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MEMORANDUM

TO: **NEC STAFF**

FROM: **ANNE H. LEWIS**

RE: **AFL CIO CONVENTION**

DATE: **SEPT 10**

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For the President, Craig Smith's shop will be the Staff Contact, but we can anticipate that he will need input from us. I would like to prepare the paper early enough so that the VP can also use it. Therefore, the deadline is Wed Sept 17th at 5 PM. Here's a heads up on what we will be asked for:

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Team Act	"	Anne
Electricity Restructuring	"	Kathy
Aerospace Offsets	"	Dorothy
Climate Change	"	Peter (with CEQ)
Education& Trng (Skill grants)	"	Bob/Anne
FLSA Application	"	DPC
Privatization	"	DPC
Davis Bacon, Service Contract, OSHA, MSHA		Anne
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Although there is no consensus within the Administration on how to deal with the offsets issue, we are committed to **analyzing and better understanding the offsets issue, encouraging dialogue among the various interests on this issue; and continuing to take action to reduce government-mandated offsets through multilateral agreements and bilateral discussions.**

Pensions: Since the start of the Administration, we have taken strong legislative and administrative action to enhance the ability of Americans to save for retirement and to protect the security of those savings. The Retirement Protection Act, proposed in 1993 and enacted in 1994, has put traditional defined benefit plans and the Pension Benefit Guaranty Corporation back on a firm footing, protecting the security of over 40 million workers who participate in those plans. In 1996, we passed major pension simplification legislation and took strong administrative steps, which appear to be meeting their goals of expanding coverage, increasing portability and enhancing security. Unfortunately, Congress has not supported the Administration's efforts to do right by the multiemployer plans that many union members depend on. We will continue to work to increase the guarantee, and to make other simplifying changes that will enhance the benefits available under these plans.

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Securities law preemption: While labor in general has been less interested in the issue of limitations on the right to sue under the securities laws than it is in product liability reform, they also opposed the Private Securities Litigation Reform Act, which was passed over the President's veto. Business is now trying to extend that statute by getting Congress to enact legislation to preempt most state securities fraud actions. Business thinks the President has indicated support of their position, but the situation is somewhat more murky. Even if we support some sort of preemption, it is unlikely to be as broad as that proposed by the business community.

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THE WHITE HOUSE

WASHINGTON

February 17, 1997

MEMORANDUM FOR GENE SPERLING

cc: Kathy Wallman

FROM: Dorothy Robyn DR

SUBJ: Issues of Concern to AFL-CIO

Three issues in my portfolio may come up in your meetings with the AFL-CIO: aerospace "offsets," ISTEA and American Airlines.

Aerospace "Offsets". In late 1995, as the International Association of Machinists was preparing to enter contract negotiations with Boeing, IAM President George Kourpias asked the President to examine the growing tendency for U.S. aerospace firms to source from foreign suppliers of components and subsystems. Kourpias later met with Laura Tyson, and the NEC began an interagency process to examine this sensitive subject. After a series of meetings with labor and industry officials, and extensive analysis by the Department of Commerce's Office of Aerospace, the NEC group concluded informally that, on balance, international alliances in aerospace create many more jobs than they destroy, although the situation bears close watching, particularly in China. (See attached executive summary of our draft report.) We did not make our conclusions public, both because they did not support the IAM position and because the machinists had appeared to lose interest in the interagency effort once the Boeing strike was resolved.

On a separate but related track, Commerce's Bureau of Export Administration (BXA) published a report in May 1996 on defense "offsets" -- i.e., requirements for local production or other investment imposed by foreign purchasers of U.S. military systems. BXA's analysis left a lot to be desired, and OMB, USTR and NEC commented extensively on various drafts. But we did not challenge the report's basic criticism of defense offsets.

Based on BXA's report, Commerce's Trade Policy Coordinating Committee included a chapter on defense offsets in its September 1996 report. At the eleventh hour, Commerce proposed to add a section on commercial offsets. But the draft was one-sided in its criticism of commercial offsets, and it contradicted the earlier analysis done for the NEC by Commerce's Office of Aerospace. After OMB, USTR and NEC all weighed in, TPCC agreed to drop the last-minute addition and substitute a footnote promising to address commercial offsets in next year's report.

One other piece of history is relevant. Last fall, ***New York Times*** investigative reporter Jeff Gerth began writing a story about the aerospace industry. After a lengthy meeting with Dan Tarullo and Chris Dorval to discuss what I should say, I spoke to Gerth on background, and Laura later spoke to him on the record. We both emphasized the substantive findings of the NEC process. In doing so, we unwittingly played into his rather bizarre thesis that the handling of this issue by the Clinton Administration reflects the growth in campaign contributions to Democrats from big business relative to organized labor. Gerth got some smaller points wrong as well. Fortunately, the story (attached) ran on Christmas day and so has had little impact.

Mistakenly, I talked to Gerth before talking to the IAM, and so the machinists learned first from him about the outcome of the NEC process. I met with key IAM officials in mid-December (before the Gerth story ran) both to apologize for that and to discuss the NEC findings in more detail. I shared my idea of having the National Academy of Sciences do a workshop and report that would feed into the TPCC's 1997 report. They were very supportive of that idea. Partly as a follow-on to that meeting, Kourpias recently wrote the President asking that the NEC interagency group be made a "permanent fixture charged with the mission of promoting U.S. aerospace production and employment."

I have since met with National Academy officials (representatives from Labor, Commerce and other relevant agencies also attended), and they are willing to do a workshop and follow-up report by July. Such a workshop would, of course, involve experts from industry, labor and academia. It would look at offsets and alliances in two sectors: aerospace and (tentatively) telecommunications. If appropriate, the workshop could be part of a longer (12 to 18 month) Academy study of this issue.

Although I don't anticipate the National Academy will automatically embrace the IAM's position on this issue, I do think a NAS workshop and report could be very useful to labor: First, it will provide a forum for an exchange with industry officials, which is much needed. Second, it will help sort just what "offsets" are, since different people use the word to mean different things. Third, it can focus on the need to do a better job of ***measuring*** the growth in foreign production; currently, we're reliant on industry for the figures on domestic vs. foreign content, and those figures are calculated using a methodology prescribed by the Export-Import Bank which is fairly crude. Finally, it can help to generate some positive recommendations -- steps the federal government can take to ensure that, at a minimum, international cooperation in aerospace contributes more to U.S. leadership in this important industry.

If asked about this issue, you should respond:

- The NEC-chaired interagency process that was established in 1995 to examine this issue is still in operation. Known as the "Working Group on Aerospace Employment," it has become the Administration's standing group on aerospace issues the affect jobs and the economy.

- We have asked the National Academy of Sciences to convene a workshop on offsets in aerospace this spring. That workshop will, of course, include representatives of labor, as well as industry and academia.

- In addition to examining the offset issue, there may be other things the Administration can do to promote employment in the U.S. aerospace industry, and the NEC is looking at that as well.

ISTEA. State Infrastructure Banks (SIBs) provide greater flexibility to support the financing of projects by using federal-aid funds for revolving loans and other forms of non-traditional financial assistance. Offering only a shallow federal subsidy, SIBs are designed for transportations projects that can be largely (but not entirely) funded by the private sector -- e.g., toll roads. The Administration is requesting $150 million for SIBs in FY98.

Two years ago when OMB and NEC first proposed SIBs internally, the Department of Labor argued for permanent Davis-Bacon Act (DBA) coverage, whereas OMB wanted a complete exemption. The NEC proposed an approach used by EPA's Wastewater Treatment Revolving Fund, which provides a similarly shallow federal subsidy: namely, require the first round of projects funded by an individual SIB to comply with DBA requirements but exempt subsequent rounds. (If an existing SIB were to get subsequent federal dollars, that would count as a "new" SIB for purposes of DBA.) DOL and organized labor accepted this approach, recognizing that the SIB program, given the type of projects it supports, will never get very big.

The Department of Transportation's interpretation of the resulting legislation has been even more generous to labor. If a SIB project is funded or repaid even partly with federal dollars, ***regardless of the funding round***, it must comply with DBA. Thus, only SIB projects that are funded and repaid entirely with state dollars would be exempt under current DOT rules.

Despite the two-year old agreement, organized labor this year raised anew the issue of permanent DBA coverage for any and all projects funded by SIBs. (Labor's revised position seems to reflect the mistaken impression that the SIB program is due to expand significantly.) On policy grounds, labor's proposal is problematic: First, it would represent an expansion of existing DBA coverage, which could set a costly precedent for EPA and other federal agencies. Second, by raising the cost of purely state-funded SIB projects, it would reduce the number of such projects. The Administration has not yet resolved the issue.

If you get a question, you should emphasize, first, that the Administration is carefully considering labor's views. Second, you may want to reiterate that this program, by its very nature, will remain small. (Mort Downey spoke to the AFL-CIO on Saturday, and I will get you a copy of his Q&A on this issue tomorrow.)

American Airlines. The President's action to avert the strike of American Airline pilots does not seem to be a major issue with the AFL-CIO, according to the Vice President's staffer who has talked with union officials. The Allied Pilots Association (APA), which represents American pilots, is independent, having split off from the AFL-CIO's Air Line Pilots Association (ALPA) in 1963. Many ALPA pilots still resent that break in the ranks. Moreover, ALPA represents the 2,000 pilots at American Eagle, the company's commuter line, who are in a position to take jobs away from APA members if American expands the use of regional jets. APA is insisting that its pilots be given the right to fly the smaller planes, but American says it would lose money flying regional jets with the high salaries that APA pilots command. (American on Thursday rejected an APA proposal to have American pilots fly any American Eagle jets at salaries that would keep those flights competitive with other commuter airlines.)

That said, the issue of regional jets is a problem for ALPA, much as it is for APA, because some of the commuter airlines are not unionized. For example, Northwest Airlines recently introduced 12 regional jets at its 30 percent-owned commuter affiliate, Mesaba Holdings Inc. Because Northwest pilots are contractually guaranteed to fly any jets within the Northwest system with 70 or more seats, the Mesaba planes will be configured to carry 69 passengers. ALPA is extremely unhappy, although it has not taken any action to oppose the moves. (See attached newspaper articles.)

THE WHITE HOUSE

WASHINGTON

Bill Samuels - DOL

219-2455

Joseph D Eyer @ OVP 6-9001

04/25/97 03:10:54 PM

Record Type: Record

To: Dorothy Robyn/OPD/EOP

cc:
Subject: language for Machinists

Dorothy -- Thanks so much for the memo and the report.

Would you be so kind as to e-mail me some language for our speech writers that shows our sensitivity on this issue. I would be very grateful.

Thank you again.

Ed Wilkin - TTD
- Trans. Trades Division

EPA Revolving Loan Fund

We build the

REMARKS PREPARED FOR DELIVERY
DEPUTY SECRETARY OF TRANSPORTATION MORTIMER DOWNEY
TRANSPORTATION TRADES DEPARTMENT, AFL-CIO, MEETING
FEBRUARY 15, 1997
LOS ANGELES, CALIFORNIA

(Introduction to be made by Sonny Hall, Secretary-Treasurer, Transportation Trades Department, AFL-CIO)

Thank you, Sonny, for that introduction. Let me start by bringing you greetings from Secretary Slater, who was sworn in yesterday.

Some of you already know the Secretary from his service as Federal Highway Administrator, but he's looking forward to meeting with all of you. We'll work with Ed Wytkind to schedule that meeting.

I'd like to go back to Washington with your ideas on the direction the Department should take under Secretary Slater's leadership, so I hope to spend most of our time today hearing your thoughts.

Before we do that I want to talk about President Clinton's commitment to working Americans and to his partnership with America's labor unions.

Over the years you've given voice to the concerns of the working men and women who make our transportation industry the engine of our economy, and the President shares your desire to empower them to make the most of their lives.

That commitment has its roots in the long and proud Presidential tradition of standing with working Americans.

These Presidents -- from Roosevelt and Truman to Clinton -- have sought a common goal: ensuring prosperity and security for all Americans.

We've taken a big step towards realizing this goal over the last four years.

Today we have more than 11 million new jobs, including a half-million in transportation.

The "Misery Index" is down to its lowest level since the 1960s. Mortgage interest rates are down, and homeownership is up to its highest level in three decades.

And Americans' future prosperity is also more secure than ever. 40 million Americans have had their retirement income protected because the President fought to change laws and crack down on deficient pension funds.

Just in the last year the President has worked with you to achieve a minimum wage increase for 10 million American workers -- health care reform that lets working people keep their insurance even if they change jobs -- and welfare reform that's going to continue moving people from welfare rolls to payrolls.

In transportation, President Clinton's commitment to working Americans is seen in our programs to preserve tens of thousands of high-wage jobs by helping to restore decaying industries like shipbuilding, airlines, and aerospace.

You've seen the President's commitment in his new Maritime Security Program, which will ensure that up to 47 American-crewed ships serve our ports and are available for service in national emergencies.

You've seen it in our aviation policy, which has produced 43 new or expanded international agreements to open up markets to U.S. carriers and generate airline jobs.

And you've seen the President's commitment -- and that of all of us in DOT -- in our efforts to improve safety for transportation workers.

We've worked with rail labor and management to develop new protections for roadway workers, a partnership we're continuing in other rulemakings.

We've also stepped forward to protect railroad workers' "right to tell" about safety problems, and we've been partnering with the rail brotherhoods to improve grade crossing safety, especially through better maintenance.

We responded to your request that we work with the George Meany Center to give commercial vehicle drivers an education program about federal drug and alcohol testing rules and substance abuse prevention, intervention, and treatment.

We're ensuring that the globalization of our industry doesn't compromise safety -- whether that means requiring international truckers to obey American laws or mandating that foreign air carriers serving the U.S. maintain security standards identical to those of domestic airlines.

Finally, you've seen our commitment to working men and women in our approach to labor relations.

[*We've helped to resolve airline and railroad labor disputes and to promote employee ownership of airlines, preserving jobs.*]

We've pioneered transit labor-management cooperation in such areas as a standardized bus operators' training program and maintenance worker training, and we've ended the mandatory privatization reviews that plagued transit in the past.

We've rehired former PATCO air traffic controllers in increasing numbers, taking advantage of their skills and experience and putting the past behind us.

And we've worked with labor to create models for collective bargaining as we implement personnel reforms at the FAA. We're confident that such efforts are the future of the transportation industry, and we'll do everything we can to support them.

We need to build on our successes -- in transportation and elsewhere.

In his State of the Union message the President laid out an agenda to do this -- an agenda which will enable us to *finish* jobs like balancing the budget and turning to the tasks ahead, building a foundation for the 21st century -- a foundation of investment in education, in technology, and in infrastructure.

We at DOT are doing our part to make the President's vision a reality. That's reflected in the 1998 DOT budget that the President proposed just last week. The budget reflects his commitments to balancing the budget by 2002 *and* to providing a safe and efficient transportation system.

Although the total $38.4 billion the President requested is about one percent below this year's budget, funding for many targeted areas of interest to us all has increased. Let me review a few of these priorities.

Our highest priority -- as always -- making our transportation system safer for industry workers and for travelers.

Although our system is already the world's safest, much of what we do is aimed at making it safer, even in the face of growing travel.

That's why we want to raise direct safety spending by $200 million -- to $2.9 billion, a record 7½ percent of our total budget.

That includes increasing motor carrier safety grants by 28 percent, to a total of $100 million, and targeting $17 million of these funds to ensuring that carriers give their drivers the ability to operate safely.

We also want to increase railroad safety spending by 11 percent, to $57 million, with funds going to speed up new safety rules and to buy an automated track inspection vehicle.

And we want to raise aviation safety spending by 12 percent, enabling the FAA to hire 273 new safety inspectors and certification staffers and funding the work of a new National Certification Team to inspect start-up airlines.

The President also recognizes the importance of sound infrastructure to increasing our prosperity and our international competitiveness.

He's strongly supported the programs made possible by ISTEA -- the Intermodal Surface Transportation Efficiency Act, which authorizes federal highway and transit programs and which expires this year.

Our proposal for ISTEA reauthorization is undergoing final review, so I can't say much about it. However, I *can* talk about how it affects parts of our '98 budget -- the first budget of the post-ISTEA era.

During President Clinton's first administration we increased investment in highways, transit, and other infrastructure by more than 20 percent, to an average of $25.5 billion annually. Our '98 proposal of $25.6 billion is actually *above* this average.

That includes just over $18 billion for highways, maintaining our investment in roads and bridges.

We're also keeping mass transit investment steady, providing more than $4.3 billion, including money for the 17 full-funding grant agreements executed since President Clinton took office.

Those new start agreements -- worth $6 billion in federal funds -- are leveraging an additional $5 billion in nonfederal investment for more than a hundred miles of new rail lines.

We're also giving transit agencies more flexibility by ending the distinction between operating and capital assistance for cities with more than 200,000 people.

Although routine operations would no longer be funded for these agencies, maintenance and the debt service on capital investment would now be eligible for capital grants.

In addition, capital grants have an 80 percent federal share *versus* the 50 percent for operating grants, letting local funds leverage more federal money.

Taken together, these changes will place transit agencies in a better position than before.

Smaller communities -- which are the ones most dependent on federal aid -- could use their transit formula grants for either capital or operating expenses.

I've already mentioned the Partnership for Transportation Investment, which fills the gap between our infrastructure needs and the available federal funding.

Our 1997 budget builds on our successes by providing $150 million in seed money for the first State Infrastructure Banks, or SIBs, to leverage private and other public funds.

I know that some of you have had concerns about the SIB program and its implications for labor protection. I want to assure you that your comments are being listened to as we develop this program.

The '98 budget proposes another $150 million in seed money for SIBs, and $100 million for a new Federal Credit Program focused on projects of national significance, such as the Alameda Corridor here in Los Angeles.

Infrastructure investment, of course, is only part of what we do. We also fund operations, including those of the FAA, which safeguards and supports our aviation system.

We're requesting an 8.7 percent increase, a notable amount in an era of budget freezes, to the FAA's operating budget, up to a record $5.4 billion.

In addition to more safety inspectors, that increase will let the FAA hire 500 air traffic controllers and 173 security staffers to carry out the Gore Commission's recommendations.

Something I want to note is a new $100 million transit program that will offer welfare recipients the access to jobs, training, and support services that they need to make the transition to the working world.

We're also continuing to support Amtrak. As part of ISTEA's reauthorization, we'll propose funding Amtrak -- including improvements for its Northeast Corridor -- from the Highway Trust Fund. That includes $344 million for Amtrak operations and $423 million for capital projects in 1998.

Let me close now by saying that the '98 proposal moves us towards balancing the budget, and it does so while investing in the infrastructure and technologies we need *and* while protecting the safety of transportation workers and travelers.

This budget and the other initiatives I've talked about today reflect our commitment to working men and women.

As I said earlier, President Clinton is the heir to a long and proud tradition of standing with working Americans, and so I want to say a few words about today's relationship between the labor community and this Administration.

I know you've occasionally been unhappy with some of the stands we've taken.

But these disagreements shouldn't overshadow the progress we've made together -- the things we can still accomplish -- or the risks we create if any disagreements open opportunities for those who would roll back generations of progress.

We've seen how important this solidarity is. Working together over, we've turned back assaults on the Davis-Bacon Act -- on the collective bargaining rights of Amtrak employees -- and on the 13(c) protections for transit workers.

We'll face more challenges this year as we try to pass a budget which sustains our commitments to transportation and to the workers who make our system the world's finest.

And we'll face challenges from those who want to reverse the progress made under ISTEA -- progress which has led to greater investment in infrastructure and technology, and to a stronger emphasis on safety.

How we meet these challenges will determine the course our industry takes into the 21st century. We'll need your help if we're going to keep moving ahead, and we look forward to working with you as we do so.

Now, I'd like to hear your ideas and answer any questions you may have...

# # # # #

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
400 7TH STREET, S.W.
WASHINGTON, D.C. 20590

OFFICE OF THE ASSISTANT SECRETARY FOR TRANSPORTATION POLICY

Number of Pages including this page 14

DATE: ______

TO: Dorothy Robyn

FROM: Janno Lieber

FAX #: 202-366-7127

Fax Message:

Q + A to follow Tuesday.

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
400 7TH STREET, S.W.
WASHINGTON, D.C. 20590

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TELECOPIER FORM

FEDERAL TRANSIT ADMINISTRATION
OFFICE OF THE ADMINISTRATOR

400 7TH STREET, S.W., ROOM 9328
WASHINGTON, DC 20590
202-366-4040 VOICE -- 202-366-9854 FAX

TO: Mike Burton DATE: 2/14/97

FROM: Janette Sadik-Khan (202) 546-0545 (H) 800/933-8630
(202) 366-4040 (W)

SUBJECT/MESSAGE: I also have an analysis that shows that there will be no financial impact of the elimination of operating assistance in any community we fund. All but 12 will be even or have increased use of operating funds. In the 12 areas affected, they can make up the difference by trading in capital funds for operating funds from the other providers in the area. This analysis is long which is why I didn't send it. I hope does the trick for you.

Best, Janet

NO. OF PAGES 3 + COVER

PLEASE CALL 202-366-4040 TO REPORT PROBLEM

TALKING POINTS

Elimination of operating assistance in areas above 200,000 population will not have a significant effect on labor protective arrangements in those areas because:

* Section 5333(b) will still apply in full force through capital assistance.

* The right to bargain collectively is required equally under both capital and operating assistance and any terms negotiated by organized labor and included in the National Model Agreement for operating assistance will still be subjects of collective bargaining.

* Any use of FTA funded capital assets in operations/activities which can be shown to have an adverse affect on covered mass transportation employees will support a claim under Section 5333(b).

* A National Model Agreement for capital assistance could be negotitated with the same terms and conditions as the National Model Agreement for operating assistance.

U.S. Department
of Transportation
**Federal Transit
Administration**

Memorandum

Subject: Implications of Operating Assistance Chances on Employee Protective Arrangements

Date:

Reply to Attn. of:

From: Janette Sadik-Khan
Deputy Administrator

To: Mortimer L. Downey
Deputy Secretary

Background:

The President's FY 98 Budget and the ISTEA reauthorization proposal reflect a major change in funding of transit operating expenses.[1] These changes impact on labor protections currently afforded to mass transit employees under Title 49 section 5333(b) [hereafter section "13c"]. Under current law, operating assistance grants can pay up to 50% of the grantee's net operating deficit. However, in practice, operating assistance caps result in the 2-10% range of net operating deficit at large and medium size properties.

Under current procedure, the receipt of $1.00 in operating assistance triggers 13c. Since the budget and reauthorization proposals limit operating assistance to communities of 200,000 or less, 13c protections for employees in communities above that threshold would be limited to capital protections.

Issue:

DOL must certify FTA grants before they are awarded. While certain protections, such as continuation of collective bargaining rights, arise regardless of the type of operating expense or capital asset being bought with FTA assistance, other protections require the claimant to show that a particular FTA assisted "project" has contributed to the adverse impact on the employee. FTA interprets all operating activities to be a single

[1] To ease the burden of this change, and to bring transit capital assistance programs into line with the highway program, asset maintenance expenses, debt service costs, etc., normally eligible for operating assistance, would be eligible for capital assistance, to be reimbursed at the 80% capital assistance rate.

"project," and by extension, that federal requirements attach to all contracts awarded for other than a purely locally funded capital project.

Most recipients of operating assistance also receive capital assistance, so 13c protections will still be available to mass transit employees despite loss of operating assistance. Under capital assistance the project scope is defined by the items being acquired. Thus, certain 13c liabilities which could not be avoided under an operating assistance grant can be avoided by simply not seeking certain items eligible for assistance e.g. maintenance. Moreover, many claims require a nexus between an adverse impact and a specific FTA assisted "project". Thus, employees whose jobs are "outsourced", may no longer be able to establish the required nexus.

Recommendation:

Interpret Federal transit law so any use of a Federally funded asset in an activity creates a nexus between the "project" under which the asset was acquired and the effects of the activity in question. This shifts the focus away from the original purposes of the project under which the asset was acquired to the activities in which the asset is used regardless of the justification for its original acquisition. For example, if a Federally funded maintenance garage is acquired and subsequently made available for use by a contractor where maintenance is contracted out, a nexus to the Federal assistance would exist. Similarly, use of Federally funded buses or location of privately funded buses in a Federally funded bus garage would also create the required nexus.

Under present practice, the claimant must establish the nexus between the alleged adverse impact and a specific project. Under this recommendation, the use of any Federally funded asset in an activity that effects the claimant would be sufficient to carry this burden. DOL could either require the claimant to show that a Federally funded asset is being used in an activity, or DOL could establish a rebuttable presumption of such use and require the grantee to rebut the presumption or risk adverse inferences by the decision maker.

DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION (FTA)

(Dollars in Millions)

	FY 1993 Actual	FY 1997 Estimate	FY 1998 Budget: FY 1998	FY 1998 Budget: FY 1999	FY 1998 Budget: FY 2000	FY 1998 Budget: FY 2001	FY 1998 Budget: FY 2002	FY 1998 Request Less: FY 1993 Actual	FY 1998 Request Less: FY 1997 Estimate	Percentage Change: FY 1997 to FY 1998	Percentage Change: FY 1998 to FY 2002
BR*	3,799	4,382	4,382	4,232	4,182	4,182	4,182	583	0	0%	-5%
OL	3,457	4,464	3,879	3,929	4,062	4,240	4,395	422	-585	-13%	13%
FTE	492	517	517	517	517	517	517	25	0	0%	0%

*BR include discretionary budgetary authority and obligation limitations.

Policy Issues.

- Overview. The 1998 budget includes $4.382 billion for FTA, the same level as 1997. Most capital funding is consolidated into a new, more flexible, Formula Programs account. Operating subsidies are replaced by increased capital funding, increased flexibility, and targeted assistance. New Starts are reduced by $126 million, but all existing Full Funding Grant Agreements (FFGAs), and those expected by the end of 1997, continue to receive funding.

- Operating Assistance. Previously, operating assistance, which is used for such purposes as driver wages, fuel, insurance, and routine maintenance ($400 million in 1997), received a specific sub-allocation of funding. This budget proposes to eliminate this set-aside, but, to mitigate possible adverse effects, also to expand the definition of capital expenditures to include costs associated with preventative maintenance. For small transit systems in areas with populations below 200,000 that serve largely elderly, disabled, and low income individuals and depend on Federal operating assistance, the budget would eliminate the current operating limitation, allowing providers in those areas to use funds for either operating or capital expenses.

- Formula Programs/Discretionary Grants Consolidation. The budget proposes to consolidate funding for Fixed Guideway Modernization ($760 million in 1997) and Bus and Bus-related Facilities ($380 million in 1997) with existing FTA Formula Grants ($2,149 million in 1997) into a new "Formula Programs" appropriation ($3,410 million in 1998). Formula Program funding can be used for all transit purposes (including planning, bus and railcar purchases, facility repair and construction, and, in areas under 200,000 population, operating costs). This change is intended to maximize flexibility for transit authorities and allow them to target funds to their most important needs.

- Access to Jobs and Training. An important element of moving people from welfare to work is providing access to jobs through low-cost transportation and related services. As part of the Administration's welfare reform initiative, the 1998 Budget proposes $100 million for a new Access to Jobs and Training Initiative. This program would offer Federal Transit Administration grants to states and local entities for new or modified transportation services that target low income individuals, including current welfare recipients. Such initiatives could include van pools and special reverse commute services designed to help low-income individuals travel to jobs and training opportunities.

- ISTEA. Federal Transit Administration programs need to be reauthorized in 1998. The Administration's reauthorization proposal will focus on flexibility of funds, allowing more money to be moved among highway, transit, and other modes of surface transportation.

Reductions.

- New Starts. Funding for the construction of new or expanded rail transit systems is reduced from $760 million in 1997 to $634 million in 1998. Recent Portland State University studies indicate that improving existing transit service has a greater return on investment than does constructing new transit lines. Consistent with this, the 1998 Budget shifts $126 million from New Starts to Formula Programs. Sufficient New Start funding is requested over the ISTEA reauthorization period to complete all existing FFGAs and those FFGAs expected to be issued within the next year.

FEDERAL TRANSIT ADMINISTRATION (FTA) OPERATING ASSISTANCE

Question: It appears that the Administration's budget eliminates operating assistance for mass transportation providers. What is the rationale behind this policy shift?

Answer: The President's 1998 request eliminates operating funding as a separate sub-allocation, but increases the overall formula funding level and replaces the operating set-aside by expanding eligible capital expenses to include functions that, in the past, have been deemed "operating" (e.g.: preventative maintenance). In addition, in areas below 200,000 in population, Formula funds would be eligible for use on operating expenses without limitation. This proposal provides greater flexibility to transit operators and targets assistance to areas where operating assistance makes the most sense.

Follow-up: How does the Administration's approach serve low-income individuals in large and medium cities?

Answer: The Budget includes $100 million in 1998 for a new activity that offers Federal Transit Administration grants to states and local entities for new or modified transportation services that target low income individuals, including current welfare recipients. The Department of Transportation will propose legislation spelling-out the specifics of that program in the next few months. The Budget also retains separate formula allocations that serve elderly and disabled transit users.

Background: In previous years, Congress has specifically limited the amount of transit formula grants that can be expended on operating costs like drivers' wages, fuel, insurance, and maintenance ($400 million in 1996 and 1997). While the Administration has requested more than that in the past ($500 million in both 1996 and 1997), Congress has continually acted to lower operating funding. In large and medium urbanized areas, such Federal funding constitutes less than 5% of overall operating revenue, on average. In areas under 200,000 population, Federal operating assistance makes-up almost 20% of total revenue. In the 1998 Budget, the Administration will eliminate the operating assistance sub-allocation with the qualifications shown in the answers above, including the fact that small cities and rural areas that depend on Federal support will be protected.

.ISTER AIRLINE

ın American Eagle, Union Sees a Threat

Commuter Line Continues to Expand

By ALLEN R. MYERSON

DALLAS, Feb. 13 — They may earn only a third to a half as much as the $120,000 a year that pilots average at American Airlines. But pilots at American Eagle, the company's commuter line, will put up with no second-guessing of their abilities.

"Their dispute with management has generated some irresponsible rhetoric concerning our qualifications," Homer Pugh, the American Eagle pilot who leads the commuter line's union, said in a statement. "American Eagle pilots' qualifications, skill and professionalism are on a par with any group of professional airmen."

But as the 9,000 American Airlines pilots — in pay and prestige among the princes of the industry — define the threats to their jobs, they point to more than just the company's managers. And rather than seeing American Eagle, already the nation's largest commuter airline, as a way to funnel more passengers to their airline, the American pilots see the 2,000 pilots at American Eagle bearing down on them.

The AMR Corporation, the parent company to both airlines, wants to accelerate American Eagle's already rapid growth by adding as many as 67 medium-sized jets to the current fleet of 205 turboprops. The American pilots say that these pilots and jets, able to link New York and Dallas, will take over many more of their routes.

"The primary issue is the outsourcing of jobs," said David U. Johnson, an American pilot based in Dallas. "If we allow American Eagle to get the jets, upper management will then attempt to take additional flying time away from us, which will end up taking away jobs."

The American Airlines pilots also threatened to strike five years ago over management plans to add jets to the American Eagle fleet.

In 1992 and 1993, the American Airlines pilot's union said, the company furloughed about 550 of its members and turned their routes over to American Eagle and its cramped, noisy, low-flying turboprops. Now, the union says, the company wants to expand American Eagle to take over that much more of the American Airlines system.

Passengers who fly on American Eagle will be shortchanged, the American pilots say. "When they go buy a ticket on American Airlines, they know they're getting an American-trained pilot and an American Airlines jet," Mr. Johnson said. But Mr. Pugh, the American Eagle pilot, said that American Eagle pilots were trained to the same standards as American pilots.

Underneath the technicalities lie the same issues of job security and cost cuts that have split many other industries. AMR says that if American pilots flew the jets for American Eagle, their higher salaries would make the routes uncompetitive. Commuter airlines controlled by rivals already have the jets, which are far quieter, roomier and more popular with passengers than turboprops.

Today, the company rejected a union proposal to have American pilots fly any American Eagle jets, but at salaries that would keep those flights competitive with other commuter airlines.

Stephen A. Frederick, a former American Eagle pilot, said the company was playing the pilots' groups against each other. "The rivalry gets pretty intense," he said. Mr. Frederick said he was dismissed in 1995 for complaining about airplane safety after the 1994 crash of an American Eagle flight in Indiana that killed 68 people.

What many American Eagle pilots want most is to jump to American Airlines, where senior pilots can earn $200,000. But the addition of regional jets to the American Eagle fleet would still probably increase the pay of pilots who flew them, and allow many other pilots to step up in pay and seniority as well.

American's parent company built American Eagle through acquisitions beginning in 1988. With hubs in Dallas, Miami, Los Angeles, Chicago, New York and San Juan, Puerto Rico, it serves 127 destinations including Canada and the Caribbean.

As at other airlines, American's commuter network has provided essential spokes for the hubs. More than 60 percent of American Eagle's 12 million passengers connect with American flights.

But the American Airlines pilots see American Eagle's growth as predatory. They list the many routes — among them Dallas to Amarillo, Tex., Chicago to Cleveland and Cincinnati, New York to Pittsburgh and Providence, R.I. — that they say have gone from American Airline jet service to American Eagle turboprops.

The New York Times, FRIDAY, FEBRUARY 14, 1997

Job security and cost cutting are the primary issues raised by American's pilots.

Several industry analysts said that in their mistrust of Robert L. Crandall, the company's chief executive, pilots failed to see how much they have to gain from American Eagle's expansion and the increased American Airlines traffic that would result.

"If American doesn't get the regional jets, the pilots will lose over time," said Glenn D. Engel an analyst with Goldman, Sachs. "I wonder whether the demonization of Crandall is the real issue."

The American Airlines pilots union agrees that its own study demonstrates the need for their company to use the regional jets to remain competitive. While they say that American Airlines could operate these jets at an added cost of about $30 million over five years, the company puts the cost at hundreds of millions. American Airlines flight attendants, machinists and other employees also earn much more than those at American Eagle.

The American Airlines pilots belong to the Allied Pilots Association, an independent union. American Eagle pilots belong instead to the Air Line Pilots Association, the nation's dominant pilots union, which also represents pilots at Delta, United and many other airlines.

The company even considered continuing to operate American Eagle during a strike, but concluded against it.

THE TRAVELERS

Going to Great Lengths To Get From Point A to B

By EDWIN McDOWELL

Think you are having trouble trying to get where you want to go because there could be an American Airlines strike at midnight tonight? If so, welcome to the club, of which Debbie Crabb of Dallas is a charter member.

Mrs. Crabb flew to Nevis in the Caribbean last Sunday on American Airlines to visit her sister, and because she could not come back before tomorrow she may not be able to return until the strike ends, if there is one. "I couldn't rebook her," said Tom Crabb, her husband and the owner of Lakewood Travel Partners in Dallas, "because the cruise ships had already blocked all the available airline seats for their own passengers. Meantime I'm playing Mr. Mom for our three kids."

There has already been a lot of booking and rebooking, as travel agents scramble to find creative solutions for getting clients from point A to point B in the event of an American shutdown.

Consider the Long Island family of six that had reservations to Orlando tomorrow on American. Eddi Hawin, the owner of Total Travel Management in Uniondale, L.I., spent much of yesterday trying to get them as far as Atlanta, where they plan to

Honest, boss, only one airline flies to this tropical island.

rent a car and drive the remaining 440 miles to Disney World — and, if necessary, 440 miles back a week later.

While Ms. Hawin was still working on the rebooking last night, "It shows," she said, "what some people have to do to get where they could have gotten so much more easily."

For some passengers, the potential zigs and zags in their itineraries have been more trouble than they are worth.

For example, the Montrose Travel Agency in Montrose, Calif., tried rebooking a customer who some weeks ago had bought a ticket in coach on an American flight to Miami, and used his frequent-flier mileage for an upgrade to first class. Delta offered him a seat in coach, but without the first-class upgrade. When another carrier also did not offer to upgrade him, said Rhonda Holguin, the general manager of the agency, he canceled his trip.

Other passengers with tickets on American, a unit of the AMR Corporation, have decided to trust luck or fate. "We have a few people scheduled to make trips at the end of next week, even business trips," said Marcia B. Winter, president of Taos Travel in Taos, N.M., "but they say they prefer to wait and see what happens."

But many passengers would rather innovate than wait, despite the hassles that result. Cruise Clubs International, a New York travel agency that specializes in cruises, rebooked eight passengers from two families who were scheduled to fly on American tomorrow from Newark to San Juan, P.R., for a weeklong Caribbean cruise on Norwegian Cruise Line's Windward. Norwegian rerouted them on Continental Airlines. So now they are scheduled to fly from Newark to Chicago today, said Edith Brooks Schein, Cruise Clubs' president, "and after a stayover at an airport hotel they'll fly to San Juan on Saturday, hopefully in time for the departure later that afternoon."

After making reservations last September with American Express Travel in Boston, a couple in their 30's who work in Boston's financial district left Boston on Wednesday aboard an American Airlines flight via San Juan to St. Lucia, in the Caribbean, arriving in plenty of time for their wedding tomorrow at Sandals resort.

In order for the newlyweds to return next Wednesday, Barbara Katz, a senior travel counselor at American Express Travel, rebooked them on LIAT, the airline of Antigua, from St. Lucia to Antigua to Tortolla to San Juan. From San Juan they will fly Trans World Airlines to New York, then to Boston.

Many agents spent the day with one eye on their reservations systems, the other on CNN or Fox News, hoping that the strike would be called off but fearing the worst. Even skeptical passengers, who had not previously tried to rebook, were burning up the phone lines to their travel agents. "Yesterday they were optimistic, today they're finally nervous," said Mihoko Ema, the owner of Travel Planners in New Orleans.

And a reservations agent for American Airlines said the carrier was being swamped with calls.

But some travel agents, confident that the Government would not tolerate a long strike, have already resumed booking flights on American for a later date.

"We're booking both domestic flights on American and flights to Europe from early March on," Mrs. Ema said. "If there is a strike, they can't let it go that long."

By last night, many travel agents said they had done about everything possible for their clients, though they predicted that their phones would keep ringing.

"We've done pretty much all we can do at this point," Mr. Crabb said. "Now all we can do is sit and bite our finger nails."

The New York Times
FRIDAY, FEBRUARY 14, 1997

By all accounts, Deng's three daughters and two sons, who grew up in imperial privilege and assumed control of a sprawling web of billion-dollar, government-linked firms, have seen their influence wane with their 92-year-old father's ability to protect it.

The "princelings," as they and other privileged children of China's Communist revolutionary leaders are sometimes called, present a thorny issue in Chinese domestic politics. Controlling China's financial houses and weapons factories through an elaborate network of family ties, they wield their fortunes by gambling in Macao, trading stocks in Hong Kong and London, and schooling their children in America.

The pink Palo Alto mansion, purchased by a Hong Kong financier for $2 million cash in October, 1995, and described by one federal agent as "a mini-embassy," represented one effort by Deng's children to establish an American beachhead, some federal officials believe.

Staying at times behind the wrought-iron security gate and three-tiered fountain in the Palo Alto home were Deng's son-in-law, He Ping, who is an army major-general and president of Poly; He Ping's wife, Deng Rong, and their teenage daughter, according to records and interviews with federal officials.

Deng's youngest and perhaps most influential daughter, Deng Rong, 47, graduated from John Hopkins University and lived in Washington from 1979 to 1983, when she and He Ping were stationed at the Chinese embassy.

Rong long had been seen as Deng's helpmate and spokesperson; she informed her invalid father of events in China and abroad, then passed on his responses to outsiders. But in February, 1996, the General Office of the Communist Party Central Committee issued a decree forbidding Deng's children from disseminating their father's pronouncements.

Western analysts interpret the gag order as an effort by Deng's successor, Chinese President Jiang Zemin, to shape the ailing but influential leader's words and legacy.

He Ping, as president of the Poly Group conglomerate, is second in command to Wang, Poly's chairman.

Founded in June, 1984, Poly's original mission was to sell China's stockpile of missiles and machine guns to governments and mercenaries around the world, turning the profits back to the army, while acquiring advanced Western technology for duplication in Chinese factories.

The conglomerate, headquartered in Beijing's glittering glass Poly Plaza tower, spawned subsidiaries that now stretch into every corner of China's domestic economy. The corporation maintains offices in Moscow, Macao, Hong Kong and Los Altos, Calif.

Poly's Ringo Trading Ltd. arm, for example, holds a majority stake in the Hong Kong-based Continental Mariner shipping firm, whose dozen freighters have a 400,000-ton capacity. Continental Mariner, in turn, was pushed into real estate and construction ventures on mainland China.

Today, Poly's $700 million real estate portfolio includes the $106 million Beijing Garden Villas, a luxurious, European-style subdivision marketed to expatriate executives; the Shanghai Securities Exchange Building and the Beijing International Shooting Range, company reports show.

While profits from these ventures fund fresh speculative commercial ventures and lavish management perks, they also help to feed, clothe and arm China's troops, company records and interviews with Western analysts show.

During their time in Palo Alto, He Ping and Deng Rong's teenage daughter were cared for, in part, by the wife of fugitive smuggling suspect Robert Ma, who also lived at the Palo Alto home with the Mas' 11-year-old son, according to records and interviews with federal officials.

In May, 1995, federal agents obtained court permission to wiretap all phones and faxes associated with Robert Ma, a former Chinese naval intelligence division lieutenant who loved to show off his crisp blue uniform and sparkling white officer's cap.

Also at times staying at the house, according to records and federal officials, was Xie Da Tong, an army officer and president of a $500 million, import-export subsidiary called Poly Technologies Inc., and Zhou Kejia, a Poly executive. Company memos show Zhou negotiated the purchase of advanced Western hardware, as well as computer and radar equipment, for export to China.

Their superior was Wang, 55, a king among China's "princelings," and a business manager whose decisions send tremors along the wireless silk road that stretches from the Hong Kong stock exchange to London.

The son of the late Chinese Vice President Wang Zhen, Wang is also chairman of China International Trade & Investment Co., or Citic, the Chinese government's most powerful and visible capital investment conglomerate.

When China's State Council created the conglomerate in 1979, Wang was appointed its business manager; he became vice president in 1986, then president in 1993.

By the end of 1994, Citic boasted $16 billion worth of assets. The conglomerate controlled banks, telecommunications companies, power plants and big-ticket construction firms with projects around the globe, employing more than 50,000 people, according to company reports and independent analysts.

But that year the company was shaken by a series of scandals and imprudent trades, including an embarrassing $40 million loss on the London Metals Exchange that resulted in the arrest in China of the conglomerate's Shanghai branch director.

China's powerful State Council sent Wang in to clean up the mess. He was appointed Citic chairman in May, 1995 and directed to discipline or divest some of the 30 subsidiaries that were not run efficiently or not large enough to push China into the global economy's first ranks.

At the time of Wang's White House visit in February, 1996, the conglomerate's Citic Pacific subsidiary was actively seeking U.S. partners for several multimillion dollar development projects in Hong Kong and China, including the expansion of the state-owned Jiangyin Steel Mill, in Jiangsu province, and the retooling of a massive coal-fired power plant in nearby Ligang.

On the day of his White House visit, Wang was granted a five-minute audience with then-Commerce Secretary Ronald Brown. Commerce officials said they could not determine who arranged the brief meeting or what was discussed.

Wang was invited to the White House by Little Rock, Ark., dealmaker Yah Lin "Charlie" Trie, a Clinton friend and fundraiser who emerged as a central figure in the campaign finance controversy when it was disclosed that the first family's legal defense fund returned more than $600,000 in contributions Trie gathered because of questions about the money's sources.

It is not clear what business and political interests brought Trie and Wang together, and only scattered details have emerged about Trie's activities after he sold his modest Little Rock Chinese restaurants in 1991 and launched an international trading firm exploring deals in Hong Kong, Beijing and Washington.

The coffee session to which Trie squired Wang was typical of the 103 receptions White House officials held in 1995 and 1996 to reward top Democratic contributors and induce more donations. The 10 guests, an eclectic group of international and domestic investors, gave a total of $429,890 to the Democratic party during the last election cycle, campaign records show.

Biggest Union Left Out as American Airlines, Pilots Clash By Stephen Franklin, Chicago Tribune

WASHINGTON -Feb. 14--Just yards from where bargainers for American Airlines and its pilots union roll their eyes and openly fume about each other sit the gleaming offices of the world's oldest and largest pilots union.

But that union and its officers might as well be thousands of miles away.

They are the missing guests, the unwelcome relatives, whose fate hinges almost as much as that of American pilots on the talks that seem to be hurtling toward a strike Friday at 11 p.m. CST against the nation's largest domestic carrier.

The imposing offices belong to the Air Line Pilots Association (ALPA), a 45,000-member union that represents pilots with 46 airlines in the U.S. and Canada, including American Eagle's 2,200 pilots.

American's 9,000 pilots, the best paid in the U.S, with an average $120,000 in earnings last year, belong to the Allied Pilots Association. ALPA belongs to the AFL-CIO. The APA is an independent union.

Once, the American pilots belonged to ALPA, but they broke away 34 years ago amid a heated dispute, and set up their union because of a number of issues, including the ability to assert their own voice.

Ever since, there have been very delicate relations between the two. So delicate, in fact, that ALPA officials here were reluctant to say "boo" about the other airline union.

"We don't want to be heard or appear on record to say anything for or against them," said one ALPA official here. An APA official noted, however, that there have been informal talks daily between the two groups lately.

But Homer Pugh, a Dallas-based pilot who is also the president of

ALPA's American Eagle pilots, wasn't reluctant about admitting openly his deep interest in the fate of the contract talks.

If the APA pilots succeed in their bargaining, they will be able to control the flying of smaller jets that American Eagle would like to add to its fleet.

American has insisted, so far, that it cannot afford to pay the high salaries of its American pilots and operate the smaller jets. In contrast to the American pilots, the average American Eagle pilot earns about $35,000 a year.

To Pugh, who earned $38,000 last year as a pilot, it makes sense for his fellow pilots to move up to the larger regional jets as American would like them to do. By stepping up, they will gain more experience, and possibly more money, he explained.

So, too, the ability of American to operate a successful feeder operation should mean more passengers, and ultimately, more business for everyone who works for the Texas-based carrier, he said.

While the American pilots grumble that their passenger traffic has declined in recent years as business has grown for American Eagle, Pugh has his own concerns about his pilots' job security.

In an effort to tighten its belt, American cut 26 cities off its American Eagle routes last year, and eliminated 51 planes, according to Pugh. "We are the ones who have closed the most cities," he said.

Chicago Tribune Bill Barnhart on the Markets Column Bill Barnhart, Chicago Tribune

Feb. 14--Just four months after crossing the 6000 mark, the Dow Jones industrial average closed above 7000 on Thursday for the first time.

The Dow industrials added 60.81 points to reach a record closing high of 7022.44 on heavy New York Stock Exchange volume of 584 million shares. The broader Standard & Poor's 500 index rose 9.05 points, to a record closing high of 811.82.

Even Federal Reserve Board Chairman Alan Greenspan refused to throw cold water on the mix of robust corporate earnings and tame inflation. Asked his views on the stock market at a congressional hearing, Greenspan said, "I'll restrain myself."

In early December, Greenspan's oblique comment about the dangers of "irrational exuberance" in financial markets caused one of the few significant sell-offs in recent months.

President Clinton, in response to a reporter's question Thursday, was more forthcoming: "The market has produced a remarkable growth, but the economy is growing. Obviously, the concern is that the returns ... to investment are greater than can be justified based on the productivity and profit prospects of the companies that are being traded.

"But if you look at the stability and growth we've enjoyed and the prospects we have for a stable growth with no inflation, it's hard to say it's completely out of the question."

Hopes that Clinton and congressional Republicans will agree on a broad-based capital gains tax cut affecting the sale of securities, as well as homes, added to the market's glow. Rep. Bill Archer (R-Texas), chairman of the Ways and Means Committee, told Market News Service he believes Clinton understands the broad-based congressional support for
a capital gains tax cut affecting securities.

Whereas Wednesday's 103-point gain in the Dow industrials occurred despite a flat bond market, bonds were major contributors to Thursday's move above 7000.

The Treasury's auction of $10 billion of 30-year bonds brought a yield of 6.64 percent, which was considered unremarkable. But with the three-day quarterly refunding of Treasury debt completed, a sense of relief propelled long-term bond prices higher and yields lower.

The yield on the current benchmark 30-year Treasury bond fell to 6.62 percent from 6.70 percent. "We made it through the quarterly refunding without any damage," said David Butler, chief equities trader for Zurich Kemper Investments in Chicago. "I don't see any reason why the rally can't continue as long as we get support from bonds."

Butler cautioned, however, that Friday -- ahead of a three-day weekend in financial markets -- could witness a sell-off in bonds as dealers try to unload inventory from the quarterly refunding. Also on Friday, the government reports the producer price index for January, which is expected to show a gain of just 0.3 percent from December.

Thursday's rally was broad-based among large-capitalization stocks. For the second day in a row, winning issues outnumbered losers by more than 2-to-1, an unusual demonstration of bullish market breadth in recent weeks.

The two biggest gainers on the Dow industrials were pharmaceutical giant Merck, widely regarded as a non-cyclical stock, and Caterpillar, a industrial cyclical stock. Merck added $3.75, to $99.62, after hitting a 52-week high $99.87 during the day. Caterpillar closed up $3.62, to $83.12, after hitting a 52-week high $83.37.

Incidentally, neither of these giant multinational companies seems to be suffering stock price erosion from the current strength in the U.S., dollar. The dollar continued to defy efforts by leading government finance ministers to stabilize the greenback against the German mark and Japanese yen.

The Nasdaq composite index added 11.85 points, to 1370.81. Computer-technology stocks, which went into a minor swoon last week, continued this week's rebound. Michael Dell, chief executive officer of Dell Computer, said he sees "very good" demand for personal computers. Dell gained $3.56, to $70.25.

After the close of trading, Micron Technology chief executive officer Steven Appleton said prices for so-called DRAM computer memory chips have been climbing recently, a comment that could boost the computer-technology sector at Friday's opening of New York trading.

A jump in January retail sales reported early Thursday momentarily spooked the bond market, but a sharp downward revision in the already lackluster December retail sales figure helped soften the impact.

Investors seemed willing to ignore the threat of a pilot strike against American Airlines -- or didn't believe it would happen. The Reuters newswire quoted an unnamed Department of Transportation official saying the strike would cost the U.S. economy between $100 million and $200 million a day.

The stock of American Airlines' parent, AMR, rose 25 cents, to $83.12. The Dow Jones transportation average rose in line with the Dow industrials, closing up 16.33, to 2363.24.

Local news: Chicago-based Donnelley Enterprise Solutions, which was spun off last fall by R.R. Donnelley & Sons, sank $11.75, to $12, after the company said 1996 results, expected to be released next week, would be substantially below current Wall Street estimates. The company cited labor and management problems at one division.

Global investor George Soros, who wants to oust Phillip Rooney as chief executive officer of Oak Brook-based WMX Technologies, denied a claim by the company that his four nominees for seats on the WMX board were filed after the nomination deadline set by WMX.

Standard Financial, a Chicago-based savings and loan company, said U.S. District Court Judge James Zagel ruled in its favor that an investment partnership called LaSalle/Kross Partners violated securities laws in acquiring more than 5 percent of its stock.

Wesley Jessen VisionCare, Des Plaines, gained $1, to $16, in its first day of Nasdaq trading. The maker of specialty soft contact lenses sold 2.45 million shares in an initial public offering.

MMI, Deerfield, a provider of risk management services to the health-care industry, fell 12 cents, to $29.12, after the company said a British court levied a $5.1 million judgment against it in a dispute over its 1992 sale of an insurance company.

White House's controversial foreign-policy issues to be tested before Congress Knight Ridder Newspapers (KRT)

WASHINGTON Here some of the foreign-policy issues that could produce fights in Congress for the Clinton administration:

Chemical Weapons A global treaty banning poison gas has been endorsed by Democrats and some leading Republicans, but has been challenged by North Carolina Sen. Jesse Helms, chairman of the Foreign Relations Committee, and others. For the United States to join the treaty already ratified by 68 countries two-thirds of the Senate must ratify it by April 29.

United Nations Funding With a new U.N. secretary general in place, the administration is seeking congressional authorization to pay the United Nations nearly $1 billion in back dues withheld because of dissatisfaction with wasteful U.N. management. Skeptics in Congress want to set management goals for the United Nations and tie U.S. payments to their achievement.

NATO Enlargement The administration appears headed for a recommendation that three Eastern European countries be permitted to join NATO soon a step that would increase the level (and cost) of America's security commitment in Europe. While Clinton and his aides see benefits from increased stability, some lawmakers question the benefits and the cost.

Arms Control The administration is seeking Senate ratification of the Comprehensive Nuclear Test Ban Treaty signed by Clinton in September, an agreement questioned by some in Congress. Congress also is seeking to advise the administration on proposed changes in the

Little Progress Seen in Talks With Pilots

'Confusing' Negotiations Cited by American Air

By ADAM BRYANT

WASHINGTON, Feb. 13 — The Allied Pilots Association, the union that has pushed American Airlines to the brink of a strike, is in many ways a misnomer. From its founding in 1963 through recent weeks, its members and leaders have made disunity their hallmark.

Those fissures within the union, by many accounts, are now proving an obstacle to progress in labor talks and may end up stranding tens of thousands passengers and shutting down the airline Saturday morning. At the same time, the pilots' negotiating posture has reinforced long-standing tensions between them and such lower-paid American employees as flight attendants and baggage handlers.

Despite encouragement from the Clinton Administration to use mediation to settle differences between American's management and the pilots, there was little movement toward common ground today.

Robert L. Crandall, the chairman of American's parent, the AMR Corporation, urged President Clinton today to intervene to avert a strike by forcing the two sides into binding arbitration. James Sovich, the union's president, submitted a new contract proposal to the company late today; the details were not disclosed.

American Airlines executives have expressed frustration all week with the lack of responsiveness from the pilots. The latest round of talks was supposed to begin in earnest on Monday, but the pilots' 18-member board did not arrive here until Tuesday night, and talks did not resume until Wednesday afternoon, after the board met with union negotiators.

Donald J. Carty, president of American Airlines, has described the talks as "very unproductive and even confusing." After the union signaled that it wanted higher wages instead of stock options, the airline responded by adjusting its proposal. The union then dismissed the offer as a step back rather than an improvement.

"This is a very frustrating and disappointing situation," Mr. Carty said today in a recorded message for employees. "We want an agreement, but we need to have someone to have an agreement with."

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Continued From First Business Page

Wallace J. Pitts, a spokesman for the Allied Pilots, said that union leaders had been clear on their demands for weeks, and that any appearance of disharmony was a result of "healthy democratic debate."

But it has often been difficult to discern what union officers and the 9,000 members really think. Union leaders, for example, approved a tentative agreement by a close vote last fall and sent it on to members for ratification with a recommendation to approve it.

But a group of pilots organized an intensive lobbying effort to vote it down. The "APA Pilots Defending the Profession," as they called themselves, set up a sophisticated site on the World Wide Web, and used electronic mail to get their message out. Their efforts were helped to some degree by some union officers who sent letters to members suggesting that a better deal could be negotiated with little risk.

Although it is not clear how many votes they swayed, their efforts certainly appeared to have succeeded after the pilots voted down the tentative agreement by almost a 2-to-1 margin.

With a strike nearing, some pilots said that if a vote were taken again today, the original agreement would be approved.

"We would pass that contract in a heartbeat if we had a second chance," said Walter Brown, a pilot who has been flying for American for eight years and voted in favor of the tentative agreement. Mr. Brown said he would like to sue some of his colleagues who organized the Defending the Profession group for representing themselves as would-be union leaders.

"There is a lot of dissension within the A.P.A," he added.

Even among other employees at American, most of whom will be laid off in the event of a strike, there has

Among an airline's employees, there is little sympathy for higher-paid pilots.

been little broad support or sympathy for the pilots, who earn an average of $120,000 a year.

In one sarcastic barb, many employees at American recently circulated a "Help Feed the Pilots" sign-up sheet that noted "thousands of pilots in our very own country are living at or just below the six-figure salary line." Employees were told they could sponsor a pilot in the event of a strike for $300 a day, which could mean the difference between "a vacation fishing in Florida or a Mediterranean cruise."

A second sheet was circulated showing the paycheck stub of an American pilot who made more than $160,000 last year, over the words, "I'm a pilot and I don't make enough." Some American employees who are not members of the pilots' union also wore buttons recently bearing the acronym S.P.O.I.L.E.D., for Spoiled Pilots' Objective Is Leaving Employees Destitute.

Such tensions, though, are not new for the pilots. In 1963, a group of American pilots, who at the time were members of the Air Line Pilots Association, fomented distrust of the national union and won enough support to form American's own union. But after the split, many pilots felt strongly that all pilots should maintain a unified industrywide union, and resented the move to break ranks with the Air Line Pilots Association, which represents pilots at most major airlines today.

"That union was founded in a bloody boil of dissension," said George E. Hopkins, a professor of history at Western Illinois University, who has written three books on the history of pilot unionization.

Twenty years later, the Allied Pilots Association made one of the most controversial decisions in airline labor history by signing an agreement that created a second, lower tier of wages for new pilots. The plan was intended to help American expand its fleet and market share, and pilot leaders signed the deal at a time of uncertainty and turmoil in the industry following deregulation in 1978.

In the years since, the so-called B-scale has fostered considerable resentment among the lower-paid pilots, and union leaders are now trying to close the gap quickly.

The pilots have also been divided on how best to negotiate with the company. In January 1994, Richard LaVoy, the pilots' union president at the time, agreed with Mr. Crandall to what they called a "fresh approach" to negotiations.

The approach called for the two sides to use binding arbitration to resolve any issues that could not be settled in negotiations. Such a guarantee would have prevented any strike at the airline. But the union's board scrubbed the idea, and four months later the pilots voted in Mr. Sovich, the current president.

The New York Times

FRIDAY, FEBRUARY 14, 1997

2 Cleared in Gifts Tied to Ex-Cabinet Member

By DAVID STOUT

WASHINGTON, Feb. 13 — The special prosecutor investigating Mike Espy, President Clinton's one-time Agriculture Secretary, suffered his first setback today as a Federal Court jury acquitted two former executives of a crop-insurance company of making illegal campaign contributions to Mr. Espy's brother.

The two, John J. Hemmingson and Gary A. Black, were found not guilty of charges that they conspired to defraud the Federal Election Commission and that they filed false statements with the commission in connection with the 1993 Congressional campaign of Mr. Espy's brother, Henry.

Mike Espy resigned from the Cabinet in October 1994 after accusations that he had accepted favors from big agricultural businesses and billed taxpayers for pleasure trips and vehicles for his personal use.

Mr. Hemmingson was chief executive and Mr. Black a vice president of the Crop Growers Corporation of Overland Park, Kan., a crop insurer that last month pleaded no contest to conspiring to defraud the election commission and was fined $2 million.

The company and the two executives were accused of concealing more than $40,000 in corporate contributions to Henry Espy, then the Mayor of Clarksdale, Miss., in his unsuccessful bid to take over the seat vacated by his brother when he joined the Cabinet in 1993. Prosecutors said the defendants were currying the candidate's favor to gain access to the Agriculture Secretary.

But the defense lawyers, William Mauzy for Mr. Hemmingson and Theodore V. Wells Jr. for Mr. Black, argued that the former executives had acted in good faith, and that the Government's case lacked proof.

"I am, of course, disappointed in the jury's verdict," the special prosecutor, Donald C. Smaltz, said. "However, in our system of justice, that ends the matter, and we now move on to other aspects of our investigation."

Mr. Smaltz's office has obtained convictions or pleas of guilty or no contest from seven organizations and individuals, including Mr. Hemmingson, who was convicted in New Orleans last month of laundering a $20,000 contribution to Henry Espy.

The inquiry into the former Secretary's affairs is focusing on his relationship with Tyson Foods, the Arkansas poultry giant, and on its president, Don Tyson. Mr. Espy's departure from the Cabinet was hastened by disclosures that Tyson Foods had given the Secretary's girlfriend a $1,200 college scholarship and that Mr. Espy had accepted favors from Tyson while the Agriculture Department was weighing tighter poultry-inspection policies.

Investigators are also investigating Ronald H. Blackley, Mike Espy's chief of staff at the Agriculture Department and before that a member of Mr. Espy's Congressional staff. Some of Mr. Blackley's aides in the Agriculture Department have said that he ordered them early in 1993 to stop working on tougher poultry-inspection standards.

After the verdict today, an aide to Mr. Smaltz said: "We do not look at an acquittal as a defeat. Neither do we look at convictions as scalps."

Clinton Demands Action on C.I.A. Nominee

By JAMES BENNET

A lectern-pounding President calls Lake 'superbly qualified.'

WASHINGTON, Feb. 13 — Unprompted by any question, President Clinton used the occasion of a White House news conference today to urge the Senate to hold a hearing and a vote on Anthony Lake, his nominee for Director of Central Intelligence.

At times pounding his lectern, the President declared Mr. Lake, the national security adviser during Mr. Clinton's first term, "superbly qualified."

"If someone has some reason to oppose him, let them oppose him in a hearing and then in a vote on the floor," Mr. Clinton said, speaking after he had finished taking questions during a joint news conference in the East Room with Prime Minister Benjamin Netanyahu of Israel.

Senator Richard C. Shelby, the Alabama Republican who is chairman of the Intelligence Committee, has twice delayed Mr. Lake's confirmation hearings, which were originally scheduled to start on Feb. 11. On Tuesday, Mr. Shelby pushed them back to March 11, saying there remained a lot of "unanswered, perplexing questions" about Mr. Lake's conduct as national security adviser.

In praising Mr. Lake's performance, on Bosnia and other issues, the President said today: "I'd like to remind everybody involved in this that it was Tony Lake who came up with a strategy that we implemented to end the bloodiest war in Europe since World War II. In view of his service, not to me but to this country, and the positive consequences of that service — whether it's Bosnia, Haiti, the agreements with Russia, you name it — he deserves, his service to this country deserves, a hearing and a vote on the floor of the Senate, and I hope he will get it."

In an investigation that was concluded last Friday, the Justice Department found that Mr. Lake had not lied to Congress about the Administration's tacit approval of Iran's arms shipments to Muslims in Bosnia in 1994, aid that violated a United Nations weapons embargo publicly backed by the United States. But Mr. Shelby, who had previously criticized Mr. Lake for a "lack of candor," would not accept that finding.

After a separate investigation also concluded on Friday, the Justice Department said Mr. Lake should pay $5,000 to settle a civil inquiry, brought by the White House counsel's office, because his failure to sell energy stocks in his portfolio had created a potential conflict of interest while he was national security adviser.

But the Justice Department also said Mr. Lake's failure to sell the stocks had been nothing more than an oversight that he corrected as soon as he discovered it. Mr. Lake agreed to pay the $5,000.

Mr. Shelby, though, said the Justice Department report "raises as many questions as it purported to answer." His Senate and committee offices did not respond to calls seeking comment tonight.

Mr. Clinton said he wanted to speak about Mr. Lake "because I've heard it suggested that maybe I don't have a great interest in this." He did not offer similar remarks on two other nominees that have run into trouble: Alexis M. Herman for Secretary of Labor, and Federico F. Peña, for Energy Secretary.

But when asked about them as he stepped away from the lectern, he expressed continued support.

The New York Times

FRIDAY, FEBRUARY 14, 1997

Regional Jets Take Spotlight in American Air Dispute

By SCOTT MCCARTNEY
And SUSAN CAREY
Staff Reporters of THE WALL STREET JOURNAL

Regional jets should be the rage of the skies.

The sleek new breed of 50- to 70-seat planes are fast, economical and comfortable, with no middle seats and ample leg room. They can fly nonstop halfway across the country, and travelers don't fear them the way they do turboprop commuter planes.

Airlines like them, too. "The regional jet can fly places you can't fly today at economical costs," says Greg Brenneman, president of **Continental Airlines**, which plans to use them to service smaller U.S. cities and new international markets.

But the so-called "RJs" have hit turbulence, especially at **AMR Corp.**'s American Airlines, the nation's second-largest carrier. There, pilots are threatening to strike Saturday unless they — not less well-paid commuter pilots — are given contractual rights to fly the smaller planes. Higher pay for flying any planes is also an issue in the dispute, but that issue appears to be easier to negotiate.

"If there is a strike, it will be an RJ strike," says PaineWebber Inc. analyst Sam Buttrick.

The Allied Pilots Association, which represents American pilots, wants to secure thousands of cockpit jobs created by the new jets. Otherwise, the union argues, the company could "outsource" member pilots' jobs by shifting its routes to its American Eagle commuter subsidiaries. "If managers don't have outsourcing in their hearts, then why can't they sign our deal?" asks American pilot Ivan Rivera.

Company officials say they would lose money flying regional jets with higher cockpit costs, but that not having the jets would cost American passengers. Indeed, union consultants reached substantially the same conclusion last fall, finding that American pilots would benefit from increased traffic through American hubs. Still, says American President Donald Carty, "regional jets have become an emotional issue for some of our pilots."

When commuter carriers began deploying regional jets in force in the early 1990s, the biggest concern was whether the planes, which cost $13 million to $27 million each, would draw enough extra traffic to be profitable.

Bread-and-butter commuter routes of up to 200 miles turned out to be too short to use the jets efficiently, but longer, less-traditional routes — from Cleveland, say, to Providence, R.I.—work well, airline executives say. The planes are even beginning to foster a return to more direct flights between smaller cities, allowing some travelers to avoid hub connections. "In almost every market where it's been deployed, the regional jet has actually stimulated the market," says Alex. Brown & Sons analyst Will Wrightson. "People just prefer jets to turboprops."

The leading plane in this new generation of regional jets is Bombardier Inc.'s Canadair RJ, which is based on one of the firm's corporate jets. The Canadair is most hotly challenged by the Brazilian Embraer 145, which was just recently certified to fly in the U.S.

Regionals Take Off

Commuter carriers feeding big airlines are flocking to the new-generation regional jets

AIRLINE	NO. OF REGIONAL JETS	FIRM ORDERS	OPTIONS TO ORDER
Delta	52	38	95
United	15	12	36
Alaska	12	0	0
Continental	4	21	175
Northwest	0	12	24

Note: Regional jets are operated by various commuter carriers affiliated with the major airlines.
Source: Regional Airline Association

The new planes are creating all kinds of new opportunities. Independent commuter carrier Mesa Air Group will soon open an all-regional-jet hub at close-in Meacham Field in Fort Worth, Texas, challenging American's giant hub at nearby Dallas-Fort Worth International Airport.

Comair Holdings Inc., a Cincinnati-based commuter line that feeds Delta Air Lines, became the fastest-growing U.S. commuter carrier after it started flying regional jets in 1994.

Comair first used its regional jets to reach cities that were beyond the range of turboprops from Cincinnati, bringing new traffic into the hub that might have gone through Chicago, St. Louis or Detroit. After opening those new markets, Comair began using the planes to replace larger Delta airplanes at off-peak times. That allowed Delta to move some of its bigger planes to bigger markets, and recently Comair has begun using new RJs to phase out its turboprops.

Houston-based Continental expects to have 25 regional jets in service by June 1998 and has options on 175 more of the 50-seat aircraft. Before deciding to purchase them, the carrier calculated a "turboprop avoidance factor" for different routes, figuring that on some, just replacing a turboprop with a regional jet would increase traffic 20%.

At distances of 500 to 1,000 miles, Continental's regional jets cost about as much to operate as turboprops, and in fact have about the same unit costs as conventional small jets like the Boeing 737, the airline says.

The regional jets fly as fast and as high as 737s, and will replace the larger planes on some routes. That will allow Continental to offer twice the number of flights with the same number of seats in some markets, a move designed to attract business travelers, who typically prefer high-frequency service.

Beginning April 6, Continental will replace its regular airline service between its

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Cleveland hub and cities like Minneapolis and St. Louis with the regional jets. As additional planes are delivered, Continental plans to serve new cities in Mexico and Canada, while also building a special RJ terminal in Cleveland. "It's going to be huge," says David Siegel, president of Continental Express, the airline's commuter subsidiary, which is considering moving to an all-jet fleet.

But while neither Continental nor any of the other carriers plan to eliminate any big-airline jobs with regional jets, the American showdown has prompted other carriers' unions to take a closer look at the issue.

Last October, the head of the pilots' union at **United Airlines** warned members in a briefing paper that "the RJs are here and arriving in force." The union said Comair has been siphoning passengers to Cincinnati away from **Atlantic Coast Airlines**, United's commuter partner at Washington's Dulles Airport. But the pilots group has yet to take a position on the 12 regional jets ordered last month by Atlantic Coast.

Northwest Airlines has tried to avoid labor trouble in connection with the introduction of 12 regional jets at its 30%-owned commuter affiliate, Minneapolis-based **Mesaba Holdings Inc.**

Because Northwest pilots are contractually guaranteed to fly any jets within the Northwest system with 70 or more seats, the Mesaba planes will be configured to carry 69 passengers. Moreover, although the Mesaba jets will take over some routes now flown by Northwest's oldest and smallest DC-9s, the DC-9 pilots will move up to bigger planes.

The pilots union hasn't taken any action to oppose the moves, which it concedes were legal. Still, its members aren't pleased, says Paul Omodt, a spokesman for the Air Line Pilots Association at Northwest. "They took $300 million that Northwest employees earned and went out and invested in a separate company," he says.

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FDA Targets Tobacco Sales In Chain Stores

By BRUCE INGERSOLL
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The Food and Drug Administration is prepared to crack down on the nation's major retail chains under its strategy for enforcing a national ban on tobacco sales to teenagers.

The agency, working with state and local officials, intends to use computers and other means to track the compliance records of retailers nationwide and to take enforcement action against any store owner or retail chain that shows a pattern of repeated or widespread violations, FDA officials said. Such offenders could face thousands of dollars in civil penalties.

The FDA regulations to curb teenage smoking are to begin taking effect Feb. 28 with the requirement that young people present a photo-identification card to prove they are at least 18 years old before buying cigarettes or other tobacco products. The agency plans to give store owners a pass on the first violation and then fine them $250 for a second violation. Repeat offenders, on the other hand, will be dealt with much more harshly.

"We haven't yet determined what the incremental increases [in fines] will be," said Mitchell Zeller, the FDA's chief tobacco policy maker. "Under our civil money-penalty authority, [violators] could face a maximum of $15,000 in monetary penalties."

In addition to taking enforcement action, Mr. Zeller said, the FDA may very well publicize comparative data on the tobacco compliance rates of the nation's big supermarket, pharmacy and convenience-store chains.

Neither course of action is likely to sit well with many chains. The National Association of Convenience Stores, along with the tobacco industry and advertising groups, is challenging the FDA regulations in federal court, arguing that the agency lacks jurisdiction to regulate tobacco and that FDA restrictions on tobacco advertising would violate First Amendment protections of commercial speech. The federal judge hearing the case in Greensboro, N.C., said Monday that he will issue a ruling within five to 10 weeks.

What most riles convenience-store owners and other retailers is the FDA requirement that their employees require identification of all would-be tobacco buyers under 27 years old. "The carding proposal defies common sense," said Marc Katz, spokesman for the convenience-store group, which represents 2,200 retailers. "It unfairly saddles our employees with guessing customers' ages, and then imposes legal penalties for an honest error."

But Mr. Zeller said that such a requirement is necessary "to catch the mature-looking adolescent."

Given the size of the FDA's tobacco-enforcement budget, the convenience-store group and others may be overreacting to the specter of federal regulation. With only 1,000 field inspectors nationwide, the agency will have to rely on state agencies to conduct compliance checks.

Typically, state officials would send underage youngsters into stores, gasoline stations and other retail outlets and have them try to buy cigarettes and smokeless tobacco without showing a photo identification. Such "sting" operations are becoming commonplace in many states and communities that have tobacco-retailer licensing laws and other ordinances against the sales to teenagers.

At this point, the FDA has only $5 million for its antitobacco campaign, and can afford to sign enforcement contracts with agencies in only 10 states. The Clinton administration is seeking $34 million for the FDA's tobacco program, including enforcement and education, in fiscal 1998. The agency will set up a toll-free hotline and an FDA home page on the Internet to field citizen complaints about illegal sales to minors.

"Those complaints will trigger an unannounced compliance check as soon as one can be scheduled," said Mr. Zeller. "We hope to have a major presence nationwide by early 1998. Our program will complement all the ongoing local and state activities to enforce their own laws."

Yesterday, the administration launched a nationwide outreach effort to educate retailers, parents and community leaders about the FDA rules. It includes a series of regional meetings in 10 cities, as well as a national teleconference broadcast Feb. 28 to movie theaters in 25 other cities. The teleconference will feature a video message from Vice President Al Gore.