

U.S. Department of Transportation
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Aviation and Regional Economic Integration

Good morning.

I would like to extend my appreciation to CAAC, CAMIC [CAM-IC], Administrator Li [LEE], Deputy Administrator Zhou (JOE) , and Deputy Administrator Wang [WONG] for inviting me to speak as part of this extraordinary program you have put together. I am pleased to join you to discuss U.S. efforts that support aviation as a driver of regional integration in North America. I would also like to outline for you today how these same efforts advance our transportation relationships with foreign partners that are further abroad, including China.

All of us are well aware that aviation plays a pivotal role in facilitating both regional and global travel and commerce. A robust aviation sector is vital to providing countries with access to regional economies, but also to promoting economic development within its own borders. At no time has this been truer than in today's world of just-in-time supply chains, increased trade in high-value goods, and unprecedented growth in international tourism. Together, these trends place ever-greater importance on the ability to move people and goods across regions and around the world as quickly and efficiently as possible.

Consider these statistics...International tourist arrivals reached 1.13 billion for the first time in history in 2014, with Asia and the Americas projected to see the biggest growth in tourism arrivals in 2015. Meanwhile, global air cargo traffic is

projected to grow by over 5 percent annually for the next 20 years¹. This translates into a greater than 100 percent increase in capacity in the global air cargo market by 2033.

Aviation directly supports the economic development these industries afford. It is estimated that, in the United States, civil aviation accounts for more than 1.3 trillion dollars in economic activity and supports 10 million jobs. In the Asia-Pacific region, home to some of the fastest growing aviation markets in the world, aviation supports 6.1 million jobs with an estimated contribution to GDP of 258 billion dollars.²

The global economy has come to depend on the connectivity and speed that only air transportation can provide. It is therefore critical that we have policies in place that reflect these 21st century realities. In order to build and implement these policies we should work together toward compatible legal regimes and regulatory approaches so that all stakeholders have the opportunity to benefit. In our experience, we have found that one of the best ways to pursue these objectives is to prioritize regional programs.

Regional Initiatives in North America

In North America, we have several initiatives in place that have helped to foster greater integration of national transportation networks and, in turn, our economies. These initiatives span all modes of transportation and address issues from economic regulation to safety standards and security requirements.

One of the milestones President Obama, Canadian Prime Minister Harper, and Mexico's President Nieto agreed upon during the 2014 North American Leaders Summit was to coordinate on freight planning in order to improve connectivity of our respective networks. This work includes exchanging methodologies, best practices, and approaches to freight planning, as well as sharing research and data.

¹ Boeing Air Cargo Forecast, 2014.

² IATA Annual Report 2014.

More recently, Secretary Foxx and Canadian Transportation Minister Raitt made a historic announcement of coordinated rules focused on the safe transportation of flammable liquids by rail.

We are also working with Mexico under the High Level Economic Dialogue on mutual recognition of vehicle inspection standards and updating our agreement on Commercial Drivers Licenses.

With respect to aviation, specifically, we have liberalized air transport relations with most of the largest economies, including Canada, the Central American countries, and many of the biggest Caribbean aviation markets. Most recently, we reached a landmark agreement with Mexico that we hope will transform what has been a severely restricted marketplace into one that supports greater ties in trade, tourism and economic development. Together, our Agreements with our North American partners have contributed to a more integrated and efficient regional economy...not to mention significant growth in the intra-North America aviation market itself. The U.S.-Canada market, for example, remains one of the largest international aviation markets in the world.

On the business aviation side, we have in place with Canada and Mexico a unique understanding on fractional ownership operations. This understanding has allowed the business aviation sector to operate more seamlessly across the region and greatly increases regulatory certainty and transparency.

But having these liberal economic policies in place is only one pillar supporting the regional aviation system.

In order to facilitate the smooth flow of passengers across the continent, we also have programs in place that minimize the impact of the international borders that divide it. These include security pre-clearance programs, for example, that enable travelers from certain countries in the region to travel directly to airports in the United States that do not regularly process international arrivals. In the case of Canada, in particular, the ability of travelers to have direct access to secondary and tertiary markets is critical to ensuring that our security requirements do not hinder our economic ties with our largest trading partner.

We have similar initiatives focused on air traffic management and safety regulations.

The North American Aviation Trilateral (NAAT) process dates back to 1995. Under the auspices of the NAAT, various working groups – consisting of representatives from the U.S. FAA, Transport Canada Civil Aviation, and Mexico’s DGAC - have explored the harmonization of standards, procedures and regulations in areas ranging from NAFTA Specialty Air Services to Accident and Incident Reporting Systems and Air Traffic Management Practices.

As a result of the NAAT process, there exists a spirit of cooperation and trust among the NAFTA partners. It has created a free-flowing exchange of ideas on safety issues that did not exist previously. We therefore believe the NAAT has served us well in increasing aviation safety in Canada, Mexico and the United States.

By facilitating the regional integration of transportation networks within North America, we support the development of more robust and efficient long-haul transportation networks to and from the continent. For consumers, this means carriers from across North America compete against one another in providing more transportation options at competitive prices. For carriers, it means more sources of traffic and more flexibility in routing passengers and cargo within, to and from the region. For economies, it means more trade, more tourism, and economic development.

The U.S.-China Aviation Partnership

The U.S.-China aviation market is a perfect demonstration of this concept. Since the United States and China first signed a bilateral air transport agreement in the 1980s, the market for travel and trade between our countries has grown significantly. It is interesting to note, however, that the fastest growth to date occurred during the late 1990’s and the past five years, from 2010 to 2015. These years correspond to particularly active periods of aviation liberalization within North America and between North America and other large Northeast Asian markets, respectively. The effects of regional liberalization on our bilateral U.S.-

China market are abundantly clear. While this is a net positive, it is also a reminder that U.S.-China aviation relations must keep pace with ongoing liberalization elsewhere in our respective regions. Otherwise, we risk further increasing the amount of traffic in our market that is diverted to third countries – a trend that occurs in our market at fairly high levels and continues to increase year-on-year.

This issue aside, China is successfully working to facilitate increased integration of its own regional aviation system. China's successful 72-hour visa-free transit initiative is just one example of how China is working to increase its role in promoting itself as a competitive regional transit market. Continued investments in aviation infrastructure will further increase China's competitiveness in this role. Such investments will be critical to meeting demand in the fast-growing trans-Pacific markets from China, the United States market, in particular.

Over the past two years alone, we have seen the U.S.-China passenger market grow at an exponential rate. In concert with this growth, we have seen Chinese combination carriers overtake U.S. carriers in the market. According to current OAG data, Chinese airlines will operate 9.4 percent more flights and 14.5 percent more seats than US peers during the peak Summer 2015 traffic season.

The air cargo market between China and North America continues to perform strongly as well, with an estimated annual growth rate of 10 percent. These services support and, in turn, reflect the increased economic ties that have developed between our two countries over the past decade.

Nevertheless, in many respects, the U.S.-China aviation market remains quite small when viewed relative to the size of U.S. aviation relationships with our other partners. For instance, China is now the U.S.' second-largest trading partner and yet it represents only the tenth-largest aviation market for the United States in terms of number of passengers³. To put this in perspective, the U.S.' total trade with China is more than three times greater than our total trade with three of our five largest international aviation partners.

³ OAG Data, Full-year Feb 2014-Feb 2015

Looking forward, we see a larger more dynamic aviation market between our two countries...one that can more adequately support the continued bolstering of our economic ties by stimulating the flow of goods and services and by providing consumers with more service options. Liberalization delivers big benefits for all stakeholders.

But in conjunction with further liberalization, we also must continue to explore ways in which to better meet the challenges of ever more flights, passengers, and cargo in the market. Without attention to issues such as infrastructure development and technology investment, further liberalization of the market will have decreasing marginal benefits. As the world's two largest domestic aviation markets, our ability to meet these challenges will have significant implications for the global aviation system as a whole.

I believe the U.S. aviation relationship with China is well-equipped to meet these challenges. In addition to my High-Level Dialogue with Deputy Administrator Wang, we have the hugely successful U.S.-China Aviation Cooperation Program and a host of bilateral information exchanges involving multiple agencies from our respective governments.

These activities are comprehensive in looking at our respective aviation systems. They are by no means limited to our commercial aviation ties. At DOT, for instance, we continue to work with our counterparts at CAAC on general and business aviation issues through the Asia-Pacific Economic Cooperation – APEC. We remain interested in pursuing further work with China, specifically, on this policy area through bilateral cooperation.

The APEC Business Aviation Initiative

Business and general aviation are growing at a rapid rate globally, but especially within the Asia-Pacific region and China specifically.

According to a number of forecasts, the Asia-Pacific market for business jet sales will be on par with the European market by the year 2030, with a fleet totaling

approximately 2,000 aircraft⁴. It is only a matter of time until business aviation operators will routinely operate in and out of all the major cities in the APEC region.

By offering unparalleled flexibility on when and where to fly, business aviation has a unique capability to open access to remote regions that are not able to sustain commercial air service. It has the potential to yield benefits not just for users and service providers, but also allows the development of manufacturing industries at locations that might not be otherwise accessible. Business aviation offers consumers the ability to more efficiently develop and conduct business in these areas. For governments, this translates into economic development and job growth.

Given these benefits, one can see why we, as regulators, must be careful not to unduly constrain the flexibility that makes business aviation a driver of economic growth. For this sector of the industry to reach and maintain its market potential, it is essential that it not be subject to the international regulatory regime and market access constraints that apply to commercial operations. The flexibility to “fly anywhere anytime” is the cornerstone for this sector’s further development.

Many APEC economies are beginning to recognize the great potential for business aviation in their economies and are already working hard on this front to begin addressing issues related to infrastructure and regulatory requirements to support the growth of this industry.

In August of last year, APEC’s Transportation Working Group endorsed a concept for a second phase of work on business and general aviation.

This work, which will be funded by the United States, will take a closer look at Economy-specific constraints to the operation and further development of business aviation.

It complements ongoing work in the China Aviation Cooperation Program.

⁴ Bombardier Global Sales Forecast, 2015.

In the end, it will allow operators in the region to have a standardized source of information for operating requirements across the various APEC Economies.

It will also allow us, as regulators, to identify future areas for cooperation in addressing both regulatory and infrastructural bottlenecks as they affect business and general aviation operations.

We at DOT are very excited about this next phase of work and hope to be able to announce its official commencement, in cooperation with USTDA, at this year's APEC Ministerial in the Philippines in October.

As always, China has been a critical partner of the United States in undertaking this work program. We look forward to continuing our cooperation in this area as we work to foster a more seamless international aviation system across the region and around the world.

Closing

In closing, I would like to underscore the great opportunities that I believe lie before us with respect to aviation and its role in promoting a more connected, a more efficient, and a more prosperous global economy.

With effective international cooperation at the regional level, the global aviation industry will be able to meet and exceed both our expectations and the challenges that come with them.

That is why I believe events like this one are so important. I look forward to hearing from the many distinguished speakers that are present at the Forum.

Thank you.