

**BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

In the matter of)	
EXPANDED AIR SERVICES AT HAWAII)	
INTERNATIONAL AIRPORTS)	
)	Docket OST-99-5723

DATED: June 8, 1999

ANSWER OF UNITED AIR LINES, INC.

United Air Lines, Inc. ("United") submits the following answer to the Petition of the State of Hawaii ("Hawaii") seeking expanded operating flexibility and incentives for foreign air carriers serving Hawaii to encourage those carriers to provide increased cargo and passenger operations between points in the Asia/Pacific region and Hawaii, and beyond Hawaii to points in the mainland United States and points in third countries, through Department regulatory action similar to that granted for the State of Alaska.¹ In brief, Hawaii asks the Department to grant foreign air carriers the right to (1) engage in expanded cargo transfer activities at Honolulu and Kona; (2) serve any point or points in Hawaii, and coterminalize those points with other points in the U.S. for which they hold authority; and (3) seek, by individual application, authority to serve additional mainland U.S. points on an extra-bilateral basis, provided they operate via Hawaii. In response, United submits the following:

¹ See Order 99-5-9 (Docket OST-99-5035); and Order 96-11-2 (Docket OST-96-1600), as renewed November 3, 1997, amended February 6, 1998, and renewed November 3, 1998, for a two-year period.

1. United generally supports the efforts of the State of Hawaii to increase air cargo and passenger service at Hawaii's airports. United is well aware that air transportation is vitally important to the Hawaiian Islands, and United has responded with unparalleled service. With eighteen daily flights serving Honolulu, Kona, Kahului and Lihue nonstop from a combination of four gateways, United offers more service to Hawaii than any other carrier. United has a deep and lasting commitment to the State of Hawaii. United also applauds the impressive programs of Governor Cayetano and the Hawaii Department of Transportation to attract additional air carrier operations at Honolulu and Kona.

2. Consistent with Hawaii's efforts to develop further as an international cargo hub, United supports the first of Hawaii's three requests, i.e., that blanket exemption authority be granted to foreign air carriers holding U.S. authority permitting them to engage in expanded cargo transfer activities at Honolulu and Kona for cargo traffic moving between points in the Asia/Pacific region and points on the U.S. mainland or third countries via an en route transit stop in Hawaii, except where the Department determines that a grant of blanket authority is inconsistent with other U.S. international aviation policy requirements or objectives.² In support of its request, Hawaii points to the substantial reduction in cargo traffic it has experienced during the past year. Hawaii Petition at 5. Although this reduction clearly reflects the severe economic downturn suffered by a number of Asia/Pacific countries and is, therefore, temporary, United agrees that the grant of blanket cargo transshipment authority has the potential to boost Hawaii's

² The Department attached this same limitation with respect to cargo transfer activities at Alaska's airports. See Order 96-11-2.

cargo operations now and for years to come. Expanded cargo activity also will generate valuable economic benefits for the State, without substantially impairing the U.S. bilateral negotiating position. Provided the Department retains the right to withhold liberalized authority from foreign carriers whose homeland governments impose unacceptable restrictions on the traffic rights or operating flexibility of U.S. carriers, a proposition with which Hawaii agrees,³ United has no objection to the grant of blanket cargo transshipment authority.

3. Hawaii's second request – a grant of blanket exemption authority permitting foreign air carriers to serve any point or points in Hawaii, and coterminimize those points with other points in the U.S. for which they hold authority – is no small request. In the interest of supporting Hawaii's efforts to bolster its economy, however, United will not oppose this unilateral expansion of operating authority to foreign air carriers. At the same time, however, it should be noted that Hawaii's requested relief would permit many carriers from non-Open Skies countries to benefit from serving additional points in Hawaii and coterminimizing their Hawaii service in a manner not otherwise authorized by the applicable bilateral agreements. In the interests of protecting the U.S. bilateral negotiating position with respect to these limited-entry countries, the Department should withhold liberalized authority from foreign carriers whose homeland governments impose unacceptable restrictions on the traffic rights or operating flexibility of U.S. carriers.

³ See Hawaii Petition at 2, n.1.

4. Hawaii's third request – that foreign air carriers be granted, on the basis of individual applications, authority to serve additional mainland U.S. points on an extra-bilateral basis provided they operate via Hawaii – is a proposal with which United cannot agree. Adopting such a policy would severely undermine U.S. negotiating leverage and inflict competitive harm on U.S. carriers that would continue to be subject to restrictive aviation regimes abroad while their foreign counterparts receive the unilateral grant of virtually unlimited access to the U.S.

5. There are compelling differences between Hawaii's circumstances and the facts that prompted the Department to grant similar authority to Alaska. For one, Hawaii is a popular traffic destination in its own right. Because Alaska has primarily served as a technical refueling stop, the introduction of new, long-range aircraft and the opening of new overflight routes over Russia have severely impacted Alaska's air traffic by eliminating the need for refueling stops. Alaska, consequently, faced the prospect of a substantial and likely permanent loss of access to international aviation services. Hawaii, on the other hand, is an attractive destination for consumers worldwide. Even with the short-term downturn in Asia's economies, Hawaii's prospects for expanded tourism and commerce are healthy and vigorous. The cost of Hawaii's proposal – an unreciprocated loss of bilateral bargaining power – is not worth the benefits that may be generated.

6. The Department already has determined that only Alaska's unique circumstances justify the relief Hawaii seeks. Just last month, the Department stated:

[W]hile we recognize that air service is also vitally important to the State of Hawaii and that both Hawaii and Alaska are dependent on air transportation, we also recognize that there are important differences in circumstances between the

two States. We emphasize that our proposals were tailored expressly to meet Alaska's unique needs. Based on the record here, we cannot find that the public interest warrants our expanding Order 99-1-11 to include Hawaii or instituting a separate proceeding at this time to propose similar actions as requested by Hawaii.

Order 99-5-9 at 5. Nothing has changed in the intervening few days that should alter the Department's conclusion.

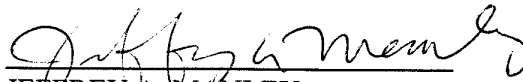
7. Unilaterally granting foreign air carriers access to Hawaii would have profound repercussions. Because of Hawaii's geographic location, Hawaii's proposal would allow Asia/Pacific region carriers from many limited-entry countries, such as Australia, China, Hong Kong, India, Indonesia, the Philippines, Russia, Thailand and others, to have virtually unlimited access to the U.S. in return for nothing benefitting U.S. carriers. Hawaii's proposal to give away unreciprocated bilateral opportunities would clearly undermine U.S. attempts to open these and other markets abroad. Hawaii itself recognized this risk in the Alaska cargo transfer proceeding (Docket OST-96-1600), when it commented that the unilateral grant of rights to foreign carriers is a "radical departure from the traditional bilateral exchange of commercial opportunities between nations. While the proposed relief could have economic benefits to U.S. gateways seeking to develop . . . business, the Department should carefully consider the numerous policy implications of the wholesale grant of extra-bilateral rights to all foreign carriers" (August 16, 1996, Answer of the State of Hawaii at 1).

Even if foreign air carrier applications were considered on a case-by-case basis, as Hawaii proposes, U.S. carriers would be required repeatedly to defend against foreign air carrier applications to circumvent the bounds of existing bilateral agreements, a needless and onerous

exercise. Foreign air carriers seeking greater access to points on the mainland U.S. should follow established channels and urge their governments to come to the bargaining table to negotiate. The Department should not invite them to try to obtain something for nothing.

WHEREFORE, for the foregoing reasons, United Air Lines urges the Department to act favorably on the first two requests of the State of Hawaii, but to deny its request to permit foreign air carriers to seek authority to serve additional mainland U.S. points on an extra-bilateral basis provided they operate via Hawaii.

Respectfully submitted,



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