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INTERNATIONAL AVIATION

DOT's Efforts to Promote U.S. Air Cargo Carriers' Interests





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**Resources, Community, and
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The Honorable Larry Pressler
Chairman, Committee on Commerce,
Science, and Transportation
United States Senate

The Honorable John McCain
Chairman
The Honorable Wendell H. Ford
Ranking Minority Member
Subcommittee on Aviation
Committee on Commerce, Science,
and Transportation
United States Senate

As you requested, this report summarizes U.S. air cargo airlines' reported problems in doing business abroad and examines the efforts of the departments of Transportation and State to address these airlines' interests and concerns in the international marketplace.

We are sending copies of this report to the Secretary of Transportation; the Secretary of State; the Director, Office of Management and Budget; and other interested parties. We will also send copies to others upon request.

If you have any questions, please call me at (202) 512-3650. Major contributors to this report are listed in appendix V.

Sincerely yours,

Gerald L. Dillingham
Associate Director,
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Executive Summary

Purpose

In 1995, the value of U.S. exports and imports moving by air was \$355 billion, accounting for 27 percent of all U.S. trade. U.S. all-cargo airlines carried about 60 percent of the freight hauled by U.S. airlines. But all-cargo airlines often face obstacles in operating abroad that lessen their efficiency and competitiveness. Concerned about the international interests of U.S. all-cargo airlines, the Chairman of the Senate Committee on Commerce, Science, and Transportation and the Chairman and Ranking Minority Member of its Subcommittee on Aviation asked GAO to address the following questions:

- What are the problems that all-cargo airlines face in doing business abroad, and what actions have the affected airlines and the U.S. government taken to resolve these problems?
- To what extent has the U.S. government addressed air cargo issues in policymaking and during bilateral aviation negotiations, and what are the possibilities for separating negotiations of air cargo services from broader negotiations that include passenger services?

Background

International aviation is governed by bilateral agreements that grant airlines specific traffic rights to serve a market, such as the routes to be flown, the number of airlines that fly the routes, and the number of flights that can be operated. The United States has traditionally negotiated these agreements with other countries as part of a comprehensive exchange of rights covering both passenger and cargo services. However, all-cargo airlines also need ancillary rights that differ significantly from those required for passenger services, such as the right to operate pickup and delivery services on the ground. When these ancillary rights are in dispute, the results are commonly termed “doing-business problems.”¹

The Department of Transportation (DOT), in coordination with the State Department, is responsible for developing U.S. international aviation policy and takes the lead in formulating measures to resolve, to the extent possible, U.S. airlines’ problems in doing business abroad. While foreign airlines complain of problems in doing business in the United States, including excessive costs and inadequate facilities and services, they have reported fewer such problems than U.S. airlines have reported in doing business overseas.

¹See *International Aviation: DOT Needs More Information to Address U.S. Airlines’ Problems in Doing Business Abroad* (GAO/RCED-95-24, Nov. 29, 1994).

The State Department promotes U.S. aviation interests abroad and chairs bilateral negotiations and coordinates DOT's actions with U.S. foreign policy. In 1995, DOT's U.S. International Air Transportation Policy Statement affirmed the U.S. government's approach of conducting comprehensive bilateral negotiations that cover both passenger and cargo services but stated the government's willingness to consider negotiating agreements dealing exclusively with cargo services. In the first such instance to occur since then, in March 1996 the United States and Japan concluded an agreement on air cargo services.

For this report, GAO surveyed the 26 U.S. airlines authorized by DOT and operating international all-cargo services as of September 1995. Twenty-two responded, including three major airlines, nine national airlines, and nine regional airlines.² These airlines carried about 60 percent of the freight hauled by U.S. airlines in 1994.³

Results in Brief

The 22 U.S. all-cargo airlines that responded to GAO's survey described a range of obstacles to doing business abroad that impairs their competitiveness. These airlines reported experiencing significant problems at 81 foreign airports.⁴ The most pervasive problems were related to regulation by foreign governments and foreign aviation authorities, such as difficulty getting cargo cleared through customs. The vast majority of these problems were reported at airports in Latin America and the Asia/Pacific region. Faced with these problems, 18 of the 22 all-cargo carriers have attempted to resolve the majority of these problems themselves, indicating in several instances that they consider any added expense as a cost of providing service at the airports. Seven of the 10 airlines that have requested assistance from either DOT or the State Department in resolving their problems have reported being generally satisfied with the aid they received. But two all-cargo airlines said they were unaware of the assistance that was available.

U.S. delegations have raised air cargo issues to some extent in their negotiations with more than three-quarters of the countries with which

²DOT classifies airlines as major, with annual revenues over \$1 billion; national, with annual revenues of \$100 million to \$1 billion; and regional, with annual revenues under \$100 million. One airline that responded to GAO's survey is not required to report financial data to DOT and, thus, is not classified.

³Two airlines that responded to GAO's survey are not required to report traffic data to DOT.

⁴The 22 U.S. airlines responding to GAO's survey indicated that they provided scheduled and charter all-cargo services at 197 foreign airports in 1995. However, the problems that they reported in doing business abroad were not limited to those affecting only services they provided that year.

bilateral talks have been held since 1989. The resulting agreements have generally expanded the opportunities for U.S. all-cargo carriers, but restrictions persist. As a remedy, 13 of the 22 U.S. all-cargo airlines advocate separating negotiations of air cargo rights from broader negotiations that also address passenger rights. While in some cases this approach could foster the liberalization of international air cargo services, it may not be practical or appropriate on a regular basis, according to some industry analysts and DOT and State Department officials.

Principal Findings

U.S. All-Cargo Airlines Report Problems in Doing Business Abroad

Like U.S. passenger/cargo airlines, U.S. all-cargo airlines report a variety of operating and marketing restrictions abroad that limit their ability to serve their customers, raise their costs, reduce their operating efficiency, and generally impair the competitiveness of their services. All-cargo carriers reported experiencing such problems at 107 foreign airports, characterizing the problems at 81 of these airports as having a significant impact on their operations. The most pervasive problems—which derive from foreign governments’ regulation—were cited at 50 of the 81 airports. At 25 of these airports, airlines complained about burdensome legal and administrative requirements imposed by foreign government agencies, such as a requirement for the airlines to complete what they perceive as excessive paperwork before being allowed to serve the airports. Other regulatory problems included these agencies’ (1) denying all-cargo airlines the right to fly on authorized routes and (2) when granting authorization, delaying the issuance of the necessary flight permits.

At almost half of the airports where the reported problems were characterized as having a significant impact on U.S. airlines’ operations and were linked to foreign governments’ regulation, the problems stem from the actions of agencies that have no direct jurisdiction over aviation, such as customs ministries. Such problems, cited at 22 airports, include difficulty in getting cargo cleared through customs and restrictions on airlines’ ability to truck cargo off airport property. GAO found in its November 1994 report that these types of problems can often arise from a country’s overall trade policies.

All-cargo airlines also reported problems with foreign airports’ policies and fees (cited at 48 airports); restrictions on “ground-handling,” which

includes a range of activities, such as refueling aircraft and handling cargo (cited at 31 airports); and restrictions on marketing and distribution, such as constraints on local advertising and requirements to use particular freight forwarders (cited at 13 airports). DOT officials said, however, that many of the problems cited by the airlines did not reflect discrimination against U.S. airlines but affected all airlines operating at the airports.

In addressing these problems, 18 of the 22 U.S. all-cargo airlines that responded to GAO's survey explained that they generally have not requested assistance from DOT or the State Department; rather, they have attempted to develop their own solutions to the problems or have just lived with them in an effort to preserve good relations with the host country. Ten airlines turned to the U.S. government for help in several instances, and seven of them reported that they were generally satisfied with the assistance provided, even if it did not resolve the problems.

Two airlines reported that they were unaware of the services that DOT and the State Department could offer in resolving their problems. Neither agency has systematically provided the airlines with guidance on the assistance it can provide or on how to obtain its assistance. However, in response to a recommendation in GAO's November 1994 report, DOT established a database to monitor the status of U.S. airlines' problems so that it could better establish priorities and strategies to address the most serious problems. DOT asked two industry associations (the Air Transport Association and the National Air Carrier Association) to notify their members of the database and to request relevant information. But only 9 of the 22 all-cargo airlines are members of either association. Consequently, the airlines that are not members—mostly regional carriers—were unaware of DOT's efforts to collect such data and have provided no information to assist DOT in establishing priorities.

Agreements Have Expanded Opportunities, but Most All-Cargo Carriers Favor Dedicated Negotiations

From a review of the records of U.S. aviation negotiations (about three-quarters of which addressed cargo issues to some extent) and the resulting agreements concluded between January 1989 and March 1996, GAO found that 32 of the 74 accords contained provisions governing all-cargo services. These agreements have generally expanded the opportunities for U.S. all-cargo airlines. Nevertheless, three-quarters of the agreements also include various restrictions on services, including limits on the number of airlines allowed to operate and restrictions on their ability to operate flights from host-country airports to other foreign destinations.

Thirteen of the all-cargo airlines that GAO surveyed advocate independently negotiating for all-cargo rights as a way to better address their needs. According to some of these airlines, DOT and State Department officials, and other industry observers, this approach could foster the liberalization of air cargo services by allowing negotiators to focus on cargo issues. However, several of these experts also expressed the opinion that such an approach faces several obstacles. Most foreign countries do not have major all-cargo airlines; instead, they have passenger airlines that carry cargo as well as passengers. In these countries, the governments might be unable to conduct separate negotiations of air cargo and passenger rights. Furthermore, U.S. negotiators would be unable to reciprocally exchange cargo for passenger rights, and their flexibility in negotiations could thus be lessened. Finally, separate talks could increase the costs for staff and travel at the U.S. offices involved.

The all-cargo negotiations with Japan demonstrate both the advantages and disadvantages of a dedicated approach. While the final agreement with Japan expands opportunities for U.S. all-cargo airlines, U.S. negotiators point out that both sides were concerned about any precedent that might be set for subsequent negotiations of passenger services, so the agreement did not eliminate as many restrictions as anticipated. Also, concluding the agreement on air cargo services has not accelerated negotiations of passenger service issues.

Recommendations

GAO recommends that the Secretary of Transportation

- develop and distribute to all U.S. airlines information on the assistance available and guidance on the procedures to be followed in requesting aid from the U.S. government for resolving problems in doing business abroad and
- extend DOT's current effort to collect information on the status and severity of U.S. airlines' problems in doing business abroad to include all U.S. all-cargo airlines that operate internationally.

Agency Comments

GAO provided a draft of this report to the departments of Transportation and State for their review and comment. DOT and State Department officials generally agreed with the report's conclusions and recommendations and offered some technical and clarifying comments, which have been incorporated in the report.

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Abbreviations

AFA	Air Freight Association
ATA	Air Transport Association of America
DOT	Department of Transportation
EU	European Union
GAO	General Accounting Office
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
NACA	National Air Carrier Association
TAMPA	Transportes Aereos Mercantiles Panamericanos
USTR	Office of the U.S. Trade Representative

Introduction

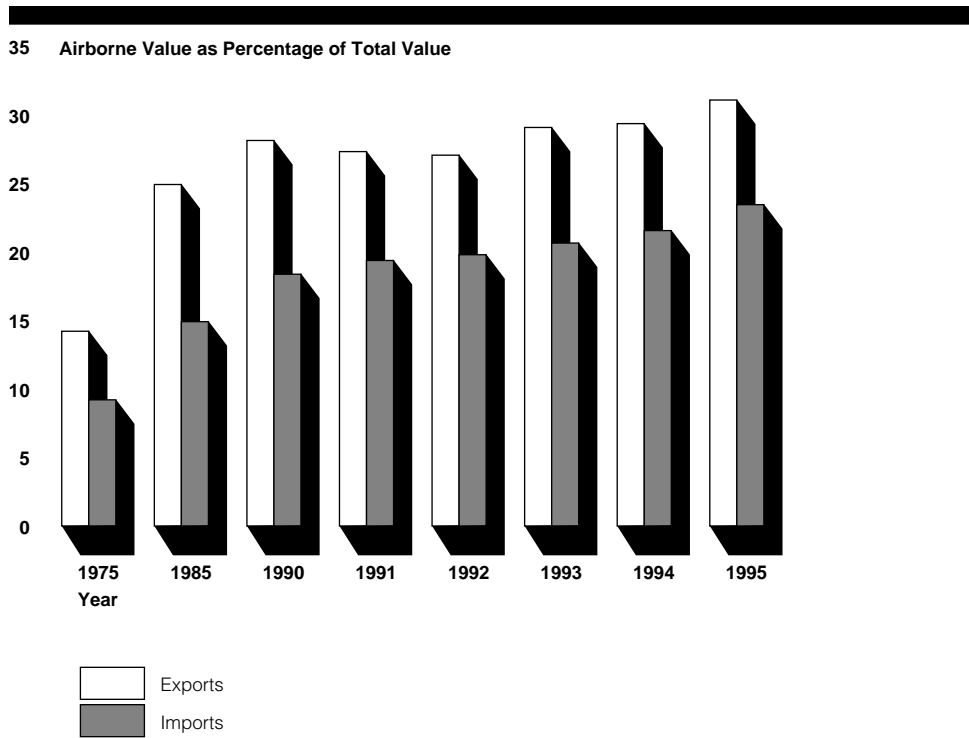
The importance of airborne trade to the U.S. economy has steadily increased over the last 20 years, and the international movement of goods by air is critical to many U.S. export industries. The international aviation market is, however, heavily regulated by bilateral agreements between countries, which often limit airlines' traffic rights—the routes they can fly and the frequency with which they can fly those routes. The departments of Transportation (DOT) and State have traditionally negotiated these agreements as part of a comprehensive exchange covering both passenger and air cargo services. However, air cargo services have characteristics and needs that differ significantly from those of passenger services—most prominently the need to move and store cargo on the ground. When these needs are not met, the competitiveness of these services is compromised.

International Air Cargo Services Are Vital to U.S. Trade

International air cargo services play a vital role in facilitating U.S. trade.¹ As shown in figure 1.1, since 1975 the airborne share of the value of U.S. exports has more than doubled, and the airborne share of imports has almost tripled. In 1995, the value of U.S. airborne trade reached \$355 billion, accounting for 31 percent of U.S. exports and 23 percent of imports—or 27 percent of all U.S. trade. U.S. airlines generated about \$3.9 billion in revenues from international freight operations that year, according to DOT's data.

¹Throughout this report, air cargo and airfreight will be used interchangeably to mean property, but not mail.

Figure 1.1: Airborne Trade as a Percentage of the Value of U.S. Exports and Imports, 1975, 1985, 1990-95



Source: Department of Commerce, Bureau of the Census.

The development of global systems for producing and distributing goods and an attendant increase in the use of “just-in-time” inventory systems, which reduce the need to warehouse spare parts and finished products, have contributed, in part, to the growth of international air cargo services. Some analysts consider the efficiency of such supply chains to be an increasingly important competitive advantage in numerous industries. International air transport is critical to shippers who need speed and reliability. This means of transport is particularly appropriate for moving goods that (1) have high value-to-weight ratios, (2) are fragile, (3) are physically or economically perishable, and/or (4) are subject to unpredictable demand patterns. Almost 70 percent of the exports of U.S. computers and office equipment and over half of the exports of U.S. communications equipment moved by air in 1994.

From 1990 to 1995, airfreight traffic between the United States and foreign countries grew by 50 percent. This traffic accounted for approximately 38 percent of the world's estimated total airfreight traffic in 1994, the last year for which data are available. The trade to and from Latin America almost doubled. Europe and the Asia/Pacific region are the largest air trade markets for the United States, accounting for about 70 percent of the country's air trade by weight in 1995. Furthermore, according to the Boeing Commercial Airplane Group's forecast for airfreight traffic,² international markets offer the greatest opportunities for U.S. airlines to expand their freight operations—the rate of growth in almost all international airfreight markets is forecast to exceed that of the U.S. domestic market.

Air Cargo Industry Has Unique Operating Requirements

The international air cargo industry comprises three types of carriers: (1) integrated all-cargo carriers, such as Federal Express, that operate cargo-only aircraft and primarily offer express door-to-door delivery of shipments; (2) scheduled and charter all-cargo carriers that operate cargo-only aircraft and primarily offer airport-to-airport service; and (3) passenger/cargo carriers that carry cargo on board passenger aircraft but also may operate cargo-only aircraft, and primarily offer airport-to-airport delivery.

Air cargo services have significantly different operating requirements from passenger services. First, unlike most passengers, air cargo moves in one direction only. This frequently results in directional imbalances in the flow of cargo traffic. To operate economically, a cargo carrier must have the flexibility to alter routings to take advantage of changes in traffic flows. Because most cargo is inanimate, it is also less sensitive than passengers to the number of stops made en route, to the directness of routing, or to changes in aircraft. Nevertheless, speed is usually critical to competitive air cargo services. According to DOT, rights to serve destinations without restrictions, along with the ability to route services flexibly, are even more important for efficiency in cargo operations than in passenger operations. Finally, the movement and storage of air cargo on the ground are vital for cargo services. For express carriers offering door-to-door service, the ability to operate pickup and delivery service—that is, to have intermodal rights—is essential for competitiveness.

²1995 World Air Cargo Forecast (Aug. 1995).

All-cargo carriers hauled almost 60 percent of the international freight carried by U.S. airlines—over 1.3 million tons in 1994.³ As shown in table 1.1, services by U.S. all-cargo airlines are particularly important in Latin America and the Asia/Pacific region, where they carried over 70 percent of the freight transported by U.S. airlines in 1994.

Table 1.1: U.S. All-Cargo Airlines' Share of Freight Transported by U.S. Airlines, by Region, 1994

Region	Total U.S. tons	Tons transported by U.S. all-cargo airlines	All-cargo airlines' share of U.S. total (percent)
Africa	4,340	701	15.9
Asia/Pacific	769,669	545,762	70.9
Canada	41,451	23,494	56.7
Europe	668,863	181,485	27.1
Latin America	759,746	569,060	74.9
Middle East	14,694	8,102	55.1
Total	2,258,763	1,328,604	58.8

Source: DOT.

U.S. Airlines Enjoy Less Success in International Freight Markets Than in Passenger Markets

In 1994, U.S. airlines flew more scheduled international freight ton-miles—about 16 percent of the world total—than the airlines of any other country.⁴ Nonetheless, U.S. carriers have not competed as successfully in international freight markets as they have in international passenger markets. From 1990 through April 1995, U.S. airlines achieved a 40.7-percent share of the U.S. international freight market, on average. By comparison, U.S. passenger/cargo airlines averaged a 53.3-percent share of the U.S. international passenger market during the same period. Notably, according to DOT's data for 1994, airlines from foreign countries other than those where the freight originated or was destined—so-called third-country carriers—obtained a 21-percent share of the traffic in the 20 leading U.S. international freight markets.

Most international airfreight is carried by major foreign passenger/cargo airlines. In contrast to the U.S. domestic market, where integrated all-cargo carriers carry about 60 percent of the freight traffic, the majority of the world's scheduled freight traffic is carried by passenger/cargo airlines—almost 60 percent in 1994, according to the Air Cargo

³This figure includes the freight carried by Northwest Airlines, a passenger/cargo airline that also operates cargo-only aircraft.

⁴A freight ton-mile, the standard measure of airfreight activity, is 1 ton of freight flown 1 mile.

Management Group, an air cargo consulting firm. The comparatively small U.S. share of international freight traffic is due, in part, to the greater emphasis foreign passenger/cargo airlines have traditionally placed on freight operations compared with U.S. passenger airlines. U.S. passenger/cargo airlines have historically viewed cargo services as a by-product of their passenger services, and all but one of these airlines had ceased operating cargo-only aircraft until this year. Northwest Airlines was the only major U.S. airline operating such aircraft in 1995, though both United Airlines and Continental Airline's subsidiary, Continental Micronesia, recently announced plans to begin all-cargo services in the Asia/Pacific region. By contrast, many major foreign passenger/cargo airlines, such as KLM Royal Dutch Airlines, Air France, and Lufthansa, operate all-cargo aircraft or so-called "combi" aircraft, on which cargo is carried in the main compartment of the passenger aircraft in addition to the bellyholds.

Appendix I contains additional information on the status of the international airfreight industry.

DOT and the State Department Negotiate Bilateral Agreements and Try to Resolve Problems

Under a framework established by the Chicago Convention in 1944, international aviation is largely governed by bilateral agreements. Two countries negotiate the air transport services between them and award airlines traffic rights. In general, traffic rights determine (1) which routes can be served between the countries and between them and third countries; (2) what services airlines can provide (e.g. scheduled or charter); (3) how many airlines from each country can fly the routes; and, in some case (4) how frequently flights can be offered.

For the United States, the responsibility for developing international aviation policy and negotiating bilateral agreements resides with DOT and the State Department. Traditionally, these agencies have negotiated bilateral agreements as part of a comprehensive exchange of rights covering both passenger and cargo services. In 1989, DOT issued a statement of U.S. air cargo policy that established specific negotiating objectives designed to ensure the least restrictive operating environment for U.S. air cargo services.⁵ The 1989 statement reiterated DOT's traditional policy of conducting comprehensive negotiations as the best means to accommodate the international interests of all-cargo airlines. DOT's 1995 international aviation policy added the agency's willingness to consider

⁵Statement of U.S. International Air Cargo Policy, DOT Order 89-5-29 (May 1989).

negotiating bilateral agreements that cover only cargo services.⁶ The State Department also helps develop aviation policy and is responsible for chairing negotiations with foreign governments and coordinating DOT's actions with overall U.S. foreign policy.

Under 49 U.S.C., section 41310, the Secretaries of State and Transportation, as well as the heads of other agencies, are required to take all appropriate action to eliminate any discrimination or unfair competitive practices faced by U.S. airlines overseas. U.S. carriers can file formal complaints with DOT about such practices. DOT takes the lead in formulating policies and countermeasures to resolve such problems, which are regulatory obstacles, administrative inefficiencies, or restrictive practices that inhibit airlines from fully exercising the rights available to them under bilateral aviation agreements or that reduce the competitiveness of their services.

Objectives, Scope, and Methodology

Concerned about the international interests of U.S. all-cargo airlines, the Chairman of the Senate Committee on Commerce, Science, and Transportation and the Chairman and Ranking Minority Member of its Subcommittee on Aviation asked us to address the following questions:

- What are the problems that all-cargo airlines face in doing business abroad, and what actions have the affected airlines and the U.S. government taken to resolve these problems?
- To what extent has the U.S. government addressed air cargo issues in policymaking and during bilateral aviation negotiations, and what are the possibilities for separating negotiations of air cargo services from broader negotiations that include passenger services?

To identify the problems that U.S. all-cargo airlines face when operating abroad, we designed a questionnaire asking the airlines to catalog any such problems and assess their impact. The questionnaire was pretested with representatives of five all-cargo airlines. We then surveyed the 26 U.S. air carriers that, as of September 1995, operated cargo-only aircraft and were authorized by DOT to offer scheduled or charter international all-cargo services. We did not attempt to verify the existence of problems or their impact. As agreed with the requesters' offices, we pledged that the airlines' responses would be kept confidential. We received responses from 22 of the airlines, for a response rate of about 85 percent. The 22 airlines included 3 major airlines, 9 national airlines, and 9 regional

⁶U.S. International Air Transportation Policy Statement (Apr. 1995).

airlines. These airlines carried about 60 percent of the freight carried by U.S. airlines in 1994. A copy of the questionnaire can be found in appendix IV.

To examine the actions taken by U.S. all-cargo airlines and the U.S. government to resolve the airlines' problems abroad, the questionnaire asked respondents to describe their efforts to settle the problems and evaluate the assistance they received from DOT and the State Department, if any was requested. We also interviewed officials from DOT's Office of International Aviation and the State Department's offices of Aviation Programs and Policy and Aviation Negotiations.

To describe the disposition of cargo issues during policymaking and bilateral aviation negotiations, we reviewed relevant documents from DOT and the State Department, including DOT's May 1989 statement of air cargo policy and April 1995 statement of international aviation policy, and spoke with DOT and State Department officials. We also reviewed applicable laws and reviewed U.S. aviation agreements concluded between January 1989 and March 1996. In addition, we reviewed the detailed notes of aviation negotiations recorded by representatives of the Air Transport Association (ATA) who were present at the discussions.⁷ We also interviewed DOT and State Department officials about aviation policymaking and bilateral negotiations. Our questionnaire asked survey respondents to evaluate the performance of these agencies in meeting their needs. Finally, we interviewed representatives of individual U.S. all-cargo and passenger/cargo airlines, the Air Freight Association (AFA), ATA, and the National Air Carrier Association (NACA).

To examine the possibilities for negotiating air cargo services separately from broader negotiations that include passenger services, our questionnaire asked respondents for their views. For this issue, we also interviewed officials representing the U.S. government, U.S. airlines, foreign governments, the European Union, and aviation trade associations.

We also provided copies of a draft of this report to the departments of Transportation and State for their review and comment.

Our work was conducted from August 1995 through September 1996 in accordance with generally accepted government auditing standards.

⁷ATA is the trade organization representing the largest U.S. international airlines. ATA representatives are members of official U.S. delegations during aviation negotiations and maintain detailed records of discussions.

U.S. All-Cargo Airlines Report Problems in Doing Business Abroad

U.S. all-cargo airlines reported that they encounter many of the same types of problems in doing business at overseas airports that we identified in a prior study.¹ The most significant problems, such as delays in clearing cargo through customs, are related to the regulation of aviation and international trade by foreign government agencies. The vast majority of these problems, which make U.S. carriers less effective competitors in the international marketplace, occur at airports located in Latin America and the Asia/Pacific region. The U.S. all-cargo carriers noted that they often accept these problems as a cost of operating at the airports involved or attempt to resolve them without the U.S. government's assistance in an effort to preserve good relations with the host country. Foreign airlines also face problems in doing business in the United States. However, foreign airlines have reported fewer problems doing business here than U.S. airlines have reported having abroad. In cases in which DOT's or the State Department's assistance was requested, most all-cargo airlines indicated that they were generally satisfied with the agencies' efforts. Nevertheless, some all-cargo airlines indicated that they were not aware of DOT's or the State Department's ability to provide assistance. Finally, DOT's gathering of information on doing-business problems has not been comprehensive because the agency has not notified all all-cargo airlines of its efforts.

Carriers Report a Wide Range of Obstacles

As we earlier found with major U.S. passenger/cargo airlines, U.S. all-cargo airlines report a variety of obstacles in doing business abroad that raise their costs and impair their operating efficiency. The 22 airlines that responded to our survey of U.S. international all-cargo carriers reported experiencing such problems at 107 foreign airports.² The respondents indicated that these problems significantly affected their operations at 81 of these airports, many of which are located in 9 of the top 10 U.S. international airfreight markets for 1994.³ These problems include (1) regulation by foreign governments, such as delays in clearing cargo through customs; (2) restrictive policies and inadequate services at foreign

¹Although our November 1994 review focused on the operations of U.S. passenger/cargo airlines, we also examined the problems faced by Federal Express and United Parcel Service. See *International Aviation: DOT Needs More Information to Address U.S. Airlines' Problems in Doing Business Abroad* (GAO/RCED-95-24, Nov. 29, 1994).

²Our survey went to 26 all-cargo airlines. (See table II.1.) The 22 U.S. airlines responding to our questionnaire indicated that they provided scheduled and charter all-cargo services at 197 foreign airports in 1995. However, the problems in doing business that they reported were not limited to those affecting the services they provided in 1995.

³We are reporting only the "significant" problems identified by U.S. all-cargo airlines, defined as those problems that the airlines said negatively affected their operations to a "great" or "very great" extent.

airports; (3) restrictions on ground-handling operations, such as limitations on loading and unloading cargo; and (4) limitations on how airlines can market their services in local markets. These problems affect airlines of all sizes providing both scheduled and charter services, although they may have a greater economic impact on small airlines. According to DOT officials, however, many of the problems cited by the survey respondents did not reflect discrimination against U.S. airlines but affected all airlines operating at the airport.

Appendix II summarizes the 22 U.S. all-cargo airlines' reports of significant problems in doing business and the number of airports at which they occur.

Regulation by Foreign Governments Limits Market Access and Raises Operating Costs

The problems cited most often by airlines involve regulation by foreign aviation authorities and regulation by government agencies that have no direct jurisdiction over aviation but do have rules affecting all-cargo airlines' operations. These regulatory impediments, cited by 13 airlines at 50 of the 81 airports at which airlines reported significant problems, were identified as occurring more frequently in Latin America and the Asia/Pacific region than in other regions. Problems involving regulation by aviation authorities include burdensome administrative requirements and delays in obtaining flight permits. Problems stemming from the actions of agencies with no direct jurisdiction over aviation include delays in clearing cargo through customs and restrictions on the ability of U.S. airlines to operate trucks for pickup and delivery services.

Regulation by Foreign Aviation Authorities

Burdensome legal and administrative requirements were deemed a significant problem by six airlines. These airlines contend that these requirements limit their flexibility to serve their customers and raise their operating costs at 25 foreign airports, increasing the costs that they then must pass on to their customers. For example, one airline complained that the aviation authorities of one Latin American country required it to purchase liability insurance from one of the country's national insurance companies for its aircraft operating on routes to that country, even though the aircraft was already insured by a U.S. company. Likewise, two of these airlines maintain that foreign governments in Latin America and the Asia/Pacific region require excessive documentation from carriers before allowing them to inaugurate service at their airports, imposing a burden in terms of both personnel costs and management oversight. In addition, these requirements, airlines report, can be applied in a discriminatory

manner by foreign government agencies to reduce the competitiveness of the U.S. airlines' services.

According to 10 of the airlines, foreign governments also frequently limit access to their markets by refusing to grant the U.S. airlines the authority to operate on routes authorized by bilateral agreements (cited as affecting operations at 17 airports) and by delaying the issuance of permits to overfly their territory or serve their airports (cited as affecting operations at 15 airports). These problems were cited at airports in 5 of the 10 largest U.S. international airfreight markets in 1994. U.S. airlines contend that foreign governments take such actions to protect their national airlines from competition from U.S. carriers. According to some all-cargo airlines, difficulty in obtaining flight permits, although also a problem for scheduled airlines, is particularly troublesome for all-cargo airlines offering charter services because they often must operate flights on short notice to meet the needs of their customers. According to the charter airlines we surveyed, some countries in Latin America require notice of proposed charters far in advance of when the airlines typically receive requests for flights. The airlines said that if they cannot obtain the appropriate authorization in sufficient time before a proposed flight, they frequently lose the business to competing, often local airlines, thereby losing revenues and dissatisfying customers.

Seven all-cargo carriers also report that curfews banning airlines from operating during night hours at 10 key airports in Latin America, Europe, Canada, and the Asia/Pacific region limit their ability to provide their customers with adequate levels of service. According to two of these airlines, curfews disproportionately affect all-cargo carriers because these airlines typically operate during night hours in order to meet delivery deadlines. Prohibitions against night operations, according to these airlines, reduce all-cargo airlines' flexibility to schedule their flights. These curfews affect all the airlines operating at the airports, including the national carriers of the host countries. DOT officials noted, however, that U.S. and foreign airlines complain about similar curfews at airports in the United States.

Regulation by Other Government Agencies

Eight airlines characterized problems stemming from the actions of government agencies at 22 airports, mostly in Latin America and the Asia/Pacific region, that have no direct jurisdiction over aviation as adversely affecting their operations to a significant extent. Most of these agencies are responsible for regulating trucking or administering international trade.

Chief among the problems cited are restrictions on U.S. carriers' ability to operate trucks for pickup and delivery services and delays in clearing cargo through customs. According to three U.S. all-cargo airlines, several countries require that locally owned companies pick up and deliver or transport freight shipments. Such restrictions, according to the airlines, limit their ability to provide time-sensitive delivery of packages, or deliver packages at all, at 12 foreign airports. For example, one airline reported that one Latin American government prohibits foreign companies from operating trucks with a capacity of more than 4 1/2 tons, reserving that sector of the market for its nationals. Because the airline cannot use a larger vehicle to transport shipments, its delivery of time-sensitive shipments slows and the airline's cost of operations increases. Five airlines also reported difficulties and delays in clearing customs at 10 airports. For example, one airline attributed the slow handling of time-sensitive shipments and excessive costs to the airports' having too few customs inspectors and cumbersome clearance processes. Such delays frustrate one of the primary purposes of air cargo transportation—speedy delivery. DOT officials noted that problems in clearing customs tend to be nondiscriminatory and also affect local airlines.

According to U.S. airlines, the cumulative effect of such problems is to reduce their operating efficiency and make their services less competitive with those of foreign airlines. In November 1994, we reported that many of the problems deriving from regulation by foreign government agencies with no direct jurisdiction over aviation often arise from the country's overall trade policies.⁴

High Airport Fees Raise Airlines' Operating Costs

Fourteen airlines reported problems linked to airports' policies and services. These included problems such as discriminatory or excessive landing fees, discriminatory payment terms for airports' services, and discriminatory or excessive fuel prices. For example, two airlines reported paying landing fees they considered excessive or discriminatory at the airports of one Latin American country. One airline complained that it must pay about \$3,000 for landing services at these airports, while fees for equivalent services for the same type of aircraft at airports in nearby countries range between \$750 to \$1,500. In addition, the other airline contends that these high fees are discriminatory because that country's national carriers pay about \$2,000 less in fees than U.S. and other foreign

⁴See *International Aviation: DOT Needs More Information to Address U.S. Airlines' Problems in Doing Business Abroad* (GAO/RCED-95-24, Nov. 29, 1994).

airlines pay. Both airlines stated that the high fees impose a financial burden on their operations and render their services less competitive than the national airlines'. Survey respondents alleged similar problems at a total of 48 foreign airports, mostly in Latin America and the Asia/Pacific region.

Ground-Handling Restrictions Degrade the Quality of Airlines' Services

Thirteen U.S. airlines responding to our survey reported problems with ground-handling at 31 foreign airports, most of which are located in Latin America and the Asia/Pacific region.⁵ Ground-handling is a significant element of operations, affecting airlines' costs and ability to compete effectively and to serve customers. U.S. airline representatives stated that such restrictions raise operating costs, lower the quality of airlines' services, and reduce efficiency.

Problems with cargo-handling include restrictions on airlines' ability to load or unload cargo themselves, discriminatory or excessive cargo-handling fees at those airports where airlines are prohibited from performing this task themselves, and inadequate warehouse facilities. U.S. carriers particularly object to being forced to use monopoly handling agents—frequently the local carrier against whom they compete—because they contend that such agents provide less efficient, reliable, and responsive service than they could provide themselves. For example, one airline complained that the government-owned monopoly ground-handling agent at the airports of one Asian country it served gives priority services to national aircraft at all times and that the workers providing the services do not work as efficiently for foreign airlines as for national airlines. Cargo carriers want the freedom to perform their own ground-handling services or to contract for them among several competing agents.

Inadequate warehouse facilities at foreign airports also pose problems, according to two U.S. all-cargo airlines. One U.S. airline reported that the government's warehouses at a Latin American airport are very disorganized because they lack space, equipment, and trained personnel. The problems include not separating stored cargo according to the airline, not designating an area for dangerous goods, not having proper weighing equipment, and not designating a storage area for live animals. Because of

⁵Ground-handling comprises a wide range of services needed by airlines for their passengers, cargo, and aircraft. Ramp-handling and cargo-handling are the elements of ground-handling important for freight services. Ramp-handling involves activities that take place on the runway apron, such as cleaning aircraft and equipment, refueling, and pushing back and towing aircraft. Cargo-handling includes "building-up" and "breaking down" cargo shipments, loading and unloading cargo, and storing cargo in warehouses.

these problems, the airline reported that it had to pay numerous claims for lost and damaged cargo and that various delays in departures had occurred. This airline further stated that all foreign airlines are affected by this problem.

Restrictions on Local Marketing and Distribution Hamper Competitiveness

Restrictions on how all-cargo airlines can market their services and distribute their freight within local markets also affect the airlines' ability to operate efficiently. Four U.S. cargo airlines characterized such problems at 13 airports as significantly affecting their operations. These problems include restrictions on local advertising and the number of sales offices and on the number and type of personnel the airlines can employ. For example, one airline complained that it could not obtain adequate office space at the airports it serves in one Latin American country. According to this airline, the airports lack infrastructure, so the airport authorities lease only a very limited amount of space to the airlines, on a "first-come, first-served" basis. As a result, the airline reported, it cannot establish adequate sales offices at the airports and is impeded in its ability to solicit business. In an Asian country, a U.S. airline reported that the government required it to use the government-owned forwarders to distribute its freight at the two airports it served. According to the affected airline, both forwarders provided poor service, charged high fees, and required the airline to pay a commission of 5 percent on its revenue at both airports. This created a financial burden for the airline, and it eventually sold its operating authority to this country.

Foreign Airlines Also Face Problems in Doing Business in the United States

Foreign airlines also complain of problems in doing business in the United States. The most common problems cited by foreign airlines in our November 1994 report were excessive costs and inadequate facilities and services at U.S. airports. Officials from another foreign airline noted that foreign carriers are subject to a number of U.S. local sales and income taxes, while U.S. airlines are exempt from such taxes in several foreign countries. Two foreign airlines that we spoke with believe that the U.S. Customs Service lacks the personnel to expeditiously process cargo at Miami International Airport, the primary U.S. gateway for trade with Latin America. These airlines also complained about inadequate security at the Miami airport's warehouses. However, foreign airlines have reported experiencing fewer problems in the United States than U.S. airlines have reported experiencing overseas.

Most U.S. All-Cargo Airlines Do Not Seek the Government's Help in Resolving Problems

Like U.S. passenger/cargo airlines, U.S. all-cargo airlines that have problems doing business abroad can request assistance from both DOT and the State Department to resolve them. However, 18 of the 22 all-cargo carriers responding to our survey explained that they generally have not requested the U.S. government's assistance; rather, they have attempted to develop their own solutions to the problems or treated any additional expense caused by the problems as a cost of providing service at those locations. Most of the 10 airlines that did request assistance from either DOT or the State Department indicated that they were generally satisfied with the aid they received. Some airlines reported that they were unaware of the assistance that DOT and the State Department could offer but would like guidance on how to request such assistance in the future. Recently, DOT established a database to monitor the problems U.S. airlines experience in doing business abroad. However, because DOT relied on two industry associations to notify their members of its efforts, many carriers that were not members of these associations were unaware of the initiative and have therefore provided no information.

U.S. All-Cargo Airlines Attempt to Resolve Problems Themselves

U.S. all-cargo airlines reported they were more likely to try to resolve their problems in doing business themselves or to take no action rather than ask the U.S. government to intervene. The U.S. all-cargo airlines that have attempted to resolve their problems themselves have been only slightly successful, resolving 20 of 117 such cases. However, the settlements achieved were not always optimal from the airlines' viewpoint. For example, one airline operating at a European airport negotiated a reduction in some landing fees that the carrier considered excessive, but other landing fees at the same airport remain high. Other attempts to resolve problems have been unsuccessful. One airline reported that after trying unsuccessfully to resolve its problems in obtaining flight permits, clearing cargo through customs, and complying with burdensome legal requirements at a Latin American airport, it decided to stop operating at that airport. Another airline, which was unable to resolve significant operating and marketing problems at two airports in an Asian country, sold its rights to fly to those airports.

Some Airlines View Problems as Beyond the Scope of the U.S. Government

Some U.S. all-cargo airlines have not requested DOT's or the State Department's intervention because (1) they view the U.S. government's role as limited to intervening in matters involving violations of bilateral agreements only; (2) they believe requesting the U.S. government's intervention would be too costly or time-consuming; or (3) they have been

unaware that the assistance is available. Like several U.S. passenger/cargo airlines, many U.S. all-cargo airlines do not believe it is practical for airlines to rely on the U.S. government to resolve the daily difficulties of operating in foreign countries. In addition, according to DOT and State Department officials, many U.S. airlines do not seek the U.S. government's assistance because they believe such government involvement might harm relations with the host country.

Some airlines do not request the U.S. government's assistance to resolve problems because they usually view the problems as local or unique to the airports in question. These airlines prefer not to involve DOT or the State Department in problems they view as not involving a breach of obligations under a bilateral agreement. One airline explained that it generally attempts to work with local airport officials, the International Air Transport Association (IATA), the International Civil Aviation Organization (ICAO), and other carriers to remove many of these impediments to doing business. This carrier believes that the bilateral process is not an appropriate forum for resolving many of the problems that are specific to all-cargo airlines' operations because the process is structured to address the needs of passenger services.

Like U.S. passenger/cargo airlines, many all-cargo airlines do not view the formal process for filing complaints about operating problems as a cost-effective way to resolve them. They consider the formal process of requesting the U.S. government's intervention to be too costly or time-consuming. This view is especially common among the small and mid-size airlines that have limited resources to devote to filing complaints under 49 U.S.C., section 41310, the statute under which airlines file formal complaints with DOT about their problems in doing business abroad.⁶ Of the 28 complaints filed under the statute since 1989, only 6 were filed by all-cargo carriers. According to one airline, it is also costly to request DOT's assistance because the agency asks the airline to collect and present to it all the necessary evidence concerning a problem before the agency will attempt to address the problem. DOT officials responded that they must have reasonable assurance of a problem's validity, as well as detailed facts, before intervening with a foreign government on a formal basis. DOT officials told us that although the number of formal complaints is small,

⁶Under 49 U.S.C., section 41310, U.S. carriers can file complaints about discrimination or unfair competitive practices that they face abroad. DOT must approve, deny, dismiss, or set such a complaint for hearing or investigation or institute a proceeding proposing some other remedial action within 60 days of receiving the complaint. DOT can extend the deadline in 30-day increments to a maximum of 180 days if (1) officials believe negotiations are leading to an imminent resolution and more time is required in the public interest and (2) the affected carrier has not suffered economic harm as a result of filing the complaint.

DOT spends a great deal of time attempting to resolve complaints informally.

Some airline officials were also unaware of the processes for requesting DOT's or the State Department's assistance to help solve problems in doing business abroad. Officials of three airlines—one small charter, one large regional, and one national airline—stated that they were unfamiliar with how to request the U.S. government's aid but would appreciate any information on how to do so. Officials at two of these airlines were not even aware that such assistance was available from the U.S. government. Neither DOT nor the State Department systematically provides the airlines with information on the assistance it provides or guidance on the procedures to be followed in obtaining the assistance.

Finally, DOT and State Department officials, including DOT's Assistant Director for Negotiations and the State Department's Director of the Office of Aviation Negotiations, believe that many U.S. airlines are reluctant to request their aid in resolving problems because the airlines think that the U.S. government's involvement will be perceived by the host country as confrontational. According to DOT officials, most U.S. airlines prefer using cooperative methods to resolve problems out of fear that a foreign government will retaliate or a desire to preserve good relations with the host country.

Recently, in response to a recommendation we made in our 1994 report, DOT began to collect information on the status, nature, and severity of U.S. airlines' problems in doing business abroad and established a consolidated database on such problems to ensure that they are prioritized and given attention. However, DOT did not notify all U.S. all-cargo airlines of the system. Instead, DOT worked through the Air Transport Association (ATA) and the National Air Carrier Association (NACA) to notify their members of the database and to request information on current doing-business problems. Only 9 of the 22 air cargo carriers that responded to our survey, however, are members of either association. As a result, the airlines that are not members—mostly regional airlines—were unaware of DOT's efforts and have provided no information. Consequently, DOT's gathering of information about and monitoring of doing-business problems have not been as comprehensive as they could have been.

**U.S. Government Has
Resolved Some Problems,
but Most Are Unresolved**

For those problems for which all-cargo airlines requested the U.S. government's assistance, DOT and the State Department had some success, according to survey respondents. The 10 all-cargo airlines that reported

turning to the U.S. government for help told us of 14 cases in which the government completely or partially resolved the doing-business problem in question. However, the airlines also reported 32 cases in which the situation remained unchanged after the U.S. government intervened. Nonetheless, 7 of the 10 airlines were generally satisfied with the assistance they received from DOT or the State Department, even if the assistance provided did not resolve the problem.

As we reported in November 1994, DOT and the State Department are more successful in resolving issues that come under bilateral agreements or issues that DOT has determined denied U.S. airlines a fair and equal opportunity to compete. For example, one cargo airline reported that during recent bilateral negotiations with a European country, U.S. negotiators were successful in including in the bilateral agreement a statement that prevents that country from arbitrarily assessing landing fees. The U.S. government also intervened successfully on behalf of an all-cargo airline that reported experiencing cargo-handling restrictions and discriminatory cargo-handling fees at airports in an Asian country. In response to a formal complaint, the U.S. government imposed sanctions on the foreign government, and the foreign government ceased its discriminatory practices.

According to carriers responding to our questionnaire, DOT and the State Department have had less success in resolving problems that are not covered by specific, detailed provisions in bilateral agreements or that do not represent discrimination against U.S. airlines. For example, according to one U.S. airline, the departments were not able to resolve restrictions that limited the airline's operations to the less commercially desirable of a foreign city's two airports. According to another airline, DOT and the State Department have been negotiating for 2 years with a Latin American country to drop a restriction that reserves for national companies and denies to others the right to transport international freight shipments in vehicles with a capacity of more than 4-1/2 tons. Some survey respondents said that their problems remain unresolved: Charter airlines, for example, continue to have difficulty obtaining flight permits at Latin American airports.

DOT and the State Department Face Constraints in Resolving Problems

As we previously reported, DOT and the State Department must consider numerous factors, including the severity of the problem and the United States' aviation trade relationship with the country involved, in attempting to resolve U.S. airlines' doing-business problems.⁷ At these agencies' disposal are several statutory and regulatory tools that authorize retaliatory measures. For example, the United States may deny the schedule of flights to the United States proposed by a country's carriers or may impose other sanctions. Such stern measures have limited application, however, in addressing practices that do not clearly violate bilateral accords or discriminate against U.S. carriers. DOT interprets its authority under 49 U.S.C., section 41310, as requiring a finding of a violation of a bilateral accord or other instance of unfair or discriminatory treatment before it may impose sanctions. We found in our November 1994 report that efforts by DOT and the State Department to resolve the range of doing-business problems that do not overtly discriminate against U.S. carriers are complicated by several constraints, such as the need to negotiate with foreign governments that are often protecting their own carriers from increasing U.S. competition.

Conclusions

According to U.S. all-cargo airlines, their success is limited by a range of problems in doing business at key airports in Latin America and the Asia/Pacific region. Such obstacles increase carriers' operating costs and can erode the competitiveness of their services. Although most U.S. all-cargo airlines are satisfied with the assistance they have received from DOT and the State Department in resolving their problems, two airlines were unaware of the assistance that the agencies could offer. Neither agency has systematically provided the airlines with information on the assistance available or guidance on obtaining access to it. In response to a recommendation in our prior report, DOT began to collect and analyze information on U.S. airlines' problems in an effort to monitor the status, nature, and severity of such problems. However, because DOT has not collected information directly from the airlines, many U.S. all-cargo carriers are unaware of its efforts and have not provided any information. As a result, DOT still cannot effectively establish priorities and strategies to address the most serious and pervasive problems.

Recommendations

We recommend that the Secretary of Transportation

⁷Our November 1994 report included a more complete discussion of the roles and responsibilities of DOT and the State Department in resolving doing-business problems.

Chapter 2
U.S. All-Cargo Airlines Report Problems in
Doing Business Abroad

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- develop and distribute to all U.S. airlines information on the assistance available and guidance on the procedures to be followed in requesting aid from the U.S. government in resolving problems in doing business abroad and
 - extend DOT's current effort to collect information on the status and severity of U.S. airlines' problems in doing business abroad to include all U.S. all-cargo airlines that operate internationally.

Agency Comments

We provided a draft of this report to the departments of Transportation and State for their review and comment, and they generally agreed with our conclusions and recommendations.

DOT and the State Department Have Advanced Air Cargo Issues, but All-Cargo Carriers Advocate Dedicated Negotiations

U.S. delegations have discussed air cargo issues to some extent in their negotiations with more than three-quarters of the countries with which bilateral talks have been held since 1989. Aviation agreements reached during this period have generally expanded the opportunities for U.S. all-cargo carriers and, in some cases, have liberalized cargo services before passenger services. Nevertheless, restrictions persist. As a remedy, most U.S. all-cargo airlines advocate separating negotiations of cargo rights from broader negotiations that include passenger services.

Separate discussions about air cargo services could allow negotiators to focus on all-cargo airlines' unique operating requirements, according to airline representatives and DOT and State Department officials. Some all-cargo airlines also believe that such discussions could ensure that progress on cargo services is not delayed because of disputes about passenger issues. In addition, several industry observers believe that successful negotiations on cargo issues could create momentum to achieve progress on contentious passenger issues in several U.S. aviation relationships. Airline representatives and DOT and State Department officials also point out several obstacles to such an approach. Most foreign countries do not have major international all-cargo airlines. Instead, they have passenger/cargo airlines. In these countries, the governments might be unable to separate negotiations of air cargo and passenger services. Furthermore, U.S. negotiators would be unable to reciprocally exchange cargo rights for passenger rights, which could lessen their flexibility in negotiations and make it difficult for them to obtain the maximum benefits for U.S. all-cargo airlines. Finally, DOT and State Department officials caution that routinely holding separate cargo negotiations could impose a financial burden on the offices responsible for conducting them.

Cargo Issues Have Been Addressed With Most Countries Since 1989, but Restrictions Persist

DOT and State Department officials acknowledge that passenger issues historically have received more attention than cargo issues during bilateral aviation negotiations, primarily because, according to the DOT officials, passenger issues are more numerous and arise more frequently. However, these officials assert that the U.S. government has addressed cargo issues as they have arisen and has paid markedly greater attention to the interests of all-cargo airlines over the past several years, citing their success in liberalizing cargo services with several countries. State Department officials attributed this increased attention, in part, to (1) the growing importance of U.S. air trade with the countries of Latin America and the Asia/Pacific region and (2) the emergence of Federal Express and

United Parcel Service alongside U.S. passenger/cargo carriers as major competitors in the international market.

Our analysis of DOT's and the Air Transport Association's (ATA) records showed that the United States conducted formal aviation negotiations with 56 foreign governments between January 1989, the year that DOT issued its air cargo policy statement, and March 1996. U.S. officials discussed air cargo issues in at least one negotiating session in talks with 44 of these governments. However, most negotiating sessions focused on passenger issues; about one-third of the more than 300 individual sessions dealt with air cargo issues. According to DOT officials, passenger issues receive more attention than cargo issues during negotiations because they arise more frequently. The officials said that foreign countries frequently focus on passenger issues and such issues are the principal reason talks are held. They noted that certain kinds of disagreements that continue to arise in the passenger context, such as pricing issues, have not been raised with respect to cargo for many years.

During this period, the United States amended or inaugurated 74 aviation agreements. Thirty-two of these agreements contained specific provisions governing all-cargo services. Of these, 18 agreements specify separate routes for all-cargo services and 21 agreements define the intermodal rights available to airlines.¹ The United States has also signed "open skies" agreements with 12 European countries,² under which most bilateral restrictions are eliminated, and an agreement with Canada substantially liberalizing the transborder aviation market. Finally, in March 1996, the United States successfully completed negotiations with Japan that dealt exclusively with air cargo services.

Our analysis showed that air cargo issues were addressed in the majority of the negotiating rounds with 20 countries: Argentina, Brazil, China, Fiji, Greece, Guatemala, Hong Kong, India, Indonesia, Korea, Macau, Malaysia, Mexico, Nicaragua, Peru, the Philippines, Saudi Arabia, Singapore, Spain, and Thailand. U.S. negotiators reached agreements with most of these countries that generally expanded service opportunities for U.S. all-cargo airlines. For example, the agreement concluded with the Philippines in

¹The United States concluded multiple agreements with several individual countries since 1989. For example, the U.S.-Brazil aviation agreement was amended twice during this period.

²These European countries are Austria, Belgium, the Czech Republic, Denmark, Finland, Germany, Iceland, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland. Under an "open skies" agreement, there are no restrictions on routes, the frequency of flights, or the number of airlines that can operate. The agreement with the Czech Republic eliminates such restrictions in phases, providing for an open market by Nov. 1999.

1995 (1) increased the number of routes for all-cargo services and the number of U.S. airlines allowed to operate on those routes, (2) granted U.S. carriers the unrestricted right to change the type of aircraft for flights beyond the Philippines, and (3) ensured that U.S. airlines could operate pickup and delivery services in the Philippines. These service enhancements gave Federal Express the operating freedom necessary to establish a viable hub at Subic Bay.

Still, 24 of the 32 U.S. agreements or amendments negotiated since 1989 that incorporated provisions on cargo services contained various restrictions on these services. Currently, aviation agreements governing cargo services in 7 of the 20 leading international airfreight markets for the United States—including the two largest markets, Japan and the United Kingdom—directly restrict the operations of U.S. all-cargo carriers. These seven restricted markets accounted for about one-third of the U.S. international freight traffic in 1994. Restrictions include limits on (1) the number of airlines allowed to operate on all-cargo routes, (2) the ability of U.S. airlines to carry freight to and beyond the other country, and (3) the frequency of all-cargo airlines' flights. Agreements with some countries do not guarantee the right of U.S. airlines to perform their own ground-handling services or to truck cargo off airport property for final delivery. State Department and DOT officials note, however, that bilateral aviation agreements that restrict cargo services also tend to restrict passenger services. For example, the U.S. agreements with Japan and the United Kingdom restrict both types of service. A State Department official also said that these agreements are considerably more liberal than the agreements they amended or replaced.

Appendix III contains a list of the countries with which the United States has negotiated since 1989 and a table describing specific provisions of the agreements governing air cargo services.

Most All-Cargo Airlines Advocate Separate Negotiations of Air Cargo Rights, but Passenger/Cargo Airlines Are Opposed

Most U.S. air cargo carriers that we surveyed believe that the stated U.S. international aviation policy—embodied in DOT's 1989 and 1995 policy statements—addresses their interests in liberalizing and expanding international air cargo services. Eleven of the 19 airlines that stated their views on this issue believe that, overall, DOT's policy addresses their principal concerns to a moderate or great extent. However, only 7 of 20 respondents believe that DOT has been similarly effective in representing their interests during bilateral aviation negotiations, while 4 respondents believe that DOT has done little or nothing to represent their interests.

Respondents were split as to whether the State Department has represented them well or poorly. Seven of the 12 airlines stating their views on this issue believe the State Department has represented them to a little or some extent, while 5 respondents believe the State Department has represented their interests to a moderate or great extent.

Thirteen of the 19 airlines that stated their views advocate that the United States routinely hold bilateral talks dedicated exclusively to negotiating cargo rights, while only 4 support the continuation of comprehensive negotiations. DOT's policy enunciated in the 1995 statement considers such an approach to negotiations appropriate when it can foster the comprehensive liberalization of aviation relations. While acknowledging that DOT and the State Department have been more responsive to the needs of all-cargo carriers when negotiating aviation agreements over the past several years, several of these airlines assert that under the current framework of comprehensive talks, negotiators primarily focus on the needs of passenger/cargo carriers, often to the detriment of all-cargo carriers' interests. In addition, some of these airlines believe that the traffic needs of all-cargo operations are sufficiently different from those of passenger/cargo airlines to justify separate negotiations. Some carrier representatives also contend that when substantial consensus on cargo issues is reached during negotiations, progress on an agreement can be delayed because of disputes about passenger services.

According to some U.S. all-cargo charter airline representatives, separate negotiations could facilitate agreement on specific provisions guaranteeing the airlines liberal operating rights. Many U.S. aviation agreements either do not contain a formal provision governing charter services or require that charter services be performed according to the rules of the country in which the traffic originates. According to DOT and airline officials, the regulation of charter services by foreign governments can reduce the viability of such services. For example, Argentina requires that its national airlines have the first opportunity to carry charter freight originating in Argentina.

Finally, the two major international all-cargo carriers believe that separately negotiating cargo services would recognize the intrinsic link between the growth of international trade and liberalized air cargo services. Because of this connection, these airlines think air cargo services should be considered as a trade issue rather than as a transportation issue and that the Office of the U.S. Trade Representative (USTR) should play a more active role in negotiating cargo rights. One of these airlines holds

that the best way to promote the liberalization of international air cargo services is by convincing U.S. negotiating partners of the benefits of increased air trade to their economies. Similarly, a State Department official pointed to the U.S. talks with Brazil in 1995 as an example of the influence that a country's broader trade interests may have on the outcome of negotiations. The United States and Brazil amended the aviation agreement to increase the number of scheduled and charter all-cargo flights permitted, as well as to expand passenger service opportunities. Brazil's growing air export trade to the United States, which includes shipments of automotive parts and other finished industrial products, was among the incentives for Brazil to liberalize air cargo services, he explained. DOT officials, on the other hand, believe that it was Brazil's desire for enhanced passenger services to the United States that allowed the United States to obtain cargo rights in return.

The six major U.S. passenger/cargo airlines with significant international operations are opposed to any negotiating policy that would routinely exclude them from air cargo talks with foreign countries. Two of these airlines expressed concern that separate talks for air cargo rights would place their own cargo operations at a competitive disadvantage. Several U.S. passenger/cargo airlines are dedicating increasing resources to transporting freight in international markets. While most passenger/cargo carriers do not compete directly with integrated carriers in the door-to-door, express delivery market, they do compete for traditional airport-to-airport freight traffic, according to industry analysts. Two passenger/cargo airline executives conveyed their companies' concern that the results of air cargo talks could have profound implications for passenger services by setting unfavorable precedents for issues of common interest, such as the right of U.S. airlines to serve destinations beyond a foreign country.

DOT officials stated that retaining the flexibility inherent in comprehensive discussions is entirely consistent with the U.S. government's formal policy on negotiating bilateral aviation agreements. They explained that while the 1995 U.S. International Air Transportation Policy Statement commits DOT not to forgo agreements covering only air cargo services when circumstances warrant, the 1989 air cargo policy obligates the agency generally to retain flexibility in the interest of obtaining agreements that comport with the United States' overall economic interests. According to another DOT official, DOT has no institutional interest in holding only comprehensive negotiations. Nevertheless, DOT officials said that comprehensive negotiations have usually proved to be the most effective

way to adapt to evolving conditions during negotiations with most countries.

Separate Negotiations Could Liberalize Bilateral Agreements, but May Not Be Routinely Practical or Appropriate

According to airline representatives and DOT and State Department officials, in some cases conducting negotiations dedicated solely to air cargo issues could foster the liberalization of air cargo services by allowing negotiators to focus on these issues. Some all-cargo airline representatives also believe that separate negotiations could prevent negotiators from forgoing agreement on cargo services because of disputes about passenger services. Finally, by negotiating cargo issues in advance of passenger issues, negotiators might develop broad areas of agreement and understanding in an otherwise restrictive relationship, creating a model for subsequent discussions of passenger issues. Despite the potential advantages, these experts point out that significant obstacles to the successful implementation of air cargo-only negotiations exist.

Separate Discussions Could Focus Attention on Cargo Issues and Promote Agreement on Passenger Issues

According to several U.S. aviation officials and all-cargo airline representatives, conducting separate all-cargo negotiations could focus officials' attention on the operating requirements of air cargo services, such as traffic rights granting carriers maximum operating flexibility to enable them to take advantage of shifting trade flows. These include rights to carry freight to and beyond foreign countries and to alter flight routings according to market demand. They also include intermodal rights and the freedom to transfer freight between aircraft at foreign airports without restriction as to the size, number, or type of aircraft involved—so-called change-of-gauge rights. Finally, negotiators could give increased attention to the doing-business problems of air cargo carriers if discussions were separated. According to one airline representative, these problems often cannot be adequately addressed during comprehensive talks because of crowded negotiating agendas and limited time.

Addressing cargo issues in advance of—and in isolation from—passenger issues could sometimes help create the momentum necessary to liberalize several bilateral relationships, according to some industry observers. Holding successful all-cargo talks in advance of more contentious discussions about passenger services, some observers explain, could create a climate of goodwill and an understanding that differences over passenger services could be resolved. These observers believe that this approach would foster liberalization much as did the deregulation of the domestic U.S. airline industry during the 1970s. The deregulation of

domestic cargo services in 1977 led to the development of new service options for shippers, most prominently overnight express delivery, and stimulated dramatic growth in domestic cargo traffic. This growth partially contributed to the confidence that passenger markets could be deregulated the following year, according to these observers. Similarly, according to this point of view, a working demonstration of successfully liberalized international air cargo markets may encourage many of the United States' foreign trading partners to negotiate for the same benefits in international passenger markets. This view, however, has yet to be proved.

Separate All-Cargo Negotiations Face Several Obstacles

In contrast to such arguments for separate negotiations are obstacles suggesting that this approach may not be routinely practical or appropriate. First, most foreign governments have little incentive to conduct all-cargo negotiations because their countries do not have major international all-cargo carriers. Even though many scheduled foreign passenger/cargo airlines also operate cargo-only aircraft, many of these airlines still carry a significant amount of cargo in the holds of passenger aircraft. As a result, their market needs are defined primarily in terms of initiating or expanding passenger services, which are their primary source of revenue, according to DOT and State Department officials. When foreign officials negotiate, they often do so with the acknowledged goal of expanding their national carriers' passenger services.

In 1995, 75 foreign carriers from 44 countries operated all-cargo services to the United States. However, many of these carriers are small and their interests are considered secondary by foreign aviation officials, according to DOT officials and industry analysts. Only three foreign all-cargo airlines serving the United States—Cargolux, Nippon Cargo Airlines, and TAMPA—rank in the top 25 international airfreight carriers. Foreign negotiators, therefore, may find it difficult to bargain exclusively on behalf of small all-cargo carriers, seeking instead to gain cargo rights from the United States in the general course of comprehensive discussions. For example, a British government representative told us that while his country's largest passenger/cargo airline, British Airways, carries significant amounts of cargo across the North Atlantic on board its passenger aircraft, its income from cargo revenue on these routes is largely a function of the frequency of its passenger flights between the United Kingdom and the United States.

A second obstacle to separate all-cargo talks is the possibility that they could reduce the flexibility of U.S. negotiators to obtain new rights for

all-cargo and passenger/cargo airlines. In particular, DOT and State Department officials and passenger/cargo airline representatives believe that separating talks diminishes opportunities to exchange cargo rights for passenger rights, and vice-versa. With comprehensive discussions, negotiators can seek the best overall deal, which might mean allowing more passenger flights for foreign carriers in exchange for increased flights by U.S. all-cargo carriers, according to these officials. DOT and State Department officials with whom we spoke urged adherence, in most cases, to the current framework for negotiating, which relies on comprehensive talks, with separate negotiations available as an alternative. According to these officials, the service gains available to U.S. all-cargo carriers will usually be greater when agreements arise from flexible, comprehensive talks. They cited as examples the agreements reached with Canada, Mexico, and several of the European countries with which the United States now has an “open skies” agreement. Moreover, according to the officials, the interests of large integrated all-cargo airlines are often dissimilar to those of smaller, traditional freight carriers. This diversity of interests suggests that cargo-only talks may not, in many cases, be more effective than comprehensive negotiations in meeting the needs of all members of the community of all-cargo airlines. Indeed, two of the all-cargo airlines that responded to our survey supported this assessment. These carriers expressed the fear that the specific interests of the large integrated all-cargo airlines—Federal Express and United Parcel Service—are likely to receive favored treatment in cargo-only negotiations.

Finally, according to DOT and State Department officials, the U.S. government would incur additional costs by negotiating passenger and cargo rights separately. Each round of negotiations requires advance preparation to identify goals and develop strategies to achieve them. Importantly, preparation also includes consultation with the affected parties, including carriers, airports, and local communities. Aviation negotiations can involve multiple rounds of talks conducted over several months and demand negotiators’ attention before, during, and after the actual talks. Finally, when the foreign government hosts the discussions, typically for every other round, both DOT and the State Department also incur often significant travel costs. The U.S. negotiators that we spoke with are hesitant to pursue a policy of routinely separating passenger and cargo negotiations. They expressed concern that they would have insufficient time and funding to split each round of talks so that cargo issues and passenger issues would receive equal amounts of attention.

Talks With Japan Illustrate Advantages and Disadvantages of Separate Negotiations

Air cargo talks with Japan, concluded in March 1996, illustrate both the advantages and disadvantages of negotiating exclusively for the expansion of cargo services. One major advantage, according to DOT and State Department officials, is that the negotiations addressed cargo issues on their own merits and were not overshadowed by the contentious passenger issues in the relationship. Under the terms of the U.S.-Japan agreement, the United States received Japan's consent for an additional U.S. airline to begin all-cargo services to Japan; for United Parcel Service to expand its service to and beyond Japan; and for Federal Express, United Airlines, and Northwest Airlines to route their flights more flexibly.

However, the agreement also focuses attention on the difficulties inherent in concluding similar agreements with other countries. First, the United States and Japan were able to hold cargo negotiations because their relationship—unlike U.S. relationships with other countries—allows the cargo needs of each to be considered separately and distinctly from the passenger needs, according to DOT. Each country has at least one major all-cargo carrier, and each has passenger/cargo carriers that operate cargo-only aircraft on bilateral routes.

Second, both the U.S. and the Japanese governments had concerns over the precedent that an agreement on cargo services could set for subsequent passenger talks. Japanese negotiators, in particular, did not wish to set a precedent in which the United States could regard expanded cargo rights as a precursor to similarly expanded passenger rights, according to State Department officials. Foreign negotiators representing other major U.S. trading partners are likely to express similar reservations.

With Japan, the United States originally sought an agreement that would allow all-cargo carriers the maximum flexibility to respond to business opportunities with little regulatory interference. During the discussions, U.S. negotiators argued that granting the right to carry freight to destinations beyond Japan to U.S. all-cargo carriers is essentially a trade issue and that significant economic benefits would accrue to Japan from unreservedly allowing such flights. However, Japan has not accepted this reasoning, and it limited the ability of U.S. all-cargo airlines to carry cargo originating in Japan from Japanese points to points beyond Japan. One U.S. airline representative expressed concern that continuing such limits on U.S. carriers' right to serve destinations beyond Japan may have set an unwelcome precedent for passenger services.

Finally, concluding the U.S.-Japan agreement on all-cargo services has not proved to be a catalyst for accelerating progress on passenger service issues. In fact, the recent agreement on air cargo services has not prevented conflict over the pre-existing traffic rights of U.S. all-cargo airlines. The two countries resumed negotiations on passenger issues on April 29, 1996, but the talks have been at an impasse since then because of a dispute over Japan's refusal to approve flights by two U.S. passenger/cargo airlines—United and Northwest—and Federal Express through Japan to other destinations in Asia. The United States believes these flights are authorized under current U.S.-Japan agreements. On July 16, 1996, DOT proposed to prohibit Japan Air Lines from carrying cargo from points elsewhere in Asia on its scheduled all-cargo services through Japan into the United States unless the Japanese government approved Federal Express's request. As of September 25, 1996, the negotiations had achieved little progress on these issues and DOT had reaffirmed the U.S. intent to resolve outstanding disputes over the rights of U.S. carriers to operate flights beyond Japan before undertaking passenger negotiations over new opportunities.

Modified Approaches Could Create Negotiating Efficiencies and Promote Liberalization, but Offer No Panacea

Two modifications to the U.S. strategy have been under discussion within government and the industry. First, conducting multilateral negotiations has been offered as an approach that could create broad areas of agreement among countries and provide an incentive for countries with relatively restrictive aviation policies to liberalize them as part of a regional agreement. Second, continuing to allow carriers and other affected parties to directly observe discussions has been advocated as a means to help ensure that all parties have an opportunity to communicate their interests to U.S. negotiators. While each modification offers promise, each also raises problems.

Multilateral Negotiations Could Promote Liberalization, but May Not Be Practical

According to DOT officials, conducting multilateral talks could, in principle, help create negotiating efficiencies by focusing federal negotiating resources on talks with several like-minded countries at one time and could promote liberalization on a large scale. DOT's 1995 U.S. International Air Transportation Policy Statement identified the negotiation of such multilateral agreements as an option in obtaining further liberalization of U.S. aviation relations. Some DOT officials and industry experts believe that concluding a liberal multilateral agreement on cargo services might heighten foreign governments' interest in liberalizing passenger services. By offering significantly expanded access to the vast U.S. market, such an

approach could motivate countries with restrictive aviation policies to join their neighbors in concluding a relatively liberal agreement with the United States.

U.S. officials have attempted to gauge foreign interest in holding multilateral negotiations. In 1991, in 1994, and again in 1996, DOT and State Department negotiators held exploratory talks with representatives of the European Commission, the executive arm of the European Union (EU). During the earlier talks, U.S. and EU officials reached an understanding on a broad array of cargo issues, which included deregulating pricing, eliminating numerical restrictions on the number of all-cargo airlines allowed to operate, allowing for an unrestricted amount of cargo to be transported between the United States and the EU, and a host of doing-business issues.

Nonetheless, the Commission no longer supports holding multilateral talks on cargo services in advance of and in isolation from discussions on passenger issues, believing this approach to be counterproductive to its ultimate goal of negotiating air services between the United States and EU member states. The Commission embraces the concept of multilateral negotiations and has obtained approval from a majority of its member states to proceed with phased, exploratory talks with the United States. However, according to DOT officials, the Commission does not have the authority to negotiate traffic rights—a disabling limitation in their view. DOT officials believe that there is interest in seeking air transport liberalization through regional associations, including those in Asia and Latin America. However, both U.S. and foreign officials said that none of these groups has yet achieved a consensus favoring such an approach.

Direct Participation Might Benefit Some Carriers, but Could Pose Problems

Formalizing and continuing a recent U.S. policy that allows “direct participation” by carriers in comprehensive negotiations could help ensure that agreements reflect all carriers’ needs and interests. While observers do not play a formal role in the negotiations, their presence allows them to state their case directly to DOT and State Department negotiators and to react immediately to any foreign country’s positions that might adversely affect their ability to serve markets in and beyond the country in question. According to a State Department official, one advantage to formalizing direct participation would be that “carriers couldn’t complain later that they were not part of the process.”

Chapter 3
DOT and the State Department Have
Advanced Air Cargo Issues, but All-Cargo
Carriers Advocate Dedicated Negotiations

However, DOT and State Department officials have three primary concerns. First, smaller affected parties could be disadvantaged in articulating their needs because they often would be unable to send a representative to negotiations. Large, resource-rich carriers could conceivably send a representative to every negotiation, while smaller carriers could not afford the considerable travel and other staff costs of doing so. Second, U.S. delegations composed of large numbers of U.S. airlines interested in serving the relevant market may intimidate foreign negotiating teams representing weak foreign airlines. Finally, large numbers of observers may discourage negotiators from openly discussing substantive matters, increasing the frequency of so-called chairmen's meetings to resolve key issues. Such closed meetings could create an atmosphere of mistrust between the U.S. chairman and the observing parties.

Additional Information About the International Airfreight Industry

This appendix contains information on the status of the air cargo market in 1994 and 1995. Table I.1 shows the 10 U.S. industries leading in air exports in 1994. Figure I.1 shows the distribution of U.S. airborne trade by weight in 1995. Table I.2 shows countries' share of the international freight traffic in 1990 and 1994. Figure I.2 shows the U.S. share of the freight transported between the United States and world regions for 1995. Tables I.3 and I.4 show international airlines ranked by freight ton-miles flown and tons carried in 1994, respectively. Figures I.3 and I.4 compare selected U.S. and foreign airlines' freight traffic and revenues in 1994, respectively.

Table I.1: The 10 U.S. Industries With the Largest Air Exports, 1994

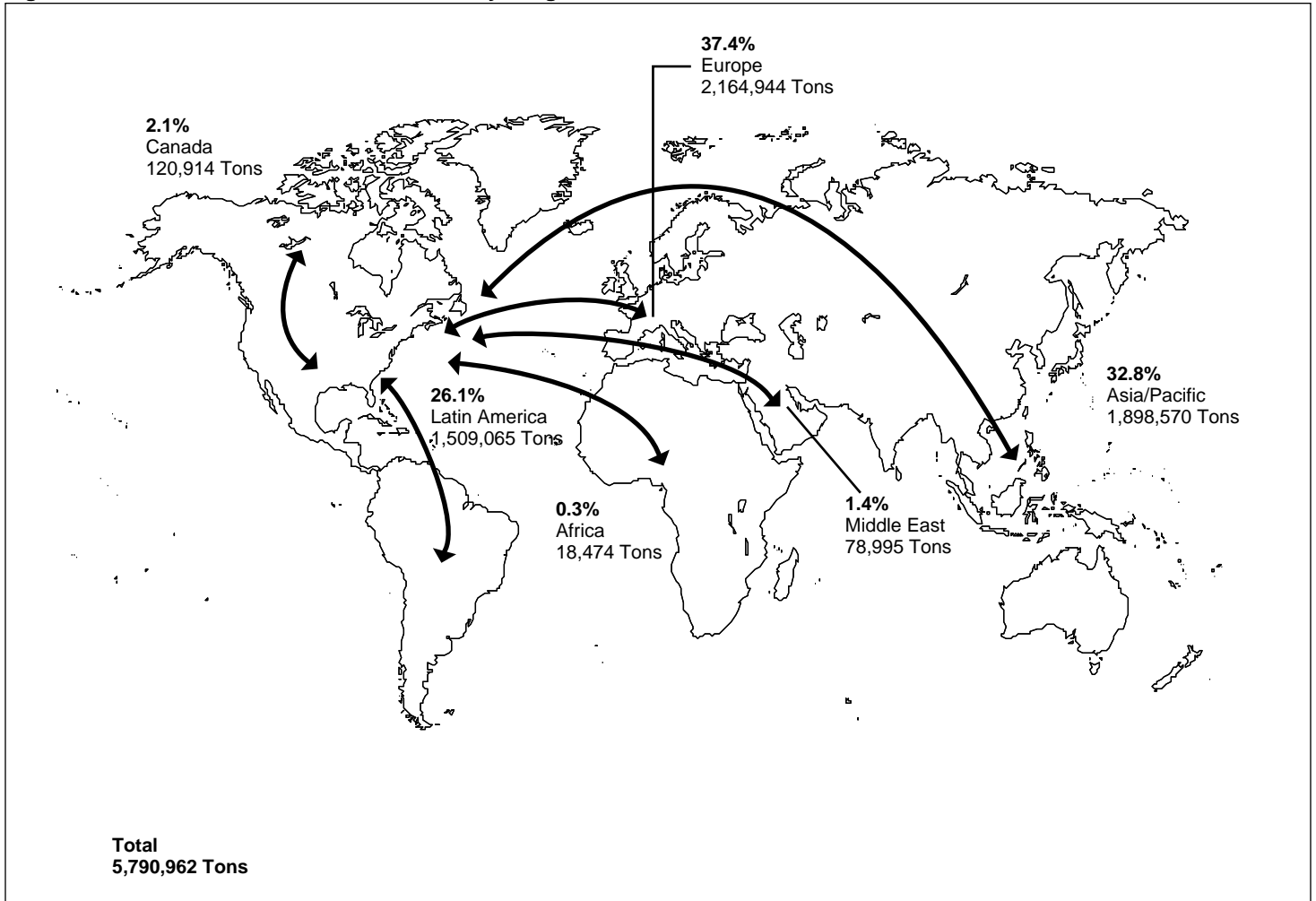
Rank	Industry	Pounds of freight exported by air (millions)
1	Computers and office equipment	384.0
2	Electronic component and accessories	134.0
3	Motor vehicles, parts and equipment	133.8
4	Construction machinery	123.5
5	General industrial machinery	117.5
6	Communications equipment	112.9
7	Measuring and controlling devices	103.6
8	Aircraft engines and parts	103.2
9	Medical instruments and supplies	92.8
10	Drugs and pharmaceuticals	89.3

Note: Commercial aircraft—the largest air export industry in terms of value in 1994—is not reflected in these numbers. Thus, the "aircraft and engines" category represents spare engines and parts, rather than complete airframes.

Source: MergeGlobal, Inc.

**Appendix I
Additional Information About the
International Airfreight Industry**

Figure I.1: Distribution of U.S. Airborne Trade by Weight, 1995



Note: The percentages do not add to 100 because of rounding.

Source: The Department of Transportation (DOT).

**Appendix I
Additional Information About the
International Airfreight Industry**

Table I.2: Scheduled International Freight Traffic, World Share of National Carriers, 1990 and 1994

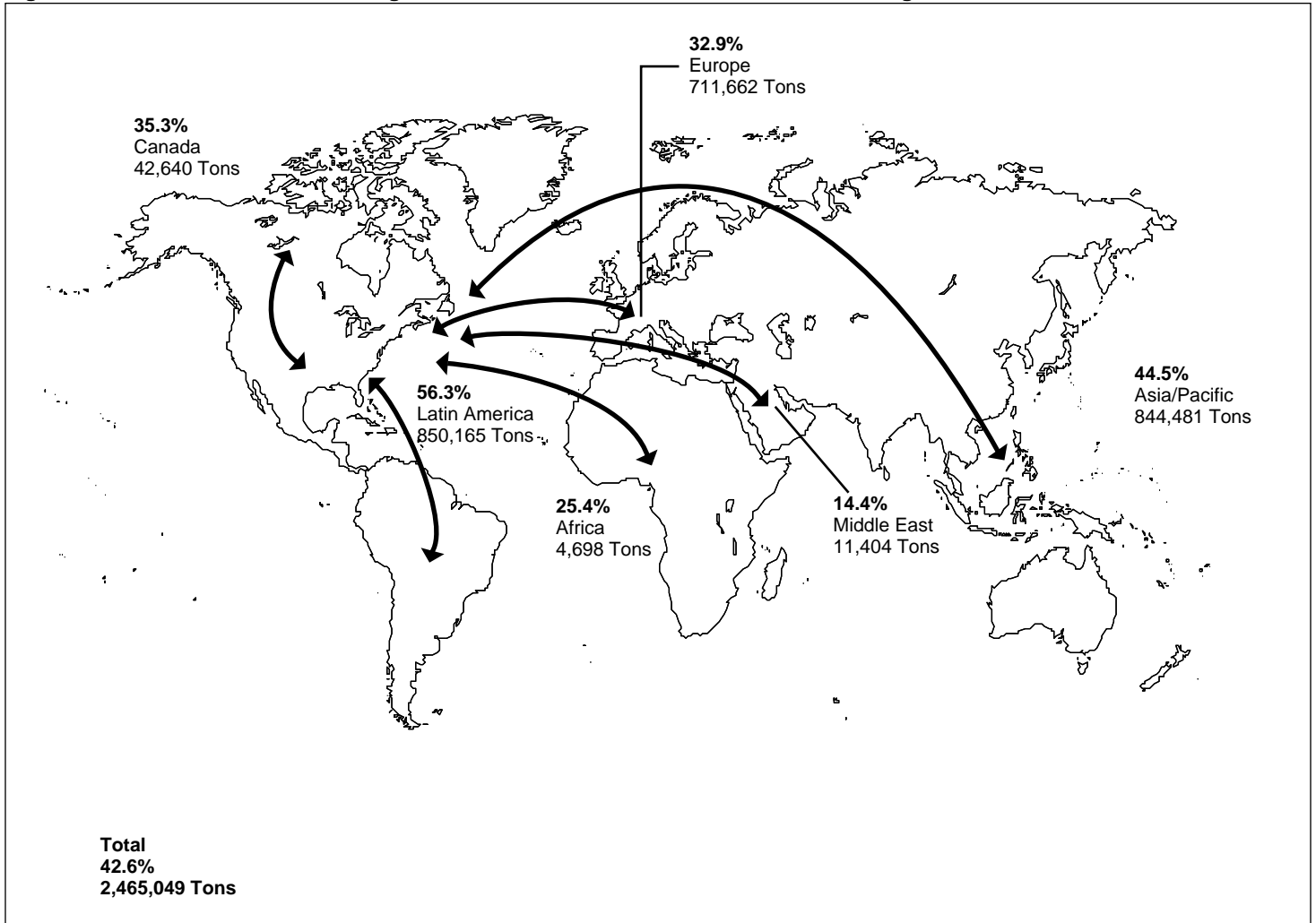
National carriers' country	Freight ton-miles (millions)		Percentage increase, 1994/1990	Share of world market (percent)	
	1990	1994		1990	1994
United States	5,136	7,246	41.1	16.2	16.4
United Kingdom ^a	2,614	4,383	67.7	8.2	9.9
Germany	2,718	3,668	35.0	8.6	8.3
Japan	3,061	3,657	19.5	9.6	8.3
Korea	1,647	3,103	88.4	5.2	7.0
France	2,610	2,851	9.2	8.2	6.4
Singapore	1,132	2,223	96.4	3.6	5.0
Netherlands	1,458	2,194	50.5	4.6	5.0
Australia	765	988	29.2	2.4	2.2
Switzerland	631	961	52.3	2.0	2.2
Italy	780	920	18.0	2.5	2.1
Thailand	447	829	85.4	1.4	1.9
Canada	708	810	14.3	2.2	1.8
Brazil	472	691	46.3	1.5	1.6
China	300	687	128.8	0.9	1.6
Subtotal	24,478	35,210	43.8	77.1	79.6
Others	7,265	9,030	24.3	22.9	20.4
World total	31,743	44,240	39.4	100.0	100.0

^aIncludes Hong Kong.

Source: International Civil Aviation Organization (ICAO).

**Appendix I
Additional Information About the
International Airfreight Industry**

Figure I.2: U.S. Carriers' Share of Freight-Tons Between the United States and World Regions, 1995



Source: DOT.

**Appendix I
Additional Information About the
International Airfreight Industry**

**Table I.3: World Ranking of IATA
Member Airlines Based on Scheduled
International Freight Ton-Miles Flown,
1994**

Rank	Airline	Scheduled international freight ton-miles flown (thousands)
1	Lufthansa	3,668
2	Air France	2,836
3	Korean Air Lines	2,599
4	KLM	2,490
5	Japan Airlines	2,289
6	Singapore Airlines	2,254
7	British Airways	2,087
8	Federal Express	1,629
9	Cathay Pacific	1,627
10	Northwest Airlines	1,313
11	United Airlines	1,092
12	American Airlines	1,042
13	Qantas	991
14	Swissair	959
15	Nippon Cargo Airlines	955
16	Alitalia	920
17	Thai Airways	829
18	Delta Air Lines	693
19	EI AI	654
20	Varig	582

Note: Names of U.S. carriers are in bold. IATA member airlines account for about 95 percent of the total airline passenger and freight traffic worldwide.

Source: International Air Transport Association (IATA), World Air Transport Statistics (June 1995).

**Appendix I
Additional Information About the
International Airfreight Industry**

**Table I.4: World Ranking of IATA
Member Airlines Based on Scheduled
International Freight-Tons Carried,
1994**

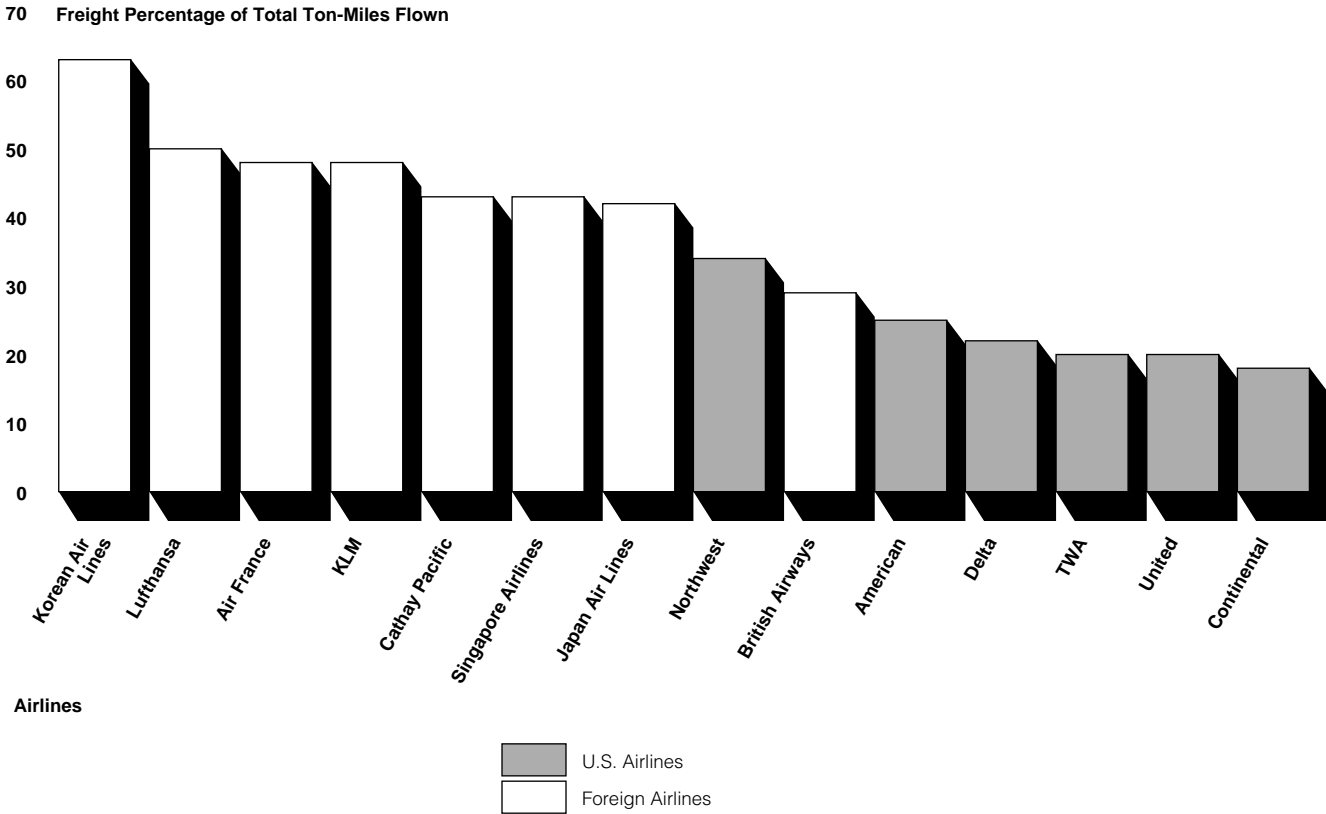
Rank	Airline	Scheduled international freight-tons carried (thousands)
1	Lufthansa	945
2	Federal Express	704
3	Air France	688
4	Korean Air Lines	624
5	KLM	622
6	Singapore Airlines	589
7	British Airways	542
8	Japan Airlines	521
9	Cathay Pacific	510
10	Northwest Airlines	434
11	American Airlines	346
12	Thai Airways	326
13	Swissair	293
14	United Airlines	261
15	Alitalia	237
16	Qantas	223
17	EI AI	217
18	Malaysian Airlines	216
19	Air Canada	214
20	United Parcel Service	201

Note: Names of U.S. carriers are in bold. IATA member airlines account for about 95 percent of the total airline passenger and freight traffic worldwide.

Source: IATA, World Air Transport Statistics (June 1995).

**Appendix I
Additional Information About the
International Airfreight Industry**

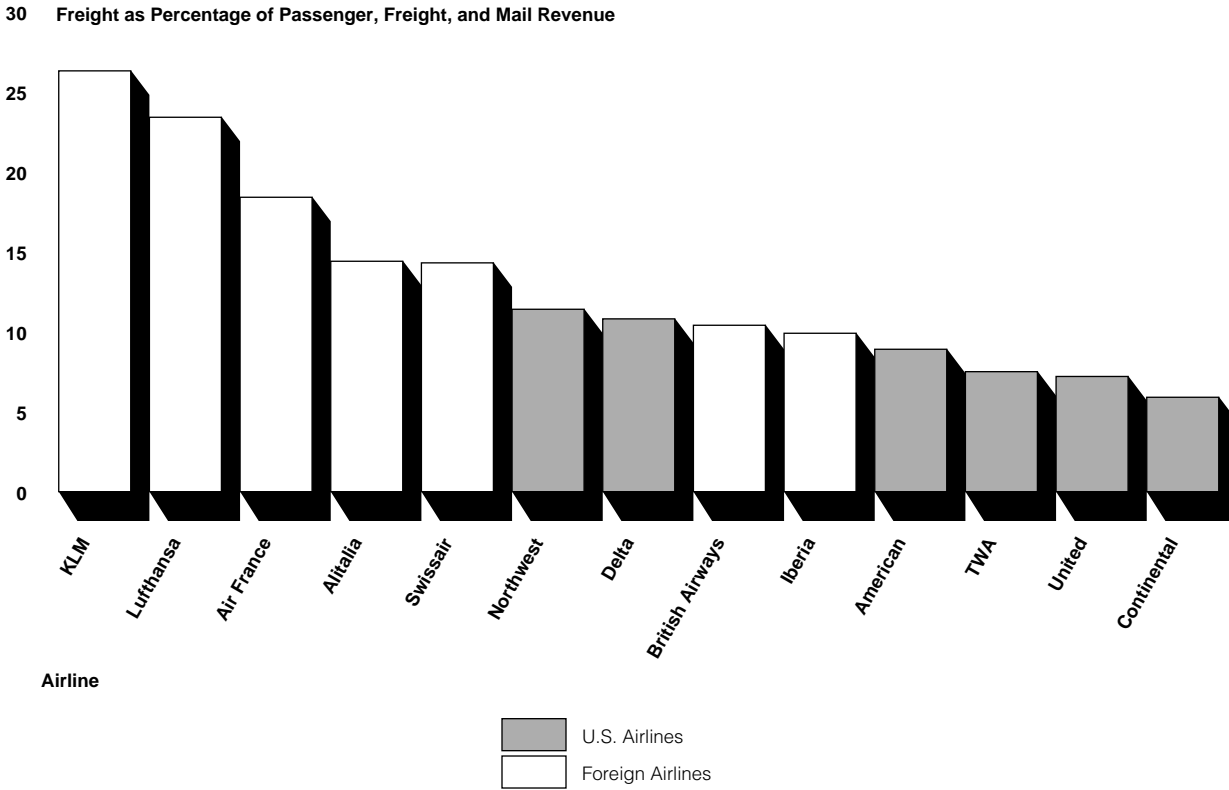
Figure I.3: Selected Scheduled Passenger/Cargo Airlines' International Freight Traffic as a Percentage of Total International Traffic, 1994



Source: GAO's analysis of IATA's data.

**Appendix I
Additional Information About the
International Airfreight Industry**

Figure I.4: Selected Scheduled Passenger/Cargo Airlines' International Freight Revenue as a Percentage of International Operating Revenue, 1994



Source: Association of European Airlines and DOT.

Significant Problems in Doing Business at Foreign Airports Reported by U.S. All-Cargo Airlines

This appendix summarizes the significant problems in doing business abroad reported by the 22 U.S. all-cargo airlines that responded to our survey and identifies the number of airports at which the problems occur. These 22 airlines carried 62 percent of the freight hauled by U.S. airlines in 1994. Table II.1 lists the airlines to which we sent our questionnaire and identifies those that responded. Table II.2 summarizes the reported problems arising from government regulation. Table II.3 lists the reported problems with airport policies and services. Table II.4 summarizes the reported problems with ground-handling. Table II.5 summarizes the reported restrictions on local marketing and distribution.

Table II.1: U.S. All-Cargo Airlines Participating in GAO's Survey of Problems in Doing Business at Foreign Airports

Airlines to which we sent questionnaire	Response
Airborne Express, Inc.	Yes
Air Transport International	No
American International Airways, Inc.	Yes
Amerijet International, Inc.	No
Arrow Air, Inc.	Yes
Atlas Air, Inc.	No
Challenge Air Cargo, Inc.	Yes
DHL Airways, Inc.	Yes
Emery Worldwide Airlines, Inc.	Yes
Evergreen International Airlines, Inc.	Yes
Federal Express Corporation	Yes
Fine Airlines, Inc.	Yes
Florida West Airlines, Inc.	Yes
Kitty Hawk Air Cargo, Inc.	Yes
Millon Air, Inc.	Yes
Northern Air Cargo, Inc.	Yes
Northwest Airlines, Inc.	Yes
Omni Air Express, Inc.	Yes
Polar Air Cargo, Inc.	Yes
Southern Air Transport, Inc.	Yes
Tower Air, Inc.	Yes
Trans-Air Link Corporation	Yes
Trans-Continental Airlines	Yes
United Parcel Service Co.	Yes
USA Jet Airlines, Inc.	No
World Airways, Inc.	Yes

**Appendix II
Significant Problems in Doing Business at
Foreign Airports Reported by U.S. All-Cargo
Airlines**

Table II.2: Significant Problems Associated With Government Regulation at Foreign Airports, as Reported by U.S. All-Cargo Airlines, by Region

Problem	Number of airline respondents	Number of airports					
		Total	Latin America	Europe	Middle East/Africa	Asia/Pacific Region	Canada
Burdensome legal and administrative requirements ^a	6	25	13	0	1	11	0
Denial of traffic rights ^b	4	17	8	1	0	3	5
Difficulty obtaining flight authorization/permits	8	15	6	2	1	6	0
Restricted intermodal rights ^c	3	12	3	0	0	8	1
Difficulties or delays clearing cargo through customs	5	10	6	1	1	2	0
Prohibitions against flying during certain hours	7	10	2	3	0	4	1
Insufficient take-off or landing slots at congested airports	7	7	1	1	0	5	0
Operations restricted to less desirable airport	4	7	2	1	0	2	2
Discriminatory taxes	2	5	1	1	0	3	0
Excessive fines for violations of regulations	1	3	3	0	0	0	0
Problems converting or remitting currency ^d	2	3	3	0	0	0	0
Excessive taxes	2	3	1	0	0	2	0
Excessive customs duties	1	1	0	0	0	1	0
Other problems ^e	1	1	0	0	0	1	0
Total	13	50	19	6	3	16	6

Note: Our survey defined discriminatory charges as different charges for or taxes on the same goods or services and excessive charges as ones substantially exceeding the cost of the goods, services, or use of facilities after providing for a reasonable return on assets.

^aRequirements that place a significant burden on airlines in terms of costs or management oversight.

^bProhibition against operating on routes authorized under bilateral agreements.

^cRestrictions on the ability to operate trucks to provide pickup and delivery services.

^dDifficulty converting revenue earned in local currency into dollars or sending revenue to the United States.

^eIncludes fees for operations above specified levels of aircraft noise or emissions.

Source: U.S. all-cargo airlines' responses to GAO's questionnaire.

Appendix II
Significant Problems in Doing Business at
Foreign Airports Reported by U.S. All-Cargo
Airlines

Table II.3: Significant Problems Associated With Policies and Services at Foreign Airports, as Reported by U.S. All-Cargo Airlines, by Region

Problem	Number of airline respondents	Number of airports					
		Total	Latin America	Europe	Middle East/ Africa	Asia/ Pacific Region	Canada
Excessive landing fees	8	15	4	2	0	8	1
Discriminatory landing fees	5	13	5	0	0	8	0
Discriminatory payment terms ^a	5	12	5	6	0	1	0
Excessive fuel prices	7	11	7	1	0	3	0
Other problems with user fees ^b	3	9	4	2	0	3	0
Discriminatory fuel prices	4	7	6	0	1	0	0
Problems with maintenance and technical support ^c	3	6	3	1	0	2	0
Other problems with airport and aircraft services ^d	2	5	0	0	0	5	0
Total	14	48	20	10	1	16	1

Note: Our survey defined discriminatory charges as different charges for or taxes on the same goods or service and excessive charges as ones substantially exceeding the cost of the goods, services, or use of facilities after providing for a reasonable return on assets.

^aFor example, foreign airlines must pay for services in U.S. dollars, while national carriers can pay for services in local currency.

^bOther problems with user fees cited by respondents included the assessment of charges with little or no associated service provided.

^cInability to secure the maintenance and technical support necessary to operate efficiently or restrictions on an airline's ability to perform its own maintenance and technical support.

^dIncludes discriminatory value-added taxes and en-route fees.

Source: U.S. all-cargo airlines' responses to GAO's questionnaire.

**Appendix II
Significant Problems in Doing Business at
Foreign Airports Reported by U.S. All-Cargo
Airlines**

Table II.4: Significant Problems Associated With Ground-Handling at Foreign Airports, as Reported by U.S. All-Cargo Airlines, by Region

Problem	Number of airline respondents	Number of airports					
		Total	Latin America	Europe	Middle East/Africa	Asia/Pacific Region	Canada
Cargo-handling restrictions	6	16	4	2	0	10	0
Excessive cargo-handling fees	8	14	7	3	0	4	0
Inadequate warehouse facilities	2	12	1	2	0	9	0
Ramp-handling restrictions	5	11	3	1	0	7	0
Discriminatory cargo-handling fees	4	8	3	0	0	5	0
Excessive ramp-handling fees	4	8	3	3	0	2	0
Other problems with ground-handling ^a	2	7	0	0	0	4	3
Discriminatory ramp-handling fees	2	7	2	0	0	5	0
Total	13	31	9	7	0	12	3

Note: Our survey defined discriminatory charges as different charges for or taxes on the same goods or services and excessive charges as ones substantially exceeding the cost of the goods, services, or use of facilities after providing for a reasonable return on assets.

^aOther such problems cited by respondents included inadequate cargo apron space.

Source: U.S. all-cargo airlines' responses to GAO's questionnaire.

Table II.5: Significant Problems Associated With Restrictions on Local Marketing and Distribution at Foreign Airports, as Reported by U.S. All-Cargo Airlines, by Region

Problem	Number of airline respondents	Number of airports					
		Total	Latin America	Europe	Middle East/Africa	Asia/Pacific Region	Canada
Restrictions of local distribution networks ^a	3	12	3	0	0	9	0
Restrictions on number of sales offices, personnel, and types of personnel	2	2	1	0	0	1	0
Restrictions on local advertising	1	2	0	0	0	2	0
Total	4	13	4	0	0	9	0

^aLocal distribution networks are the methods by which an airline distributes cargo to its final destination after it is unloaded from the aircraft.

Source: U.S. all-cargo airlines' responses to GAO's questionnaire.

Description of Cargo Provisions of Current U.S. Aviation Agreements Negotiated Between January 1989 and March 1996

This appendix contains information about the aviation negotiations and agreements concluded by the United States between January 1989 and March 1996. Table III.1 describes the provisions of the 24 most recent aviation agreements governing air cargo services that were negotiated by the United States during that period.¹ (A list of the foreign governments with which the United States conducted aviation negotiations during the same period follows the table.) The descriptions in the table compare individual provisions in the agreements with those in the model liberal agreement that DOT developed for use in negotiations. The following provisions governing air cargo services are described:

Designations: This provision governs the number of airlines that may operate over the agreed-upon routes. The U.S. model liberal agreement contains no limit on the number of airlines that may be designated (multiple designation), while the most restrictive agreements allow only one airline from each country to provide service (single designation). Other restrictive agreements contain various limits on the number of airlines that may be designated.

Capacity: Capacity refers to the level of service that may be provided—usually expressed as the frequency of flights or type of aircraft used—in operating over the agreed-upon routes. The model liberal agreement contains no restrictions and allows airlines to determine capacity on the basis of their assessments of market needs. Other agreements do not limit capacity but provide for consultations if either country believes there is an excess level of service on a route. By contrast, restrictive agreements predetermine capacity, often by limiting the weekly number of flights.

Routes: The route schedule of an agreement determines the points that may be served in carrying traffic between the bilateral partners' countries and between these countries and third countries. The most liberal route—called an open route—permits airlines to operate from points “behind” their homelands via their homelands and intermediate points to points in the bilateral partner’s country and beyond. Restrictive agreements contain “narrow” route schedules that specify limited, named points that may be served and frequently limit the destinations that may be served intermediate to and beyond the bilateral partner’s country.

¹The United States negotiated two aviation agreements addressing cargo issues with each of the following countries: Brazil, China, Germany, Japan, Poland, and Saudi Arabia.

Appendix III
Description of Cargo Provisions of Current
U.S. Aviation Agreements Negotiated
Between January 1989 and March 1996

Pricing: This provision specifies the requirements for setting the prices to be charged by designated airlines for services over the agreed-upon routes. There are primarily three regulatory procedures for setting prices: (1) Double approval—the most restrictive—requires that countries at both end points of a route approve a price before it can be implemented; (2) under country-of-origin pricing, a country may unilaterally veto prices for flights originating from its own territory; and (3) double disapproval—the most liberal—requires that both countries reject a price to prevent it from coming into effect. The model liberal agreement provides for double disapproval pricing. DOT, however, no longer requires airlines to file individual cargo prices and, according to a DOT official, most foreign countries routinely approve airline cargo prices.

Ground-handling: This provision states the conditions under which airlines secure necessary ground services. The U.S. model agreement provides for airlines to perform their own ground-handling in the other country (self-handling), or, at their option, to select among competing agents for such services, subject only to physical constraints related to safety. Under the model agreement, when self-handling is precluded, ground-handling services must be available on an equal basis to all airlines and the costs of such services must be reasonable. Restrictive agreements may not contain a provision governing ground-handling.

Intermodal services: This provision states the conditions under which airlines can transport cargo once it is on the ground. The U.S. model agreement allows airlines to perform their own surface transportation and have access to customs facilities. Restrictive agreements usually do not contain a provision governing intermodal services.

Change-of-gauge: This provision regulates the ability of airlines to transfer passengers or cargo between aircraft for “onward” flights. Liberal agreements give airlines complete freedom to do so at any point on a route without restricting the size, number, or type of aircraft involved. Restrictive agreements may limit the size, number, or type of the aircraft involved in the procedure or may not address change-of-gauge at all.

Operational flexibility: This term refers to the ability of airlines to change routings by adding or omitting points to be served or changing the combination or order of the points served. The U.S. model agreement permits maximum operating flexibility for flights serving the homeland of the airline, including the right to serve points on routes behind,

Appendix III
Description of Cargo Provisions of Current
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intermediate to, and beyond both countries. More restrictive agreements limit such flexibility to varying degrees or do not contain such provisions.

Charters: This provision determines the arrangements under which charter services are to be operated. There are three basic types of charter arrangements: (1) country-of-origin rules, which require that charter services be performed according to the charterworthiness rules of the country in which the traffic originates; (2) so-called “Belgian rules,” under which charter services may be performed according to the rules of either country, at the airline’s choice; and (3) special rules agreed to by the parties. The U.S. model agreement establishes Belgian rules for charter services, while many restrictive agreements do not contain a provision on charter services.

Table III.1: Cargo Provisions of U.S. Aviation Agreements Negotiated Between January 1989 and May 1996

Country	Date	Provisions governing U.S. all-cargo services
Argentina	1994	Designations: no limit Capacity: restriction on the number of weekly flights Routes: limit on the destinations that U.S. airlines may serve in Argentina and intermediate to and beyond Argentina Pricing: no provision Ground-handling: no provision Intermodal services: no provision Change-of-gauge: model liberal provision Operational flexibility: basic freedom to omit service to points on a route Charters: country-of-origin rules
Barbados	1991	Designations: no limit Capacity: no restrictions Routes: open routes Pricing: double disapproval pricing Ground-handling: model liberal provision Intermodal services: no provision Change-of-gauge: model liberal provision Operational flexibility: substantially the model liberal provision Charters: model liberal provision
Brazil	1995	Designations: four U.S. airlines allowed to operate Capacity: restriction on the number of weekly flights Routes: limit on the destinations that U.S. airlines may serve in and beyond Brazil Pricing: country-of-origin pricing Ground-handling: model liberal provision Intermodal services: no provision Change-of-gauge: model liberal provision Operational flexibility: substantially the model liberal provision Charters: limit on the number of annual charter flights; country-of-origin rules

(continued)

**Appendix III
Description of Cargo Provisions of Current
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Country	Date	Provisions governing U.S. all-cargo services
China	1995	<p>Designations: three U.S. airlines allowed to operate</p> <p>Capacity: restriction on the number of weekly flights</p> <p>Routes: open routes for all-cargo services but limited to one airline from each country</p> <p>Pricing: double approval pricing</p> <p>Ground-handling: arrangements subject to government approval</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: limit on the capacity of the aircraft involved</p> <p>Operational flexibility: basic freedom to omit service to points on a route</p> <p>Charters: specialized procedure for approving charter flights</p>
Fiji ^a	1996	<p>Designations: no limit</p> <p>Capacity: no restrictions</p> <p>Routes: limit on the destinations U.S. airlines may serve beyond Fiji</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: substantially the model liberal provision</p> <p>Intermodal services: model liberal provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: basic freedom to omit service to points on a route</p> <p>Charters: model liberal provision</p>
Germany	1994 ^b	<p>Designation: no limit</p> <p>Capacity: no restrictions</p> <p>Routes: open routes</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: U.S. airlines self-handling as of Nov. 1993 may do so; other airlines must use approved agents until 1997</p> <p>Intermodal services: model liberal provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: model liberal provision</p> <p>Charters: model liberal provision</p>
Greece	1991	<p>Designations: no limit</p> <p>Capacity: no restrictions</p> <p>Routes: limit on the destinations U.S. airlines may serve intermediate to and beyond Greece</p> <p>Pricing: country-of-origin pricing</p> <p>Ground-handling: model liberal provision</p> <p>Intermodal services: model liberal provision</p> <p>Change-of-gauge: limit on the number of flights</p> <p>Operational flexibility: basic freedom to omit service to points on a route</p> <p>Charters: no provision</p>
Guatemala ^c	1994	<p>Designations: no limit</p> <p>Capacity: no restrictions</p> <p>Routes: open routes</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: model liberal provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: substantially the model liberal provision</p> <p>Charters: model liberal provision</p>

(continued)

Appendix III
Description of Cargo Provisions of Current
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Country	Date	Provisions governing U.S. all-cargo services
Hong Kong	1995	<p>Designations: no limit, but designation of additional U.S. airlines subject to review at Hong Kong government's request</p> <p>Capacity: restriction on the number of weekly flights from Hong Kong to destinations in third countries</p> <p>Routes: limit on the destinations that U.S. airlines may serve beyond Hong Kong with local traffic rights</p> <p>Pricing: double approval pricing</p> <p>Ground-handling: U.S. airlines to receive no less favorable treatment than other airlines</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: limits on the capacity and number of the aircraft involved</p> <p>Operational flexibility: substantially the model liberal provision</p> <p>Charters: no provision</p>
Italy	1991	<p>Designations: one U.S. airline allowed to operate</p> <p>Capacity: no restrictions, but subject to review at the request of either country</p> <p>Routes: limit on the destinations that U.S. airlines may serve beyond Italy</p> <p>Pricing: country-of-origin pricing</p> <p>Ground-handling: no provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: limit on the capacity of the aircraft involved</p> <p>Operational flexibility: liberal provision but no flexibility for flights beginning at points behind the United States</p> <p>Charters: no provision</p>
Japan	1996	<p>Designations: limit on the number of U.S. airlines allowed to operate</p> <p>Capacity: no restrictions on some airlines but restrictions on the number of weekly flights for others</p> <p>Routes: limit on the destinations beyond Japan that can be served by certain U.S. airlines</p> <p>Pricing: double approval pricing</p> <p>Ground-handling: no provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: no provision</p> <p>Operational flexibility: basic freedom to omit service to points on a route</p> <p>Charters: limits on the number of charter flights; country-of-origin rules</p>
Republic of Korea	1991	<p>Designations: no limit</p> <p>Capacity: no restrictions</p> <p>Routes: open routes</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: substantially the model liberal provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: model liberal provision</p> <p>Charters: substantially the model liberal provision</p>

(continued)

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Description of Cargo Provisions of Current
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Country	Date	Provisions governing U.S. all-cargo services
Macau	1995	<p>Designations: no limit</p> <p>Capacity: restriction only on the number of weekly flights to destinations beyond Macau for flights not beginning or ending in the United States</p> <p>Routes: limit only on destinations that U.S. airlines may serve beyond Macau for flights not beginning or ending in the United States</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: special provision guaranteeing U.S. airlines the same treatment accorded national airlines</p> <p>Intermodal services: model liberal provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: model liberal provision</p> <p>Charters: model liberal provision</p>
Malaysia	1992	<p>Designations: no limit</p> <p>Capacity: restriction on the number of weekly flights to one country beyond Malaysia</p> <p>Routes: open routes</p> <p>Pricing: double disapproval pricing</p> <p>Ground-handling: model liberal provision</p> <p>Intermodal services: model liberal provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: substantially the model liberal provision</p> <p>Charters: model liberal provision</p>
Mexico	1991	<p>Designations: five U.S. airlines allowed to operate in total, one on any city-pair segment</p> <p>Capacity: no restrictions, but subject to review at the request of either country</p> <p>Routes: open routes</p> <p>Pricing: double approval pricing</p> <p>Ground-handling: no provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: cargo transfers allowed, subject to government review</p> <p>Operational flexibility: substantially the model liberal provision</p> <p>Charters: modified country-of-origin rules</p>
Peru	1995	<p>Designations: no limit</p> <p>Capacity: limit on the number of weekly flights</p> <p>Routes: limit on the destinations U.S. airlines may serve in the United States and Peru, and intermediate to and beyond Peru</p> <p>Pricing: country-of-origin pricing</p> <p>Ground-handling: no provision</p> <p>Intermodal services: no provision</p> <p>Change-of-gauge: no provision</p> <p>Operational flexibility: changes to routes subject to government approval</p> <p>Charters: no provision</p>
Philippines	1995	<p>Designations: limit on the number of U.S. airlines allowed to operate</p> <p>Capacity: no restrictions</p> <p>Routes: open routes</p> <p>Pricing: modified double disapproval pricing</p> <p>Ground-handling: special provision granting self-handling rights</p> <p>Intermodal services: substantially the model liberal provision</p> <p>Change-of-gauge: model liberal provision</p> <p>Operational flexibility: substantially the model liberal provision</p> <p>Charters: substantially the model liberal provision</p>

(continued)

**Appendix III
Description of Cargo Provisions of Current
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Between January 1989 and March 1996**

Country	Date	Provisions governing U.S. all-cargo services
Poland	1996	<p>Designations: no limit Capacity: no restrictions Routes: limit on destinations that U.S. airlines may serve intermediate to and beyond Poland Pricing: country-of-origin pricing Ground-handling: U.S. airlines to receive same treatment accorded national airlines Intermodal services: no provision Change-of-gauge: no provision Operational flexibility: basic freedom to omit service to points on a route Charters: Belgian rules</p>
Russia	1993	<p>Designations: three U.S. airlines allowed to operate in total, but only two on any city-pair Capacity: restriction on the number of weekly flights Routes: limit on destinations that U.S. airlines may serve in and beyond Russia Pricing: double disapproval pricing Ground-handling: model liberal provision Intermodal services: model liberal provision Change-of-gauge: limit on the number of flights Operational flexibility: substantially the model liberal provision Charters: limit on the number of charter flights</p>
Saudi Arabia	1992	<p>Designations: two U.S. airlines allowed to operate Capacity: restriction on the number of weekly flights Routes: limit on the destinations that U.S. airlines may serve intermediate to and beyond Saudi Arabia Pricing: no provision Ground-handling: model liberal provision Intermodal services: no provision Change-of-gauge: model liberal provision Operational flexibility: substantially the model liberal provision Charters: country-of-origin rules subject to prior approval</p>
South Africa	1996	<p>Designations: no limit Capacity: restrictions on the number of weekly flights Routes: limit on the destinations that U.S. airlines may serve intermediate to and beyond South Africa Pricing: country-of-origin pricing until 1999, double disapproval pricing thereafter Ground-handling: model liberal provision Intermodal services: model liberal provision Change-of-gauge: model liberal provision Operational flexibility: model liberal provision Charters: limit on the number of annual charter flights</p>
Spain	1991	<p>Designations: no limit Capacity: no restrictions, but subject to review at the request of either country Routes: open routes Pricing: double approval pricing Ground-handling: no provision Intermodal services: no provision Change-of-gauge: limit on the capacity of the aircraft involved Operational flexibility: liberal provision but no flexibility for flights beginning at points behind the United States Charters: no provision</p>

(continued)

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Description of Cargo Provisions of Current
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Country	Date	Provisions governing U.S. all-cargo services
Thailand	1996	Designations: no limit Capacity: limit on the number of weekly flights to destinations beyond Thailand Routes: open routes except for service beyond Thailand to London, England Pricing: modified country-of-origin Ground-handling: model liberal provision Intermodal services: no provision Change-of-gauge: limit on the capacity of the aircraft involved Operational flexibility: basic freedom to omit service to points on a route Charters: no provision
Turkey	1990	Designations: no limit Capacity: no restrictions, but subject to review at the request of either country Routes: limit on destinations that U.S. airlines may serve intermediate to and beyond Turkey Pricing: no provision Ground-handling: substantially the model liberal provision Intermodal services: no provision Change-of-gauge: limit on the number of flights Operational flexibility: substantially the model liberal provision Charters: country-of-origin rules

Note: This table does not include the "open skies" agreements negotiated by the United States during this period with 12 European countries or the agreement with Canada liberalizing the transborder aviation market.

^aThe U.S.-Fiji Air Transport Agreement has not yet entered into force.

^bThis agreement was superseded in 1995 by an "open skies" agreement between the United States and Germany.

^cThe U.S.-Guatemala Air Transport Agreement has not yet been ratified, but has entered into effect on a provisional basis.

Source: GAO's analysis of air transport agreements and documents from the Air Transport Association.

**Foreign Governments With
Which the United States
Held Aviation Negotiations,
January 1989 Through
May 1996**

Argentina
Australia
Austria
Barbados
Belgium
Bolivia
Brazil
Canada
Chile
China
Costa Rica
Czech Republic/Czechoslovakia

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Description of Cargo Provisions of Current
U.S. Aviation Agreements Negotiated
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Denmark
Dominican Republic
El Salvador
Fiji
Finland
France
Germany
Greece
Guatemala
Hong Kong (U.K.)
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Luxembourg
Macau
Malaysia
Mexico
Netherlands
Nicaragua
Norway
Peru
Philippines
Poland
Republic of Korea
Russia/Union of Soviet Socialist
 Republics
Saudi Arabia
Singapore
South Africa
Spain
Sweden
Switzerland
Thailand
Trinidad and Tobago
Turkey
Ukraine
United Kingdom (U.K.)
Venezuela
Yugoslavia

Survey of All-Cargo Carriers Operating in Foreign Countries

United States General Accounting Office

GAO

Survey of "All-Cargo" Carriers Operating In Foreign Countries

SECTION 1: INTRODUCTION

The U.S. General Accounting Office (GAO), an agency that examines issues for the Congress, is conducting a study of the "doing-business" problems U.S. all-cargo carriers experience when operating in foreign countries. In addition, we are also examining the extent to which the U.S. Department of Transportation and Department of State address the interests of all-cargo carriers during bilateral negotiations.

The purpose of this questionnaire is to obtain data on the principal concerns that U.S. all-cargo carriers have in international aviation and their perceptions regarding U.S. policy. This questionnaire is being sent to all U.S. certificated international all-cargo airlines.

Your cooperation in completing this questionnaire is vital to our study. The information collected through this questionnaire along with other information will be summarized in our report to the Congress.

It is very important that each question is answered. Accordingly, the questions should be completed by a person or persons in your company who is most knowledgeable about the airline's international business.

Please complete this questionnaire and return it to us in the enclosed business-reply envelope within **25 days** of receipt. This will help us avoid costly follow-ups. In the event that the return envelope is misplaced, please send the completed survey to:

U.S. General Accounting Office
Atlanta Regional Office
Attn: Deena DeVane
2635 Century Parkway/Suite 700
Atlanta, GA 30345

If you have any questions, please call Deena DeVane at 404-679-1958 or Howard Veal at 202-512-9565.

The Congressional requesters have authorized GAO to treat your responses to the questions in this survey as confidential. Your responses will be combined with those of other all-cargo carriers and will be reported in summary form only. No individual carrier or carrier's responses will be identified individually.

Please review the mailing label below. If any of the information on the mailing list is incorrect, cross out this incorrect information and write the correct information on the label itself.

** PUT MAILING LABEL HERE **

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

SECTION 2: AIRPORTS SERVED & NUMBER OF FLIGHTS

1. In the table below, indicate which **international airports** your carrier serves by the 3-letter airport code.

For *scheduled services*, indicate the average number of weekly flights for 1995. For *charter services*, indicate the approximate number of annual flights for calendar year 1995.

If you need additional space, please use separate sheets of paper and attach to the end of the questionnaire.

3-letter Airport Code	Average Number of Scheduled Weekly Flights	Approximate Number of Annual Chartered Flights
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

3-letter Airport Code	Average Number of Scheduled Weekly Flights	Approximate Number of Annual Chartered Flights
16.		
17.		
18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		
26.		
27.		
28.		
29.		
30.		
31.		
32.		
33.		
34.		

**Appendix IV
Survey of All-Cargo Carriers Operating in
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SECTION 3: "DOING-BUSINESS" PROBLEMS IN INTERNATIONAL AVIATION

In this section, consider the "doing-business" problems, if any, your carrier has experienced in conducting international operations *since 1989*. A "doing-business" problem is:

"Any obstacle that inhibits a carrier from fully exercising the traffic rights available to it under the relevant bilateral air services agreement. Or, any obstacle that adversely affects the competitiveness of a carrier's services".

Using the tables on the next few pages, identify the specific airports at which you experience, or have experienced these problems, and the extent to which you believe these problems have *adversely* affected the operations of your carrier.

Note 1: Please include all past and current problems. Also, you will have an opportunity to elaborate on your responses from this section in Section 4.

Note 2: We have provided space for you to list up to five 3-letter airport codes for each problem. If you need additional space, please use separate sheets of paper and attach to the end of this questionnaire.

DEFINITIONS OF TERMS IN TABLE:

EXCESSIVE PRICES OR FEES: Charges substantially exceeding the cost of providing the good, service or facility, after providing for a reasonable return on assets.

DISCRIMINATORY TAXES OR FEES: Different charges for the same good, service or tax.

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

Problems	Check One For Each Problem At Each Airport							
	3-letter Airport Code	To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
Aircraft & Airport Servicing Functions								
1. Discriminatory fuel prices								
2. Excessive fuel prices								
3. Discriminatory landing fees								
4. Excessive landing fees								
5. Discriminatory payment terms (e.g., U.S. carriers must pay in dollars while host carriers pay in local currency)								

**Appendix IV
Survey of All-Cargo Carriers Operating in
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Problems	3-letter Airport Code	Check One For Each Problem At Each Airport						
		To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
6. Other airport user fee problems								
7. Maintenance & technical support problems								
8. Other (please specify)								
Ground Handling								
9. Cargo handling restrictions								
10. Discriminatory cargo handling fees								

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

Problems	Check One For Each Problem At Each Airport							
	3-letter Airport Code	To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
11. Excessive cargo handling fees								
12. Ramp handling restrictions								
13. Discriminatory ramp handling fees								
14. Excessive ramp handling fees								
15. Inadequate warehouse facilities								

**Appendix IV
Survey of All-Cargo Carriers Operating in
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Problems	Check One For Each Problem At Each Airport							
	3-letter Airport Code	To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
17. Other (please specify)								
Local Marketing & Distribution								
18. Restrictions on local advertising								
19. Restrictions of local distribution networks								
20. Restrictions of # of sales offices, personnel & type of personnel								
21. Other (please specify)								

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

Problems	3-letter Airport Code	Check One For Each Problem For Each Airport						
		To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
Government Functions								
22. Burdensome legal & admin. requirements								
23. Difficulty obtaining authorization or permits for flights								
24. Excessive fines for violations of regulations								
25. Customs clearance problems								
26. Excessive customs duties								

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

Problems	Check One For Each Problem For Each Airport							
	3-letter Airport Code	To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know	Not applicable
27. Currency conversion/remittance problems								
28. Discriminatory taxes								
29. Excessive taxes								
30. Restricted intermodal rights (e.g., inability to truck cargo off airport)								
31. Denial of traffic rights (e.g., fifth freedom)								

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

Problems	3-letter Airport Code	Check One For Each Problem For Each Airport							Not applicable
		To little or no extent	To some extent	To a moderate extent	To a great extent	To a very great extent	Don't know		
33. Operations restricted to less desirable airport									
34. Inadequate take off/landing slots									
35. Curfew									
36. Other (please specify)									

**Appendix IV
Survey of All-Cargo Carriers Operating in
Foreign Countries**

SECTION 4: NARRATIVE EXPLANATIONS OF "DOING-BUSINESS" PROBLEMS

Please re-consider your "doing-business" problem responses from the tables in Section 3.

For *ONLY* those problems that you believe have adversely affected your carrier's operations *to a great or to a very great extent*, please respond to the request for the following detailed information:

- 1) **AIRPORT SERVED** — Identify the airport where the problem occurred or is occurring.
- 2) **BRIEF DESCRIPTION OF PROBLEM** — Describe the particular problem that you indicated has affected or is currently adversely affecting your carrier to a great or very great extent.
- 3) **IMPACT ON CARRIER'S SERVICE** — Describe how the problem has affected or is affecting your carrier's services. Please be as specific as possible.
- 4) **OTHER CARRIERS AFFECTED** — Identify any other carriers affected by the same problem.
- 5) **DATES PROBLEM OCCURRED** — Identify the time period during which your carrier experienced the problem.
- 6) **ACTION TAKEN BY YOUR CARRIER TO RESOLVE PROBLEM** — Describe the specific actions that your carrier has taken to resolve the problem on its own behalf.
- 7) **EMBASSY OR DOT INTERVENTION REQUESTED? WHAT SPECIFIC MEASURES WERE SOUGHT?** — Identify whether your carrier requested assistance from DOT and/or the State Dept. Describe the specific measures your carrier sought to resolve the problem.
- 8) **ACTIONS TAKEN BY EMBASSY OR DOT** — Describe the actions taken by DOT or the State Department, if any, to resolve the problem on your behalf.
- 9) **CURRENT STATUS OF PROBLEM** — Describe the current status of the problem.

Remember! Answer these questions for *ONLY* those problems which you indicated affected your carrier's operations *to a great or to a very great extent*.

Please attach your answers to the end of the questionnaire.

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SECTION 5: INTERNATIONAL POLICY & BILATERAL NEGOTIATIONS

2. DOT first published its Air Cargo Policy Statement in 1989. Since then, in your opinion, to what extent has DOT's international aviation policy addressed the principal concerns of your carrier? (*Check one.*)

- 1. To a little extent
- 2. To some extent
- 3. To a moderate extent
- 4. To a great extent
- 5. To a very great extent

3. In your opinion, which method of conducting bilateral aviation negotiations *best* addresses the interest of your carrier? (*Check one.*)

- 1. Unified negotiation of **BOTH** combination/passenger and all-cargo traffic rights.
- 2. Separate negotiation of all-cargo traffic rights.
- 3. Other (please explain)

4. Please take this opportunity to explain your answers to the last question in the space below. If you need additional space, please use separate sheets of paper and attach to the end of this questionnaire.

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