

**REMARKS OF ANDREW B. STEINBERG
ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF TRANSPORTATION**

**BOEING AIRLINE OPERATIONS SEMINAR
CRYSTAL CITY MARRIOTT**

OCTOBER 9, 2007

THANK YOU, JEANETTE FOR THE KIND INTRODUCTION. GOOD MORNING EVERYONE. IT'S ALWAYS A PLEASURE FOR ME TO MEET WITH FRIENDS FROM THE CAAC AND THE CHINESE AIRLINE INDUSTRY. I'VE BEEN VERY FORTUNATE IN THIS REGARD DURING THE LAST 18 MONTHS AS I VISITED CHINA SIX TIMES AND BEEN HOST TO MY CHINESE COLLEAGUES TWICE. I WANT TO THANK BOEING FOR INVITING ME TO ADDRESS YOU AND I COMMEND BOEING FOR TAKING THE INITIATIVE TO ORGANIZE THIS SEMINAR.

THIS MORNING I WILL COVER SOME TOPICS OF MUTUAL INTEREST, INCLUDING THE GROWING AIR SERVICES RELATIONS OF OUR TWO COUNTRIES AND LESSONS FROM DEREGULATION OF THE AIRLINE INDUSTRY IN THE UNITED STATES – WHICH IS MARKING ITS 30TH ANNIVERSARY AT THE CONCLUSION OF MY REMARKS, I'D BE VERY

HAPPY TO DISCUSS THESE TOPICS AND OTHER ISSUES OF INTEREST.

LET ME START WITH THE NEW US-SINO AIR SERVICES AGREEMENT -- A SUBJECT NEAR AND DEAR TO ME AS I WAS ON THE US DELEGATION THAT NEGOTIATED THE DEAL. I THINK THE BIG PICTURE HERE IS THAT THE AGREEMENT IS A WIN FOR CONSUMERS IN BOTH OF OUR NATIONS. WE CAN ALREADY SEE THE BEGINNING OF THIS AS PLANS FOR NEW FLIGHTS ARE BEING READIED ON BOTH SIDES OF THE PACIFIC. LAST MONTH, MY DEPARTMENT ANNOUNCED ROUTE AWARDS TO DELTA AIRLINES AND UNITED AIRLINES TO BEGIN SERVICE TO SHANGHAI AND GUANGZHOU NEXT YEAR AND **TENTATIVE** AWARDS TO FOUR OTHER AIRLINES TO ADD SERVICES, OR IN ONE CASE, TO BEGIN SERVING CHINA IN 2009. IN TOTAL, US PASSENGER CARRIERS WILL ADD 42 FLIGHTS PER WEEK OVER THE NEXT TWO YEARS. THE NEWS GETS BETTER.

I WAS GRATIFIED TO LEARN LAST MONTH THAT CAAC HAD AWARDED ROUTE AUTHORITIES THAT WILL ALLOW CHINESE

CARRIERS TO ADD 58 WEEKLY FLIGHTS TO U.S. BY 2009. FROM WHAT I UNDERSTAND, HAINAN AIRLINES, CHINA EASTERN, AND CHINA SOUTHERN HAVE CONFIRMED PLANS TO BEGIN SERVING SEATTLE, LOS ANGELES, AND DETROIT, RESPECTIVELY. I WAS PARTICULARLY PLEASED TO HEAR THAT SEATTLE WILL BE GETTING ITS FIRST NON-STOP SERVICE TO CHINA AS IT IS CURRENTLY SERVED BY NEITHER US NOR CHINESE AIRLINES. THESE NEW FLIGHTS BY CHINESE AIRLINES WILL PROVIDE AMERICAN BUSINESS PEOPLE, TOURISTS, AND STUDENTS MORE OPPORTUNITIES TO VISIT AND LEARN ABOUT YOUR COUNTRY. CONSUMERS AS A WHOLE WIN AS A RESULT OF THESE NEW FLIGHTS BECAUSE CHOICES INCREASE AND PRICES WILL FALL. IN THE LONGER TERM, THIS NEW COMPETITION WILL FORCE CARRIERS OF BOTH COUNTRIES TO BECOME MORE EFFICIENT AND INNOVATIVE IN HOW THEY SERVE PASSENGERS.

THE BENEFITS DO NOT STOP THERE. THIS GREATER ABUNDANCE OF AIR TRANSPORTATION STIMULATES GROWTH IN OTHER SECTORS OF OUR ECONOMIES. AS POLICY-MAKERS, WE HOPE THIS LEADS TO

GROWTH IN THE TRADE OF SERVICES BETWEEN OUR TWO COUNTRIES. THE CITY OF SEATTLE IS HOME TO MANY HIGH-TECH FIRMS INVOLVED IN THE AEROSPACE AND INFORMATION TECHNOLOGY SECTORS. BECAUSE THE UNITED STATES RELIES ON EXPORTS FROM THESE SECTORS TO CHINA, THE AVAILABILITY OF A TIME-SAVING NON STOP FLIGHT TO CHINA CAN ONLY MAKE IT EASIER FOR BUSINESS RELATIONSHIPS TO THRIVE IN BOTH COUNTRIES.

I KNOW SOME MAY HAVE CONCERNS THAT ADDING NEW FLIGHTS WILL RESULT IN MORE SERVICE THAN THE MARKET CAN SUPPORT, UNDERMINING THE PROTECTIONS OF THE PAST. IT IS TRUE THAT U.S. AIRLINES SERVING CHINA TODAY HAVE A RELATIVELY LARGER SHARE OF THE MARKET THAN THEIR CHINESE COMPETITORS. BUT IN THE LONGER TERMS, HISTORY TELLS US THAT THERE IS ABSOLUTELY NO REASON TO BELIEVE THAT ANY SUCH LEAD WILL ENDURE.

IF THIRTY YEARS OF DEREGULATION IN THE UNITED STATES HAS TAUGHT US ANYTHING, IT IS THAT COMPETITIVE ADVANTAGE IN THE AIRLINE BUSINESS IS SIMPLY NOT PERMANENT. THE AIRLINE INDUSTRY IS CHARACTERIZED BY LOW-BARRIERS TO ENTRY, IMMEDIATE DISTRIBUTION TO MILLIONS OF CONSUMERS THROUGH COMPUTERIZED RESERVATION SYSTEMS AT TRAVEL AGENCIES AND THE INTERNET, AND PLENTIFUL AMOUNTS OF CAPITAL CHASING NEW OPPORTUNITIES.

WHEN WE FIRST BEGAN DISCUSSIONS WITH CHINA OVER AIR SERVICES LIBERALIZATION MORE THAN 25 YEARS AGO, OUR DOMINANT INTERNATIONAL CARRIERS WERE PAN AM AND TWA. TODAY, NEITHER EXISTS. WHY? THEY OVERLY RELIED ON RESTRICTED INTERNATIONAL ROUTES FOR THEIR PROFITS, WHICH ULTIMATELY MADE THEM *LESS COMPETITIVE* AS IT MADE THEM COMPLACENT ABOUT FUNDAMENTAL CHANGES IN THE DOMESTIC U.S. MARKET. NEITHER WAS ABLE TO DEVELOP PROFITABLE HUB AND SPOKE NETWORKS AND IN THE END THEY BOTH FAILED.

IT IS ALSO IMPORTANT TO KEEP IN MIND THAT THE NEW FLIGHTS WILL ***STIMULATE DEMAND*** AND THUS BROADEN THE POOL OF POTENTIAL TRAVELERS IN BOTH COUNTRIES. THESE NEW TRAVELERS REPRESENT A NEW SOURCE OF OPPORTUNITY FOR BOTH U.S. AND CHINESE AIRLINES.

WHILE THE 2007 AGREEMENT MARKS A CLEAR ADVANCEMENT IN OUR AIR SERVICES RELATIONSHIP, THERE IS MUCH MORE TO BE DESIRED IN TERMS OF COMMERCIAL FREEDOM FOR AIRLINES ON BOTH SIDES OF THE PACIFIC. IN OUR VIEW RESTRICTIONS ON COMMERCE CREATE PERVERSE ECONOMIC INCENTIVES AND LEAD TO UNDESIRABLE OUTCOMES. MARKETS WITH RESTRICTED ACCESS ALMOST ALWAYS HAVE AN IMBALANCE OF SUPPLY AND DEMAND. IN RESTRICTED MARKETS AIRLINES THAT ENTER ROUTES WHEN FARES ARE HIGH WILL HESITATE TO EXIT THEM EVEN DURING AN ECONOMIC DOWNTURN, FEARING THAT IF THEY GIVE UP THEIR ROUTE RIGHTS THEY WILL BE UNABLE TO RETURN. IN THE U.S. CHINA MARKET, RESTRICTIONS ON COMPETITION CAUSE AIRLINES ON BOTH SIDES TO LOSE TRAFFIC TO AIRLINES OF THIRD

COUNTRIES, LIKE JAPAN AND SOUTH KOREA, EACH OF WHICH HAS RELATIVELY MORE LIBERAL BILATERAL AGREEMENTS WITH THE U.S. AND CHINA. KOREAN AIRLINES OFTEN BOASTS THAT IT IS THE LEADING AIRLINE IN THE U.S. CHINA MARKET. AS LONG AS OUR CARRIERS LACK FULL COMMERCIAL FREEDOM TO RESPOND TO NEW SERVICE BY THIRD-COUNTRY CARRIERS, THEY WILL BE AT A COMPETITIVE DISADVANTAGE THAT SERVES NEITHER SIDE WELL. SUCH PROBLEMS ARE SIMPLY NOT PRESENT IN OPEN SKIES MARKETS.

OUR NEW AGREEMENT WILL PLAINLY REQUIRE AIRLINES ON BOTH SIDES TO BECOME MORE COMPETITIVE IN TERMS OF OPERATING EFFICIENCIES AND CUSTOMER SERVICE. BUT I AM HIGHLY CONFIDENT THAT CHINESE CARRIERS WILL RISE TO THE CHALLENGE, JUST AS CHINESE FIRMS HAVE IN MANY OTHER INDUSTRIES. I ANTICIPATE THAT CHINESE CARRIERS WILL EARN A LOYAL CUSTOMER BASE AMONG U.S. ORIGINATING PASSENGERS IN THE SAME WAY THAT CATHAY PACIFIC AND SINGAPORE AIRLINES HAVE DONE. CHINA'S VAST AND GROWING DOMESTIC MARKET

WILL ALLOW YOUR AIRLINES TO SUPPORT COMPREHENSIVE INTERNATIONAL NETWORKS WITH FEED FROM DOMESTIC HUBS NOT ONLY IN PLACES LIKE SHANGHAI, GUANGZHOU AND BEIJING BUT IN INTERIOR CITIES AS WELL. A TESTAMENT TO THE VAST POTENTIAL OF THE CHINESE AIRLINE MARKET IS THAT GLOBAL AVIATION LEADERS SUCH AS LUFTHANSA AND, MORE RECENTLY, SINGAPORE AIRLINES HAVE INVESTED IN CHINESE AVATION.

AS CHINA WITNESSES DRAMATIC GROWTH IN AVIATION BOTH DOMESTICALLY AND IN OVERSEAS MARKETS, UNDOUBTEDLY YOU WILL ENCOUNTER MANY OF THE SAME GROWING PAINS THAT WE IN THE UNITED STATES HAVE FACED IN A DEREGULATED ENVIRONMENT. NEXT, I'D LIKE TO SHARE SOME VIEWS ON THE AIRLINE INDUSTRY FROM THE PERSPECTIVE OF A REGULATOR, FOCUSING ON THREE BROAD TOPICS OF GENERAL INTEREST: FIRST, MARKET ACCESS; SECOND, AIRLINE CUSTOMER SERVICE; AND THIRD, AIRPORT MANAGEMENT. AS I DISCUSS THESE I WILL TRY TO POINT OUT THOSE AREAS WHERE I BELIEVE DEREGULATION IN THE

UNITED STATES HAS WORKED WELL AND THOSE AREAS WHERE WE HAVE ROOM FOR IMPROVEMENT.

LET ME BEGIN WITH SOME KEY PRINCIPLES THAT WERE ESTABLISHED BY OUR CONGRESS WHEN THE AIRLINE INDUSTRY WAS DEREGULATED. OUR LAW GIVES THE SECRETARY OF TRANSPORTATION SEVERAL GOALS. OF COURSE, THE FUNDAMENTAL PRECEPT OF DEREGULATION WAS TO ALLOW AIRLINES FREELY TO CHOOSE AND COMPETE OVER ROUTES, RATES, AND SERVICES. WITH SAFETY AS THE HIGHEST PRIORITY, THE DEPARTMENT WAS ALSO CHARGED WITH ENSURING A VARIETY OF ECONOMIC, EFFICIENT, AND LOW-PRICED SERVICES FOR U.S. CONSUMERS. . . . WITH ENCOURAGING FAIR WAGES AND GOOD WORKING CONDITIONS FOR AIRLINE EMPLOYEES. . . . WITH RELYING ON A COMPETITIVE MARKET TO PROVIDE AIR SERVICE . . . WITH CREATING A COMPETITIVE ENVIRONMENT IN WHICH THE MOST EFFICIENT AND WELL-MANAGED AIR CARRIERS CAN EARN ADEQUATE PROFITS AND ATTRACT CAPITAL. . . WITH AVOIDING UNREASONABLE INDUSTRY CONCENTRATION AND MONOPOLIES. . . .

WITH DEVELOPING SERVICE TO MAJOR URBAN MARKETS THROUGH THE USE OF SECONDARY AIRPORTS . . . WITH DEVELOPING AN EXPEDITED ALL-CARGO NETWORK PROVIDED BY PRIVATE CARRIERS. . . AND WITH ENSURING THAT ALL REGIONS OF THE UNITED STATES – INCLUDING SMALL, RURAL, AND REMOTE – HAVE ACCESS TO AFFORDABLE, REGULARLY SCHEDULED AIR SERVICE.

IN INTERNATIONAL MARKETS, OUR GOAL IS TO ENSURE THAT THROUGH COMPETITION DOMESTIC CARRIERS HAVE AT LEAST EQUALITY WITH FOREIGN CARRIERS. IN CONJUNCTION WITH THE SECRETARY OF STATE, THE DEPARTMENT DEVELOPS A NEGOTIATING POLICY TO SUPPORT THE GREATEST DEGREE OF COMPETITION COMPATIBLE WITH A WELL-FUNCTIONING INTERNATIONAL AIR TRANSPORTATION SYSTEM, INCLUDING THE FREEDOM OF DOMESTIC AND FOREIGN AIR CARRIERS TO OFFER PRICES THAT CORRESPOND TO CONSUMER DEMAND. WE'VE SEEN CARRIERS RESPOND TO THESE CHANGES IN DEMAND, AS OUR NUMBER OF OPEN SKIES PARTNERS HAS GROWN, SO HAS THE NUMBER OF NONSTOP U.S. GATEWAY CITIES.

A SOUND REGULATORY POLICY UNDERLIES ALL OF THESE OBJECTIVES AND ILLUSTRATES THE OVERRIDING AND ALL-IMPORTANT LESSON OF THE U.S. DEREGULATION EXPERIENCE. WHEN THE UNITED STATES FACED DIFFICULT REGULATORY AND POLICY DECISIONS, WE RELIED ON THE **MARKETPLACE** FOR SOLUTIONS. DEREGULATION, IN GENERAL, HAS BEEN A GREAT SUCCESS WITH BILLIONS OF DOLLARS OF ECONOMIC BENEFIT EACH YEAR TO CONSUMERS. DEREGULATION LED TO THE CREATION OF ROBUST TICKET DISTRIBUTION MARKETS, VIA COMPETITIVE COMPUTER RESERVATION SYSTEMS (CRS), WHICH IN TURN SPAWNED YIELD AND REVENUE MANAGEMENT MODELS, PRICE COMPETITION, AND INCREASED THE PACE OF DEREGULATION. IN FACT, AIRLINE DEREGULATION WAS AN IMPETUS FOR THE DEREGULATION OF TELECOMMUNICATIONS, BANKING, ENERGY, AND OTHER INDUSTRIES.

WITH THESE PRINCIPLES IN MIND, LET ME TURN TO THE THREE FOCAL TOPICS.

FIRST, MARKET ACCESS. THE PHILOSOPHY UNDERLYING A DEREGULATED ENVIRONMENT IS THAT MARKET PARTICIPANTS SHOULD BE GIVEN THE MAXIMUM FREEDOM POSSIBLE, CONSISTENT WITH THE OVERRIDING GOALS OF SAFETY, SYSTEM EFFICIENCY, AND PROTECTION OF CONSUMERS AGAINST UNFAIR AND DECEPTIVE PRACTICES.

WE DID A LOT RIGHT HERE. WE ABANDONED REGULATION OF ROUTES, RATES, AND SERVICES. WE LET CARRIERS CHARGE PRICES, SET ROUTES AND SCHEDULES, AND DETERMINE THE SERVICES THEY WANTED TO PROVIDE. WE ALSO PREEMPTED STATE AND LOCAL REGULATION WHICH COULD INTERFERE WITH A SINGLE FEDERAL STANDARD.

WE REMAINED VIGILANT IN ENFORCING ANTITRUST LAWS, THEREBY ENSURING COMPETITION. WE WORK CLOSELY WITH THE DEPARTMENT OF JUSTICE IN THIS AREA.

CONVERSELY, WE SEPARATE SAFETY AND ECONOMIC REGULATION BY KEEPING FAA IN CHARGE OF THE FORMER, AND THE OFFICE OF THE SECRETARY IN CHARGE OF THE LATTER. A STRONG AND INDEPENDENT SAFETY AGENCY WILL NEVER SUBORDINATE ITS OBJECTIVES TO ECONOMIC CONCERNS. IN ADMINISTERING OUR ECONOMIC FITNESS REQUIREMENTS, WE HAVE TRIED TO SET OBJECTIVE STANDARDS AND AVOID PREDICTIONS OF SUCCESS OR FAILURE OF ANY PARTICULAR BUSINESS APPROACH. THERE ARE DIFFERENT BUSINESS MODELS IN THE INDUSTRY BUT TWO IN PARTICULAR ARE PREDOMINANT WITH SOME VARIATIONS: THE HUB-AND-SPOKE AND POINT-TO-POINT MODEL. IN GEOGRAPHICALLY LARGE COUNTRIES LIKE THE UNITED STATES AND CHINA, THE HUB-AND-SPOKE MODEL ENABLES THE CREATION OF NETWORKS CAPABLE OF SERVING A LARGE NUMBER OF POINTS EFFICIENTLY. THE POINT-TO-POINT MODEL IS COMPLEMENTARY AS IT DIRECTLY CONNECTS HEAVILY TRAVELED CITY PAIRS. BUT IF WE KNEW WHICH MODELS WOULD WORK, WE'D CLEARLY BE IN THE WRONG LINE OF WORK!) RATHER, WE ENCOURAGE CONTINUED COMPETITION BY ALLOWING CARRIERS THAT ARE FIT, WILLING, AND ABLE TO ENTER

THE MARKET, THEREBY ENSURING CONSUMERS ARE PROTECTED WHILE ALLOWING THE MARKETPLACE TO DETERMINE SUCCESS OR FAILURE OF ANY GIVEN MODEL.

DESPITE A FAIRLY LIBERAL MARKET ACCESS REGIME, THERE REMAIN RESTRICTIONS ON COMPETITION IN THE U.S. WE PROHIBIT CABOTAGE – THAT IS, THE TRANSPORT OF PASSENGERS BY FOREIGN AIRLINES BETWEEN TWO POINTS ENTIRELY IN THE U.S. AND OUR INVESTMENT REGIME IS QUITE LIMITING. CURRENTLY, WE ALLOW FOREIGN CITIZENS TO OWN A MAXIMUM OF 25% OF THE VOTING CONTROL, WHICH IS A LONGSTANDING DOCTRINE THAT, IN MY VIEW, HAMPERS THE INDUSTRY. SIMILARLY, AGGRESSIVE USE OF OUR BANKRUPTCY LAWS HAS SERVED AS AN EXIT BARRIER TO THE INDUSTRY AND LEADS TO MARKET DISTORTION. FINALLY, WHILE WE EMBRACE THE OPEN SKIES POLICY, WE STILL FACE TOO MANY RESTRICTIVE BILATERAL AGREEMENTS, WHICH DISTORT INTERNATIONAL COMPETITION.

AS TO AIRLINE SERVICE QUALITY, OUR PHILOSOPHY IN A DEREGULATED ENVIRONMENT IS THAT VERY FEW AIRLINE CUSTOMER SERVICE POLICIES SHOULD BE REGULATED. THUS, WE DO NOT SPECIFY A PARTICULAR LEVEL OF STANDARD SERVICE – CARRIERS CAN PROVIDE MEALS OR NOT, REGARDLESS OF THE LENGTH OF THE FLIGHT. THEY ARE FREE TO OFFER AMENITIES LIKE PRE-RESERVED SEATS, OR NOT. THEY CAN PERMIT PASSENGERS TO BOARD IN ANY ORDER THE CARRIERS CHOOSE, AND THEY ARE FREE TO OFFER ANY COMPENSATION IN THE EVENT OF A CANCELLED OR DELAYED FLIGHT.

INSTEAD OF MICROMANAGING CUSTOMER SERVICE BY AIRLINES, WE RELY ON A REGIME OF MANDATORY DISCLOSURE OF INFORMATION TO CONSUMERS. OUR PHILOSOPHY HERE IS THAT IF CONSUMERS UNDERSTAND THEIR CHOICES, THE MARKETPLACE WILL IMPROVE SERVICE QUALITY. THUS, THE DEPARTMENT REQUIRES CARRIERS' POLICIES BE TRANSPARENT TO CONSUMERS. FOR EXAMPLE, WE REQUIRE CONDITIONS OF CARRIAGE, OR CONTRACT, BE AVAILABLE AT THE TIME OF BOOKING AND AT THE AIRPORT. WE REQUIRE

CARRIERS TO REPORT STATISTICS ABOUT DELAYS, LOST BAGGAGE, COMPLAINTS, AND FLIGHT CANCELLATIONS TO THE DEPARTMENT, WHERE WE COMPILE A MONTHLY SCORECARD THAT IS MADE AVAILABLE TO THE PUBLIC. WE REQUIRE THE DISCLOSURE OF THE FULL FARE, INCLUDING FEES AND SURCHARGES, WHEN THE FARE IS QUOTED OR ADVERTISED. WE REQUIRE THE PUBLICATION OF A REALISTIC SCHEDULE AND OF ON-TIME PERFORMANCE HISTORY. THE ONLY EXCEPTIONS TO OUR RELIANCE ON THIS DISCLOSURE APPROACH APPLY TO VERY SPECIFIC RULES: THE PROVISION OF A CERTAIN LEVEL OF COMPENSATION FOR BUMPED FLIGHTS; AND ACCOMMODATION, SUCH AS WHEELCHAIRS, FOR PASSENGERS WITH DISABILITIES. IN GENERAL,

IN GENERAL , THIS APPROACH HAS WORKED REASONABLY WELL. WE FIND THAT MOST PROBLEMS IN CUSTOMER SERVICE ACTUALLY STEM FROM DELAYS IN THE SYSTEM. AGAIN, OUR PHILOSOPHY IS TO RELY ON MARKET FORCES AS MUCH AS POSSIBLE TO SOLVE PROBLEMS OF CUSTOMER SERVICE, BECAUSE PRESCRIPTIVE RULES TEND NOT TO WORK AS WELL. FOR EXAMPLE, IN 1999 THERE

WERE TREMENDOUS PROBLEMS WITH CUSTOMER SERVICE. AT THE DEPARTMENT'S URGING, THE LARGEST U.S. AIRLINES ADOPTED A CODE OF CONDUCT WITH 12 SPECIFIC PROMISES:

- 1) OFFER THE LOWEST FARE AVAILABLE AT THE TIME
- 2) NOTIFY CUSTOMERS OF KNOWN DELAYS, CANCELLATIONS, AND DIVERSIONS
- 3) PROVIDE ON-TIME BAGGAGE DELIVERY
- 4) SUPPORT INCREASED BAGGAGE LIABILITY LIMIT
- 5) ALLOW RESERVATION TO BE HELD / CANCELLED
- 6) PROVIDE PROMPT TICKET REFUNDS
- 7) PROVIDE PROPER ACCOMMODATION FOR DISABLED AND SPECIAL NEEDS PASSENGERS
- 8) MEET CUSTOMERS' ESSENTIAL NEEDS DURING LONG AIRCRAFT-OCCUPIED DELAYS
- 9) HANDLE BUMPED PASSENGERS WITH FAIRNESS AND CONSISTENCY
- 10) DISCLOSE POLICIES ASSOCIATED WITH TRAVEL ITINERARY, CANCELLATION, FREQUENT FLIER PROGRAMS, AND AIRCRAFT CONFIGURATIONS

11) ENSURE GOOD CUSTOMER SERVICE FROM CODE SHARE PARTNERS

12) BE MORE RESPONSIVE TO CUSTOMER COMPLAINTS.

AS I SAID EARLIER, WE FIND THAT MOST PROBLEMS RELATED TO CUSTOMER SERVICE STEM FROM TRAFFIC CONGESTION, WHICH LEADS TO DELAYED AND CANCELED FLIGHTS, LOST BAGGAGE, AND CUSTOMER FRUSTRATION. BOTH THE UNITED STATES AND CHINA ARE DEALING WITH THESE PROBLEMS TODAY. I NOTED WITH INTEREST CAAC'S ANNOUNCED DECREASE IN FLIGHTS TO/FROM BEIJING. OUR EXPERIENCE LEADS US TO QUESTION THE EFFICACY OF REGULATORY MEASURES THAT ADDRESS CONGESTION BY CAPPING OR LIMITING AIRLINE OPERATIONS. IN THE LONG RUN, THESE DON'T WORK WELL.

CURRENTLY, WE ARE TRYING TO FIND A BETTER WAY TO HANDLE THE PROBLEM OF CONGESTION, AND RECENTLY PRESIDENT BUSH CHARGED SECRETARY MARY PETERS WITH THE TASK OF FINDING SOLUTIONS. WE ARE TURNING TO THE USE OF MARKET FORCES AS

A RESULT. I'D POINT OUT THAT THIS IS NOT A NEW PROBLEM. IN A 1978 SPEECH, ALFRED KAHN, THE FORMER CHAIRMAN OF OUR CIVIL AERONAUTICS BOARD WHO IS REGARDED AS THE "FATHER OF U.S. AIRLINE DEREGULATION," MADE THREE KEY POINTS:

- IT IS SIMPLY INCONSISTENT WITH DEREGULATION TO LIMIT FLIGHTS, SO DON'T DO IT;
- COMPETITION CAN HELP WITH CONGESTION BY ENCOURAGING THE USE OF SECONDARY AIRPORTS AND INCREASING THE LOAD FACTOR PER LANDING; AND
- CONGESTION AND DELAY ARE MARKET PROBLEMS. FOR EXAMPLE, IN MOST AREAS OF THE ECONOMY, YOU PAY FOR THE GOODS YOU CONSUME AND FOR THE SERVICES YOU USE. IF IT WERE FREE TO ATTEND A MOVIE, THEN THEATRES WOULD BE CROWDED. IF CELL PHONE COMPANIES CHARGED THE SAME RATE ON WEEKDAYS AS THEY DO ON WEEKENDS AND EVENINGS, EVERYONE WOULD MAKE THEIR CALLS DURING PRIME BUSINESS HOURS, WHICH WOULD REQUIRE MORE CAPACITY FROM OUR TELECOM INFRASTRUCTURE. IF BICYCLES AND CARS HAD THE

SAME PRICE, THERE WOULD BE EVEN GREATER CONGESTION ON THE ROADS; EVERYONE WOULD WANT A CAR.

THE SAME PROBLEM EXISTS WITH AIRSPACE USAGE, AND, FRANKLY, WE HAVEN'T DONE A GOOD JOB OF ADDRESSING IT. BECAUSE THE COST OF ACCESSING AIRSPACE IN THE U.S. IS THE SAME FOR SMALL AND LARGE AIRCRAFT AND FOR COMMERCIAL AND GENERAL AVIATION, WE'VE CREATED AN INCENTIVE FOR OPERATORS TO FLY AS MANY FLIGHTS AS POSSIBLE. CURRENTLY, THE DEPARTMENT IS REEXAMINING ITS POLICY HERE AND, TOGETHER WITH AN INDUSTRY RULEMAKING COMMITTEE, LOOKING AT SOLUTIONS SUCH AS CONGESTION PRICING TO HELP US DEAL WITH DELAYS.

FINALLY, LET ME BRIEFLY ADDRESS AIRPORT MANAGEMENT. HERE AGAIN, THE PHILOSOPHY UNDERLYING THE DEREGULATED ENVIRONMENT IS THAT THERE SHOULD BE LIMITED FEDERAL INVOLVEMENT IN THE OPERATION OF AIRPORTS. OWNERSHIP SHOULD, AND DOES, OCCUR AT THE LOCAL LEVEL. FOLLOWING WORLD WAR II, THE GOVERNMENT TRANSFERRED EXCESS MILITARY

AIRFIELDS TO STATE AND LOCAL GOVERNMENTS TO PROVIDE PUBLIC AIRPORTS. MOST ARE OWNED BY LOCAL GOVERNMENT ENTITIES, SUCH AS PORT DISTRICTS. AT MOST LARGE AIRPORTS, EMPLOYEES OF PRIVATE COMPANIES PROVIDE ABOUT 90 PERCENT OF TOTAL SERVICES, INCLUDING BAGGAGE HANDLING, CLEANING, RETAIL, AND GROUND SERVICES. IN SOME CASES, AIRLINES OR OTHER TENANTS WILL PRIVATELY FINANCE THEIR OWN FACILITIES; EXAMPLES INCLUDE MAJOR TERMINALS IN CHICAGO, CINCINNATI, DETROIT, AND NEW YORK. FAA APPROVAL IS REQUIRED FOR THE SALE OR LEASE OF A COMMERCIAL AIRPORT. BECAUSE WE PRECLUDE AIRPORT SPONSORS FROM DIVERTING AIRPORT REVENUES TO NON-AERONAUTICAL USES AND BECAUSE WE CONSIDER AIRPORT REVENUE TO INCLUDE INCOME FROM A SALE ON AIRPORT, THERE HAVE BEEN VERY FEW SALES OF AIRPORTS IN THE U.S. TO PRIVATE COMPANIES.

THERE ARE SOME FEDERAL FUNDS AVAILABLE TO AIRPORTS BUT THE FUNDS ARE TIED TO EITHER PASSENGER NUMBERS (THROUGH A FORMULA) OR TO AND SPECIFIC AIRPORTS AND PROJECTS THAT

THE FAA HAS APPROVED. IN RETURN FOR FEDERAL FUNDS, AIRPORT SPONSORS MUST GIVE ASSURANCE THAT THE CHARGES ARE WITHOUT DISCRIMINATION AND THE MONEY SO RAISED WILL REMAIN WITHIN THE AIRPORT. THUS AIRPORTS ARE ABLE TO CHARGE ANY REASONABLE FEES TO FACILITY USERS, INCLUDING LANDING FEES. WHILE AIRPORTS CAN RECEIVE FEDERAL AND STATE GRANTS, THE BULK OF INCOME COMES FROM PASSENGER FACILITY CHARGES (PFCS), AIRPORT BONDS, AND INCOME REVENUES. THE AIRPORT OBTAINS APPROVAL FROM THE FAA TO COLLECT FEES, AND BONDS ARE THE SINGLE LARGEST SOURCE OF CAPITAL.

WE DON'T SET FEES FOR AIRLINES. INSTEAD, FEDERAL LAW DIRECTS THE SECRETARY OF THE DEPARTMENT OF TRANSPORTATION TO DETERMINE WHETHER FEES ARE REASONABLE. BOTH AIRPORTS AND AIRLINES CAN REQUEST INVESTIGATION OF FEES. WE APPLY SOME GENERAL PRINCIPLES IN ADMINISTERING A COST-BASED SYSTEM: THERE MUST BE NEGOTIATION. AIRPORTS CANNOT APPLY FEES AND CHARGES IN A

DISCRIMINATORY FASHION AGAINST CERTAIN KINDS OF USERS.
RATES AND FEES BE FAIR AND REASONABLE. AND AGAIN,
REVENUES MUST BE USED TO BENEFIT THE AIRPORT

CONCLUSION

LET ME SUM UP BY OFFERING THIS: IN THE UNITED STATES' EXPERIENCE, WE HAVE FOUND THE BEST APPROACH IS TO ALLOW MARKET FORCES TO DETERMINE AIRPORT AND AIRLINE OPERATIONS. THE GOVERNMENT SHOULD STEP IN WITH A LIGHT HAND -- ONLY WHEN NECESSARY. THE BEST POLICY TOWARDS THE AIRLINE INDUSTRY IS TO LEAVE IT ALONE EXCEPT FOR GOVERNMENT OVERSIGHT OF SAFETY, CONSUMER PROTECTION, AND COMPETITION. SIMPLY STATED, COMMERCIAL FREEDOM IS VITAL TO FOSTER A THRIVING INDUSTRY.

I WANT TO CONCLUDE MY REMARKS BY COMMENDING THE CAAC AND CHINA'S AIRLINES FOR MAKING THE LONG TRIP TO THE UNITED STATES. YOUR INITIATIVE TO LEARN FROM THE U.S. EXPERIENCE

AND WORKING TO AVOID OUR MISTAKES DEMONSTRATES A STRONG COMMITMENT ON CHINA'S PART TO CREATE A ROBUST AND SUCCESSFUL AIRLINE INDUSTRY. WHILE YOU ARE HEAR TO LEARN FROM US TODAY, I HOPE AND EXPECT THAT WE CAN LEARN FROM CHINA AS ITS INDUSTRY GROWS AND EVENTUALLY BLOSSOMS INTO MATURITY. THE FUTURE OF SINO-US AVIATION IS VERY BRIGHT AND I LOOK FORWARD TO MANY YEARS OF COOPERATION WITH YOU AND YOUR COLLEAGUES.

THANK YOU AND I WOULD BE HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.