

**Explanation concerning the Cross-Strait Air Transport
Agreement**
**— The Results of the Second Chiang-Chen Meeting (Air
Transport)**

Mainland Affairs Council
November 4, 2008

I. The urgency and necessity of direct air transport

1. Economic urgency

- (1) Cross-strait economic and trade activity is frequent and intense. Mainland China is Taiwan's biggest export market and the biggest recipient of foreign investment by Taiwanese businesses. There is enormous demand for the cross-strait transport of passengers and cargo.

— In 2007, cross-strait trade amounted to US\$130.2 billion, accounting for 27.9% of Taiwan's total foreign trade. Taiwan's exports to mainland China amounted to US\$100.4 billion, constituting 40.7% of Taiwan's total exports.

— At the end of 2007, Taiwanese business investment in mainland China had reached a cumulative total of US\$64.9 billion, accounting for 55.4% of all overseas investment by Taiwanese businesses.

— In 2007, there were 4.95 million journeys by passengers across the Taiwan Strait.

— In 2007, cross-strait import and export airfreight volume reached approximately 290,000 tonnes, accounting for 28% of all cargo airfreighted in and out of Taiwan.

- (2) Cross-strait trade and economic activity has already become the most important part of Taiwan's economy. However, most passengers and goods still cannot be carried directly across the Taiwan Strait, but must be routed indirectly via a third territory. This not only costs time and money, increasing transport costs for

businesses and individuals, but also affects the normal operation of Taiwan's economy. It results in the loss of many business opportunities, and causes Taiwan's economy to become increasingly marginalized.

2. Solidly based on the will of the people

- (1) Various public opinion polls over the years have consistently found that more than 70% of the public support direct cross-strait transport, while support for it among the business community surpasses 90%. Our society has long since formed a consensus in favor of direct cross-strait transport.
- (2) The former DPP administration presented its policy on direct cross-strait transport as long ago as August 2003. In the 2004 and 2008 presidential elections, the DPP candidates advocated direct transport as a major plank of their policy platforms. It is clear to see that the implementation of direct transport is a longstanding government policy goal and not the sole province of the Ma administration.

3. The step-by-step opening of direct charter flights

- (1) The previous administration began to implement Lunar New Year charter flights in 2003, and in 2006 expanded these to four kinds of special charter flights (institutionalized festival charters, special cargo charters, emergency medical treatment charters, and specially designated humanitarian charters).
- (2) After the Ma administration took office, on June 13 of this year the SEF and ARATS signed the Minutes of Talks on Cross-Strait Charter Flights, and on July 4 commenced the operation of weekend charter flights. However, due to the limitation of the flight schedule, number of flying days, and mainland airports served by the flights, the number of passengers taking the weekend charter flights in either direction across the Taiwan Strait has, according to the statistics, still not reached 10% of all cross-strait passenger traffic. On the cargo transport side, only 15 direct charter flights have been operated to date, meeting only a

minute fragment of the huge demand for cross-strait air cargo transport. Moreover, currently all passenger and cargo flights must be routed via the Hong Kong Flight Information Region, wasting time and costs, and completely out of synch with market principles and economic benefit.

II. Major breakthroughs of the Cross-Strait Air Transport Agreement

The signing of the Cross-Strait Air Transport Agreement between the SEF and ARATS on November 4 has achieved the following major breakthroughs in cross-strait air transport:

1. Direct flight path in both directions

(1) The two sides have agreed to open a direct two-way flight path in a northern line across the Taiwan Strait. In the future, cross-strait flights will follow the current international airway B576 from BERBA point toward the west, and after passing an air traffic control handover point agreed by both sides ($N27^{\circ}26'20''$ $E122^{\circ}25'19''$), will transition to an inland flight point at Dongshan in the mainland. This flight path involves direct handover between the air traffic control departments on either side of the Taiwan Strait, and can be used in both directions to achieve the goals of saving time and money.

(2) The two sides agree to continue consultations on opening a direct two-way flight path in a southern line across the Taiwan Strait, as well as other more convenient flight paths.

2. Weekday charters, and increasing the flight schedule and flight points

(1) Weekend charters will be adjusted to normalized 7-days-a-week charters.

(2) Flight points

- a. Taiwan will continue to use 8 flight points, namely: Taoyuan, Kaohsiung (Siaogang), Taichung (Chingchunkang), Taipei

(Sungshan), Penghu (Makung), Hualien, Kinmen and Taitung.

- b. Mainland flight points will be increased to 21, including the existing 5 flight points of Beijing, Shanghai (Pudong), Guangzhou, Xiamen and Nanjing, plus the 16 additional flight points of Chengdu, Chongqing, Hangzhou, Dalian, Guilin, Shenzhou, Wuhan, Fuzhou, Qingdao, Changsha, Haikou, Kunming, Xian, Shenyang, Tianjin and Zhengzhou.

(3) Number of flights

- a. The two sides will operate a total of 108 round-trip flights per week, with each side operating 54 round-trip flights. (Currently, the two sides are operating a total of 36 round-trip flights per week.)
- b. Taiwan carriers will operate up to 20 round-trip flights per week to Shanghai (Pudong). (Currently, such flights are limited to 9 per week.)
- c. Flights may in the future be increased or reduced at appropriate times according to market demand.

3. Cargo charters, collaborative operation

- (1) The two sides agree to open regular cargo charter services, with each designating two or three air carriers to operate them.

(2) Flight points

- a. In Taiwan: Taoyuan and Kaohsiung (Siaogang).
- b. In the mainland: Shanghai (Pudong) and Guangzhou (Baiyun).

(3) Number of flights

The two sides will operate a total of 60 round-trip flights per month, with each side operating 30 round-trip flights:

- a. The two sides will each month each operate 15 round-trip flights to and from Shanghai (Pudong) and 15 round-trip flights to and from Guangzhou, for a total of 30 round-trip flights each.
- b. Every year in the peak cargo shipment season of October and

November, the two sides may each operate an additional 15 round-trip flights.

- (4) The two sides' air carriers will adopt a commercial cooperation mode of operation.

4. Regular flights can be expected soon

The two sides agree to do the utmost possible to make arrangements for regular passenger and cargo flights within six months of the implementation of this agreement.

5. Business charters, direct cross-strait flight

The two sides agree to the opening of non-commercial business charter flights.

III. Northern flight path assures security and dignity

1. The government's highest principle in the planning and negotiation of a new cross-strait flight path is to assure national security and dignity. Any new cross-strait flight path must meet the precondition of not affecting national defense security, and the content of any agreement must comply with the principle of "parity and dignity."
2. The northern flight path follows an existing international flight path, changes direction at B576 BERBA point, passes through an air traffic control handover point agreed by both sides, turns to Dongshan in the mainland, and then transitions to an inland flight point. It may be used for flights in both directions. The reason for using BERBA as the turning point is that airway B576 enters Japan's air defence identification zone (ADIZ) just to the north of this point. In consideration of the complexities involved, after discussion between the two sides it was agreed that BERBA was the most northern point acceptable to both for turning off from airway B576.
3. The northern flight path turns left from B576 BERBA toward an air traffic control handover point agreed by both sides. The adoption of this crooked flight line completely avoids our side's no-fly zone, and ensures that the military can also fully monitor the movement of

charter flights throughout their journey, and can fully safeguard national defense security.

4. In the negotiation of the direct cross-strait flight path, both sides acted in accordance with the spirit of putting aside disputes and not touching on sensitive issues, and were thus able to reach agreement on the northern flight path. The two sides' air traffic control departments will as soon as possible conduct follow-up liaison on the direct handover of traffic control and other technical matters, and complete the requisite arrangements. Because Taiwan is not a member of the International Civil Aviation Organization (ICAO), and we also firmly oppose the mainland unilaterally submitting an application to the ICAO, until both sides have reached a consensus, each will follow its own administrative procedures in notifying airlines on the two sides of the strait to adhere to the northern flight path, and will register it in flight path rules manuals (AIP, Aeronautical Information Publication) that are in common use internationally. In regard to the technical issues of air traffic control arrangements, the naming of the flight path, and so on, the two sides also agree to discuss and arrange these in accordance with aviation conventions and customary practice, and there definitely will not be any question of downgrading on either side.

IV. Progressive buildup of economic benefits

1. Direct benefits of direct air transport

(1) Sharp reduction in transport time and cost

- a. Before July of this year, most Taiwanese who visited the mainland transited via Hong Kong. For example, someone flying from Taoyuan to Shanghai would have to spend four hours in the air and, with transit time added on, upwards of 5 to 6 hours in total to make the journey. After the launch of weekend charter flights, there was no need to land in Hong Kong, but it was still necessary to fly via the Hong Kong flight information region (FIR), and the journey from Taoyuan to

Shanghai (Pudong) took approximately 2 hours and 24 minutes (calculated according to A340 and B777 operational data), already reducing the time by half.

- b. After the establishment of the new cross-strait flight path, it will take just one hour and 22 minutes to fly from Taoyuan to Shanghai, 62 minutes less than the weekend charter flight time. If we work out the figures for the different flight routes from Taipei, Taoyuan and Kaohsiung to Beijing and Shanghai (Pudong), compared with flying via the Hong Kong FIR, the distance of the flights is reduced by between 319 and 959 kilometers, with a time saving of approximately 13~64 minutes. Moreover, according to airline calculations, fuel cost will also be reduced by approximately 40~45% compared with flying via the current routes. Altogether, the savings of time and costs for airlines and passengers are estimated to add up to at least NT\$3 billion a year.

(2) Greatly raising cargo consignment efficiency

Under the current cargo aircraft routing mode of stopping and transferring cargo in Hong Kong or Macau, a single consignment from Taoyuan to Shanghai takes approximately 12~16 hours (including stoppage and transfer time). If the cargo were shipped the whole way in the same aircraft, it would take approximately 5~6 hours. After the implementation of direct cargo charter flights, it will take only 1.3 hours to fly goods from Taoyuan to Shanghai, a huge saving in shipment time that can facilitate cross-strait goods consignment and reduce consignment costs.

(3) Alleviating airline companies' operating difficulties

The sharp reduction of flying times and operating costs can lift airlines' operating performance, improve the state of their operating income, and help alleviate the pressure of their current difficult operating situation. Moreover, through the market competition mechanism, the gradual reduction of costs can be reflected in lower ticket prices and shipping charges, feeding

benefit back to consumers and all kinds of businesses.

(4) Increasing the number of mainland tourists visiting Taiwan

With the weekend charter flights changed to weekday charter flights, and the weekly number of flights increased from 36 to 108, plus the opening of 16 more flight points in the mainland, it will be much more convenient for mainland residents to take tourist trips to Taiwan. The opening of flights from Chengdu, Chongqing, Hangzhou, Dalian, Guilin, Shenzhun, Wuhan, Fuzhou, Qingdao, Changsha, Haikou, Kunming, Xian, Shenyang, Tianjin and Zhengzhou, in addition to the originally opened five airports in Beijing, Shanghai (Pudong), Guangzhou, Xiamen and Nanjing, extends the charter flight coverage to 13 of the mainland's provinces and municipalities (Beijing, Tianjin, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Chongqing, Yunnan and Shanxi). These further opening measures will also help airlines to arrange more varied packages and promotions for tourist travelers, and surely will give a big boost to the number of mainland tourists visiting Taiwan.

2. Indirect benefits of direct transport

(1) Helping Taiwanese business people keep their roots and hearts in Taiwan

According to a questionnaire survey on the effect of weekend charter flights on Taiwanese business people's investment and living patterns, conducted by the MOTC's Civil Aeronautics Administration during September 5~8, 2008, 74.8% of business owners taking the charter flights said that the expansion of cross-strait charters could make them more willing to return to invest in Taiwan. Among the poll respondents who usually reside in Taiwan, 91.5% of business owners and 87.0% of non-business owners said that in the future they would keep their usual place of residence in Taiwan; and among poll respondents who usually reside in the mainland, 42.6% of business owners said that in the future they would move their

usual place of residence back to Taiwan. This demonstrates that after the expansion of cross-strait charter flights, Taiwanese business people will be more willing to return to invest and habitually reside in Taiwan, which will help keep Taiwanese business people's roots and hearts in Taiwan.

(2) Conducive to the cross-strait division of labor in industry

The implementation of cargo charter flights will greatly reduce the time and cost of shipping goods across the Taiwan Strait. In addition to improving trade conditions and enhancing the export competitiveness of Taiwan's industries, it will also help businesses to establish more efficient models for division of labor across the Taiwan Strait, and enable high value-added industries to keep core competitive strengths in Taiwan. At the same time, direct air transport can strengthen Taiwan's linkage with global markets, and attract transnational corporations to conduct various value-adding services and innovative R&D activities in Taiwan, and base operations headquarters in Taiwan. In particular, information, electronics and other high-tech industries that are highly reliant on air cargo transport will in the future receive the greatest benefit.

(3) Helping rebuild the strategic advantages of Taiwan's economy, and developing Taiwan into an Asia-Pacific regional operations center (APROC)

Taiwan occupies a pivotal location in Asia, as a gateway for Asia-Pacific countries to enter the markets of mainland China and Southeast Asia. After direct cross-strait air transport is realized and shipment efficiency greatly increased, Taiwan's economic strategic advantages can gradually be optimized, its overall competitiveness will greatly increase, and this will help establish Taiwan as an Asia-Pacific regional operations center.

V. Future outlook

With cross-strait air transport progressing from weekend charter

flights to daily charter flights, from special-case cargo charters to regular cargo charters, and from flights detouring via the Hong Kong FIR to the establishment of a direct cross-strait flight path, cross-strait air transport has already entered a brand new stage. In the Cross-Strait Air Transport Agreement, the two sides have agreed, as far as possible within six months of the agreement taking effect, to negotiate the completion of arrangements for regular cross-strait flights. Then we can fully implement direct cross-strait air transport, and its economic benefits can be brought into optimum effect.