

**STATEMENT OF
CHARLES A. HUNNICUTT
ASSISTANT SECRETARY FOR AVIATION
AND INTERNATIONAL AFFAIRS
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION
JUNE 19, 1997**

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE.

**IT IS A PLEASURE TO BE HERE TODAY TO TALK ABOUT OUR AVIATION
RELATIONSHIP WITH JAPAN.**

**IN TERMS OF REVENUE, THE U.S.-JAPAN AVIATION MARKET IS THE
LARGEST IN THE WORLD. IN 1995, U.S. AND JAPANESE CARRIERS
GENERATED A COMBINED TOTAL OF ROUGHLY \$10 BILLION FROM
PROVIDING AIR TRANSPORT SERVICES IN THIS MARKET. BECAUSE OF
THE SIZE OF THE JAPANESE MARKET AND JAPAN'S GEOGRAPHIC
LOCATION AS A NATURAL GATEWAY TO ASIA, ACCESS TO JAPAN IS
ALMOST ESSENTIAL TO ANY CARRIER THAT WISHES TO COMPETE
SUCCESSFULLY ON THE TRANSPACIFIC.**

**FOR MANY YEARS WE HAVE HAD A STRAINED AVIATION
RELATIONSHIP WITH JAPAN. ONE CAUSE OF THIS HAS BEEN JAPAN'S**

PERCEPTION THAT THE EXISTING AVIATION AGREEMENT AND RELATED UNDERSTANDINGS ARE UNFAIR TO JAPAN AND GIVE U.S. CARRIERS MORE ACCESS TO JAPAN'S MARKET THAN JAPANESE CARRIERS HAVE TO THE U.S. MARKET.

IN OUR VIEW, THE AGREEMENT IS NOT UNFAIR OR "IMBALANCED". THE AGREEMENT AFFORDS JAPANESE CARRIERS OPPORTUNITIES TO SERVE THE UNITED STATES WHICH ARE COMPARABLE TO THE OPPORTUNITIES U.S. CARRIERS HAVE TO SERVE JAPAN. ALTHOUGH THE U.S. CARRIER SHARE OF THE PASSENGER MARKET HAS RISEN OVER THE PAST DECADE FROM ROUGHLY FIFTY PERCENT TO NEARLY A TWO-THIRDS SHARE TODAY, WE BELIEVE THIS IS DUE MAINLY TO OUR CARRIERS' LOWER OPERATING COSTS STEMMING FROM DEREGULATION IN THE UNITED STATES. WE DO NOT BELIEVE THIS HIGHER MARKET SHARE IS DUE TO AN IMBALANCE IN OPPORTUNITIES. IN THIS REGARD, IT IS WORTH NOTING THAT UNDER ESSENTIALLY THE SAME AGREEMENT AS WE HAVE TODAY, JAPAN'S SHARE OF THE MARKET WAS ROUGHLY EQUIVALENT TO THE U.S. SHARE FROM THE EARLY 1970'S TO THE LATTER PART OF THE 1980'S.

AS U.S. CARRIERS HAVE IMPROVED THEIR MARKET POSITION, JAPAN HAS BECOME MORE AGGRESSIVE IN SEEKING TO PROTECT THE HIGHER-COST JAPANESE CARRIERS FROM U.S. CARRIER COMPETITION. THEY HAVE SOUGHT TO LIMIT OUR CARRIERS' SERVICES AUTHORIZED BY THE AVIATION BILATERAL. SPECIFICALLY, JAPAN HAS REFUSED TO APPROVE FLIGHTS BY UNITED AND NORTHWEST BEYOND OSAKA TO JAKARTA AND FLIGHTS BY FEDERAL EXPRESS BEYOND JAPAN TO POINTS IN THE PHILIPPINES, CHINA AND INDONESIA. JAPAN HAS ALSO GRANTED ONLY SHORT-TERM AUTHORITY FOR CERTAIN SERVICES SUCH AS UNITED'S ADDITIONAL LOS ANGELES-TOKYO FLIGHTS.

WE HAVE, IN TURN, REFUSED TO APPROVE A REQUEST OF JAPAN AIRLINES TO OPERATE A SCHEDULED SERVICE FROM HIROSHIMA TO HONOLULU AND WE HAVE LIMITED THE DURATION OF JAL'S SENDAI-HONOLULU AUTHORITY.

ONE OF JAPAN'S PRINCIPAL COMPLAINTS IS THAT THE AGREEMENT GRANTS SOME U.S. CARRIERS UNLIMITED RIGHTS TO OPERATE BEYOND JAPAN TO OTHER ASIAN POINTS. THE JAPANESE MAINTAIN

THAT U.S. CARRIERS ABUSE THESE RIGHTS BY CARRYING LARGE AMOUNTS OF LOCAL JAPAN-ASIA TRAFFIC. JAPAN WOULD LIKE TO LIMIT U.S. CARRIER ACCESS TO ASIAN MARKETS, WHICH ARE AMONG THE WORLD'S FASTEST GROWING.

THROUGH NEGOTIATIONS THE U.S. HAS, IN THE PAST, BEEN ABLE TO RESOLVE SPECIFIC ISSUES INVOLVING SERVICES TO NEW BEYOND POINTS. BUT UNTIL THE FUNDAMENTAL ISSUE REGARDING U.S. BEYOND RIGHTS IS CLEARED UP, WE CAN EXPECT TO HAVE CONTINUING DISPUTES WITH JAPAN WHEN U.S. CARRIERS SEEK TO INTRODUCE NEW BEYOND SERVICES. THIS SITUATION MAKES IT DIFFICULT FOR U.S. PASSENGER AND CARGO CARRIERS TO RESPOND TO NEW MARKET OPPORTUNITIES AS THEY ARISE. A PERMANENT RESOLUTION OF THE BEYOND RIGHTS MATTER, THEREFORE, IS NEEDED.

PERHAPS I SHOULD MENTION AT THIS POINT THAT WE HAVE TWO CATEGORIES OF CARRIERS SERVING JAPAN. WE HAVE THE INCUMBENTS, UNITED, NORTHWEST AND FEDERAL EXPRESS, WHICH HAVE EXTENSIVE TRANSPACIFIC SERVICES TO AND BEYOND JAPAN.

THE INCUMBENTS ENJOY THE RIGHTS SET FORTH BY THE 1952 AVIATION BILATERAL, ALTHOUGH THEY FACE INCREASING DIFFICULTIES FROM JAPAN WHEN THEY SEEK TO EXPAND THEIR BEYOND SERVICES. THE OTHER CATEGORY IS THE SO CALLED "MOU" CARRIERS, AMERICAN, DELTA, CONTINENTAL/CONTINENTAL MICRONESIA, UPS AND POLAR AIR CARGO. THESE CARRIERS HAVE MUCH MORE LIMITED RIGHTS TO SERVE JAPAN STEMMING FROM MEMORANDA SIGNED SINCE THE LATE 1970'S THAT AUTHORIZE THEIR ENTRY. THE NUMBER OF ROUTES THESE CARRIERS MAY OPERATE IS LIMITED, AS IS THE NUMBER OF WEEKLY FLIGHTS THEY MAY OPERATE ON EACH ROUTE. UNLIKE THE INCUMBENTS, THEY HAVE VIRTUALLY NO RIGHTS TO OPERATE BEYOND JAPAN. UNTIL AN AGREEMENT IS REACHED THAT INCLUDES ADDITIONAL OPPORTUNITIES FOR THE MOU CARRIERS, THESE CARRIERS CANNOT INCREASE THEIR CURRENT SERVICES.

I SHOULD ALSO MENTION A THIRD CATEGORY OF CARRIERS -- THOSE U.S. CARRIERS THAT DO NOT CURRENTLY HAVE RIGHTS TO SERVE JAPAN BUT ASPIRE TO SERVE JAPAN. EXAMPLES OF CARRIERS IN THIS CATEGORY WOULD BE TWA AND US AIRWAYS.

DURING LAST YEAR AND INTO THIS YEAR WE HAVE BEEN MEETING WITH THE JAPANESE ON AN INFORMAL BASIS TO ESTABLISH A FRAMEWORK FOR FORMAL NEGOTIATIONS. IN 1996 WE MET SEVERAL TIMES TO RESOLVE A NUMBER OF "IMMEDIATE" ISSUES CONCERNING SERVICES JAPAN REFUSED TO APPROVE TO BEYOND POINTS, SUCH AS THE SERVICES I MENTIONED EARLIER PROPOSED BY FEDEX, NORTHWEST AND UNITED. THE INTENT WAS TO RESOLVE THESE ISSUES AND GO ON TO ESTABLISHING A FRAMEWORK FOR NEGOTIATIONS WHERE THE MORE FUNDAMENTAL ISSUES WOULD BE ADDRESSED. THESE TALKS BROKE DOWN IN AUGUST.

IN JANUARY OF THIS YEAR WE RESUMED INFORMAL DISCUSSIONS -- THIS TIME AT THE ASSISTANT SECRETARY LEVEL. IN THESE EXPLORATORY MEETINGS, THREE OF WHICH HAVE TAKEN PLACE THIS YEAR, WE HAVE BEEN PRESENTING THE CASE FOR IMPLEMENTING A FULLY LIBERAL "OPEN SKIES" REGIME. UNDER SUCH A REGIME, ESSENTIALLY ALL RESTRICTIONS ON ROUTES, CAPACITY, PRICING AND ENTRY WOULD BE ELIMINATED.

SINCE JAPAN HAS INDICATED ITS STRONG OPPOSITION TO IMMEDIATE

IMPLEMENTATION OF OPEN SKIES, WE HAVE DISCUSSED PHASING IN A MARKET-ORIENTED REGIME OVER A REASONABLE PERIOD. DURING THE TRANSITION TO OPEN SKIES NEW OPPORTUNITIES WOULD BE MADE AVAILABLE. THE TRANSITION WOULD EVOLVE INTO A FULLY LIBERAL REGIME ON A SPECIFIED DATE.

I WOULD NOTE THAT THE UNITED STATES' INTERNATIONAL AVIATION POLICY STATEMENT SETS AS A GOAL THE ESTABLISHMENT OF A MARKET-BASED REGIME FOR INTERNATIONAL AIR SERVICES -- ANY AGREEMENT WE CONCLUDE MUST MOVE US CLOSER TOWARD THE GOAL OF AN INTERNATIONAL AVIATION SYSTEM IN WHICH DECISIONS ON ROUTES AND RATES ARE DETERMINED BY THE MARKET, NOT BY GOVERNMENT REGULATION, WHICH IN EFFECT ALLOCATES ECONOMIC RENTS. OUR POLICY STATEMENT ALSO RECOGNIZES THAT SOME COUNTRIES ARE NOT PREPARED TO FULLY EMBRACE OPEN SKIES IMMEDIATELY. IN SUCH CIRCUMSTANCES, THE POLICY STATEMENT SPECIFICALLY PROVIDES THAT WE WILL WORK WITH THE COUNTRY TO DEVELOP ALTERNATIVES THAT ADDRESS THEIR IMMEDIATE CONCERNS WHERE THIS WILL ADVANCE OUR INTERNATIONAL AVIATION POLICY OBJECTIVES. IN THIS REGARD, WE

HAVE ADVISED THE JAPANESE THAT WE ARE PREPARED TO BE FLEXIBLE ON HOW WE REACH OPEN SKIES. IN ANY EVENT, OUR POLICY AS WE MOVE FORWARD IS TO AVOID AN EQUILIBRIUM SITUATION THAT REMOVES THE INCENTIVE FOR OUR PARTNER TO PROCEED TOWARD COMPLETE LIBERALIZATION.

THE JAPANESE HAVE THUS FAR STATED THEY CANNOT AGREE TO OPEN SKIES, EVEN ON A PHASED BASIS. THEY HAVE DISCUSSED SOME EXPANSION OF OPPORTUNITIES BUT UNDER JAPAN'S THINKING AIR SERVICES WOULD CONTINUE TO BE CONSTRAINED BY A VARIETY OF GOVERNMENT-IMPOSED RESTRICTIONS.

THROUGHOUT OUR DISCUSSIONS THE JAPANESE HAVE STRESSED THE IMPORTANCE OF "EQUALITY" IN ANY AGREEMENT WE MIGHT REACH. AN OPEN SKIES REGIME, WHICH WOULD PERMIT FULLY UNRESTRICTED ACCESS BY THE CARRIERS OF BOTH SIDES, WOULD ADDRESS JAPAN'S ALLEGATION OF INEQUALITY AND UNFAIRNESS.

THE MEANING OF "INEQUALITY" FROM JAPAN'S POINT OF VIEW IS THAT THE NUMBER OF CARRIERS WITH LIBERAL ACCESS TO THE

OTHER SIDE'S MARKET SHOULD BE THE SAME. JAPAN ADVOCATES THAT TWO AIRLINES OF EACH COUNTRY SHOULD BE GRANTED A HIGH DEGREE OF OPERATING FLEXIBILITY TO SERVE THE OTHER COUNTRY. THIS POSITION SERVES JAPAN'S INTERESTS WELL SINCE JAPAN'S INTERNATIONAL AIRLINE INDUSTRY CONSISTS BASICALLY OF ONLY TWO AIRLINES -- JAL AND ALL NIPPON AIRWAYS. SINCE THE U.S. INTERNATIONAL AIRLINE INDUSTRY CONSISTS OF SEVERAL CARRIERS, JAPAN'S PROPOSAL WOULD EXCLUDE MAJOR U.S. AIRLINES AND CITIES FROM HAVING GOOD ACCESS TO THE JAPANESE MARKET WHILE JAPAN'S INDUSTRY WOULD OBTAIN ESSENTIALLY UNRESTRICTED ACCESS TO THE U.S. MARKET. I CAN ASSURE YOU THAT ANY AGREEMENT WE REACH WITH JAPAN WILL PROVIDE SUBSTANTIAL OPPORTUNITIES FOR THE CURRENTLY RESTRICTED AND EXCLUDED U.S. CARRIERS, SUCH AS AMERICAN, DELTA, TWA, US AIRWAYS AND CONTINENTAL/CONTINENTAL MICRONESIA.

TO THIS POINT I HAVE FOCUSED MAINLY ON COMBINATION SERVICES. OF EQUAL IMPORTANCE ARE RECENT DEVELOPMENTS WITH REGARD TO ALL-CARGO SERVICES. AS I MENTIONED EARLIER, THE JAPANESE CONTINUE TO WITHHOLD APPROVAL OF SERVICES PROPOSED BY

FEDERAL EXPRESS TO CERTAIN ASIAN DESTINATIONS. WE HAVE ADVISED THE JAPANESE THAT WE MUST FIND A SOLUTION TO THE FEDEX ISSUE THAT NOT ONLY RESOLVES THE IMMEDIATE ISSUES INVOLVING THE ADDITIONAL SERVICES FEDEX IS PROPOSING, BUT THAT ALSO ENSURES THAT ISSUES OF THIS NATURE WILL NOT CONTINUE TO ARISE IN THE FUTURE. GIVEN THE DYNAMIC NATURE OF THE CARGO MARKET, AND THE SPECIAL NEED FOR OPERATING FLEXIBILITY THAT CARGO OPERATORS HAVE, WE HAVE SOUGHT, AND WILL CONTINUE TO SEEK, THE COMPLETE REMOVAL OF RESTRICTIONS ON CARGO SERVICES. WE HAVE ALSO ADVISED THE JAPANESE THAT IT WOULD NOT BE POSSIBLE TO REACH AN ACCOMMODATION WITH RESPECT TO PASSENGER SERVICES WHILE IMPORTANT CARGO ISSUES REMAIN UNRESOLVED.

I WILL CONCLUDE MY REMARKS BY NOTING THAT WE EXPECT TALKS BETWEEN THE UNITED STATES AND JAPAN WILL RESUME SHORTLY. WE HAVE CAREFULLY CONSIDERED WITH OTHER AGENCIES THE ISSUES THAT NEED TO BE RESOLVED AND ARE PREPARED TO ENGAGE JAPAN IN FURTHER DISCUSSIONS. EVEN BEFORE FURTHER DISCUSSIONS TAKE PLACE, SECRETARY SLATER WILL HAVE AN

**OPPORTUNITY TO DISCUSS AVIATION ISSUES AND OUR IDEAS FOR
ADVANCING THE AVIATION RELATIONSHIP WHEN HE MEETS WITH HIS
COUNTERPART, MINISTER KOGA, IN VICTORIA LATER THIS MONTH.
WHEN THE SECRETARY SPOKE BEFORE THE INTERNATIONAL
AVIATION CLUB EARLIER THIS WEEK HE INDICATED THAT THE U.S.
WOULD CONTINUE TO PURSUE WITH JAPAN AN OPEN AVIATION
MARKET. IT IS CERTAINLY OUR HOPE THAT THE UPCOMING TALKS
WILL BE PRODUCTIVE AND SUCCEED IN RESOLVING THE
LONGSTANDING ISSUES WE HAVE HAD WITH JAPAN IN THE CARGO
AND OTHER AREAS, AND WILL RESULT IN AN AGREEMENT THAT
GREATLY EXPANDS OPPORTUNITIES TO SERVE THIS IMPORTANT
MARKET.**