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REMARKS PREPARED FOR DELIVERY BY SECRETARY OF TRANSPORTATION BROCK ADAMS,  
TO THE WINGS CLUB, NEW YORK CITY, MARCH 15, 1978.

A Secretary of Transportation, I have found, has to be something of a fighter as well as a referee. Sometimes you have to get in the ring and slug it out. Other times you have to referee disputes. Occasionally -- and only occasionally -- you get to sit on the sidelines and cheer.

Over the years I've had several bouts with the railroads, and for the railroads, and last year I put on the gloves with the water carriers over the issue of waterway user charges. I've sparred a little with the opponents of air carrier regulatory reform and I think we've won that one. Reform, I am confident, will be good for air transportation. We should see a favorable Congressional decision on that subject very soon now.

But there's an even tougher battle now going on over fares, charter rules and airline operating rights in the international arena. We're down to the final rounds in the resolution of the charter negotiations left over from last summer's Bermuda 2 agreement. We have just concluded negotiating a change to our agreement with the Netherlands and we expect to meet again this week with the Government of Japan to update our air agreement with that nation.

Except for our agreement with the Dutch, I can't tell you today precisely how these issues will be sorted out. As of today, I am still hopeful that we'll be able to reach charter agreement with the British by March 31. I am also hopeful we can resolve our differences with Japan in a positive way.

I want to talk about international air transportation policy today because I know the members of the Wings Club have a deep interest in that area. The last year has required me to become more and more involved in the substance of international air policy matters. Today, I want you to know my feelings about the subject and where the U.S. is going.

The United States has long been a leader in international aviation progress, and I intend to provide the kind of leadership needed today to meet the needs of the international travel and freight markets for the next decade.

Both President Carter and I believe that industry and the Government together must soon make some hard decisions and move in new directions if America's technical and commercial leadership in world aviation is to be sustained.

The United States' position is clear. We will not accept capacity regulation. We intend to work to minimize rate and fare regulation -- or at least to see that competition, and not government edict, keeps fares low and services efficient.

That in mind, let me turn now to several points which underlie our developing international air transportation negotiating policy.

## I. U.S. INTERNATIONAL POLICY

### A. PURPOSE

The President's purpose is to provide the greatest possible benefit to travelers and shippers, and equity between the parties. Our bilateral agreements are and will be negotiated with that purpose in mind, and our intent is to focus on the major international air markets as the best means of demonstrating our commitment to that principle.

This, of course, is a two-way street. For example, we treated Concorde precisely as our aircraft have been treated elsewhere. The recent controversy over noise and environment will be debated in the scientific community and our ultimate decision will be based on the facts developed.

### B. BASIS

The basis for this policy is our longstanding reliance on competitive market forces as the best means of providing convenient, efficient, affordable air transportation. The United States has stood almost alone in the world for the principle of competition in the international marketplace. It has worked well for U.S. airlines and there are compelling reasons to believe it will continue to work as long as our airlines enjoy superior management and excel in service. There are several reasons by other nations' airlines should find the benefits of competition appealing.

### C. BENEFITS OF COMPETITION

First, from a Governmental viewpoint, market economics are better than subsidy. Subsidy is expensive for governments. However they rationalize it, no government wants to pour endless capital into an enterprise which, properly managed and developed, could be self-supporting. The world airlines' financial needs have been estimated at between \$60 and \$70 billion, just through 1985. All governments are hard-pressed to find enough resources to cover their expenses and none should be allocating scarce economic resources to their airlines on the scale required.

Other nations should have the same interest in the prosperity and self-sufficiency of their airlines as we do in ours.

Second, that interest is better served by a policy of market expansion and growth than by a policy of protectionism.

Third, by offering more services to the public, the international air transport industry can stimulate traffic growth, generating new markets and producing increased revenue both for their airlines and for related industries such as tourism. We've seen it happen in the domestic market, both scheduled and charter, and the international potential is even greater.

Let there be no mistake. We cannot and do not seek competitive advantage. What we want, and believe is fair, is competitive equity. We do not believe that market capacity should be divided equally, according to some arbitrary standard, but we hold that each country's airlines should have an equal opportunity to compete for business. Market share is best determined by passenger choice.

#### E. NEGOTIATING OBJECTIVES

In carrying out international negotiations we are striving for a competitive system that serves these objectives:

- (1) Encourages innovative pricing and fare flexibilities to meet the needs of different consumers.
- (2) Liberalizes charter rules.
- (3) Reduces or removes capacity restrictions.
- (4) Eliminates discriminatory practices.
- (5) Permits multiple U.S. airlines in international air markets.
- (6) Encourages greater access to international markets by permitting more non-stop service points and improves the integration of domestic and international airline services.

These objectives are implicit in my statement on national transportation policy, and they reflect the President's commitment to an expanding low-fare international aviation system based on competitive market forces.

#### F. NEGOTIATING GUIDELINES

It has never been U.S. policy to seek these objectives at the expense of another nation or its airlines. We believe in reciprocity. Our strategy, however, is to trade competitive opportunities rather than restrictions, and to make concessions only in return for progress toward competitive objectives. We continue to believe that protectionism is self-defeating -- that benefits flow from promoting, not shutting off, new avenues to lower cost air transportation. Proposed bilateral agreements that do not meet our minimum competitive objectives will not be signed without express Presidential approval.

## II. BERMUDA 2 - SEVEN MONTHS LATER

When I joined special Ambassador Alan Boyd in signing the Bermuda Agreement last July, it was with a clear understanding, number one, that the British shared our commitment to economical pricing innovations by new carriers entering the market; and, number two, that the same principle of increased competition would apply in charter provision negotiations. The charter memorandum of understanding ran to March 31, 1978, which is why we did not expressly conclude it in the Bermuda 2 final agreement last summer.

Now, seven months later, we face the unpleasant but nevertheless real possibility that U.S. support of the Bermuda 2 Agreement may be withdrawn if the differences that have frustrated negotiations thus far are not resolved when the present charter agreement expires. I clearly indicated this at the time of signing Bermuda 2 and, since then, directly to the appropriate British officials.

### A. THE CHARTER ISSUE

We are in the fifth round of meetings with the United Kingdom in an effort to reach a charter agreement. We have maintained a strong position on some issues, because we believe the vast charter market will remain under-developed unless the rules are liberalized. The industry needs an advance booking period of less than 30 days, lower limits on group sizes and less restrictive "fill-up" rights. Most important, charter rates should be subject of regulation by the country of origin, not the country of destination, if we are to have the pricing freedoms necessary for charters to grow and to do their part in expanding aviation travel.

### B. THE BRANIFF ISSUE

It is the pricing issue that delayed the start of Braniff's service between Dallas-Fort Worth and London.

At the time the Bermuda 2 Agreement was signed I said that "Americans from every section of our country will now find air travel abroad cheaper and more convenient." The Agreement authorized three new gateway cities -- Atlanta, Houston and Dallas/Fort Worth. The Dallas route was subsequently awarded to Braniff.

The tariffs filed with the CAB by Braniff were, at first, rejected by the British, although Article 12(2) of the Bermuda 2 Agreement stipulates that competitive low fares that are economic should "be encouraged" to "the maximum extent possible."

As I noted with regard to charters, this concept was basic to the Bermuda 2 Agreement and a major factor in the U.S. acceptance of the Agreement. In granting Braniff the Dallas-London route, President Carter reaffirmed his reliance on "competitive forces" in the international market, pointing out that he had approved reduced fares on the North Atlantic and permitted new carriers, such as Laker Airways, to enter the market.

What the President was saying, and what recent developments in the domestic market are proving, is that competitive pricing generates traffic which fills seats and produces profits. The market is a self-regulating mechanism which works best when restrained to the least degree necessary to protect the public.

As you probably know, British aviation authorities initially rejected the Braniff tariff on the grounds that it was based on the Miami-London rates per mile rather than the higher New York-London rates, and that the standby fare violated a U.K. policy against budget and standby fares in any market other than New York-London.

The CAB found those objectives unfounded and at odds with the letter and spirit of Bermuda 2. The Board countered by recommending, under a section of the Federal Aviation Act, that British Caledonian be denied landing rights at Houston until the Braniff fares are approved. The President delayed the suspension until March 17, but promised to reconsider "the need for unilateral action" if the issue could not be resolved by then.

I am happy to tell you today that we have been able to work with the British to resolve this issue and that Braniff should be able to inaugurate its service shortly.

This, then, is where we stand. The charter rule negotiations are still under-way, but the clock is running. Because of the importance of Bermuda 2 to the United States, I am following their progress closely. I am hopeful for an agreement on the charter issue by March 31 as evidence that the British share our commitment to making the Ber<sup>o</sup>d\* & 2 Agreement work. The lesson here is that all nations must understand that we have an announced and understood air policy framework. I intend to see that the U.S. is a fairly-treated partner -- neither a benevolent giant nor a helpless one.

### III. NEGOTIATIONS WITH JAPAN

In the meantime we are continuing talks with Japan, our second largest aviation partner. Our strategy here is the same -- to obtain a new treaty mutually beneficial to the people of both countries. I believe expansion of the U.S.-Japan market has been hampered by high fare levels and charter limitations. The talks have been proceeding slowly. I am disappointed because I had been assured by those involved in the day-to-day negotiations that we would have an agreement before the first of this year. I think we can reach an agreement we can both live with. I hope the recent action by Japan against Flying Tiger's extension of cargo routes beyond Tokyo will not force U.S. action against Japan Air Lines, but again we want to be partners in these announcements and our agreements must be strictly quid pro quo.

### IV. NEGOTIATIONS WITH THE NETHERLANDS

Negotiations have gone well with the Netherlands. At about 10:00 o'clock Friday evening, the United States and the Netherlands agreed to amend the present bilateral air agreement so as to expand the opportunities for competitive services, both scheduled and charter, in the U.S.-Netherlands market. The agreement provides that charter traffic and scheduled air fares and rates will be subject to country-of-origin rules.

In terms of rate regulation, both the Netherlands and the U.S. agreed that fares and rates should be set by the airlines based primarily on commercial considerations in the marketplace, and that intervention by governments should be limited to:

(1) prevention of predatory or discriminatory practices, (2) protection of consumers from the abuse of monopoly power, and (3) protection of airlines from prices that are artificially low because of direct or indirect governmental subsidy or support.

In terms of routes, the United States' rights will continue to include route opportunities from any point in the United States to Amsterdam, with full fifth freedom traffic rights at any intermediate or beyond point. In the amendment to the bilateral, the U.S. gave the Netherlands additional rights to Los Angeles and one other city of their choice. (KLM already serves New York, Chicago and Houston.)

I believe this represents an important step forward, one that will lead to more low-cost trans-ocean, air service. I am looking forward to working with the Netherlands Government to develop, over the next six months, a comprehensive new air transport agreement that could serve as a model for future bilaterals with our other aviation partners.

#### V. CONCLUSION

The immediacy and extent of international aviation problems have prevented me from discussing other aviation interests on the executive and legislative agenda -- including the noise bill now in Congress, the future of the ADAP program, and the status of regulatory reform.

I want you to know, however, that the President wants a regulatory reform bill. He says, and I say, and many in Congress are saying: let's get it passed so we can get on with other important aviation legislation: (1) a new ADAP authorization; and (2) a trust fund assistance program for the airlines to meet noise rule requirements through retrofit or aircraft replacement.

I have been involved in the politics of transportation for a long time and I have come to the conclusion that aviation regulatory policy historically has not been very complimentary to airline management. It has said, "Government regulators know more about the air carrier business than you do. So just fly the routes we give you, at rates we approve. And though you won't make much money you won't go out of business."

Now, that sort of attitude is out-of-date. The industry experienced a boom in air travel when the jets came in, and is experiencing it again with today's bargain fares and aggressive marketing strategies. If forecasts hold for 1978 and 1979, we may see an actual doubling of revenue passenger miles in a single decade.

There should no longer be any doubt that our 40-year-old system is going to be changed. The bills before the House and Senate should now be moved. It is time for the great debate to end and a regulatory reform bill to be passed so that the industry can do its financial planning for the 1980's, the aircraft manufacturers can proceed with their plans for new planes and the aviation sector of DOT can turn its attention to the ADAP bill which must be re-authorized next year.

With the principle of market competition well established in domestic air service, and a firm policy toward international air commerce, aviation in the 1980's should be an exciting and worthwhile endeavor for all of you.