



## U.S.-EU Aviation Relations: Success Today and Potential for the Future

**John R. Byerly, Deputy Assistant Secretary for Transportation Affairs**

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Three years ago, in July 2004, I had the privilege of speaking before the International Aviation Club on air transport relations with the European Union. I entitled the speech "Charting the Course for Success."

It was a cheery title but far from an optimistic presentation. Talks had broken down in June 2004 following European transport ministers' rejection of the tentative deal that the Commission and we had worked out in eight months of intense negotiations. My speech was a depressing assessment of conflicts between the Commission and member states, of various agendas masquerading as demands for further liberalization, and of alleged back-room deals to thwart approval of the Commission's proposals. When I spoke to you in July 2004, it was clear that hopes for an "early harvest" agreement to stabilize the legal framework and to expand commercial opportunities would not be realized and that we faced, instead, the "marathon" negotiations that Rod Eddington, BA's CEO at the time, had called for.

Today, that marathon is over. We are less than a week away from the U.S.-EU Summit on April 30 and formal announcement of a comprehensive, first-stage Air Transport Agreement. The United States, together with the European Community and its 27 member states, will make aviation history with this agreement. We will celebrate a multilateral accord that is unmatched in the size of the market it opens, in the scope of the liberalization it heralds, in the breadth of the benefits it brings to consumers, and in the importance of the precedent it sets for other countries to open their markets to less regulation and more competition. On March 30, 2008, we will then put in place this pro-growth, pro-competition, pro-consumer agreement—a breakthrough in transatlantic economic relations and a harbinger of what the United States and the European Union can accomplish when we work together.

Alas, there are always a few sad voices to sour any celebration:

- Just days after we'd initialed texts in early March, one newspaper wrote about "cloudy skies," not open skies.
- Another spoke of a "raw deal for consumers."
- And a third, stirring a pungent brew of presumed U.S. imperialism spiced with class conflict, asserted that "America had the whip hand throughout the negotiations" resulting in a deal whose "real beneficiaries are that gilded lot who sit nearer the front of the plane."

Luckily, I've developed a fairly thick skin in the negotiating business, not to mention enjoying the occasional nirvana of befuddlement. Sharing the podium at a Chatham House conference on March 5 with Martin Broughton, Chairman of British Airways, I didn't know what to feel—shame, guilt, or dumbstruck awe at the prospect of liberation from three decades of Bermuda 2—when Martin referred to "greedy American eyes," a "lousy agreement," and a "con trick" perpetrated by none other than yours truly. "Get over it, John," I told myself. And so I have. And I think Martin has, too.

I'd like to do three things today. First, I'll let the facts speak for themselves and note a few of the remarkable developments announced since we wrapped up negotiations in March. Second, I'll talk about the opportunity that lies ahead when we commence negotiations for a second-stage agreement. And third, I want to say a few words about the extraordinary people who made the U.S.-EU Air Transport Agreement possible.

### The Immediate Benefits of the Air Transport Agreement

In describing the expected benefits of a new Agreement, we've tended in the past to focus on broad principles and economic studies. For example, we've talked about ending the oligopoly at Heathrow, about the "Community carrier concept," about enhanced regulatory cooperation, about the InterVISTAS-ga<sup>2</sup> study estimating a 29% increase in U.S.-UK traffic from a first-stage agreement, and about the analysis prepared for the Commission by Booz/Allen projecting as many as 80,000 new jobs and 26 million new passengers over five years.

Likewise, much attention has been focused on which countries or airlines benefit most in the short term, overlooking that when consumers win, we all do. It's worth quoting the announcement issued by Virgin Atlantic on the day the EU Transport Council approved the Air Transport Agreement. "Today's agreement," Virgin said, "starts to remove the shackles of regulation which tie up the aviation industry worldwide. It's a good day for the traveler." Those words—"it's a good day for the traveler"—capture what we sought to achieve in the negotiations.

Today, rather than quote studies or talk in broad concepts, I'd like simply to list some of the extraordinary developments that we've witnessed since initialing texts in Brussels on March 2:

- First, it's clear that America should roll out a Shamrock green welcoming carpet.
  - The first Celtic arrivals will be new non-stop Aer Lingus flights to Washington, San Francisco, and Orlando, commencing as early as September. Indeed, Irish Transport Minister Martin Cullen tells the press that no fewer than 22 U.S. cities have expressed interest in direct service to Ireland.
  - But Air Lingus isn't the only Irish carrier in the news. On April 12, Ryanair's Michael O'Leary said that he plans to acquire a fleet of 40 to 50 aircraft-787s or A350s—to launch a transatlantic airline to the United States. He projects service by mid-2009 to five or six U.S. cities from Ryanair's 23 bases in Europe, with fares as low as \$12. Baltimore, Providence, and Long Island are said to be near the top of his list.
- Ryanair, however, won't be the only European airline to take advantage of the rights of a "Community carrier." Under the visionary stewardship of Sir Richard Branson, Virgin Atlantic has announced its interest in non-stop flights to the United States from Paris, Madrid, Amsterdam, and Frankfurt. Virgin estimates that its "Community carrier" services will also generate hundreds of new jobs.
- And what about Heathrow? Both Continental and BA have already announced that they will start non-stop service between Heathrow and Houston next spring. Delta CEO Gerry Grinstein has made clear that his airline will have slots at Heathrow to commence service from Atlanta as well as New York. And it's just a matter of time, in my view, before we hear further announcements about non-stop Heathrow service from additional U.S. cities.
- On the regulatory front, things are happening and happening fast.

- On its own motion, DOT has lifted, with effect from March 30, 2008, restrictions that barred British carriers from taking advantage of the expanded opportunities that DOT has authorized at airports in Guam and Alaska.
- Moreover, DOT not only has invited but is also rapidly approving applications from U.S. carriers for "blanket open-skies authority": that is, the authority to operate between all points in the United States and in those countries with which we have concluded, or subsequently conclude, Open Skies agreements. This DOT initiative simplifies regulatory processing and will allow our airlines to take immediate advantage of the rights we secure for them.
- Within Europe, the Agreement has triggered an avalanche of speculation about, and some concrete moves toward, airline mergers:
  - For example, one can't help but envy the stockholders of Iberia. Only a few days after the March 2 breakthrough in Brussels, Lufthansa, BA, and even some American investors were making business headlines with expressions of possible interest in acquiring this successful airline.
  - Likewise, Air Berlin's purchase of LTU could presage further low-cost carrier consolidation with new service across the Atlantic as well as bolstered competition within Europe-all to the benefit of consumers.
  - In short, one of Loyola De Palacio's visions in pursuing a comprehensive agreement with the United States-removing barriers to the consolidation of European airlines-is now a reality.
- Not surprisingly, third countries have been quick to smell the U.S.-EU java. The April 25 *Aviation Daily*, for example, reports that Canada hopes to "begin talks with the European Union this year on an open-skies deal similar to the one" reached by the United States. European countries that are not today members of the European Union have been in touch with us about their interest in associating themselves with the market opening we've achieved with the EU.

Summing up, we're witnessing history in the making. But more important, we're witnessing the real-world benefits that were always our goal in the negotiations.

### Second-Stage Negotiations -- An Opportunity for Both Sides

Which brings me to the next subject: the promise of second-stage negotiations we'll start with the European Union before June of next year.

The fundamentals are straightforward. Article 21 of the Air Transport Agreement commits the United States and the EU to begin negotiation of a second stage of liberalization by the end of May 2008. The negotiations are legally distinct from the U.S.-EU Joint Committee that will foster regulatory cooperation. But we expect both initiatives-the second-stage negotiations and the Joint Committee-to mesh seamlessly to enhance transatlantic aviation.

There is no predetermined outcome to the negotiations. Rather, Article 21 lists areas of "priority interest" to one or both sides, such as further liberalization of traffic rights, additional foreign investment opportunities, and the effect of environmental measures and infrastructure constraints on the exercise of traffic rights. This doesn't mean that a second-stage agreement will contain provisions on each of these issues, but we will discuss them all. Article 21 speaks of "developing the next stage expeditiously" and calls for a review of the progress we've made not later than 18 months after talks begin-so by December 2009.

Some in Europe have suggested that the United States will have no reason, no incentive to pursue second-stage negotiations. Nothing, in my view, could be further from the truth.

It is accurate to say that the United States has achieved the goal of traditional Open Skies with all the Member States of the EU: but that's a huge step forward, not some clever foxtrot to the side.

It would be mistaken for our European friends and, more important, tragic for American stakeholders to view the Air Transport Agreement as all that our country would want to achieve. Let me explain why.

International aviation is in a period of extraordinary change. For those who think that the demise of Pan Am and TWA; the emergence of alliances like Star, SkyTeam, and oneworld; the explosive growth of aviation in India and China; and the appearance of players like Emirates, jetBlue, and Ryanair are enough excitement for a generation-well, I suspect we haven't seen anything yet. The inexorable economic forces that are creating a global economy won't bypass civil aviation. Carriers that are prepared for change-and postured to take advantage of what's new, what's challenging, and what was heretofore unthinkable-will be the winners. And countries that create an environment in which flexibility, creativity, and entrepreneurial endeavor are rewarded will stand a much better chance of seeing their airlines and economies thrive. For example, compare Singapore Airlines with other some other previously leading Asian carriers; study the contrasting histories of LAN Chile and Varig; look at what a change in government policy has meant for aviation in India; or witness how others in the Arab world are now trying to catch up with Dubai.

These observations don't mean that the traditional concerns of aviation are irrelevant. Far from it. We must continue to care about safety, about the vital role that civil aviation plays in America's national defense, and about security. Indeed, after September 11, we have no choice but to think long and hard about the homeland security dimension of international as well as domestic air service. Our goal in second-stage negotiations should be to guard these vital interests while eliminating unnecessary burdens on airlines, passengers, and shippers.

As in any economic sector, there will be winners and losers. That's a necessary consequence of the model of vigorous competition that we endorse and that consumers rightfully demand. Will we in America ensure that our airlines, together with their employees and the communities they serve, have the best possible chance to thrive in the global aviation markets of the future? This is the question that will be posed in the second stage of negotiations.

I won't presume to suggest at this time where to strike the balance on any particular issue, whether it's seventh freedoms, investment, slots, night curfews, or the complexities of Fly America. What's clear, however, is that we will do ourselves a disservice if we do not fairly assess decades-old policies to determine whether they serve our long-term interests.

The second-stage negotiations will challenge us to work hard across Executive and Legislative branches, between government and industry, and across the dividing lines of management and labor to analyze, evaluate, and recalibrate. If we undertake this effort in good faith, in the same spirit of teamwork that made the first-stage agreement with the EU possible, we can secure for America's civil aviation sector-for our airlines, our workers, and our airports and communities-the best possible prospects for the future. If we stick our heads in the sand, we'll miss the connection.

I, for one, believe too deeply in America's vibrancy and ability to recreate itself as a stronger and better country than to think that we'll fail this test. Nothing, in my view, will be more important than open, intense, and engaged dialogue between the Administration and Congress. Although the negotiations with the EU will carry well into the next Administration and next Congress, we should begin this process sooner rather than later.

### A Transatlantic Team Effort

One of the honors that goes with speaking before the International Aviation Club is the opportunity to suggest names for the head table. The truth is that I nominated a group of people who are all good friends and great company. Each, however, represents a larger circle of colleagues who made the negotiations a success. I want to take this opportunity to recognize what they contributed.

Angelos Pangratis, who ably represents the European Community in Washington, and Julian Braithwaite, the talented chief of the Global Issues Group at the British Embassy, stand for an extraordinary set of committed European friends-in the Commission, in member states, and among stakeholders at EU airlines, airports, and labor-without whose leadership we would not be here today. The negotiations began with the vision and vigor of Commission Vice-President Loyola De Palacio, Director General François Lamoureux, and Air Transport Director Michel Ayrat. Their commitment to transforming transatlantic aviation was taken up with enormous energy, political insight, and negotiating finesse by Vice-President Jacques Barrot, Director General Matthias Ruete, and my brilliant counterpart and cherished friend, Daniel Calleja. Daniel and his team-including David Batchelor and Emmanuelle Maire-were simply marvelous.

We also benefited from the insights of representatives from the Member States, including most recently the hard work of the German Presidency under Chancellor Merkel, Minister Tiefensee, and colleagues like Thilo Schmidt, Rainer Münz, and, here in Washington, Christian Kohlhaase.

I want also to underscore our admiration for the pragmatism and courage of Transport Secretary Douglas Alexander, his fellow Cabinet members, and committed British civil servants like David McMillan, Mike Smethers, Tim Figures, and Clive Wright who found the way to carry us beyond the constraints of Bermuda 2. We salute you.

Here in the United States we built an extraordinary team, both for the negotiations and for the larger challenge of building support to go beyond traditional Open Skies. The wise counsel, encouragement, and stamina of the American private sector were crucial to success. At the head table today:

- Ron Priddy not only represents his NACA [National Air Carrier Association] member carriers but also, with his years of experience in the Air Force and CRAF [Civil Reserve Air Fleet] program, provided us a deep understanding of the critical importance of civil aviation to our national defense.
- Nancy Sparks, like so many of her ATA [Air Transport Association] carrier colleagues, brought to our deliberations in-depth knowledge of the needs of modern airlines. Nancy also knew Brussels so well from her years as the senior FedEx representative there, and I turned to her often for insight and guidance. Many of Nancy's colleagues-such as the indefatigable Cecilia Bethke-are in China this week, pressing the case for liberalization.
- Russ Bailey, like Roz Ellingsworth and other representatives of our airline labor unions, provided us their always honest, always carefully considered advice on issues that matter to employees. And even if we did not always agree, we sought common ground and the best way forward for the United States and the airlines, airports, and aviation workers who are our strength.
- A head table is only so large, and missing only for that reason today is a representative from the U.S. airport community. Diane Peterson-a great friend and one of the most knowledgeable experts in the business-is with our delegation in China. And there are so many others from the airport world whose commitment to open markets is exemplary. Leo Schaeffer and his colleagues in USA-BIAS [U.S. Airports for Better International Air Service] come immediately to mind.

In the U.S. Government, these four-year negotiations were a team effort unmatched in over 60 years of air transport talks. We had enormous support at the top: from the President; from Secretaries Rice and Peters and Gutierrez and Paulson; and from senior officials like Jeff Shane, Karan Bhatia, Andy Steinberg, and my own Assistant Secretaries at State, Dan Sullivan and Tony Wayne.

At the foot soldier level-and I count myself among that number-we had deeply committed and truly expert representation from throughout Government. People such as-and I can list only a handful-Eugene Alford at Commerce; Bruce McDonald from Justice; Mike Friedlein and John Rausch from Defense; Louise Maillott, Carl Bureson, Paul Feldman, Kurt Edwards, and Mark Bury from FAA; David Tiedge, Rich Stein, and Anthony Giovaniello from TSA; and Linda Smith and Janet Harney from the General Services Administration. From DOT, we drew on the incomparable expertise of Mary Street and diverse talents of John Kiser, Don Horn, Larry Myers, and so many others. But no one better represents the principle of interagency teamwork than Paul Gretch, whom I am honored to have at the head table. Paul's knowledge and his judgment were matched only by his commitment to building on our Open Skies vision and expanding it to the entire transatlantic market. Paul represents so much of what is right about public service: commitment, balance, vision, leadership. We are all in his debt.

With me at the State Department-keeping me sane and trying to keep me honest-were some wonderful civil and foreign service colleagues. Our overseas missions gave us their best. Whether it was Kath Morenski and Rob Gianfranceschi in Brussels, Peter Haas in London, Joe Young in Dublin, Bob Cekuta in Berlin, or Tom White and Mark Motley in Paris, they were our eyes and ears and voices abroad. Here in Washington, I had three great lawyers-Jennifer Gergen, Monica Hakimi, and Kathy Milton-who worked unbelievable hours, with unbelievably great results. My own team in the economic bureau-including Megan Walklet, Matt Finston, Lawrence Jones, Tom Coleman, Joel Reifman, and Tom Engle-did the same. But at the table representing my State colleagues is someone not listed on the formal delegation lists. Just like her predecessor, Judy Bridges, Tucker Richmond Stewart-my secretary-put service to country first. The long nights of keeping track of dozens of delegation members (including those few who just had to sneak into the courtyard for a quick smoke); the myriad details of meeting rooms, airplane reservations, trip vouchers, conference calls, and digital video conferences; the preparation of letters, diplomatic notes, country clearance cables, and applications for building badges: all these things had to be done and done right, or we could not have succeeded. To Tucker-but also to all those in and out of Government who labored so hard and so selflessly behind the scenes-thank you.

There's not much more to be said. We've come a long way, we have great opportunities before us, and we have so many friends for whom we're grateful. Thanks for the chance to speak today.

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