

## MORNING BUSINESS

Mr. LOTT. In the interest of wrapping up business after a historic day, I ask unanimous consent that there be a period for the transaction of routine morning business with Senators permitted to speak for up to 2 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

## UNITED STATES-JAPAN AVIATION RELATIONS

Mr. PRESSLER. Mr. President, I rise today to discuss the critically important issue of United States aviation relations with the Government of Japan.

Last month, the United States commenced talks with the Japanese aimed at liberalizing the transpacific cargo market. This is a welcome development and I hope an agreement liberalizing cargo service opportunities can be reached by no later than March of next year—the mutually agreed upon timetable. Clearly, consumers of cargo services on both sides of the Pacific would be the big winners if such an agreement is struck. Talks on more contentious passenger carrier issues have not been scheduled.

As should now be clear from the numerous floor statements I have made in this body in recent months, I have a keen interest in United States-Japan aviation relations. As Chairman of the Committee on Commerce, Science, and Transportation, I will continue to make it a priority. At the outset of my remarks today, let me emphasize several related points. Although these remarks refer primarily to passenger carrier issues, they apply with equal force to cargo relations with the Japanese.

First, from a long-term perspective and due to its key strategic location in the Asia-Pacific aviation market, aviation relations with the Japanese unquestionably are our single most important international aviation relationship. At the same time service opportunities in Japan are expanding, air service markets in Asian countries best accessed through Japanese gateway airports are growing at an astounding rate.

Simply put, meaningful participation in the rapidly expanding Asia-Pacific market is absolutely critical for the long-term profitability of our airline industry. For instance, the International Air Transport Association estimates that between 1993 and 2010 scheduled international passenger service in Vietnam will grow at an average annual rate of 17.3 percent. International air service opportunities in China are expected to grow at an annual rate of 12.6 percent over the same period. Overall, it is expected the Asia-Pacific market will account for approximately 50 percent of world air traffic by 2010.

Second, geographic factors coupled with the limited range of commercial aircraft make it essential that carriers

seeking to effectively serve these rapidly expanding Asia-Pacific markets can provide that service from Japan either directly or indirectly through a Japanese code-sharing partner. As distinguished from the bottleneck at London's Heathrow International Airport, overflight to markets beyond Japan is not an option since the distances to these markets from the United States are too great. Moreover, as shown by recent unsuccessful experiences, serving the Pacific-Asian market through other gateway countries does not appear to be a viable alternative.

Third, aviation relations with Japan are a very important national trade issue and it is imperative they be treated as such. Indeed, discussion of air service opportunities to and beyond Japan is one of the United States' most important trade issues being discussed with any of our trading partners. The stakes in these talks are enormous. For example, the United States currently enjoys an approximately \$5 billion net trade surplus with Japan for passenger air travel in the Asia-Pacific market.

I cannot emphasize strongly enough the importance of our current and future aviation negotiations with the Japanese. Handled properly, air service negotiations with the Japanese could enhance the ability of our passenger and cargo carriers to participate in the rapidly expanding Asia-Pacific market. Handled poorly, the adverse trade consequences could be colossal.

Fourth, what the Japanese are seeking in these negotiations is not to level the playing field as they suggest. Let there be no mistake, the Japanese are seeking no less than to tilt the competitive playing field in such a way as to enable their less efficient carriers to compete more effectively against our carriers. Our passenger carriers serving the Asia-Pacific market have operating costs approximately half those of their Japanese counterparts.

The Government of Japan claims the United States-Japan bilateral aviation agreement is fundamentally unfair and is solely responsible for the greater market share our passenger carriers enjoy on service between the United States and Japan. The facts do not support such a position. Just 10 years ago, under the very same bilateral agreement the Government of Japan now criticizes, Japanese carriers had a larger market share on transpacific routes than United States competitors. What is the truth? As a June 1994 report by Japan's Council for Civil Aviation noted, the fact is our carriers became more competitive by lowering operating costs while Japanese carriers continue to be high cost carriers.

Similarly, the Government of Japan claims our carriers have abused their beyond rights and unfairly dominate beyond markets. Again, a claim without merit. Currently, Japanese passenger carriers have a 34 percent share of the Japan-Asia market while United States passenger carriers have just 13

percent of that market. Moreover, our cargo carriers have only approximately 14 percent of the Japan-Asia market. The facts speak for themselves.

Having made these points—points I believe are critical to the United States-Japan air service relations debate—let me turn to the question of what our goal should be in current and future negotiations with the Japanese. Uncharacteristically, our carriers seem to speak with one voice in saying we need to seek to liberalize passenger and cargo carrier opportunities with the Japanese. There is disagreement, however, with regard to what strategy our negotiators should pursue to accomplish this goal.

In recent weeks it has become readily apparent the debate regarding negotiating strategy will be shaped by two fundamentally different views. To better understand these views, one must remember that our carriers which currently serve Japan can be separated into two distinct groups based on the types of service they are authorized to provide.

The first group of carriers are the so-called MOU carriers. These carriers—American Airlines, Delta Air Lines, Continental Airlines and United Parcel Service—are permitted by a Memorandum of Understanding signed in 1985 to provide service from specific cities in the United States to specific Japanese cities. MOU carriers cannot use Japan as a base of operation to directly serve emerging Asian markets beyond Japan. They can, however, participate in those markets through code-sharing alliances with Japanese carriers. In fact, Delta's recently announced alliance with All Nippon Airways will permit it to do precisely that.

The second group of carriers, whose rights are derived from the United States-Japan bilateral agreement signed in 1952, are permitted to fly to Japan, take on and unload passengers and/or cargo, and to fly on to cities throughout Asia. Unlike the MOU carriers, the so-called 1952 carriers—Northwest Airlines, United Airlines and Federal Express Corp.—have beyond rights. Northwest was a party to the 1952 agreement. In 1985, United Airlines purchased its beyond rights from Pan Am in a \$750 million transaction and Federal Express acquired the beyond rights of Tiger International, Inc. in a 1989 transaction valued at more than \$1 billion.

In a recent speech, Bob Crandall, the Chairman of American Airlines, set out a possible negotiating strategy for United States-Japan aviation relations. I anticipate other MOU carriers will embrace the strategy Mr. Crandall advocated and I therefore refer to it as the "MOU carrier approach."

Recognizing the Japanese are unlikely to grant beyond rights to MOU carriers, Mr. Crandall urged our negotiators to focus on increasing transpacific opportunities between the United States and Japan. In addition to

tapping expanding service opportunities in Japan itself, Mr. Crandall explained such an approach would enhance the ability of United States carriers to feed traffic into Asia-Pacific networks, including the planes of Japanese code-sharing partners who serve markets beyond Japan.

What makes Mr. Crandall's speech notable is not so much his insightful view of the focus our negotiators should take. Rather, it is the strategy he recommends that is remarkable. In exchange for increased transpacific routes, Mr. Crandall recommends our negotiators should offer to cap the beyond rights of United Airlines and Northwest Airlines. As Mr. Crandall put it, "[s]uch an agreement would trade beyond-Japan rights that Northwest and United do not use, and may never use, for authorities that American and other 'have-not' U.S. carriers are prepared to operate today." I ask unanimous consent that a copy of Mr. Crandall's speech to which I have referred be printed in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. PRESSLER. Mr. President, not surprisingly, Stuart Oran, United Airlines' Executive Vice President for Corporate Affairs and General Counsel, recently offered a markedly different view of what our negotiating approach should be with the Japanese. I predict other 1952 carriers will endorse Mr. Oran's view and therefore refer to it as the "1952 carrier approach."

According to Mr. Oran, it would be economic folly for the United States to cap the 1952 carriers' beyond rights and thereby prevent them from growing within the rapidly expanding Asia-Pacific market. In fact, Mr. Oran warned the United States would be playing into the Government of Japan's hands were we to follow the negotiating strategy Mr. Crandall recommends.

To illustrate the point that trading away the beyond rights held by 1952 carriers would be tantamount to ceding the Pacific-Asian market to Japanese and other foreign carriers, Mr. Oran described a recent study by Booz Allen & Hamilton which United Airlines commissioned. That study, which assessed the value of beyond rights in Japan to the United States economy, concluded "the U.S. would suffer a trade loss in excess of \$100 billion over the next twenty years—the bulk of which would be transferred to Japan" if the United States agreed to surrender our passenger carriers' beyond rights. Mr. Oran characterized the approach Mr. Crandall recommends as a "sucker deal that would put all U.S. businesses at a permanent disadvantage in the exploding Asian market." I ask unanimous consent that a copy of Mr. Oran's speech be printed in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 2.)

Mr. PRESSLER. Mr. President, as the debate between MOU carriers and 1952 carriers intensifies, I look forward to learning more about each position and urge my colleagues to do the same. For example, I am anxious to see economic analysis from the MOU carriers regarding their claim that trading our passenger carriers' beyond rights in Japan for increased transpacific opportunities would be in the best economic interest of our Nation. I hope any such study or report would address the findings of the Booz Allen study.

With respect to the 1952 carriers, I am particularly curious what leverage, short of trading existing rights, we have to offer the Japanese in exchange for new transpacific routes. For instance, as United States carriers form alliances with Japanese carriers, will the Government of Japan have a self-interested motive to increase transpacific routes to maximize the feed of passengers originating in the United States onto Japanese carriers who code-share with our carriers?

Of course, the impact each approach has on consumers must be given great weight. I look forward to learning from MOU carriers and 1952 carriers what effect the approaches they advocate will have on consumer choice and the fares that consumers pay.

As I have said repeatedly, I believe our international aviation policy decisions should be based on a careful weighing of national economic benefits and costs. Simply put, the goal of international aviation policy should be to maximize national wealth. In light of our more than \$65 billion trade deficit with Japan, it is absolutely essential that approach be the guiding principle in current and future aviation negotiations with the Japanese.

#### EXHIBIT

REMARKS BY ROBERT L. CRANDALL

Thank you, Bruce, and good afternoon, Ladies and Gentlemen. It's a pleasure to be here and as always, I am pleased to have an opportunity to talk with you about the ever-changing \* \* \* and always challenging \* \* \* business of international aviation.

I'd like to spend our time together today on the subject of bilateral negotiations, an aspect of our usually fast-paced industry about which most of the news has to do with what's not happening, as some either drag on, and on, and on, and on—and others simply don't take place at all.

Bilateral aviation discussions between the U.S. and other countries are invariably intense and difficult, for a variety of reasons. One of the most important is that the United States is a very large country, with many competing airlines—which typically offer various competing agendas to U.S. negotiators. Conversely, most other countries are, at least by comparison to the U.S., relatively small and, in most cases, have only one international airline.

The result is that in most bilateral situations, our opponents have far more focused goals than we do.

With respect to Japan, a country with which the U.S. has been unwilling even to launch passenger negotiations, the situation is similar, but modestly different. Japan is a very consensual society and although there are two international airlines, both are will-

ing to accept administrative guidance—or something akin to it—from their government. In the U.S., on the other hand, there is little consensus on any aspect of international aviation and no agreement whatever as to either the tactics or strategy our Government should pursue with respect to Japan. Northwest and United, which have extensive rights, are vehemently opposed to changes while carriers like American, Delta and Continental, which have few rights to Japan and little access to the rest of Asia, think dramatic change is clearly called for.

And passions run high, for access to Japan, and the rest of Asia, is critically important to every internationally oriented U.S. carrier. To compete effectively here in the United States, each such carrier seeks to build the strength of its route network by maximizing the number of origination-and-destination combinations it can offer its customers—and each wishes to include as many international points as possible.

From Americans' perspective, the U.S. Government's unwillingness to open passenger negotiations with Japan, and our consequent inability to gain any meaningful access to the huge and fast-growing Asian market, is extraordinarily frustrating. That is particularly so since we think substantial progress could be made—if only our Government would act in accordance with its own, very recently articulated international aviation policy statement—a point I'll come back to in a minute.

Let me take a moment first to examine the stakes of the game. As I think everyone here probably understands, service rights to Japan are the indispensable key to participation in Asian markets, for several reasons:

One is that today's aircraft do not have the range to fly from most major U.S. hubs to most Asian capitals. Thus, U.S. carriers without the right to use Japan's airports as intermediate hubs are simply unable to participate in the U.S. Asia market.

While the Japanese probably will not grant U.S. carriers like American and Delta the beyond rights we need to solve this problem directly, it seems quite likely that if we had adequate rights across the North Pacific, we could participate in Asia by means of code-sharing agreements with Japanese carriers. Thus, we think additional transpacific rights and the key to broadened American participation in Asia's aviation future.

Second, Japan is Asia's pre-eminent economic power, by a wide margin. Given its dominance, a very high percentage of those traveling to and from Asia want to include Japan in their itineraries. As a consequence, Tokyo and Osaka are the only cities that can effectively serve as intermediate points between the major U.S. hubs and the principal cities of Asia—a point with which even the incumbent U.S. carriers agree.

In addition to being an essential component of any global network, there is lots of evidence that Japan is woefully underserved from the United States. Consider these facts:

Although Japan has a larger economy than Germany, the U.K. and France combined, fewer U.S. cities have nonstop service to Japan than to any one of those countries.

Fares between the U.S. and Japan—on a revenue-per-passenger-mile basis—average 29% more than fares between the same U.S. cities and the principal cities of Europe.

Despite being badly underserved, the U.S.-Japan market numbers 1.0 million passengers per year and is the world's second largest intercontinental market, exceeded in size only by that between the U.S. and the U.K. one can only imagine how large it will be when it is properly served!

Unfortunately, it is not clear it ever will be, for our aviation relationship with Japan is prey to two severely complicating factors:

The first is the unique route rights established by the U.S.-Japan aviation bilateral, which dates from 1952 and enables two U.S. carriers—Northwest and United—to exercise virtually unrestricted authority to fly from almost anywhere in the U.S. to Japan—and beyond Japan to other points in Asia. To illustrate that point, let me point out that during the last 18 months, Northwest has added more new flights to Japan than American operates in total.

The beyond rights held by United and Northwest are startlingly different from those granted by any other nation to third-country carriers and have enabled Northwest and United to build cohesive Asian networks and establish hubs on both sides of the Pacific. Using this structure, the two carriers can thus participate in all four types of network traffic: First \* \* \* between gateways—from Chicago to Tokyo, for example; Second \* \* \* from behind a U.S. gateway to the foreign gateway—from Cleveland to Tokyo, via Chicago. Third \* \* \* from a U.S. gateway to beyond the foreign gateway—from Los Angeles to Bangkok, via Tokyo.

And finally: From behind a U.S. gateway to beyond a foreign gateway—as in from Boston to Singapore, via Detroit and Tokyo.

Their fifth freedom rights also allow Northwest and United to carry large amounts of traffic between Japan and other points in Asia, thus depriving the Japanese carriers of traffic they regard as theirs, and complicating Japan's aviation relationships with some of its Pacific neighbors—notably China, Thailand, and Australia.

Not surprisingly, both the Japanese Government and the Japanese airlines regard these arrangements as unbalanced—and by the standards of international aviation, they are, indeed, unbalanced.

Other U.S. carriers have much more limited rights. While the 1952 agreement permits both countries to designate multiple airlines, Japan has essentially ignored that proviso for nearly 20 years. Since 1982, Japan has consented to only three very limited grants of additional routes, each memorialized in a memorandum of understanding. The net effect has been to create two classes of U.S. airlines serving Japan:

The two so-called "1952 agreement" carriers, which have very broad rights, and three other airlines—American, Continental and Delta—known collectively as the "M.O.U. carriers"—each of which is subject to substantial restrictions on routes and frequencies, and none of which can operate beyond Japan.

Now as we all know, airlines are network businesses. To optimize traffic flows, each of the major U.S. carriers operates a number of hubs, which it uses to provide nonstop service to as many places as economically feasible in order to maximize the number of origin-destination markets it can offer its customers. The fact that only two U.S. carriers can offer customers in the United States a variety of Asian destinations has significant, adverse competitive consequences for those who can't.

The other factor complicating our aviation relationship with Japan is the unwillingness of the U.S. Government to apply its recently articulated statement of international aviation policy to relationships with that country. Our government's international air transportation policy statement, issued last April, clearly enunciates the most important U.S. policy objective as—and I quote—to "increase the variety of price and service options available to consumers." A second objective is to—and here I am quoting again—"provide carriers with unrestricted opportunities to develop types of services and systems based on their assessment of marketplace demand."

Unfortunately, the U.S. has declined to pursue those objectives in its aviation negotiations with Japan. Apparently mesmerized by the notion that the beyond rights held by Northwest and United are uniquely valuable, the U.S. has adopted a civil aviation policy toward Japan that seems intended to protect the economic interests of two carriers—and let competition, competitors and consumers take the hindmost.

In my view, ladies and gentlemen, that's bad policy—and particularly so since it stands in sharp contrast to our government's aggressive application of pro-consumer policies in other negotiations.

Moreover, this pattern of protectionism is not new. Successive U.S. Transportation Secretaries have pledged to eliminate the disparity between the have-not carriers and the Northwest/United duopoly.

In 1985, D.O.T. premised its approval for United's acquisition of Pan Am's Pacific routes on United being made ineligible for new Japan routes in future D.O.T. proceedings.

During the 1989 U.S.-Japan negotiations, then-Secretary Sam Skinner gave as one of his objectives: "The enhancement of the operating rights of the so-called M.O.U. carriers."

When it instituted the 1990 U.S.-Japan route proceeding, D.O.T. said it would base awards on—I am quoting now—"The overall structure and level of competition in the U.S.-Japan market," end of quote—and would also give weight, and again I quote, "To expanded service by those with only limited U.S.-Japan authority"—unquote.

All those promises notwithstanding, our Government's actions in recent years have only enhanced the market domination of the United-Northwest duopoly. In the 1990 proceeding, our Government granted the most important new route—Chicago-Tokyo—to United, and then proceeded to give two of the remaining routes to airlines unable or unwilling to fly them—which promptly sold them to Northwest. The bottom line: three of the six routes available in 1990 ended up in the hands of the Northwest/United duopoly—despite D.O.T.'s promise to strengthen the M.O.U. carriers.

So here we sit. Since deregulation—which sometimes seems like just yesterday, but which actually occurred 17 years ago this month—we have transformed American from a domestic airline to a global competitor—but we remain shut out of Asia. Delta and Continental have had equally little success.

It is time for a change—and if the U.S. will apply its stated international aviation policy, we think change is possible. For more than a year now, the Japanese Government has been signaling a willingness to expand service between the U.S. and Japan, and to work out arrangements to rebalance our relationship. We believe Japan's Government recognizes that it cannot realistically hope to withdraw the beyond rights Northwest and United already operate—but that it does want to constrain the further growth of their beyond operations.

In our view, a U.S.-Japan agreement premised on limiting the expansion of beyond operations by the duopolists, in exchange for a substantial increase in operating rights between various U.S. cities and Tokyo and Osaka, would be good for consumers, good for competition within the U.S. and across the North Pacific, good for the U.S. trade balance with Asia overall, and fully consistent with the D.O.T.'s international aviation policy statement.

Such an agreement would trade beyond-Japan rights that Northwest and United do not now use, and may never use, for authorities that American and other "have-not" U.S. carriers are prepared to operate today.

These new U.S.-Japan services would have many favorable effects: (1) more competition within the U.S., (2) more competition, and lower prices, across the North Pacific, (3) more travel, by more visitors, to and within the U.S., with all the attendant increased employment and wealth creation such increases create, (4) and more orders for U.S.-built aircraft.

In addition to seeking a rational accommodation with Japan, which will provide more transpacific opportunities for more U.S. carriers, the U.S. can—and should—act affirmatively to optimize the value of its route rights with other Asian countries. For example, the use of Japan as an intermediate point has long been a bone of contention between the U.S. and China—and thus, our negotiators have had little success in modifying the U.S.-China bilateral.

China's Government wants nonstop service—which American and others stand ready to provide—but has not been willing to allow any new U.S. carriers to provide it so long as Northwest and United insist on serving their country via Tokyo.

By accepting China's position that a Japanese intermediate point may not be used in U.S.-China service, the U.S. would improve its aviation relationships with both Japan and China. Bettering both flight links and other relationships with China, with which the U.S. already has a huge and growing trade deficit—and whose future seems limitless—is clearly very important—and everyone wants a better relationship with Japan.

Aviation disagreements do not defy resolution. Countries that dislike bilaterals enough eventually renounce them—as the U.K., France, Italy, Peru, Thailand, India and others have done with respect to the U.S. at one time or another. In a comparative sense, Japan certainly has a far more legitimate complaint than the U.K. had in 1976, when it renounced Bermuda I.

Japan has already begun to restrict various rights held by U.S. carriers and the recently launched U.S.-Japan cargo negotiations are making little if any progress. In my view, the U.S. would be wise to initiate comprehensive negotiations now. Although proceeding under provocation is not ordinarily an advisable course, I do not see how U.S. interests are well served by protecting douppolies at the expense of reason, consumers and competition.

This is especially true since the Japanese Government apparently seeks more comprehensive discussions, which would lead us to believe that mutual accommodation is likely. Assuming the U.S. is willing to adopt a stance consistent with its international aviation policy statement, as it has in other bilateral negotiations, we believe the time is right for a settlement consistent with the best interests of all parties.

A passage from Shakespeare's "Julius Caesar" says it far more eloquently than I can: There is a tide in the affairs of men, Which, taken at the flood, leads on to fortune;

Omitted, all the voyage of their life Is bound in shallows and in miseries. On such a full sea are we now afloat, And we must take the current when it serves . . .

#### EXHIBIT 2

REMARKS BY STUART I. ORAN

Good morning. It's a pleasure to be with you today.

I am delighted to have this opportunity to talk about United's vision of aviation in the next century—global networks providing seamless service for our customers.

Perhaps we can look to the telecommunications industry for a model of our vision for the future of global aviation. There, U.S.

companies have developed a truly global service network. You can pick up your phone and call anywhere in the world, yet deal only with one of a number of companies. This network, which we take for granted, is the product of carefully integrated systems, cross-border alliances, realistic government regulation and forward thinking telecommunications companies.

We believe that consumers are entitled to that kind of ease and convenience from airlines as well. A passenger should be able to deal with a single carrier for an itinerary that takes him anywhere in the world. To do this, we need a network of alliances—of rights and beyond rights—for carriers.

Everyone understand the importance of beyond rights of networks today, but they didn't in 1976, when Bermuda II was under discussion.

Ambassador Alan Boyd of the U.K. offered testimony to the House Subcommittee on Aviation on the need to renegotiate the Bermuda I Agreement of 1952, calling it unfair to the U.K. He told committee members that under the agreement, U.S. airline revenues were twice those of the U.K. And he concluded that the only way to rectify the disparity was to rewrite the Bermuda Agreement substantially.

Ambassador Boyd was correct on one point—a significant revenue imbalance did exist between the U.K. and the U.S. But the reason for the imbalance had little to do with route assignments or agreements. It had to do with competitive market forces and the then inability of a bloated, protected, government-owned British Airways to compete. How times have changed.

Unfortunately, Congress and government regulators went along with Ambassador Boyd.

The results, as we know too well today, was Bermuda II. That new agreement created dramatic structural advantages for the U.K. out of a growing European market. Since then, the U.S. market share between the U.K. and the U.S. had dropped 25%. But even more important, that agreement effectively locked the U.S. carriers out of the key connecting complex in Europe—Heathrow. In effect, U.S. carriers were punished for their efficiency. We've spent the past 19 years trying to correct the Bermuda II mistakes.

I recount this today not to rub new salt into old wounds, but to look at the lessons of the European market. We would like to make sure that history does not repeat itself—this time in Asia.

For nearly 25 years, the 1952 Japan Air Service Agreement enabled competitive parity between U.S. and Japanese carriers. It was not until 1986, when United acquired Pan Am's rights in the Pacific, that the parity began to dissolve. The reason was simple—United took the necessary and often painful steps to becoming more efficient in the newly deregulated U.S. market. Meanwhile, the Japanese carriers, operating in a highly protected environment, avoided similar changes. The result today is that Japanese costs are considerably higher than those of their U.S. competitors.

Let me underscore just how much higher those costs are. We commissioned Booz-Allen & Hamilton to conduct a major study—to be released today—on the value of Asian beyond rights to the U.S. economy. Among their key findings was that Japanese carriers' cost are now roughly double that of U.S. carriers at comparable stage lengths.

The fact that the Japanese flights are more expensive is not lost on the traveling public. Because of our efficiency, we have developed fares and schedules preferred by the Japanese consumers. As a result, the parity that long existed between U.S. and Japanese carriers is gone. Today, U.S. carriers provide

61% of the capacity serving Japan and the U.S. enjoys a \$4.8 billion net trade surplus with Japan for passenger air travel in Asia.

Rather than respond to this competitive challenge by restructuring their airlines—a change that is unavoidable at some point and that will benefit the Japanese people in the long run—the Japan Ministry of Transportation (MOT) has chosen instead to vilify the 1952 Air Service Agreement. Their claim is that the '52 agreement is unfair and gives the U.S. a competitive advantage.

Does this sound familiar? Like the British did in the '70's, the MOT is blaming the agreement rather than their own protectionist aviation policies for their declining transpacific market share.

So MOT has decided not to honor the '52 agreement. Most recently, the MOT has denied a request by United Airlines to begin flights between Osaka and Seoul, despite our right to fly unlimited routes between Japan into Asia. By denying this request, the MOT is abrogating the treaty, and attempting to force the U.S. to negotiate for a right its carriers already have. To add insult to injury, JAL is at the same time seeking to expand flights from Sendai to Honolulu. We are asking the Department of Transportation today to deny any increase in JAL's service until our Osaka-Seoul business plan has been approved by MOT.

MOT's position ignores an important lesson we learned with British Air and Bermuda I. Competitive positions are not static. Of course, the Japanese carriers will improve efficiency over time as they continue to cut costs and improve service. For the U.S. to overreact now, and surrender critical U.S. carrier beyond rights, would be a sucker deal that would put all U.S. businesses at a permanent disadvantage in the exploding Asian market.

I can not underscore this important idea strongly enough. Ultimately, this is not just about United. It's about trade and MOT's approach to trade disputes in the aviation sector. It's about Japan's drive to monopolize the U.S.-Asia and Japan-Asia markets. In this case, MOT believes it can unilaterally interpret or simply ignore agreements with impunity when it suits them. And they have little regard for the damage this strategy causes to international relationships, or the havoc it wreaks on the marketplace.

And just how much havoc will MOT cause? According to Booz-Allen, if the U.S. gives up its beyond rights as MOT wants, Japan would receive a virtual monopoly on U.S.-Asian routes through Japan; Japanese carriers would gain up to \$5 billion in present value from the earnings stream lost by U.S. carriers, and the U.S. would suffer a trade loss in excess of \$100 billion over the next twenty years, the bulk of which would be transferred to Japan—\$100 billion.

Let me describe some more of the consequences of MOT's strategy.

MOT's strategy will hurt the U.S. economy.—If MOT succeeds in blocking U.S. beyond rights, the Booz-Allen estimates of a cumulative trade loss of \$100 billion dollars is actually conservative. That impact would be compounded by the multiplier effect on U.S. jobs and economic activity. As a result, the entire U.S. economy would feel the sting of MOT's aviation whip.

MOT's strategy will hurt consumers.—Booz-Allen predicts that if the U.S. carriers lost all or any of their rights to carry passengers beyond Japan to other Asian cities, capacity will drop and fares will increase. Consumers will lose service alternatives, not only between the U.S. and Japan, but to other Asian cities as well. Travelers will pay more and get less.

MOT's strategy hurts U.S.-Japanese relations.—Their plan makes a mockery of the

1952 Air Service Agreement. If MOT is allowed to dishonor the 1952 accord, how can it be trusted to respect other bilateral agreements? And we certainly can't expand their routes into and beyond the United States if they won't honor existing treaties.

MOT's strategy will impose a stranglehold over Asian aviation.—MOT is trying to position Japan as the gatekeeper of Asia, by controlling traffic both into and out of the continent. If it is successful in hobbling U.S. carriers, it will then turn its attention to the other competition, the Asian Carriers. In short order, we would see a steady stream of Asian carriers—Chinese, Indonesian, Korean, Malay, Taiwanese, Thai and Singaporean—forced to beg MOT for beyond rights to North and South America. And without the counterweight of U.S. competition, Asian carriers would become prey in their home markets to the predatory Japanese airlines.

MOT's strategy hurts U.S. carriers.—U.S. carriers will lose the right to grow in Asia—the region projected to have the highest growth in air passenger transportation over the next 15 years.

How does United see the preferred course for the future?

Using Europe as a model, we see 4 or 5 major alliances forming the core of services in Asia, with many niche players finding important roles. There is no reason why this model can't be a win-win situation for everyone in Asia. The alliances into which United has entered are designed to achieve a global network, including Asia. We have no problem with others entering the same kind of alliances, for example, the two principal Japanese carriers with U.S. carriers—because we believe that when equitably administered, we can beat the competition.

But first, MOT must honor the existing terms of the 1952 accord. This must be a prerequisite for passenger talks.

Once all parties involved agree to respect the 1952 pact, we would encourage the U.S. Department of Transportation to develop a detailed economic analysis of Japanese aviation and its relationship to U.S. carrier competitiveness in Asia. We would urge that DOT use that analysis as a starting point for negotiations with MOT.

Japan's carriers may today be overpriced and unresponsive to consumers' needs just as British Airways was 20 years ago. But the solution is not to lock up the skies and give Tokyo the key. To do so would simply recreate the mistakes of Bermuda II.

The solution to this dispute must respect the principle of open competition. We see it working in Europe, where competitive alliances provide a blueprint for global aviation.

The solution must acknowledge that competitive position are not static. One way or another, Japan's carriers will have to modernize and those changes will affect their standing in the air travel marketplace.

And above all, the solution to this dispute must honor existing agreements before creating new ones.

Going back to our telecommunications analogy, we want to provide a "seamless" journey for passengers. With a progressive, sound, and resolute U.S. approach to international aviation matters, we believe that this goal can be achieved on a global basis. But as long as we allow one nation to control international air space, there can be no global aviation. Not today. And certainly not in the year 2010.

Thank you. I look forward to your questions.

#### U.S. SUGAR PROGRAM

Mr. INOUE. Mr. President, I agree that debate and open scrutiny of the Sugar Program is important this year. I would like my position to be clear.