

STATEMENT OF  
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ASSISTANT SECRETARY FOR AVIATION  
AND INTERNATIONAL AFFAIRS  
DEPARTMENT OF TRANSPORTATION  
BEFORE THE  
SUBCOMMITTEE ON AVIATION  
OF THE  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
JULY 31, 1997

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM HERE THIS MORNING TO BRING YOU UP-TO-DATE ON OUR AVIATION RELATIONS WITH FRANCE AND GIVE YOU MY ASSESSMENT OF WHERE WE ARE IN THE PROCESS OF NEGOTIATING A BILATERAL AGREEMENT.

FIRST, I WOULD LIKE TO PROVIDE YOU WITH SOME BACKGROUND. THE U.S.-FRANCE PASSENGER MARKET IS OUR THIRD LARGEST IN EUROPE, AFTER THE UNITED KINGDOM AND GERMANY. THE FRENCH MARKET IS ALSO ONE OF OUR LARGEST AIR CARGO MARKETS AND HAS BECOME MORE IMPORTANT SINCE FEDERAL EXPRESS ESTABLISHED ITS EUROPEAN CARGO HUB AT PARIS LAST YEAR. EIGHT U.S. AIRLINES PROVIDE SCHEDULED PASSENGER SERVICES TO FRANCE AS WELL AS SEVERAL U.S. ALL-CARGO AIRLINES.

SINCE FRANCE RENOUNCED THE RELATIVELY LIBERAL U.S.-FRANCE AIR TRANSPORT AGREEMENT WHICH TERMINATED ON MAY 4, 1993, U.S. SCHEDULED PASSENGER AIRLINES HAVE OPERATED UNDER A VERY RESTRICTIVE REGIME

THAT HAS SEVERELY LIMITED OPERATIONAL FLEXIBILITY AND PRECLUDED EXPANSION OR EVEN MODIFICATION OF SERVICES.

FOLLOWING SERIOUS DISPUTES OVER CAPACITY IN THE 1996 SUMMER AND 1996/97 WINTER SEASONS PRECIPITATED BY AIR FRANCE'S UNILATERAL EXPANSION OF CAPACITY, BOTH COUNTRIES HAVE CONCLUDED THAT THE CURRENT COMITY AND RECIPROCITY REGIME SHOULD BE REPLACED BY A LIBERAL BILATERAL AVIATION AGREEMENT THAT WOULD PROVIDE A STRUCTURED AND MORE CERTAIN AVIATION ENVIRONMENT FOR U.S. AND FRENCH AIRLINE SERVICES.

DURING VIRTUALLY ALL OF OUR PREVIOUS DISCUSSIONS, THE FRENCH HAVE STEADFASTLY HELD TO STRICT MARKET SHARE CONTROL MECHANISMS. THEIR GOAL WAS CLEAR: TO PROTECT A WEAK AIR FRANCE FROM THE RIGORS OF COMPETITION. IT GOES WITHOUT SAYING THAT SUCH AN APPROACH HELD NO APPEAL TO THE U.S. AND NO PROGRESS WAS MADE. RECENTLY, HOWEVER, FOR A VARIETY OF REASONS THAT I WILL TOUCH UPON IN THIS TESTIMONY, THE FRENCH, BOTH AIRLINE AND GOVERNMENT, HAVE INDICATED A WILLINGNESS TO PURSUE A MORE FORWARD LEANING APPROACH.

BEGINNING LAST DECEMBER, THE UNITED STATES AND FRANCE HAVE HELD TWO ROUNDS OF AVIATION NEGOTIATIONS LOOKING TOWARD CONCLUDING A

LIBERAL BILATERAL AVIATION AGREEMENT. THE US OBJECTIVE IS TO CONCLUDE AN OPEN-SKIES AVIATION AGREEMENT. WE HAVE OFFERED A THREE-YEAR TRANSITION PERIOD. THE FRENCH HAVE MAINTAINED, HOWEVER, THAT THEY SEEK AN AGREEMENT THAT WOULD LEAD TO AN OPEN TRANSATLANTIC REGIME PHASED-IN OVER NINE YEARS. WE BELIEVE THAT A THREE-YEAR PERIOD IS SUFFICIENT TO ALLOW FRENCH AIRLINES TIME TO ADJUST TO AN OPEN-SKIES AVIATION REGIME.

FRENCH DESIRE TO MOVE TOWARD A MORE LIBERAL AVIATION REGIME IS DRIVEN BY AIR FRANCE'S INTEREST IN FORMING AIRLINE ALLIANCE PARTNERSHIPS WITH U.S. AIRLINES, -- DELTA AND CONTINENTAL HAVE ENTERED INTO SEPARATE ALLIANCE PARTNERSHIPS WITH AIR FRANCE THAT INVOLVE INTERLINE CONNECTIONS INITIALLY AND A DESIRE TO CODESHARE IN THE NEAR FUTURE. AIR FRANCE SAYS THAT IT IS NOT INTERESTED IN ANTI-TRUST IMMUNITY AT THIS STAGE AND IT DOES NOT HAVE ANY PLANS FOR REQUESTING IMMUNITY. BECAUSE THE U.S. HAS MADE CLEAR IN OTHER CONTEXTS THAT IT WILL NOT GRANT IMMUNITY ABSENT OPEN SKIES, FRANCE CONTENDS THAT IT DOES NOT NEED AN OPEN-SKIES AGREEMENT ON THE MISTAKEN VIEW THAT OPEN SKIES IS NECESSARY ONLY IN CONJUNCTION WITH ANTITRUST IMMUNITY. HOWEVER, UNTIL AN ACCEPTABLE BILATERAL AGREEMENT IS IN PLACE, WE ARE NOT PREPARED TO APPROVE CODESHARING RELATIONSHIPS OR STRATEGIC ALLIANCES FOR FRENCH CARRIERS OR ALLOW

THEM TO HAVE SIGNIFICANT CAPACITY INCREASES.

AS THE FRENCH DECIDE WHAT THE FUTURE OF AIR FRANCE WILL BE, THEY MUST DO SO IN A RAPIDLY CHANGING EUROPEAN AVIATION ENVIRONMENT. WE BELIEVE THAT THE EUROPEAN UNION'S RECENT STEPS TO LIBERALIZE AVIATION HAVE ENHANCED AIRLINE COMPETITION IN EUROPE. THIS FREER MARKET ENVIRONMENT, COUPLED WITH THE OPEN-SKIES AGREEMENTS THAT WE HAVE CONCLUDED WITH TWELVE EUROPEAN COUNTRIES, HAVE CREATED NEW GLOBAL AVIATION OPPORTUNITIES FOR THE AIRLINES AND CONSUMERS OF THE OPEN-SKIES COUNTRIES.

CURRENTLY, THERE ARE THREE MAJOR U.S.-EUROPEAN AIRLINE ALLIANCES OPERATING -- 1) DELTA-AUSTRIAN AIR/SABENA/SWISSAIR, 2) NORTHWEST-KLM, AND 3) UNITED-LUFTHANSA/SAS. THESE ALLIANCES HAVE, IN JUST A COUPLE OF YEARS, DEMONSTRATED THE WISDOM OF FORMING SUCH PARTNERSHIPS TO COMPETE ON A GLOBAL BASIS. THE BOTTOM LINE IS THAT THE SYNERGIES OF SUCH ALLIANCES PROVIDE SUBSTANTIAL ECONOMIC BENEFITS FOR BOTH THE U.S. AND EUROPEAN PARTNERS, WHILE AT THE SAME TIME PROVIDE SUBSTANTIAL ECONOMIC VALUE TO THE U.S. AND EUROPE ECONOMIES. THE BENEFITS OF SUCH ALLIANCES HAVE BEEN FAR GREATER THAN ANYONE EVER IMAGINED, NOT ONLY FOR AIRLINES BUT FOR TRAVELLERS, SHIPPERS, BUSINESSES, CITIES AND STATES. TRAVELLERS, SHIPPERS AND BUSINESSES

HAVE MORE SERVICE OPTIONS, TO MORE DESTINATIONS AT LOWER PRICES THAN EVER BEFORE. YOUR CONSTITUENTS, U.S. CITIES, COUNTIES AND STATES ENJOY GREATER PROSPERITY, BECAUSE A FREELY COMPETING AVIATION INDUSTRY STIMULATES NEW BUSINESS ACTIVITY, HELPING TO PRODUCE JOBS AS WELL AS ADDITIONAL TAX REVENUES. AS FOR THE AIRLINES, SOME OF THE MOST SIGNIFICANT BENEFITS HAVE BEEN IMPROVED EFFICIENCY FOR AIRLINE OPERATIONS, LOWER COSTS, INCREASED REVENUES AND AN EXPANDED GLOBAL NETWORK.

AS THESE MAJOR ALLIANCES CONTINUE TO EXPAND AND FLOURISH, AIRLINES, SUCH AS AIR FRANCE, WILL FIND IT INCREASINGLY DIFFICULT TO COMPETE IN A WORLD ENVIRONMENT THAT THEY CAN NO LONGER EFFECTIVELY CONTROL. THUS, TO IGNORE THE ECONOMIC REALITY OF THIS CHANGING INDUSTRY IS TO ASSURE MEDIOCRITY, AT BEST.

TO ITS CREDIT, I BELIEVE THAT AIR FRANCE HAS BEGUN TO TAKE A NUMBER OF STEPS TO RESPOND AND PREPARE FOR THE NEW COMPETITIVE AVIATION ENVIRONMENT. NEVERTHELESS, I MUST EXPRESS MY GREAT DISAPPOINTMENT THAT TO DATE WE HAVE MADE LITTLE PROGRESS WITH FRANCE IN NEGOTIATING A NEW OPEN AVIATION AGREEMENT WHICH I BELIEVE AIR FRANCE MUST HAVE IF IT IS TO CONTINUE AS A MAJOR PLAYER ON THE WORLD STAGE.

JUST TWO WEEKS AGO, WE WERE PREPARED TO SEND A U.S. DELEGATION TO PARIS FOR THE THIRD ROUND OF AVIATION NEGOTIATIONS. WE HAD HOPED THAT SIGNIFICANT PROGRESS COULD BE ACHIEVED DURING THOSE TALKS. HOWEVER, THE FRENCH SIDE NOTIFIED US THAT IT WAS NECESSARY TO POSTPONE THE NEGOTIATIONS UNTIL THIS FALL, STATING THAT NEW OFFICIALS NEEDED TO BE BRIEFED ON THE ISSUES. IT IS, NONETHELESS, UNFORTUNATE THAT TWO MAJOR ECONOMIC PARTNERS DO NOT HAVE A STABLE AVIATION RELATIONSHIP THAT GUARANTEES THE EFFICIENT FLOW OF PASSENGERS, CARGO AND MAIL BUT INSTEAD MUST RELY ON COMITY AND RECIPROCITY; A REGIME THAT CONDEMNS BOTH SIDES TO STAGNATION AND ENDLESS DISPUTES. THE MULTI-BILLION DOLLAR TOURISM INDUSTRY OF FRANCE SHOULD BE APPALLED AS ITS ECONOMIC FATE SITS ON SO UNSTABLE A FOUNDATION.

WE HOPE THAT, AS THE NEW FRENCH GOVERNMENT ASSESSES ITS ECONOMIC INTERESTS, IT WILL CONCLUDE, AS WE HAVE, THAT AVIATION SERVICES ARE A CRITICAL COMPONENT OF ECONOMIC EXPANSION, AND VITALLY IMPORTANT TO THE MAJOR INDUSTRY OF TOURISM. A POLICY OF PLACING RESTRICTIONS ON PASSENGER AND CARGO AIR SERVICES IS COUNTERPRODUCTIVE TO ECONOMIC GROWTH AND THE CREATION OF JOBS. THOSE COUNTRIES IN EUROPE WITH WHICH WE HAVE OPEN-SKIES AVIATION AGREEMENTS HAVE ALREADY REACHED THIS CONCLUSION AND ARE ENJOYING THE BENEFITS THAT OPEN

AGREEMENTS PROVIDE FOR THEIR CITIZENS, INDUSTRIES AND AIRLINES AS WELL AS THEIR ECONOMIES.

I BELIEVE THAT THE COMING TOGETHER OF COMMERCIAL FORCES AND ENLIGHTENED GOVERNMENTS HAS FUELED THE MOVEMENT TO OPEN-SKIES. FORWARD THINKING AIRLINES AND GOVERNMENTS THAT WISH TO BE SIGNIFICANT PLAYERS IN SHAPING THE NEXT DECADE OF INTERNATIONAL AIR TRANSPORT HAVE EMBRACED BROAD-BASED AVIATION LIBERALIZATION. I HOPE THAT THE FRENCH WILL ALSO SOON CONCLUDE THAT THIS IS THE RIGHT WAY TO GO BASED ON THEIR INDEPENDENT JUDGEMENT THAT OPEN SKIES IS NOT A THREAT TO AIR FRANCE BUT IS ESSENTIAL TO ITS SURVIVAL AND FUTURE PROSPERITY.

IN CONCLUSION, THE UNITED STATES HAS MADE A COMMITMENT TO ALL EUROPEAN NATIONS TO ENTER INTO OPEN AVIATION RELATIONSHIPS. TWELVE EUROPEAN COUNTRIES HAVE JOINED US, AND SEVERAL MORE HAVE INDICATED INTEREST. AS A RESULT OF AVIATION DEREGULATION AND THE MOVEMENT TOWARD A GLOBAL OPEN-SKIES ENVIRONMENT THAT HAS OCCURRED IN THE PAST FEW YEARS, AIR CARRIERS HAVE USED THIS FREEDOM TO CREATE A VARIETY OF CONSUMER RESPONSIVE TRAVEL PRODUCTS AT LOWER COSTS THAN HAD BEEN AVAILABLE IN THE PREVIOUS FIFTY YEARS. OPEN SKIES HAS PROVEN ITS VALUE BY STIMULATING ECONOMIC PROSPERITY AT ALL

ECONOMIC LEVELS, NOT JUST IN AVIATION, AND THAT IS WHY WE HAVE BEEN AGGRESSIVELY EXPANDING THE OPEN-SKIES INITIATIVE BEYOND EUROPE TO ASIA, LATIN AMERICA AND OTHER REGIONS WHERE APPROPRIATE.