

REMARKS BY
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SHANGHAI AVIATION CONFERENCE
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Thank you Consul General Smith for your kind introduction. I would like to thank the U.S. Consulate and the American Chamber of Commerce, as well as all of the speakers and participants, for making this important event possible.

In addition to discussing issues related to trade and finance, one of the most important reasons I have come to China is to share my government's perspectives on the issue of civil aviation, with stakeholders like you, including some of you who are outside the airline industry, but who rely on air transportation to support your businesses.

Ultimately your government's agencies in Beijing make many of the decisions that determine the future of civil aviation in China, but I want to express my hope that significant Chinese stakeholders and participants, such as the city of Shanghai, understand the importance of civil aviation to your economy and to the U.S.-China trading relationship.

I hope to convey three important points this afternoon. First, the importance of the aviation industry to continued economic growth for both of our countries. Second, the United States' concern about China's aviation system's capacity to meet growing demand. Third, our desire to work with China as a partner in this effort.

Aviation and Economic Growth

China's aviation market is almost twenty times larger than it was two decades ago. That is large scale growth; not many things grow that quickly in that short amount of time.

Shanghai has become a leading global city because of its leaders' vision and smart investments. Shanghai continues to look ahead, improving its airport, port, rail and road infrastructure. Compared with most Chinese cities, Shanghai has a greater stake, probably the greatest stake, in a modernized aviation system: along with its passenger and cargo needs it also has a strong aerospace sector, which will provide future opportunity for economic growth.

Access to air transportation has played a key role in China's rapid economic development. Air transport has benefited China's manufacturing sector not only by facilitating the rapid transport of high-value goods to major global markets, but also by enabling highly-skilled professionals to maintain global networks with peers around the world.

Air transportation has also facilitated greater investment flows, by connecting global investors with investment opportunities in China, and by allowing China to access global sources of capital and technology.

It has helped meet the rapid increase in Chinese students studying abroad and foreign students coming to China. More than a quarter million Chinese students now study in the United States. The global exposure these students have had in some of the world's top educational institutions has contributed to a flowering of scientific research in China in the last two decades.

China is also seeing more inbound and outbound tourists than ever before. In 2001, 12 million Chinese tourists traveled abroad. In 2014 it was over 100 million. Shanghai is one of the most visited cities in the world and is also a transit and embarkation point for many travelers to the United States. In the past year alone, our Consulate issued about 680,000 visas. Thanks to improved air links, travelers are able to experience new destinations throughout the United States that were not available before.

In the United States we are pleased to see more Chinese visitors going beyond the usual gateways. Some people really like to travel to New York and California, and now Chinese travelers have non-stop access to places that I really enjoy, like Boston, Chicago, Dallas, Detroit, and Seattle.

This growth in travel has been one of the great success stories in U.S.-China relations, supporting expansion of bilateral economic ties and people-to-people ties. But continued growth will depend on having in place supportive policies for commercial aviation.

Flexible global aviation links are a key success factor for high-tech economies, facilitating contacts and helping develop synergies between businesses, researchers, students and others, as well as fast movement of cargo to serve complex, modern-day supply chains.

I think I've made my point that the global economy needs a healthy aviation system. Our economies benefit greatly from tourist and business travel as well as from air cargo transport.

Addressing Aviation Constraints

Now I'd like to address some constraints on the aviation system. We expect that rapid growth in demand for air travel between the United States and China, and in China domestically, will continue. This is a good thing. Some experts predict that in the next 20 years, China will purchase more than 6,000 commercial airplanes. This is almost three times the number currently in operation. Of course, we hope they are all Boeing! But there maybe a few Airbus, and a few locally manufactured ones in there as well.

Accommodating all those new planes will require Chinese authorities to become much more flexible and coordinated in their management of air space, air traffic control, and airport operations, because an aircraft can't make money when it is sitting on the ground.

However, we have concerns – and I'll be frank here – that China's national aviation system is not adapting to the massive growth in demand China is experiencing in air transportation. We have similar challenges in the U.S., but we believe that China needs to transform its national aviation system, including how it manages airspace, provides regulatory oversight, utilizes human capital and technology, and expands system capabilities.

If China's system cannot accommodate future growth, this economic engine will fall well short of its potential, costing our economies – both of our economies – billions of dollars in lost activities.

China is already experiencing daily flight delays that sharply reduce the on-time performance of its airports. The resulting congestion contributes to the inability of airports to increase flights. Again this is not a problem that we are unfamiliar with in the US, but it is particularly severe in China at a time of growth.

I understand that the Civil Aviation Administration of China (CAAC) has recently placed a moratorium on new flights at Shanghai Pudong and two other airports due to congestion. This is a measure they had to resort to and it is unfortunate at a time of growth in demand for air travel.

Addressing China's air traffic constraints, in our opinion, requires more than technical upgrades. It requires a comprehensive examination of how airport operations and air space management are managed by the different entities that have a role in them.

To avoid a crisis in the near term, with significant impacts on the U.S. and Chinese economies, we encourage China to transform its aviation system to a national, system-wide management approach with the requisite organizational capabilities. This will require engagement and support from the highest levels of your government.

A national aviation system, capable of dealing not only with current constraints, but with increasing demand in the future, will require a comprehensive government policy pressing all agencies to adopt transparent and impartial procedures and regulations, including on air traffic and airspace management and allocation of airport slots.

This will be essential to allow air service providers to meet the growing transportation needs of passengers and businesses. Many of the challenges cannot be addressed by civil aviation authorities alone, but other authorities, including military, customs and local authorities, must recognize these constraints and work in concert to address them.

Now, we recognize that many of the measures necessary to reduce congestion, such as infrastructure investment, may take time, even years. Yet there are measures that can be taken now that could increase the efficient use of currently limited resources. Technical and procedural improvements can provide some increase in capacity at congested airports, for example.

At the same time, a transparent, impartial, and fair process for the allocation of airport slots would be useful to assure that those limited resources are distributed to both cargo and passenger carriers in the most economic and efficient way possible. This is a step that could be taken relatively quickly.

U.S.-China Partnership in Aviation

My purpose is not to be critical. We all have a stake in this because the aviation link is essential to our economies, and is part of cultural and people-to-people

exchanges. The U.S. wants to partner with China and that's why we convened this discussion.

In the United States we also face challenges with airport congestion and inefficient procedures. Our technical experts, airlines and airports are constantly seeking ways to improve technical operations. Particularly in the northeast, where because of weather conditions we often have to reroute flights. We are also exploring creative ways to improve the efficiency and integrity of security, immigration and customs procedures. It is important that we share our experiences in addressing these challenges.

U.S. and Chinese technical agencies have a long-standing, positive aviation-related partnership. The U.S.-China Aviation Cooperation Program is an example of an ongoing partnership. I am pleased to note that Geoff Jackson, the Executive Director of the Aviation Cooperation Program, is participating in this event.

A number of U.S. federal agencies have been collaborating with Chinese counterparts for over 30 years to improve technical capabilities in the air transportation sector.

This partnership will become more important as our travel and trade relationship grows. A strong aviation partnership is a key component of a strong economic partnership.

We encourage the city and important economic actors here in Shanghai to focus on this issue and encourage Beijing authorities to develop solutions to expand safe and efficient air travel within, to and from China. Because Shanghai is a gateway to China, this is the city that people often think of to come and find friends, and to do business, and it is critical that we have the capacity to carry each other back and forth across the Pacific.

Thank you.