

The Future of Air Services Liberalization

Remarks for Under Secretary Larson International Aviation Club Luncheon Wednesday, March 29, 2000

Thank you for the opportunity to speak to the members of the International Aviation Club. Aviation is one of this country's biggest economic success stories, and I am very pleased that the State Department has been a part of that success. We have worked with you to open the skies from Jordan to Japan, creating opportunities for private sector ingenuity to develop new markets for American goods, services and ideas.

Aviation: The Circulatory System of the Global Economy

Air transport has become the circulatory system of the global economy. Consider the following:

- Total economic activity related to airline services in 1998 has been estimated at \$976 billion. Earnings derived from airline operations were \$278 billion, and airline-related jobs accounted for \$10.9 billion.
- The FAA estimates that revenue passenger miles throughout the US aviation system have increased 4.6 percent a year since 1991, which is roughly one third higher than the rate of growth of the US GDP, and 70 percent higher than world GDP growth.
- About 40% of US export value now moves via air cargo.
- A study by the World Travel and Tourism Council asserts that travel and tour-

ism, which depend heavily on air transport, now account for 10% of worldwide jobs, investment, and GDP.

- According to the Miami International Airport's director of aviation, 95% of the 10 million people who visit that city each year arrive by air. Seventy percent of our trade with Latin America passes through MIA.

Open Skies and Global Alliances

Two developments during the last decade contributed significantly to growth of air transport and its integration into the global economy. First is the advent of Open Skies agreements. Since 1992, the United States has negotiated 45 Open Skies agreements in Europe, Asia, Latin America, the Middle East, and Africa, 16 of which have been negotiated within the last year alone. When one adds in the significantly liberalized markets of Japan, France, Canada and Mexico, around 60% of the US international aviation market is now under either Open Skies or essentially liberal arrangements.

An analysis by the Department of Transportation shows that Open Skies agreements have lowered fares to consumers by more than 17%, compared with decreases of less than 4% on routes with non-Open Skies countries. They have cleared the way for air service to a number of new cities around the world, creating jobs and economic value far beyond the direct benefits of the service.

Open Skies agreements also facilitated the second major development of the 1990s: the movement toward seamless global air transport networks. To meet demand and improve their efficiency, airlines began to form alliances that create competing worldwide hub-and-spoke systems. In fact, the number of international airline alliances has virtually doubled since 1994, providing consumers with

a range of choices in transportation services at considerably lower costs. These international networks have the reach to provide seamless service to hundreds of communities, and to connect those communities to the global marketplace in ways we could scarcely imagine just a decade ago.

Information Technology: The Nervous System of the Global Economy

Bigger changes are coming in the decade ahead. If air transport is the circulatory system of the global economy, information technology is its nervous system. That nervous system is undergoing a dramatic revolution, changing the way all industries, including yours, will operate.

Let me offer an example. By at least one estimate, about one-fourth of all business-to-business sales will be made on-line by 2003. But the enormous potential for cross-border on-line sales of physical goods can be fulfilled only if the infrastructure exists to order, ship, track, clear, and deliver these goods to the customer's door. This will require deep connections between the circulatory system and the nervous system. Just as the establishment of telephone lines and coast-to-coast railroad infrastructure began to revolutionize our domestic economy in the last century, the development and integration of telecommunications, transportation, customs, and delivery services in support of e-commerce will revolutionize the way we do business in the 21st century.

The liberalization of transportation regimes, especially the air transport sector, is obviously a vital element in making e-commerce work. Companies traditionally labeled as "airlines" or "transportation companies" are beginning to think of themselves as "information companies." President Clinton and Vice President Gore have laid out an important policy framework for seizing the benefits of e-

commerce. We all are aware of the vital imperative of liberalizing the provision of telecommunications services in order to lower the cost of e-commerce. In addition, it also is necessary to have the right policy mix in certain complementary areas that this audience understands very well.

- “open skies” air cargo regimes that make it easier and cheaper to ship goods ordered electronically from one country to another;
- reforms that facilitate the quick and predictable movement of goods through the customs process; and
- delivery service policies that would permit goods to quickly and inexpensively traverse the “final mile” between the port of entry and the customer’s doorstep.

The benefits of progress in any one of these sectors – telecommunications, transportation, customs and delivery services — will be multiplied if progress is also made in the other sectors. Advances in all will help ensure that a country has optimized its “e-commerce networks” and is prepared to fully benefit from the global information economy.

We are actively exploring these integrated concepts and are finding receptive audiences with policy makers around the world.

Our Agenda for Liberalization

We are determined to move forward on all fronts to open new opportunities for your industry, building on the success of the past while recognizing the challenges of the future:

- In Asia, where we already have six Open Skies agreements, we are eager to achieve deep bilateral liberalization with several key Asian markets. I would like to make a breakthrough this year with Hong Kong and Australia. China's accession to the WTO promises to create new opportunities for the movement of people and goods between it and the rest of the world. Last year we doubled the permissible level of frequencies and added a designation. The time has come to move to a more open agreement that is truly commensurate with the changing marketplace.
- At the same time, we are taking an active role in the APEC discussion of possible plurilateral arrangements for air transport, based on the principles set forth in our bilateral Open Skies agreements. In order to achieve region-wide economic integration by 2010 or even 2020, we have to start creating the necessary transportation and telecommunications infrastructure right now.
- In the Americas, we continue to work for Open Skies arrangements wherever possible. Liberal aviation arrangements are an essential part of the architecture for a comprehensive Free Trade Agreement for the Americas. We have an important trans-border Open Skies agreement with Canada, and full Open Skies with 12 countries in Central and South America and the Caribbean. During my recent trip to Argentina, I pushed for full implementation of the Open Skies deal we recently struck with the outgoing Menem government. We continue to talk with others, such as Brazil, about the mutual benefits of open aviation regimes.
- In the Middle East and Near East, we have Open Skies with Jordan, the United Arab Emirates, Bahrain, and Pakistan. I continue to encourage Egypt and Israel to open wider transportation links to the global economy. In addition, we

have been discussing more liberal arrangements with a number of countries, including India.

- In Africa, we now have up-to-date and forward-leaning Open Skies arrangements with Tanzania, Namibia, Burkina Faso and, most recently, Ghana. It is very encouraging that so many African nations are taking this essential step to connect their economies to the worldwide marketplace, and I expect to see a number of others follow the example set by their neighbors.
- And last, but not least, let me turn to Europe. In partnership with the Netherlands, we began forging the Open Skies path in 1992. Open Skies agreements with other European partners followed, and nearly half of air traffic between the United States and Europe now moves under Open Skies arrangements. Just last week we concluded an Open Skies deal with Turkey. There are obviously some key “holes” in the map — with Spain and even more notably the United Kingdom. I hope our British friends soon come to understand the economic penalty the market will impose on their economy if they continue to restrict competition at Heathrow.

Together, though, the United States and Europe have led the way toward liberalizing air transport, and freeing this vital sector to provide the kind of service essential in a truly global economy. The European air transport industry has now put forward a comprehensive proposal for a further step: creation of a “Transatlantic Common Aviation Area,” or TCAA. We welcome the TCAA concept paper as a valuable substantive and intellectual contribution to this discussion. As proposed, however, some of the ideas strike me as red herrings. Like most other countries in the world, the United States prohibits cabotage, but I doubt there would be many takers even if it were possible. Cabotage has

been legally possible for European carriers within the European Union for several years now, but the marketplace appears to be causing cabotage markets to be served through alliance partners and codeshare arrangements.

Safety, Security and the Environment: the Central Role of ICAO

I also want to touch on the context of all these initiatives. Safety, security, fair competition, and protection of the environment have always been, and always will be, fundamental to the health of the aviation industry.

We have worked together with other governments, ICAO, and private sector interests to develop a new Montreal Convention, which would replace the 1929 Warsaw Convention liability regime for international air transport. We have been consulting with many of those present in this room on moving toward ratification of this important new Convention, and I hope we will have a decision on this issue very soon.

With regard to the environment, we have also worked closely with many of you on the longstanding hushkit conflict with the European Union. On March 14, the United States filed its “memorial” with the International Civil Aviation Organization (ICAO), pursuant to the dispute resolution proceedings under Article 84 of the Chicago Convention. We are prepared to litigate the issue to the end if that is the course the EU prefers. The Administration has assembled a top-notch litigation team and appropriate budget backing. With the generous offers of assistance from industry, I am confident we have the war-chest we need to see the case through to the end.

At the same time, let me repeat for the record that the US stands ready to suspend action on the Article 84 case if the EU suspends the hushkit rule indefi-

nately. We are prepared to withdraw the Article 84 case altogether if the EU withdraws the hushkit rule. Our goal is to bring the issue of noise abatement back under the purview of ICAO, which is where it belongs.

The State Department's Commitment

More generally, I want you to know that Secretary Albright and I are committed to advancing your interests in the global marketplace. We have worked hard to ensure that State Department civair negotiators are knowledgeable, accessible, informed and tough. We are proud of what we have accomplished together.

I truly believe we are on the brink of significant advances in global economic policy — advances and innovations that have the potential to bring broad economic benefits to an ever increasing number of people around the world. Aviation is a vital, indeed indispensable, part of the global economic integration trend. We will continue to be your partner in ensuring that American aviation continues to be the hub of the global economy.