

**REMARKS OF READ VAN DE WATER
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AND INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE INTERNATIONAL AVIATION
CLUB
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I appreciate the opportunity to be here today. I see many friends and colleagues in the room. Many of you have been great partners to the DOT over the years. The IAC has provided one of the world's most respected forums for the discussion of international aviation issues. That forum and the efforts of your members have helped us achieve our international aviation objectives.

Of course, I don't need to recite to you the enormous contribution that the aviation industry gives to our nation. It provides invaluable opportunities for travel, for new businesses, for jobs, and for the growth and development of our economies. Indeed, by some estimates, travel and tourism is the world's largest industry driving more than 10 percent of world jobs.

If anyone ever doubted the importance of aviation to our national economy, the events of September 11 and the economic turmoil that followed straightened them out.

So here we are today—many key characteristics of the industry have changed forever. Security priorities have crystallized in our focus and consumed significant resources for the government and industry alike. The Transportation Security Administration is a fact of aviation life. New innovations—leading to new efficiencies—in security occur constantly. The challenges faced by the DOT and the industry are daunting—some might say impossible. But let me clarify one fact right now—Secretary Mineta doesn't believe in the word impossible. He doesn't accept that any challenge cannot be overcome—"don't tell me it can't be done—go back, work harder, think

smarter, churn creatively and find a way that it can be done.” President Bush and Secretary Mineta lead with vision and dedication—and we can’t fail, we have no choice but to succeed.

Other facets of aviation life have changed, at least temporarily. The compensation program payments to US carriers, to partially—and I emphasize partially—make up for the billions of dollars lost when our domestic airspace was shut down from the terrorist attacks, are almost completed. The government, like many of our allies, has stepped in to assist with war risk insurance for our carriers. And, of course, these are just government actions. The industry, both

domestically and globally, is still suffering tremendously. It is coming back, painfully and slowly.

And, yet with all these changes, certain priorities and challenges remain fairly constant, especially our pro-competitive and pro-consumer aviation agenda.

Every day, from a variety of sources, I constantly see the words *open skies*, *liberalization*, *multilateralism*, and *globalization*. While these words are now part of the everyday nomenclature for those involved in the commercial airline industry, I want to emphasize that to us at the Department these are not just words. For

us, they are constant reminders of the importance of competition; that competition is what makes the airline industry function efficiently and effectively; that competition is what serves the interests of consumers; and that competition spurs economic growth.

A top priority for the DOT is to eliminate restrictions on airline operations and to create new opportunities for airlines and consumers around the world.

With your help, we have been very successful achieving those objectives, as reflected in the fact that we now have open-skies agreements with 56

nations located in every region of the world. Open skies agreements serve as the vehicle that drives competition. The benefits are well-known-- they have improved service, lowered fares, and have created new travel options in thousands of international aviation markets. Airlines are given the opportunity to innovate, become more efficient, and develop new product lines to meet the needs of consumers. Open-skies agreements are now our new norm, and have provided the model for other nations to follow.

Unfortunately, we don't have open skies with all of our trading partners. Our recent experience with the

U.S.-U.K. Alliance Case reminds us that the international aviation industry is still a regulated industry. And although we have successfully converted bilateral restrictions into new opportunities in most cases, we are still parties to aviation agreements that impose serious limits on new entry and competition in our international aviation markets. Bermuda 2 is an example of the significant costs imposed on consumers and communities by outdated aviation agreements.

The United States has done all it can to promote the twin objectives of liberalization and competition. We hope that the U.K. will move quickly to initiate

further discussions with the U.S. aimed toward achieving open-skies between our two countries. A stalemate is to the detriment of consumers, airlines, and economies of both nations.

Although we have long relied on bilateral mechanisms to achieve our international aviation objectives, we are now working with other nations to develop new multilateral relations and forums as an alternative to bilateralism. We believe that these new forums can create opportunities for consumers and airlines and can eliminate some of the inefficiencies of the bilateral system.

We are encouraged by initial efforts in this area, as illustrated by the significant progress we have made with the Asia-Pacific Economic Cooperation organization in a relatively short period of time

APEC provided the opportunity for the United States to be part of a multilateral aviation agreement with four other nations. The United States, Brunei, Chile, New Zealand and Singapore are parties to a multilateral “Open-Skies” agreement. It can be expanded to other nations and Peru is slated to join shortly. Of course, we welcome other members.

We are also working to increase the contribution that APEC can make to improving international air service. Next month APEC Transportation Ministers will meet in Lima, Peru. Our new Associate Deputy Secretary – and an old friend and colleague – Jeff Shane, will lead the U.S. delegation. The meeting will provide the opportunity for the parties to our multilateral aviation agreement to seek new members. It will also provide the opportunity for bilateral meetings where aviation issues can be discussed.

Other multilateral agreements are on the horizon. If and when the E.U. Commission receives a mandate

from member countries to fully engage the United States in open skies negotiations, we will be ready to test the potential of such an agreement.

In all of our international efforts to promote competition and work for liberalization of aviation agreements, it is important to bring to the table the lessons we have learned from domestic deregulation and other competition-enhancing measures.

Deregulation worked because it gave existing airlines the incentive, and the ability, to figure out better ways of serving their customers. It also enabled new airlines with new business concepts to compete in the

marketplace. But there are several things we have learned about deregulation that I think are worth a mention today.

First, it is important to remember that the changes that occurred with domestic deregulation that benefit air travelers the most only happened because our airlines were given freedom to react to the marketplace — changes that would never have been conceived by government regulators and could not have been implemented, or effectively regulated, if they were. Among others, these include the development of broad-based, fully integrated hub-

and-spoke networks, and the emergence of low-fare competition.

I emphasize that the latter, made possible by new carriers entering the system, has been a critical component behind the success of deregulation in the United States. For this reason, we believe that it is fundamentally important that new airlines that have the desire and the means also have a fair opportunity to test new service products. Competition must be allowed to run its course in the marketplace with consumers deciding the winners and losers. And that is true in domestic, as well as international, markets.

Second, our domestic deregulation experience provides us with the knowledge that the international process will continue to evolve far into the future.

Almost a quarter century after we started, important changes continue to take place in our domestic airline industry. International deregulation too will be a complicated, time-consuming process.

Drawing on lessons learned from our own domestic process, early international developments have been consistent with expectations. The creation of multinational alliances is in response to the underlying network economics of the airline industry.

But we must anticipate that many other changes will

occur over time. For example, low-fare service is flourishing in the U.S, in Europe, and other parts of the world, and has dramatically changed the competitiveness of the airline industry everywhere it has taken hold. Will such services be able to effectively compete in longer-distance markets that link continents? I believe that it will. And that presents challenges to existing global carriers.

So given the dynamic nature of the airline industry, change will continue to be the norm for many reasons. While all this makes for uncertainty along the way, providing opportunity for entrepreneurs to react to the marketplace is the best way to stimulate

economic growth through better, more competitive service for consumers.

Finally, it is clear that the development of an efficient global air transportation system has enormous consequences for consumers, and for economic growth. It is fundamentally important that we provide the best opportunity for this enormous economic sector to expand internationally as we have done in our own domestic market. Indeed, given the greater complexities of the global market it is even more important that we give the airline industry the opportunity to creatively respond to market forces. For these reasons, apart from safety and security,

achieving international liberalization has been and will continue to be the highest commercial priority goal of the DOT.

There are other key issues within the overall aviation policy debate that deserve our exploration. I believe that one issue that is worthy of thorough consideration is the expansion of foreign investment allowed in U.S. airlines, as well as the access of U.S. capital to foreign airlines. As the industry continues to cope with the consequences of September 11 and the cyclical economic downturn, it is important that we do not rule out options that may provide stability

and strength to aviation in our nation as well as the world.

The exchange of views, often contentious and yet still invigorating, is a great tradition in the aviation industry. I welcome all views into the DOT for thoughtful consideration. I maintain an open door policy and welcome all efforts to expand the scope and benefits of aviation liberalization, while we provide for the safety and security our citizens.

I look forward to working with you to make our great aviation system even better.

Thank you for the opportunity to speak with you
today.