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REMARKS PREPARED FOR DELIVERY BY SECRETARY OF TRANSPORTATION BROCK ADAMS,  
TO THE AMERICAN CHAMBER OF COMMERCE, HAGUE, THE NETHERLANDS, JUNE 5, 1978.

I'm pleased, indeed, to be here today. The Hague is an early stop on my European tour. I'm here to meet with European ministers of transportation and to attend a number of meetings concerning several transportation problems that we have in common.

But I'm particularly pleased to be in the Netherlands, for it is the far-sightedness of the Dutch that made it possible earlier this year to negotiate an important new bilateral air transportation protocol -- one that we believe will serve as a model for the future.

The Netherlands bilateral was signed on March 31, and we began a six-month test period the following day. At the end of that period we will sit down to negotiate a formal bilateral agreement. Incidentally, we shall soon be meeting with the government of the Netherlands Antilles -- perhaps as early as this month -- to negotiate a similar pact modeled on the Netherlands protocol.

The Netherlands protocol provides, by far, the freest working arrangement we have with any nation, particularly regarding fare flexibility and charter rules. There will, quite naturally, be some differences of opinion concerning specific issues -- such as the recent Pan Am budget fare to Amsterdam -- but these disagreements can be dealt with amicably.

As a matter of fact, as I have participated in international relations during the last few months I have found a strong undercurrent of mutual respect and an earnest desire for understanding and accord. I believe this applies especially to international air and marine commerce, the two means of transportation that bridge natural barriers, make the world smaller and more intimate and its peoples more interdependent. And because world energy needs and increased trade have generated greater ocean traffic, and business and tourism more air travel, I want to talk to you today on our progress in international negotiations in those areas.

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## AIR TRANSPORTATION

### 1. GROWTH

Last year was a good year for the world's airlines. Passenger traffic was up eight percent; revenues 12 percent. Most significantly, after several years of surplus capacity, the carriers added more passengers in 1977 than seats. Load factors for the scheduled airlines reached a 10-year high at 58 percent.

The forecasts are also healthy. According to the U.S. Travel Service, 20 million people will visit the United States this year -- an eight percent increase -- and the European Travel Commission has predicted that this will be the biggest year in history for American travel to Europe. One reason for this two-way surge in tourism is the growth in bargain air fares.

### 2. POLICY

The history of U.S. international aviation policy has not been entirely peaceful, either internally or in our relationships with other countries. Generally, however, we have consistently favored a liberal rather than a rigid legal framework, preferred private enterprise to government subsidies, and relied on competitive forces -- not capacity regulation -- to determine market share.

In negotiating the bilateral agreement with the British last year -- the agreement that has become known as "Bermuda Two" -- our objective was to achieve an understanding that would maintain a competitive system. The British wanted to move toward the more government-controlled agreements.

The United States position then, as today, is to establish and maintain a policy that treats travelers fairly and our trade partners honorably.

We do not seek competitive advantage. What we want 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, in our judgment, is best determined by passenger choice.

There are some who contend that Bermuda Two was not a good agreement -- that it did not represent a "victory" for the United States. Let me say that we went to the negotiating table to write a treaty, not dictate one; to arrive at an agreement, not fight the Battle of Britain. The deliberations were long and arduous -- we never expected less -- and in the end we reached what I consider to be an acceptable compromise, fair to all concerned.

Bermuda Two is more than an exchange of route and landing rights. It expands a traditional air services compact agreement setting the rules under which the airlines of the two nations will compete in providing international air services.

The key word is "compete." One thing we have learned from the long debate over domestic airline regulatory reform is that capacity problems are best solved by competition, not regulation.

When airline managements are allowed to price their product according to competitive market forces, some interesting things happen:

- Fares come down. . .
- Traffic increases. . .
- Load factors go up. . .
- And profits improve.

The results can be seen even in the difficult North Atlantic market where U.S. carriers went from a negative 1.1 percent return in 1970 to a positive 12.8 percent return on investment in 1977. Or consider what has happened in the U.S. domestic market since the widespread adoption of discount fares. I invite you to compare those fares with the cost of scheduled air transportation in Europe, where capacity limitations are in effect. In a relatively free market, demand will set capacity.

### 3. BERMUDA II

Bermuda Two also broke new ground by including charter services in the final basic agreement. Because we had different termination dates the charter package was signed in late April. The agreement establishes that: (1) scheduled and charter air transportation are both important to the consumer's interest and (2) both make for a healthy and competitive international air transport system. The agreement recognizes the legal status of charter operations and extends to them many of the protections accorded scheduled services. The charter carriers were the ones who first developed bargain fares. They should not be shut out of the market they helped create. One thing we must remember in our zeal for free market forces is that we can't have competition without competitors.

### 4. BEYOND BERMUDA II

So, where do we stand now in the development and application of U.S. international air policy?

First, with respect to the policy itself, our position has been coordinated throughout the Executive Branch and with the Civil Aeronautics Board. The question of who in the Executive Branch will take the central role and serve as the focal point for the coordination of international aviation policy issues is not yet resolved, but the policy provisions under which U.S. negotiators will proceed have been developed and made public. We expect many groups to comment on them.

Generally, we feel that bilateral aviation agreements should serve the interests of both parties; that other countries, like ours, have an economic interest in the welfare of their airlines; and that such interests are better served by policies of market expansion than by policies of restriction.

Therefore, in carrying out international negotiations, we are striving for a competitive system that serves six objectives:

- (1) Encourage innovative pricing and fare flexibility to meet the needs of different consumers.
- (2) Liberalize charter rules.
- (3) Reduce or remove capacity restrictions.
- (4) Eliminate discriminatory practices.
- (5) Permit multiple airline designation in international air markets for U.S. and other airlines.
- (6) Encourage greater access to international markets by permitting more non-stop service points and improve the integration of domestic and international airline services.

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

Second, we are pleased with our success to date in actual treaty negotiations with a number of nations.

Before Bermuda Two was concluded, we had embarked on a six-months long negotiation of the bilateral agreement between the United States and the Netherlands. The agreement calls for an expansion of competitive service opportunities between our two countries. Frankly, in defining a new model agreement, we look to our pact with the Netherlands -- not Britain -- to set a new pattern for bilaterals with other U.S. aviation partners.

One feature of that agreement is the deletion of the so-called "capacity clause." Since 1976, bilateral negotiators have tried to reach a fair and reasonable interpretation of what constitutes "secondary justification traffic" under the old Bermuda One capacity principles. The proper limitations on such traffic simply can't be determined, except in retrospect, and it is a nuisance provision we are well rid of.

In other respects our agreement with the Netherlands reflects primary U.S. objectives. Both countries agree 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.

## 5. BILATERAL AGREEMENTS

In other negotiations, we have completed a new civil agreement with Romania, we are engaged in talks with Poland and France, and we will begin discussions later this month with West Germany. Our earlier talks with Japan have been recessed until Fall.

### INTERNATIONAL MARINE NEGOTIATIONS

#### 1. U.S. POLICY

Let me shift now to another topic and talk for just a few minutes on actions we have taken, and are taking, to reduce the risk of oil tanker accidents.

Tanker safety has been a matter of growing public concern ever since the grounding of the ARGO MERCHANT off our New England coast and a rash of other mishaps in the winter of 1976-77. This public concern increased again with the destruction of the Amoco Cadiz off the French coast, resulting in the worst oil spill in history.

Shortly after taking office, President Carter established a task force to develop recommendations aimed at greater tanker safety. In the succeeding months, members of my staff, Coast Guard officers and officials from other elements of the Department of Transportation traveled to various parts of the world to develop standards and get negotiations underway.

The response was very gratifying. No nation with access to the sea is immune to the risks of oil pollution; no country wants a tanker disaster off its shores. Tanker safety is a national concern but an international problem. And the international community is now meeting the challenge.

#### 2. IMCO CONFERENCE

Last year in May I went to London to address the Intergovernmental Maritime Consultative Organization (IMCO) on the U.S. initiatives and to urge prompt action in dealing with the oil tanker problem on a global basis.

We asked for and got early international action because tanker safety has become an issue that cannot tolerate indecision or delay. Recognizing this, the maritime nations scheduled a February 1978 conference on oil tanker construction and equipment standards, and agreed to hold a conference on crew standards -- originally set for the fall of 1978 -- in June. That Conference will begin later this month.

The February Conference, in my judgment, was successful. The participating delegates adopted the following standards:

- (1) New crude carriers will be constructed with segregated ballast tanks, a crude oil washing system and an inert gas system. The segregated ballast tanks were favored over simple double bottoms because they avoid the risk of explosive gases forming between the hulls. Crude oil washing reduces cargo loss during off-loading and oil discharge during tank cleaning and protects the environment from discharge.

- (2) Existing crude carriers will be required to meet clean ballast tank and inert gas system standards according to scheduled dates for the various tonnage categories.
- (3) Existing product carriers of 40,000 deadweight tons and above will have to meet the same standards set for crude carriers.
- (4) All tankers will be required to meet improved steering standards and have back-up radar equipment.

At the close of the Conference, governments were in agreement to implement the standards as quickly as possible. The United States is taking that course and we urge other nations to follow suit. The Coast Guard already has announced plans to implement the standards. Some will be effective by June 1979, with the other standards being phased in as soon as possible with all in effect by June 1983.

Additionally, the Conference modified two prior international conventions to authorize unscheduled inspections of all ships, require annual equipment surveys for tankers 10 years old or older, and to limit safety construction certificates to five years. The obligation to maintain ships in a satisfactory condition was stressed in no uncertain terms at the Conference.

I consider the February Conference a success because the conclusions reached there mark the transition from international negotiations to national actions -- a positive step toward the control of oil spills. This constitutes a significant foreign policy achievement by this Administration -- because in the long term the agreements reached in London will have far-reaching benefits for the world marine environment.

We are now looking forward to similarly productive results from the Conference on the training and certification of seafarers coming up this month. Again, we are taking the lead and, through the excellent technical people of the Coast Guard, urging speedy action by the international maritime community in the adoption and implementation of new crew standards.

### 3. ACTION AGAINST OIL SPILLS

We have also taken action at home to set up a national fund to compensate the victims of oil spills. The House passed a bill last September and we have asked the Senate to enact a similar measure which would make companies liable for damages. Under our proposal, a fund would be established to cover clean-up costs when the pollution source cannot be found or negligence proven.

We believe that the combination of (1) tougher tanker standards, (2) more Coast Guard inspections, and (3) an oil spill liability law will effectively reduce the danger of oil spills and minimize the damage should they occur. We further believe this is a responsibility every oil exporting or importing nation should accept and exercise as an international obligation.

### 4. DEEPWATER PORTS AND OFFICE OF MARITIME AFFAIRS

I might add that we are proceeding with the development of deepwater ports, to further reduce the danger of polluting our harbors and shorelines. The first of the U.S. deepwater ports is being established off Louisiana and we are considering other applications.

In fact, because of the growing importance of marine transportation, I announced last month the creation of a new Office of Maritime Affairs in the Office of the Secretary to deal with policy issues related to water transportation. This will begin to pull together the many maritime transportation matters we are addressing in the Department.

CONCLUSION

As I said earlier, I am pleased indeed to have had this opportunity to meet with you. Our transportation interests, and those of most nations today, do not end at national borders.

With international commerce increasing, under President Carter's free trade policies, and with air transportation growing more easily accessible to more and more of the world's people, I'm sure the U.S. relationships with our trade partners will become stronger and increasingly effective.

I look forward to seeing you again.

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