Gerchenck – maybe ignorance & away

but Chinese don't what we have to offer → so it won't rec. go away

Tarullo ≠ know.
Think if come back in 6 wks, it'll still be there

Negots started b/c of something Fed Ex did for us

Bruce - if this = in our interest
+ 6 weeks means 75%
Wally this or better
if 50% likely we'll lose
this + no reas up
they'll do it better

Fred Smith access - thru Macs Burgers, etc

→ pure economics
→ ought to hand out

PHOTOCOPY
PRE...VATION

Fed Ex wants to
use freqs 4-5/wk.
Ch = Dagny no.

Dan wants to walk
out + Dag we went
out to a nice
secret lake.

Fed ex says pard for
auto-> home & rgt to
books; but bidder agmt
specifies a diversion to

Anne - Church
camera =
we're carrying too
much

so we did lose
no arts.

Dan = secretary re
Fred Smith
& as concerned
w/ Lewis

(703) 534 0871 / anchuk
366-8834

Beijing

- story
- Levin just got off plane w/ certchuk
- Levin work visa to accept wheels a fresh row b/c lets Now start screen to Beij
- cerberus bw Apr → ch which please AA + Delta

Brief Transportation - Aviation - China

Beijing, NW

Think all we need to do = ask

Round up w/ FedEx

Fed Ex and will drop them off - go direct

DOT Thinks can get direct for Lufty

3rd Wk Dec

Think it can work

We req'd talks w/ China for 3rd wk Dec. Optimistic Ch will let us proceed

w/ those talks, [illegible]

We'll do our best.

US - China
avian
negs

Dzn -

- more diff then some pple thought

- negots = stalled

- Ch ≠ want to give much

- get started again b/c Fed Ex said will delay Jap req if did get ahead for 4 → 5 747s mDIIs

but 2 = min for Fed Ex to do jobs

so - DoT guys staff - he says - Dzn's staff went to go ahead + do deal b/c Q re if have these flts, do less go ahead

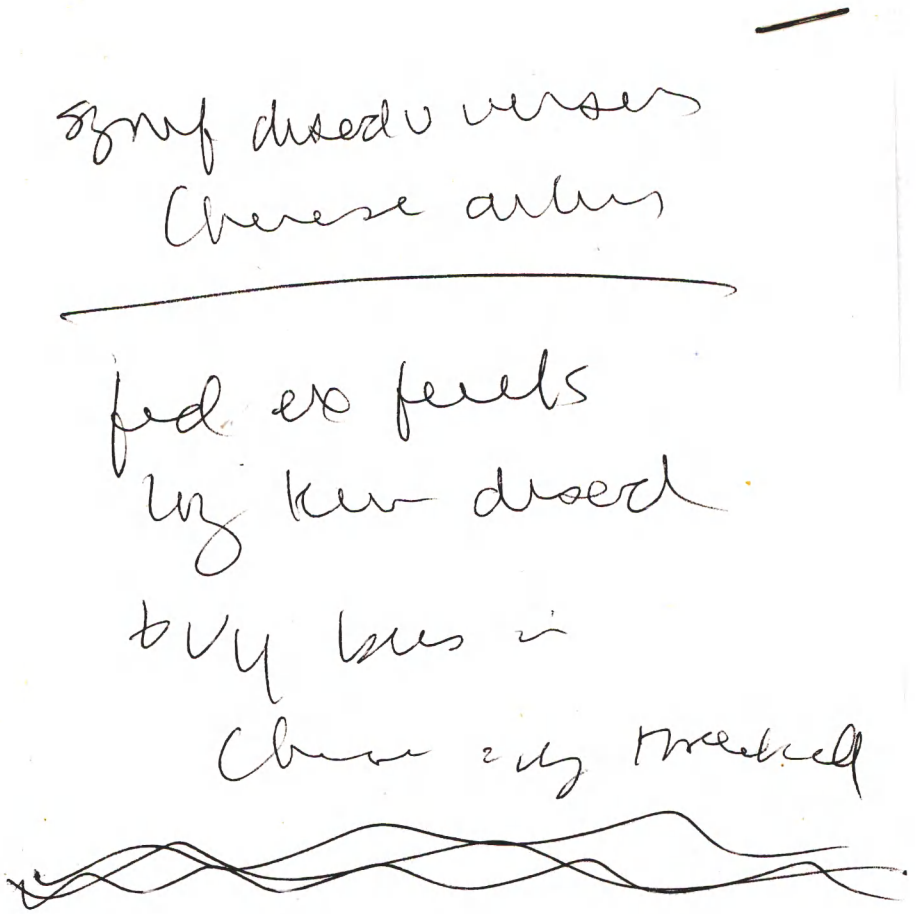
But Fed Ex = days we got started in deadlock b/c we agreed to give up the Jap mkt →

but we ≠ give g/thy up

→ go direct back then to NW

- fed ex cales Jap servic = $ B/yr

- concerned re dynamic cost down which is if not 5 flts, mfg suffers



—

⇒ not trivial
threat of backlash

solve —
DLO close chose =
backlash

---

chose & getting
better deal = low
but
not
useful

---

need Dena, BO, Dan,
me

—

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY

OFFICE OF THE ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS

Number of Pages including this Page: 4

Date: 1/11/96

TO: Jennifer O'Connor
White House

6-2464

file
DOT
Aviation
Agreements

FROM: Mark L. Gerchick
Department of Transportation
366-8834

(202) 366-4551
FAX: (202) 493-2005

FAX MESSAGE:

U.S. Department of Transportation
Office of the Secretary of Transportation

Assistant Secretary

400 Seventh St., S.W.
Washington, D.C. 20590

January 11, 1996

MEMORANDUM TO: Steven J. Akey
Assistant to the Secretary for Public Affairs

FROM: Mark L. Gerchick
Acting Assistant Secretary for Aviation and International Affairs

SUBJECT: Aviation Daily Article

I thought you might be interested in the attached year-end Aviation Daily article which provides a fairly comprehensive overview of the Administration's significant accomplishments in international aviation over the past year. The piece might also provide a concise and informative background piece for national media and interested Hill officials, as well as those who follow international aviation matters at the White House.

Attachment

cc: Steve Palmer
Michael Deich
Bruce Lindsey
Jennifer O'Connor

AVIATION DAILY Page 20 January 4, 1996

U.S. Shifts Air Accord Efforts To Asia After Big Year In Europe

by Edward McKenna

The U.S. will be looking in 1996 to build on its 1995 gains in Europe and improve its position in Asia after a year of considerable achievement.

By any measure, 1995 was a very productive year for U.S. negotiators, tallying 20 new aviation accords, more than double the total of any of the last five years (see table on Page 21). Beginning the year with Canada and ending with China, the U.S. compiled an impressive list of new pacts, including nine European open skies agreements. Offsetting these successes, to some extent, was the failure to gain a new agreement with the U.K. and the still unsettled situation in Japan.

Entering 1996, the U.S. has a less ambitious but no less important agenda than in 1995. Although there is no European open skies initiative, U.S. negotiators still begin the year with two important goals in place — agreements with Germany and Japan. Also, there is likely to be a sea change in U.S. strategy, focusing more on Asia than Europe and on incremental rather than open skies deals.

Looking to fulfill these goals, DOT begins the year in a much stronger position because of last year's accomplishments. "The number of [new] truly liberal bilaterals...has to alter the environment in which other talks take place," said Jeffrey Shane, former assistant secretary for policy and international affairs in the Bush administration and currently with Washington law firm Wilmer, Cutler & Pickering.

The department sought last year to establish a foundation for future negotiations through its new international aviation policy, officially issued in April, as well as the new agreements. "We hope we were able... to get a longer view of U.S. interests, not just this month, next season or next year, but really moving into the next century," said Mark Gerchick, DOT acting assistant secretary for aviation and international affairs. Along the same lines, the department worked "to strengthen the economic analysis that goes into international aviation decisionmaking," he said, adding that "overall, we had some real successes in...rationalizing the process and... expanding [or] making [it] more rigorous."

Continuing its efforts to liberalize relations with Europe, the U.S. will press this year for an open skies agreement with Germany. "The nine-country initiative was always viewed as a stepping stone, not an end in itself," Gerchick said. However, the initiative seemed to get sidetracked during the drawn-out and eventually unsuccessful talks with the U.K. The so-called minideal struck last June, which produced a Chicago-Heathrow service for United, sparked an industry feud and political firestorm as various constituencies argued their rights to Heathrow slots.

Despite continued efforts in several rounds of talks, the two sides failed to reach an agreement. At yearend, frustrated U.S. lawmakers still were protesting the failed talks. Sen. John McCain (R-Ariz.) threatened to hold hearings and Sen. Kay Bailey Hutchison (R-Texas) put a hold on the nomination of Charles Hunnicutt to be assistant secretary for aviation and international affairs — a position that probably will remain unfilled during the term of the Clinton administration.

1996 Outlook

At an impasse with U.K., U.S. will press for Germany deal

It now appears that attempts to gain a new deal with the British are all but dead. DOT Secretary Federico Peña has agreed to continue staff-level talks with the U.K., but "there is no particular basis for any hope right now" for a breakthrough, a U.S. official conceded, adding, "We see no evidence at the moment that the British are going to afford us the flexibility that we need, especially with respect to Heathrow access."

Instead, the U.S. has turned its attention to Germany. The two countries had targeted 1997 for an open skies agreement, but that timetable apparently has been sped up. "We're having very productive discussions now with Germany," said a DOT official. In fact, officials of the two countries are scheduled to continue unofficial talks this month aimed at clearing away potential European Union issues.

Many observers believe an open skies agreement with Germany in combination with the other 10 European open skies countries — the nine new ones, plus The Netherlands — would put a great deal of pressure on the U.K. to open up its market. In this effort, DOT has a key political ally in Sen. Larry Pressler (R-S.D.), chairman of the Senate Commerce Committee. Pressler met with German Transport Minister Matthias Wissmann during 1995 and has boosted a new agreement repeatedly in speeches on the Senate floor.

The U.S. may take other steps to liberalize further its relations with Europe. In 1995, the U.S. hammered out an agreement with Ukraine as well as a phased open skies accord with the Czech Republic — the (Continued)

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AVIATION DAILY January 4, 1996

Air Agreements (Cont.)

first such pact with a former Eastern Bloc country. It offered a similar agreement to Poland and may be able to work it out this year. In addition, a DOT ruling on antitrust immunity for Delta and code-share partners Swissair, Sabena and Austrian is likely early this year. Also expected during the year is an application for similar immunity from United for its alliance with Lufthansa, especially if the U.S. and Germany agree on open skies.

Another antitrust immunity application submitted in 1995 came from American, for its alliance with Canadian Airlines International. Although the request may not be acted on until 1997, when the U.S.-Canada market becomes completely open, it underscores the changes in the aviation relationship between the two countries. Signed in February, the U.S.-Canada bilateral has spurred a 40% increase in scheduled jet aircraft frequencies and a 15% increase in passenger traffic. Those totals will grow again early this year when carriers designated for new Montreal, Vancouver and Toronto service begin operations.

South of the border, the U.S. achieved only limited success in improving its relationship with Latin American countries. It signed new agreements with Brazil and Peru, expanding frequency opportunities for U.S. carriers. The market remains largely dominated by United and American, and no apparent plans are in the wings to change that situation.

In contrast, DOT is determined to alter the rapport between the U.S. and Asian countries. At the end of 1995, the focus of U.S. policy clearly had shifted to Asia. In the final four months of the year, the U.S. reached new agreements with Hong Kong, the Philippines, Macau, India and China and began talks with Thailand. In addition, Peña and his staff made a 17-day trip to eight Asian countries in November. The trip "highlighted a series of liberalizing developments," said Gerchick, who stressed the importance of the deal with Hong Kong, which will revert to Chinese rule in 1997. "I would [also] characterize the very substantial progress with Thailand as very important symbolically...because of their previous renunciation status," he said. The U.S. and Thailand are expected to announce the terms of a new pact this month when they meet in Bangkok.

A far cry from the open skies initiative in Europe, the Asian accords represent progressive change, the kind of incremental gains the U.S. seeks in Japan. In talks with Japan, the U.S. is looking to get some service increases without limiting its additional rights beyond Japan. The two sides are engaged now in all-cargo negotiations, working on a March deadline, and will decide later whether and when to hold passenger talks.

It is these negotiations that pose the greatest challenge this year. The U.S. and Japan managed to craft an interim deal in 1995, like the U.S.-U.K. minideal, that allowed Federal Express to operate beyond-Japan service in exchange for additional rights for Japan's cargo carriers. Still, the difficulties surrounding those talks provoked angry reaction on Capitol Hill, as many lawmakers called for retaliatory actions against Japan. Reports from the current talks have not been positive thus far. As they prepare to reconvene the negotiations this month in Tokyo, the two sides remain far apart, according to a senior U.S. official. In November, the U.S. proposed open skies phased over five years, allowing for new entry, beyond rights and new third- and fourth-freedom service in the interim. Japan's plan was more restrictive, minimizing new entry and seeking full rights for its two all-cargo carriers, Nippon Cargo Airlines and Japan Airlines.

Bilateral Air Agreements Signed In 1995

Month	Entity	Remarks
February	Canada	Phased Open Skies
April	Ukraine	—
May	Switzerland	Open Skies
May	Sweden	Open Skies
May	Peru	—
May	Norway	Open Skies
May	Luxembourg	Open Skies
May	Iceland	Open Skies
May	Finland	Open Skies
May	Denmark	Open Skies
May	Belgium	Open Skies
May	Austria	Open Skies
June	U.K.	Minideal
June	Brazil	—
September	Hong Kong	—
October	Philippines	—
October	Macau	—
December	India	—
December	Czech Republic	Phased Open Skies
December	China	—

Even if the two sides manage to broach their differences by the March deadline, many difficulties will remain when they turn to passenger issues. DOT faces a deeply divided industry as carriers with bilateral rights in Japan, such as United, fight for fifth-freedom service in the region, while others, such as American and Delta, seek additional direct service to Japan. DOT is "not prepared to buy into" any offer from Japan that proposes "a trade between thirds and fourths, on the one hand, and fifths, on the other," said Gerchick, who maintains that the department does not view the issue as an either/or situation.

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THE WHITE HOUSE

WASHINGTON

10 October 1995

MEMORANDUM TO JENNIFER O'CONNOR

FROM: HAROLD ICKES

RE: NORTHWEST AIRLINES ROUTE DETROIT-BEIJING, CHINA

On 27 September I met with Senator Levin of Michigan who is very concerned about the Northwest Airlines route between Detroit and Beijing. He said that bilateral negotiations are under way to add three flights a week. He said that everyone in the Administration seems to agree that this should be done. He pointed out, however, that Federal Express wants a route from the USA to Japan to Beijing and that Fed Ex is trying to use the Northwest Airlines route from Detroit to Beijing as leverage to get its route from the US to Japan to China.

Japan apparently has said no to Fed Ex and, it is Senator Levin's opinion, that the Fed Ex situation should be divorced from it as it is totally unrelated to the Detroit-Beijing routes for Northwest.