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BEFORE AIRPORTS COUNCIL INTERNATIONAL-NORTH AMERICA

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GOOD MORNING. THANKS GREG FOR THE KIND INTRODUCTION. IT HAS BEEN EXACTLY ONE YEAR SINCE I LAST WAS ABLE TO ADDRESS THIS DISTINGUISHED GROUP. THERE HAS BEEN A LOT OF ACTIVITY OVER THE LAST 12 MONTHS AND I'M HAPPY TO REPORT THAT 2007 HAS SEEN MAJOR BREAKTHROUGHS IN INTERNATIONAL AVIATION. COLLECTIVELY, THE NEW AGREEMENTS THE UNITED STATES HAS REACHED WITH ITS BILATERAL – AND MULTILATERAL – PARTNERS CREATE SIGNIFICANT NEW COMMERCIAL OPPORTUNITIES FOR AIRLINES AND MOST IMPORTANTLY TO THIS AUDIENCE, FOR THE AIRPORTS THAT SERVE THE GROWING INTERNATIONAL AIR TRANSPORTATION BUSINESS.

FROM THE OUTSET, I WANT TO ACKNOWLEDGE THE VITAL INFLUENCE AND SUPPORT OF THE AIRPORT COMMUNITY IN ACHIEVING THE IMPORTANT ADVANCES IN LIBERALIZATION AROUND THE WORLD. QUITE LITERALLY, THE PROGRESS WE HAVE SEEN COULD NOT HAVE BEEN DONE WITHOUT YOU. SO, THANK YOU.

AVIATION LIBERALIZATION GATHERED ENOUGH MOMENTUM ACROSS THE WORLD IN 2007 THAT IT HAS REALLY TAKEN ON AN AIR OF INEVITABILITY. INDEED, AS LIBERAL AVIATION AGREEMENTS BECOME THE NORM, THE PRICE OF MAINTAINING RESTRICTIVE BILATERAL REGIMES GOES UP. COUNTRIES THAT CONTINUE TO SEEK THE SHELTER OF MARKET RESTRICTIONS FOR THEIR FLAG CARRIERS FIND THEMSELVES IN INCREASINGLY UNTENABLE POSITIONS AS THE WORLD -- QUITE LITERALLY -- PASSES THEM BY.

THE U.S. OPEN-SKIES POLICY IS WELL KNOWN BUT IT IS JUST ONE EXAMPLE OF THE TREND TOWARDS FULLY OPEN AVIATION MARKETS. TOWARD THE END OF 2006 CANADA ADOPTED A NEW 'BLUE SKY' AVIATION POLICY, THE FUNCTIONAL EQUIVALENT OF OUR OPEN SKIES, WHICH IT IS NOW VIGOROUSLY PURSUING WITH ITS PARTNERS. IN FACT, JUST YESTERDAY NEGOTIATIONS BEGAN BETWEEN CANADA AND THE EUROPEAN UNION ON A NEW AGREEMENT. THE SOUTHEAST ASIAN NATIONS FORMING ASEAN HAVE BEEN EXPLORING VARIOUS PATHS FORWARD TO LIBERALIZATION. AND FOR MANY YEARS SINGAPORE AND THE UNITED ARAB EMIRATES HAVE SMARTLY EXPLOITED THEIR GEOGRAPHIC LOCATIONS BY USING LIBERAL AVIATION POLICIES TO CREATE WORLD-CLASS HUBS – WITH AIRLINES TO GO WITH IT.

IF YOU WILL BEAR WITH ME, AND AT THE RISK OF APPEARING TO TAKE A "VICTORY LAP" FOR THE U.S. OPEN SKIES CAMPAIGN, I'D LIKE TO RECAP SOME OF THE MAJOR DEVELOPMENTS ON THE INTERNATIONAL AVIATION

FRONT IN THE LAST YEAR -- AND THEN DISCUSS SOME OF THE MAJOR CHALLENGES WE SEE TO CONTINUED GROWTH OF THE SECTOR.

US-EU AGREEMENT

THE OPEN-SKIES PLUS AGREEMENT REACHED WITH THE EUROPEAN COMMUNITY AND ITS MEMBER STATES THIS SPRING IS TRULY A TRANSFORMATIVE EVENT. IT WILL LIKELY BECOME THE NEW TEMPLATE FOR LIBERALIZATION GLOBALLY AND RESHAPE THE AIRLINE INDUSTRY ON BOTH SIDES OF THE NORTH ATLANTIC. ONCE PROVISIONALLY APPLIED, IT REPLACES A PATCHWORK OF 16 OPEN SKIES AND 11 OTHER, LESS-LIBERAL OR LESS-DEFINED AVIATION REGIMES BETWEEN THE U.S. AND INDIVIDUAL EUROPEAN STATES WITH A SINGLE, ENHANCED OPEN SKIES AGREEMENT COVERING ALL MEMBER STATES OF THE EU. UPON PROVISIONAL APPLICATION OF THIS AGREEMENT NEXT MARCH, THE U.S. WILL HAVE OVER **90** OPEN-SKIES PARTNERS AROUND THE WORLD.

IMMEDIATE BENEFITS TO U.S. PASSENGER CARRIERS ARE READILY APPARENT: THEY GAIN OPEN SKIES ACCESS TO 11 ADDITIONAL COUNTRIES, WHILE CARGO AIRLINES GAIN ADDITIONAL FLEXIBILITY TO OPERATE BETWEEN EU MEMBER STATES. FOR INSTANCE, FEDEX EXPRESS WILL BE ABLE TO BETTER CONNECT THEIR MINI-HUB AT LONDON STANSTED AIRPORT WITH THEIR LARGE HUB AT PARIS CHARLES DE GAULLE AIRPORT. EUROPEAN CARRIERS STAND TO GAIN TREMENDOUSLY AS WELL. THEY WILL

BE ABLE TO OPERATE WHAT WERE ONCE CONSIDERED 7TH FREEDOM OPERATIONS BETWEEN ANY POINT IN THE EUROPEAN UNION AND THE UNITED STATES.

IN ANTICIPATION OF THIS NEW FOUND COMMERCIAL FREEDOM, AIR FRANCE HAS ALREADY ANNOUNCED PLANS TO OPERATE NON-STOP SERVICE BETWEEN LOS ANGELES AND LONDON'S HEATHROW AIRPORT BEGINNING IN AUGUST 2008. IF REALIZED, THEY WILL BECOME THE SEVENTH AIRLINE TO SERVE THAT MARKET. AIR FRANCE HAS ALSO FORMED A COMPREHENSIVE JOINT-VENTURE WITH DELTA AIRLINES THAT WILL GREATLY EXPAND THEIR EXISTING COOPERATIVE RELATIONSHIP. SIMILARLY, BRITISH AIRWAYS HAS ANNOUNCED ITS PLANS TO BEGIN SERVING POINTS IN CONTINENTAL EUROPE FROM THE UNITED STATES BEGINNING NEXT SUMMER. THIS IS ALL GREAT NEWS FOR CONSUMERS ON BOTH SIDES OF THE ATLANTIC.

EUROPEAN CARRIERS WILL ALSO BE ABLE TO COMPETE FOR SOME OF THE \$1 BILLION SPENT ANNUALLY BY THE U.S. GOVERNMENT ON AIR TRAVEL AS THE AGREEMENT MAKES AVAILABLE NEW OPPORTUNITIES TO CARRY SUCH TRAFFIC WITHIN THE CONFINES OF THE "FLY AMERICA" RULES.

THE AGREEMENT RECOGNIZES THAT AVIATION, AT ITS CORE, IS A GLOBAL SERVICES INDUSTRY WITH, INCREASINGLY, GLOBAL BRANDS.

RESPONDING TO THIS TREND, THE NEW AGREEMENT ATTEMPTS TO CLARIFY THE U.S. GOVERNMENT POSITION ON ISSUES RELATING TO

OWNERSHIP AND CONTROL, INCLUDING THE SCOPE OF PERMISSIBLE FRANCHISING. OUR RECENT DECISION TO APPROVE THE APPLICATION OF VIRGIN AMERICA TO BEGIN OPERATIONS IN THE UNITED STATES IS ONE MANIFESTATION OF OUR COMMITMENT TO PERMIT NEW BUSINESS ARRANGEMENTS THAT, WHILE FULLY COMPLIANT WITH U.S. LAW, ALSO ARE IN KEEPING WITH THE DIRECTION OF THE MODERN AIRLINE BUSINESS. I AM ALSO PLEASED TO REPORT THAT, WITHIN TWO WEEKS, DOT'S WEBSITE WILL CONTAIN A COMPLETE LIBRARY OF OUR PRECEDENTS ON OWNERSHIP AND CONTROL – WE DECIDED TO MAKE THESE MATERIALS AVAILABLE IN ONE PLACE TO GIVE POTENTIAL INVESTORS GREATER INSIGHT INTO OUR REGIME. WE HOPE WITH THESE STEPS TO CREATE GREATER TRANSPARENCY INTO U.S. INVESTMENT LAW.

THE EU AGREEMENT USHERS IN A NEW ERA OF TRANS-ATLANTIC COMPETITION. INDUSTRY ANALYSTS NOW EXPECT THAT LOW-COST CARRIERS ON BOTH SIDES OF THE ATLANTIC WILL GEAR UP TO COMPETE IN LONG-HAUL INTERNATIONAL MARKETS THAT HAD BEEN, FOR YEARS, THE PRESERVE OF LARGE, ESTABLISHED CARRIERS. THE CONSUMER BENEFITS OF SUCH NEW-ENTRY ARE OBVIOUS, NOT JUST LOW FARES BUT ALSO PRODUCT DIFFERENTIATION AS NETWORK AIRLINES LOOK TO ATTRIBUTES OTHER THAN PRICE ON WHICH TO COMPETE. THE LARGER AIRLINES WILL ALSO COMPETE ON VIRTUE OF THEIR NETWORK STRENGTH WHICH WILL BE ENHANCED THROUGH THE NEW FREEDOMS UNDER THE NEW AGREEMENT.

NOW, AS MOST OF YOU KNOW, SO-CALLED SECOND-STAGE NEGOTIATIONS WITH THE EU WILL COMMENCE NEXT YEAR—WITHIN 60 DAYS OF THE PROVISIONAL APPLICATION OF THE FIRST STAGE AGREEMENT. THE ITEMS ON THE AGENDA INCLUDE ARE MANY : FURTHER LIBERALIZATION OF TRAFFIC RIGHTS, ADDITIONAL INVESTMENT OPPORTUNITIES, ENVIRONMENTAL/INFRASTRUCTURE ISSUES AFFECTING TRAFFIC SUCH AS NIGHT FLIGHT RESTRICTIONS, ACCESS TO THE GOVERNMENT-PURCHASED AIR TRAVEL MARKET, AND PROVISION OF AIRCRAFT WITH CREW. WE STAND READY TO ENGAGE IN CONSTRUCTIVE DIALOGUE WITH OUR EUROPEAN FRIENDS ON ALL OF THESE ISSUES—BUT I'D ALSO ASK THAT WE KEEP IN MIND THAT ANY FUNDAMENTAL CHANGE IN OUR OWN INVESTMENT REGIME WOULD REQUIRE ACTION BY OUR CONGRESS AND IS NOT SOMETHING IN THE HANDS OF OUR NEGOTIATORS.

ENVIRONMENTAL AND INFRASTRUCTURE ISSUES ARE SOMETHING THAT PARTICULARLY CONCERN THE AMERICAN SIDE, AS WE PREPARE TO IMPLEMENT THE FIRST STAGE OF THE AGREEMENT AND TO BEGIN NEGOTIATIONS OVER THE SECOND STAGE. OUR CARRIERS DON'T VIEW THE AGREEMENT AS IMBALANCED IN THEIR FAVOR. RATHER, THEY ARE QUICK TO REMIND US THAT THE BENEFITS OF THIS AGREEMENT TO THEM ARE SIMPLY NOT ACHIEVABLE WHEN CONSTRAINTS – SUCH AS LOCAL RESTRICTIONS ON NIGHT-FLIGHTS – MAKE AIRPORT ACCESS

COMMERCIALLY IMPRACTICABLE. FOR EXPRESS CARRIERS, EFFICIENCY IN TRANSPORTATION AND LOGISTICS SYSTEMS IS ACHIEVED THROUGH THE ROUND-THE-CLOCK OPERATION OF FACILITIES. THUS, IN THE SECOND STAGE OF NEGOTIATIONS, IT IS IMPERATIVE THAT WE MAKE PROGRESS ON SOME OF THESE "DOING BUSINESS" ISSUES.

US-CANADA OPEN-SKIES

CLOSER TO HOME, IN MARCH OF THIS YEAR, WE SIGNED AN OPEN-SKIES AGREEMENT WITH CANADA. THIS AGREEMENT REPRESENTS A LOGICAL OUTGROWTH OF THE ROBUST AND BROAD AVIATION RELATIONSHIP THAT HAS LONG EXISTED BETWEEN OUR TWO COUNTRIES. THE AGREEMENT ALLOWS U.S. AND CANADIAN CARRIERS TO OPERATE TO THIRD COUNTRIES FROM EACH OTHER'S TERRITORY, CREATES MORE FLEXIBILITY FOR CHARTERS, AND ALLOWS CARGO CARRIERS TO CO-TERMINALIZE AND ALSO OPERATE 7TH FREEDOM FLIGHTS. THESE IMPROVEMENTS TO AN ALREADY STRONG RELATIONSHIP ALLOW FOR CLOSER INTEGRATION WITH OUR LARGEST TRADING PARTNER..

US-CHINA AGREEMENT

THE NEW AGREEMENT REACHED IN MAY WITH THE PEOPLES REPUBLIC OF CHINA WAS ANOTHER BREAKTHROUGH OF 2007. BY THE TIME ALL THE NEW AUTHORIZED CAPACITY COMES ON LINE IN 2011, THE NUMBER OF PASSENGER FLIGHTS PERMITTED BETWEEN THE TWO COUNTRIES WILL BE

MORE THAN DOUBLED AND AIR CARGO WILL BE GOVERNED BY AN OPEN SKIES REGIME. THE DEPARTMENT OF TRANSPORTATION HAS ALREADY AWARDED ROUTES TO DELTA AIRLINES AND UNITED AIRLINES, WITH SERVICES FROM ATLANTA TO SHANGHAI AND FROM SAN FRANCISCO AND GUANGZHOU RESPECTIVELY TO BEGIN IN 2008, AND HAS TENTATIVELY AWARDED ROUTES TO FOUR OTHER AIRLINES TO COMMENCE IN 2009.

FOR ITS PART, THE GENERAL ADMINISTRATION OF CIVIL AVIATION OF CHINA (“CAAC”) HAS ALSO AWARDED ROUTES TO CHINA EASTERN, CHINA SOUTHERN, HAINAN AIRLINES, AND AIR CHINA. IN 2008, CHINESE CARRIERS WILL COLLECTIVELY INAUGURATE SERVICE ON THREE NEW ROUTES WITH THIRTEEN NEW FLIGHTS TO THE U.S. IN ADDITION TO NINETEEN MORE FLIGHTS ON EXISTING ROUTES TO THE U.S. IN 2009, THEY WILL OPEN SEVEN NEW ROUTES WITH FORTY-NINE FLIGHTS AND ADD SEVEN WEEKLY FLIGHTS TO EXISTING ROUTES. NEW FLIGHTS BY CHINESE CARRIERS TO THE U.S. REPRESENT A UNIQUE OPPORTUNITY FOR YOU AS AIRPORT OPERATORS. SOME OF THESE CARRIERS ARE RELATIVELY NEW TO THE LONG-HAUL TRANS-PACIFIC MARKET AND THESE NEW FLIGHTS REPRESENT A SUBSTANTIAL BUSINESS RISK FOR THEM. WE HOPE WE CAN COUNT ON YOU TO SUPPORT THEIR EFFORTS TO SERVE YOUR COMMUNITIES AND THUS HELP THEIR FLIGHTS SUCCEED . . . BECAUSE IF CHINESE AIRLINES CAN SUCCEED IN THE U.S. TRANSPACIFIC MARKET, IT WILL HELP OUR OWN EFFORTS TO LIBERALIZE FURTHER WITH CHINA. THEIR SUCCESS IN OUR

COUNTRY WOULD DEMONSTRATE HOW LIBERALIZATION IS TRULY A WIN-WIN PROPOSITION AND HOPEFULLY PAVE THE WAY FOR A FULL OPEN-SKIES AGREEMENT WHEN NEGOTIATIONS RESUME IN 2010.

AT THE MOMENT, CHINA IS WORKING THROUGH SEVERAL ISSUES THAT CONTINUE TO IMPEDE CIVIL AVIATION GROWTH. THE MOST SIGNIFICANT BARRIER IS MILITARY CONTROL OF SOME 80% OF CHINESE AIRSPACE. BUT I THINK THERE IS MUCH REASON FOR OPTIMISM AS THE CIVIL AVIATION MINISTRY UNDER THE LEADERSHIP OF MINISTER YANG YUANYUAN (OR TRIPLE-YYY) HAS SHOWN ITSELF TO BE EXTREMELY CAPABLE OF SOLVING DIFFICULT PROBLEMS. TAKE AVIATION SAFETY FOR INSTANCE. IN A PERIOD OF ABOUT 10 YEARS, CHINA HAS TRANSFORMED ITSELF AND HAS A SAFETY RECORD THAT IS NOW ON PAR WITH THE U.S. AND EUROPE.

U.S.-JAPAN AGREEMENT

IN SEPTEMBER, THE DEPARTMENTS OF STATE AND TRANSPORTATION ALSO STRUCK A NEW AGREEMENT WITH JAPAN, PROVIDING ADDITIONAL OPERATING AUTHORITY TO UNITED PARCEL SERVICE AND POLAR AIR CARGO AND NEEDED COMMERCIAL FLEXIBILITY FOR NORTHWEST, DELTA, AND CONTINENTAL AIRLINES. THE JAPANESE RECEIVED THE RIGHT TO OPERATE MORE CHARTER FLIGHTS AND TO ENGAGE IN SAME COUNTRY CODE SHARE PRACTICES IN THE AIR CARGO ARENA.

WHILE THIS AGREEMENT REPRESENTS PROGRESS, THE U.S.-JAPAN AIR SERVICES AGREEMENT STILL DOES NOT REFLECT THE STATURE OF THE OVERALL BILATERAL U.S.-JAPAN ECONOMIC AND POLITICAL RELATIONSHIP. THE ABSENCE OF AN OPEN-SKIES AGREEMENT MEANS ANA AND JAPAN AIRLINES AND THEIR U.S. ALLIANCE PARTNERS, UNITED AND AMERICAN RESPECTIVELY, ARE UNABLE TO ACHIEVE THE LEVEL OF INTEGRATION THAT WOULD BE POSSIBLE IF THEY APPLIED FOR AND RECEIVED ANTITRUST IMMUNITY—OF COURSE, LONGSTANDING U.S. POLICY IS THAT IMMUNITY APPLICATIONS WILL ONLY BE CONSIDERED FOR OPEN SKIES COUNTRIES. JAPAN IS BLESSED WITH VERY FAVORABLE GEOGRAPHY, ON THE DOORSTEP OF ASIA NOT TO MENTION THE WORLD'S SECOND LARGEST ECONOMY. THUS THERE IS CERTAINLY A LATENT POTENTIAL FOR JAPAN TO BECOME AN AVIATION POWERHOUSE IN THE WAY THAT SINGAPORE AND OTHERS HAVE SUCCESSFULLY LEVERAGED THEIR GEOGRAPHY AND ECONOMIES. INDEED, NEARBY OPEN-SKIES SIGNATORY SOUTH KOREA IS SUCCESSFULLY USING ITS NATURAL ADVANTAGES TO BECOME HOME TO ONE OF THE WORLD'S LARGEST CARGO AIRLINES, KOREAN AIR, WHICH, IN THE PASSENGER ARENA, NOW BILLS ITSELF IN THE UNITED STATES AS A LEADING CARRIER TO CHINA FOR BUSINESS TRAVELERS.

U.S.-COLOMBIA AGREEMENT

WE WERE BUSY IN SEPTEMBER AS WE ALSO REACHED AN AGREEMENT WITH COLOMBIA. THE AGREEMENT CREATES ROOM FOR GROWTH IN A MARKET

THAT IS IN NEED OF SOME SPACE: ALL 70 WEEKLY PASSENGER FLIGHTS AVAILABLE TO U.S. CARRIERS ARE CURRENTLY ALLOCATED. UNDER THE AGREEMENT, CARRIERS OF EACH COUNTRY MAY CONDUCT AN ADDITIONAL 21 PASSENGER FLIGHTS EACH WEEK BETWEEN THE UNITED STATES AND COLOMBIA. ADDITIONALLY, THEY MAY PROVIDE AN UNLIMITED NUMBER WEEKLY FLIGHTS TO THE COLOMBIAN CITIES OF BARRANQUILLA AND CARTAGENA AND UNLIMITED PASSENGER CHARTER FLIGHTS TO SEVERAL CITIES IN EITHER COUNTRY. WE UNDERSTAND THAT SEVERAL COLOMBIAN CARRIERS ARE ALSO CONSIDERING BEGINNING SERVICE IN THE U.S.-COLOMBIA MARKET IN THE NEAR FUTURE.

ALTHOUGH THE U.S.-COLOMBIA AGREEMENT DOES NOT LIMIT THE NUMBER OF CARRIERS THAT MAY OPERATE IN THE MARKET, THE EXISTING LIMITATION ON THE NUMBER OF WEEKLY FLIGHTS HAS EFFECTIVELY PREVENTED NEW U.S. ENTRANTS IN THE MARKET SINCE 2000.

THE NEWLY AVAILABLE SERVICE OPPORTUNITIES AT BARRANQUILLA AND CARTAGENA, IN COMBINATION WITH THE INCREASED AVAILABILITY OF FLIGHTS UNDER THE AMENDED AGREEMENT, WILL ALLOW SOME U.S. CARRIERS TO SERVE COLOMBIA FOR THE FIRST TIME. I AM ENCOURAGED BY THE FACT THAT THE DEPARTMENT OF TRANSPORTATION HAS ALREADY RECEIVED NUMEROUS APPLICATIONS TO USE THE NEWLY AVAILABLE WEEKLY FLIGHTS.

U.S.-ARGENTINA AGREEMENT

LASTLY, IN MARCH, WE ALSO REACHED A NEW AGREEMENT WITH ARGENTINA THAT SIGNIFICANTLY EXPANDS PASSENGER SERVICES AND THAT BUILDS UPON THE ALREADY LIBERAL CARGO REGIME. ONCE NEW FREQUENCIES ARE FULLY PHASED-IN, THE NUMBER OF WEEKLY PASSENGER FLIGHTS AVAILABLE TO CARRIERS OF EACH COUNTRY WILL HAVE DOUBLED FROM 56 TO 112. AMERICAN AIRLINES HAS ALREADY TAKEN ADVANTAGE OF THE FIRST SET OF AVAILABLE FREQUENCIES TO INITIATE CHICAGO-BUENOS AIRES SERVICE.

THE ADDITIONAL CODE-SHARING OPPORTUNITIES IN THE AGREEMENT WILL AID IN THE DEVELOPMENT OF THE U.S.-ARGENTINA MARKET, AS CARRIERS IN BOTH COUNTRIES CAN OPEN NEW MARKETS. ALREADY, AMERICAN AND LAN ARGENTINA HAVE APPLIED FOR ECONOMIC AUTHORITY TO PROVIDE CODE-SHARE SERVICES TO OVER 30 CITIES IN THE UNITED STATES AND ARGENTINA; AND TO PROVIDE CODE-SHARE SERVICES BEYOND THE UNITED STATES TO SOME CITIES IN NORTH AMERICA AND THE CARIBBEAN. THE NEW AGREEMENT WILL ALSO ALLOW U.S. AND ARGENTINE AIR CARRIERS TO EXPLORE CODE-SHARING ARRANGEMENTS WITH CARRIERS OF THIRD COUNTRIES. THE AGREEMENT ALSO BROUGHT THE ARTICLE ON AVIATION SECURITY UP TO DATE AND INTRODUCED AN ARTICLE ON PRICING INTO OUR BILATERAL RELATIONSHIP FOR THE FIRST TIME.

AVIATION EMISSIONS AND ICAO

LIBERALIZATION IS GOOD NEWS FOR CONSUMERS, AND WE AT D.O.T. ARE GRATIFIED BY THE PLETHORA OF NEW SERVICES AND FLIGHTS OFFERED BY AIRLINES IN INTERNATIONAL MARKETS. BUT THE GROWTH WE ARE SEEING MAY WELL HAVE A LIMIT IF WE CAN'T DEMONSTRATE TO THE PUBLIC – SOON -- THAT AVIATION CAN ALSO GROW IN A SUSTAINABLE WAY. THAT IS, WE MUST GET “THE ENVIRONMENT” RIGHT. I BELIEVE THAT PUBLIC CONCERN OVER AVIATION EMISSIONS IS THE SINGLE BIGGEST THREAT TO THE GROWTH OF INTERNATIONAL AVIATION, AND IF YOU ARE NOT PAYING ATTENTION TO THIS ISSUE, I SUGGEST YOU SHOULD.

I WILL START WITH A FEW FACTS. AVIATION EMISSIONS ARE **NOT** GROWING OUT OF CONTROL. AVIATION STILL REPRESENTS A RELATIVELY SMALL 2-3% OF ALL GREENHOUSE GAS EMISSIONS. AND THE ENCOURAGING NEWS IS THAT WHEN COMPARED TO 2000, AS OF LAST YEAR, THE U..S. -- THE WORLD’S SINGLE LARGEST AND MOST ADVANCED AVIATION MARKET – WAS MOVING SOME 12% MORE PASSENGERS (OR 78 MILLION PEOPLE) AND 22% MORE FREIGHT (OR 5.4 BILLION REVENUE TON MILES) WHILE PRODUCING **FIVE PERCENT LESS** (OR 10.5 MILLION FEWER) TONS OF CARBON GASES. WE ARE BECOMING MUCH MORE FUEL AND ENVIRONMENTALLY EFFICIENT IN THE U.S.

MOREOVER, THE AVIATION INDUSTRY HAS MADE AND CONTINUES TO MAKE SIGNIFICANT STRIDES IN FUEL EFFICIENCY. TODAY'S NEW AIRCRAFT COMPARE FAVORABLY WITH A COMPACT CAR FOR FUEL EFFICIENCY. AND WITH FUEL REPRESENTING ALMOST 30% OF COSTS FOR MOST AIRLINES IN THE U.S., THE PRICE OF FUEL HAS ALREADY CREATED A HUGE MARKET-BASED INCENTIVE TO REDUCE CONSUMPTION -- AND HENCE EMISSIONS -- WITHOUT DRACONIAN GOVERNMENTAL ACTION.

IN SEPTEMBER, I REPRESENTED THE UNITED STATES AT THE ICAO 36TH ASSEMBLY IN MONTREAL. IT WAS A SPIRITED MEETING BY THE END OF WHICH WE HAD MADE _PROGRESS TOWARDS ACHIEVING A GLOBAL SOLUTION TO ADDRESS CARBON EMISSIONS FROM AIRCRAFT. WE AGREED ON A MULTIFACETED APPROACH TO THE PROBLEM. WE RECOGNIZED THAT IT WILL TAKE A COMBINATION OF IMPROVEMENTS IN AIR TRAFFIC MANAGEMENT, RESEARCH INTO ALTERNATIVE FUELS, MORE EFFICIENT AIRCRAFT AND ENGINES, AND OTHER STEPS TO SOLVE THE PROBLEM. AND WE AGREED TO STEP UP ICAO'S COMMITMENT TO SOLVING IT.

THE ASSEMBLY ENDORSED A COMPREHENSIVE, AGGRESSIVE APPROACH TO THIS ISSUE – EMPOWERING A NEW STEERING GROUP OF HIGH LEVEL OFFICIALS WHO WILL BUILD ON THE EXCELLENT TECHNICAL WORK ALREADY DONE BY ICAO'S COMMITTEE ON AVIATION AND ENVIRONMENTAL PROTECTION. THEIR MISSION IS TO COME UP WITH A TOOL BOX OF

SOLUTIONS THAT WILL THEN BE USED IN THE RIGHT WAY IN EACH AVIATION MARKET. THEY WILL STUDY THE PRACTICALITY OF A GLOBAL EFFICIENCY TARGET. AND WHILE THERE WASN'T UNANIMITY AMONG ICAO STATES AS TO THE EFFICACY OF ANY PARTICULAR MEASURES THERE WAS WIDESPREAD CONSENSUS THAT IT IS VITAL TO WORK TO **HARMONIZE** OUR APPROACHES THROUGH ICAO BASED ON NOTIONS OF GOOD SCIENCE, RECIPROCITY AND CONSENT.

BUT ICAO'S ACTIONS WERE STILL VIEWED WITH GREAT SKEPTICISM BY A EUROPEAN PUBLIC THAT HAS BEEN CONDITIONED TO BELIEVE THAT AVIATION IS, SIMPLY, BAD AND THEREFORE MUST BE CURBED. I PROBABLY DONT NEED TO TELL YOU THAT CLIMATE CHANGE HAS BEEN CITED AS A MAJOR FACTOR IN DETERMINING WHETHER THERE WILL BE NEEDED RUNWAY EXPANSION AT LONDON'S HEATHROW AIRPORT. ACROSS EUROPE, THERE ARE FACTIONS WORKING TO CURTAIL AVIATION GROWTH REGARDLESS OF THE BENEFITS IT OFFERS TO THE ECONOMY AND QUALITY OF LIFE. MORE AND MORE OFTEN ENVIRONMENTALISTS THERE FREELY LABEL AVIATION A "ROGUE INDUSTRY", ALONGSIDE BIG TOBACCO. THE LARGEST RETAILER IN THE U.K. BOASTS THAT IT WILL RESTRICT GOODS CARRIED BY AIR CARGO TO LESS THAN 1 PER CENT OF ITS PRODUCTS AND IT PUTS AN AIRPLANE SYMBOL ON ALL AIR-FREIGHTED PRODUCTS IN ITS STORES, PRESUMABLY TO DISCOURAGE THEIR PURCHASE. EVERY DAY, OR SO IT SEEMS, ANOTHER NEW TAX OR DUTY IS PROPOSED TO REMEDY

AVIATION'S ENVIRONMENTAL IMPACT. EUROPE IS MOVING QUICKLY TOWARD THE UNILATERAL IMPOSITION OF AN EU-DESIGNED AVIATION EMISSIONS TRADING SYSTEM. JUST THIS MONTH, THE EUROPEAN PARLIAMENT ADOPTED A PLAN MORE STRINGENT THAN THE PLAN FIRST PROPOSED BY THE EUROPEAN COMMISSION.

MY MESSAGE TO YOU IS THIS: THE AVIATION INDUSTRY HAS PROVED ITSELF OVER MANY DECADES CAPABLE OF SOLVING DIFFICULT ENVIRONMENTAL PROBLEMS – JUST THINK ABOUT THE PROGRESS WE HAVE MADE IN NOISE MITIGATION. WE ARE DOING A LOT OF GOOD WORK ON FUEL EFFICIENCY, WHICH TRANSLATES DIRECTLY INTO LOWER EMISSIONS. BUT CLIMATE CHANGE RAISES THE BAR TO A WHOLE NEW LEVEL, AND AS A COMMUNITY – IF WE WANT INTERNATIONAL AVIATION TO GROW – WE MUST REDOUBLE OUR ENERGIES TO SOLVE THIS PROBLEM AND, THROUGH THOSE SOLUTIONS, TO CHANGE PUBLIC OPINION.

CONCLUSION

SO LET ME WRAP UP BY SAYING THAT, ON BALANCE, 2007 HAS BEEN A GREAT YEAR FOR INTERNATIONAL AVIATION. THE TREND TOWARD OPEN AVIATION MARKETS CONTINUED TO MOVE INEXORABLY FORWARD AND WITH EVER-GROWING MOMENTUM. THE DIALOGUE ABOUT LIBERALIZATION HAS SUBTLY SHIFTED AWAY FROM QUESTIONS THAT BEGIN WITH 'IF' TOWARDS QUESTIONS BEGINNING WITH THE WORD: 'WHEN'—AS EACH NEW

AGREEMENT RAISES THE OPPORTUNITY COSTS FOR CARRIERS IN RESTRICTED MARKETS.

BEYOND THE BROAD STROKES OF LIBERALIZATION, MUCH DETAILED WORK REMAINS TO BE DONE TO HELP REALIZE THE FULL VALUE OF THESE AGREEMENTS—WHETHER IT EXAMINING WAYS TO IMPROVE INVESTMENT OPPORTUNITY OR BY RATIONALIZNG LOCAL ENVIRONMENTAL AND INFRASTRUCTURE RULES AROUND THE REALITIES OF MODERN AVIATION AND OTHER BUSINESSES.

ENVIRONMENTAL ISSUES ARE LOOM LARGE IN INTERNATIONAL AVIATION AND POSE A REAL CHALLENGE. TO BE CLEAR, WE DO NOT DISMISS CONCERNS ABOUT THE ENVIRONMENT. THESE CONCERNS ARE VALID AND MUST BE ADDRESSED. BUT THEY MUST BE ADDRESSED IN WAYS GROUNDED IN HARD SCIENCE, LED THROUGH MULTILATERAL INSTITUTIONS LIKE ICAO, AND IN THE SPIRIT OF COOPERATION. WE SHOUDNT WE HAVE TO TRADE OFF A CLEAN ENVIRONMENT FOR MORE AVIATION GROWTH. THERE IS NO REASON WE CANNOT HAVE BOTH OF THOSE THINGS.

THANK YOU, AND I WOULD BE PLEASED TO TAKE ANY QUESTIONS.

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