Administration Response to airline Commission

U.S. Department of Transportation
Office of the Secretary of Transportation

Assistant Secretary

400 Seventh St., S.W.
Washington, D.C. 20590

MEMORANDUM

September 22, 1993

SUBJECT: Review of Initial Draft - The Administration's Civil Aviation Initiative

FROM: Patrick V. Murphy
Acting Assistant Secretary for Policy and International Affairs

TO: All Members of NEC Working Group on Civil Aviation

Attached for your review is a first cut at the proposed Civil Aviation Initiative. It will be discussed at our working group meeting scheduled for next Tuesday, September 28, at high noon in the Old Executive Building, Room 324. As before, please call Sandy Mancini, 202-456-2801, and supply the name and date of birth of the representative from your agency.

In preparation for our meeting, please call Jim New on 366-4868 by 5 p.m. on Friday, September 24, if you have any major concerns with respect to the overall content, scope and/or style of the draft. This will enable Jim to be sure your concerns are included on the meeting agenda. Minor wording/editing revisions should be entered on the individual pages and returned to me at Tuesday's session.

The draft is deliberately brief and rapid-fire. It is anticipated that at least one and as many as three introductory statements -- by the President, Secretary Peña, and/or Dr. Tyson (see Table of Contents) -- would be included to set the scene and provide the context from which the individual action items logically flow. For example, a Presidential statement could highlight the major actions to be taken, draw linkages between those actions and Administration policy, and recognize the Airline Commission's contribution. Similarly, a statement by Dr. Tyson could provide an overall economic perspective, e.g., the cyclical nature of the industry's problems, the importance of continuing the benefits of deregulation, etc.

Attachment

- # -

Distribution:

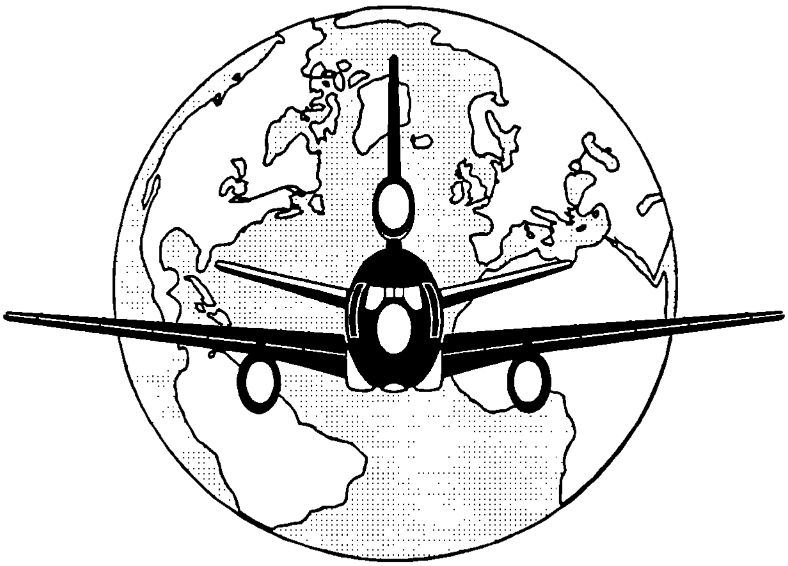
CEA	Joseph Stiglitz, Expert Economist, Council of Economic Advisors
COMMERCE	Jonathan C. Menes, Acting Assistant Secretary for Trade Development
DOD	James R. Klugh, Deputy Under Secretary of Defense
DPC	Michael T. Schmidt, Senior Policy Analyst, Office of Domestic Policy, Old Executive Office Bldg
FAA	Joseph M. Del Balzo, Acting Deputy Administrator
JUSTICE	Mark C. Schechter, Chief, Transportation, Energy and Agriculture, Antitrust Division
LABOR	Jack Donohue, Assistant Secretary for Policy
NASA	Wesley L. Harris, Associate Administrator, Office of Aeronautics
NEC	Michael Deich, Special Assistant to the President for Economic Policy
OMB	Christopher Edley, Associate Director for Economics and Government
S&TPol	Richard Delbello, Assistant to the Director for Space, Office of Science and Technology Policy
S&TPol	Timothy Newell, Assistant Director for Intergovernmental Affairs, Office of Science and Technology Policy
STATE	Richard E. Hecklinger, Acting Assistant Secretary for Economic and Business Affairs
TREASURY	Alicia H. Munnell, Assistant Secretary for Economic Policy
USTR	Donald M. Phillips, Assistant U.S. Trade Representative for Industry

[09/22/93 Draft]

ACTION PLAN

FOR THE ADMINISTRATION'S

CIVIL AVIATION INITIATIVE



SEPTEMBER 1993

CONTENTS

PART 1. REVITALIZING DOMESTIC AVIATION

Actions To Make The Air Transportation System Safer and More Efficient

The Administration is acutely aware of the importance of operating the nation's air transportation system as safely and efficiently as possible. This entails efficient, high-quality air traffic control services, timely implementation of cost-saving technologies, continued support for the development and application of cutting-edge technology and products, and improved utilization and management of the airspace system. To these ends, we will:

Restructure ATC Services

examining restructuring alternatives, including as a corporate entity.

In response to both the President's *Reinventing Government* initiative and the National Airline Commission, a committee of Administration experts, to be headed by the FAA Administrator, will develop a plan for restructuring FAA's Air Traffic Control (ATC) services as a corporate entity. The purpose of the restructuring is to make ATC more business-like and to overcome ~~certain~~ chronic impediments to good management, such as inflexible personnel rules and burdensome procurement regulations, that have frustrated efficient and effective delivery of ATC services. The committee will examine the cost, risk, operational, legal, national security and safety implications of restructuring alternatives. Congressional representatives, industry leaders and other aviation experts will be consulted. The plan will be completed by next March. Based on the completed plan, the Secretary of Transportation will work with Congress to develop implementing legislation.

Accelerate GPS and Related Technologies

The FAA Administrator has been charged with the task of accelerating plans for implementing the Global Positioning System (GPS), a satellite-based navigation system. GPS offers enormous opportunities for enhancing safety and efficiency by enabling air traffic control to be integrated with high-precision navigation and communications, by increasing the capacity of the airspace system, and by reducing delays and the costs they impose on airlines, passengers and shippers. Beginning in 1994, GPS will be available for use during most take-offs and landings under normal weather conditions and, in 1995, for use as the sole means for navigating airspace over the oceans. Augmenting systems allowing broader and more robust GPS applications will be available by 1998. In addition to these implementating actions, we will be modernizing the national airspace system to accommodate both civil and military needs by installing new equipment for automating ATC operations, accelerating standards on the operation and certification of GPS components, and working with industry to develop standards for future GPS and

ATC enhancements. Furthermore, our plan for restructuring ATC services will include options for creating a public-private consortium as a means to expedite the development and implementation of ATC technologies.

Sustain U.S. Technological Leadership and Superiority thru Partnership with Industry

A solid working partnership between industry and government will spur the development of technologies having the highest payoffs for our national aviation system and help to sustain America's preeminence in civil aviation research and development. Working with industry, we are committed to building a strong, advanced technology base for civil aviation that will guarantee continued expansion of benefits both domestically and internationally, while ensuring that U.S. industry maintains a strong competitive posture in the manufacture of aircraft and delivery of air services.

In support of these objectives we have increased NASA's aeronautics budget by 30 percent for fiscal year 1994, focusing increased investment on civil aviation. Working with industry and FAA, NASA has developed high-payoff technology programs to enhance aviation competitiveness, system capacity, environmental compatibility and safety. The principal components are the Advanced Subsonic Technology (AST) program and the High Speed Research (HSR) program. AST is focused on technology for the next-generation subsonic transport, and includes capacity and efficiency improvements together with NASA's contribution to GPS implementation. HSR is aimed at laying the technological foundation for an industry-developed High Speed Civil Transport that is economically viable and environmentally compatible for the long-haul, over-water market. This fast-growing market is likely to make the High Speed Civil Transport the key to global competitiveness in aircraft manufacturing in the future. Upgraded and new aeronautical facilities also are receiving increased attention in response to the aging of our national facilities and the needs of industry and government. For example, new wind tunnels that do a better job of simulating flight conditions should improve the aircraft design process, enabling production of high-quality aircraft at lower cost with faster delivery to market.

- DOD & DOT R&D Budgets mentioned here

To guide our partnership with industry, a complete Administration agenda for civil aeronautics will be developed over the next year. This will be done by an interagency Aeronautics Working Group co-sponsored by the Office of Science and Technology Policy and the National Economic Council.

Evaluate the High Density Rule

The Department of Transportation will immediately begin a comprehensive examination of the High Density Rule to assess its viability as an efficient air traffic and delay management device and to determine what modifications, if any, can be made to better utilize airport capacity. Put in place nearly 25 years ago as a "temporary" measure to deal with airport congestion, the High Density Rule today limits the number of airline operations at four major U.S. airports: Chicago O'Hare, New York's LaGuardia and JFK International, and Washington National. The Department's study will assess capacity at these airports and the impact of the rule on airline competition, fares and service patterns. It will also evaluate the rule's economic, financial and environmental implications, including alternative traffic management techniques and the process for allocating domestic and international slots.

Actions To Enhance The Aviation Industry's Financial Outlook

The most important action government can take to improve the industry's financial condition has already happened. Enactment of the President's budget plan establishes the foundation for sustained economic growth and control of the federal deficit. A reinvigorated economy will generate more business for airlines and aerospace firms, boosting their financial prospects. The President's plan also provides relief from the Alternative Minimum Tax for many capital-intensive businesses, including airlines, and a temporary exemption from the 4.3 cents-per-gallon fuels tax for gasoline and jet fuels used in commercial aviation prior to October 1, 1995. For the airline industry, these provisions will provide financial benefits amounting to $1.4 billion for fiscal years 1994-1998. In addition to these measures, we will take the following actions to address financial concerns and promote airline competition:

Seek Bankruptcy Reform

We support, and will work with Congress to secure the passage of, proposed amendments to the bankruptcy code that would:

- Limit to 60 days the time period during which a bankrupt air carrier can either assume or reject unexpired leases or executory contracts with an airport operator, under which the debtor has a right to the use or possession of an airport terminal, aircraft gate, or related facility. This change, while allowing time for a financially troubled airline to reorganize, recognizes the interests of the airline industry and the public in assuring efficient use of limited airport gates and related ground-support assets.

- Codify recent court decisions to clarify that the lease provisions of the bankruptcy code cover parties with security interests, lessors of such equipment, and conditional lessors of such equipment. This change, which would cover maritime and railroad leases as well as aircraft equipment leases, would protect the right of a secured creditor to retake leased equipment 60 days after the filing of a bankruptcy petition. As a result, lessors' concerns over the impact of bankruptcy on their equipment would be allayed, and other carriers would be able to lease aircraft and related equipment on better terms.

- Allow governmental units having a major financial stake in certain Chapter 11 reorganization cases to participate as members of creditors' committees. Creditors' committees play a key role in Chapter 11 proceedings by gathering financial information, conducting investigations and participating in decisions on the debtor's fate. Under current law, government agencies and instrumentalities are effectively excluded from creditors' committees even though they are often among the largest creditors involved in a Chapter 11 proceeding. The proposed amendment would allow government entities -- federal, state or local -- to sit on creditors' committees in appropriate cases and exercise a stronger voice in the reorganization process.

In addition to supporting these statutory changes, we will undertake a study of the economic impact of bankruptcy laws with respect to certain time limits on the filing of reorganization plans and increased representation of the public interest in bankruptcy proceedings. These issues require further review because they transcend airline bankruptcy cases. Based on the results of our study, which will be done under the auspices of the National Economic Council, we will work with Congress to effect appropriate changes to the bankruptcy laws.

Rigorously Enforce Financial Fitness

Department of Transportation staff will continue to monitor closely and report regularly to the Secretary on the state of the airline industry and the condition of individual carriers. Given the dynamics of the industry, particular attention will be paid to financial factors, especially competition within the industry, ownership changes, and financial trends.

Under section 401(r) of the Federal Aviation Act, the Secretary can, after proper notice and a hearing, modify, suspend or revoke an airline's authority to operate if he determines the airline no longer meets the Department's fitness requirements. Typically, the Department has under review, and receives confidential data related to, various fitness elements for as many as 20 to 30 carriers, including data on finance, operations, ownership and control, business plans, and citizenship. Moreover, the Secretary receives diverse perspectives on the airlines' financial and competitive status through continual exchanges, formal and informal, with airline executives, transportation academicians, aviation consultants, Wall Street analysts, and Congressional leaders. These consultations, coupled with the Department's ongoing fitness reviews, have provided a strong incentive for airlines to comply with fitness requirements and to promptly correct deficiencies identified by the Department. New authority or mechanisms for ensuring financial fitness are not necessary and would inevitably lead to re-regulating the airlines' economic behavior.

Preclude Diversion of Airport Revenues

The Department of Transportation will continue to enforce prohibitions against the diversion of airport revenues for non-airport purposes, and to scrutinize projects funded by passenger facility charges to ensure they satisfy eligibility criteria.

Some airport sponsors would like to use airport revenues to pay for the costs of non-airport projects and services. Allowing sponsors to divert revenues in this manner, however, would undermine Congress' intent in establishing the Airport Improvement Program (AIP) and in authorizing the use of Passenger Facility Charges (PFCs). AIP is intended to assist airports in meeting their capital needs and to ensure that capacity and safety improvements are made. By law, an airport that has received an AIP grant is prohibited from diverting airport revenues to non-airport purposes. Similarly, PFC revenues, which airports are authorized to collect by charging up to $3 per enplaning passenger, are intended to provide capital for meeting airport development needs. Projects to be funded by PFCs must be approved by FAA to ensure they meet statutory criteria for eligibility.

Diverting airport revenues for non-airport purposes is antithetical to AIP/PFC goals: it is likely to raise the costs to airport users and the cost of air travel, and/or result in diminished airport service. Moreover, it is inequitable to charge all airport passengers, many of whom are not residents of the local area, to cover the costs of local services unrelated to airport use.

Stay the Course to a Quieter Stage 3 Fleet

FAA will continue to ensure carrier compliance with federal requirements for phasing out noisier Stage 2 aircraft by the year 2000, and to exercise review and approval authority over all local restrictions proposed by airport operators on the use of quieter Stage 3 aircraft. This course of action will ultimately reduce the population affected by significant levels of aircraft noise from 2.7 million to 400,000, while protecting carriers' investment in Stage 3 aircraft during the transition to an all Stage 3 fleet.

Happily, that transition is moving faster than required. As of December 31, 1992, the fleet mix of Stage 3 aircraft was 59.3 percent overall and 56.3 percent for domestic aircraft. This is well ahead of the minimum 55-percent interim goal set for December 31, 1994. In most cases, the transition to Stage 3 should achieve the noise mitigation objective of airports and their affected communities. On occasions when an airport operator concludes that additional noise relief is needed, FAA will urge the airport to exhaust all means to work with the local airport users in reaching voluntary agreement on any additional measures.

Encourage New Entrants and Service to Small Communities

The Federal Aviation Act specifies that the Department of Transportation should encourage entry into air transportation markets by new carriers. This has been and will continue to be the Department's policy. The Department will continue to help educate prospective airline entrepreneurs on certification requirements and procedures, and to provide substantial guidance and assistance to new entrant applicants in perfecting their applications. In addition, the Departments of Justice and Transportation will aggressively enforce all pro-competitive, anti-trust laws and regulations affecting the airline industry.

The Department of Transportation will continue to work with small carriers to encourage them to expand services to small cities. The Essential Air Service program will be operated at levels consistent with the program's legislated intent and the President's Budget. New, multi-year strategies for this program, including alternatives to the current blanket eligibility of communities "grandfathered" by the Deregulation Act of 1978, will be developed. This action will facilitate long-term planning by local communities and businesses, as well as the airlines that would serve them, by providing greater certainty regarding future levels of program subsidies.

Actions To Reduce The Regulatory Burden

The Administration desires both to reduce the regulatory burden imposed on the airline and aerospace sectors and to improve the cost-benefit analysis and reporting that underlie rulemaking decisions. We are particularly mindful of the costs and controversy associated with drug and alcohol testing in the aviation industry. The following actions will be taken:

Reassess Existing Regulations

The Deputy Secretary, Department of Transportation, will spearhead a systematic evaluation aimed at eliminating or amending existing rules and regulations to reduce the compliance burden on industry, consistent with safety, environmental protection, and security considerations. This evaluation, to be conducted in accordance with a forthcoming White House regulatory review process, will include implementation schedules and periodic progress reports to the industry and the public. To avoid wasting resources and duplicating prior reviews, the Department will solicit the industry for specific suggestions on regulatory areas where the regulatory burden exceeds benefits. FAA's Aviation Rulemaking Advisory Committee, a group of 61 organizations representing a cross-section of aviation interests, will play a key role.

Improve the Quality of Cost-Benefit Data and Reporting

FAA, assisted by its Aviation Rulemaking Advisory Committee, will identify options and opportunities for receiving cost input data early during the regulatory process. The Advisory Committee's participation will foster government-industry cooperation and facilitate the early exchange of data so that FAA can make informed decisions before proceeding with a rulemaking proposal. Also, FAA will immediately assign additional resources to the economic analysis component of its regulatory program to develop ways to facilitate more timely exchange of accurate cost data between industry and government. Furthermore, in the case of rules mandated by Congress or initiated by the Administration, FAA will prepare a preliminary cost-benefit analysis prior to issuing a rulemaking notice and will brief the appropriate officials on the results. Based on guidance received at the briefing, FAA will take whatever additional action is necessary, including but not limited to issuing the notice as prepared, modifying the proposal to mitigate the estimated cost burden, or terminating the project entirely. For existing rules, FAA will invite the aviation industry to submit data on the actual costs incurred to comply with provisions of the regulations. These cost data, married with data on benefits, will form the basis for an annual cost-benefit report to Congress.

Sharpen Cost-Benefit Methodology

The Office of Information and Regulatory Affairs within the Office of Management and Budget will establish an interagency working group to expand and improve regulatory cost-benefit analysis and resolve significant cost-benefit disputes. Identified improvements in cost-benefit methodologies will be shared with all agencies, including FAA, for use in preparing Regulatory Impact Analyses.

Complete Outstanding Drug and Alcohol Rulemakings

The Department of Transportation will work to resolve these proceedings as expeditiously as possible within the statutory framework of the federal rulemaking process. With respect to drug testing, the Department has issued an Advance Notice of Proposed Rulemaking to gather information on which to base a change in the random drug-testing rate, which is currently pegged at 50 percent. This rate for the aviation industry, as for other transportation industries, was established by public rulemaking; it is vital that any change to the rate be established in full compliance with rulemaking procedure. With respect to alcohol testing, the Department has issued a Notice of Proposed Rulemaking which includes pre-employment and random alcohol testing. Both types of tests are among those mandated by the Omnibus Transportation Employee Testing Act of 1991. Based on the outcome of both rulemakings, the Department will work with Congress in determining whether legislative relief is warranted.

Actions To Foster Labor-Management Collaboration

The Administration is deeply committed to accelerating the evolution of labor-management relations, throughout the economy, in the direction of collaboration and flexibility. This commitment was evidenced most recently by the involvement of the President and the Secretaries of Labor and Commerce in sponsoring a national Conference on the Workplace of the Future, and by the creation of a new Office of the American Workplace within the Labor Department. Moreover, the work of the Dunlop Commission on the future of worker-management relations is now underway and will explore new initiatives in this area. As further manifestations of our commitment to collaborative labor-management relations, we will:

Promote Job Opportunities and Employee Ownership

The Office of the American Workplace will undertake an initiative to encourage the development and expansion of employee stock ownership and other "gainsharing" programs. This initiative will seek to determine which programs can best stimulate employees' involvement, while adequately safeguarding their economic and employment interests from potentially excessive risk. The results will be shared with the airline, aerospace and other industries. In addition, recognizing that the aviation industry has become global in scope, the Department of Labor will prepare a report on the implications and prospects for domestic high-skilled, high-wage jobs. The report will identify policy options for encouraging the preservation and expansion of employment opportunities in civil aviation.

Require Plans for Protecting Carrier Jobs

The Department of Transportation will augment its fitness review process to include information on potentially displaced workers. In the future, any carrier seeking approval from the Department for an international route transfer, or undergoing a major change subject to the Department's review, will be directed in the agency's standard evidence request to provide its plans for protecting potentially displaced workers.

PART 2. PROMOTING INTERNATIONAL AVIATION TRADE AND COMPETITIVENESS

Actions To Build A Liberalized, Multi-National Aviation Framework

Negotiating air service deals country-by-country has served this Nation well, opening up and expanding international markets and enabling U.S. carriers to become premier providers of air service around the world. This bilateral approach today, however, is a prop plane in a turbojet era. The creation of liberalized, cross-border trading markets such as the European Community, reductions in tariffs and other barriers to international trade, and the globalization of manufacturing, communications, finance and other industries, herald a new era in international air commerce. Airlines and other aviation companies have recognized these changes for some time and have devised new strategies for doing business in the global economy. It is time for the U.S. government to do likewise -- to develop strategies for shaping a liberalized, multi-national regime for international aviation. This cannot be accomplished overnight. While pursuing new multi-lateral strategies, the Administration will continue to seek liberalized bilateral agreements when they will serve the interests of U.S. carriers and the Nation. To achieve greater liberalization we will act to:

Increase the Limits on Foreign Ownership of U.S. Carriers

re-written

We will ask Congress to amend the Federal Aviation Act to allow the United States to negotiate liberal air service agreements which permit foreign investors to hold up to 49 percent of the voting equity in U.S. airlines, subject to provisions for ensuring that U.S. air carriers are not disadvantaged, and consistent with the economic, national security and international interests and obligations of the United States. The Departments of State and Transportation will take the lead in crafting a legislative proposal.

The Federal Aviation Act effectively limits foreign ownership to 25 percent of the voting interest in a U.S. carrier. Raising this limitation to 49 percent would increase U.S. carriers' access to international capital. Weaker U.S. airlines would be able to reduce borrowing costs, invest in new aircraft, and compete more effectively with the dominant airlines. Enhanced competition, in turn, would provide the public with more travel options, create and preserve jobs for U.S. workers, and otherwise advance the economic interests of the United States.

Notwithstanding these benefits, we are keenly aware that any proposal to liberalize foreign ownership and investment must carefully consider major concerns over market access, reciprocal benefits for U.S. carriers, foreign control of U.S.-based aircraft, international treaty obligations of the United States, and (as discussed below) U.S. defense needs. These matters will be thoroughly evaluated in developing our legislative proposal and in consultations with Congress.

Safeguard Defense Airlift Capacity

The availability of civil aircraft to meet emergency airlift requirements is vitally important and, along with other national defense and security needs, must be taken into account in decisions on cross-border investment and ownership. The Departments of Transportation and Defense will take the lead in ensuring that national defense and security are adequately considered in all such decisions. As an initial step, the Defense Department will undertake a review of airlift requirements, including participation of U.S. international air carriers and current Civil Reserve Air Fleet requirements. Transportation and Defense will then develop specific proposals to ensure availability of the needed commercial airline capacity.

Pursue Alternative Negotiation Strategies

The Administration's Interagency Committee on Aviation will evaluate the role of all potential negotiating alternatives -- bilateral, regional, multi-national, global network of like-minded countries, *etc.* -- in moving toward a liberalized international aviation regime over the short, medium and long terms. Based on the committee's assessment, the Departments of State and Transportation will take the lead in pursuing prospects for sector-specific agreements to achieve liberalization objectives in the near term. In addition, we will continue examining the need for organizational, staffing or related changes at State and Transportation to ensure that air service negotiations receive the appropriate degree of attention and continuity.

Historically, the leverage provided by the large size of the U.S. aviation market has enabled U.S. carriers to benefit from a bilateral regime of aviation agreements. More recently, however, that regime has operated to limit commercial opportunities, distort competition, and restrict the ability of U.S. airlines to compete in many markets. Creating a liberal multi-national regime for passenger service is not achievable in the near term because the requisite, mutual interest is absent among our principal trade partners. On the other hand, we may be able strike sectoral air-cargo service agreements, either bilaterally or multi-nationally, as a step toward the goal of market liberalization. Air cargo is less politically sensitive than passenger service, and we have experience in dealing with air cargo as a separate issue: U.S. deregulation began in the cargo sector, and in

1991, we held exploratory talks with European Community officials on a U.S.-EC cargo liberalization regime. Those talks were suspended because the EC Commission lacked (and still lacks) a negotiating mandate.

International aviation currently commands high-level attention at both the Departments of State and Transportation. As the development of new negotiation approaches proceeds, the need for organizational changes to assure the necessary level of attention will be assessed. State has already begun a review to ensure that key negotiation staff remain in place for a longer period of time. This review may result in restructuring some positions and extending standard tours of duty. At Transportation, Secretary Peña recently reorganized responsibilities at the Assistant Secretary level to focus more time and attention on aviation matters.

Actions To Expand And Facilitate Aviation Commerce

In addition to building a liberalized, multi-national framework, the Administration seeks to expand commercial opportunities for U.S. aircraft manufacturers in the global marketplace and to facilitate the flow of international aviation commerce. In support of these objectives we will work to:

Enact a Statute of Repose

Keep this sect up

We support, and will urge Congress to enact, proposed legislation to limit the product liability of general aviation manufacturers to 15 years. General aviation aircraft production historically has been a significant contributor to U.S. exports. Enactment of a statute of repose will help to revitalize the industry's sales, exports and employment of U.S. workers.

Amend the Warsaw Convention

We will also urge Congress to promptly ratify Montreal Protocols 3 and 4 to the Warsaw Convention and to enact a supplemental compensation plan on death and injury in international air travel. These actions will change the existing airline liability system to better serve the interests of passengers and shippers. Ratification of Protocol 3 and passage of a supplemental compensation plan will establish an absolute liability system to guarantee the payment of compensatory damages, both economic and non-economic, for the injury or death of U.S. international airline passengers without individual limitation. This system would cover all passengers purchasing tickets in the United States for international travel, as well as all U.S. citizens and permanent residents traveling internationally anywhere in the world. In the case of Montreal Protocol 4, ratification will streamline cargo documentation requirements for shippers.

Ensure Sufficient Export Financing

We will continue to provide the necessary level of support to the Export-Import Bank (Eximbank) to ensure that competitive financing is available to U.S. aircraft exporters.

The need for competitive credit financing in the aerospace sector has increased since the late 1980's. Eximbank support for aircraft exports has risen from less than $500 million in 1989 to a projected $3 billion this year, accounting for about 20 percent of overall Eximbank activity. In response to this increased demand, we have sought flexibility in the limitations imposed on Eximbank's budget, which take the form of both an annual authorization limit on the dollar volume of new loans, guarantees and insurance, and a subsidy budget covering the funding and risk subsidies inherent in Eximbank's authorizations. For fiscal year 1994 we requested that there be no limit on total authorizations, thus affording Eximbank greater flexibility in using its subsidy budget, and that the subsidy budget be maintained at the fiscal 1993 level of $757 million. These steps should be adequate to accommodate expected aircraft demand.

Meanwhile, Eximbank is working to strengthen its lending operations. For example, through its fee schedule and related risk-management policies, the bank has reduced the budgetary cost of supporting aircraft and other credit transactions. And by using asset-based financing structures, the bank has increased its assurance of repayment in many high-risk markets. In addition, each financing request is being carefully examined to ensure that it will in fact generate additional exports.

For fiscal year 1995 and beyond, U.S. support of Eximbank financing will be shaped by the anticipated demand for export financing, the President's recently enacted budget plan, and the results of a review of our international affairs priorities being conducted under a Presidential Review Directive.

Harmonize International Regulation

Airlines, manufacturers and civil aviation authorities are saddled with unnecessary costs due to substantial variance among nations' aviation regulations. To reduce this cost burden, FAA will expedite its ongoing global effort to harmonize international regulation. Specifically, FAA will work with European nations to develop common, performance-based aviation safety standards, and to ensure that European Joint Aviation Requirements are harmonized with Federal Aviation Regulations. FAA will also continue to provide technical assistance to other nations on safety and airworthiness regulations, and to encourage the development of regional aviation authorities. Furthermore, to support and complement these efforts, the Department of State and FAA will jointly explore ways to transform existing bilateral airworthiness agreements into a more flexible and comprehensive aviation safety format. In addition to aircraft certification procedures, this format would encompass such areas as crew training facilities (*e.g.*, simulators), aircraft maintenance, and aircraft noise standards. The more flexible and comprehensive format would also permit timelier implementation of technical agreements.

Facilitate International Cooperation

Globalization of aircraft manufacturing necessitates an active role by the U.S. government in facilitating international cooperation. Our objectives are to ensure that U.S. aerospace firms are not disadvantaged in global competition and to foster a climate in which U.S. companies can continue to participate as technology and marketing leaders. To support these objectives we will expand the distribution of information on bid opportunities and competitions to aerospace firms; monitor international competitions to ensure that U.S. aerospace manufacturers have the opportunity to participate in international programs on a fair and equitable basis; fully and expeditiously investigate complaints by U.S. industry regarding foreign trade barriers; and act to eliminate, or to counteract as necessary, impediments identified by industry, such as restrictions stemming from foreign or domestic trade policies.

Actions To Enforce International Treaty Obligations

The Administration will vigorously enforce existing trade agreements and U.S. trade laws affecting international aviation commerce to protect the rights and interests of U.S. airlines and aerospace firms. Specifically, we will:

Closely Monitor Airbus Agreement

We have been and will continue to be particularly vigilant in monitoring compliance by the Airbus partner governments with the terms and conditions of the 1992 U.S.-EC civil aircraft agreement, which impose a cap on government supports and subsidies for aircraft development and production. Our monitoring activities include regular consultations with the European Community to ensure full compliance with the bilateral agreement; having U.S. embassies in the Airbus partner countries track host government actions with respect to Airbus and report information relevant to the implementation of the bilateral aircraft agreement and compliance with obligations under the General Agreement on Tariffs and Trade (GATT); and exchanges of information with the European Community, as required by the bilateral agreement, concerning government support to large civil aircraft producers.

Tighten Disciplines on Government Subsidies under GATT

We will seek to tighten the disciplines on government support and subsidies currently contained in the GATT aircraft agreement, and to expand the coverage of that agreement to other countries which produce civil aircraft and components. In the 1992 U.S.-EC *Agreement Concerning the Application of the GATT Agreement on Trade in Civil Aircraft*, both parties committed themselves to ensuring that disciplines similar to those contained in the bilateral agreement are incorporated in the 1979 GATT aircraft agreement at the earliest possible date. Both parties also agreed to expand the coverage of the disciplines provided by that agreement. Signatories of the GATT aircraft agreement accepted a U.S.-EC invitation to participate in multi-lateral negotiations to improve and expand the existing agreement. Non-signatory nations (*e.g.*, Russia, China and Taiwan) also have been invited to participate in the negotiations. Our goal is to conclude these negotiations at the same time as the Uruguay Round of GATT negotiations are concluded, currently set for December 1993.

Employ All Available Enforcement Tools

We will use all of the means at our disposal to defend the air service rights exercised by U.S. carriers under the terms of our bilateral aviation agreements. When disputes cannot be resolved expeditiously through negotiation or, when appropriate, through dispute resolution mechanisms, we will not hesitate to use other enforcement tools, including the procedures and remedies provided by the International Air Transportation Fair Competitive Practices Act of 1974 and the imposition of sanctions such as the suspension of privileges and services. Furthermore, the option of denouncing unsatisfactory or disadvantageous bilateral agreements will be considered in appropriate cases.

Working Grp on Civil Aviation 9-28-93

- tomorrow - Airline Commission Mtg w/Pres
- Get Admin Plan to Pres. as quickly as possible to announce

- Michael ~~[illegible]~~ - WH Comm - polishing Document
- Release Date -- Early October Hopefully (2 weeks)

<u>Issues</u>

- GPS / FAA
- Foreign Investment
- ExIM Bank
- Cooperation with Industry conflict with GATT/Subsidy Issue
- PR -- how to stress Competition issue

<u>Foreign Investment</u>

- new language on foreign investment
  - <u>non-airline investors</u> in airlines holding up to 49% ?
    - Separation of airline vs. non-airline investors
    - non-airline investors <u>could</u> invest up to 49% <u>without</u> bi-lateral agreement in place,
    - airline investor needs bi-lateral agreement -- an a<u>cce</u>ss con<u>ce</u>rn
- Keep original language (p 10) - don't mention airline/non-airline distinction - reser to State/USTR/Commerce/NEC for further study

Next Steps

- next Tues → final draft ready
  ~~Tues [illegible]~~ → NEC Deputies Approval - Goes to Pres.
- tomorrow - Pres mt w Baliles

AGENDA
WORKING GROUP ON CIVIL AVIATION
September 28, 1993

1. Opening remarks - Secretary PeÊa

2. Overview of proposed draft Initiative - P. Murphy

3. Open discussion - Major concerns about draft Initiative

   a. Foreign Ownership Limits - State Dept.

   b. Other major concerns?

4. Next Steps

   a. Introductory statements for Initiative

      o How many statements are appropriate
      o Who will prepare them and when they will be completed
      o Main points each statement should cover (avoid redundancy).

   b. Submit revised/completed Initiative to NEC principals - M. Deich

   c. Begin meetings with key Congressional members/staff - DOT and others, as appropriate.

   d. Secretary PeÊa/Dr. Tyson meet with President to discuss Civil Aviation Initiative

   e. Initiative announced