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Speech

**ASIA-PACIFIC AVIATION DEVELOPMENTS:
A U.S. PERSPECTIVE**

**Remarks of
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Liberalization of Air Transport in Asia/Pacific**

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It is a pleasure to be back in Shanghai this spring, and a privilege to be able to address this important gathering this afternoon.

For those of us who have spent years toiling in the vineyards of international aviation, ICAO occupies a special status, both as an organization instrumental to the success of international aviation, and as a place where we have formed so many lasting friendships with aviation leaders from around the globe. For me, ICAO embodies the best of international aviation -- as an organization in which nations and aviation stakeholders work together towards common solutions, and where sharp disagreements are resolved agreeably. So I was enormously grateful for Dr. Kotaite's generous invitation to join you today.

What makes this an even more exciting opportunity for me is the topic of the conference and the focus of my remarks -- liberalization of air transportation in the Asia-Pacific region. It is a topic, of course, that often leads the news in our business these days -- and rightly so, for many of the most important developments globally are taking place in this region. I am pleased, therefore, to be able to add a U.S. perspective, and to discuss with you the ways in which Pacific Rim liberalization relates to the vision that my government has for the future of international aviation.

United States Engagement in Asia-Pacific Aviation

To start, I would like to bring you greetings from President Bush and Secretary of Transportation Norman Mineta. As you may know, Secretary Mineta is particularly focused on this region at the moment – leading delegations of United States officials to numerous Asian nations and signing a series of groundbreaking aviation agreements with many of those nations. At Secretary Mineta’s direction, the U.S. Department of Transportation has enthusiastically engaged with our partners up and down the Pacific Rim and elsewhere in Asia, not just with respect to air services, but also on aviation safety and infrastructure, maritime security, road traffic safety, and other priorities.

These efforts – and the commitment and dedication of our many Asian partners – have yielded impressive results. We have launched aviation cooperation programs with both China and India that are designed to help each modernize its aviation infrastructure, build aviation capacity, and in so doing safely accommodate the enormous growth that everyone hopes will be a permanent feature of Asia-Pacific aviation. Our Federal Aviation Administration leads the implementation of these programs for the U.S., but the programs also utilize private sector assistance to support technical assistance, job training, and personnel exchanges between China and the U.S., and India and the U.S. Although new air services agreements are what grab the headlines, we know that those agreements will deliver real benefits only if the new services they generate rest upon a solid foundation of safe air traffic systems and effective safety oversight at every stop along the way. That is why it is very much in the interest of the United States to assist wherever we can in the development of that foundation.

We have been an enthusiastic participant in initiatives emerging from the Asia Pacific Economic Cooperation forum. By ICAO standards, of course, APEC is a very young collaboration.. Yet in its short history, APEC has had a substantial impact on Pacific Rim transportation issues, ranging from improving maritime security and road traffic safety, to advancing the transportation-related aspects of the “Bogor goals” for free and open transportation and trade among APEC members. Indeed, APEC in 2000 helped to bring about the birth of the Multilateral Agreement for the Liberalization of International Air Transportation, the MALIAT, an accord that serves as a pioneering model for the multilateral aviation agreements of the future.

It is in that area – air services liberalization – that the United States has most visibly and perhaps most fruitfully engaged our Asia-Pacific aviation partners. In the Pacific Rim, we have open skies agreements with Indonesia, Malaysia, Taiwan, Brunei, Singapore, New Zealand, and Korea, along with cargo-only open skies agreements with Thailand and Australia.

The open skies agreement that Secretary Mineta signed in New Delhi last month replaced an agreement that had not been substantially modified in nearly 50 years. The new agreement has encouraged Indian and American carriers alike to take a fresh look at serving this market. Jet Airways, which today operates primarily a domestic network in India, has applied to the Department of Transportation for authority to fly to the United

States, initially operating Mumbai-Brussels-Newark service. Continental Airlines has announced that it will start New Delhi-Newark service this fall. Northwest has announced its intention to operate service between its Minneapolis/St. Paul hub and Bangalore. If recent news reports are accurate, other carriers will follow suit in the near future.

In 2004, we also concluded the United States's first comprehensive bilateral aviation agreement with Vietnam, an agreement that allows carriers of each country to initiate direct services between Vietnam and the United States.

Of course, the agreement that received the most attention both here and in the U.S. was the China-U.S. protocol that Minister Yang Yuanuan and Secretary Mineta signed in Beijing last year. Once it is fully phased in by 2010, the new agreement will provide for a nearly five-fold increase in weekly flights between our two countries over the next six years. Predictably enough, airlines have responded by lining up to seek opportunities for new service in a critical international market. The Department has recently allocated many of those new rights to U.S. carriers, and, as any observer of the route cases can tell you, the competition was vigorous. As the agreement is phased in, additional opportunities for new entry, codesharing, and charter operations will become ripe for allocation as well.

The Trend towards Liberalization in Asia Pacific Aviation

From this summary of activities, it should be apparent that the U.S. Government places great importance on its relationships with the nations and aviation stakeholders of the Asia-Pacific region. That is true not only because of our near-constant interaction with the ministries and airlines of the region, but also because we acknowledge the historic developments that are taking place among Asian nations themselves. I would like to share some thoughts on two related developments – the trend towards liberalization and the rise of low-cost carriers – that we in the United States have followed closely.

Let me begin with the liberalization that continues to gain momentum in the region. In 2004, Singapore, Thailand, and Brunei signed successive, liberalized agreements that first opened up their markets to unlimited all-cargo services on any route within the three countries, and then did the same with respect to passenger services. These agreements, which were reached under the aegis of the ASEAN roadmap for the integration of the air travel sector, provide for other ASEAN nations to sign on when they are ready. Last year, too, China and Thailand concluded a similar agreement allowing unlimited cargo and passenger operations between the two countries. In late 2003, India announced an arrangement with the members of ASEAN that permits ASEAN flag carriers to operate unlimited flights to New Delhi, Chennai, Mumbai, and Calcutta. Malaysia and Hong Kong agreed in 2004 to an open capacity agreement that authorizes the carriers of both countries to operate passenger and all-cargo flights between Hong Kong and any point in Malaysia, without any limitation on routing, equipment type, or frequencies.

Genuine open skies agreements, while rare, also seem to be gaining ground in the region. Airlines from the three Pacific Rim MALIAT signatories, Brunei Darussalam, Singapore, and New Zealand, enjoy full open skies rights among each other and their other MALIAT partners, Chile, Tonga, Samoa, and the United States. Australia and Singapore continue to mull an open skies agreement of their own. The pace of liberalization, very clearly, is picking up across most of the Pacific Rim and South Asia.

We are also seeing an equally important and complementary phenomenon: the growth of low-cost carriers in the region, such as Air Asia/Thai Air Asia, Cebu, Lion Air, Jet Asia, and Tiger Airways. These carriers are driving the development of international aviation in Asia and challenging their older, larger competitors to match them on both price and product. The low-cost carriers often have modern fleets, aggressive business plans, and – in contrast to their counterparts in the United States – significant international reach. I would note, too, that these carriers hail largely from countries – such as Malaysia, India, Singapore, and Thailand – that are in the vanguard of liberalizing international air services in Asia.

Our own experience with low-cost carriers goes back several decades, to the formation of Southwest Airlines in the early 1970s. Deregulation of domestic aviation in 1978 allowed scores of start-ups, many of them low-fare carriers, to enter the market. Most of these early new entrants failed, either because they lacked sufficient financing to do battle with network carriers or because they were offering a product that passengers did not want, with infrequent flights using aging, inefficient aircraft.

It was only in the early 1990s that a new generation of low-cost, low-fare carriers emerged. These carriers, armed with stronger balance sheets and younger fleets than their predecessors, have rewritten commercial aviation in the United States. They have satisfied a previously unmet demand for low-fare passenger service, have served points that the network carriers would not, and – because of their efficiency – have forced network carriers to bring their own costs under control. This phenomenon accelerated in late 2000, when high-end demand from business travelers collapsed, robbing network carriers of perhaps their last source of passengers willing to pay top dollar for air travel. The low-fare carriers responded by scooping up still more market share and doing the unthinkable: moving beyond the secondary airports they had previously conquered and challenging the network carriers on their own turf.

Today, low-cost carriers in the U.S. operate more and more flights in direct competition with network carriers, even in the heavily-traveled mid-Atlantic and New England regions. Philadelphia-Dallas; New York-Los Angeles; Washington, D.C.-Chicago – you can find low-cost operations on each of those routes. And, as in Asia, we do not expect our low-cost airlines to relent. Although our large network carriers continue to play a central role in the United States – especially in international operations – the seemingly limitless appetite of American consumers for low-fare travel testifies to the benefits that low-cost carriers have brought to commercial aviation and to the American economy.

That is why we welcome both liberalization and the emergence of low-cost carriers in Asia, which in our view work hand in hand. Liberalized air services accords not only enable carriers to seek out and exploit new opportunities for international service, challenging incumbent carriers to keep pace; they also stimulate previously untapped demand from passengers. The prevalence and reach of low-cost international airlines in Asia – certainly rare and perhaps unique in aviation – means that these opportunities will not be neglected. Lee Kuan Yew put it nicely when he said earlier this year, “As has happened in the U.S. and Europe, the winners will be those countries in Asia whose governments liberally exchange traffic rights and expose their national airlines to market competition.”

These developments are of great importance to the U.S. We are, after all, a Pacific Rim nation in our own right. A number of Asian nations perennially rank among America’s largest trading partners. Asia-Pacific aviation is important, therefore, both to U.S. aviation and to the American economy generally.

U.S.-EU Developments

I have been told that there is a lot of interest in the Asia-Pacific region in the ongoing effort to forge an important new air services agreement between the United States and the European Union. That interest is not surprising; achievement of a new U.S.-EU agreement would have profound implications for air services agreements everywhere.

As you probably know, the U.S. and EU delegations did conclude an agreement last year – seen by the negotiators on both sides as an important first step in establishing a common aviation area across the North Atlantic.

Probably the most important element of that agreement was the United States’ agreement to accept designations of EU-based carriers on services originating anywhere in EU territory – not just at points in the carriers’ home countries, as is required in most bilateral air services agreements today – even Open Skies agreements.

It is of great importance to the European Union that its air services agreements with so-called “third countries” like the U.S. recognize

Conclusion

The prosperity of the global economy depends on efficient and flexible transportation links in order to flourish. For that reason, stripping away outmoded regulatory constraints on Asian carriers so that they can operate more effectively within Asia helps American businesses and shippers compete as well. When it comes to liberalizing air services agreements within the region, it is no overstatement to say that your success is our success.

I hope that this has been a useful review of liberalization in the Asia-Pacific region and its importance to the United States. Thank you for your attention.