



**Remarks of  
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As always, I am grateful for the opportunity to attend Bobby Booth's annual CEO Conference. According to my count, this is the sixth time I have been privileged to participate in this important gathering. Each time I have come away with a renewed appreciation for the important contributions each of you makes to this industry, and with a greater understanding of how critical the Latin American aviation market is to the United States.

This Conference provides an invaluable opportunity for the aviation leaders of Latin America to take stock of recent developments, and to exchange ideas about how this industry can achieve its full potential in connecting people and businesses around the world.

This may well be the most important CEO Conference yet. As everyone here knows, the global aviation industry is at a crossroads. Governments and airlines are rapidly confronting a stark choice – either adapt to new market realities and the march of liberalization or be left behind.

This reality is prompting renewed interest in modernizing outdated aviation agreements and improving cross-border ties in the aviation industry. Last month I traveled to Beijing to participate in a symposium with aviation leaders from across China. We discussed how they can use aviation to spur economic growth and strengthen their ties to the U.S. Just over a week ago I traveled to the Middle East to speak to a group of airline CEOs much like this one. They were similarly interested in exploring new ways to enhance economic ties through aviation. Before I talk in more detail about U.S. activities in other parts of the world, however, let me provide a few thoughts on global trends and also highlight where things stand right here in our own backyard.

## **The Dawning of a New Day in Global Aviation**

We all know how we got to this point in aviation history, starting with the Chicago Convention and leading to the patchwork of bilateral agreements that still governs the provision of international commercial air services in many markets around the world. It is true that the U.S. has achieved some important successes in opening markets through the more than 60 open skies agreements that we have signed with trading partners since 1992. More and more, other nations are coming together in open skies agreements of their own – where the U.S. isn't a party.

Still, there remain many examples around the world – and in this hemisphere in particular – of markets that have never reached their full economic potential because governments have not permitted carriers to compete freely. Maintaining the very prescriptive agreements of the past denies your customers the benefits of competition in the aviation sector just as many of your governments have adopted significant reforms in other sectors of the economy. Indeed, as Latin American nations one by one turned away from authoritarian governments to democracy in the 1980s and '90s, they have embraced liberalized, market-driven economies. Unfortunately, in too many cases aviation has been a “no-show” on this important journey toward political and economic transformation.

## **The Free Market at Work**

By contrast, in other parts of the world open skies agreements have allowed carriers as varied as Singapore Airlines, Lufthansa, Korean Air, and Icelandair to grow and expand into new markets, as lower fares and more vigorous competition have stimulated vast new demand. They have been able to form alliances with carriers from other nations to extend their own networks and leverage the resulting economies of scale. They have had greater flexibility in deploying their fleets to promising destinations. In short, they have been able to respond to their customers just as any other business would, and their nations have reaped significant benefits as a result.

There are, to be sure, some important examples of this progress in Latin America. The Guanacaste province of Costa Rica is a case in point. This area is developing into an attractive resort destination, especially during the cold winter months in the U.S. Carriers saw that opportunity and, because an open skies agreement was in place, were free to capitalize on the opportunity. One carrier began nonstop service last year and two more have entered the market since then. The airport at Liberia is undergoing renovations that will ultimately double the size of the terminal, and with the assurance of efficient air service, investors are building hotels and other businesses that have made a substantial contribution to local employment. All this, of course, has had a major impact on the economic development of this area, benefiting Costa Rica in a number of concrete ways.

The open skies agreement we signed with Chile back in 1998 has also fueled growth in the all-cargo market between our two countries. Lan Chile has taken advantage of the opportunities created under that agreement to compete effectively with U.S. carriers in moving freight between the U.S. and South America, to the benefit of shippers both in Chile and the U.S.

Critics often suggest that the debate over liberalization is too abstract – that it does not take into account the economic difficulties that your countries face in developing their economies. And yet Costa Rica and Chile are two specific examples of how open skies agreements have benefited passengers, workers, and airlines, and they provide an indication of how substantial the benefits might be across the entire region if we were to embrace liberalization on a hemispheric scale.

The simple message here is that open skies is no longer a trend; it is a fact of life in aviation markets all over the world. These agreements now cover a large portion of international operations, and drive the competitive environment for all international airlines, even those still operating under restrictive bilaterals. The fact is that outdated market access restrictions simply cannot block the increased globalization of services. That's because of the transparency in pricing created by the Internet and the heated competition among cities and nations to develop business and vacation destinations and major airport hubs. The old, mercantilist impulse to protect one's markets is not only counterproductive from an economic standpoint; it no longer achieves what it is supposed to – protecting a country's carriers from competition.

### **Moving Beyond Bilateral Agreements**

For all of these reasons, the next logical step – the next wave of liberalization – will reach beyond the bilateral framework to bring whole regions under the umbrella of a single, liberalized agreement. The model for this type of accord is the MALIAT – the Multilateral Agreement on the Liberalization of International Air Transportation – to which both Chile and the U.S. are signatories. This agreement multiplies the benefits of the existing bilateral structure exponentially rather than moving nation-by-nation. It also provides new opportunities for investing in the airlines of the participating countries by eliminating many of the standard bilateral restrictions on foreign ownership.

Our efforts with respect to Europe are similar. We are currently negotiating with the European Commission – in talks we have been looking forward to for some time – to create a comprehensive trans-Atlantic agreement extending open skies to all twenty-five nations of the expanded European Union. If we are successful, we will together create the largest fully liberalized aviation market in the world, linking 26 countries, over 700 million people, and trillions of dollars in annual trade into a single, seamless aviation marketplace. For U.S. and European airlines, we believe that such an agreement will create tremendous opportunities to serve new markets and create exciting new business models. The result for Latin American airlines will likely be even greater pressure from

U.S. and European competitors who will be made far stronger by having to compete in this large, new, open market.

Finally, as I noted earlier, developing nations from Asia to the Middle East are also looking very carefully at current global trends and working to ensure that they do not get left behind. I mentioned earlier my recent trip to Beijing. We have been negotiating with China for several months now to liberalize that agreement, one that has become especially important now that China is the United States' largest trading partner in Asia.

### **The Latin American Landscape**

Unfortunately, no such discussions are underway with our partners here in this hemisphere, despite the fact that the bilaterals between Latin American nations and the U.S., and among Latin nations themselves, remain heavily restrictive. The result is that we still must deal in designation restrictions, frequency limitations, caps on the number of points served, and pricing restrictions – all of which limit the business options your airlines can pursue. Your ability to meet consumer demand is severely constrained, and you and your customers are ultimately denied the economic benefits of a free and open market.

We recognize that the restrictions in these bilaterals are often well intentioned. Governments quite naturally want to do what they can to see that their nation's carriers survive and prosper. But that is precisely the point – we will soon reach a time when, in order to prosper, an airline simply *must* have a liberalized relationship with the rest of the world to effectively serve its international travelers. Two of the most innovative airlines in Latin America today in fact, TACA and Lan Chile, come from open skies countries. These airlines are building regional networks and, in the case of Lan Chile, earning record profits. At the same time, many airlines in restricted markets throughout Latin America have been so insulated from market realities that they are struggling to catch up. From my perspective, the salient question about liberalization is no longer “whether”, but “when”.

The need to remain competitive is all the more important given the difficulties the industry has faced over the last few years, in part due to the attacks of 9/11. As international traffic rebounds, however, passengers and shippers will increasingly demand an airline that flies where and when they want at a price that is attractive. That kind of global travel demand can only be met by carriers that have both the legal right to operate in specific markets and the commercial discipline and agility to take advantage of those rights.

So I ask our open skies partners to consider the benefits of joining the MALIAT, and urge other countries – especially those that represent our largest trading partners in the region – to look seriously at what open skies can bring to their airlines and their economies. Similarly, I ask all of you to also consider what you need to be competitive, whether by serving markets directly, developing code sharing relationships, or other

means. We stand ready to work with all of you to develop new cross-border relationships that will provide a strong foundation for the second century of powered flight.

## **Conclusion**

I realize that our emphasis on liberalization frequently meets with some skepticism. In fact, some observers believe that our open skies policy is nothing more than an effort to help U.S. airlines establish dominant positions in as many markets as possible. That skepticism ignores the fact that the financial troubles that have descended upon airlines around the world have hit U.S. airlines particularly hard. Our “legacy carriers” also are facing tremendous pressure from a growing number of highly competitive, low-cost airlines operating on routes throughout our domestic market.

Under these circumstances, you might expect the U.S. to pause in its efforts to liberalize markets to give U.S. airlines a measure of relief from these commercial pressures. But we have not paused. We will not retreat from our pursuit of greater liberalization in global airline markets. Achievement of this goal, while creating new competition, will have long-term benefits that far outweigh any short-term considerations. Therefore, we will continue to pursue liberalization in order to give this industry an opportunity to maximize its contribution to global economic growth.

Thank you for this opportunity to speak with you today. I would be happy to answer any questions you may have.

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