

Transportation

MEMO

To Carol Rasco, Bruce Reed

From Paul Weinstein

January 26, 1993

Re: USAIR/British Airways merger:

Towards the end of the campaign, USAIR and British Airways announced a financial arrangement in which British Airways was to purchase a minority percentage of USAIR. Under current U.S. law, a foreign airline may not buy a majority interest in a major U.S. carrier.

Although only a minority stockholder, there was strong concern that British Airways would have been able to exercise de facto control over USAIR. In addition, both airlines were hoping to eliminate in the near future any distinctions between the two companies.

There was across-the-board opposition to the agreement from the other major carriers, who felt British Airways was gaining access to U.S. domestic routes while U.S. airlines were not being permitted the same type of access in Great Britain.

The arrangement would have saved thousands of USAIR jobs, especially in Pittsburgh and Charlotte, North Carolina, the locations of USAIR's two biggest hubs.

Then candidate Clinton expressed three reservations about the proposed agreement:

1. Would the requirement for the supermajority of the board give effective control over USAIR to British Airways?
2. Would the creation of this new USAIR entity ensure that other carriers have reciprocal access to British domestic routes?
3. Would U.S. carriers have the same type of investment opportunities in foreign markets that foreign carriers enjoy here?

British Airways has resubmitted a lower bid which they believe does not require Department of Transportation approval.

**British Airways \$750MM Tranched Investment in USAir Group**  
**Summary of Terms**

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**Amount:** \$750MM total in three tranches of \$300MM, \$200MM and \$250MM.

**Securities:** 15-year Cumulative Convertible Preferred Stock with varying conversion prices which, in total, have a weighted average of \$20.50 per share.

\$300MM Tranche I : \$19.50/share

\$200MM Tranche II : \$20.50/share

\$250MM Tranche III: \$21.82/share or higher

**Rank:** Until the shareholder meeting, senior to the Series A Berkshire Hathaway Preferred Stock, but thereafter, pari passu with Series A and senior to Series B Convertible Preferred Stock.

**Dividend:** 7%, payable quarterly in arrears.

**Timing and Structure**

**of Investment:** \$300MM Tranche I to be completed January 21, 1993: Passive investment with three Board seats (of 16 total) but no governance provisions. Equates to 15.38 million underlying common shares, a 21.8% pro forma voting stake (includes Series A), and a 24.6% pro forma common stake (excludes Series A and B Preferreds).

\$200MM Tranche II, at BA's option but intended to be completed within three years: Provides governance/control rights as then permitted by DOT and (as to integration) USAir's Board, and may increase Board representation to four seats. Equates to 9.76 million underlying common shares, and a cumulative 34.75% pro forma common stake. Note, Tranche II will be a mix of voting and initially non-voting shares if the DOT 25% foreign vote restriction still applies.

\$250MM Tranche III, at BA's option but intended to be completed upon DOT approval of full governance and control rights in original transaction, but within five years. If not completed, BA loses all governance/control rights, except Board seats. Equates to 11.46 million underlying common shares, and a cumulative 43.7% pro forma common stake. Unless DOT 25% rule has changed, all Tranche III shares would initially be non-voting. All initially non-voting shares can become voting if permitted by then-applicable laws.

**Board and Shareholder**

**Approval:** The entire \$750MM tranching investment is subject to the approval of both companies' Boards of Directors and shareholders, and Tranche I is subject to unwind if entire \$750MM investment not approved by shareholders by the end of May, 1993.

**USAir's Rights/  
Options:**

Tranches II and III are at BA's option unless DOT grants full approval of original transaction, then (assuming BA has not fully sold its holdings) USAir may force BA to immediately complete Tranches II and III anytime during the five-year period.

Furthermore, if BA fails to complete Tranche II within three years, USAir has the right to redeem all BA shares at higher of face value or then current market value (standard redemption rights). Upon complete redemption, BA loses all rights to complete Tranches II and III. This is an incentive for BA to complete each Tranche within the intended timeframe.

USAir also has traditional forced conversion rights for all three Tranches: after five years from Tranche I closing, if USAir's common stock is trading at 133% of the relevant conversion price, USAir may force conversion of each preferred Tranche into common stock and eliminate the 7% dividend cost.

**Pre-emptive, Top-up, and Anti-dilution**

**Provisions:** Top-up: If currently outstanding convertible preferred issues (Series A and B) or outstanding stock options are converted, BA may purchase additional Convertible Preferred Stock at the higher of \$20.50 or the relevant conversion/option price to maintain their maximum 43.7% ownership stake.

Pre-emptive: If USAir issues new common stock or new voting convertible equity/debt, BA may purchase additional Convertible Preferred Stock at the new issue price to maintain their maximum 43.7% ownership stake.

Anti-dilution: If BA chooses to not participate pre-emptively in a new issue and it is sold at a below-market price, the conversion price of each BA Preferred Tranche would be reset to reflect the dilution of the new below-market issue.

**Tender Rights:** In the normal course, BA must complete the entire \$750MM investment before they could tender (without the concurrence of the Independent Directors) for the remainder of the company; however, BA may

respond to third-party tenders, subject to the Poison Pill until Tranche III is completed.

**BA Registration Rights, and USAir Right of**

**First Refusal:** After three years, BA may sell their USAir holdings privately or via a US public registration, at which point they lose their rights to make further investments and their pre-emptive and top-up rights. USAir has a right of first refusal for such sales.

**Standstill:** While BA holds their USAir securities and for two years after disposition of all securities, they are restricted from acquiring any USAir equity, etc.

January 19, 1993

**Code-sharing between USAir and British Airways  
is permitted today  
under the U.S. - U.K. bilateral agreement.**

**" Any United Kingdom designated airline may enter into a commercial arrangement with any U.S. airline or airline's under which that other airline's flights carry the airline designator code of both airlines and may be held out by the designated airline as services to a point in U.S. territory as though those services were its own . . . ."**

Eric/Tom -  
Anything we can do?  
BR

# National Bicycle-Helmet Drive Sought After Success in Seattle

By The New York Times

SEATTLE, March 26 — Each year, close to 250 young people die from brain injuries suffered in bicycling accidents. These deaths are particularly sad, doctors say, because a simple preventive measure — the bicycle helmet — is affordable and effective, though not heavily promoted.

But in this city, where even the buses are equipped with bike racks, about 80 percent of all children wear helmets, up from only 1 percent 10 years ago. Child-safety advocates credit a strong promotional campaign for the increase, and say they want to see a similar nationwide effort.

A coordinated national campaign would be one of the most effective injury-prevention tactics available, according to a report last year from the Harborview Injury Prevention and Research Center here, which found scant helmet promotion efforts in cities like New York, Philadelphia, Chicago, Boston and Los Angeles.

A coalition of doctors, bicyclists and child advocates has worked together in Seattle to convince parents that biking without helmets is dangerous for children. With discount coupons and the lure of free french fries, the group helped outfit children with affordable helmets. Then, with the help of local sports figures and ticket giveaways, the coalition persuaded children to wear them. The number of bike-related head injuries

and deaths in the city has declined by two-thirds over 10 years.

Nationally, only about 15 percent of children wear helmets, and the rate is far lower for teen-agers and for young people in poor or urban communities. A study in the November issue of Pediatrics estimated that if all children wore bike helmets, 184 deaths and 116,000 head injuries would be prevented annually.

"There's no reason why other kids around the country shouldn't be helmeted and protected," said Dr. Fred Rivara, director of the Harborview center. That would require work by national groups, he said. A broad campaign would ideally involve corporate sponsors, child and bicycle advocacy groups, government agencies, medical organizations and the media.

A bicycle helmet is one of the most effective safety devices available, reducing the risk of head injuries by 85 percent, Dr. Rivara said. By contrast, seat belts in automobiles reduce the risk of fatal injuries by 45 percent, and motorcycle helmets reduce the risk of head injuries by 28 percent.

"If this many kids died playing football, we wouldn't have football anymore, there'd be such a public outcry," said Dr. Abraham Bergman, head of prevention at the Harborview center.

The Seattle helmet promotion program is inexpensive, relying on one part-time coordinator, many volunteers and corporate donations. The

Harborview study found that each dollar spent on bicycle helmets for children ages 4 to 15 saved \$2 in medical costs.

Sue Guzman, spokeswoman for the Brain Injury Association in Washington, said a national campaign could add momentum to the work of local agencies.

"We have always felt the best way

## Convincing parents that biking can be made safer for children.

to achieve any kind of safety goal is to unify all the groups involved," she said.

The National Center for Injury Prevention and Control, part of the Centers for Disease Control and Prevention, has financed helmet promotion programs in nine states, said Mary Ann Fenley, a spokeswoman. While money might be available for state efforts in 1998, it would be a couple of years before financing would be available for a national campaign because of cuts in the Federal budget, she said.

Dr. Jeffrey Sacks, an epidemiologist at the national injury prevention

center, said its national helmet plan was incomplete.

"We have the wherewithal and knowledge at this point," Dr. Sacks said. "There's no magic mystery here that we don't know what to do." The main problem, he said, is money.

Dr. Mark Rosenberg, director of the injury prevention center, said preventing bicycle-related head injuries is one of the center's higher priorities.

"Are we interested in responding to this problem?" Dr. Rosenberg said. "Absolutely yes. Do we think we know everything we need to know to solve it today? No, I don't think so."

The first phase of a national campaign would cost \$80,000 a year, according to the Harborview report, although C.D.C. officials believe that estimate is low.

Dr. Bergman said he was frustrated that after five years of discussion, the C.D.C. had not developed a written plan for a helmet campaign, yet is willing to spend \$300,000 on a November conference to discuss priorities in injury prevention. He said a relatively cheap and effective program to save lives could be put into place quickly for far less, and doubts "if any of the other important injury issues in which the center is involved have as good prospects for immediate payoff."

"It's not the money but the lack of will," he said. "In the meantime the toll of kids with brain injuries just keeps rising."

## Muslim Wins \$3 Million In Suit Over Dismissal

FREMONT, Calif., March 30 (AP) — A former United Airlines worker who claimed he was discriminated against because of his Muslim beliefs and then dismissed for complaining has been awarded nearly \$3 million in a wrongful termination suit.

An Alameda County jury ruled for Ahmad Abu-Aziz on Friday after a two-week trial. United said it would appeal. Mr. Abu-Aziz, a 29-year-old Jordanian who is a permanent resident of the United States, won \$2.67 million in punitive damages, \$246,000 in economic damages and \$50,000 for emotional distress.

He began working for United as a customer service agent at Oakland International Airport in 1994. He said fellow workers made anti-Muslim and anti-Arab comments and that he got unfair work assignments.

After he complained to his supervisors, he was dismissed because co-workers accused him of drinking and stealing company property, both of which he denied. United officials said they had five witnesses.

## Charges Are Expected In Hit-and-Run Death

ARLINGTON, Tex., March 30 (AP) — The police said they expected to charge a 17-year-old boy in a hit-and-run accident that killed a pregnant woman.

The police said the boy and another driver were racing on Wednesday night and cut in front of a pickup truck driven by the woman, Harvest

Nicole Alexander, 20, causing it to hit a curb and overturn. Ms. Alexander was ejected. The racers did not stop.

Ms. Alexander was pronounced dead from head injuries on Thursday less than two hours after doctors delivered a premature son, Hayden Bailey Alexander.

The baby, who weighed less than two pounds, was listed in critical condition today at Cook's Medical Center in Fort Worth.

The police said they plan to present a case against the boy to the Tarrant County district attorney's office next week. The boy is expected to help find the other driver.

## 30 Flee Ammonia Leak From Ice Cream Factory

CONCORD, N.H., March 30 (AP) — An ammonia leak at an ice cream plant spewed gas into the air on Saturday, forcing authorities to evacuate 30 people from their homes.

After the leak was discovered at 9:20 A.M., about 30 people were evacuated. They were allowed to return today, after spending the night with friends, family or in hotels.

The source of the leak has been found but not sealed.

Fire Chief John Dionne said the main danger was from inhaling the fumes, but with hazardous levels of gas outside the plant, there was also the possibility of fire or explosion.

The leak was reported by a motorist who saw a cloud of gas and by employees inside who were investigating an ammonia smell. The 10 employees at the plant did not need hospital treatment.

The New York Times

MONDAY, MARCH 31, 1997

# Analysts Say 1990's Bull Market Faces Its Toughest Test

By DAVID BARBOZA

It has been one of the greatest bull markets in history, with a run that in February helped push the Dow Jones industrial average above 7,000 points for the first time.

But in the last few weeks, the stock market has been struggling, partly because of inflation fears and worries that the Federal Reserve will push interest rates higher. That action, some analysts believe, would slow growth and cut into corporate profits.

Many analysts are no longer looking beyond a 7,000-point Dow. Instead, they see new hurdles for the market and the possibility of a significant downturn, with the potential to end the seemingly miraculous bull run. Their worries increased on Thursday, the last trading day before the long

Easter weekend, when the Dow lost 140.11 points, or 2 percent of its value.

"The market's facing its most substantial challenge in some time," said Eugene E. Peroni Jr., the director of technical research at Janney Montgomery Scott. "We're seeing an abrupt shift in market psychology. Investors are beginning to question the bull market's underpinnings, such as interest rates, liquidity and earnings prospects."

Of course, few analysts are willing to venture that a bear market like the one in 1973-74, when the Dow lost about 45 percent, is on the horizon. But many do see the possibility of what Wall Street calls a correction, when stocks fall 10 percent to 20 percent after a big run-up.

But there are others who say that the outlook for the economy and the stock market remains healthy. While a minor, near-term setback might be in store, they say, nothing more ominous is in the cards.

"You can have these spike-down types of corrections, but these are not the conditions of a bear market," said Joseph V. Battipaglia, chief equity strategist at Gruntal & Company. "In order to get to a bear market, the fundamentals of the economy have to break down, and I don't see that."

Such a "spike down" occurred last summer, when the Dow fell 7.5 percent and the Nasdaq composite plunged 17 percent, before both indexes roared back.

"We got down to 5,340 on the Dow last July," Mr. Battipaglia said. "There was a lot of bearish sentiment at that point, but the Dow went on to 6,400 in December and 7,000 last February."

Since then, however, the stock market has been stumbling along in a trading range, coping with a selloff of technology stocks, persistent questions about high share prices and, recently, a significant slowdown of cash inflows into mutual funds.

These factors, along with concerns about shrinking profit margins and the strong dollar hurting exports, continue to raise questions about the strength of a market that has seen the Dow rise nearly 3,000 points, or 75 percent, since January 1995.

And while the Dow has gone about six years without a 10 percent correction — the longest such period in history — it is in the midst of its biggest decline since last summer, down 345 points, or nearly 5 percent, since March 11, when it peaked at 7,985.16. (It is up 4.5 percent for the year.)

Much of the decline has been attributed to worries about higher interest rates in the bond market, which makes bonds more attractive relative to stocks, largely because rising bond yields offer high returns

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with little or no risk. On Thursday, when the yield on the 30-year Treasury bond rose above 7 percent for the first time in six months, stock prices plunged.

The Dow was down by more than 215 points, or about 3 percent, in late trading Thursday, before recovering some of those losses in the last half-hour, to close down 140.11 points, or 2 percent, to 6,740.59. The Dow has fallen by 3 percent in a session only once in the last five years, and that was March 8, 1996, when it lost 171 points, or 3.04 percent.

New data suggest an accelerating economy. One example is the Government report Friday that sales of new homes surpassed an 800,000 annual pace for the first time in a decade. This raises fears of increased inflation, leading few analysts to see stock prices gaining in the short term. And if the Fed continues to raise interest rates — it did so last week for the first time since 1995 — the slump could continue.

"If the Fed tightens again and interest rates keep going up, we're in big trouble," said Charles Pradilla, a market strategist at Cowen & Company.

Last year, each time the yield on the 30-year Treasury moved above 7 percent, the stocks tumbled, particularly in July, when the yield peaked at 7.19. When the yield began falling, the Dow soared to new records.

So far, the market's current predicament seems strikingly close to the situation forecast by Byron R. Wien, the United States investment strategist at Morgan Stanley. In January, he predicted that 1997 would "start off well with the U.S. market doing better than even most bulls project, but later, when it appears clear that the economy is stronger than expected and inflation is rising, a sharp correction will occur."

But Abby Joseph Cohen, the Goldman Sachs strategist who is well known for her bullishness, argues that the market is simply in a "choppy trading range," partly because stock prices zoomed up in the first six weeks of the year with the help of huge inflows of cash into stock mutual funds.

"The bull market is still very much alive," she said over the weekend. "Bull markets tend to end when a recession is near, and in my mind a recession is not on the horizon."

Instead, she said, the economy and profit growth will continue in 1997 and 1998, with the Fed acting simply to tame economic growth.

In fact, one of the central tenets of the current bull phase has been the so-called Goldilocks economy — not too hot, not too cold, but an ideal economic situation of steady growth and low inflation.

The New York Times

MONDAY, MARCH 31, 1997

But some are now questioning whether that kind of economy is still in place. In addition to the reports that suggest the economy is picking up, on Friday the Government said that the profit margins at American companies were shrinking at the end of last year.

"The extreme Goldilocks view of steady growth certainly seems less certain than it did a few months ago," said John Lipsky, chief economist at Chase Manhattan Bank. "But the critical question for equity markets is: will corporations be able to match investors' expectations in a more difficult and challenging environment?"

Another sign of difficult times ahead may be the reports that mutual fund inflows have slowed this month. While the figures for March are incomplete, and cash continues to flow in, several large fund companies have witnessed a slowdown. According to AMG Data Services, which tracks weekly cash flows, money has entered mutual funds this month at only slightly more than half the rate of last March.

And while some, like Ms. Cohen, dismiss the reports, saying that one should "be careful not to overanalyze small amounts of information," others see a troubling pattern developing, one that may be intensified by investor fears about a market that appears increasingly volatile.

Already this year, for instance, the Dow has seen a move of at least 1 percent, up or down, in 18 of its 60 sessions, or about 1 in 3. Last year, it was fewer than 1 in 5.

"This has all the hallmarks of a bull market correction," said Mr. Pradilla. "They tend to be volatile, fast and nasty."

DATE: April 12, 1994  
TO: Bruce Reed  
FROM: Mike Schmidt  
RE: Principals Meeting on the Restructuring of Air Traffic Control Services

As you know, there will be a Principals meeting tomorrow afternoon from 5:00 - 6:00 in the Vice President's Ceremonial Office to discuss the Administration's legislative position on the restructuring of air traffic control (ATC) services (the infamous "FAA" issue). I have attached a copy of a briefing paper on the options for restructuring ATC services that will be the focus of tomorrow's meeting. The VPOTUS will be chairing the meeting, and it will be attended by Secretaries Pena, Bentsen, Reich, and Brown, as well as a number of WH Principals (Panetta, Rubin, Tyson, etc.). Carol cannot attend the meeting, and asked me to see if you could attend in her place. If you can attend, I will schedule some time this afternoon or tomorrow to give you some more information on the issue and on the meeting itself (I will also attend the meeting with you). If you can't attend, Carol has asked me to attend as an observer and recorder only (since it is a full-blown Principal's meeting), and DPC will not have a voice on the final decisions made on this issue.

The paper that I have attached is an excellent and easy-to-understand summary of the issues that surround the restructuring of ATC services. It lays out the four options that will be considered at the meeting tomorrow afternoon:

- Option 1: Promulgate More Flexible Personnel and Procurement Rules for ATC.
- Option 2: Create a Government Corporation Financed by a Mandatory Revolving Fund but Without Borrowing Authority.
- Option 3: Create a Government Corporation with Borrowing Authority.
- Option 4: Create a Non-Government Corporation with Government Oversight.

They are, for the most part, the same issues I discussed with you several weeks ago when I gave you a briefing on this issue. At tomorrow's meeting, final decisions will be made on which of the four options the Administration will support and on political and timing issues surrounding our introduction of an ATC restructuring bill. The Vice President is chairing the meeting because the NPR recommended the creation of a Government Corporation to provide ATC services.

Other items of interest about the meeting:

- The consensus at the staff level seems to be that Option 3 is the closest thing to the letter of the NPR recommendation (NPR called for a Government Corporation with borrowing authority), but that Option 4 is closer to the spirit of the recommendation.
- Secretary Pena will be pushing hard for Option 3, as well as for quick legislative action. Rubin and Tyson will likely be leaning toward Option 4, but the feeling seems to be that we will end up at Option 3 in the end.
- WH Leg Affairs and OMB will probably be pushing for some delay in the timing of any legislative action, given our full legislative plate this spring. Given the political sensitivity surrounding these options, that may not be a bad idea.
- The key policy issues that the options revolve around are: (1) the extent to which we want to open up the Budget Enforcement Act (BEA), and (2) the extent to which ATC users (airlines, customers) are involved in a new ATC entity. The political difficulty regarding the BEA is most prevalent in Options 3 and 4, while at the same time these two options provide the most user involvement.

If you are able to attend, let me know and we can schedule some time to sit down and discuss all of this in more detail. I think there are a number of issues still up in the air on this one, and that the meeting tomorrow will be quite lively and important.

## OPTIONS FOR RESTRUCTURING AIR TRAFFIC CONTROL SERVICES

The President's *Civil Aviation Initiative* and the National Performance Review proposed that the Federal Aviation Administration (FAA) be restructured so that air traffic control (ATC) services could be modernized and managed more efficiently. This memorandum explains the arguments for restructuring; outlines the substantive and political merits of various options; and lists legislative strategies for achieving the Administration's goals.

**The need for restructuring.** Current law provides the FAA with neither the incentives nor the freedom to modernize the ATC system in a manner that is not only safe, but also cost-effective.

**Budget constraints.** The efficient modernization of ATC services requires that capital spending be "lumpy," i.e., large initial outlays followed for some years by much lower levels investment. Under the annual appropriations process, however, large capital spending programs are more likely to change slowly over time than to fluctuate as sharply as needed for the most cost-effective investment in a new generation of air traffic control facilities.

Agencies are uncertain about the extent to which the ATC modernization effort has been underfunded. In recent months, the FAA has identified \$3-\$5 billion in additional capital expenditures that the agency would undertake over the next ten years if sufficient funding were available. Some agencies find this conclusion credible, and argue that an independent review of the FAA's capital program might identify substantial further investments that would be cost-effective; these agencies believe that the FAA, as currently structured, cannot ascertain the needed investments. These agencies also argue that it is difficult to implement a lumpy investment plan through the Congressional appropriations process.

Whatever the need for increased funding of ATC modernization, the Congress might be hard pressed to find additional resources within the discretionary caps set out under the BEA. For this reason, the NPR and some agencies recommend that ATC modernization be financed with borrowing that is unrestricted by the current budget rules. The resulting long-term debt would be repaid through user charges on airlines.

Other agencies argue that the need for borrowing has not been established. First, these agencies regard the shortfall in ATC funding as largely unproven: these agencies believe that the FAA has offered no credible evidence for their underfunding estimates; moreover, studies by GAO, CBO and the Office of the Inspector General cite poor management, not a lack of funding, as the primary reason for delays in the modernization of ATC services. Second, past Congressional actions suggest that funds can be found for priority infrastructure projects: Congress increased the highway budget, for example, by more than \$2 billion in 1994; similarly, Congress more than doubled FAA's capital budget between 1987 and 1993. Finally, the Administration could accelerate somewhat the pace at which budget authority for ATC is

obligated by exempting the FAA from a general budget policy: the FAA now follows the general practice of requesting appropriations for the full cost of the project in its first year; instead, the FAA could include in their annual budget requests only the amount that they expect to obligate in that given year. Accelerating ATC obligations would not, however, ease the overall outlay constraints imposed by the BEA; budgetary offsets would have to be found for any increase in outlays.

*Congressional Micromanagement.* The current budget process not only limits the *aggregate* amount of funding available for ATC modernization, it also encourages Congressional micromanagement of that funding. The FAA receives annual appropriations through five separate accounts involving numerous line items. This multiplicity of accounts and line items encourages Congressional micromanagement of modernization efforts, and reduces the FAA's ability to meet changing needs by reallocating funds.

*Insufficient User Control.* All agencies agree that ATC customers -- commercial airlines, general aviation, and the travelling public -- do not have sufficient input into the FAA's investment plan. Greater user input could make ATC services more responsive to user needs. In addition, paying for ATC services through user fees rather than taxes would give ATC users a greater economic incentive to monitor the cost-effectiveness of the ATC modernization program.

*Personnel and Procurement Rules.* All agencies agree that current personnel and procurement rules unreasonably constrain ATC management and strategic planning.

**Options.** All of the options listed below would reform personnel and procurement rules. The options differ principally in the degree to which the ATC corporation is freed from budget constraints, and the extent and manner in which users and the government are able to exercise control over spending for ATC services.

#### OPTION 1. REFORM WITHIN FAA

Under this option, more flexible rules would be promulgated to govern the FAA's personnel and procurement spending for ATC services. In addition, an "Advisory Board" of ATC customers (commercial airlines, cargo carriers, general aviation, etc.) would be established to inform the investment decisions made by the Secretary of Transportation. Some acceleration in capital spending would be possible through *administrative* changes to the budget process, but ATC spending would remain subject to all of the *statutory* constraints of the annual appropriations process.

### Effect on the Provision of ATC Services

- ATC spending would be made more cost-effective by the procurement and personnel reforms, by the input from the Advisory Board, and the acceleration in capital spending that would follow the budget policy changes.
- ATC modernization could not be financed through borrowing and spending outside of the usual appropriations process. Differing views on the importance of borrowing authority are noted above.
- The Advisory Board would have less control over ATC spending than would the "Board of Directors" proposed under Options 2, 3 and 4; ATC spending therefore would not be as responsive to user concerns as it would be under Options 2, 3 and 4.

### Political Considerations

- This option would encounter the least Congressional opposition. Indeed, the Chairs of the authorizing committees probably would support this proposal, and may credit the Administration with recommending useful reforms. Since ATC programs would remain within the existing FAA, however, even the support of the authorizing committees may not be sufficient to persuade the Government Operations committees to pass personnel and procurement rules that are significantly different from the rules governing other government agencies and programs.
- The airlines and controllers may be largely indifferent about these reforms; they would prefer that the Administration did not pursue Option 3.
- Because no amendment to the BEA would be sought, critics could not use this proposal to question the Administration's commitment to the budget disciplines of that statute.
- The NPR report called for an ATC corporation with borrowing authority; this option would not meet that goal.

### OPTION 2: A GOVERNMENT CORPORATION FINANCED BY A MANDATORY REVOLVING FUND BUT WITHOUT BORROWING AUTHORITY

A government corporation would be established within DOT. As in Option 1, ATC spending would be subject to new, more flexible personnel and procurement rules. Option 2 would differ from option 1 in two important regards:

- Governance. The corporation would be governed by a Board of Directors, appointed by the President, that included ATC customers, the Secretaries of Transportation and Defense, and

an ex-officio member to assure federal financial oversight. The Board would set fees for use of the ATC system.

- *Budget Constraints.* To provide some measure of added budget flexibility, corporation spending would be financed by a new mandatory "revolving fund," and annual ATC outlays would be limited only by each year's receipts; outlays would not be subject to the annual appropriations process. To establish the revolving fund, ATC outlays would be shifted from the discretionary to the mandatory side of the budget. This shift would require either budget offsets of more than \$5 billion annually, or Congressional approval of a "technical" amendment to the BEA (the amendment would be "technical" in the sense that it would not increase the deficit -- the PAYGO spending increase would exactly equal the reduction in discretionary outlays.)

#### Effect on the Provision of ATC Services

- Procurement and personnel reforms would make ATC spending more efficient.
- Because the corporation would have a permanent appropriation, its outlays would be limited only by receipts to the revolving fund; Congressional micromangement would be discouraged. Just as under current law, however, budgetary offsets would have to be found for any increase in outlays; moreover, the corporation could not borrow and spend outside of BEA constraints.
- ATC customers would have more influence over ATC investments through the Board of Directors than they would through the "Advisory Board" of Option 1.
- Because the corporation would be "governmental", and because the government -- through its representatives on the Board -- could influence the corporation's decision-making, the corporation may not be sufficiently independent of the Executive Branch and the Congress to make truly "business-like" investment decisions, even with a Board of Directors dominated by private sector interests.

#### Political Considerations

- The Chairs of the authorizing committees openly oppose this option. The Chairs of the appropriations committees, however, have expressed support "in principle" for establishing a corporation, while reserving final judgment until they can examine a specific proposal.
- Setting ATC services in a separate government corporation might give the Administration a better chance at persuading the Government Operations committees to pass personnel and procurement rules that are flexible enough to allow the corporation to achieve significant efficiencies in the provision of ATC services.

- Although the airlines and controllers are likely to support these reforms, they would be disappointed that the Administration did not pursue Option 3.
- Compared to the amendment needed for Option 3, this "technical" amendment is less likely to be interpreted as an attempt to evade the budget discipline imposed by that statute. On the other hand, the amendment still would open up the BEA (with all the attendant political complications that implies) and still would require 60 votes on the Senate floor to overcome a point of order. Moreover, this option would set a precedent for using a reduction in the discretionary caps as a PAYGO offset on the mandatory side, and may thereby encourage those in Congress who would like to use a reduction in the discretionary caps as an offset for a reduction in income taxes.
- Would not meet the NPR goal of allowing ATC modernization to be financed through borrowing.

### OPTION 3: GOVERNMENT CORPORATION WITH BORROWING AUTHORITY

A government corporation would be established within DOT. As in Options 1 and 2, the corporation would be subject to more flexible procurement and personnel rules. As in Option 2, the corporation would be governed by a Board of Directors, appointed by the President.

Option 3 differs from Option 2 only in the budgetary freedom given the corporation: the Administration would seek a BEA waiver that allowed the corporation to borrow and spend funds without regard to BEA constraints; in addition, the corporation's spending would be excluded from calculations of the budget deficit.

*Effect on the Provision of ATC Services.* Same as for Option 2, with the following exception:

- The ability to borrow and spend funds without any BEA constraints would free the corporation from the spending restrictions that are a normal part of the federal budget process.

*Political Considerations.* Same as Option 2 with the following exceptions:

- Airlines and controllers both support the creation of a governmental corporation with borrowing authority.
- This option would exempt a single government activity from the constraints of the BEA. Because this option would create pressure to exempt other government activities from BEA constraints (e.g., some might seek the creation of the Inland Waterways Development Corporation, in which a federal corporation builds, maintains and operates the inland waterway system that is now the responsibility of the Corps of Engineers), critics are likely to call into question our commitment to deficit reduction. In addition, this option would set the further precedent of effectively allowing capital budgeting for a single federal entity. For all of these

reasons, the needed BEA amendment might be more difficult to achieve than the "technical" amendment needed under option 2 or 4.

- This option most closely resembles the NPR recommendation.

#### OPTION 4: NON-GOVERNMENT CORPORATION WITH GOVERNMENT OVERSIGHT

The government would charter a nongovernmental, non-profit corporation governed by a Board of Directors or Trustees. The charter would specify mechanisms by which ATC users would elect representatives to the Board (under Options 2 and 3, the President would appoint the Board). The federal government would exercise control over the corporation only through regulatory oversight, either through the administrative powers of the DOT or through a new regulatory commission. As a nongovernmental entity, the corporation would be freed from all government personnel and procurement rules, and would be free to incur long-term debt in private capital markets and to raise revenue through fees for the use of the ATC system (existing ATC assets would be transferred to the corporation).

Establishing the corporation may require only a "technical" amendment to the BEA: the discretionary caps would be reduced by an amount equal to the reduction in the government's ATC outlays; the reduction in the caps would be used as PAYGO savings to offset a corresponding reduction in aviation excise taxes (the taxes would no longer be needed since the corporation could assess user fees). CBO may contend, however, that the corporation is inherently "governmental," thereby complicating Administration efforts to argue that the desired BEA amendment was merely "technical."

#### *Effect on the Provision of ATC Services*

- Of all the options considered here, a nongovernmental corporation would be most responsive to its customers, and would have the greatest institutional freedom to pursue cost-effective ATC investments. In addition, the discipline of private capital markets would encourage the corporation to manage its investments efficiently.
- Critics will argue that a nongovernment corporation would jeopardize either safety or national security. All agencies agree, however, that these fears are without merit -- all public interests could be safeguarded through strict regulatory oversight.

#### *Political Considerations*

- The authorizing committees, and especially the committee Chairs, are likely to cite safety as their reason for opposing this option more strongly than any other. A few Republican members have expressed a philosophical preference for true privatization, but none have yet openly supported this option.

- The main union representing air traffic controllers has cited safety in publicly opposing the creation of a nongovernmental corporation. In private, unions have also expressed concerns that this option would set a precedent by limiting the right to strike of nongovernmental employees. The airlines' view of this option is uncertain.
- Establishing a more independent corporate entity would avoid the charge that the government corporation is designed principally to keep the ATC system within the government while evading the BEA. Similarly, this option would avoid establishing a capital budget for a single federal entity. On the other hand, this "technical" amendment still would open up the BEA (with all the attendant political complications that implies) and still would require 60 votes on the Senate floor to overcome a point of order. Moreover, this option would set a precedent for using a reduction in the discretionary caps as a PAYGO offset on the mandatory side, and may thereby encourage those in Congress who would like to use a reduction in the discretionary caps as an offset for a reduction in income taxes.
- Although not the "governmental corporation" called for by the NPR report, this option — if enacted — could best achieve the broader goals sought by NPR: safe and efficient modernization of the ATC system.

**Legislative Strategy.** Congressional critics are seeking assurances that the Administration has considered all possible options for restructuring the FAA. All agencies agree that the Administration therefore should submit a report detailing the reasons why it believes that ATC services must be corporatized rather than simply reformed within the FAA. This leaves two issues: when to submit legislation and when and how hard to push for legislative action. Options include:

- *Seek passage this year of specific legislative proposal.*
- *Submit legislation this Spring; do not push Congress to act before January.*
- *Submit a report this Spring outlining more than one option for corporatization; restate Administration goals for restructuring; and indicate a willingness to work with the Congress on a mutually acceptable legislative proposal.*

DATE: April 5, 1994  
TO: Bruce Reed  
FROM: Mike Schmidt  
RE: Update on the FAA Restructuring Initiative

I have attached the following packet of information on a new "compromise" option for restructuring FAA that is currently being circulated. It would create a new non-profit Government Sponsored Enterprise (GSE) to provide civilian air traffic control services. Apparently, some feel this type of enterprise would have an easier time getting the Senate to amend the BEA than would a private corporation or government corporation. However, I am still not sure how this would change the overall politics of the situation --the committee chairs still hate the idea of creating a new entity, no matter what we call it. I will be interested to hear Barbara Chow's political take on this option, but I would assume that waiting until next year to push a FAA restructuring initiative on the Hill would still be the best option. The only problems: 1) Pena wants to get this moving and get a legislative "accomplishment" under his belt; 2) VPOTUS may want to push ahead with the restructure sooner rather than later, since it is a NPR recommendation.

Anyway, please give this a look and tell me what you think. I will also run it by Weinstein, since he worked on the NPR stuff with you over the summer. Thanks!

April 4, 1994

MEMORANDUM FOR ELAINE KAMARCK  
BOB STONE

FROM: Michael Deich

SUBJECT: ATC -- Option 3.5

Attached is Jon Baker's discussion draft of option 3.5. I've only skimmed it. My first impression is that the only thing that might need to be changed is to get the Secretaries of Transportation and Defense off the Board of Directors. While both Secretaries should have enough control to settle any question about the system's safety and responsiveness to national security issues, that control probably should be exercised through some kind of regulatory structure rather than by direct participation in the governance of the nominally-private corporation (through their seats on the Board). Please let me know what you think. Thanks.



EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON, D.C. 20500

SENIOR ECONOMIST

April 1, 1994

MEMORANDUM FOR MICHAEL DEICH (NEC)  
ED MURPHY (TREASURY)  
JEE RHEE (OMB)  
FRANK KRUESI (DOT)

FROM: JON BAKER  
SUBJECT: GSE Option for Air Traffic Control

The attached draft attempts to capture "Option 3.5"--a corporate form sufficiently private to permit us to argue in good faith that we are not evading the BEA, but sufficiently public to address concerns that a privatized system would jeopardize safety and to avoid setting the precedent of restricting the right to strike for a private firm. I picture the eventual audience for this document as congressional staff and industry representatives, although much review and rewriting will likely occur between now and then.

In writing the draft, I started from Ed's various corporate models and Jee's recent draft. Many of the choices I made were arbitrary and can be modified substantially without moving off Option 3.5; this draft is intended merely as a basis for discussion. It has not yet been reviewed by Joe Stiglitz, so it is not necessarily the position of CEA.

I will not be in the office on Friday, April 1, and I will probably not be in on Monday, April 4. I can be reached at home if you wish to talk it over or make comments before Tuesday at 301-951-1831.

cc: Joe Stiglitz  
Elizabeth Schneirov

**GOVERNMENT-SPONSORED ENTERPRISE (GSE)  
OPTION FOR THE AIR TRAFFIC CONTROL SYSTEM**

To provide civilian air traffic control services in the United States, a non-profit government-sponsored enterprise will be established and chartered by the Federal Government. This air traffic control corporation will be subject to regulatory oversight by the Department of Transportation. It will conduct its operations in a business-like manner.

**GOVERNANCE**

- The corporation will be governed by a 9-member Board of Directors. The Secretaries of Transportation and Defense will fill two of the 9 seats. The remaining 7 directors will be appointed by the President.
- The President shall select a specified number of directors from each of a certain designated groups of air traffic control system users (e.g. passenger carriers, air freight carriers, general aviation).
- Directors will serve staggered seven year terms.
- An Advisory Panel of users will be designated by the corporation's chief executive officer. Each member of the panel must be approved by the Board of Directors.
- The Board of Directors will hire (and have the power to remove) the corporation's Chief Executive Officer, and will approve significant corporate decisions after receiving the advice of the Advisory Panel (as discussed below in connection with oversight).
- The incumbent Board of Directors and the Advisory Panel shall each nominate candidates for vacancies on the Board, although the President will not be required to select from either list. Nominations to the President need not be made public.

**CORPORATE POWERS**

- The corporation will have the power to enter contracts with suppliers and customers, and provide services for any users. It will not be subject to rules governing procurement by government agencies.
- The corporation will own the current civilian air traffic control assets (transferred without charge from the government) when it commences operation. It will have the power to acquire or lease additional assets, or reconfigure or sell assets.

- The corporation will have the authority to set its own budget, borrow funds, hire or dismiss employees, and determine the compensation of employees, directors, and officers. It will not be subject to government personnel rules.
- The corporation will have the power to set fees, terms, and conditions for users of airspace by contract with users. It will have the power to specify charges for violations of those terms and conditions (through contractual liquidated damages provisions), and the power to refuse to deal with users that intentionally or recklessly violate its terms and conditions.

## RESTRICTIONS

### Corporate Actions

- The corporation will be non-profit entity, precluded from paying dividends or rebating fees to users.
- The corporation may not adopt fees or policies that discriminate among similarly-situated users, disadvantage new entrants, harm competition among users, lead to excessive fees for air service, endanger safety, endanger national security, or impair the financial viability of the corporation. These restrictions will be enforced by the Department of Transportation through the oversight authority discussed below and will not give rise to a private right of action.
- The corporation may not violate any law or any international obligation of the United States.
- During periods of war, or national emergency declared by the President, the Board and the corporation must carry out such policies or actions as the President may direct.
- The corporation must keep financial records in accordance with generally accepted accounting procedures, and have those records audited annually by a certified public accountant. Audited financial statements shall be submitted to the Department of Transportation and made public.

### Legal Obligations

- The corporation shall not be liable for tort claims involving the operation of the air traffic control system arising out of corporate policies (such as the

generation of radar equipment employed, staffing levels, or procedures for using equipment). A successful plaintiff with a tort claim involving the operation of the air traffic control system shall be precluded from receiving prejudgment interest or punitive damages. The total tort liability of the corporation arising out of a single event (e.g. plane crash) shall not exceed \$100 million. A suit seeking tort damages from the corporation in excess of \$100,000 shall not be tried before a jury.

- Employees will have the right to bargain collectively and have the right to strike. Upon the commencement of a strike by any collective bargaining unit, the President shall have the power to take any or all of the following actions upon a determination that national security or public welfare will be enhanced: order work to continue for 30-days and extend the 30-day cooling off period once, appoint a mediator, and appoint a fact-finding commission to assist a mediator. At the end of a cooling off period that has been extended, the President may order work to continue, appoint an arbiter and require compulsory arbitration.
- Outside of the exceptions noted above, the corporation will be subject to all applicable laws of the United States, or any state or other jurisdiction within the U.S., including the antitrust laws.

#### OVERSIGHT

- The residual FAA, operating as an agency within DOT, will promulgate safety rules. The corporation and users of the airways must operate within the constraint of those rules.
- Significant corporate decisions shall be defined as: fees for the use of the airways, general policies governing the terms and conditions for the use of airspace that the corporation will negotiate with users, services offered by the corporation, collective bargaining agreements, the compensation of directors and officers, and major changes in the corporation's strategic plan. Significant corporate decisions must be approved by the Board of Directors.
- Before the Board of Directors approves significant corporate decisions other than collective bargaining agreements or the compensation of directors and officers, it must receive the advice of the Advisory Panel. The Advisory Panel must transmit its advice within fourteen days of receiving notice that the Board

will consider a significant corporate decision.

Significant corporate decisions will not take effect until the Department of Transportation announces that it will not institute a proceeding to disapprove the decision. If DOT wishes to commence a disapproval proceeding, it must do so within 30 days of transmission of the decision from the Board. DOT shall conduct such disapproval proceedings as informal adjudications (notice and comment, without trial-type hearings). A significant corporate decision will not take effect if the decision is disapproved, and will not take effect so long as a disapproval proceeding is underway. The corporation may withdraw a significant decision at any time; doing so will end an ongoing disapproval proceeding.

The Department of Transportation may conduct, at any time and on its own motion, an oversight proceeding requiring the corporation to alter fees or policies on the ground that they discriminate among similarly situated users, disadvantage new entrants, harm competition among users, lead to excessive fees for air service, endanger safety, endanger national security, or impair the financial viability of the corporation. DOT shall have the authority to enjoin corporate actions--both at the completion of the proceeding and as interim relief.

#### FINANCE

- The corporation will be financed through fees paid by users of the air traffic control system, and through issuing debt.
- The air traffic control assets now operated by the FAA will be transferred to the corporation without charge.
- The corporation's debt will be secured solely by its revenues; the authorizing statute establishing the GSE will expressly disclaim any government obligation.

#### BUDGET SCORING

- This option will require legislation to reduce discretionary budgetary caps by an amount equal to the reduction in the government's air traffic control outlays. The cap reduction will be used as PAYGO savings to offset an identical reduction in aviation excise taxes. This "technical" amendment of the BEA would require 60 Senate votes to overcome a point of order.

DATE: March 22, 1994  
TO: Bruce Reed  
FROM: Mike Schmidt  
RE: Restructuring the FAA

Tomorrow morning at 11:00, Bo Cutter, Chris Edley, Joe Stigletz, and Alicia Munnell (Treasury) will be meeting to discuss the attached draft decision memorandum for the Vice President on restructuring the FAA (per the NPR/Airline Commission/Civil Aviation Initiative's call for the FAA's Air Traffic Control services to be restructured as a government corporation). They have invited DPC to attend, and I think it would be a good idea for you to attend for several reasons:

- The memorandum will not be going through the normal NEC process -- instead, it will be pushed on to the Vice President for approval after tomorrow's meeting (unless any major problems are raised). Therefore, this meeting may be the last chance we have to comment on the memo before it goes up to the VP.
- According to my sources, Cutter, Stigletz and Munnell are leaning toward Option 4 -- creating a non-government corporation with limited government oversight. This option is not what the NPR recommended (it recommended creating a government corporation). As the memo points out, there are good reasons for wanting this option, but there are also some major political problems that come with it -- most notably opposition from unions and from Rep. Oberstar.

If you have any questions about the memo, I would be happy to talk with you tomorrow morning before the meeting (if you can go). If you can't go, let me know and I will try to go (although I have another meeting at that time that I am currently trying to get out of!). Sorry about the short notice on all of this -- originally, it was supposed to go through the "normal" NEC process, where deputies and principals would comment, but for some reason unknown to me a decision has been made to put this issue "on the fast track."

DRAFT March 22, 1994 high noon.

## MEMORANDUM FOR THE VICE PRESIDENT

Our offices have been working with the Executive Oversight Committee at the Department of Transportation (DOT) to develop a sound legislative proposal to restructure the nation's air traffic control (ATC) system. To further these efforts, we would like your early guidance on a critically important issue whose resolution will affect many details of the proposal: what modifications, if any, should we seek in the Budget Enforcement Act (BEA)?

The President's *Civil Aviation Initiative*, the NPR, and the Airline Commission all called for the FAA's ATC services to be restructured as a government corporation. All of the proposals argued that a corporation would allow ATC services to be provided on a more "business-like" basis. The *Initiative* stressed the importance of personnel and procurement reform. The NPR and Commission proposals focused more on freeing ATC spending from the constraints imposed by the federal government's budget rules.

In our judgment, the central dilemma is this: achieving greater freedom from federal budget rules not only increases the probability that the corporation would make more efficient investment decisions, but also raises far greater hurdles for legislative success. These hurdles are of two kinds. First, proposals that limit the oversight of the Congressional authorizing committees have met strong opposition from the chairs of those committees. (In contrast, these proposals have been supported --- at least in principle --- by the appropriators.) Second, proposals that require a significant exemption from the BEA are likely to be opposed on the grounds that they undercut Administration and Congressional efforts to achieve long-term deficit reduction.

The budgetary reforms being considered by the EOC will require either finding budgetary offsets exceeding \$5 billion per year, or modifying the BEA (which would require sixty Senate votes). All of the options listed below would reform personnel and procurement rules, and all would make ATC spending at least somewhat more responsive to customer concerns. The options differ principally in the scope of the BEA modifications that each would require.

**Option 1: Partially Address Budgetary Constraints Within Current Law**

Option 1 would not seek any BEA amendment. The budgetary cost of any reforms would be accommodated within existing budget rules.

Under this scenario, the EOC is likely to recommend a corporation along the following lines: The corporation would be established within DOT. The Secretary would appoint its management and would control its decisions. In addition, an Advisory Board of ATC customers (airlines, cargo carriers, general aviation, etc.) would be established to help the Secretary make more business-like investment decisions. The corporation would have special procurement and personnel rules, but would remain subject to all existing limitations on ATC spending. In the

future, however, capital projects would be budgeted on an annual cost, rather than a fully-funded basis, thereby allowing some projects to proceed in parallel rather than sequentially.

### Pro

- Procurement and personnel reforms, together with input from the "Advisory Board," could make ATC spending more efficient. Some acceleration in capital spending would be possible.
- Rep. Oberstar and Sen. Ford probably would support this proposal, and may credit the Administration with recommending useful reforms.
- Because no amendment to the BEA would be sought, critics could not use this proposal to question the Administration's commitment to the budget disciplines of that statute.

### Con

- Secretary Peña has stated publicly that the corporation would ease current budget constraints in some fashion. This option would address capital constraints, but not to the degree anticipated by the Secretary.
- The corporation could not borrow. For NPR, an important virtue of corporatization is the ability to accelerate capital investments through borrowing. (We have not yet fully developed our arguments on the benefits of accelerated investment. As a result, while some of us concur that borrowing authority is essential to achieve significant improvements in ATC investments, others remain unpersuaded.)
- The corporation may not be as responsive to the "Advisory Board" as it would be to the "Board of Directors" proposed under Options 3 and 4. The corporation's investments therefore might not be as efficient as they would be under Option 3 or 4.
- Since changes to personnel and procurement rules are the focus of this option, critics may question why the Administration seeks rules only for the ATC corporation, but not other government agencies. (Steve Kelman regards this criticism as being without merit; his arguments shall follow.)

### **Option 2: Provide Minimal Relief from Budgetary Constraints**

Option 2 would give the corporation some small measure of budget flexibility by transferring ATC outlays from the discretionary to the mandatory side of the budget. A "revolving fund" would be established, and ATC outlays would be limited only by each year's receipts. Option 2 would require either budget offsets of more than \$5 billion annually, or Congressional approval of a "technical" amendment to the BEA, in which the discretionary caps

are reduced and used as a PAYGO offset for the new mandatory spending. As in Option 1, future capital projects would be budgeted on an annual cost, rather than a fully-funded basis.

Under this scenario, the EOC is likely to recommend a corporation exactly like that under Option 1 (except for the added budget freedom).

### Pro

- This option would secure limited freedom from current budget constraints. The corporation would have a permanent appropriation; its outlays would be limited only by receipts to the revolving fund. And as with Option 1, capital spending would be slightly accelerated through budgeting on an annual, rather than fully-funded, basis.
- If a BEA amendment were pursued, it would be only "technical" (in the sense that it would not increase the deficit — the PAYGO savings would exactly equal the reduction in the discretionary outlays). Compared to the amendment needed for Option 3, this "technical" amendment is less likely to be interpreted as an attempt to evade the budget discipline imposed by that statute.
- Procurement and personnel reforms, together with input from the "Advisory Board," could make ATC spending more efficient.
- Rep. Oberstar and Sen. Ford are far more likely to support this proposal than Options 3 and 4.

### Con

- While addressing budget constraints, this option still would not allow the corporation to borrow. Moreover, just as under current law, budgetary offsets would have to be found for any increase in outlays.
- Under this option the authorizing committees would lose none of their current influence over ATC outlays. The appropriators, however, would not be able to exercise as much control over ATC spending as they now do, and might therefore oppose this option.
- The corporation may not be as responsive to the "Advisory Board" as it would be to the "Board of Directors" proposed under Options 3 and 4. The corporation's investments therefore might not be as efficient as they would be under Option 3 or 4.
- This option would set a precedent for using a reduction in the discretionary caps as a PAYGO offset on the mandatory side. This option may encourage those in Congress who would like to use a reduction in the discretionary caps as an offset for a reduction in income taxes.

- The BEA amendment would require 60 votes on the Senate floor to overcome a point of order. (The "technical" nature of the amendment, however, would make it easier to pass than the amendment that would be needed for Option 3.)
- Critics still may question why the Administration seeks rules only for the ATC corporation, but not other government agencies. (Again, Steve Kelman regards this criticism as being without merit; his arguments shall follow.)

### **Option 3: Government Corporation Exempt from BEA (Current EOC Proposal)**

Under Option 3, the Administration would seek a BEA waiver to allow a government corporation to borrow funds without regard to BEA constraints.

The EOC is now recommending a corporation along the following lines: the corporation would be established within DOT. As in Options 1 and 2, the corporation would have special procurement and personnel rules. The corporation would be government by a Board of Directors that included, among others, ATC customers. While the Board would have more influence over corporate decision-making than would the "Advisory Board" of Options 1 and 2, the Secretary of Transportation would retain final decision-making authority.

#### Pro

- Other countries have demonstrated the feasibility of this approach by establishing government corporations to run their own ATC services.
- Because it could borrow funds without any BEA constraints, this corporation would face no impediments to "business-like" investment.
- A Board of Directors would push the corporation to make more efficient investments.

#### Con

- This option would set a precedent for exempting a government activity from the constraints of the BEA.
- No "governmental" corporation may be sufficiently independent of the Executive Branch and the Congress to make truly "business-like" investment decisions even with a Board of Directors controlled by private sector interests. This may be especially true where the Secretary of Transportation retains direct control over the corporation's investment and business plan.

- The BEA amendment, which would require 60 votes on the Senate floor to overcome a point of order, may be more difficult to achieve than the "technical" amendments needed under options 2 and 4.
- The chairs of the authorizing committees strongly oppose this option.

#### Option 4: Non-Government Corporation with Government Oversight

Option 4 would require only a "technical" amendment to the BEA: the discretionary caps would be reduced by an amount equal to the reduction in the government's ATC outlays; the reduction in the caps would be used as PAYGO savings to offset the corresponding reduction in aviation excise taxes (the taxes would no longer be needed; the corporation would assess user fees instead).

Under this scenario, the EOC is likely to recommend the establishment of a "nongovernmental" corporation — either a non-profit firm controlled by ATC users or an investor-owned firm. User fees would replace most of the existing aviation excise taxes. We believe that a non-profit corporation is better on the merits. CBO, however, may regard a non-profit entity as a "governmental" entity for purposes of the BEA. If so, then Option 4 would require exactly the same kind of BEA amendment as Option 3. An investor-owned firm is certain to require only the "technical" BEA amendment outlined above. Concerns about safety, however, are likely to be raised more loudly about an investor-owned firm than about any other option listed in this memo.

Whatever its form, a nongovernmental corporation would be subject to regulatory oversight by the federal government, either through the administrative powers of the DOT or through a new regulatory commission. As a private firm, the corporation would have personnel, procurement, and budgetary freedom (including the ability to charge user fees and to borrow).

#### Pro

- Of all the options considered here, this corporate form would be most responsive to its customers, and would have the greatest institutional freedom to pursue efficient ATC investments.
- Establishing a nongovernmental entity would require only technical amendments to BEA.
- Establishing a more independent corporate entity would avoid the charge that the government corporation is designed principally to keep the ATC system within the government while evading the BEA.

## Con

- Secretary Peña has declared that "we are not seeking any 'privatization' of ATC services."
- Critics will argue that a nongovernment corporation would jeopardize the public interest, such as safety. (In our judgement, these fears are without merit — safety and other public interests would be safeguarded through strict regulatory oversight.)
- The authorizing committee chairs are likely to cite safety concerns as their reason for opposing this option more strongly than they oppose any other option.
- The main union representing air traffic controllers has cited safety in publicly opposing the creation of a nongovernmental corporation (however, the controllers do support the creation of a government corporation).
- The BEA amendment would require 60 votes on the Senate floor to overcome a point of order. (The "technical" nature of the amendment, however, would make it easier to pass than the amendment that would be needed for Option 3.)

**Recommendations: TBD**

## **FAA RESTRUCTURING AND THE BUDGET ENFORCEMENT ACT**

As the draft VP decision memo makes clear, the driving factor in restructuring the FAA is the Budget Enforcement Act (BEA). All options, except Option 1 which is a minimalist option, requires PAYGO offsets, and thus effect the BEA in some way.

### Government-Owned Corporation (Options 2 & 3)

- A government-owned ATC corporation (as defined in Options 2 and 3) would be funded in the Budget as a mandatory revolving fund, where its fees or receipts (ie -- the current ticket tax and freight waybill tax) are "permanently" appropriated on the mandatory side of the Budget, and its outlays are moved from the discretionary to the mandatory side of the budget (Currently, 75% of FAA's receipts are on the mandatory side, but its outlays and 25% of the receipts are on the discretionary side).
- Establishing this mandatory revolving fund for a government-owned corporation would increase mandatory outlays for the corporation (as described above). This would create a need for a PAYGO offset under the BEA. Congress would have to find offsets, or modify the BEA to balance the mandatory increase with the corresponding decrease in receipts and outlays on the discretionary side (after all, we are simply moving receipts and outlays from the discretionary side to the mandatory side); this would require 60 votes in the Senate, as the memo makes clear.

### Non-Government Corporation (Option 4)

- If the ATC corporation were non-governmental, it would not be part of the Federal Budget. However, this approach would call for the elimination of current receipts (ticket tax, etc) and replace them with some kind of user fee. This would reduce receipts (and spending) to the Budget and hence require PAYGO offsets under the BEA. Congress could modify the BEA to balance the tax decrease with corresponding decreases in discretionary outlays, but this would require 60 votes in the Senate.

### Borrowing Authority (Options 3 (Government) and Option 4 (Non-Government))

- Issuing debt is a budget issue, because the debt finances direct spending by a government entity (in Option 3). Spending by a government corporation, financed by borrowing from the Treasury or from the public, is counted as a Federal outlay under the BEA. It

could be offset by reductions in other Federal outlays, or the outlay could be exempted from the BEA. But exemption would be difficult politically.

- Borrowing by a non-government entity (Option 4) would not affect the Federal Budget. However, the CBO and the Budget Committees would look closely at any proposed non-government ATC corporation. If they considered it an extension of the government, its borrowing would be treated as agency borrowing and require an offsetting decrease elsewhere under the BEA.

Bruce,

An update on the AFL-CIO press conference on ship-repair: Lane Kirkland is not speaking at or attending the press conference today. Nor is anyone from the Shipbuilders Council. Instead, someone from the AFL-CIO Public Employee Union will be speaking.

According to John Goodman over at the NEC (He is the person who works on shipbuilding issues and who helped write the Administration response I gave you this morning), after speaking with the AFL-CIO and others at the Shipbuilders Council, Mr. Fisher made more of this press conference than was actually the case. Mr. Kirkland and the President of the Shipbuilders Council had no intention of smearing the Administration on this one, especially since they know that the Administration is about to announce a major Shipbuilding Initiative that will benefit their members.

Interesting, eh? In any event, we are at least prepared to respond forcefully to any fallout from the press conference today. That in itself is a good thing, I think.

Bruce, —

FYI -- RE: The ship-repair issue that Bruce Fisher brought to our attention. This is NEC's response.

For Official Use - Not for Distribution Mike -  
EX 10

## NAVY USE OF OVERSEAS YARDS FOR REPAIR OF U.S. VESSELS

**Why is the Navy repairing U.S. ships in Japanese shipyards when U.S. shipyards are facing such difficult times?**

This Administration is very concerned about the problems confronting U.S. yards, and we believe that every effort must be made to protect our domestic defense infrastructure. For this reason, the President established an interagency group to develop a plan that will help U.S. shipyards convert from naval to civilian ship construction and compete in the international commercial market. The Administration is planning on delivering its plan to Congress by October 1.

The Navy's policy is based on our national security requirements to maintain a forward presence in the Pacific to ensure our national security. Approximately 17 U.S. warships are now "homeported" in Japan. "Homeporting" provides the most cost-effective means of ensuring an overseas presence in the Pacific. If a homeported ship had to return to the U.S. for repair, much of the value of homeporting would be lost. Major overhauls of these vessels, however, are done in U.S. yards.

**What about ships stationed in the United States? Why are these repaired in Japan?**

Repairs on ships stationed in the United States are only conducted when these are required for safety or to continue essential elements of the mission. For all intents and purposes, these are emergency repairs. No U.S. based-ships are sent overseas specifically for repairs.

**The Japanese government is subsidizing a high percentage of the labor costs of these repairs. How can the U.S. government accept these subsidies and, at the same time, negotiate internationally for an end to all shipbuilding subsidies?**

A goal of both this and past Administrations, supported by Congress, is that host nations should share the burden of keeping U.S. forces deployed overseas. The Government of Japan's decision to pay part of the costs of labor for repairwork in the U.S. owned Ship Repair Facility at Yokosuka is entirely consistent with this policy.

**The AFL-CIO asserts that the Navy is also repairing ships in higher-cost private yards. Doesn't repairwork in these yards hurt U.S. yards?**

The Navy has used private shipyards in Japan only on those occasions when there is a major overload. According to the Navy, repairwork in those yards is in fact cheaper than in the United States. However, the Japanese government does not pay any of the labor costs for work occasionally performed by necessity at private shipyards.

*File  
Transportation*

Bruce,

Thought you might want a copy of the Administration's Shipbuilding Industry Plan, which was submitted to Congress on October 1.

A handwritten signature in black ink, appearing to be 'Mike', with a long, sweeping underline that extends downwards and to the right.

TO THE CONGRESS OF THE UNITED STATES:

In accordance with the requirements of section 1031 of the National Defense Authorization Act for Fiscal Year 1993 (Public Law 102-484), I transmit herewith a report entitled "Strengthening America's Shipyards: A Plan for Competing in the International Market."

The U.S. shipbuilding industry is unsurpassed in building the finest and most complex naval vessels in the world. Now that the Cold War has ended, these shipyards, like many other defense firms, face a new challenge -- translating their skills from the military to the commercial market. Individual shipyards already have begun to meet this challenge. The enclosed report describes steps that the Government is taking and will take to assist their efforts. I look forward to working with the Congress and the industry to ensure a successful transition to a competitive industry in a truly competitive marketplace.

*William Clinton*

THE WHITE HOUSE,

October 1, 1993.

## EXECUTIVE SUMMARY

The National Defense Authorization Act of 1993 requires the President to develop "a comprehensive plan to enable and ensure that domestic shipyards can compete effectively in the international shipbuilding market." This report describes that plan. In approving it, the President directed initiation of those actions currently within the authority of the Executive Branch. Implementing legislation for the remaining actions will be submitted to appropriate committees of the Congress.

### Background

In the past ten years, the U.S. shipbuilding designed and built the most capable naval fleet the world has ever seen. U.S. shipyards excel in the production of complex, high-quality naval vessels. With the end of the Cold War and the reduction in defense spending, large U.S. shipyards must now translate their skills from the military to the commercial market.

A major opportunity exists. The Maritime Administration estimates that 7,300 to 9,900 large, ocean-going ships will be built for international commercial market between 1992 and 2001, with three-quarters of this work after 1996.

Two steps will have to be taken for U.S. shipyards to compete successfully in the international market. First, subsidies provided by foreign governments to their shipbuilding industries, which artificially lower prices, must be ended so that there is a truly level playing field on which to compete.

Second, U.S. yards must adapt to the demands of the international commercial market. For the past decade, U.S. yards have been building ships to order for the U.S. Navy and the Jones Act fleet. At the same time, foreign yards have been building ships in series, benefiting from economies of scale and learning efficiencies. To compete, U.S. yards will have to develop and market competitive designs; fully employ modern technology and manufacturing processes; and remain competitive in wages.

### The Administration's Plan

The Administration's five-part plan is intended to assist efforts already underway within the industry to compete internationally. It is a transitional program, consistent with federal assistance to other industries seeking to convert from defense to civilian markets.

**Ensuring Fair International Competition** The U.S. Government is seeking to level the international playing field through negotiations at the Organization for Economic and Cooperative Development (OECD) to end foreign shipbuilding subsidies. The current draft agreement prohibits direct and indirect subsidies

to shipbuilders, including export credit programs with terms more generous than agreed international terms. It bans anti-competitive arrangements and domestic build requirements, except for the Jones Act. It establishes an injurious pricing discipline and binding dispute settlement procedures. January 1, 1995 is the target for its entry into force. The Administration believes that such a multi-lateral agreement is the best way to deal with the problem of foreign subsidies. To bolster these efforts, it will work with Congress on appropriate legislation.

**Improving Competitiveness.** Under MARITECH, the Department of Defense through its Advanced Research Projects Agency (ARPA) will share the costs of industry-initiated research and development projects to accelerate technology transfer and process change. MARITECH will focus on the manufacturing and information technologies used in ship design and production. Partnerships with customers, suppliers, and technologists will be encouraged. Projects will determine an actual market need, develop an innovative design, and define a competitive construction approach. Special consideration will be given to yards engaged in DoD and commercial work. MARITECH will be funded at \$30 million in FY94, \$40 million in FY95 and \$50 million each year in FY96-FY98.

**Eliminating Unnecessary Government Regulation.** All government agencies will review and revise or eliminate any regulations that impose unnecessary burdens on the shipbuilding industry. Major activities include acquisition reform within DoD, standardization of international construction standards by the Coast Guard, and the updating of OSHA standards. Additionally, to facilitate cooperation in the shipbuilding industry, the Department of Justice will provide advisory opinions regarding proposed business conduct.

**Financing Ship Sales through Title XI Loan Guarantees.** Title XI, now provides U.S. buyers of ships built in U.S. yards with loan guarantees. Forty seven million dollars are available for commitment in FY94. The Department of Transportation will support funding of \$50 million in FY95, \$30 million in FY96, and \$20 million in FY97, which could guarantee an additional \$2 billion in loans. To encourage foreign carriers to build in U.S. yards, the Administration proposes to extend coverage to foreign buyers.

**Assisting International Marketing.** Executive Branch organizations will initiate or expand activities to assist yards in their marketing efforts and to facilitate cooperative arrangements between U.S. and foreign yards.

### Challenge for the Industry

The Administration's plan provides important assistance to U.S. shipyards in taking advantage of the significant opportunities in this decade's rapidly expanding international market. Yards also will have to be--and no doubt will be--aggressive in their own efforts.

The Administration looks forward to working with Congress and with industry in establishing a basis for the industry to enter the international marketplace. By working in partnership--labor and management, shipyards and customers, Congress and the Administration--Americans can meet this challenge as they have met others in the past.

## INTRODUCTION

In the past ten years, U.S. shipbuilders built the most capable naval fleet the world has ever seen. U.S. shipyards excel in the production of complex, high-quality naval vessels. With the end of the Cold War and the reduction in defense spending, large U.S. shipyards must now translate their skills from the military to the commercial market.

The National Defense Authorization Act of 1993 (Public Law 102-484) requires the President "to establish an interagency working group for the sole purpose of developing and implementing a comprehensive plan to enable and ensure that domestic shipyards can compete effectively in the international shipbuilding market." This report describes that plan. In approving it, the President directed initiation of those actions currently within the authority of the Executive Branch. Implementing legislation for the remaining actions will be submitted to appropriate committees of the Congress.

## BACKGROUND

### A. Industry Structure and Employment

U.S. shipyards with the capability to construct vessels commonly are divided between "major" shipbuilding facilities and second-tier facilities. (There are other shipyards with only the capability to repair vessels.)

The Maritime Administration (MARAD) defines a "major" shipbuilding facility as one that is in operation and can construct vessels of at least 400 feet in length. There are 17 shipbuilding facilities in the United States that meet that definition. These yards vary considerably in size, facilities, and employment, the largest yards generally being the nine yards that currently are building ships for the United States Navy.

Second-tier shipbuilding facilities number approximately 100. They generally construct and repair smaller vessels such as inland waterways and coastal carriers, tug boats, supply boats, ferries, fishing vessels, barges, drill rigs, and small military and government-owned vessels. Some of these yards compete successfully in specific international markets. Most build ships for the domestic market, which is protected by the Jones Act (Section 27 of the Merchant Marine Act of 1920, 46 App. U.S.C. Sec 883). That act restricts U.S. coastwise and inland maritime traffic to U.S.-built ships sailing under the U.S. flag. These yards also vary considerably in facilities and size. They too have seen a reduction in demand for domestic

shipbuilding, but they do not face conversion problems to the same degree as the major yards.

In 1992, all U.S. shipbuilding facilities employed about 123,900 workers--down from a recent high of 171,600 in 1982. Approximately two-thirds of these workers were employed in the 17 major yards, and almost 95 percent of those were employed in the nine yards currently building ships for the Navy.

#### B. Post-World War II Production in Major Shipyards

In the decades after World War II, large U.S. shipyards focused their efforts on producing ocean-going vessels for the U.S. flag fleet. The U.S. government supported this strategic focus with a number of direct and indirect subsidies. Among those subsidies was the construction differential subsidy (CDS), which underwrote the differential between the price of U.S.-built and foreign-built ships. When that differential rose, so too did the average subsidy. At the end of the 1970s, the level of subsidy was at the statutory limit of 50 percent of the purchase price for most types of vessels.

In 1981, the Reagan Administration stopped funding for CDS. Since U.S. prices were greater than those offered by foreign yards--often subsidized by their own governments--orders by U.S. carriers for U.S.-built, ocean-going vessels were sharply reduced. Between 1983 and 1992, only eight commercial ocean-going vessels have been built in these yards. The surge in government orders for naval vessels provided a new challenge for U.S. yards. Between 1981 and 1990, such orders averaged 17-18 ships per year. By the early 1990s, these efforts had resulted in the creation of the strongest, most capable naval fleet in the world.

The end of the Cold War and the emergence of democratic states in the former Soviet Union and Eastern Europe has brought tremendous benefits but also has led to a number of changes. U.S. national security no longer requires the high levels of naval construction of the 1980s. As a result, U.S. yards now confront the challenge, similar to that faced by many other defense contractors, of translating their skills and technologies to new markets.

#### C. Future Markets for the Major U.S. Shipyards

There are four possible markets for U.S. shipbuilders in the future: the commercial market (both domestic and international), U.S. naval vessels, foreign naval vessels, and non-shipbuilding markets. Of these, the international commercial market offers the most significant prospect for expanding production.

## 1. The Commercial Market

The commercial market consists of both the domestic market (protected by the Jones Act) and the international market.

The Jones Act market is expected to remain small through this decade. Demand for new ocean-going vessels for the Jones Act fleet is estimated to be at most 2 to 3 vessels a year. These numbers reflect a decline in demand for tankers due to a projected reduction in Alaskan oil shipments and changes in trading patterns. They take into account the requirement in the Oil Pollution Act of 1990 (Public Law 101-380) that single-hulled tankers be phased out beginning in 1995 according to a schedule based on age and capacity so that all tankers will have double hulls by 2015.

By contrast, the already-sizeable demand for new vessels in the international commercial market is expected to grow significantly in the coming decade. Drawing on a variety of analyses, MARAD estimates that 7,300 to 9,900 large ships (of which half will be tankers) will be built between 1992 and 2001. Three-quarters of this new construction is expected to occur in the second half of this period. Most will result from the need to replace aging vessels, not to accommodate trade growth. (See the Annex for details.)

## 2. U.S. Naval Vessels

The U.S. Navy will continue to provide a market, albeit a much smaller one, for U.S. shipbuilders. The Navy has about 100 ships on order or under construction, three quarters of which will be delivered after 1994. Although the details of the defense program for FY 1995-1999 still are under review, the Department of Defense (DoD) projects that it will order on average 8 new ships a year (including sealift ships) in those years.

In the following decade, replacement of aging military vessels may require some modest increase in construction. DoD does not now plan any additional sealift procurement, however. Thus, while the total requirements remain uncertain, DoD does not believe that its annual needs will increase significantly.

## 3. Foreign Military Vessels

The market for foreign military vessels probably will remain relatively small. Most countries with significant blue water fleets purchase naval vessels from their own yards, although nations with predominantly coastal fleets are likely to continue to purchase certain classes of small vessels abroad.

#### 4. Non-Shipbuilding Markets

In slack periods, shipyards have engaged in non-shipbuilding projects, including the construction of railroad cars, under-river tunnel sections, wind tunnels, prison barges, offshore oil rigs, and marine equipment. Quasi-shipwork projects including methanol plant barges and power plant barges (about 40 of which are now in operation) also present a potential source of business.

#### D. Competing in the International Market

There are currently over 133 foreign yards capable of building ships over 400 feet. Japan and Korea together account for over half of the world production of commercial ships. Two steps will have to be taken for U.S. shipyards to compete successfully in the international market.

##### 1. Leveling the Playing Field

Many foreign yards have benefited from substantial shipbuilding subsidies. In July of 1993, MARAD published a "Report on Foreign Shipbuilding Subsidies" describing current government programs for assistance to shipyards in 31 nations and the European Community. These subsidies include direct official support, for instance by the European Community, as well as indirect support, as exemplified by Japan's home credit schemes. Subsidies must be eliminated if there is to be a truly competitive international market in which U.S. shipbuilders can compete.

##### 2. Adapting to the Demands of the International Commercial Market

U.S. shipyards are unsurpassed in the building of highly complex naval vessels. Many of them have invested heavily in modern facilities and technology. Additionally, industry and government sources agree that labor rates in U.S. yards are competitive, being lower than those in Germany and on par with those in Japan, although greater than those in Korea. Finally, U.S. shipyards workers are highly skilled and as productive as any in the world. Thus U.S. yards bring many strengths to the commercial marketplace.

For the past decade, however, U.S. yards have been building ships to order for the military requirements of the U.S. Navy and the sporadic demands of the Jones Act fleet. At the same time, foreign yards have been building ships in series from standard designs optimized for producibility as well as functionality, thereby benefiting from scale economies and learning efficiencies. Although the steps required to adapt to the demands of this commercial market vary among U.S. shipyards, in general yards must:

Shorten the time required to develop a ship design in response to a specific demand by adopting modern design procedures and developing designs in advance of need. Market research and aggressive marketing also will be necessary.

Strengthen relationships with suppliers to reduce the time required to procure materials and parts as well as their costs.

Fully employ modern technologies in the construction of ships including construction techniques such as modular construction, manufacturing processes, and process flow. The lay-out of at least some facilities may have to be revised to adopt these tools.

Government regulations sometimes impose unnecessary overhead costs on the shipbuilding industry or inhibit change. Examples include DoD procurement regulations, actual and apparent differences between international construction standards and those the U.S. Coast Guard sets for U.S.-flagged vessels, and specification-based OSHA standards.

## THE ADMINISTRATION'S PLAN

Throughout the United States, shipbuilders are focusing on the challenges of entering the international market for ocean-going vessels. Individually, yards are working to improve their technologies and production processes for building commercial ships. In addition, some yards have entered joint ventures or alliances with foreign yards to develop new designs and production capabilities.

The Administration's plan is intended to assist industry efforts to compete internationally. Furthermore it is intended to be a transitional program, consistent with federal assistance to other industries seeking to convert from defense to civilian markets. The plan has five elements: ensuring fair international competition, improving commercial competitiveness with MARITECH, eliminating unnecessary government regulations, assisting with the financing of ship sales, and assisting with international marketing efforts.

### A. Ensuring Fair International Competition

The U.S. Government is seeking to level the international playing field at the Organization for Economic and Cooperative Development (OECD). To this end, the Administration initiated international negotiations to end foreign subsidies. U.S. negotiators believe that there is a reasonable chance that these negotiations will be successful. (November 1993 has been set as a target date for completion.)

The OECD draft agreement that currently is under negotiation is comprehensive in its coverage. It prohibits direct and indirect subsidies to shipbuilders in the form of loans, grants, debt forgiveness, tax benefits, and research funding above defined limits. It also bans export credit financing programs with terms more generous than agreed international terms. Official regulations and practices such as those that allow anti-competitive arrangements or impose domestic build requirements and other discriminatory regimes are forbidden (although the U.S. has proposed a derogation for the Jones Act). The draft agreement also establishes an injurious pricing discipline for ships, similar to anti-dumping laws which do not apply to ships. Binding dispute settlement procedures are envisaged to enforce the agreement. A target date of January 1, 1995 has been set for the elimination of subsidies and other distortive practices.

While the Administration believes that a multilateral agreement provides the best way of dealing with the problem of foreign subsidies, it will work with Congress on legislation to bolster those efforts. Any such legislation should provide for the investigation of the policies of nations toward their shipbuilding industries in response to specific complaints and the the imposition of sanctions, at the President's discretion,

where there are adverse effects on the U.S. shipbuilding industry.

#### B. Improving Commercial Competitiveness with MARITECH

Under MARITECH, the Department of Defense through its Advanced Research Projects Agency (ARPA) will participate in an industry-led, industry-driven program to accelerate technology transfer and process change. The principal thrust of this effort will be (1) to provide a near-term infusion of technology that would allow yards to be more cost effective in the design and construction of ocean-going vessels and to enable entry into the commercial market by improving manufacturing and information technologies for the design and production of ships and (2) to foster continuous product and process improvement through collective efforts.

ARPA will match funds from industry for research and development projects they propose in these areas. Yards will propose Focused Development Projects that determine an actual market need, develop an innovative design, and define a competitive construction approach for filling that need. They will be encouraged to initiate partnerships with customers, suppliers, and technologists. Funds will be awarded competitively, and special consideration will be given to yards engaged in both DoD and commercial work.

Overall, the goal of MARITECH is to:

Strengthen the ability to perform proactive product development and marketing by encouraging firms to perform proactive market analysis and develop ready ship product designs for specific markets, thereby eliminating the need for time consuming preliminary design work prior to bid submission.

Develop libraries of designs enabling yards to respond to customer requests, using a library of designs tailored to the specification requirements.

Engage in continuous process and product improvement, reducing the time it takes to produce a ship. This will help further lower both direct labor costs and financing costs, thereby leading to an overall reduction in price.

MARITECH will be funded at \$30 million in FY94, \$40 million in FY95 and \$50 million each year in FY96 through FY98--a total of \$220 million over five years. With matching funds, it would thus generate \$60 million in new R&D investments in FY94 and \$440 million over the period. In-kind matching would be allowed. ARPA will execute the program in collaboration with the Department of Transportation.

The shipbuilding industry also will remain eligible to compete for funds in the Technology Reinvestment Program (TRP). The TRP is a collaborative inter-agency effort to support technology development and deployment and education and training under the Defense Conversion, Reinvestment, and Transition Assistance Act. All proposals require 50 percent cost sharing. Shipbuilding infrastructure is one of eleven technology focus areas identified as TRP priorities.

If an agreement is concluded in the ongoing international negotiations on subsidies, future spending under MARITECH and TRP would have to comply with its rules on the proportion of government matching funds allowed.

### C. Eliminating Unnecessary Government Regulation

All government agencies having regulations that apply to the shipbuilding industry will review them and revise or eliminate any that impose unnecessary burdens on the industry. Major examples of agencies whose regulations affect this industry are the Department of Defense, the U.S. Coast Guard, the Occupational Safety and Health Administration (OSHA), and the Department of Justice.

Procurement Regulations. Acquisition reform is being given high priority within DoD and is intended to reduce or eliminate barriers to the integration of military and commercial production, which will benefit shipbuilding along with other industrial sectors. Near term efforts that will benefit this industry include (1) removing legislative impediments to the purchase of commercial items, (2) prohibiting the use of DoD specifications or process standards unless there is no practical alternative, and (3) removing the most serious impediments to doing business with the government that do not require legislative action.

Coast Guard Construction Regulations. The Secretary of Transportation will direct the Coast Guard to continue working with the International Maritime Organization to upgrade critical international standards and with U.S. carriers and standards bodies to delete or revise regulations that add costs unnecessarily.

OSHA Regulations. OSHA is currently working with the shipbuilding industry to review and revise its standards. The proposed revisions will continue to address the hazards to which workers are exposed, but will do so by replacing specification-based provisions, which limit employer innovation, with performance-oriented provisions wherever appropriate. The proposed revisions also will update, reorganize, clarify, and simplify current rules.

Anti-trust Regulations. To facilitate various forms of cooperation in the shipbuilding industry, the Department of

Justice will provide upon request an advisory opinion regarding proposed business conduct pursuant to its Business Review Procedure. Federal law enables shipyards to engage in a wide range of vertical and horizontal cooperative ventures. Existing antitrust law enables firms to form legitimate joint ventures involving some risk sharing or integration. The National Cooperative Research and Production Act (15 U.S.C. section 4301 et seq) provides anti-trust protection for firms engaging in joint research and development or production ventures. The Export Trading Company Act (15 U.S.C. section 4011 et seq) provides a limited antitrust exemption for export trade and related activities. In evaluating joint conduct under the antitrust laws, the Department of Justice will take into account efficiencies that the venture will produce as well as the existence of global competition in relevant markets.

#### D. Financing Ship Sales through Title XI Loan Guarantees

Title XI now provides U.S. buyers of ships built in both major and second-tier yards with guarantees for long-term loans at a fixed rates covering up to 75 percent of the loan value. In order to encourage foreign carriers to come to the United States to build ships, the Administration proposes to extend coverage to foreign buyers. Loan guarantees for foreign buyers would have to conform to OECD provisions governing export credits. While loans under these provisions also are available through the Export/Import Bank, MARAD's greater expertise in shipping and shipbuilding justifies extending its involvement to the financing of the export of ships.

MARAD now charges a fee of 0.5 to 1 percent on the outstanding balance of the loan guarantee. To gain greater leverage from federal funds in this increasingly tight budget environment, that fee would be raised to the range of 1 to 1.5 percent, reducing the federal risk exposure. That level should provide an inducement to a substantial number of carriers to buy ships in U.S. yards.

In FY93, \$48 million was appropriated, of which \$47 million remains available for commitment in FY94 and beyond. The Department of Transportation will support additional funding of \$50 million in FY95, \$30 million in FY96, and \$20 million in FY97. This could guarantee an additional \$2 billion in loans. Consistent with the Administration's intent to facilitate the transition to international competitiveness, any funds so appropriated and not spent within five years would expire. Consistent with the emphasis on the international commercial market, certification of military utility would no longer be required.

If an agreement is concluded in the ongoing international negotiations on subsidies, any conditions of the Title XI loan

guarantee program that were inconsistent with the agreement would have to be modified or eliminated.

#### E. Assisting International Marketing

The Administration will use existing organizations to assist shipyards in their international marketing efforts (e.g., the U.S. Foreign Commercial Service, American embassy personnel, and MARAD) and to facilitate cooperative arrangements and alliances between U.S. and foreign yards. Organizations that previously have not devoted much effort to the shipping market will increase their level of activity.

#### Challenge for the Industry

Shipbuilding and repair are inherently global in nature, and shipyards face fierce competition from abroad. In the face of that reality, the Administration has developed a two-pronged plan to help American yards compete in this arena. The first prong is to insure fair treatment for the U.S. shipbuilding industry in the international marketplace. The second prong is to provide assistance to U.S. shipyards in the transition from dependence on defense contracts to commercial competitiveness.

The Administration's plan provides important assistance to U.S. shipyards as they prepare to take advantage of the significant opportunities provided by this decade's rapidly expanding international market. U.S. shipbuilders still will face serious challenges, however. Yards will have to be--and no doubt will be--aggressive in their own efforts to develop competitive designs and market them world wide; to establish a stronger relationship with their suppliers; to improve productivity in order to drive down costs and shorten delivery times; to obtain competitive labor packages and remain competitive in wages; and to seek private financing sources and joint venture partners here and abroad. Building on their recent success in military construction, there is every reason to believe that American ingenuity can meet these challenges.

The Administration looks forward to working with Congress and the industry in establishing a basis for the industry to enter the international market place. By working in partnership--labor and management, shipyards and customers, Congress and the Administration--Americans can meet this challenge as they have met others in the past.

## ANNEX

### The Demand for Shipbuilding for the Commercial Market 1992-2001

Demand for new vessels for the commercial shipping industry will come from two sources: replacement of existing vessels and acquisition of additional vessels in response to increased demand for the movement of goods in trade.

The task of forecasting future shipbuilding activity takes the form of 1) adjusting the "future fleet" to reflect anticipated changes in the levels of trade, 2) identifying vessels currently in each of the trades, and 3) projecting their replacement dates.

Forecasts from several independent sources (the U.S. Department of Commerce's "Industrial Outlook 1993--Shipbuilding and Repair;" DRI/McGraw-Hill; and H.P. Drewry's "World Shipbuilding" of April 1992) are in general agreement that demand for new vessels in the 1990s will result primarily from the requirement to replace existing vessels not from an increase in the volume of trade. The base case projection in this report is taken from Drewry's work.

#### Replacement Demand

The statistical tables in Lloyd's "Register of Shipping" show that, as of mid-1991, there were over 6,600 vessels totaling over 167 million gross registered tons (GRT) over 15 years old. Without replacement, the world fleet, including all types of ships, would have 194 million GRTs from vessels over 25 years of age by 2001. Lloyd's notes that "These vessels by and large may be considered to be the deep sea fleet, often trading in harsh environments, and, as far as the shipbuilding industry is concerned, this sector of the fleet represents the major market sector for fleet replacement."

Total New Construction. The base case projection is based on the assumption that existing vessels will be replaced when they reach 25 years of age. The base case projection for replacement tonnage from 1992-2001 is 153.3 million GRT.

Higher and lower projections also have been made to reflect major sources of uncertainty. Ship owners may choose to spend substantial sums on repair, maintenance, and refurbishment and, therefore, defer replacement. The lower projection is based on the assumption that replacement of ten percent of the tonnage in the base case will be so deferred. The low case projection for replacement is 138 million GRT.

Alternatively, the condition of existing vessels and pressures being placed on owners by classification societies, marine underwriters, and civil authorities (such as passage of the Oil

Pollution Act of 1990) may cause owners to replace vessels (especially single-hulled tankers) before they reach the age of 25. The higher projection is based on the assumption that an additional ten percent of the base case tonnage would be replaced by the year 2001. The high case projection for replacement is 168.6 million GRT.

Tankers and Dry Bulk Carriers. Dry bulk carriers and tankers account for approximately 80 percent of the projected replacement demand in the base case--51 and 75 GRT respectively. The age profile of tankers is heavily skewed, with about 55 percent of the total over 15 years of age and 46 percent (61 million GRT) between 15 and 19 years. Additionally, as Drewry notes, "Of the major fleets perhaps tankers are in the sorriest state of repair (along with combined carriers). Over half of those trading today were built in the 1970s. Many were left idle, poorly maintained, until they resumed trading in the mid-1980's. As a result, today's fleet is more dilapidated than usual, which should hasten replacement demand well before the vessels reach 25 years."

#### Trade Induced Demand

Trade-induced demand is projected to account for less than a quarter of total demand for new vessels in the base case projection. It is over half the demand for chemical carriers and containerships, however, and 80 percent of that for gas carriers.

The base case projection for trade-induced demand through the year 2001 is approximately 46 million GRT. The largest projected growth in tonnage is 21 million GRT in dry bulk carriers. This is based on an assumed growth in the demand for such ships of 20 percent--slightly less than 2 percent per year compounded. The demand for containerships is projected to increase by over 30 percent as the net effect of increased world trade and the introduction of containerships on new routes partially off set by the increase in vessel size on some existing routes. This produces a growth in containership tonnage of 8.8 million GRT.

Higher and lower projections also have been made for demand due to trade growth. The lower projection is based on the assumption that trade growth will only be 50 percent of that projected in the base case, or approximately 23 million GRT for the period 1991 to 2001. This assumes a growth rate in world trade substantially below historical levels. The higher projection is based on the assumption that trade growth will be 10 percent higher than the base case or 51 million GRT.

#### Total Demand

The following tables show the three projection by ship type.

**Demand for New Vessels from 1992-2001 by Type  
(Number and Capacity in Gross Registered Tons (GRT))**

**Low Case**

	Replacement		Trade Growth		Total	
	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>
Tanker	3195	67.8	118	3.6	3313	71.4
Dry Bulk	1908	46.0	262	10.5	2170	56.5
Chemical	104	1.5	90	1.0	194	2.5
Gas (LPG/LNG)	211	1.0	136	2.2	347	3.2
Containerships	313	5.5	333	4.4	646	9.9
Other	6750	16.2	250	1.5	7000	17.7
<b>Total</b>	<b>12481</b>	<b>138.0</b>	<b>1189</b>	<b>23.2</b>	<b>13670</b>	<b>161.2</b>

**Base Case**

	Replacement		Trade Growth		Total	
	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>
Tanker	3550	75.3	235	7.1	3735	82.4
Dry Bulk	2120	51.1	524	21.0	2644	72.1
Chemical	115	1.7	180	2.1	295	3.8
Gas (LPG/LNG)	234	1.1	273	4.4	507	5.5
Containerships	348	6.1	665	8.8	1013	14.9
Other	7500	18.0	500	3.0	8000	21.0
<b>Total</b>	<b>13867</b>	<b>153.3</b>	<b>2377</b>	<b>46.3</b>	<b>16324</b>	<b>199.6</b>

**High Case**

	Replacement		Trade Growth		Total	
	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>	<u>No.</u>	<u>GRT(mil.)</u>
Tanker	3905	82.8	258	7.8	4163	90.6
Dry Bulk	2332	56.2	576	23.1	2908	79.3
Chemical	126	1.9	198	2.3	324	4.2
Gas (LPG/LNG)	257	1.2	300	4.8	557	6.0
Containerships	383	6.7	732	9.7	1115	16.4
Other	8250	19.8	550	3.3	8800	23.1
<b>Total</b>	<b>15253</b>	<b>168.6</b>	<b>2614</b>	<b>51.0</b>	<b>17867</b>	<b>219.6</b>

### Numbers of Large Ships

Most of the vessels to be replaced in the "other" category are relatively small. Drewry's analysis (used here as the base case) indicates that the number of large ships (those of 6,000 GRT or greater) to be built during the period will total 9,000 vessels. The comparable figure for the lower projection is 7,270 new ships; and 9,867 for the higher projection.

The remaining "other" vessels (7,244 in the base case) include fishing vessels, offshore activity support vessels, and a variety of miscellaneous types which average only 2,500 GRT.

### Demand for Large Vessels from 1992-2001 by Type

#### Base Case

	Replacement (Number)	Trade Growth (Number)	Total (Number)
Tanker	3550	235	3785
Dry Bulk	2120	524	2644
Chemical	115	180	295
Gas (LPG/LNG)	234	273	507
Containerships	348	665	1013
Other	256	500	756
Total	6623	2377	9000

### Timing of Demand

The demand for 199.6 million GRT or approximately 158 million compensated gross registered tons (CGRT) is not expected to occur evenly throughout the period. (CGRT are gross tons adjusted by a factor reflecting the complexity of the type of ship being built.) Drewry projects that 40 million CGRT will be delivered through 1996 and the remaining 118 million CGRT will be delivered from 1997 through 2001.

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503

July 20, 1993

LEGISLATIVE REFERRAL MEMORANDUM

*from*  
*Edley*  
*clear*

LRM #I-899

TO: Legislative Liaison Officer -

JUSTICE - Sheila F. Anthony - (202)514-2141 - 217  
LABOR - Robert A. Shapiro - (202)219-8201 - 330  
COMMERCE - Michael A. Levitt - (202)482-3086 - 324  
CEA - Francine Obermiller - (202)395-5036 - 242  
NEC - Sonia Mathews - (202)456-6722 - 429  
SBA - Christine Swedin - (202)205-6702 - 315

FROM: JAMES J. JUKES (for) *Jim*  
Assistant Director for Legislative Reference

OMB CONTACT: Jim BROWN (395-3473)  
Secretary's line (for simple responses): 395-3454  
Alice DAVIS (395-3101)

SUBJECT: TRANSPORTATION Proposed Report RE: HR 1919,  
High-Speed Rail Development Act of 1993

DEADLINE: 2:00 P.M. WEDNESDAY July 21, 1993

COMMENTS: If we do not hear from you by the deadline, we  
will assume that you have no objection to this letter.

OMB requests the views of your agency on the above subject before  
advising on its relationship to the program of the President, in  
accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or  
receipts for purposes of the the "Pay-As-You-Go" provisions of  
Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:

Alice Davis  
Roger Adkins  
Michael Deich  
Mike Schmidt  
~~Cookie-Walden~~  
Bruce Reed  
Trish-Walsh  
Joan Baggett  
Ellen Seidman  
Sally Katzen  
Isabel Sawhill  
Larry Matlack  
*Barbara Selpridge*

Bob Damus  
Clarissa Cerda  
Bernie Martin  
Tom Arthur  
Howard Paster  
Ed Clarke  
Chris Edley  
Sheryll Cashin  
Gene Sperling  
Paul Dimond  
Ken Schwartz  
*Cyndi Vallina*

**RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM**

If your response to this request for views is simple (e.g., concur/no comment) we prefer that you respond by faxing us this response sheet. If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a secretary.

You may also respond by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please include the LRM number shown above, and the subject shown below.

TO: Jim BROWN  
 Office of Management and Budget  
 Fax Number: (202) 395-3109  
 Analyst/Attorney's Direct Number: (202) 395-3473  
 Branch-Wide Line (to reach secretary): (202) 395-3454

FROM: \_\_\_\_\_ (Date)  
 \_\_\_\_\_ (Name)  
 \_\_\_\_\_ (Agency)  
 \_\_\_\_\_ (Telephone)

SUBJECT: TRANSPORTATION Proposed Report RE: HR 1919,  
 High-Speed Rail Development Act of 1993

The following is the response of our agency to your request for views on the above-captioned subject:

- \_\_\_\_\_ Concur
- \_\_\_\_\_ No objection
- \_\_\_\_\_ No comment
- \_\_\_\_\_ See proposed edits on pages \_\_\_\_\_
- \_\_\_\_\_ Other: \_\_\_\_\_
- \_\_\_\_\_ FAX RETURN of \_\_\_\_\_ pages, attached to this response sheet



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

The Honorable John D. Dingell  
Chairman, Committee on Energy  
and Commerce  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I appreciate the committee's rapid development and action on H.R. 1919, the High-Speed Rail Development Act of 1993. High-speed rail transportation offers the potential of a high capacity, energy efficient, and environmentally sensible transportation alternative in high density intercity corridors. The programs authorized in H.R. 1919 will help the United States realize this potential.

I particularly appreciate that H.R. 1919 incorporates the Administration's proposals for establishing a program of financial assistance to States, cities, and the private sector to facilitate development of high-speed rail systems in meritorious intercity corridors. The bill also incorporates the Administration's proposed program to develop high-speed rail technology.

We believe the Subcommittee on Transportation and Hazardous Materials has further strengthened our original proposal in many respects. As I mentioned in my testimony, the Administration also believes it is desirable and appropriate that provision be made in the bill to assure that there will be fair and equitable labor standards incorporated as part of these projects and opportunities for a diversity of businesses to play a strong role in projects funded under the programs.

We support the fundamental precept, expressed in other federal capital investment programs, that the rates of wages on construction projects funded by the bill should conform to those prevailing in the locality pursuant to the Davis-Bacon Act. Just as important, appropriate goals for the participation of U. S. businesses, across the spectrum of size and ownership, will contribute to the vitality of the program and should be included in the bill. As an addition to the surface transportation sector, the high-speed rail program should, at a minimum, maintain goals for disadvantaged and women-owned businesses equal to those recently renewed for other surface transportation programs.

Also, arrangements to protect the employment interests of railroad employees adversely affected by the provisions of the legislation are needed. We strongly support the addition of such provisions at an appropriate stage of the legislative process.

There is one provision of H.R. 1919 as reported by the Subcommittee with which the Department must take exception. In section 4(a), the bill authorizes a total of \$1.210 billion over five years for high-speed rail assistance. The Administration proposes only \$982 million for this purpose over the same time period. The difference, \$228 million, is necessary to fund the National Magnetic Levitation Prototype Development Program. I request that the level of appropriations in section 4(a) be amended to read as follows: \$96 million for fiscal year 1994; \$166 million for fiscal year 1995; \$183 million for fiscal year 1996; \$238 million for fiscal year 1997; and \$299 million for fiscal year 1998.

Overall, I believe that this is an excellent bill that deserves quick and favorable action. I look forward to working with you to bring the benefits of high-speed rail to the United States.

The Office of Management and Budget advises that there is no objection, from the standpoint of the Administration's program, to the submission of this report for the consideration of the committee, and that enactment of H.R. 1919 with proposed modifications would be in accord with the program of the President.

Sincerely,

Federico Peña

Copy  
151 450

MAR 10 1982

Mr. Carl Carlson  
P.O. Box 4  
Barrington, NH 03825

Dear Mr. Carlson:

Thank you for your letter to President Clinton concerning your interest in reemployment with the Federal Aviation Administration (FAA).

While we appreciate your desire to be reemployed with the FAA, we are not able to consider you for employment at this time. On December 9, 1981, the President determined that it would be detrimental to the efficiency of the service to reemploy discharged strikers with the FAA in any capacity. On March 16, 1984, the Director of the Office of Personnel Management confirmed that the President's decision regarding the strikers was indefinite in duration.

Legislation to lift this employment ban has been introduced by both the House and Senate; however, to date, nothing has been passed.

Until this ban is lifted, any air traffic controller who was fired for striking remains ineligible for employment with the FAA.

Sincerely,

Original Signed By:  
Stephen M. Soffe

Kay Frances Dolan  
Director of Personnel

APN-200:KASK:376-7338:AK/LJR:2/9/93  
cc: APN-200/1/AHR-1/AOA-3/AGI-1/I-5  
CONTROL NUMBER(S): 3905-93/A930204016  
SUSPENSE DATE: 2/9/93  
FILE: CARLSON, CARL W.  
E:\CARLSON.AK  
RETYPE PER OST:LJR:3/4/93

DOT/FAA

ID #:

**CORRESPONDENCE CODING SHEET**

Coder:

Date Entry:

**ROUTINE CORRESPONDENCE**

- CARD 1. "Thanks so much for your support and encouragement. With your help, we can change our country and put our people first."
- CARD 2. "Thanks so much for your letter. I welcome your ideas. They will be carefully considered. I'm grateful you took the time to write."
- CARD 3. "Thanks for writing to me. It's important that I hear the thoughts, experiences, and concerns of people who care about the future of America. I appreciate your taking the time to let me know how you feel."
- POLICY LETTER (former "Hot Issue")  
Writer ASKING specific, legitimate questions on policy issues. Our response says they will get an in depth response when BC is President, but not now.
- NRN: No reply necessary  
For letters without return addresses, hate mail, junk mail, letter-writing campaigns, frequent writers.

**REFER TO SPECIAL AREAS**

- Thrusta
- Invitations/Scheduling
- Inaugural
- MailOuts/Requests for photos, position papers, speeches
- Kids Letters
- Foreign Mail
- Eagle Scout, Wedding, Birthday, Congrats Requests (Former Time Sensitive)
- Casework (people with Problems)

C-3  
DOT/FAA

**PRIOR**

**ACTION**

is assigned to

FAA

CONTROL NO.

930202-088

SIMS

S-10

- Senators, Governor
- Other elected official
- VIP [ ] P
- FOH [ ] P
- POMEQ

**SPECIAL**

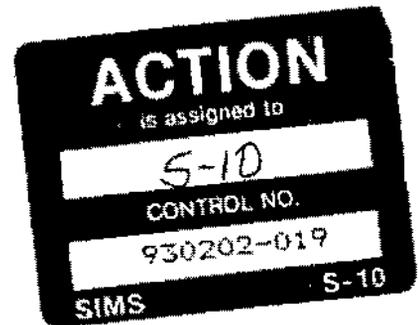
(Please do not check off without seeing a Supervisor first)

**PEOPLE BASE CODES**

- G Prospective Supporters, but not clearly supportive of BC; check if you're not sure whether they support.
- GS Definite Supporters of BC
- ARK Natives of BC's home state but no longer living there
- KIDS Children and young teenagers

THE WHITE HOUSE  
WASHINGTON

February 1, 1993



The Honorable Federico Peña  
Secretary of Transportation  
Washington, D.C. 20590

Dear Mr. Secretary:

I need your immediate help. President Clinton has reached out to the American people and they have responded with an outpouring of letters. Many of these are requests for help or information which can best be answered by the professionals in your department. They are all letters which we received shortly before the Inauguration.

President Clinton places great emphasis on timely and informative responses to constituent mail. I know how hard everyone is working during this period of change; however, I hope that your staff will be able to give thoughtful attention to these letters.

As you respond to these requests, I would appreciate copies of the correspondence. The original incoming letter to the President and a copy of your agency's response should be returned to Dan Burkhardt, Old Executive Office Building, Room 91, The White House, Washington, D.C. 20500. If you have any questions, please contact Dan at (202) 456-7486.

I look forward to meeting with you in the near future and appreciate your generous help in this matter.

Sincerely,

A handwritten signature in black ink that reads "Marsha Scott". The signature is written in a cursive style.

MARSHA SCOTT  
Deputy Assistant to the  
President for Presidential  
Messages and Correspondence

cc: Department of Transportation  
Room 10203  
400 7th Street, S.W.  
Washington, D.C. 20590

(w/enclosures: 23 pieces)

CARL W. CARLSON  
P.O. Box 4  
BARRINGTON, NH 03025

23 Nov 92

151450

PRESIDENT-ELECT BILL CLINTON  
GOVERNORS MANSION  
LITTLE ROCK, ARK. 72201

HONORABLE PRESIDENT-ELECT CLINTON:

CONGRATULATIONS ON YOUR VICTORY. THANK YOU FOR MAKING YOURSELF AVAILABLE TO THE AMERICAN PUBLIC AND THEIR NEEDS.

I AM A FORMER AIR TRAFFIC CONTROLLER WITH ALMOST 25 YEARS OF GOVERNMENT SERVICE. I BELIEVE I WAS UNJUSTLY SEPARATED FROM THE FAA BY FORMER PRESIDENT REAGAN IN AUGUST 1981. I LOVED MY JOB. WITH NUMEROUS LETTERS OF APPRECIATION AND COMENDATION I WOULD HAVE LIKED TO FINISH OUT MY CAREER AS AN AIR TRAFFIC CONTROLLER.

IS THERE ANYTHING YOU COULD DO FOR AT LEAST SOME OF THE FORMER CONTROLLERS WITH SENIORITY?

MAY I WISH YOU THE BEST OF STRENGTH AND WISDOM, AND WITH GOD'S HELP WE CAN GET AMERICA BACK ON THE RIGHT TRACK.

I KNOW YOU CAN HELP A FORMER AIR TRAFFIC CONTROLLER GET REINSTATED.  
THANK YOU.

SINCERELY,  
CARL W. CARLSON