

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

**In the Matter of**

**2009 U.S.-China All-Cargo Designation  
and Frequency Allocation Proceeding**

**Docket DOT-OST-2008-0127**

**ANSWER OF THE CITY OF HOUSTON  
AND THE GREATER HOUSTON PARTNERSHIP**

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Dated: May 19, 2008

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The City of Houston and the Greater Houston Partnership (collectively, “the City,” “Houston,” or the “Houston Parties”) respectfully submit this answer in support of the application of TradeWinds Airlines (“TradeWinds”) for the designation for an all-cargo carrier in the U.S.-China market that becomes available on March 25, 2009, as well as for six (6) of the available frequencies for all-cargo service in the U.S.-China market.

TradeWinds’ China service proposal includes twice-weekly single-plane service between Houston’s George Bush Intercontinental Airport (IAH) and Tianjin (TSN), with stops in both directions on a round-the-world itinerary. In addition, the itinerary to be operated by TradeWinds (see exhibit WI-5) would enable new and additional services to and from other international points with which Houston has significant economic links, including Milan, Almaty, Seoul, Santiago, and Bogota. Accordingly, the Houston Parties strongly support TradeWinds’ application and urge that it be granted by the Department.

TradeWinds’ service proposal is designed to best utilize the newly available U.S.-China all-cargo rights under the circumstances of the harsh economic climate currently

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confronting air carriers. As TradeWinds notes, there is an imbalance between U.S.-China and China-U.S. traffic which can best be addressed by operating services over an eastbound round-the-world itinerary.<sup>1</sup> But at the same time, TradeWinds' proposal would serve traffic moving from the U.S. to China in markets where such a need exists. As explained in greater detail below, Houston is atypical in that it is a net exporter of air cargo to China – and thus TradeWinds' proposal to use Houston as both a start and an end point for some of its itineraries reflects current market needs and will enhance the public benefits of its services.

As background, the Houston Parties have long supported the U.S. government's efforts to liberalize bilateral air transportation agreements around the world, including the agreement between the United States and China. The Houston Parties therefore have appreciated the new air services that have been made possible in recent years, including pursuant to the memorandum of consultations signed by the U.S. and China in May of last year. However, the City has yet to be a direct beneficiary of new U.S.-China services, despite its significant economic and other linkages with China. By providing the first single plane service between Houston and China – and thus opening services from a new U.S. gateway – TradeWinds' proposal would serve a market that has been growing rapidly despite the lack of service, and that both needs and merits service.<sup>2</sup>

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<sup>1</sup> Cf. 1996 U.S.-Japan All-Cargo Service Proceeding, Order 96-8-43, at 8 (August 29, 1996) (noting that Polar's proposal took into account traffic flows, and that on appropriate days it would continue its flights beyond Japan to Seoul, South Korea).

<sup>2</sup> It is well-established that an important decisional factor in carrier selection proceedings is a proposal to operate services from a new U.S. gateway. Indeed, Congress has specifically placed a high priority on increasing the number of U.S. gateway cities, reducing concentration in the air carrier industry, and strengthening smaller carriers to ensure a more effective, competitive industry; it has designated these tasks as primary international air transportation policy objectives. See 49 U.S.C. § 40101(a) and (e)-(f).

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Indeed, the City, its institutions, and its businesses have all devoted considerable resources for many years towards increasing their connections with China, including through trade missions and the establishment of ongoing relationships with Chinese cities and airports. Houston is a sister city of Shenzhen and a sister port of Dalian, and has established cooperation agreements with ten airports in China. In part due to these efforts, and despite the current lack of China service, Houston is already a major entry and departure point for Chinese exports and imports (#14 in the U.S. for cargo moving by air, according to Commerce Department data). In CY2007, the air trade between Houston and China was valued at more than \$287 million, an impressive gain of 76.6% over CY2006.<sup>3</sup> Moreover, Houston was a net exporter of air cargo to China; exports comprised more than 55% of the trade by weight, with the leading commodities being industrial equipment and computers, followed by article of iron or steel; inorganic chemicals; and electrical machinery, equipment, and parts.

The above data is all the more impressive given that Houston's lack of mainland China service means that many goods that could be shipped to/from Houston are in fact shipped via, and may be included in, the data for other U.S. gateways. According to a 2002 study, historically 98% of Houston's freight forwarder cargo bound for East Asia has moved on scheduled services; there is a strong demand for the services proposed by TradeWinds. But only 6% of that cargo was reported to move through IAH; freight forwarders reported that the lack of service at IAH required them to truck their cargo to

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<sup>3</sup> Additionally, China is the Port of Houston's overall largest seaborne trade partner in East Asia (and the largest seaborne trade partner worldwide), with Houston-China trade being valued at more than \$5.7 billion in 2007.

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other gateways. Indeed, freight forwarders indicated that direct flights would lead them to shift at least 40% of their air cargo shipments to those services. Since 2002, IAH has acquired new services to East Asia – such as freighters operated by China Airlines of Taiwan, EVA Air, and Korean Air – but satisfying unmet demand for service continues to be a challenge for the airport and the Houston economy as a whole. The significant volume of available cargo traffic is reflected in Cathay Pacific’s recent decision to launch three weekly scheduled all-cargo flights between Houston and Hong Kong in September. TradeWinds’ proposed new services would provide much-needed airline support to help further remedy this service deficit, especially in regard to mainland China – and also notably would be the first U.S.-flag all-cargo service between Houston and East Asia.

An additional pillar of Houston’s trade with China continues to be the City’s status as the premier international city of the southwest, which is reflected in the extensive economic and other linkages that support the China trade.<sup>4</sup> Houston is home to one of the largest and fastest-growing Chinese-American and Asian-American communities in

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<sup>4</sup> Houston is the fourth-most populous city in the U.S. and one of the key engines of the U.S. economy. The City is a diverse, award-winning international business center, specializing in energy exploration and production, financial management, medical research and treatment, aerospace research and development (including NASA’s Johnson Space Center), and cargo distribution, and is regarded as the world’s energy capital. Houston ranks third among U.S. cities in the number of Fortune 500 corporate headquarters (26) – and has more Fortune 500 headquarters than any other city which lacks service to China. Fifty-six of the 100 largest non-U.S. corporations have a presence in Houston, and 23 foreign banks from 13 nations have offices in Houston. Indeed, if the Houston Metropolitan Statistical Area (“MSA”) were an independent nation, it would rank as the world’s 30th-largest economy, ahead of other important Houston and U.S. trade partners such as Belgium, Venezuela, Sweden, Greece, Austria, and Switzerland. Houston hosts consular offices from 88 countries and an additional 20 foreign government trade and commercial offices, as well as 35 foreign chambers of commerce and international trade associations. Houston’s population is projected to grow at an annual rate of 1.78% through 2030, exceeding that of the U.S. as a whole, while Houston’s Gross Area Product is expected to grow at an annual rate of 3.82%, also exceeding that of the U.S. as a whole.

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the U.S., which is also the largest such community in Texas. China's regional consulate is located in Houston, serving an eight-state area, and trade and cultural linkages also are promoted by the City's multiple China-focused organizations. The Houston Airport System plays a key role in these linkages through its long-term relationships with major Chinese airports – now ten in number, as noted above – and the ongoing international training programs that it provides to Chinese airport officials. These extensive ties will provide a solid, additional foundation for the services proposed by TradeWinds.

According to the Greater Houston Partnership's Business Houston: Gateway to Global Markets 2007, more than 50 Houston companies have subsidiaries in China, in addition to the 550 Houston companies that trade goods and services with China. For example: Synthesis Energy Systems, Inc. is building multiple coal-to-chemical plants in China; KBR, Inc. has been awarded a contract to provide technology and engineering for an aniline plant to be built in China by Ningbo Wanhua Polyurethanes Co.; Texas Medical Center will open the first phase of an affiliated hospital in Shandong later this year; and MetroCorp Bankshares, a publicly traded bank holding company, recently opened its second representative office in China.

IAH is itself one of the top overall U.S. gateways for international travel and commerce. IAH is the #11 U.S. airport in terms of international air cargo (and is also a major hub for passenger traffic, ranking #8 in the U.S. in CY2007). In CY2007, IAH handled nearly 376 million pounds of international air cargo, a 3.5% increase over CY2006. Overall IAH is experiencing tremendous growth in both passenger and cargo traffic, and each year the Houston Airport System contributes more than \$24 billion in positive economic impact to the Houston economy.

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Houston recently completed construction of a new air cargo complex which will provide complete support for TradeWinds' services – offering facilities and services such as 20 wide-body parking spaces and “one-stop-shopping” for federal inspection services. The IAH CargoCenter has been recognized as an industry-favored air cargo gateway for three years running (2005-07) by Air Cargo World's Air Cargo Excellence Award. But Houston does not intend to rest on its laurels; cargo facilities enhancement at IAH continues. Notably, plans for a new Perishables Center at IAH are well underway; designed for a late 2008 opening, the new facility will provide shippers with an alternative and efficient gateway for the significant volume of perishables destined for the southwest and central regions of the U.S.

In short, the Houston market has significant unmet demand for China all-cargo services that TradeWinds' new flights would help to remedy. TradeWinds' creative proposal reflects both the unusual bi-directional needs of the Houston market with the uni-directional needs of other markets and today's challenged economy. It is a unique proposal that would bring substantial public benefits.

WHEREFORE, the Houston Parties urge the Department to grant the application of TradeWinds Airlines in this proceeding for a designation and six (6) frequencies for U.S.-China all-cargo service.

Respectfully submitted,



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Dated: May 19, 2008

## CERTIFICATE OF SERVICE

I certify that on this 19th day of May 2008, a copy of the foregoing Answer of the City of Houston and the Greater Houston Partnership was served on the parties named below in accordance with the Department's Rules of Practice:



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