

**REMARKS OF KARAN BHATIA  
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FOR AVIATION AND INTERNATIONAL AFFAIRS**

**Federation of Indian Chambers of Commerce and Industry Luncheon  
New Delhi, India  
July 6, 2004**

Thank you for that kind introduction. Thanks also to His Excellency Minister Patel with whom I had the pleasure of meeting earlier today, and to FICCI for the warm welcome and for hosting this luncheon.

Let me start by conveying greetings on behalf of President Bush and from Transportation Secretary Norman Mineta. I met with Secretary Mineta at some length prior to my trip here and can assure you that he is very interested in India and in seeing the bilateral economic relationship between our two countries flourish, especially in the transportation sector.

Let me also convey my personal delight at being back in India. This is my first visit to India in eleven years. I must confess that I was shocked when I realized that I had not been back for that long. India has always been a significant part of my life – as it is a significant part of the lives of many first and second generation Indian Americans like me. From the Diwali celebrations that our family would hold in Washington, to the trips back to India to visit friends and relatives, to my father’s stories of growing up in U.P. before he emigrated to the United States, India became part of my consciousness and identity. Being back here – even for an all-too-brief visit – is nourishing and invigorating.

It is particularly invigorating to be here today given the purpose of my trip – which is to explore the possibility of closer cooperation between the United States and India in the area of transportation. And it is on this subject that I would like to speak with you for a few minutes. Specifically, I would like to discuss why we believe stronger transportation ties between our two countries are critical to a growing U.S.-India economic relationship, and to talk about one step that we believe would help facilitate such growth – concluding an “Open Skies” agreement between our two countries.

**Transportation: Driving Indo-U.S. Economic Growth**

Let me start by making an unequivocal statement: the United States places great value on its close relationship with India and looks forward to growing and deepening that relationship. I can tell you from my personal experience in President Bush’s Administration – first at the Department of Commerce from 2001-03 and now, for the past year, at the Department of Transportation – that there are few bilateral relationships that have attracted more time, attention and creativity at high levels of the U.S. Government than the U.S-Indian relationship. Aided immensely by very talented

ambassadors, I believe that the revitalization of the Indo-U.S. relationship has been a signal foreign policy success for both countries over the past several years.

The revitalization of that relationship can be marked on many different fronts. From growing military-military contacts ... to closer ties in the area of strategic trade ... to cooperation in the global war against terrorism, the maturation of and improvement in Indo-U.S. relations has been dramatic.

But for all these successes, many have been waiting to see this closer relationship carry over into the economic arena. After many years of frustration, it appears that here too there is finally some progress. Trade between the U.S. and India hit \$18 billion in 2003, increasing by 13.5 percent over the year before, and increased at a slightly higher rate during the first four months of 2004.

To be sure, there continues to be room for progress. India still ranks behind two dozen other nations on the list of U.S. trading partners, including many countries with economies far smaller than India's. We believe that our trade with India should be multiples – many multiples – of current levels. And we are heartened that Indian officials share that view.

The conviction of both sides that the economic relationship between our countries should grow is founded on the fact that we have the resources, the shared values, and the common interests that are needed to help transform our existing trade relationship into one between major trading partners. We are the largest democracies in the world. We both have large populations and growing economies. And we both have a large and growing middle class to support a significant expansion of our trade relationship.

There is also widespread consensus that we now need to make more effective use of these common resources to create new opportunities for business activity, and therefore new opportunities for our citizens and economies. To that end, it is encouraging that India and the United States are now working together to create a more attractive and supportive business climate and to address issues that have hindered the growth of trade and investment between our countries.

Transportation, I believe, is another such area. Study after study has demonstrated that effective transportation links are critical to facilitating international trade and investment, much as they are critical as an engine of domestic economic growth.

It is to that end that Secretary Mineta asked that I visit Delhi to explore the possibility of furthering the U.S.-Indian transportation relationship, both in terms of international transportation links between the United States and India and, where helpful and possible, in developing the infrastructure in India necessary to facilitate India-U.S. trade.

On the latter subject, the Department of Transportation looks forward to entering into a constructive dialogue with its GOI counterparts. A number of areas ripe for potential collaboration and information sharing jump out, including:

- Development, planning and financing of road and highway infrastructure;
- Modernization of maritime and aviation systems and facilities;
- Increasing the efficiency of existing transportation systems through the use of new technologies;
- Improving intermodal transport facilities;
- Tackling the global scourge – that affects both the United States and India – of road traffic fatalities; and
- Improving the security of all modes of transportation.

I enjoyed speaking today with Minister Patel about India's and the United States' ongoing activities, and the possibilities for collaboration, in the area of aviation. I look forward to meeting with Minister Baalu – Minister of Road Transport & Highways, and Shipping – tomorrow, to continue exploring these issues in the areas of surface and maritime transportation. I am optimistic that these and other topics can be productively engaged under a new and vigorous U.S.-Indian dialogue on transportation.

### **The Compelling Case for Indo-U.S. Open Skies**

Let me now turn now to the issue of developing stronger direct transportation links between our two countries – and in particular to the need for improvement in commercial air services.

I recently saw an interesting correlation between international direct air services and bilateral economic trade. The basic point was that the health of an overall economic relationship stands in direct relation to the level of air services between the two countries. Looking at today's commercial air services between our two countries, it is not an encouraging correlation.

There are today no nonstop, and an average of only seven onestop, direct passenger air services per day between the United States and India. That number has increased slightly in the past year, but not by much. By comparison, the United States enjoys an average of 13 daily nonstop services to Korea, will soon have as many as an average of nearly 20 nonstop and onestop services to China, and has over 51 average daily nonstop services to Japan. No U.S. airline operates its own aircraft to any point in India other than Mumbai – not even to New Delhi – the capital of India and one of the largest cities in the world.

To speak plainly: the level of air services connections between our two countries simply does not befit the economic, political, and societal relationships that exist between the United States and India and that continue to grow.

Indeed, the level of air services does not even befit the market for air transportation between the two countries, which by some estimates was approximately 1.5 million passengers last year. Aviation analysts from both the United States and India agree that the great majority of air travelers in the market are carried on connecting services of third-country airlines rather than on U.S. or Indian airlines.

Why is air service between the United States and India so underdeveloped?

Notwithstanding the substantial geographic distances and the currently weakened state of the aviation industry, it is not – I would submit – from a lack of interest. I can tell you that U.S. carriers are very interested in India, and are increasingly eyeing it as a potential destination, and for that matter, I believe and hope that Indian carriers are interested in expanding services to the United States. But I believe that the carriers from both sides are constrained by the outdated bilateral agreement that exists between our two countries governing air services.

As you may know, governments regulate international air service primarily through individual bilateral agreements. Governments tend to revisit these agreements from time to time to encourage and to accommodate changes in the air services market.

Unfortunately, the U.S.-Indian agreement has largely been left untended. Other than a few small amendments made from time-to-time, the U.S.-Indian air services agreement has gone unchanged for nearly fifty years. Fifty years! To borrow a relevant industry analogy, the United States and India have an old biplane of an aviation agreement trying to service what should be a state-of-the-art jumbo jet of an economic relationship.

Airlines need flexibility – a lot of flexibility – to effectively provide international aviation services. They need the freedom to enter and exit markets and to adjust their schedules and their prices in response to rapidly changing market conditions. They also need the freedom to enter into joint ventures with other airlines in order to expand their services, reduce the huge costs of providing international air service, and to make the most efficient use of their resources.

Our aviation agreement with India imposes significant limitations on those freedoms. It limits the number of cities that each side can serve in the territory of the other party. It requires government approval for all pricing initiatives. It denies airlines access to traffic originating in or destined for third countries that could be used to support flights between the United States and India. The agreement also effectively precludes our airlines from entering into joint ventures with the exciting group of new Indian airlines who currently provide only domestic service.

Over the past 15 years, the United States has been actively seeking to replace old-style restrictive bilateral agreements such as the U.S.-India agreement with “Open Skies” agreements that recognize the realities of contemporary aviation. In short, under an Open Skies agreement, governments get out of the business of determining the number of competitors, where they compete, and on what terms, and afford carriers themselves the opportunities to decide what markets they should serve and what fare and service options they should provide.

We have relied on Open-Skies agreements to liberalize our international aviation relations around the world. We now have such agreements with over 60 partners. And they have produced huge benefits.

But I believe that an Open Skies agreement between the United States and India could dwarf the benefits that have been generated in many of these other relationships. Those benefits fall into three general categories.

First, it would benefit consumers of air transportation – passengers traveling between the United States and India and the importers and exporters who use air cargo service – by affording them new carriers to choose from, new routings, and new service options. We believe it would also lower prices and stimulate demand. We have found, for example, that between 1996 and 1999, prices for air transportation between the U.S. and Europe went down twice as much in those markets where we had Open Skies as in non-Open Skies markets, while traffic increased twice as fast. Or let me provide you with another, admittedly unscientific comparison that may be a bit closer to home: the cost of a walkup business class fare between Washington, D.C. and Delhi is currently in the area of \$5300 (with one-stop service, I would note) while the comparable cost to travel between Washington, D.C. and Seoul, Korea – a roughly comparable distance but a country with which we have Open Skies – is less than half that price (with nonstop service). Simply stated, Open Skies could provide companies and families seeking transportation between the United States and India more options and at a lower cost.

Second, we believe that Open Skies benefits airlines. Air carriers operating under liberalized aviation agreements have been able to grow and expand into new markets. One of the great myths about Open-Skies agreements is that they allow large airlines, including ours, to run smaller and/or government-owned airlines out of business. I know of no situation where a U.S. airline has done that. Consider the Middle East-United States aviation markets, for example. We have Open-Skies markets with six nations in the region. It is a fact that Middle East airlines, not U.S. airlines, provide the majority of service in those markets. The same situation applies in a number of U.S.-Asia markets, including the U.S.-Korea and the U.S.-Singapore markets.

While U.S. airlines do have a higher level of participation in other Open-Skies markets, their presence has not had an adverse impact on their foreign airline competitors. That is because one of the most significant benefits provided by these agreements is that they create new opportunities for service that increases the traffic pool available to airlines in the market, by creating new incentives for more efficient airline operations, and by creating new opportunities for partnerships between airlines. Air France and Delta Airlines, KLM and Northwest, Lufthansa and United are just three examples of successful partnerships made possible by the Open Skies environment in which these airlines operate.

Finally, I believe that an Open Skies agreement would benefit the broader U.S. and Indian economies. Open Skies agreements stimulate trade and commerce by creating new markets for cargo and businesses. They encourage travel and tourism. And the new services they foster create new jobs and new wealth. Just by way of example, we have estimated that a single new Boeing 777 service in the U.S.-China market will generate \$158 million in economic benefits to the communities served.

So where do we stand on adopting an Open Skies agreement between the U.S. and India? Well, I can tell you that it has been discussed between negotiating teams for the two sides, and by myself and Minister Patel. It is my sincere hope that – with strong commitments and efforts from both governments and with all your support – it could be accomplished in the near future.

### **Conclusion**

Let me conclude today by reaffirming my, Secretary Mineta's, and the United States' strong interest in broadening and deepening our transportation relationship. We have watched closely and been deeply impressed by the transformation of the Indian economy – including, I would note, the very positive developments and growth in the airline and aviation sectors in India, for which the Government of India deserves great credit. And we believe that closer transportation links between our two countries in the transportation sector will only serve to further that transformation and strengthen the Indo-U.S. partnership more broadly in years to come.

Thank you for allowing me to share these thoughts with you today. And again, thank you very much for the invitation to be with you all today.