

SUMMARY OF
STATEMENT OF
PATRICK V. MURPHY
DEPUTY ASSISTANT SECRETARY FOR AVIATION
AND INTERNATIONAL AFFAIRS
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
APRIL 9, 1996

The Department recognizes the vital importance of air transportation to Hawaii's economy and the state's interest in U.S.-Japan aviation relations. Japan has taken an increasingly more protective stance in recent years. An example of this is Japan's refusal approximately two years ago to approve certain services proposed by Federal Express. This led to several rounds of talks and eventual resolution of the matter last summer when the two sides agreed to begin broad-scale cargo talks. Those talks are now concluding with the signing of an agreement expected later this month. The question now is whether to begin passenger talks.

There are currently several outstanding issues in the passenger area. The Japanese have refused to approve flights proposed by United Airlines beyond Osaka to Seoul and Bangkok. The Department of Transportation is deferring action on an application of Japan Airlines (JAL) to serve Kona, Hawaii. The Department recently approved an application by JAL to renew authority in the Sendai-Honolulu market. In response to the Department's inaction on JAL's Kona application MOT is deferring action on a proposed frequency increase of United from 7 to 14 in the Los Angeles-Tokyo market for effect May 2. If Japan does not approve United's proposed flights, this would inevitably affect adversely our bilateral aviation relationship and force us to consider an appropriate response. Instead we hope that Japan will join in our efforts to resolve these outstanding differences and thereby facilitate more flying between our countries.

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THANK YOU, MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE. I APPRECIATE THE OPPORTUNITY TO DISCUSS U.S.-JAPAN AVIATION RELATIONS WITH YOU.

WE AT THE DEPARTMENT OF TRANSPORTATION ARE KEENLY AWARE OF THE CRITICAL IMPORTANCE OF AIR TRANSPORTATION TO HAWAII. WE REALIZE THAT HAWAII'S ECONOMY IS HEAVILY DEPENDENT UPON AIR SERVICE AND THAT TOURISM AND AIR TRANSPORTATION ARE VITAL INDUSTRIES TO THE ISLANDS. AND SINCE MORE TOURISTS VISIT HAWAII FROM JAPAN THAN FROM ANY OTHER FOREIGN COUNTRY, HAWAII HAS A VITAL INTEREST IN THE STATE OF U.S.-JAPAN AVIATION RELATIONS.

AS YOU KNOW, OUR AVIATION RELATIONSHIP WITH JAPAN IN RECENT YEARS HAS NOT ALWAYS GONE SMOOTHLY. THE UNITED STATES AND JAPAN HAVE VERY DIFFERENT AVIATION POLICIES. WHILE THE UNITED STATES FAVORS A MARKET-BASED REGIME AND MINIMAL RESTRICTIONS ON ENTRY, ROUTING, PRICING AND THE AMOUNT OF SERVICE AIRLINES MAY PROVIDE, JAPAN FAVORS A MORE REGULATED APPROACH. JAPAN FAVORS THIS PROTECTIVE APPROACH SINCE ITS AIRLINES ARE NOT AS EFFICIENT AS THE U.S. CARRIERS.

IN THE LAST TWO OR THREE YEARS, THE JAPANESE HAVE FOCUSED

INCREASING ATTENTION ON U.S. AIRLINE OPERATIONS BEYOND JAPAN. IT IS CLEAR FROM STATEMENTS OF JAPANESE OFFICIALS THAT ONE OF JAPAN'S PRIMARY OBJECTIVES IS TO IMPOSE CONSTRAINTS ON U.S. CARRIER OPERATIONS BEYOND JAPAN TO OTHER ASIAN POINTS. WE HAVE REPEATEDLY ADVISED THE JAPANESE THAT ANY ACTIONS TO DENY OUR CARRIERS' RIGHTS TO OPERATE BEYOND JAPAN WOULD BE VIEWED AS A SERIOUS VIOLATION OF THE U.S.-JAPAN AIR SERVICES AGREEMENT.

ONE WAY IN WHICH JAPAN REVEALED THIS APPROACH TOWARD U.S. CARRIER BEYOND SERVICES OCCURRED APPROXIMATELY TWO YEARS AGO WHEN THE JAPANESE REFUSED TO APPROVE SEVERAL NEW ROUTINGS PROPOSED BY FEDERAL EXPRESS TO ASIAN POINTS, INCLUDING SUBIC BAY IN THE PHILIPPINES WHERE FEDEX WAS ESTABLISHING A NEW AIR CARGO HUB. SEVERAL ROUNDS OF TALKS TOOK PLACE WITH JAPAN TO ADDRESS THIS MATTER. FINALLY, IN JULY LAST YEAR SECRETARY PENA AND HIS COUNTERPART, MINISTER KAMEI, MET IN LOS ANGELES AND RESOLVED THAT CARGO DISPUTE. THE JAPANESE AGREED TO APPROVE THE FEDERAL EXPRESS FLIGHTS.

AS A CONSEQUENCE OF OUR RESOLUTION OF THE FEDEX ISSUE, WE AGREED TO BEGIN BROAD-SCALE CARGO NEGOTIATIONS IN ORDER TO LIBERALIZE THE REGIME FOR CARGO SERVICES. AS YOU MAY HAVE HEARD, THESE NEGOTIATIONS LED TO THE TWO SIDES REACHING AN AGREEMENT IN THE LAST WEEK OF MARCH WHICH PERMITS SIGNIFICANT EXPANSION OF ALL-CARGO SERVICES. A MEETING OF THE TWO SIDES TO DRAFT THE FINAL TEXT OF THIS AGREEMENT IS SCHEDULED FOR THIS WEEK IN WASHINGTON.

IT IS HOPED THAT THE AGREEMENT CAN BE SIGNED BY SENIOR GOVERNMENT OFFICIALS AS EARLY AS NEXT WEEK.

WE BEGAN OUR CARGO NEGOTIATIONS WITH JAPAN PROPOSING THAT A LIBERAL REGIME FOR CARGO SERVICES BE PHASED IN OVER FIVE YEARS. WE ARGUED THAT IT WOULD SERVE THE INTERESTS OF BOTH COUNTRIES TO REMOVE RESTRICTIONS ON SUCH SERVICES. WE INDICATED WE HAD CONSIDERABLE FLEXIBILITY ON THE TIME PERIOD AND THE MANNER IN WHICH THIS WOULD BE DONE. THE JAPANESE REJECTED THIS CONCEPT. AS A RESULT, THE AGREEMENT WE REACHED WITH JAPAN IS NOT AS EXPANSIVE AS WE WOULD HAVE PREFERRED. NEVERTHELESS, IT REPRESENTS A SIGNIFICANT STEP FORWARD. I GIVE YOU THIS BACKGROUND BECAUSE I THINK IT IS INSTRUCTIVE OF JAPAN'S APPROACH TO EXPANSION OF U.S.-JAPAN AIR SERVICE OPPORTUNITIES AND BECAUSE WE HAVE VIEWED SUCCESSFUL CARGO TALKS AS A PRECONDITION TO EVEN CONSIDERING PASSENGER TALKS.

WITH THE CARGO TALKS NEARLY COMPLETED, THE QUESTION NOW BEFORE US IS WHETHER TO BEGIN PASSENGER TALKS.

SOME IN THE INDUSTRY FEEL IT WOULD BE A MISTAKE TO ENGAGE JAPAN IN PASSENGER TALKS NOW. THEY BELIEVE JAPAN'S PRIMARY OBJECTIVE IS TO CURTAIL EXISTING U.S. RIGHTS TO OPERATE BEYOND JAPAN. THEY BELIEVE JAPAN WILL USE THE U.S. DESIRE FOR ADDITIONAL U.S.-JAPANESE ROUTES AS LEVERAGE TO ACHIEVE THIS OBJECTIVE. THEY NOTE THAT JAPAN HAS VERY LITTLE INTEREST IN OBTAINING NEW

OPPORTUNITIES FOR ITS OWN CARRIERS TO SERVE THE UNITED STATES.

OTHERS IN THE INDUSTRY, AND MANY COMMUNITIES, HAVE A DIFFERENT VIEW. THEY BELIEVE IT WOULD BE IN THE OVERALL INTEREST OF THE UNITED STATES TO NEGOTIATE FOR NEW U.S.-JAPAN ROUTES EVEN IF THE COST OF OBTAINING SUCH ROUTES IS ACCEPTANCE OF CONSTRAINTS ON U.S. BEYOND-JAPAN SERVICES. THEY BELIEVE AN AGREEMENT COULD BE STRUCK THAT WOULD PRESERVE ALL EXISTING BEYOND OPERATIONS OF U.S. CARRIERS AND THAT CONSTRAINTS WOULD APPLY ONLY TO THE RATE OF FUTURE GROWTH OF SUCH SERVICES. IN THEIR VIEW, THIS WOULD BE A REASONABLE PRICE TO PAY FOR OPENING UP THE MARKET TO MORE SERVICE.

WE ARE CONTINUING TO EVALUATE BOTH SIDES OF THIS QUESTION. BUT WE ARE NOT PREPARED TO SUBSCRIBE TO AN "EITHER-OR" PHILOSOPHY. RATHER, OUR GOAL IS TO MUTUALLY EXPAND OPPORTUNITIES. WE ACHIEVED THIS IN AIR CARGO. IT IS VITAL THAT OUR CARRIERS BE ABLE TO COMPETE EFFECTIVELY FOR ASIAN TRAFFIC. IT IS ALSO DESIRABLE THAT WE INCREASE OPPORTUNITIES FOR ADDITIONAL SERVICES IN THIS RAPIDLY GROWING MARKET. OUR JOB IS TO DEVELOP A STRATEGY THAT BEST SERVES THE OVERALL INTERESTS OF THE UNITED STATES.

EVEN BEFORE SUCH A STRATEGY CAN BE IMPLEMENTED, WE HAVE SEVERAL OUTSTANDING ISSUES IN THE PASSENGER AREA. ONE ISSUE CONCERNS A LONGSTANDING REQUEST BY UNITED AIRLINES TO OPERATE BEYOND THE NEW KANSAI INTERNATIONAL AIRPORT AT OSAKA TO SEOUL, KOREA. UNITED

HAS ALSO RECENTLY FILED IN JAPAN TO OPERATE BEYOND KANSAI TO BANGKOK. NEITHER OF THESE REQUESTS HAVE BEEN APPROVED. THESE PROPOSED SERVICES ARE CLEARLY AUTHORIZED BY THE EXISTING BILATERAL AGREEMENT.

ANOTHER ISSUE CONCERNS JAPAN AIRLINES' REQUEST TO OPERATE TO KONA, HAWAII FROM TOKYO. JAL PROPOSED TO BEGIN THIS SERVICE ON APRIL 1. WE HAVE NOT ACTED ON JAL'S REQUEST. SINCE THIS APPLICATION IS CONTESTED AND REMAINS PENDING BEFORE THE DEPARTMENT, I AM NOT AT LIBERTY TO TALKS ABOUT ITS MERITS. HOWEVER, I CAN SAY THAT WE APPRECIATE THE IMPORTANCE OF THIS PROPOSED SERVICE TO HAWAII. WE WISH TO BE SUPPORTIVE OF HAWAII'S EFFORTS TO BRING AS MUCH AIR SERVICE TO HAWAII AS POSSIBLE. IN THIS INSTANCE, HOWEVER, WE MUST ALSO CONSIDER THE IMPLICATIONS OF APPROVING A REQUEST OF JAL TO OPERATE A SERVICE AUTHORIZED BY THE BILATERAL WHILE JAPAN IS REFUSING TO APPROVE REQUESTS BY A U.S. AIRLINE WHICH ARE ALSO AUTHORIZED BY THE BILATERAL.

OPPONENTS ARGUE THAT WERE WE TO APPROVE JAL'S KONA REQUEST UNDER THE CURRENT CIRCUMSTANCES, WE WOULD SEND A MESSAGE TO JAPAN THAT IT CAN BLOCK WITH IMPUNITY U.S. CARRIER REQUESTS TO OPERATE AUTHORIZED SERVICES. JAPAN WOULD THEN HAVE LESS INCENTIVE TO COMPLY WITH THE AGREEMENT. I THINK YOU WOULD AGREE THAT HAWAII HAS AN INTEREST IN U.S. CARRIERS BEING ABLE TO OPERATE SERVICES BETWEEN HAWAII AND ASIAN POINTS VIA JAPAN. IF THIS IS TRUE, THEN HAWAII ALSO HAS AN INTEREST IN PUTTING PRESSURE ON JAPAN TO

APPROVE REQUESTS OF U.S. CARRIERS TO OPERATE BEYOND. IN SAYING THIS I REALIZE THAT IT WOULD BE VERY DIFFICULT FOR HAWAII NOT TO SUPPORT ANY APPLICATION BY A CARRIER TO PROVIDE A NEW SERVICE TO HAWAII.

IN CONSIDERING JAL'S RECENT REQUEST TO RENEW ITS AUTHORITY TO OPERATE BETWEEN SENDAI AND HONOLULU, WE FACED A SITUATION SIMILAR TO THE KONA APPLICATION. IN THE SENDAI MATTER, WE DECIDED TO APPROVE THE APPLICATION FOR A LIMITED SIX MONTH PERIOD. IN REACHING THIS CONCLUSION, WE CONSIDERED THE IMPORTANCE OF THIS SERVICE TO HAWAII AND THE DISRUPTION THAT WOULD BE CAUSED WERE WE TO TERMINATE AN ALREADY EXISTING OPERATION. WE AUTHORIZED THREE FLIGHTS A WEEK TO ACCOMMODATE JAL'S PLANS TO INTRODUCE A THIRD FLIGHT THIS MONTH.

IN RESPONSE TO OUR INACTION ON JAL'S KONA APPLICATION, WE UNDERSTAND THAT JAPAN'S MINISTRY OF TRANSPORT IS DEFERRING ACTION ON UNITED'S PROPOSED INCREASE IN FREQUENCIES FROM 7 TO 14 IN THE LOS ANGELES-TOKYO MARKET PLANNED FOR MAY 2. WE WOULD HOPE THAT THE GOVERNMENT OF JAPAN WOULD REFRAIN FROM TAKING SUCH ACTION, WHICH WOULD INEVITABLY AFFECT ADVERSELY OUR BILATERAL AVIATION RELATIONSHIP AND FORCE US TO CONSIDER AN APPROPRIATE RESPONSE. INSTEAD WE HOPE THAT JAPAN WILL JOIN IN OUR EFFORTS TO RESOLVE THESE OUTSTANDING DIFFERENCES AND THEREBY FACILITATE MORE FLYING BETWEEN OUR COUNTRIES.

THIS CONCLUDES MY TESTIMONY.