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Report to the Chairman, Subcommittee on Aviation, Committee on Public Works and Transportation, House of Representatives

November 1994

INTERNATIONAL AVIATION

DOT Needs More Information to Address U.S. Airlines' Problems in Doing Business Abroad

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GAO

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Resources, Community, and
Economic Development Division

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November 29, 1994

The Honorable James L. Oberstar
Chairman, Subcommittee on Aviation
Committee on Public Works
and Transportation
House of Representatives

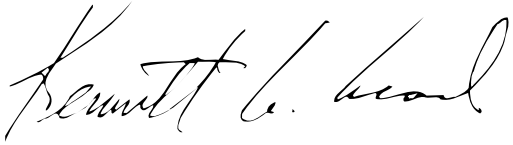
Dear Mr. Chairman:

As you requested, this report examines the (1) problems U.S. airlines experience when operating abroad and (2) efforts of the departments of State and Transportation to eliminate these problems. We are making recommendations aimed at improving the effectiveness of the U.S. government's efforts to work with foreign governments to eliminate the obstacles U.S. airlines face that reduce their ability to compete with foreign airlines.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. We will then send copies to the Secretary of Transportation; the Secretary of State; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

If you or your staff have any questions about this work, please call me at (202) 512-2834. Major contributors to the report are listed in appendix I.

Sincerely yours,



Kenneth M. Mead
Director, Transportation Issues

Executive Summary

Purpose

International traffic is increasingly important to U.S. airlines. In 1993, international operations constituted 28 percent of U.S. airlines' operations—up from 21 percent in 1980—and this traffic is expected to grow to 35 percent by 2005. Although U.S. airlines have improved their performance in international markets, they often face restrictions abroad that reduce the efficiency of their operations. Concerned about these restrictions, the Chairman, Subcommittee on Aviation, House Committee on Public Works and Transportation, asked GAO to (1) identify problems that U.S. airlines face in doing business in Europe and the Pacific Rim and (2) examine the U.S. government's actions to resolve these problems.

Background

International aviation is governed by bilateral agreements, whereby two countries negotiate the air transport services that take place between them. The United States has 72 bilateral agreements that establish traffic rights—the routes that airlines can serve between the countries and any limitations on the number of airlines or frequency of flights. Ancillary issues—such as access to adequate airport facilities, which the airlines need to exercise the traffic rights—are usually provided for in the agreements by a general provision that guarantees the airlines a fair and equal opportunity to compete. Such issues may also be addressed in specific provisions. When these ancillary issues are in dispute, they are commonly termed "doing-business problems." U.S. law requires that, to the greatest degree possible, the departments of State and Transportation (DOT) eliminate unfair competitive practices faced by U.S. airlines in international travel, "including excessive landing and user fees, unreasonable ground handling requirements, undue restrictions on operations . . . and similar restrictive practices." DOT takes the lead in formulating policies and countermeasures to resolve doing-business problems; the State Department chairs bilateral negotiations and coordinates DOT's actions with overall U.S. foreign policy.

Results in Brief

U.S. airlines serving key European and Pacific Rim airports often face obstacles that foreign airlines operating in the United States experience to a much lesser extent. These obstacles include (1) limited access to landing and take-off slots (reservations); (2) inadequate terminal facilities, such as counter space for ticketing; (3) restrictions on their ability to perform ground services, such as checking in passengers and handling baggage; and (4) restrictions and delays in processing cargo. In general, obstacles at overseas airports affect all airlines—U.S. and non-U.S. alike—except the national carrier, creating a home-country advantage for that carrier. These

obstacles hurt U.S. airlines particularly because they prevent these airlines, which are often much more efficient than foreign airlines, from fully exercising this competitive advantage.

The State Department and DOT recognize that U.S. airlines face many doing-business problems overseas, and these agencies have had some success in eliminating them. For example, the two agencies facilitated an accommodation among the airlines at Tokyo's Narita Airport so that U.S. airlines obtained slots at satisfactory times. However, other problems persist. In attempting to resolve these problems, the State Department and DOT (1) negotiate with foreign governments that often protect their own flag carriers from increasing U.S. competition, (2) balance the competing commercial interests of the various U.S. airlines, and (3) weigh the resolution of these problems with their attempts to obtain traffic rights for U.S. carriers. DOT's efforts are inhibited because the agency does not collect or analyze information on doing-business problems. As a result, it does not know whether certain problems are pervasive, whether they are increasing in number, or whether it is making the most effective use of its limited resources to solve these problems.

Principal Findings

Obstacles Overseas Raise U.S. Airlines' Costs and Reduce Efficiency

U.S. airlines face obstacles in doing business overseas that raise their costs, reduce their operating efficiency, and create a home-country advantage for the national carrier. While U.S. airlines were unable to provide GAO with precise measures of these impacts, they did provide specific examples of their problems. For instance, at various times, U.S. airlines have obtained only limited access to several key airports, such as London's Heathrow Airport, because they have had difficulty obtaining take-off and landing slots at times that coordinate with their domestic schedules. Insufficient or inconvenient slots reduce the value of U.S. airlines' traffic rights. Slots are not assigned automatically with traffic rights but are allocated by airport slot coordinators, often employees of a nation's flag carrier. Foreign authorities said that high demand and capacity constraints keep them from accommodating U.S. airlines' requests regarding slots. In comparison, foreign airlines reported fewer problems obtaining their preferred slots at key U.S. international airports.

At several major foreign airports, U.S. airlines' facilities are inadequate compared with the facilities assigned to the national flag carrier. At Tokyo's Narita Airport, U.S. and other foreign airlines occupy half of an old, overcrowded terminal, while Japan's national airlines use a spacious new terminal. Japanese officials have agreed to renovate the old terminal over a 10-year period and make modifications to reduce the disparity between the terminals. However, the current disparity severely impairs the other airlines' ability to attract higher-paying first- and business-class passengers, according to U.S. airline officials. Likewise, restrictions on ground operations, such as passenger check-in and baggage-handling, raise U.S. airlines' costs and reduce efficiency. Airports such as Milan's Malpensa prohibit U.S. and other airlines from conducting such ground operations for themselves. Instead, only the airport authority and/or national carrier can provide these services—a problem particularly common in Europe. In the Pacific Rim, numerous restrictions also increase the costs of processing cargo. At Seoul's Kimpo Airport, for example, U.S. airlines cannot operate trucking companies but must use Korean truckers to deliver cargo and express shipments, resulting in higher costs and delays. In contrast, Korean airlines can own trucking companies in the United States.

U.S. Efforts to Resolve Doing-Business Problems Achieve Mixed Results

DOT and the State Department have had mixed results in eliminating U.S. airlines' problems. During negotiations with Germany in 1994, for example, the United States preserved for Delta Air Lines the right to provide ground-handling services for all its flights at its Frankfurt hub. However, many other problems persist. In attempting to resolve them, DOT and the State Department face a formidable task. Foreign governments protecting their national carriers are not often disposed to resolve these issues in favor of lower-cost U.S. carriers. In addition, DOT's Office of International Aviation—responsible, in conjunction with the State Department, for negotiating bilateral accords and addressing doing-business problems—has had its staffing level cut by about half over the last 12 years. This reduction occurred as international operations increased in importance to U.S. airlines and as stronger, more aggressive U.S. carriers replaced failed or financially ailing carriers as major participants in the international marketplace.

Several U.S. airline officials complained that their problems often linger because no one official in DOT is in charge of monitoring the status of their problems or fashioning solutions to them. GAO also found that DOT did not collect and analyze information on doing-business problems, with the

exception of formal complaints filed by the airlines. Because it does not collect and analyze such information on a regular basis, DOT cannot determine the extent to which certain problems are pervasive or identify trends. Noting that DOT staff had difficulty compiling such information during GAO's review, the agency's Assistant Director for Negotiations stated that a periodic, centralized "clearinghouse," in which information on the status of airlines' problems is collected and analyzed, would provide the agency with a better overview of the problems and allow it to better develop solutions to those problems. Several other DOT officials, on the other hand, stated that resource constraints were the main reason why they could not give prompt or sustained attention to some problems.

Recommendation

To ensure that U.S. airlines' doing-business problems receive sustained attention in an era of increasing U.S. airline activity overseas and declining government resources, GAO recommends that the Secretary of Transportation collect and analyze information on the status, nature, and severity of U.S. airlines' doing-business problems overseas. With this information, DOT would be in a better position to establish priorities and strategies to address the most serious and pervasive problems.

Agency Comments

GAO discussed a draft of this report with senior DOT and State Department officials, including DOT's Acting Assistant Secretary for Aviation and International Affairs and the Department of State's Director, Office of Aviation Programs and Policy. These officials said that U.S. airlines' doing-business problems overseas are real and often persistent. They also noted that foreign laws and culture present challenges to many trade activities but that because of the historically pervasive role of governments in international aviation, U.S. airlines operating abroad receive greater assistance in resolving problems than do many other industries. In addition, they emphasized that they have resolved numerous problems for U.S. airlines and that inadequate resources prevent DOT from providing the sustained attention such problems deserve. On the basis of their comments, GAO made several revisions to this report. As requested, GAO did not obtain written comments on a draft of this report.

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Abbreviations

CRS	computer reservation system
DOT	Department of Transportation
EU	European Union
FAA	Federal Aviation Administration
GAO	General Accounting Office
RPM	revenue passenger mile
TWA	Trans World Airlines

Introduction

Over the last decade, U.S. airlines have become increasingly successful international competitors. Stronger, more efficient U.S. airlines—American, Delta, and United—joined Northwest as major participants in foreign markets in place of failed or financially ailing incumbents, such as Pan Am and Trans World Airlines (TWA). These airlines helped increase the U.S. share of passenger traffic in international markets. Because of these gains, the international marketplace has steadily become more important to U.S. airlines. Nonetheless, for a variety of reasons, U.S. airlines frequently have been unable to make a profit on their international services. Unlike the domestic market, the international market is heavily regulated, mostly governed by bilateral agreements between countries. In these agreements, countries establish traffic rights—the routes, and in some cases the number of airlines that can offer service and the frequency of flights available for each nation's airlines. When U.S. airlines encounter discrimination or unfair competitive practices in foreign countries, the Department of Transportation (DOT) has authority to take all appropriate actions to eliminate these practices, commonly referred to as "doing-business problems."

International Operations Are Increasingly Important to U.S. Airlines

International traffic is increasingly important to U.S. airlines, accounting for 28 percent of their revenue passenger miles (RPM) in 1993[1]—compared with 21 percent in 1980. This trend is expected to continue. The Federal Aviation Administration (FAA) estimates that by 2005, international traffic will account for 35 percent of U.S. airlines' traffic.

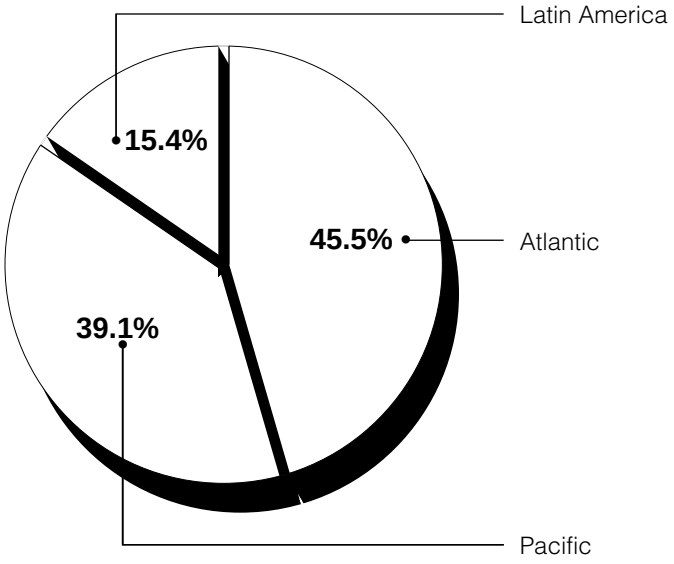
International traffic has increased in importance largely because the U.S. government adopted a market-oriented international aviation policy, and more efficient U.S. airlines have replaced financially ailing or failed carriers (Braniff, Eastern, Pan Am, and TWA) in the international marketplace. The new U.S. competitors are more productive and have lower operating costs than many foreign airlines. For example, a study by the European Union (EU) found that the overall operating costs of major European airlines were about 50 percent higher than the operating costs of major U.S. airlines in 1992. In addition, U.S. airlines introduced into international markets the innovative operating and marketing practices, such as frequent flyer programs, that they had developed to compete in the deregulated U.S. market. These innovations also helped U.S. airlines successfully compete with foreign carriers for passengers traveling to and from the United States. By 1993, the U.S. share of the trans-Atlantic market

[1]A RPM is one paying passenger transported one mile.

had increased to 47 percent from 42 percent in 1980; in the Pacific Rim market, the U.S. share had increased to 53 percent from 41 percent.[2]

Services across the Atlantic and to the Pacific Rim are particularly important to U.S. airlines. As shown in figure 1.1, these services accounted for about 85 percent of U.S. airlines' international traffic in 1993. As shown in figure 1.2, these two regions also accounted for 83 percent of U.S. airlines' international revenues. For routes between the United States and these regions, U.S. airlines are often competing against other countries' flag carrier, such as Air France (France), Alitalia (Italy), Lufthansa (Germany), Japan Air Lines (Japan), or Cathay Pacific (Hong Kong).

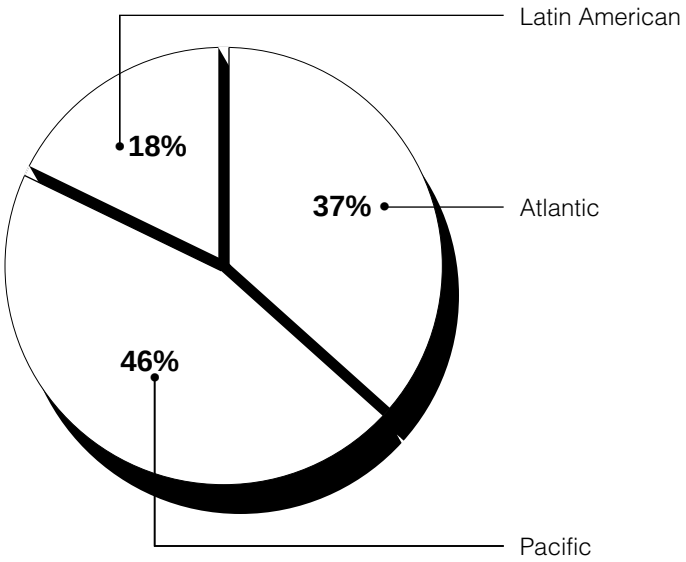
Figure 1.1: Scheduled U.S. Airlines' RPMs in International Markets by Region, 1993



Source: FAA.

[2]The Atlantic market, though consisting predominantly of service to Europe, also includes service to the Middle East and Africa. The Pacific Rim region (also referred to as the Asian-Pacific region) consists of 34 countries in Northeast Asia, Southeast Asia, South Asia, and the Southwest Pacific.

Figure 1.2: Scheduled U.S. Airlines' International Revenues by Region, 1993



Note: Total exceeds 100 percent because of rounding.

Source: DOT.

Although U.S. airlines have increased their share of international markets, they have had difficulty making a profit on these services. Over the last 5 years, U.S. airlines have collectively lost over $4.1 billion on international services (see table 1.1). A number of factors contributed to this negative performance, including the Gulf War and the global economic slowdown in the early 1990s, low fares, and increased costs incurred by some U.S. airlines (e.g., Delta) in assimilating into their system the international routes of their failed or financially ailing predecessors (e.g., Pan Am). However, as table 1.2 illustrates, some U.S. airlines have been able to make profits from their international operations. These varying results also demonstrate how U.S. airlines compete in the international marketplace not only with foreign airlines but also among themselves.

Table 1.1: Scheduled U.S. Airlines' Operating Profit or Loss From Domestic and International Services, 1989-93

Dollars in billions

Year	Domestic	International	Total
1989	$1.854	$(0.043)	$ 1.811
1990	(0.988)	(0.924)	(1.912)
1991	(0.528)	(1.257)	(1.785)
1992	(1.147)	(1.298)	(2.444)
1993	2.097	(0.662)	1.434
Total	$1.288	$(4.184)	$(2.896)

Source: Air Transport Association.

Table 1.2: Selected Scheduled U.S. Airlines' Operating Profit or Loss From International Services by Region, 1993

Dollars in millions

Airline	Atlantic	Latin America	Pacific	Total International
American Airlines	$(1.6)	$199.6	$8.3	$206.3
Continental Airlines	3.8	24.2	(17.9)	10.1
Delta Air Lines	(523.7)	(1.1)	(85.0)	(609.7)
Federal Express	(168.7)	(6.4)	(110.8)	(285.7)
Northwest Airlines	19.5	N/A	43.8	63.3
Trans World Airlines (TWA)	(185.3)	N/A	N/A	(185.3)
United Airlines	(83.8)	(35.8)	230.6	111.0
United Parcel Service	0.8	(3.1)	28.7	26.4
USAir	19.3	(4.5)	N/A	14.8
Total	**$(919.7)**	**$173.0**	**$97.9**	**$(648.9)**

Note: "N/A" denotes that a carrier does not serve that region.

Source: DOT.

Bilateral Agreements Govern International Aviation

Under the framework established by the Chicago Convention in 1944, international aviation is governed in most cases by bilateral agreements on civil air services. Two countries negotiate the air transport services between them and award their airlines the right to offer those services. The United States has 72 bilateral aviation agreements covering air services to 107 countries.[3] These agreements establish the traffic rights of the airlines offering service in international markets. In general, traffic rights determine (1) which routes airlines can serve between the countries

[3]Some countries do not have a bilateral agreement with the United States or are covered by a bilateral agreement between the United States and another country.

and to third countries; (2) what services they can provide (e.g., scheduled or charter); and (3) in some cases, how many airlines from each country can fly the routes and how frequently they can offer flights.

Problems in Doing Business Can Inhibit Airlines' Ability to Exercise Traffic Rights

Ancillary activities are those necessary to exercise traffic rights. They include, among other things, the adequacy of airlines' facilities and the policies and procedures for passenger and cargo services at international airports. When ancillary activities are in dispute, they are called "doing-business problems." Doing-business problems are obstacles that inhibit the airlines from fully exercising the traffic rights available to them under bilateral aviation agreements or that reduce the competitiveness of the airlines' services. These problems include inadequate facilities or restrictions on the ability of the airlines to provide their own ground-handling services.[4] Doing-business problems can negatively affect operating costs as well as an airline's ability to compete effectively and to serve customers.

Many problems with these ancillary activities are not specifically addressed in U.S. bilateral agreements but rather are broadly covered under provisions in the agreements guaranteeing airlines the "fair and equal opportunity to compete." However, several U.S. bilateral agreements negotiated over the last decade contain provisions that specifically address particular problems, such as restrictions on ground-handling.

DOT and the State Department Are Responsible for Addressing U.S. Airlines' Doing-Business Problems Abroad

Responsibility for negotiating bilateral agreements for the United States rests with DOT and the State Department. In addition, 49 U.S.C. section 41310 states that the Secretaries of State and Transportation shall take appropriate action to eliminate any discrimination or unfair competitive practices faced by U.S. airlines overseas. U.S. carriers can file formal complaints with DOT about such practices. DOT must approve, deny, dismiss, or set such complaint for hearing or investigation, or institute a proceeding proposing other remedial action within 60 days of receiving the complaint. DOT can extend the deadline in 30-day increments to a

[4]Ground-handling comprises a wide range of airport services needed by airlines for their passengers, cargo, and aircraft. Most ground-handling services are of three types: passenger-handling, ramp-handling, and cargo-handling. Passenger-handling includes checking in and boarding passengers, providing information to passengers at arrival desks and departure halls, handling baggage within terminals, and transporting passengers between the terminals and the aircraft. Ramp-handling involves activities that take place on the runway apron, such as loading and unloading aircraft, cleaning and maintaining aircraft and equipment, refueling, pushing back and towing aircraft, loading and unloading baggage, and catering. Cargo-handling includes loading and unloading cargo and storing it in warehouses.

maximum of 180 days if (1) officials believe negotiations are leading to an imminent resolution and (2) more time is required in the public interest and the affected carrier has not suffered economic harm as a result of filing the complaint.

DOT takes the lead in formulating polices and countermeasures to resolve doing-business problems, while the State Department is responsible for chairing negotiations with foreign governments and coordinating DOT's actions with overall U.S. foreign policy. In addition, officials at U.S. embassies assist U.S. airlines operating abroad, sometimes facilitating discussions between foreign government officials and U.S. airline representatives to resolve specific problems.

Objectives, Scope, and Methodology

Concerned about the problems U.S. airlines have reported in doing business abroad, the Chairman, Subcommittee on Aviation, House Committee on Public Works and Transportation, asked us to (1) identify problems that U.S. airlines face in doing business in Europe and the Pacific Rim and (2) examine the U.S. government's actions to resolve these problems.

To identify the problems U.S. airlines face in doing business in Europe and the Pacific Rim region, we interviewed officials from DOT's Office of International Aviation, FAA's Office of Civil Aviation Security, and the State Department's offices of Aviation Programs and Policy and Aviation Negotiations. We also interviewed representatives of U.S. airlines in Washington, D.C. In the Pacific Rim region, we performed our work in Australia, Hong Kong, the Republic of Korea, Japan, and Singapore. We selected these five countries because, together, they accounted for over 90 percent of international airlines' passenger traffic in the Pacific Rim region and about one-third of international airlines' traffic worldwide in 1990. To assess problems in Europe, we visited the United Kingdom, France, Germany, Spain, and Italy. We chose these countries because they account for about 77 percent of airline passenger traffic between the United States and Europe. In those countries, we also interviewed officials representing the U.S. government, U.S. airlines, foreign governments, foreign airlines, foreign airport authorities, the European Union, and aviation trade associations. Finally, we inspected the facilities provided to U.S. airlines at 13 airports in Europe and the Pacific Rim.

To assess the impact of the doing-business problems faced by U.S. airlines, we reviewed information and documents obtained from local U.S. airline

officials in the countries we visited. We then discussed the information with U.S. embassies and with foreign airports and governments. We also spoke to U.S. airline officials in Washington, D.C., about these problems. Although U.S. airline representatives were unable to provide precise measures of the impacts of doing-business problems, they did provide us with specific examples of how these problems affect their operations.

To evaluate the U.S. government's actions to resolve U.S. airlines' problems overseas, we reviewed DOT's and the State Department's files, documents, reports, and regulations. We also interviewed U.S. airline representatives, DOT and State Department officials, and U.S. embassy staff.

Finally, we discussed a draft of this report with senior DOT and State Department officials, including DOT's Acting Assistant Secretary for Aviation and International Affairs and the State Department's Director, Office of Aviation Programs and Policy. On the basis of their comments, we made several changes to this report. We have included a detailed discussion of their comments and our changes at the end of chapters 2 and 3. As requested, however, we did not obtain written comments on a draft of this report. We conducted our work between July 1993 and September 1994 in accordance with generally accepted government auditing standards.

Doing-Business Problems Reduce the Competitiveness of U.S. Airlines Overseas

In doing business at key European and Pacific Rim airports, U.S. airlines encounter numerous problems that constrain their operations and reduce their opportunities to compete effectively. These problems include (1) limited access to landing and take-off slots at commercially viable times; (2) inadequate airport facilities; (3) restrictions on ground-handling operations, such as servicing aircraft; and (4) restrictions and delays in processing cargo. Foreign airlines, in comparison, generally face many fewer problems when operating at U.S. airports. Although U.S. airlines could not provide precise estimates of the costs resulting from these obstacles, their cumulative effect is to raise the airlines' operating costs and reduce the quality of services. In general, obstacles at a particular overseas airport are experienced by all airlines—U.S. and non-U.S. alike—except, in many cases, the national flag carrier. That carrier therefore has a competitive advantage. In addition, several of these obstacles can have a disproportionate impact on U.S. carriers because these airlines are generally more efficient than many foreign airlines and thus are best positioned to take advantage of increased freedom to operate without restrictions.

Limited Access to Slots Reduces Commercial Value of U.S. Airlines' Traffic Rights

U.S. airlines have only limited access to several congested airports in Europe and the Pacific Rim because they cannot obtain slots—reservations for aircraft landings and take-offs—that allow efficient connections with domestic flights. Airports control slots when the demand for them exceeds their capacity. According to U.S. airline officials, insufficient or inconvenient slots reduce the commercial value of their traffic rights. In contrast, the foreign airlines we spoke with reported no problems obtaining commercially viable slots at the two slot-controlled international airports in the United States—Chicago's O'Hare International Airport and New York's John F. Kennedy International Airport. For example, in the past, slots at O'Hare Airport have been withdrawn from domestic airlines if they are needed by U.S. and foreign airlines for international services. However, the FAA Authorization Act of 1994 prevents any increase in withdrawal of domestic slots for use by foreign airlines at Chicago's O'Hare.

U.S. airlines told us that they had difficulty obtaining slots at commercially competitive times at Frankfurt's Main, London's Heathrow, Paris's Charles de Gaulle and Orly, and Tokyo's Narita airports. Table 2.1 lists the problems the airlines encountered at these airports.

Table 2.1: U.S. Airlines' Problems Obtaining Commercially Viable Slots at Selected Airports in Europe and the Pacific Rim

Airport	Problem	Alleged impact
Europe		
Frankfurt-Main	Assigned departure slots for one U.S. airline's flights were spaced too close together; airline cannot obtain arrival slots to accommodate substitution of slower aircraft on one route.	Greater concentration of operations and increased costs for staff and facilities
London-Heathrow[a]	One airline was offered slots for a route at inconsistent times.[b]	Incompatible with connections with domestic flights; airline postponed inaugurating the flight, thus losing potential market share and passenger revenues to competing airlines
London-Heathrow	One airline's departure slots were scheduled at less favorable times than those of competing airlines.	Increased risks of passengers' missing connecting flights in the United States
Paris-Charles de Gaulle	One cargo airline was assigned inconsistent daily slots; applying for and receiving approval for slots is time-consuming.	Reduced ability of airline to meet express shipment deadlines
Paris-Orly	Noise curfew makes it difficult for one cargo airline to obtain slots during nighttime hours.	Reduced ability of airline to meet express shipment deadlines for next-day delivery
Pacific Rim		
Tokyo-Narita	Five U.S. airlines had difficulty in obtaining competitive landing and take-off slots at varying times.	Cannot offer additional services or adjust schedules

[a]The U.S. bilateral agreement with the United Kingdom specifies that only two U.S. airlines may serve London's Heathrow.

[b]According to the slot coordinating organization, the airline's request for slots received lower priority than those of other airlines because the airline's traffic rights for the proposed flight had not yet received official approval from the U.S. and U.K. governments.

Acknowledging that these problems occur, DOT has determined that they are not the result of discrimination against U.S. carriers but rather are due to limited airport capacity. Airlines are not provided with slots automatically when they receive traffic rights. Instead, under guidelines developed by the aviation industry, airlines can request slots twice a year from the designated "slot coordinator" at an airport, often an employee of the national flag carrier or a government entity. Airlines retain the right to those slots that they used during the previous travel season—known as historical slots. In allocating slots, coordinators are supposed to balance requests from domestic and international airlines with the airport's capacity. Airlines competing on the same routes often prefer slots at the same peak operating hours. When slot coordinators are unable to accommodate an airline's first request, they try to offer other slots as close in time to the preferred slots as possible or may assign slots that vary from

day to day for the same flight. Once airlines are assigned slots, they can exchange slots among themselves, subject to the coordinator's approval.

Because national flag carriers dominate the airports in their homeland, these carriers usually have many more historical slots and greater flexibility to adjust their operations than other airlines. When these other airlines, including U.S. airlines, do not have slots for their flights at competitive times, the commercial value of their traffic rights is reduced because uncompetitive slots result in less convenient departure and arrival times or longer layovers for passengers. Obtaining slots is a recurring problem for U.S. airlines at congested airports because they frequently attempt to modify their schedules in response to market demand, according to DOT officials. For U.S. passenger airlines, the ultimate impact is lost revenues because passengers may prefer to fly on competing foreign airlines, particularly national flag carriers, that have more slots and more convenient flight times at their respective hubs. U.S. cargo airlines also lose revenues because inconvenient slots can delay their time-sensitive operations, requiring them to reimburse customers for late deliveries.

Inadequate Airport Facilities Impair U.S. Airlines' Ability to Provide Quality Service

At a number of airports in Europe and the Pacific Rim, U.S. and other foreign airlines are located in passenger and cargo terminals that have inadequate or inferior facilities for aircraft, cargo shipments, and passenger traffic compared with the newer terminals and facilities assigned to national flag carriers. Furthermore, these airlines are sometimes prevented from moving to more modern facilities at these airports. As a result, several U.S. airlines contend that they are unable to achieve the same quality of service as the national flag carriers. Some of these airports are in the process of or planning to expand or upgrade facilities used by U.S. airlines. However, these improvements will not be completed for several years, and most of the airports have not provided for interim modifications to reduce the disparities. Therefore, until the renovation projects are completed, U.S. and other carriers will remain at a competitive disadvantage vis-à-vis the national flag carrier in each of these countries.

U.S. Airlines Are Provided With Inadequate Facilities

Many U.S. airlines operate out of old and overcrowded terminals. At 9 of the 13 airports we visited, U.S. airlines have inadequate facilities for ticketing and checking-in passengers, insufficient gates for parking aircraft, or insufficient warehouse space for cargo. (Table 2.2 lists the

problems reported by U.S. airlines at these airports.) These deficiencies lead to congestion, delays in processing passengers and cargo, and higher operating costs. Airlines operating at airports overseas generally have little control over terminal facilities. Foreign airport authorities say that they establish the number of check-in desks and gates assigned to each airline on the basis of the anticipated number of passengers and the amount of space available. Although we were unable to verify this statement, we found that several U.S. airlines' facilities at nine airports we toured were inadequate for their needs.

Table 2.2: U.S. Airlines' Problems With Airport Facilities at Selected Airports in Europe and the Pacific Rim

Airport	Problem	Alleged impact	Number of U.S. airlines affected
Europe			
London-Gatwick	Insufficient number of check-in counters; no check-in counters dedicated to airline	Delays in processing passengers	1
	Cannot move to more modern, convenient terminal[a]	Service improvements prevented	1
Madrid-Barajas	Insufficient number of check-in counters; no check-in counters dedicated to airline[b]	Delays in processing passengers	2
	Insufficient number of gates or jetways	Inconvenient for passengers who must be transported to and from terminals by bus	3
Milan-Malpensa	No check-in counters dedicated to airlines[c]	See above	1
	No jetways	See above	1
Paris-Charles de Gaulle	Located in older, inefficiently designed passenger terminal	Congestion and delays in processing passengers	3
	Insufficient number of check-in counters	See above	2
	Cannot move to more modern and convenient terminal[d]	Service improvements prevented	2
	Cannot move to airport from Paris-Orly airport	Operating improvements prevented	1
Paris-Orly	Insufficient number of check-in counters	See above	1
Paris-Orly	Insufficient number of gates	Inconvenient for passengers who must be transported to and from terminals by bus	1
Rome-Fiumicino	Insufficient number of check-in counters; no check-in counters dedicated to airlines	See above	2
	Insufficient number of gates or jetways	See above	1
Pacific Rim			
Seoul-Kimpo	Insufficient number of check-in counters	See above	2
	Insufficient warehouse space for cargo; construction of new warehouse has fallen behind schedule	Higher operating costs; prevented from expanding services to meet demand	6
Tokyo-Narita	Located in old, overcrowded passenger terminal	Impaired efficiency of operations	3

[a]One U.S. airline was permitted to move to a more modern terminal.

[b]Two U.S. airlines have dedicated check-in counters.

[c]One U.S. airline has dedicated check-in counters.

[d]The Paris airport authority, Aéroports de Paris, said that capacity constraints prevent it from allowing all airlines to operate at the newer terminal.

The following two examples are typical of the problems that U.S. airlines encounter with facilities that impede their ability to provide services that are fully competitive with those of the national flag carrier.

Paris's Charles de Gaulle Airport

In Paris, three U.S. airlines are dissatisfied with structural inefficiencies at Charles de Gaulle Airport, where they are located in the older of the two passenger terminals—Terminal 1.[5] The terminal design requires that the luggage of all arriving and departing passengers move through a central sorting site underneath the terminal. As a result, passengers may await their baggage for 30 to 45 minutes or even longer when baggage is transferred between airlines. At Terminal 1, we also noted that all arriving and departing passengers use the same level in the transit and passport control area, making it difficult for departing passengers to reach their gates because of congestion in the terminal. Finally, one airline complained that the terminal does not have enough check-in counters to accommodate its schedule, particularly during peak departure times. U.S. airlines have raised these issues with the airport authority, which responded that the situation cannot be improved because of the structural design of the terminal.

The airport's newer terminal—Terminal 2—does not suffer from the same problems. Opened in 1981, originally for the exclusive use of the national flag carrier, Air France, Terminal 2 is designed for more efficient baggage-handling and passenger transfers and for easy access to ground transportation. We concluded that Terminal 2 is a more efficient terminal, giving Air France a competitive advantage over U.S. airlines operating out of the older terminal.

Tokyo's Narita Airport

At Tokyo's Narita Airport, we identified a similar disparity between the facilities of the national flag carrier and those of other airlines. Three U.S. airlines operate from an old, over-crowded passenger terminal at Narita Airport, making their services less attractive than those of the Japanese airlines and some other foreign airlines, which operate from a spacious new terminal. The airlines' problem has been exacerbated because the amount of available space has been reduced by half with the closure of the airport's north wing as the airport authority begins a decade-long renovation of the old terminal. Thus, the 3 U.S. airlines and 13 other foreign airlines operate from one-half of the old terminal, even though the number of passengers using the two terminals is essentially equal.

[5]Other U.S. airlines serve Paris through Orly Airport. Air France operates from Charles de Gaulle's Terminal 2. At the time of our visit, only one U.S. airline had received permission to move to Terminal 2, although other airlines have made formal requests to do so.

We found substantial differences between the old and the new terminals in the amount of space, number of ticket counters, and quality of the lounges, as well as other amenities. The new terminal was also more aesthetically pleasing than the old terminal. The old terminal is being upgraded over the next decade to make it comparable to the new terminal, but the U.S. airlines were dissatisfied with the proposed plan because it did not provide for interim modifications to minimize the disparity between the terminals. U.S. airline officials said that the disparity between the old and new terminals would severely impair their ability to attract lucrative business- and first-class passengers. After consultations with U.S. government and airline representatives, Japanese authorities agreed to make interim renovations and to phase in construction work to reduce the adverse effect on U.S. airlines. Nevertheless, a disparity in terminal quality still exists, and Japanese national airlines have advertised the differences between the new and old terminals in an effort to capitalize on the situation.

Efforts Are Under Way to Upgrade Facilities, but Problems Will Likely Persist for Several Years

Airport authorities in Europe and the Pacific Rim acknowledged the problems with facilities and said they plan to expand and upgrade them. Expansion and upgrading of facilities are planned at London's Gatwick, Milan's Malpensa, Rome's Fiumicino, Seoul's Kimpo, and Tokyo's Narita airports. The airport authorities we interviewed noted, however, that such improvements will not be completed for several years. Furthermore, several of these improvements are being made primarily for the benefit of the national flag carrier. For example, Paris's Charles de Gaulle is developing a new terminal for Air France. U.S. airlines at the airport will likely be permitted to move to the terminal that Air France vacates (Terminal 2), but a disparity in the quality of the terminals will persist.

Restrictions on Ground-Handling Services Contribute to Increased Costs and Poorer Service

Of the 13 European and Pacific Rim airports we visited, 9 restrict U.S. and other airlines' choices for ground-handling services by either prohibiting the airlines from performing these services themselves and/or designating specific agents to supply handling services—often to the airport authority or national flag carrier. Each of these airports also prohibits U.S. airlines from "third-party handling," whereby airlines or their subsidiaries are allowed to provide ground-handling services to other airlines. By comparison, foreign airlines generally have freedom to provide their own handling services or contract for services at major U.S. international airports. Table 2.3 lists the restrictions on ground-handling services encountered by U.S. airlines at the airports we visited.

Table 2.3: U.S. Airlines' Problems With Ground-Handling Restrictions at Selected Airports in Europe and the Pacific Rim

Airport	Restriction	Number of U.S. airlines affected
Europe		
Frankfurt-Main[a]	Cannot handle ramp operations themselves or freely contract for services until Nov. 1997; cannot provide handling services for other airlines	3
Madrid-Barajas[b]	Cannot handle ramp operations themselves or freely contract for services	3
	Cannot provide handling services to other airlines	4
Milan-Malpensa[c]	Cannot handle cargo, passenger, or ramp operations themselves or freely contract for services; cannot provide handling services for other airlines	4
Paris-Charles de Gaulle[d]	Cannot handle ramp operations themselves or freely contract for services; cannot handle cargo, passengers, or ramp operations for other airlines	4
Paris-Orly	Cannot handle ramp operations themselves or freely contract for services; cannot provide handling services for other airlines	1
Rome-Fiumicino[c]	Cannot handle passenger or ramp operations themselves or freely contract for services	1
	Cannot handle ramp operations themselves	2
	Cannot provide handling services for other airlines	3
Pacific Rim		
Hong Kong-Kai Tak	Cannot handle cargo or ramp operations themselves or freely contract for services	3
Singapore-Changi	Cannot handle ramp operations for other airlines	1
Seoul-Kimpo	Cannot provide handling services to other airlines	2

[a]Although the Frankfurt airport authority has a monopoly on providing ramp-handling services, DOT preserved the right for U.S. airlines to provide ramp-handling services for their own flights.

[b]Although Iberia has a monopoly on providing ramp-handling services, two U.S. airlines are allowed to handle some ramp operations at Madrid themselves. However, one U.S. airline is charged higher rates for some services that Iberia provides because it does not contract with Iberia for all ramp-handling services.

[c]The Milan and Rome airport authorities generally have a monopoly on all ground-handling services at their airports. One U.S. airline can provide its own ground-handling services at Milan and Rome but must pay a royalty to the airport for the privilege. Another U.S. airline recently began handling its own passenger operations at Rome.

[d]Only the Paris airport authority and Air France can provide ramp-handling services for other airlines.

In general, the restrictions on ground-handling services at these airports are experienced by all airlines—U.S. and non-U.S. airlines alike—except for the national flag carrier. Flag carriers such as Air France, Alitalia, Cathay Pacific, and Iberia thus enjoy a competitive advantage at airports in their home countries. They or their subsidiaries are the only entities allowed to handle their own ramp operations or provide third-party ground-handling services and, thus, control the cost and quality of these

functions or generate additional revenues.[6] However, at Frankfurt and Milan airports, the restrictions apply to the national flag carriers as well. Revenues from ground-handling services can be significant sources of income for the airport authorities and flag carriers. In contrast, U.S. airlines do not enjoy a similar monopoly on ground-handling services at U.S. airports.

Ground-handling is a significant element of operations, affecting airlines' costs and ability to compete effectively and to serve customers. U.S. airline representatives emphasized that restrictions on ground-handling services raise operating costs, lower the quality of service, and reduce efficiency. They would like the freedom to conduct such services themselves or freely contract for them by choosing among several competing agents. These representatives contend that current restrictions allow ground-handling agents to charge excessive prices and unilaterally impose charges and fees. For example, one U.S. airline complained that Paris's Orly Airport does not consult with airlines about its operating plans and fees. In some cases, the U.S. airline itself must provide services which it has already paid the airport to perform. U.S. airlines estimate they could save about $1 million to $1.4 million annually by providing their own ground-handling services rather than contracting for them from current providers at particular airports. Furthermore, representatives from U.S. and other airlines contend that monopoly ground-handling agents—such as those at Frankfurt, Madrid, Milan, and Rome—have little incentive to keep costs low or provide high-quality services and are generally unresponsive to the airlines' complaints.

Finally, U.S. airlines believe that restrictions on ground-handling also affect their potential revenues. According to some U.S. airlines, the ability to generate additional revenues through third-party handling would also affect their decision to provide their own services if allowed to do so, especially at airports where they operate relatively few flights and where performing their own ground-handling services would be too expensive. Airport authorities we interviewed, however, cited various reasons for limiting competition in these services and argued that they, not the airlines, can best judge the most efficient use of their airports' resources. For example, some airport authorities stated that they are entitled to maintain a monopoly in ground-handling because of the capital

[6]Alitalia does not perform its own or provide third-party ramp-handling at Rome's Fiumicino. However, it does own more than half of the Rome airport authority, which is the only agent allowed to provide ramp-handling services at the airport. Similarly, the parent company of Cathay Pacific—Hong Kong's flag carrier—has ownership interests in all the companies providing ground-handling services at Kai Tak Airport.

investments they have made. They also said that allowing more handling agents at their airports could compromise safety, security, and the quality of services. However, according to State Department and DOT officials, such claims need to be carefully evaluated to determine their validity. Airport authorities also expressed concern that removing competitive restrictions on ground-handling could result in labor disputes and staff layoffs. Nevertheless, most airport authorities in the European Union countries accept the possibility that ground-handling monopolies may be opened to further competition because of pressure from the airline industry and the EU.[7]

Cargo Restrictions and Processing Delays Raise U.S. Airlines' Operating Costs

At three Pacific Rim airports we visited, U.S. airlines face restrictions on distributing cargo in the importing countries and problems clearing customs. These problems raise airlines' operating costs, cause delays in delivery, and narrow service options. (Table 2.4 lists the problems U.S. airlines reported at these airports.) These problems, which we generally did not find in Europe, are particularly detrimental to international overnight express carriers. Many of these problems stem primarily from foreign countries' overall trade policies or from bureaucratic complexities, such as the involvement of non-aviation-related government ministries in aviation issues. For example, some delays in freight-forwarding were caused by a lack of sufficient customs inspection officials; staffing levels for these officials are determined by a customs ministry, not by the airport authority.

[7]The EU consists of Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, the Netherlands, and the United Kingdom. In response to airlines' complaints, the EU is developing guidelines on competition in ground-handling and has drafted a consultation paper on the topic.

Table 2.4: Problems With Delays in Cargo-Processing and Freight-Forwarding at Selected Airports in the Pacific Rim

Airport	Problem	Alleged impact
Hong Kong-Kai Tak	Airport lacks dedicated transit facility for express packages and free trade area for transit packages; customs inspection is slow.	Delays in clearing customs
	Airlines cannot handle their own cargo.	Loss of custody of express packages
	Costs for customs clearance are excessive.	Increased overall operating costs
Seoul-Kimpo	Airlines cannot operate domestic trucking companies.	Delays in cargo processing, loss of custody of express packages, and increased costs; prevents direct delivery of freight to customers
Tokyo-Narita	Airlines must use off-airport warehouse facilities and must use a trucking company owned by a competing Japanese airline to transport cargo between the airport and the warehouse.	Increased costs, which must be passed on to customers, making U.S. services less competitive; cannot offer same-day delivery service
	Customs inspectors work short hours; fees for overtime work by customs inspectors are excessive.	Delays in cargo-processing and increased costs
	One airline was denied a business license comparable to those held by other integrated carriers in Japan.	Increased operating costs
	Duties and taxes for freight-forwarding include the cost of transportation.	Trans-Pacific cargo carried by U.S. airlines subject to higher duties and taxes than intra-Asian cargo carried by Far East airlines
	Clearance system for packages is outdated; fees for use of automated clearance machines are excessive.	Delays in clearing customs and increased costs
	Number of packages that can be cleared during overtime shift of customs inspectors is limited to 900.	Delays in clearing customs
	Value threshold for customs inspections is only $80.	Increased proportion of shipments that must be inspected; slower clearance process
	Customs application form is limited to only three airway bills; each form must be accompanied by $14 fee.[a]	Delays in clearing customs and increased operating costs

[a]In contrast, U.S. customs procedures allow freight forwarders to list an unlimited number of packages on an application, charging a $5 user fee if the combined value of goods on the application is less than $1,250.

U.S. airlines' experiences in Korea and Japan typify these problems. Korean regulations prohibit foreign companies from operating domestic trucking companies, preventing the two U.S. cargo airlines that serve

Korea from directly delivering freight to their customers. Instead, the airlines must hire Korean trucking companies. Similarly, U.S. cargo airlines must use a Japanese trucking company owned in part by a competing Japanese airline to transport cargo between Tokyo's Narita Airport and their off-site warehouse because Japanese authorities do not allow U.S. airlines to transport their own cargo between the two points. According to U.S. airline officials, these restrictions cause delays in freight delivery, a loss of custody over express packages, and increased costs. One U.S. airline, because it must rely on the Japanese service, cannot offer same-day delivery service and must pass the higher costs on to customers, making its services less competitive. In contrast, Korean and Japanese airlines do not face the same delays or excess charges for trucking when they move cargo in the United States.

Other Issues Affect U.S. Airlines Overseas

U.S. airlines have also encountered other types of problems overseas. TWA, for example, filed a formal complaint in 1992 against Italian aviation authorities for overcharges of air navigation fees over a period of several years. With the assistance of U.S. embassy officials in Rome, TWA negotiated an agreement with Italian aviation authorities that required those authorities to reimburse TWA approximately $2.2 million. However, according to TWA and State Department officials, the Italian authorities have not paid the agreed amount and discussions continue with the Italian government to resolve the situation.

At Seoul's Kimpo Airport, U.S. and other foreign airlines must purchase walkie-talkies (necessary for communication within the airport), provide them to airport authorities, and then rent them back at a high fee. They must also pay a sizeable safety inspection fee for each batch of electronic equipment imported, even if the same type of equipment has already been inspected and approved. According to Korean airport officials, this procedure and the fees are necessary for safety reasons.

Finally, although security is not a doing-business problem, numerous U.S. airline officials complained that complying with FAA's security requirements at certain European airports compounds the effects of their doing-business problems. FAA requires U.S. airlines to meet more stringent security requirements on flights from Europe to the United States than foreign airlines. FAA's Director, Office of Civil Aviation Security Policy and Planning, told us that the different security requirements are determined by different threat levels and that the measures required of U.S. airlines reflect that fact. He noted that FAA has assessed the quality of security at

international airports overseas that carry passengers to the United States and has determined that most foreign airlines provide a level of security similar to that provided by U.S. airlines on the basis of different threat levels. U.S. airline officials, however, emphasized that the difference in requirements puts them at a competitive disadvantage and said that foreign airlines should be required to meet the same requirements as U.S. airlines.[8]

Foreign Airlines Face Fewer Problems in Doing Business in the United States

We interviewed representatives of several foreign airlines regarding their doing-business problems in the United States. They reported fewer problems than U.S. airlines reported experiencing overseas, and the problems were not as severe. For example, representatives of foreign airlines we spoke with did not report any difficulties in obtaining slots or problems with ground-handling restrictions at U.S. airports. They did have complaints about the adequacy of facilities assigned to them at U.S. airports. British Airways officials, for example, complained that the airline could not expand its operations at Newark International Airport because of congestion at its terminal. Similarly, officials from Iberia, the Spanish flag carrier, complained about the increased facility costs the airline will pay after moving to a new terminal at John F. Kennedy Airport.

Several foreign airlines were also concerned about delays in immigration processing at airports in Los Angeles and New York and about fines levied by the Immigration and Naturalization Service for transporting undocumented passengers who request political asylum when they arrive in the United States. For example, Lufthansa complained that foreign airlines at John F. Kennedy Airport must share immigration facilities, while U.S. airlines have separate facilities. As a result, long lines are common during immigration processing, inconveniencing the foreign airlines' passengers. Officials from another foreign airline also complained that foreign carriers are subject to a number of U.S. local sales and income taxes, while U.S. airlines are exempt from such taxes in several foreign countries. Nevertheless, these airlines had many fewer complaints than U.S. airlines had concerning overseas facilities, and most of them also praised the efforts of U.S. airports to meet their needs.

Conclusions

The presence of U.S. airlines in the international marketplace is steadily increasing. However, their success is limited by a range of problems in

[8]For a more detailed discussion of security issues, see Aviation Security: Additional Actions Needed to Meet Domestic and International Challenges (GAO/RCED-94-38, Jan. 27, 1994).

doing business at European and Pacific Rim airports. Although it is difficult to quantify the costs and lost revenues resulting from these problems, their cumulative effect constrains operations and reduces U.S. airlines' opportunities to compete effectively. In contrast, foreign airlines generally do not experience such problems to the same extent when operating in the United States and thus avoid the resulting drain on efficiency, quality, and competitiveness. Furthermore, because U.S. airports do not engage in similar practices, U.S. airlines do not benefit from the advantages that such obstacles provide home-country flag carriers in Europe and the Pacific Rim.

Agency Comments

We discussed our findings with senior DOT, FAA, and State Department officials, including DOT's Acting Assistant Secretary for Aviation and International Affairs, Assistant General Counsel for International Law, and Assistant Director for Negotiations; FAA's Assistant Chief Counsel and Director of the Office of Security Policy and Planning; and the State Department's Director, Office of Aviation Programs and Policy. These officials agreed with the information presented, acknowledging that the problems U.S. airlines encounter in doing business abroad are real and persistent.

These officials noted, however, that doing business abroad is often difficult for U.S. airlines because they must adapt to foreign laws and culture. DOT officials pointed out that the U.S. airlines currently flying international routes have far less experience operating in foreign markets than the airlines they replaced and thus may have unrealistic expectations about the degree of operating freedom achievable at foreign airports. DOT and State Department officials also pointed out that because of the historically pervasive role of governments in international aviation, U.S. airlines operating abroad receive greater government assistance in resolving their problems than most other U.S. industries that operate internationally.

DOT and State Department officials also noted that foreign airlines suffer doing-business problems at U.S. airports. For example, they cited problems experienced by Canadian airlines obtaining slots at Chicago O'Hare. However, these officials agreed with our assessment that foreign airlines face fewer problems in the United States than U.S. airlines encounter overseas.

Finally, DOT and FAA officials said that a discussion of the potential competitive effects of FAA-imposed security requirements was not appropriate for a review of U.S. airlines' problems in doing business abroad. They emphasized that complying with security requirements is not a doing-business problem. In addition, FAA officials, while agreeing that the agency needs to be aware of the economic costs of its security requirements, stated that FAA must focus on creating security measures that effectively meet the threat, not on reducing or imposing security measures to create an economic "level playing field" between U.S. and foreign carriers. We agree that the costs associated with complying with security requirements do not constitute a doing-business problem. But we note that different security requirements may exacerbate the effects of the U.S. airlines' doing-business problems that we identified. It was in this context that numerous U.S. airline representatives raised concerns about the competitive effects of different security requirements.

DOT and the State Department Have Had Mixed Success in Resolving U.S. Airlines' Problems in Doing Business Overseas

DOT and the State Department recognize that U.S. airlines face a variety of doing-business problems overseas. Although these agencies possess several regulatory and statutory tools to address such problems, their effectiveness in resolving them has been mixed. They have been relatively effective in resolving problems that they found violated bilateral agreements. But they have been less successful in addressing problems that, although they may not affect solely U.S. airlines, prevent U.S. airlines from fully realizing their potential operating efficiency. In attempting to resolve these problems, DOT and the State Department face several constraints, which include negotiating with sovereign nations that are often protecting their national flag carriers from increased U.S. competition, balancing the desire of U.S. airlines for increased traffic rights with the need to resolve doing-business problems, and addressing an increasing workload with declining resource and staffing levels. Given such constraints, no one strategy can fully address the airlines' problems. However, because it does not periodically collect and analyze information on these problems, DOT cannot determine whether certain problems are pervasive in different countries, document whether they are increasing in number, make the most effective use of its limited resources to address these problems, or enter bilateral negotiations as well prepared as it could be.

U.S. Government Has Greater Success Resolving Problems Found to Violate Bilateral Accords

DOT and the State Department have resolved several doing-business problems for U.S. airlines. These successes have usually occurred after DOT determined that a practice violated a bilateral accord because the practice either discriminated against U.S. airlines or was specifically covered in the accord. The two agencies have been less successful in addressing problems that, although they may not constitute overt discrimination against U.S. airlines, prevent U.S. airlines from operating as efficiently as possible and fully exercising their competitive advantage over many foreign airlines.

Best Results Have Been Achieved in Resolving Problems That Violate Bilateral Accords

DOT and the State Department have been successful in resolving several issues that are addressed in bilateral agreements or that DOT determined denied U.S. airlines a fair and equal opportunity to compete. For example, by negotiating a memorandum of understanding to supplement the bilateral agreement with Korea, DOT and the State Department addressed several concerns that U.S. airlines had about the construction of cargo warehouse facilities at Seoul's Kimpo Airport. DOT also approved American Airlines' formal complaint against the Italian government and Milan airport

authority, finding that the airport authority had created a discriminatory barrier to American Airlines' ability to compete effectively by prohibiting the airline from using its own computer reservation system (CRS) to check-in and ticket passengers. American Airlines and the airport authority resolved the problem before DOT imposed sanctions.

Similarly, after Delta Air Lines filed a complaint against the Frankfurt airport authority for denying the airline the right to perform its own ground-handling services at Frankfurt Airport—a right guaranteed in the bilateral accord—DOT and the State Department addressed Delta's concerns while negotiating an agreement with the German government in early 1994 so that Delta could perform ground-handling services for all its flights.[9] DOT and the State Department also dealt with U.S. airlines' inability to obtain commercially viable slots at Tokyo's Narita Airport by facilitating an accommodation among the airlines serving the airport so that U.S. airlines obtained slots at satisfactory times.

Finally, since the 1970s, DOT and the State Department have negotiated the inclusion of provisions on commercial opportunity in over 50 bilateral accords. These provisions commonly address ground-handling, currency remittance, and the right of airlines to establish offices and bring employees to foreign countries. They also have negotiated exemptions from certain operating restrictions for individual U.S. airlines at several foreign airports. For example, Delta is the only passenger airline currently performing its own ramp-handling services at Frankfurt Airport.

Many Other Doing-Business Problems Remain Unresolved

DOT and the State Department have had much less success resolving those problems that do not involve overt discrimination against U.S. airlines and that are not covered by specific, detailed provisions in bilateral agreements. For example, they have been largely unable to resolve U.S. airlines' concerns about cargo restrictions in Japan and the range of ground-handling problems in Hong Kong. DOT also denied American Airlines' formal complaint against Milan airport authority's ground-handling monopoly on the basis that the Italian flag carrier, Alitalia, is also prevented from providing its own ground-handling services. As discussed in chapter 2, many other problems remain unresolved, including the airlines' recurring problems in obtaining commercially viable slots at London's Heathrow Airport.

[9]Currency remittance refers to the process whereby airlines convert revenues earned in foreign currencies into their own currency and transfer the revenues to their own country.

Apart from the provisions in bilateral agreements guaranteeing airlines an equal opportunity to compete and those covering commercial opportunity, several of these problems, such as the inability to obtain commercially viable slots, are not specifically identified in bilateral accords. Even when such practices are covered by bilateral accords, problems still arise if the relevant provision is too general. For example, of the six foreign countries that we visited in which U.S. airlines complained of restrictions on ground-handling and for which air services are governed by bilateral agreements, two countries did not have accords with the United States that addressed ground-handling, and the provisions in the remaining four accords were too general to sufficiently address the airlines' concerns.[10] Partly as a result, ground-handling problems in these countries persist. According to DOT officials, the Department seeks to solve U.S. airlines' problems regardless of their legal status; that is, whether the problems are covered by a bilateral accord. But these officials noted that a problem's legal status influences how DOT attempts to resolve the problem and the length of time it takes to achieve improvements.

In some cases, however, DOT and the State Department have resolved problems in which a foreign airport's practices do not discriminate against U.S. airlines or do not violate a bilateral agreement. These successes have usually occurred after a sustained effort over a long period of time, according to DOT officials. For example, DOT and the State Department negotiated with the United Kingdom over a 15-year period to secure a more equitable structure for user fees for U.S. airlines at Heathrow Airport. According to DOT officials, resolution of this problem required an extensive effort and a substantial investment of resources. Table 3.1 details the mixed results achieved by DOT and the State Department in their efforts to resolve U.S. airlines' problems in doing business overseas. These problems include both practices covered by bilateral accords and those not covered.

[10]U.S. airlines also complained about restrictions on ground-handling at Paris's Charles de Gaulle and Orly airports, but France terminated its bilateral aviation agreement with the United States in May 1992.

Table 3.1: Status of U.S. Airlines' Problems in Doing Business in Europe and the Pacific Rim

Airport	Action and status
Europe	
Frankfurt-Main	Slots: DOT staff monitored the slot allocation process for discrimination or unfair treatment of U.S. airlines but has not found a basis for intervention to secure slots. (Unresolved)
	Ground-handling: During 1994 negotiations with the German government, U.S. negotiators preserved the right for Delta to provide ramp-handling services for all of its flights. (Resolved)
London-Gatwick	Facilities: U.S. airlines have not requested assistance from DOT. (Unresolved)
London-Heathrow	Slots: Airport capacity issues were addressed during meetings in 1993 with the U.K. concerning liberalization of the U.S.-U.K. aviation relationship, but specific slot problems were not discussed. U.S. airlines still experience general frustration obtaining slots, although they resolved the problems described in chapter 2. (Limited resolution)
	User fees: The United States recently completed arbitration with the U.K. government to secure a more equitable fee structure for U.S. airlines. (Resolved)
Madrid- Barajas	Facilities: DOT is generally aware of U.S. airlines' concerns but has no outstanding request for assistance. (Unresolved)
	Ground-handling: The United States has periodically monitored ground-handling at the airport to ensure that U.S. airlines are not being discriminated against, negotiated the right of American Airlines to provide passenger-handling services and of TWA to contract with a nonmonopoly supplier, and raised issues in negotiations and through the embassy. The new Iberia services to the U.S. in 1987 were made contingent on the resolution of U.S. airlines' concerns at that time. (Limited resolution)
Milan-Malpensa	Facilities: DOT approved a formal complaint by American Airlines regarding its inability to use its own CRS for checking-in and boarding passengers; the problem was subsequently resolved. (Resolved)
	Ground-handling[a]: DOT denied American Airline's formal complaint after determining that monopoly handling affects all airlines alike, including Alitalia. (Unresolved)
Paris-Charles de Gaulle	Slots: U.S. airlines have not requested assistance from DOT. (Unresolved)
	Facilities: U.S. airlines have not requested assistance from DOT. (Unresolved)
	Ground-handling: DOT is generally aware of U.S. airlines' concerns although it has received no request for assistance. (Unresolved)
Paris-Orly	Airport access: DOT has supported one U.S. airline's request to move from Orly to Charles de Gaulle Airport; in the absence of a bilateral agreement, there is no legal entitlement for such a move. (Unresolved)

(continued)

Airport	Action and status
	Facilities: DOT is generally aware of U.S. airlines' concerns although it has received no request for assistance. (Unresolved)
Rome-Fiumicino	Facilities: DOT is generally aware of U.S. airlines' concerns although it has received no request for assistance. (Unresolved)
	Ground-handling[a]: U.S. embassy staff have met with their Italian counterparts to support an effort by U.S. airlines to provide their own ground-handling services; one U.S. airline, aided by the U.S. embassy, recently began performing its own passenger-handling services. (Largely unresolved)
	User fees: U.S. embassy staff have met with appropriate Italian officials to accelerate repayment of about $2.2 million in overcharges for navigation fees owed to TWA, but without success. (Unresolved)
Pacific Rim	
Hong Kong-Kai Tak[b]	Multiple problems: U.S. negotiators have raised the range of problems experienced by U.S. airlines with their Hong Kong counterparts, but without success. (Unresolved)
Singapore-Changi	Ground-handling: U.S. representatives met several times with Singapore authorities to discuss one U.S. airline's request to provide ground-handling services to other airlines, but without success. (Unresolved)
Seoul-Kimpo[c]	Facilities: U.S. embassy staff have held a series of meetings with the relevant Korean ministries regarding construction of a cargo warehouse; agreements have been reached on most issues. (Largely resolved)
	Ground-handling: Issues have been raised at task force meetings, and DOT and State secured the limited right of U.S. airlines to supply aircraft maintenance services to other airlines. (Limited resolution)
	Cargo restrictions: The U.S. embassy has raised this issue in task force meetings; DOT discussed the issue with its Korean counterpart during formal consultations in January 1993; some restrictions will be lifted, with limitations, over the next 2 years; restrictions on intermodal transport will not be lifted. (Largely unresolved)
	User fees: This issue has been discussed during task force meetings; the Korean aviation authority now gives notice and consults with U.S. airlines on fee increases. (Largely unresolved)
Tokyo-Narita	Slots: U.S. airlines obtained commercially viable slots after a 3-month delay. (Resolved)
	Facilities: U.S. government representatives met numerous times over a 2-year period with Japanese officials and U.S. airlines to discuss facility issues and held lengthy discussions on the renovation of the old terminal. (Resolved)
	Cargo restrictions: The U.S. government has held numerous meetings with relevant Japanese ministries and U.S. airlines to discuss cargo restrictions, import delays, and warehouse problems. (Unresolved)

(Table notes on next page)

[a]The Italian antitrust commission has ruled that airlines should be allowed to provide their own ground-handling services at Milan and Rome, but the ruling has been challenged by the monopoly providers of ground-handling services.

[b]According to the State Department, negotiations have been hampered by the transition in government under way as Hong Kong's status as a colony comes to an end.

[c]The U.S.-Korea memorandum of understanding negotiated in 1991 created three task forces to address issues of doing business: customs, the construction of a new cargo warehouse, and facilitating airline services.

DOT and State Department Have Several Tools to Resolve Problems but Face Constraints

In attempting to resolve U.S. airlines' doing-business problems, DOT and the State Department must consider numerous factors, including the severity of the problem and the United States' relationship with the country involved on aviation trade. At their disposal are several statutory and regulatory tools that authorize retaliatory measures. For example, the United States may deny the schedule of flights to the United States proposed by a country's flag carrier or may impose other sanctions. Such stern measures have limited application, however, in addressing practices that do not clearly discriminate against U.S. carriers or violate bilateral accords. DOT interprets its authority under 49 U.S.C. section 41310 as requiring a finding of a violation of a bilateral accord or other instance of unfair or discriminatory treatment before it may impose sanctions. Efforts by DOT and the State Department to resolve the range of doing-business problems that do not overtly discriminate against U.S. carriers are complicated by several constraints, such as the need to negotiate with foreign governments that are often protecting their own flag carriers from increasing U.S. competition.

Approach Taken to Resolve Doing-Business Problems Is Affected by Several Factors

Resolving doing-business problems generally involves several steps. First, the affected airline usually tries to resolve the problem by negotiating with the national flag carrier, airport authority, or government agency. If that fails, the airline contacts the U.S. embassy in that country, which tries to resolve the problem locally by facilitating discussion between the U.S. airline's representatives and foreign government officials. Additional contacts may be made orally or by diplomatic note through the U.S. embassy or directly from the State Department to the foreign embassy in Washington, D.C. If the U.S. embassy is unsuccessful, it contacts DOT and the State Department directly, and these agencies initiate higher-level intergovernmental contacts. As a last resort, a U.S. airline may file a formal complaint with DOT against an offending foreign airline, airport authority, or government and may call for retaliatory sanctions.

DOT decides what approach it will take to resolve a problem on a case-by-case basis. It first conducts an initial investigation to ascertain the facts and determine whether the problem warrants action. The agency then formulates a response to the problem in light of the United States' strategic position in the bilateral aviation relationship. DOT considers several concerns, such as other pending aviation issues between the United States and the foreign government. Staff from DOT's Office of International Aviation formulate responses. If a major aviation trading partner—such as the United Kingdom—is involved, the Assistant Secretary for Aviation and International Affairs generally plays a key role. Finally, depending on the nature and gravity of the grievance, the Secretary of Transportation may review responses. Throughout this process, DOT coordinates with the State Department.

As mentioned above, the legal status of a problem (i.e., whether the problem is addressed in a bilateral accord) is a key factor that shapes DOT's attempts to resolve the problem. DOT's approach is also determined by the bargaining leverage available to the U.S. government to resolve the problem. The greater the bargaining leverage the United States has to influence a foreign government, the greater the likelihood that a problem will be resolved satisfactorily. This leverage depends on a mix of factors. For example, a foreign airline might be seeking opportunities from the United States or might hold discretionary authority to serve the United States that is not guaranteed by the relevant bilateral agreement. In such cases, DOT is in a better position to bargain and resolve doing-business problems. According to DOT officials, although DOT can always raise issues with U.S. bilateral partners, the leverage that the United States has to pressure a foreign government primarily determines when a problem is resolved. Consequently, according to DOT officials, foreign governments sometimes develop the political will to resolve such problems only when their flag carriers want additional authority to serve the United States. Finally, DOT attempts to design countermeasures to doing-business problems that are proportional to the harm the problem causes. For example, DOT would not typically threaten to suspend service between the United States and a foreign country to resolve a dispute over the number of check-in counters at a foreign airport. When an airline identifies an issue as important, the U.S. government can instruct embassy staff to discuss the issues with foreign officials, deliver a formal protest, or request consultations or address the problem during ongoing negotiations with its foreign counterparts.

Legislative and Regulatory Tools Are Available to DOT in Its Attempts to Resolve Doing-Business Problems

DOT has several statutory and regulatory tools to encourage foreign governments to resolve U.S. airlines' doing-business problems. First, under 49 U.S.C. section 41304, DOT can suspend, amend, modify, limit, or put conditions on the operating permits of foreign airlines if it finds, among other things, that an airline or its government has engaged in unfair, discriminatory, or restrictive practices against U.S. airlines. For example, DOT has required that a foreign airline fly to a specific airport in the United States or use its U.S. competitor for ground-handling services. Second, DOT can deny foreign airlines the discretionary authority to fly routes to the United States. Similarly, DOT also uses 14 C.F.R. part 213 to require foreign airlines to file their U.S. schedules; DOT can then curtail a foreign airline's existing services or deny proposed services to the United States to pressure the foreign governments. Finally, as described in chapter 1, DOT can impose retaliatory sanctions under 49 U.S.C. section 41310 or under its general authority to place conditions on or withdraw the licenses of foreign airlines.

Formal Complaint Process Has Limited Application in Addressing Nondiscriminatory Doing-Business Problems

Although complaints filed by U.S. airlines under 49 U.S.C. section 41310 have been used to resolve several problems in doing business abroad, many U.S. airlines believe the process is not a good way to resolve problems. First, because such complaints are confrontational, several airlines view the process as a last resort when other means fail. These airlines prefer using cooperative methods to resolve problems out of fear that a foreign government will retaliate or to preserve good relations with the host country. Second, most of the airlines we spoke with believe that formal complaints should be filed only to resolve major issues, such as clear violations of traffic rights. They believe that overuse of the complaint process will undermine its effectiveness. DOT interprets its authority under the statue as requiring a finding of a violation of a legal obligation under the relevant bilateral agreement or other clear instance of unfair or discriminatory treatment before it may approve a complaint and impose sanctions. Because many problems in doing business do not discriminate against U.S. airlines or are not specifically addressed in a bilateral agreement, many airlines believe their complaints are not covered by the statute.

Nevertheless, the formal complaint process is a valuable vehicle for addressing doing-business problems that clearly violate bilateral agreements. Of the 21 complaints filed between August 1986 and August 1993, 13 involved doing-business issues. Of these 13 complaints, 6 concerned CRSs and 8 concerned ground-handling, operating hours for

cargo airlines, cargo warehousing, and currency remittance issues.[11] DOT denied only one of these 13 complaints. In the other 12 cases, an agreement or accommodation was reached and DOT dismissed the complaint.

Other Factors Affect DOT's Ability to Resolve Doing-Business Problems

DOT's efforts to resolve doing-business problems are complicated by several factors. These include (1) negotiating with foreign governments that are often protecting their own flag carriers from increasing U.S. competition, (2) weighing the elimination of these problems with attempts to obtain valuable traffic rights for U.S. carriers, (3) balancing the competing commercial interests of various U.S. airlines, and (4) addressing these problems with significantly fewer resources in DOT's Office of International Aviation.

First, DOT faces a difficult task in resolving these problems because it must negotiate with foreign governments that are not inclined to make the environment easier for more efficient U.S. airlines. These governments are often protecting national flag carriers that have lost market share to U.S. airlines over the last decade. In an effort to protect Air France, for example, France renounced its bilateral accord with the United States in May 1992 because the U.S. share of traffic between the United States and France had risen from 49 percent in 1980 to 70 percent in 1992.

Second, traffic rights tend to take precedence over issues of doing business because such rights determine fundamental access to foreign markets. Almost all U.S. airlines recognize and support the priority of traffic rights because of their desire to gain greater access to international markets. Given the growth in these markets and their potential for profit, U.S. airlines want to expand their international operations. In recent years, negotiations of traffic rights with 6 of the 13 countries we visited—Australia, France, Germany, Hong Kong, Japan, and the United Kingdom—have consumed much of DOT's and State's negotiating resources and attention. As a result, the two agencies have been unable to give priority to several doing-business issues. Moreover, the U.S. government must sometimes trade valuable traffic rights to foreign airlines to serve the United States in exchange for adding specific provisions in bilateral agreements to address otherwise intractable doing-business problems. U.S. negotiators cannot simply offer enhanced doing-business rights in the United States because foreign airlines already enjoy comparatively unrestricted rights. Furthermore, many countries are reluctant to agree to

[11]One of the complaints addressed both ground-handling and CRS issues.

such provisions, especially if their flag carriers or airports benefit from restrictive doing-business practices.

Third, in formulating strategies to resolve problems, DOT must reconcile the diverse, often competing and conflicting interests of U.S. aviation constituencies—airlines, airports, communities, travelers, and shippers. For example, U.S. airlines often have competing commercial interests, and actions taken to resolve one airline's problems may jeopardize the interests of another airline. Thus, a U.S. airline experiencing no problems in doing business at a foreign airport might resist imposing sanctions to resolve the problems of another U.S. airline in an effort to avoid retaliation by the foreign government that might affect all U.S. airlines.

DOT must also accommodate other interests. For example, almost all U.S. airlines we spoke with want the right to provide ground-handling services to other airlines at foreign airports. However, U.S. negotiators cannot guarantee reciprocal treatment for foreign airlines at U.S. airports because the vast majority of U.S. airports are locally owned and operated. Although many U.S. international airports allow third-party handling, as a group they are opposed to including this right in bilateral agreements because they want to protect the proprietary rights of airports. In fact, the Airports Council International-North America—an airport trade association—does not want doing-business issues addressed in bilateral accords at all. The need to reconcile conflicting interests makes it difficult to develop a policy to address such problems that satisfies all parties. By contrast, because foreign governments in many cases have an ownership interest in their airlines, they may be more concerned with representing the interest of their national flag carriers than with the interests of other aviation constituents.

Fourth, DOT must address an increasing workload related to international aviation with diminishing resources. In addition to negotiating bilateral aviation agreements and addressing U.S. airlines' problems in doing business abroad, DOT's Office of International Aviation is responsible for processing all U.S. airlines' requests for authority to serve specific foreign markets and all foreign air carriers' requests for authority to serve the United States. In 1993, approximately 93 million passengers traveled to or from the United States on U.S. and foreign airlines—an all-time record. According to DOT officials, this growth in traffic has led to a corresponding increase in their workload. However, staffing in the Office of International Aviation has sharply declined during this period. For example, while 23 staff members at the Civil Aeronautics Board conducted aviation

negotiations in 1982, DOT's negotiating team in 1993 consisted of only 11 staff.[12]

Recognizing these constraints, U.S. airlines attempt to resolve most of their doing-business problems themselves by negotiating directly with foreign airport authorities, airlines, and government agencies. This approach is often appropriate because many problems are primarily commercial disputes. Similarly, U.S. airlines have successfully used airline operator committees, consisting of representatives from airlines serving an airport, to address their concerns about doing-business problems overseas. For example, the Italian antitrust commission recently ruled against the Milan and Rome airport authorities' ground-handling monopolies in a case filed by the Italian board of airline representatives with substantial support from U.S. airlines. In addition, several U.S. airlines have not reported their problems to DOT or the State Department because these airlines did not believe that U.S. government assistance would be sustained or vigorous enough to resolve the problems.

Agencies' Ability to Overcome Constraints Is Hindered by Insufficient Analysis and Limited Expertise

The majority of the U.S. airline officials we interviewed emphasized that DOT and the State Department could be more proactive in resolving those doing-business problems reported to them. However, because it does not collect and analyze information on these problems, DOT is limited in the extent to which it can overcome the constraints that it faces. Likewise, according to U.S. airline officials as well as a recent study,[13] the State Department's policy of frequent staff rotations limits the expertise that the agency's staff can bring to bear in attempting to resolve U.S. airlines' problems.

In documenting the problems that U.S. airlines encounter overseas, we found that DOT's Office of International Aviation did not collect and analyze information on doing-business problems, with the exception of formal complaints filed by the airlines. DOT officials noted, for example, that our report would provide the only current compendium of information on U.S. airlines' doing-business problems overseas. Because it does not collect and analyze such information on a regular basis, DOT cannot determine the extent to which certain problems are pervasive among different countries or identify trends. Noting that DOT staff had difficulty compiling such information during our review, the Assistant

[12]The Civil Aeronautics Board previously had regulatory authority over the airline industry.

[13]Change, Challenge, and Competition, The National Commission to Ensure a Strong Competitive Airline Industry (Washington, D.C.: Aug. 1993).

Director for Negotiations stated that a centralized "clearinghouse," in which information on the status of airlines' problems is collected and analyzed, would provide the agency with a better overview of the problems and allow it to better develop solutions to those problems.

Likewise, representatives of several U.S. airlines complained that problems that do not violate bilateral accords or overtly discriminate against them often linger because of a lack of monitoring and oversight by DOT. Although these representatives complimented DOT for its successes in resolving problems that clearly violate bilateral accords, they suggested that DOT could better monitor and develop solutions to doing-business problems not specifically covered in such accords by placing one person in charge of resolving them. Currently, DOT's officers assigned to deal with specific countries are responsible for negotiating both traffic and doing-business rights, and they often find that there is a stronger constituency among U.S. airlines for resolving traffic rights issues than for addressing doing-business issues. In making their suggestion, the airline representatives noted that giving one person responsibility for resolving doing-business problems would allow that person to develop independent expertise in the technical aspects of the problems and find solutions to them. They emphasized that such a "focal point" could ensure that (1) problems receive sustained attention, (2) problems pervasive in various countries are identified, and (3) DOT staff have the information they need to be fully prepared when entering bilateral negotiations so that if necessary, specific provisions addressing a given problem can be negotiated into the relevant bilateral accord.

Finally, many airline representatives we interviewed were concerned about the level of expertise among State Department and DOT staff. They maintained that the State Department's staff rotates too frequently, diminishing the agency's ability to effectively negotiate the resolution of doing-business problems. One airline representative noted, for example, that during the course of the 10-year renovation of their terminal at Tokyo's Narita Airport, U.S. embassy officials monitoring the situation will be reassigned, and the new officials will likely be unfamiliar with the issues surrounding the renovation. Similarly, the President's Commission to Ensure a Strong Competitive Airline Industry concluded that the State Department's practice of rotating staff limits its expertise on aviation. To improve the level of such expertise at the State Department, the Commission recommended that State strengthen its aviation career track. Acknowledging such criticisms, the State Department has taken action to do this. As of September 1994, the agency has converted one of its aviation

positions at headquarters into a nonrotational civil service assignment and plans to convert additional positions in the future. In addition, the State Department has developed a 3-day aviation training course—in which nearly 1 day is devoted to U.S. airlines' doing-business problems—for U.S. embassy staff serving in aviation-related posts.

U.S. airline representatives also noted that DOT, while its staff are long term, often lacks the technical expertise required to understand and negotiate doing-business issues successfully. As a result, according to these representatives, DOT staff often do not appreciate the economic impact of doing-business problems. DOT officials acknowledged that DOT staff sometimes do not have technical expertise but said that they rely on airline representatives to educate them on technical issues and assist them in resolving specific problems.

Conclusions

The U.S. government's record in resolving U.S. airlines' problems in doing business abroad has been mixed. Most successes have involved eliminating problems that violate bilateral accords. To their credit, DOT and the State Department have negotiated the inclusion of specific provisions governing particular doing-business problems in several bilateral accords. We believe that continuing this practice, where practical, will facilitate the resolution of some problems, such as ground-handling restrictions, because it provides DOT with a firm legal basis from which to deal.

The track record is less favorable, however, for those problems that do not violate bilateral accords. As a result, a variety of problems—such as inadequate facilities—persist. Several factors contribute to these mixed results. For example, DOT and the State Department must negotiate with sovereign nations that are often protecting their national flag carriers from increased U.S. competition and at the same time balance the need to resolve doing-business problems with attempts to obtain valuable traffic rights for U.S. carriers. However, by not collecting information on the status of these problems and analyzing their nature, severity, and trends, DOT cannot effectively identify which problems are pervasive, which should be specifically addressed in bilateral accords, or which have lingered without sustained government efforts to resolve them. This lack of data has led several U.S. airline representatives to complain that no one in DOT is monitoring their problems and to call for the establishment of a focal point. DOT is in the best position to decide whether a focal point, additional resources, or some other mechanism would be the most effective way to better address doing-business problems. Nevertheless,

examining the range of these problems should help DOT resolve some of them while increasing the knowledge-base of its staff. Such an examination would also complement the State Department's initiative to increase staff expertise through training.

Recommendation

To ensure that U.S. airlines' doing-business problems receive sustained attention in an era of increasing U.S. airline activity overseas and declining government resources, we recommend that the Secretary of Transportation collect and analyze information on the status, nature, and severity of U.S. airlines' doing-business problems overseas.

Agency Comments

We discussed a draft of this report with senior DOT and State Department officials, including DOT's Acting Assistant Secretary for Aviation and International Affairs and State's Director, Office of Aviation Programs and Policy. They stated that U.S. airlines' doing-business problems overseas are real and often persist but emphasized that they had resolved numerous problems for U.S. airlines over the last several years. Furthermore, DOT representatives commented that inadequate resources prevented them from providing the sustained attention that such problems deserve. DOT and State Department officials stated that they did not think it wise to designate a single staff member to serve as a focal point for doing-business problems, as several U.S. airline representatives suggested. However, they noted that they could improve their efforts to solve doing-business problems through better analysis of the range of problems that U.S. airlines encounter. On the basis of their comments, we revised this report where appropriate. We also incorporated several wording revisions suggested by these officials.

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