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**"AVIATION LIBERALIZATION: THE AMERICAN
EXPERIENCE AND THE NEED FOR LIBERALIZATION "**

I am very pleased to have this opportunity to be in Dubai, and to discuss aviation liberalization with such a distinguished group of aviation representatives.

I would like to share with you my Government's views on aviation liberalization, and how its aviation policy has developed.

AVIATION LIBERALIZATION-THE AMERICAN EXPERIENCE

In aviation's very early years, there was no need for a U.S. government aviation policy. While domestic air service was regulated, there was very little to regulate other than overseeing the award of mail service contracts. Internationally, due to the infancy of the market and the lack of suitable aircraft for trans-Atlantic or trans-Pacific commercial service, there was little international service by U.S. airlines. The exceptions were in trans-border markets involving Canada and Mexico, and short-haul service to the Caribbean. In many cases U.S. airlines obtained their own landing rights in these countries by negotiating directly with foreign governments. Indeed, U.S. airlines often went so far as to build their own landing fields in foreign countries.

As a result of World War II, aviation technology in Europe and America took a major leap forward. At the end of the war there were many technically sophisticated aircraft and many well trained airmen ready to fly them. These

factors, along with post-War economic prosperity in the United States, and a public that had become more familiar with aviation activity, laid the basis for sustained growth in commercial aviation. Also around this time, the nations of the world met in Chicago to set a structure for international aviation. The United States sought open international markets on a worldwide basis. But other nations resisted, seeking instead to protect their national carriers from competition. In the end, the United States position was not adopted, and instead of open markets, the Chicago Convention gave us the bilateral system we have today, with negotiations conducted on a one-on-one basis with each trading partner. The United States played the bilateral game just like everybody else, with strictly balanced trades of rights with our partners.

In the domestic arena, many new airlines and routes were established in the post-War era, but each new airline and each new route, -- and for that matter, every price or other significant commercial activity -- required the approval of the regulatory body known as the Civil Aeronautics Board.

In 1978, however, the rules changed. It was liberalization at that time of the very large U.S. domestic air transport market that transformed the game, by changing the dynamics of competition. Domestic aviation liberalization, or “deregulation”, removed the barriers to market entry, introduced pricing freedom, and forced U.S. airlines to operate their domestic services in response to competitive market forces.

By eliminating protected domestic markets, liberalization in the U.S. also induced airlines to seek new opportunities for growth in international markets.

The liberalization policy led the U.S. to begin trading significantly broader packages of opportunities with our international partners. These trades involved not only route rights, but also charter operating rights and other commercial opportunities concerning pricing freedom and many “doing business” issues as well. Such broad packages of opportunities were essential for providing airlines with an environment in which they could respond to market forces.

The U.S. international policy, which began in 1978, eventually resulted in over twenty liberalized bilateral agreements. While the aviation liberalization of the late 1970s was a significant improvement at the time, the international aviation policy of the 1978 era turned out to be only a transitional policy. By the late 1980s,

progress had stalled. Our major trading partners primary interests had been met, and they saw little reason to allow more U.S. carrier competition, merely in exchange for our meeting their secondary interests. For smaller countries, considering what little they had to offer us, we were not yet willing to offer them international service to all points in the United States.

The success of the Northwest Airlines alliance with KLM, and the U.S.-Netherlands open-skies agreement of 1992, helped generate a new momentum that led to competing airline alliances and support for liberal agreements with additional U.S. trading partners.

It was also at this time that the United States Government decided it was time for a review of its international aviation policy. This was something that had not been done for nearly two decades.

In 1995, following a broad review of our aviation goals and strategies, a new U.S. government international aviation policy was formally announced. The overriding goal of our policy is the provision of safe, affordable, convenient and efficient air service for consumers. Our approach is to expand the overall international aviation market, to further increase airlines' opportunities, and to expand international service to as many communities as possible. We believed then, and we continue to believe now, that this approach results in increased productivity, and more high-quality job opportunities.

With the new U.S. international aviation policy, we adopted the open skies model agreement as the template for bilateral liberalization. We began to seek new open skies partners, on the basis of regional initiatives. In 1995, our regional initiative in Europe yielded nine open skies agreements.

Subsequent regional initiatives were also successful. Worldwide, we now have a total of nearly sixty open skies aviation agreements. Our initiative in Europe continued to enjoy success after 1995, and today we have 21 open skies agreements in Europe. We have 9 open skies agreements in Central and South America, 8 in Asia, 12 in Africa, and 3 in the Caribbean. We have 6 open skies agreements with members of the Arab Civil Aviation Commission, including our first open skies agreement in this area with Jordan in 1996. Indeed, our open-skies agreement with Jordan was our first outside of the European area. With other

ACAC members, we have negotiated open skies agreements with the United Arab Emirates, Bahrain, Morocco, Qatar, and Oman.

THE NECESSITY OF AVIATION LIBERALIZATION

The United States is, of course, extremely pleased with the results of the implementation of liberal aviation policies in both the domestic and international sectors on U.S. aviation. Liberal aviation policies within the United States, and bilaterally with open skies partners, have unquestionably resulted in significantly increased economic benefits for airlines of all types, cities – both gateway cities and secondary destinations -- and, most importantly, the traveling and shipping public.

We like to congratulate ourselves on our foresight in working with our aviation partners to achieve liberalization. At the same time, in hindsight, we recognize the necessity and inevitability of aviation liberalization. The economic impact of aviation on national economic performance is simply too valuable for a country to limit its full development, which can only occur under liberal aviation policies.

The increasingly global nature of international aviation is another reason mandating liberal aviation policies. We have learned that there is a global market for air services, not just national, or bilateral markets. The old bilateral system of government restrictions on service with time-consuming negotiations for every new opportunity is clearly inconsistent with the needs of a fast-changing dynamic global market. The globalization of aviation is a trend that continues to expand. ICAO reports that alliances now account for 50% of world scheduled passenger traffic.

No nation should be reluctant to enter the global aviation community because of concerns about relative size or economic strength, or because of questions about competitive ability. Aviation liberalization is an opportunity for growth, not a threat to the continued existence of a nation's airlines. Our open skies agreements are not only with partners from every region of the world, they are also with countries that cover all profiles of population and economic development. It seems that our partners are as satisfied with open skies as we are. So far, we have had very few consultations to discuss concerns about open skies agreements.

We do not want to tell you that any aviation partner's concerns about making a significant change from a limited agreement to an open skies regime are invalid. In

fact, when we began our open skies effort, several small countries were concerned that their airlines would be unable to compete with large U.S. carriers under such a liberal regime. We are pleased to inform you that small foreign airlines can indeed thrive in competitive environments where they are free to use their efficiencies. When we reviewed services under the first seventeen open-skies agreements, we found that in each case at least one U.S. airline serving the market was larger than any of its foreign competitors. Yet we found no case where the U.S. airline had driven any foreign airline out of a market, and no case where the U.S. airline dominated these markets. Foreign airlines seem to be doing very well under open-skies agreements.

If my remarks have not yet convinced every nation present to liberalize tomorrow, there also remains the option to do so somewhat gradually, similar to the way the Arab Civil Aviation Commission membership is doing. Such phasing-in, we believe, can ease concerns along the road to liberalization. In many of our open skies agreements, we have phased-in certain elements that are of concern to a particular partner. In hindsight we believe, and we think our partners agree, that phasing in of opportunities was rarely necessary, but nonetheless our having done so provided the needed level of comfort to obtain a liberal aviation agreement. Importantly, our partners that requested a phasing-in period to initiate an open skies relationship did not subsequently request an extension of that period.

GLOBAL AVIATION LIBERALIZATION

Many other nations in the world clearly recognize the benefits of, and the need for, aviation liberalization, and not just with the United States. One of the hopes we held in negotiating bilateral open skies agreements on a worldwide basis was that our partners would then begin negotiating such liberal agreements between themselves. This has also been a success. Today there are nineteen comprehensive open skies agreements not involving the United States, and eleven others concerning only all-cargo services.

Another recent aviation initiative is helping to create even more adherents to aviation liberalization. In 2000, the United States was involved in a precedent setting open skies effort along with four other like-minded nations in the Asia/Pacific region. Representatives from Brunei, Chile, New Zealand, Singapore, and the United States initiated a multilateral open skies agreement. That agreement was formally signed in May 2001. This liberal agreement is open to accession by any nation in the world. Within the last year Peru and Samoa have joined the

initial group to make it a seven-nation pact. We encourage other nations to join this liberalization. There is absolutely no geographic restriction for participation in the multilateral agreement.

We also welcome regional pacts involving aviation liberalization. The number of such groupings, which involve varying degrees of internal liberalization, have grown significantly in recent years. ICAO reported 2 such regional bodies in 1995, and now there are ten. The list of regional pacts, of course, includes the Arab Civil Aviation Commission. The United States wishes you every success in achieving your goals. We hope that such groups will eventually broaden their focus and will not limit liberalization only to their regional members.

It is through all of these approaches -- bilateral, the multilateral among APEC members that is open to all, and multilateral efforts on a regional basis -- that global aviation liberalization will occur as a reality. There are simply too many national bureaucracies, and international bodies are simply too cumbersome in their decision making processes, for there to be a single global effort for liberalization.

In conclusion, not only do we in the United States believe that aviation liberalization is the right policy for all countries, we also believe that it is a policy that is necessary for national economic development. For these reasons aviation liberalization will prove to be inevitable. Global liberalization is evolving into a reality and will continue to be achieved through a gradual process of ever expanding bilateral and multilateral efforts.

Thank you.