.

The first round of negotiations with United Kingdom has produced a new agreement providing for new fare and service options, and improved operating flexibility for U.S. airlines. The new agreement constitutes a good economic deal for U.S. interests and therefore is consistent with the standards set forth in our policy statement for trading with countries that follow restrictive aviation practices. A second series of intensive negotiating sessions will focus on liberalizing specific sectors of our relationship-- cargo, pricing and charters--plus additional access to Heathrow and/or Gatwick. The two sides have already held a working group meeting on this important issue. The meeting has paved the way for full-scale negotiations on liberalization, which will begin in London next week.

I would like to point out other issues we are addressing. Some carriers engaged in alliances with foreign airlines have raised the possibility of seeking antitrust immunity from the Department of Transportation, asserting that such immunity is important, if not essential, to maximizing the benefits of integrated alliances. My Department is actively considering this question of antitrust immunity. Where the overall net effect of a particular transaction for which immunity is sought is procompetitive and proconsumer, there may be important benefits to be gained from granting immunity in appropriate cases. The existence of an "open skies" environment, and the elimination of

other competitive restrictions, would be key factors in any consideration of a request for immunity.

As this Committee recognizes, obtaining and exercising international aviation rights requires an on-going, cooperative effort by our cities, consumers, air carriers and the Department of Transportation, as well as other federal agencies. The job doesn't end when negotiations are completed, or even when our regulatory staff issues the required economic authority to the carriers. Sometimes, U.S. airlines encounter problems operating and marketing their services abroad. These "doing-business" problems require constant vigilance.

As GAO researchers found in a study published last November, we have been successful in solving these problems. To further strengthen our capabilities in this area, we are inserting stronger guarantees against doing business problems into the new and revised bilateral agreements we are negotiating.

Further, we are in the process of implementing GAO's recommendation to develop a consolidated data base of doing-business issues. We have invited U.S. carriers to give us up-to-date information on current and recent problems to form the baseline for this tracking system, and we will be receiving this material very soon.

To enhance our analytical capabilities we have created a new Office of Aviation and International Economics and have recently moved our aviation data function into our new Bureau of Transportation Statistics. This will allow our aviation data to be modernized, streamlined and more efficient so that better and quicker analyses can be done by our staff. In addition, we are considering a rulemaking to follow up on recent recommendations of the General Accounting Office that we collect more data on international aviation.

As a final matter, I would like to briefly mention our ongoing aviation dispute with Japan. As you know, Japan has denied U.S. carrier rights under our bilateral agreement. Because of this denial and after comprehensive efforts to resolve this matter, I have proposed sanctions against Japanese airlines. This proposal of sanctions has led to intense negotiations which were held last week in Washington and will resume this week in Tokyo. Because comments are due on our proposed sanctions and our talks are at a delicate stage, I cannot discuss these issues. However, let me assure you we will uphold our carriers rights to fly to and beyond Japan.

In conclusion, I would like to assure the Committee that the U.S. Department of Transportation has a full set of goals, objectives, and strategies for the international aviation sector. We know we are living through a period of great change for our airlines.

Privatization abroad, increasing competition and globalization are fueled by economic and political forces that will ultimately prevail. We know that governments that embrace these changes will far out pace those governments that do not.

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The U.S. Government will be at the forefront of those that embrace the future. We will continue to work with our airlines, their employees, our cities, and ultimately, the American consumer to assure the benefits of truly open aviation markets.