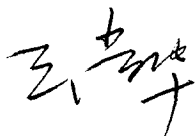


MEMORANDUM OF CONSULTATIONS

Delegations representing the Governments of the United States of America and the People's Republic of China met in Washington, D.C., on June 9-11, 2004, to negotiate amendments to the 1980 U.S.-China Air Transport Agreement, as amended. Negotiations proceeded in the same productive and cordial atmosphere that had characterized the prior three negotiating sessions between the two countries. Delegation lists appear as Appendix 1.

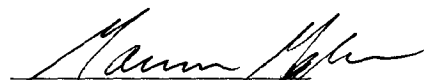
The delegations initialed the attached Terms of Agreement (Appendix 2), and intend to complete the text of a draft Protocol that will reflect the Terms of Agreement at the earliest date possible.

For the delegation of
the People's Republic of China:



Mr. Wang Ronghua
Director General
Department of International Affairs
and Cooperation
Civil Aviation Administration of China

For the delegation of
the United States of America:



Ms. Marianne Myles
Director
Office of Aviation Negotiations
U.S. Department of State

Washington, D.C.
June 11, 2004

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| 15. Mr. Paul Doell/
Ms. Jennifer Winter* | National Air Carrier Association |
| 16. Mr. David Eiselsberg | Miami International Airport |
| 17. Ms. Roz Ellingsworth | Independent Pilots Association |
| 18. Mr. Dan Elwell | American Airlines |
| 19. Mr. Richard Finn | Portland International Airport |
| 20. Mr. Stephen Gelband | San Diego International Airport |
| 21. Mr. Mike Goldman | Dallas/Fort Worth International Airport |
| 22. Mr. Harry Kassap | Las Vegas McCarran International Airport |
| 23. Mr. Hershel Kamen | Continental Airlines |
| 24. Ms. Charlene Kennedy | Delta Air Lines |
| 25. Mr. Tom Lydon | Evergreen |
| 26. Mr. Howard K. Mann | Airports Council International - North America |
| 27. Mr. David Mishkin | Northwest Airlines |
| 28. Mr. Greg Moix | San Francisco Airport Commission |
| 29. Mr. Kevin Montgomery | Polar Air Cargo |
| 30. Mr. Steve Okun/
Mr. Ted Lytle* | United Parcel Service (UPS) |
| 31. Mr. Genaro Pena | Houston Airport System |
| 32. Mr. Bradley Rubinstein | Port Authority of New York and New Jersey |
| 33. Mr. Carlos Salas | Commonwealth of the Northern Mariana Islands |
| 34. Ms. Nancy Sparks/
Mr. Bailey Leopard* | Federal Express (FedEx) |

* Alternate



**China-U.S. Aviation Negotiations
June 9-11, 2004**

Chinese Delegation

1. Mr. Wang Ronghua Director General
Department of International Affairs and Cooperation
General Administration of Civil Aviation of China (CAAC)
2. Dr. Liu Fang Division Director
Department of International Affairs and Cooperation
CAAC
3. Mr. Han Jun Division Director
Department of International Affairs and Cooperation
CAAC
4. Ms. Tao Yehong Official
Department of International Affairs and Cooperation
CAAC
5. Ms. Sun Ying Official
Department of International Affairs and Cooperation
CAAC
6. Mr. Zhang Ying First Secretary
Commercial Affairs Section
Embassy of the PRC

Industry

7. Mr. Zhu Songyan Deputy General Manager
Marketing and Sales Department
Air China
8. Mr. Shi Zengqi Vice President
Air China Cargo Co., Ltd
9. Mr. Yang Rui Assistant
International Affairs
Air China

3.



10. Mr. Qian Qiaoyi General Manager
Los Angeles Office
China Eastern Airlines Co., Ltd.
11. Ms. Huang Lei Staff Member
Airline Planning and International Affairs Department
China Eastern Airlines Co., Ltd.
12. Mr. Gu Xigang Deputy General Manager
USA Office
China Cargo Airlines
13. Mr. Liang Zhonggao Vice President
Passenger Service
China Southern Airlines Ltd.
14. Mr. Huang Ying Director
Cargo Business Development Division
China Southern Airlines Ltd.
15. Ms. Xu Lin Assistant Manager
Government Affairs
China Southern Airlines Ltd.
16. Ms. Zhou Xiao'e Senior Vice President
Shanghai Airlines Co., Ltd.
17. Ms. Li Wei Manager
International Division
Commercial Department
Shanghai Airlines Co., Ltd.
18. Ms. Wang Gehui Business Manager
International Division
Commercial Department
Shanghai Airlines Co., Ltd.
19. Mr. Tan Xiangdong Executive Director of the Board
Hainan Airlines Group Co., Ltd.
20. Mr. Shu Xiaobin Deputy Manager
International Business Center
Sales and Marketing Department
Hainan Airlines Company Limited

3.



21. Mr. Liu Chang

Regional Manager
International Business Center
Sales and Marketing Department
Hainan Airlines Company Limited

3.



U.S.-China Aviation Negotiations

Terms of Agreement

June 11, 2004

1. Designations

- A. One additional designation for U.S. Route B, effective August 1, 2004. One additional designation for China Route A or Route B, effective August 1, 2004.
- B. One additional designation for U.S. Route A, effective 2005 IATA summer season. One additional designation for China Route A or Route B, effective 2005 IATA summer season.
- C. One additional designation for each side for Route A or Route B, effective 2006 IATA summer season.
- D. One additional designation for each side for Route A or Route B, effective 2008 IATA summer season.
- E. One additional designation for each side for Route A or Route B, effective 2010 IATA summer season.

2. Frequencies

In addition to the frequencies available under the current agreement, the frequencies available to operate additional combination and all-cargo flights will be increased as discussed in this Part. Frequencies will apply to different geographical areas of China as defined by Zones.

Zone 1: Beijing, Shanghai, and Guangzhou

Zone 2: Anhui, Fujian, Guangdong (except for Guangzhou), Hebei, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Shandong, Shanxi, Tianjin, and Zhejiang

Zone 3: Chongqing, Gansu, Guangxi, Guizhou, Hainan Island, Heilongjiang, Inner Mongolia, Jilin, Liaoning, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, and Yunnan.

3.

A. The frequencies in this section will be available for services to Zones 1 and 2.

Combination Frequencies for Zones 1 and 2

August 1, 2004:	+14
2005 IATA summer season:	+ 7
2006 IATA summer season:	+ 7
2007 IATA summer season:	+ 7
2008 IATA summer season:	+ 7
2009 IATA summer season:	+ 7
2010 IATA summer season:	+ 7

All-Cargo Frequencies for Zones 1 and 2

August 1, 2004:	+ 21
2005 IATA summer season:	+ 18
2006 IATA summer season:	+ 12
2007 IATA summer season:	+ 15
2008 IATA summer season:	+ 15
2009 IATA summer season:	+ 15
2010 IATA summer season:	+ 15

Note 1: For the U.S. side: Any Route A carrier that obtains new all-cargo frequencies made available by this agreement must use such frequencies for all-cargo services only. Any Route A carrier that obtains new combination frequencies made available by this agreement must use such frequencies for combination services only.

Note 2: For the Chinese side: The capacity entitlement may be converted between Route B cargo carriers and Route A combination carriers.

Note 3: For both sides: The current agreement limits the number of weekly flights to 54 for each side. Currently, these frequencies may be used for combination and/or all-cargo service by carriers designated on Route A, and for all-cargo service on Route B by carriers designated on Route B and may be reallocated between carriers on Route A and carriers on Route B. When this agreement comes into effect, this flexibility will continue for the Chinese side but shall be limited for the U.S. side to 18 frequencies. The remaining 36 U.S. frequencies will be restricted to the Route and type of service - either all-cargo or combination - for which they are currently used. Currently, U.S. carriers operate 37 frequencies on Route A, of which 34 are combination and 3 are all-cargo, and 17 frequencies on Route B.

B. In addition to the frequencies made available in 2A above, the designated carriers may use frequencies made available by this paragraph for Zone 2 only.

All-Cargo/Combination Frequencies for Zone 2

2007 IATA summer season:	+ 7
2008 IATA summer season:	+ 7
2009 IATA summer season:	+ 7
2010 IATA summer season:	+ 7

3. Special Aviation Area (Zone 3):

All designated and non-designated U.S. and Chinese carriers shall be permitted to operate third and fourth freedom services between the United States and points in Zone 3 without frequency limitations. At five points in Zone 3 to be selected by each Party, all designated and non-designated U.S. and Chinese carriers shall be permitted to operate fifth freedom services on the authorized routes without frequency limitations. In the case of combination carriers, such fifth-freedom services shall not count against the fifth-freedom cap described in paragraph 4D below. Service to/from a point in Zone 1 or 2 that also serves a point in Zone 3 would still be subject to the limitations applicable to service to/from Zone 1 or Zone 2.

4. Route Rights for Combination Carriers**A. For the Chinese side**

1. No limitation on the points that may be served in the United States, effective immediately.
2. One additional intermediate or beyond point, with full traffic rights, may be selected by China each year, 2005 to 2010.

B. For the U.S. side

1. No limitation on the points that may be served in China, effective immediately.
2. One additional intermediate point, with full traffic rights, may be selected by the United States, effective 2009 IATA summer season.

C. For both sides

Route A carriers, when operating all-cargo flights, shall enjoy the same route flexibility as Route B carriers.

D. Limitation on Japan-China Flights

The limitation, applicable to combination services only, that no more than 39 frequencies may be operated with fifth freedom rights between Japan and China,

shall apply only to flights serving points in Zone 1, Zone 2, and all but five points selected in Zone 3, per the rights granted in Section 3.

5. Code Sharing

A. Bilateral Code Sharing

Code sharing between any U.S. and Chinese airlines, including non-designated airlines, shall be permitted without limitations as to the points that may be served in either country, or a third country, on a code-share basis. Such code-share arrangements may also involve additional airlines of each Party and/or airlines of third countries. U.S. and Chinese airlines may market code-share services on routes that are open, i.e. that include points in the territories of the parties and also may include any behind, intermediate, and beyond points.

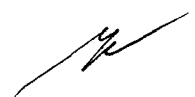
B. Same-Country Carrier Code Sharing

Same-country code sharing shall be permitted for one pair (1+1 or 1+2) of airlines, including non-designated airlines, in 2006, and another pair, including non-designated airlines, (1+1) in 2008. If the opportunity used in 2006 is 1+1, then the opportunity available in 2008 will be 1+1 or 1+2. If U.S. same-country carrier code-share arrangements include participation by a carrier or carriers of the other Party, they shall be treated as bilateral code-sharing arrangements, to which no limitations apply.

6. Charters

- A. Each side agrees to permit up to 75 one-way charter flights per year between points in Zone 1 and U.S. points on city pairs served by Chinese carriers' scheduled services of the same type (combination or all-cargo) as the charter applicant.
- B. Each side agrees to permit up to 75 one-way charter flights per year between points in Zone 2 and U.S. points on city pairs served by Chinese carriers' scheduled services of the same type (combination or all-cargo) as the charter applicant.
- C. Each side agrees to permit unlimited charters between points in Zone 3 and any US points.
- D. Each side agrees to permit unlimited charters on U.S.-China city-pairs not served by Chinese carriers' scheduled service of the same type (combination or all-cargo) as the charter applicant.

3.



- E. Applications to operate fifth-freedom charters, and charters on U.S.-China city pairs served by Chinese carriers' scheduled services that exceed the limits specified in A and B above, shall be considered on the basis of comity and reciprocity.
- F. Carriers shall operate charters in accordance with the charter rules of the country from which the charter originates.
- G. Each Party shall process charter applications expeditiously and act on charter applications without undue delay.

7. Change of Gauge for Cargo Services

- A. Beginning with the 2005 IATA summer season, for all-cargo services, carriers may change gauge at any point in the other Party's territory with the limitation that no more than two flights with aircraft of any size or type may operate beyond the point of change of gauge for each incoming aircraft. Only one aircraft of those two may operate to another point in that Party's territory from the point of change of gauge.
- B. Beginning with the 2007 IATA summer season, for all-cargo services, carriers may change gauge at any point in the other Party's territory with the limitation that no more than two flights with aircraft of any size or type may operate beyond the point of change of gauge for each incoming aircraft. Both of those aircraft may operate to another point in that Party's territory from the point of change of gauge.
- C. Beginning with the 2009 IATA summer season, for all-cargo services, carriers may change gauge at any point in the other Party's territory with the limitation that no more than three flights with aircraft of any size or type may operate beyond the point of change of gauge for each incoming aircraft. Only two aircraft of those three may operate to another point in that Party's territory from the point of change of gauge.
- D. Beginning with the 2011 IATA summer season, for all-cargo services, carriers may change gauge at any point in the other Party's territory with the limitation that no more than three flights with aircraft of any size or type may operate beyond the point of change of gauge for each incoming aircraft. All three of those aircraft may operate to another point in that Party's territory from the point of change of gauge.

Note: Aircraft for operations under paragraphs 7.A-D shall be scheduled in coincidence with the outbound or inbound aircraft, as the case may be, and may have the same flight number. (A clarification will be made that equal or smaller size aircraft will normally provide service beyond the change of gauge point.)

8. Pricing

Effective immediately, a country-of-origin pricing regime will replace the current regime for pricing. Effective 2008 IATA summer season, a double-disapproval regime shall take effect.

9. Cargo Hubs

- A. Effective in 2007, designated airlines that have established a cargo hub will immediately have the following operational rights at the hub: unlimited capacity, unlimited “starburst” change-of-gauge (with the limitation that only four aircraft may operate to another point in that Party's territory from the point of change of gauge), unrestricted fifth freedom rights, seventh freedom rights, coterminization, self-handling, intermodal and unlimited code-sharing.
- B. For purposes of paragraph (A), a hub shall be defined as a point in the territory of the other Party at which:
- (1) A designated airline serves with at least 72 all-cargo aircraft movements per week to multiple points. An aircraft movement is a landing or a takeoff at the hub point, and
 - (2) A designated airline employs personnel at the hub point to facilitate the movement of the cargo, and
 - (3) A designated airline utilizes airport facilities at the hub point for the movement of cargo.
 - (4) A designated airline must utilize a bonded facility under the supervision of customs authorities for the movement of transit traffic at the hub point.
- C. If a designated airline serves its cargo hub in the territory of the other Party with a traffic stop at a non-hub point in the other Party's territory, such a flight would count against the frequency entitlement applicable to the non-hub point under this agreement:
- 1) From 2007 through 2008, when serving a city in Zone 1 or Zone 2
 - 2) From 2009 through 2010, when serving a city in Zone 1
 - 3) From 2011, no flights will count against the frequency entitlement
- D. A designated airline that consistently meets the definition of a hub, as defined in this Part, for a continuous six month period, shall retain the full operating flexibility held by that airline at its hub point even if that airline temporarily fails to operate 72 aircraft movements per week at the hub. In the event such an airline fails to operate an average of at least 72 aircraft movements per week at its hub

over a period of nine months the two sides shall consult to review the circumstances that led to the reduced level of operations and the likelihood that hub operations will be restored.

10. Intermodal Rights

Effective 2007, airlines of both countries shall be permitted, without restriction, to employ in connection with international air transportation any surface transportation for cargo to or from any points in the territories of the Parties or in third countries. Intermodal cargo services may be offered at a single, through price for air and surface transportation combined.

11. Self-Handling

Effective 2008, airlines of both countries shall be permitted to perform their own ground handling in the territory of the other Party directly and/or to select ground-handling agents.

12. Doing Business

A. Hiring of Third Country Nationals

Each Party will permit carriers of the other Party to hire third country managerial, sales, technical, operational, and other specialist staff required for the provision of air transportation.

B. Rights for Non-designated Carriers

1. Right to open independent sales offices, whether or not the carrier has a Chinese code-share partner, including the ability to lease own office space and to hire office employees.
2. Right to market and sell services, both for international and U.S. domestic segments to include sales on an online, interline, code-share, or blocked space basis.
3. Right to issue own tickets or airway bills for the sale of services.
4. Right to participate in the Bank Settlement Plan.
5. Right to select and appoint General Sales Agents.



6. Right to open offices in airports.

13. Future Negotiations

Both sides agree that the ultimate objective for the bilateral civil aviation relationship is full liberalization. To that end, negotiations shall be held in 2006 for the purposes of 1) conducting a comprehensive review of the implementation of their bilateral civil aviation agreement to date, and 2) establishing the next steps that the sides will take to further liberalize their bilateral civil aviation relationship.

