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REMARKS PREPARED FOR DELIVERY BY U.S. SECRETARY OF TRANSPORTATION NEIL GOLDSCHMIDT, INTERNATIONAL AVIATION CLUB, WASHINGTON, D.C., APRIL 15, 1980.

It's a pleasure to be here today. I've been looking forward to an opportunity to speak before an aviation group such as yours just to let you know that all of my time and attention is not being taken up by urban mass transit, trucking and rail deregulation, the Chrysler Corporation, the budget, and renewal of the Airport and Airway Development Act Program.

Certainly, those are all pressing issues. But I've also been spending some time thinking about the issues that are cause for concern among commercial airline operators and I must say they are manifold. When I came to this office less than a year ago, the vital role that transportation of people and goods plays in any economic social political system was very clear to me. Without a healthy and viable transportation system, there are not only enormous barriers to commerce, there are enormous barriers to communication and thus to understanding among people.

In the international arena, the contribution to commerce and communication by transportation is especially vital. Because of the great distances involved, air transportation over the latter half of this century has become a foundation for the social and technological progress of the modern world.

In this regard, it is worth pausing to note that at this moment, a U.S. negotiating team is in Beijing working on a bilateral aviation agreement. When completed, that agreement will be a further bridge between our peoples.

During the last year, an estimated 745 million passengers boarded the world's airlines. Air transportation is depended upon -- in fact, taken for granted -- by many of us in the conduct of our daily personal and business affairs. All countries, all companies, and all people benefit from the international air transportation system.

But there are significant problems facing the international air transport industry today and for the foreseeable future which concern and trouble me. Over the past few years, the United States government has been trying to work with the U.S. airlines to deal with some of these looming problems. Support and implementation by this Administration of the domestic Airline Deregulation Act occurred in large part because we recognized that government was not omniscient and certainly could not be omnipotent in this naturally competitive industry. We believed there was a need for increased management flexibility, resiliency, innovation, and efficiency. To encourage this, we concluded that decisions concerning operations, marketing, and pricing were better left to the experts in the field -- those who actually run airlines.

We understood, despite many years of strict regulation, that government interference and second-guessing did not fix the problems of the industry but only delayed and probably worsened the difficulties that eventually had to be faced. Shortly after seeing this logic for the domestic airline industry, this Administration decided the same kind of logic should hold true for the major portion of the international aviation system. Of course, we also understood that the U.S. free enterprise system could not be imposed unilaterally on other countries -- that international aviation is a partnership among sovereign nations.

Therefore, when President Carter announced the U.S. international aviation policy in August 1978, we recognized explicitly that it was applicable to, and designed for, "major international air markets" that can withstand the volatility of free-market interplay. As a result, when our aviation bilateral partners have been willing, we have signed agreements that have increased service patterns and the number of carriers operating on routes, reduced restrictions on charter and freight operations and allowed full pricing flexibility. These pro-competitive agreements have produced more traffic for the airlines and generally lower prices for airline passengers.

Each of these agreements has been signed with the goal in mind of preserving and improving the free movement of people and goods on the world's international airlines. This goal underpins the U.S. government's pro-competitive aviation bilateral stance. As the U.S. international aviation policy states: The U.S. government is in the business of exchanging opportunities in air transportation, not in exchanging restrictions.

We are committed to this philosophy and these goals no matter the economic climate. It is during periods of economic adversity that governments can slip into an overly protectionist philosophy. Presently, there are serious economic problems facing the airline industry. Fuel costs have doubled over the last year and quadrupled since 1974; labor costs continue to spiral with the rate of inflation. Airport and airway user fees are on the increase, as are all of the costs associated with ground equipment and facilities. The competition in the marketplace is getting rougher as airlines throughout the world grow and mature.

At the same time that costs are increasing, the world's airlines are in a re-equipment cycle which increases the need for capital accumulation. There is an ever-narrowing gap between dollars earned and dollars retained. These pressures from both sides -- the increased need for capital and the decreased ability for capital formation -- are causing all of us in government and industry throughout the world to view the short-term future of the industry with a cautious eye.

Each of these trends indicate that airline managements are going to have to sharpen their skills even further to control costs and improve efficiency. But governments also have their responsibilities. As Secretary of Transportation, I am watching in particular the overall performance of all carriers in markets throughout the world in order to anticipate possible trouble spots. International aviation essentially is a cooperative arrangement among governments and airlines. We all must examine closely every action taken as to its costs and benefits, both economically and politically, throughout the system.

Despite all of these adverse circumstances, we must not overreact in the short term, and thus damage the health of the industry in the long term. Too often in the past, governments' actions have produced severe and costly problems for the industry without reaching a solution. Even worse, some of these government actions have become entrenched, in fact, almost endemic in the airline industry. In a climate which tests the industry as never before, we are required to root out these obstacles so that the industry may summon its own resources and fashion its own responses.

In particular, I'm talking about the collection of government restrictions and actions that are euphemistically called "unfair competitive practices." The phrase is a euphemism because these actions are really anti-competitive, not competitive. Nevertheless, there is no question they meet Webster's definition of "unfair": "Repeated or customary actions marked by injustice, partiality, or deception." Unfair anti-competitive practices are all of the above.

No single country is the lone perpetrator of unfair anti-competitive practices. At one time or another, governments have engaged in them believing, wrongly, that they are protecting their national flag carriers. Some of these restrictions are inadvertant, some are the result of different cultures and economic systems. Although the United States recognizes these differences, we need to call to the attention of foreign governments the impact on international aviation. All of you sitting in this audience know that unfair anti-competitive practices exist in one form or another throughout the world and they are costing airlines millions of dollars in unnecessary costs, operating inefficiencies, and lost revenues.

Unfair practices also stand squarely in the way of the free and rapid movement of passengers and freight at reasonable and equitable prices. Each unfair practice is costly in time and money; we all end up paying the increased price. An unfair practice by one airline or country against another airline or country prompts retaliation and it spreads just like a communicable disease.

For years, many in industry and government have been attempting to deal with this problem, but not always in a very direct or cooperative way. Dealing with unfair practices takes commitment, time, diplomacy, international cooperation and, above all, perseverance. Remembering our partnership, we have an obligation to explain our problems patiently to foreign governments and to allow time for their careful consideration. There appears to be no generally applicable method of dealing with the generic problem because each practice has its own vagaries.

Our experience after nearly two years of pursuing our pro-competitive bilateral goals is that it is not enough to sign a pro-competitive bilateral and move on to the next set of negotiations. Fair and equal opportunity for all carriers to compete does not exist on paper alone. We must be prepared to follow through and assure that our carriers are allowed to compete effectively once the bilateral is implemented.

Past practices have shown that the Fair Competitive Practices Act, passed in 1974, is not adequate to meet the challenge; it is too cumbersome to implement and, in fact, it has never proved effective. Consequently, we have now included the elimination of unfair anti-competitive practices as one of the primary goals to be achieved in bilateral negotiations under the 1978 International Aviation Policy Statement.

The original articles covering commercial opportunities in Bermuda-type bilateral agreements contained general language guaranteeing the airlines of both signatories fair and equal opportunities to compete. History had demonstrated, however, that this traditional Bermuda-type language was insufficient to assure our carriers the operating rights they want and need. Therefore, with our policy mandate in hand, we approached the negotiating table to sign new pro-competitive bilaterals

with some of our trading partners that would include explicit language to eliminate unfair and discriminatory practices. Because, air transportation is a service industry, we have concentrated on the rights of our carriers to provide their own ground-handling arrangements for passengers and cargo -- a right considered essential by the U.S. to assure the quality of this service.

Although these bilaterals contained provisions to increase the number of carriers in the market, reduce the average fare available, increase the number of gateways served, and eliminate charter and cargo operating restrictions, we knew that the impact of pro-competitive bilaterals would be substantially reduced if unfair practices could not be eliminated. Thus, U.S. negotiators drafted a new model commercial opportunities clause that explicitly guaranteed the rights of U.S. carriers to have their own offices on foreign territory; hire their own managerial sales, technical and operational staff; perform their own ground-handling services or at least choose among competing bidders and sell their own tickets in any valid currency at normal rates of exchange.

Inclusion of this clause in our new agreements has not been easy, but my department, which has championed this effort, has received the complete cooperation of our partners in the State Department and the Civil Aeronautics Board.

We also made clear to our negotiating partners that in return for increased traffic rights to the U.S., the model language regarding commercial practices would have to be signed and any unfair practices then existing would have to be eliminated.

If there are restrictions imposed on ground-handling at foreign ports; if there are restrictions imposed on passenger ticketing; if there are unreasonable airport and airway user charges; if there are restrictions or special surcharges imposed on fuel; if there are sales restrictions; or if there are special insurance and bonding procedures for doing business in a foreign country, there is not a fair and equal opportunity to compete.

For example, the U.S. does not consider it a fair and equal opportunity to compete when U.S. airlines are excluded from foreign airline-operated computerized reservation systems even though those carriers have open access to U.S. computerized reservations systems. Nor do we consider it fair and equal when special taxes on fuel used by U.S. airlines are imposed but that tax is not imposed on the foreign flag carrier.

I will invite your attention to a few specific problems we are examining: the Phillippine fuel levy on U.S. airlines even though Phillippine Air Lines is tax exempt in the U.S. for fuel purchase; the Brazilian en route charges which jumped ten-fold last year; security

and airport charges in the United Kingdom; fuel price differentials in South America; access to reservations systems in Germany, France, the U.K., and elsewhere.

The Department of Transportation has underway a variety of activities to support our efforts. I mentioned that fuel is a critical issue and a DOT survey of fuel prices and availability for U.S. airlines at foreign airports is in the final stages of preparation. In addition, we will be meeting with foreign governments, the International Aviation Organization, and the International Air Transport Association later this month to discuss possible government actions to support fuel conservation by the airlines and improve its availability. DOT is also preparing a report on marketing restrictions facing U.S. airlines overseas. These activities will help us decide what are the critical problems and how to deal with them.

I have mentioned some examples of the types of unfair anti-competitive practices that, today, are faced by U.S. carriers. Because of the current adverse economic climate and because of our earnest commitment under any economic circumstances to free up the international aviation system, the U.S. Government and the Department of Transportation in particular, will place increased emphasis in all of our bilateral contracts on elimination of as many of these unfair practices as possible. Any unfair practice that is not resolved on a carrier-to-carrier or U.S. carrier-to-foreign government basis could well become an issue for possible government-to-government resolution.

Such circumstances occurred in early 1979 when Singapore requested additional U.S. operating authority to Los Angeles. U.S. carriers at that time were experiencing ground-handling related problems in Singapore. We informed the Singapore Government that we would trade opportunity-for-opportunity, not opportunity for continued restrictions. I believe the result was mutually satisfactory. Negotiations in June 1979 concluded with the writing of the model clause on commercial practices into the U.S.-Singapore bilateral.

Just last Saturday night, the United States and the Republic of Korea concluded a Memorandum of Understanding that focused on the commercial opportunities of U.S. carriers in Korea. The Koreans desired new routes to the U.S. and some were agreed to by our negotiators. However, these routes will only be available to Korea after the commercial operating needs of our carriers have been completely satisfied. Our message is clear and consistent: new opportunities for foreign air carriers are contingent on reciprocal opportunities for U.S. airlines.

Finally, if an unfair competitive practices problem has not been resolved through formal and informal government-to-government processes, a very new tool has been added: the recently signed International Air Transportation Competition Act of 1979, an amendment to the law streamlining the system and allowing us to act quickly.

The law states that the Civil Aeronautics Board may, either on its own initiative or after a complaint, act against any foreign air carrier permit or tariff with the President's approval, if the Board determines that a foreign government, instrumentality or airline has engaged in an unjustifiable or unreasonable discriminatory, predatory, or anti-competitive practice against a U.S. airline. The law adds that the Board has no more than 180 days after receipt of the complaint for taking action.

This language is strong and direct. The department will not hesitate to ask the Board to use these new powers when necessary. As I have stated, the U.S. Government is not in the business of exchanging restriction-for-restriction nor is it in the business of exchanging retaliation-for-retaliation. However, unfair practices must be eradicated from the international aviation system.

I don't want to end today with a clap of thunder. Many of these problems can be resolved with a little better communication between ourselves and our foreign partners. There are many forums available for government-to-government discussions. And we recognize the truth of the old saying, "An eye for an eye philosophy, if extended far enough, leaves everyone blind ...without sight and sense of direction."

It is far better to use discussions and negotiations to steer a common course that will benefit the industry, the travelers, the nations of the world. For only by working together can we realize the promise of the future of air transportation.

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