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EPB MEETING
Tuesday, August 24, 1976
8:30 a.m.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, August 23, 1976

No EPB Executive Committee Meeting

Tuesday, August 24, 1976 PRINCIPALS ONLY

- | | |
|------------------------------------------------------------------------|----------|
| 1. Policy Initiatives to Deal with Structural and Induced Unemployment | Malkiel |
| 2. Tax Reform Bill | Treasury |

Wednesday, August 24, 1976 EPB/ERC

- | | |
|--------------------------------------------|----------|
| 1. International Aviation Policy Statement | DOT |
| 2. Natural Gas Curtailments | FPC |
| 3. Lease #40 (Baltimore Canyon) | Interior |
| 4. Construction Permits Policy | NRC |

Thursday, August 26, 1976

No EPB Executive Committee Meeting

Friday, August 27, 1976

No EPB Executive Committee Meeting

8-12-76

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

Attendees: Greenspan, Dixon, Zarb, Gorog, Vetter, Mitchell,
Kobelinski, Moskow, Paarlberg, McGurk, Porter,
Arena, Leach, Spaulding, Lilley, Perritt

1. Report of Task Forces to Improve Government Regulation

The Executive Committee reviewed a report from Paul MacAvoy on the Task Forces to Improve Government Regulation. The Task Forces working on OSHA and FEA regulations are both within a week of their original schedule. The Export Control Administration Task Force circulated a progress report last week which contains the first draft of a final report and recommendations for management changes in the interagency review process. Discussion focused on whether two additional Task Forces -- one on EPA and one on Higher Education -- should be formed and on the preliminary work plans for the proposed Task Forces. There was general consensus from Executive Committee members that the additional Task Forces should be established and that work should go forward in refining the preliminary work plans.

Decision

The Executive Committee agreed that Secretary Simon and Mr. Seidman should review the proposed Task Forces and preliminary work plans before final approval is given for the establishment of the EPA and Higher Education Task Forces.

THE WHITE HOUSE

WASHINGTON

August 10, 1976

MEMORANDUM FOR

THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

FROM: WILLIAM F. GOROG *WFG*

SUBJECT: Update of Selected Economic Statistics

1. Money Stock Measures

Change in June from:	<u>M₁</u> (%Change)	<u>M₂</u>
March 1976	6.8	9.9
December 1975	5.6	10.8
June 1975	4.2	9.0

2. Total Industrial Production (Real terms, seasonally adj.)

(Index: 1967 = 100)	<u>Index</u>	<u>% Change</u>
June 1976	129.9	+0.3
May 1976	129.5	+0.7
April 1976	128.6	+0.4
March 1976	128.1	+0.6
February 1976	127.3	+1.3
(June 1975 - June 1976)		+11.6

3. Retail Sales (Current dollars, seasonally adj.)

Total:	<u>\$ Billions</u>	<u>% Change</u>
July 1976	53.21	-1.4
June 1976	53.99	+2.7
May 1976	52.56	-2.1
April 1976	53.69	+0.7
March 1976	53.34	+1.4
(July 1975 - July 1976)		+8

4. Housing Starts and Building Permits (Seasonally adj.)

Starts (annual rates):	<u>Millions of Units</u>	<u>% Change</u>
June 1976	1,492,000	+4.3
May 1976	1,430,000	+4.6
April 1976	1,367,000	-3.5
March 1976	1,417,000	-8.4
(June 1975 - June 1976)		+38.1

Permits (annual rates):		
June 1976	1,122,000	-3.0
May 1976	1,158,000	+7.0
April 1976	1,082,000	-4.6
March 1976	1,134,000	-
(June 1975 - June 1976)		+19.6

5. Employment and Unemployment (Seasonally adj.)

Civilian Labor Force (CLF):	<u>Millions of Persons - 16 yrs.+</u>
July 1976	95.33
June 1976	94.64
May 1976	94.55
April 1976	94.44
March 1976	93.72
March 1975	91.88
December 1974	91.64

Employment:

July 1976	87.91
June 1976	87.50
May 1976	87.70
April 1976	87.40
March 1976	86.69
March 1975 (low)	84.11
December 1974	85.05

Unemployment:

	<u>Millions of Persons</u>	<u>% of CLF</u>
July 1976	7.43	7.8
June 1976	7.14	7.5
May 1976	6.86	7.3
April 1976	7.04	7.5
March 1976	7.03	7.5
May 1975 (peak)	8.25	8.9
December 1974	6.58	7.2

Unemployment:

Heads of Households:			<u>(% of Group)</u>
July	1976	-	5.4
June	1976	-	5.1
May	1976	-	4.8
April	1976	-	4.8
March	1976	-	5.0
December	1975	-	5.7
May	1975	-	6.1
December	1974		4.6

6. Manufacturers' Shipments and Orders (current dollars, seasonally adj.)

Total Shipments:		<u>\$ Billions</u>	<u>% Change</u>
June	1976	94.03	-0.5
May	1976	94.51	+0.7
April	1976	93.84	+0.8
March	1976	93.05	+2.3
February	1976	90.91	+1.8
Total Inventories:			
June	1976	150.78	+1.1
May	1976	149.17	+0.7
April	1976	148.12	-
March	1976	148.15	+0.6
February	1976	147.32	+0.2
Total New Orders:			
June	1976	95.50	-0.6
May	1976	96.05	+2.0
April	1976	94.14	+0.8
March	1976	93.39	+3.5
February	1976	90.20	+2.4

7. Consumer Price Index

All Items - 12 mos. previous to:		<u>% Change</u>
June	1976 (+0.5% for month)	+5.9
May	1976 (+0.6% for month)	+6.2
April	1976 (+0.4% for month)	+6.1
March	1976 (+0.2% for month)	+6.1
February	1976 (+0.1% for month)	+6.3
January	1976	+6.8
December	1975	+7.0
September	1975	+7.8
June	1975	+9.3
March	1975	+10.3
December	1974	+12.2

8. Wholesale Price Index

All Commodities - 12 mos. previous to:		<u>% Change</u>
June	1976 (+0.4 for month)	+5.4
May	1976 (+0.3 for month)	+5.0
April	1976 (+0.8 for month)	+5.3
March	1976 (+0.2 for month)	+5.5
September	1975	+6.3
June	1975	+11.6
March	1975	+12.5

9. Gross National Product (constant 1972 dollars)

Change from previous Quarter:		<u>% Change</u>
Second Quarter	1976	+4.4
First Quarter	1976	+9.2
Fourth Quarter	1975	+3.3
Third Quarter	1975	+11.4
Second Quarter	1975	+5.6
First Quarter	1975	-9.9

10. Real Spendable Earnings

12 Months previous to:		<u>% Change</u>
June	1976	-0.4
May	1976	+0.5
April	1976	+4.3
March	1976	+4.5
December	1975	+3.8
September	1975	+1.6
June	1975	+0.2
March	1975	-4.6

11. Personal Income (current dollars, seasonally adj.)

Annual Rate:	<u>\$ Billions</u>	<u>% Change</u>
June 1976	1,368.9	+0.4
May 1976	1,362.9	+0.8
April 1976	1,352.5	+0.8
March 1976	1,341.9	+0.8
February 1976	1,331.4	+0.8
January 1976	1,320.8	+1.0
December 1975	1,308.2	+13.3
December 1974	1,153.3	-

12. Composite Index of Leading Indicators

Change from previous month:	<u>% Change</u>
June 1976	+0.3
May 1976	+0.7
April 1976	+0.5
March 1976	+1.0
February 1976	+0.7
January 1976	+1.2

THE WHITE HOUSE

WASHINGTON

August 13, 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: ROGER B. PORTER *REP*

SUBJECT: International Aviation Policy Statement

A memorandum from Secretary Coleman and draft International Aviation Policy Statement, received by our office today, are attached. This issue is tentatively scheduled for EPB Executive Committee consideration the week of August 23.

Attachment



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MEMORANDUM FOR: L. William Seidman
Assistant to the President
for Economic Affairs

SUBJECT: International Aviation Policy Statement

Secretary Kissinger, Secretary Simon, Secretary Richardson, Deputy Secretary Clements, and General Scowcroft join me in recommending that the President approve and issue the enclosed new Statement of International Aviation Policy. Your assistance in completing the process of coordination and presenting this Statement to the President for approval is appreciated.

An earlier version of this Statement was considered by the Economic Policy Board last February. The Statement now has been revised to incorporate changes recommended by several members of the EPB and to make improvements in both substance and presentation that I considered necessary. In addition, William Gorog's staff also worked with us in the revision. While the Statement accommodates the views of the Executive agencies that are most involved on a daily basis with international aviation, it is, for reasons discussed below, a significantly more focused and cohesive policy statement than the compromise version the EPB last saw.

I recommend that the enclosed Statement be circulated to the members of the EPB and that a meeting be scheduled, as soon as is convenient, to consider the Statement before it is transmitted to the President for approval.

At the EPB meeting in February there were two basic issues raised about the Statement: (1) Is it necessary to issue a Statement at this time? and (2) Is the policy articulated in the Statement appropriate and well presented?

In response to the first question, this Statement should be issued as soon as possible for the following reasons:

- o The most recent International Aviation Policy Statement, approved by President Nixon in 1970, is no longer a useful policy document and the absence of a new statement is

construed by other governments as lack of direction on our part. This is a perception we must avoid. U.S. goals in international aviation differ substantially from those of most other nations. These nations must know that we continue to be firm in our preference for the play of competitive forces in, rather than government control of, the international aviation marketplace.

- o It is widely known that the United States has been reviewing its international aviation policy for nearly a year and a half, but that differences among the various Executive agencies involved has prevented issuance of a new statement. Spokesmen from within and without the government have publicly called for new and relevant policy guidance. Failure to issue a Statement now would subject the Administration to criticism for being unable to resolve interdepartmental disagreement and to continuing charges of ineffective leadership in international aviation.
- o Two recent, and most important, events in international aviation have underscored the pressing need for clear and forward-looking U.S. policy. One is the renunciation by the United Kingdom of our primary bilateral agreement, which compels us to undertake a comprehensive reassessment of our present system. Release of a new statement prior to the start of negotiations on September 9 would clarify our objectives for the British and provide the State Department with the negotiating strength it needs.

The second event is the opinion of the CAB in the Trans-atlantic Proceeding. Along with other agencies, DOT has advised the President to return most of the decision to the Board. If he does so, the most useful direction he could provide the Board's review would be this Policy Statement.

Underlying these points is the simple fact that the 1970 Policy Statement is badly out of date and provides inadequate guidance on the most important issues confronting us today and in the foreseeable future. It has been overtaken by fundamentally changed circumstances that have given rise to problems that were either nonexistent or considered negligible in 1970: an irrational route system, severe excess capacity, a noncompensatory and discriminatory fare structure, chronic U.S. carrier unprofitability, an ambiguous relationship between scheduled and charter services,

questions as to the viability of the Bermuda principles, the difficulty of expanding gateway and other new services while maintaining economic existing services. To be credible, U.S. policy must not only reflect awareness of these problems but provide consistent and unambiguous direction for dealing with them. Our foreign partners in international aviation must know that our continued emphasis on free market policies is based not simply on attachment to traditional postures, but on current and well-reasoned convictions that these policies best serve the interests of U.S. consumers and carriers, and those of other nations as well.

Credibility also requires acceptance on our part of the differing views and policies of other nations. The United States cannot dominate the world aviation community, but it can endeavor to lead--with policies that reconcile the interests of the aviation consumer and the profit-oriented carrier, the interests of the privately-owned, competitive aviation companies we favor and the government-controlled and subsidized carriers found elsewhere. The present version of the Policy Statement contains such policies, the most important of which are highlighted in an executive summary which is also enclosed.



William T. Coleman, Jr.

Attachments

SUMMARY OF POLICY STATEMENT

Four fundamental concerns are addressed throughout the Statement:

- . The public interest in obtaining low cost, readily available air transportation - both scheduled and charter-type services.
- . The industry's need to achieve a financially viable international aviation system, and the need for private enterprise U.S. carriers to enjoy fair and equal competitive opportunity in foreign markets.
- . The need to reform regulatory policies that inhibit realization of these goals including the need for sufficient flexibility in the system to meet changing market conditions.
- . Recognition of the role that foreign carriers play in the international system.

The Statement is much more explicit than the 1970 Statement was, and comes to grips with resolving the major issues of the day insofar as they affect the consumer and the industry. The key points made are:

Routes

- . In exchanging air transport rights, the Bermuda principles have benefited U.S. consumers and flag carriers generally. In forthcoming negotiations we will seek to preserve the flexibility and reciprocity that underlie the Bermuda principles, recognizing that there may be opportunities for improvement that could be incorporated in a new bilateral agreement. We anticipate that a new agreement will represent for the future of aviation what the Bermuda Agreement has represented for the past 25 years.
- . The basic consideration in determining whether a U.S. carrier should be authorized to schedule service on a new or an existing route is the commercial viability of the route and its impact on the international route system after taking into account the likely impact of foreign carrier competition and liberalized charter rules.

- . The policy endorses a movement away from head-to-head competition between U.S. carriers in city-pair markets, and supports improved services in present coterminals and expansion into new cities, if it can be supported economically.
- . The U.S. seeks an improved competitive posture for U.S. carriers vis-a-vis foreign carriers and elimination of discriminatory practices.

Role of Scheduled and Charter Services

- . Government has the responsibility to assure that essential levels of scheduled service can be economically maintained with minimum restraint on charter services.
- . The policy endorses liberalized charter rules, such as the One-stop Travel Charter and the Advanced Booking Charter, together with part charter authority on scheduled flights to improve service availability and operating efficiency.
- . The U.S. advocates acceptance of charter groups which are organized pursuant to the rules of the originating country.
- . Supplemental carriers should be eligible to obtain scheduled certificates, while scheduled carriers should have unrestricted charter authority within the areas they provide scheduled services.
- . The U.S. will insist that U.S. scheduled and supplemental carriers be treated alike with regard to charter services.

Excess Capacity

- . The Statement recognizes the structural differences between international and domestic markets which affect the ability of carriers to adjust capacity to demand.
- . It makes explicit the U.S. view that capacity levels should be set individually by carriers, although because of the importance of economically viable operations, we would support temporary carrier agreements under certain carefully prescribed conditions.

- . The preservation of the underlying competitive concept in our air service agreements is vital because predetermined capacity for market share reasons introduces artificial restraints unrelated to carrier efficiency or traffic demand.
- . The U.S. will attach a high priority to reducing excess capacity provided by foreign carriers in violation of our air services agreements.

Fares and Rates

- . We favor more price/quality options for travelers and shippers set at the lowest levels which will permit an efficient carrier to earn a reasonable return on investment.
- . The Statement endorses a simplification of the tariff structure with several specific guidelines on an acceptable structure.
- . While continuing to accept IATA as the principal vehicle for intercarrier negotiation of scheduled tariffs, it supports reforms within IATA and greater flexibility for rate setting by individual carriers.
- . The CAB should identify the costs it will apply in determining whether to approve fare agreements or individual tariff filings.
- . Charter rates should be subject to the same cost-related criteria as fares for scheduled services.
- . Rather than having IATA involved in the establishment of commission levels, we recommend that each carrier establish its commission structure independently.

D R A F T

STATEMENT OF INTERNATIONAL
AIR TRANSPORTATION POLICY
OF THE UNITED STATES

July 26, 1976



1

STATEMENT OF INTERNATIONAL
AIR TRANSPORTATION POLICY
OF THE UNITED STATES

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction	1
Overview	1
Structure of International Air Service	1
Principal Objectives	3
II. Public Service Considerations	5
Goals	5
Policy	5
U.S. Flag International Route System	5
Extent of Route System	6
Emphasis on Major Trunk Routes	7
Relationship to Domestic System	8
Competition	9
Relative Roles of Scheduled & Charter Passenger Operations	10
Charter Services	11
Regulations	11
Landing Rights	12
Authority for Charter Services	12
Expansion of Supplemental Carriers	13
Cargo Services	13
Route Authority	14
Service Considerations	15
Split Charters	15



III.	Viability of the U.S. International Air Transportation System	16
	Goals	16
	Policy	16
	Capacity	16
	Excess Capacity	17
	Market Share	18
	Sixth Freedom Capacity	19
	Cooperative Agreements	19
	Fares and Rates	19
	Role of IATA	20
	Role of CAB	20
	Passenger Fares	21
	Charter Rates	22
	Cargo Rates	22
	Mail Rates	24
	Tariff Integrity	24
	Role, Compensation & Regulation of Middlemen	24
	Government Procurements	25
	The International Competitive Environment	26
IV.	Safety, Environmental and Other Considerations	28
	Goals	28
	Policy	28
	International Organizations	28
	Certification and Operation of Aircraft	29
	Safety	29
	Availability, Allocation, and Cost of Fuel	29
	Environmental Objectives and Their Impact	29
	Security Objectives and Their Impact	30



I. INTRODUCTION

Overview

The decade of the 1970's has been characterized by growing recognition of the extent to which the nations of the world are economically interdependent. International aviation is no exception. The airlines of many countries now provide safe, fast, and efficient international air service; Americans benefit from these services as they do from our own. Historically, the United States has had a leadership role in the development of international air transportation. Continued effective participation in international aviation is important to the national interest.

Consistent with the longstanding economic policy of the United States that privately owned and managed companies provide the most efficient and consumer responsive services, the private sector will continue to have the responsibility for operating the United States' international air transportation system consistent with the policies set forth below. We look forward to an era in which private American air carriers can compete effectively in the international economic environment without the need for Government subsidy and without being placed at an unfair competitive disadvantage. We will work to reform and modernize the international aviation structure in order to enable well-managed U.S. carriers to serve the public interest by providing economic air travel, to compete successfully with foreign air carriers, and to earn a reasonable rate of return on investment.

The international aviation policy of the United States should be consistent with and contribute toward U.S. objectives in the areas of national defense, foreign policy, and international commerce. We recognize that our international aviation policy objectives can best be achieved in cooperation with other governments, working through bilateral and multilateral channels.

The Structure of International Air Service

There are three major considerations in the development of international air service: The route patterns which define the markets to be served; capacity, meaning the number of flights and types of aircraft flying in these markets; and the fares charged for different kinds of services and consumers. All three are integrally related economic issues. As we attempt to introduce greater



rationality into the international aviation structure, we will take pragmatic steps to bring about more rational pricing policies that reflect actual costs and are responsive to consumer demand, to relate capacity to demand, and to select routes that closely reflect natural traffic patterns and are economically viable. As a result of these steps, U.S. carriers should be able to operate profitably, and the users of air transport services will be well-served.

The United States cannot impose its economic philosophy on the rest of the world, but as a significant participant in the international aviation community we can work through bilateral and multilateral forums to bring about constructive change for the benefit of the international air travelers, shippers, and carriers of all nations. We recognize that international transportation presents special challenges -- the most obvious being the need to deal with other sovereign nations. While the governments of other nations may share our objective of efficient transportation service, many differ sharply in their views as to how such transportation should be organized, financed, regulated, and promoted. Thus, the means by which we pursue our international policy goals often cannot be the same as those by which we conduct our domestic transportation system.

While this Policy Statement contains a large measure of regulatory reform, consistent with our domestic aviation policy, the significant differences between the approaches taken here and those in the proposed Aviation Act of 1975 reflect awareness of the substantial differences that exist between the international and domestic operating environments. Some of these differences are:

- . Private U.S. companies must compete with state enterprises in most markets.
- . Competition in international air transportation is limited by government policy in almost all countries. In some instances restraints are imposed against efficient competitive practices.
- . Some foreign states, seeking foreign exchange earnings from American tourists, underwrite their national carrier's losses in order to maintain large capacity to the United States.
- . Foreign carriers sometimes seek below-cost cargo rates as a means of promoting their nation's exports.



- . On many international routes, the ratio of daily flights to the number of competing carriers is much lower than domestically.
- . The dense domestic markets provide greater opportunity for carriers to adjust capacity to demand.
- . Many travelers plan their international flights far in advance and are willing to gather at gateway points, whereas the nature of domestic demand requires more frequent, short-notice service.
- . Long route segments, multiple time zone changes, and airport curfews inhibit carrier flexibility in arranging intercontinental schedules. Thus, flights are constrained to operate during certain "windows".
- . International aircraft (because of economic and safety considerations on long intercontinental segments) are larger, on average, compounding the problem of tailoring the supply of seats to meet the traffic demand.

Principal Objectives

In addition to promotion of an international economic environment and aviation structure conducive to healthy competition among air carriers, four principal objectives should guide U.S. international air transportation policy for the future. They are:

First, to provide for the international air transportation of people, mail, and goods, at as low a cost as is economically justified, wherever a substantial need exists.

Second, to support a private U.S. international air transportation industry that is economically viable and efficient, and that will generate sufficient earnings to attract private capital and provide job opportunities.

Third, to be consistent with, and contribute toward U.S. national objectives in the areas of defense and security, foreign policy, and international commerce.

Fourth, to encourage a safe and efficient system of airports and airways and to further the U.S. goals relating to the environment.



In pursuing these objectives, the United States is concerned with both the interests of the public in obtaining low-cost, readily available air transportation, and the interests of the industry in achieving a financially viable international aviation system. We recognize the primary importance of maintaining a scheduled U.S. flag system to meet the public need for regular and frequent air services on an economically sound basis. We also recognize the growing demand for low-cost services and the inherent efficiencies of full plane operations generally characterized by charter-type services; and the need to have governmental policies that will accommodate the competitive interrelationships between these two types of services.

This Policy Statement identifies ways in which the private enterprise U.S. international aviation industry and concerned U.S. Government agencies can move toward the stated objectives. However to avoid undue disruption, there should be an equitable phasing of the elimination or relaxation of the regulatory restrictions called for here.



II. PUBLIC SERVICE CONSIDERATIONS

The United States seeks to meet the needs of the consumer by providing for the safe and efficient transportation of people, mail, and goods. The international air transport system should have a favorable impact on the economic growth and foreign commerce of the United States and of our trading partners.

In pursuit of this objective, the United States seeks an international air transport system that provides the capability and flexibility to respond efficiently to changing market conditions and requirements, wherever a substantial need for air transportation exists.

GOALS

To this end, the United States will pursue the following goals:

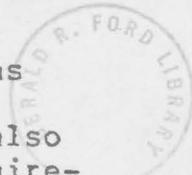
- . Regularly scheduled international air transportation of people, mail, and goods at as low a cost as is economically justified.
- . International air charter transportation of people and goods by charter specialists and scheduled carriers operating charter flights, at as low a cost as is economically justified, to the extent such operations do not prejudice essential levels of economically viable scheduled service.
- . Effective competition among carriers and among the classes of service offered, including a fair and equal competitive opportunity for the private enterprise air carriers of the United States.

POLICY

U.S. Flag International Route System

Air transportation is essential for mail, high priority cargo, government and business travel, and urgent personal travel. It is a desirable, low-cost means of international pleasure travel. Aviation is an essential part of the foreign commerce and international trade of the United States.

Air transport interests are best assured for Americans by the presence of a strong, viable, privately-owned U.S. flag international air fleet. Such a fleet is also an important reserve asset to meet U.S. military requirements and non-military emergency situations. An important factor in determining the size of the U.S. air fleet is the extent of U.S. international route operations.



International air transportation operates in a complex and changing regime of law and politics involving a few multilateral treaties, many bilateral arrangements, and a wide collection of national laws, regulations, and policies. Continuation of a U.S. flag air transportation system will require continuing negotiations between the United States and other nations to arrange equitable operating rights and privileges.

Extent of Route System. Because most business travelers, many other international travelers, and most air freight shippers rely on the regular availability of air service on relatively short notice that is characteristic of scheduled services, the U.S. Government should encourage a system of routes, as extensive as can be economically sustained, with regular, scheduled service by U.S. flag air carriers.

Unless a specific and clearly defined national interest dictates otherwise, the basic consideration in determining whether a U.S. carrier should be authorized to schedule service on a new or an existing route is the commercial viability of the route and its impact on the international route system. The U.S. Government should support fully actions by U.S. flag carriers to rationalize their route structures -- to drop uneconomic routes, to identify new markets that are economically viable, and to seek an overall route structure that is responsive to consumer demand and profitable to operate. In those rare instances where the national interest may require service by a U.S. carrier on a route that is not economically viable, then direct Federal subsidy would be preferable to a policy of indirect subsidy or cross-subsidization from profitable routes.

In promoting economically viable routes, the carriers and the U.S. Government should review regularly the network of international routes operated by U.S. carriers to assure that potentially profitable segments are added and that unprofitable segments are deleted before they become a serious financial drain on the operating carriers.

New international route authority is awarded to U.S. carriers in the context of the bilateral framework within which international air transportation operates. Thus decisions on entry raise issues that must be negotiated between governments. It does not serve the interest of the United States to be put in a position where foreign governments can seek a valuable right for their carriers as a consequence of our granting an uneconomic route for one of ours. Given the policy that international routes should be economically viable, it follows that



where the United States has particular considerations for the traffic rights which could be implemented in a given route award proceeding, an important decisional criterion in carrier selection is the ability to compete effectively with foreign flag carriers in the market at issue.

U.S. policy continues to be that negotiations should lead to an equitable exchange of route rights for both scheduled and charter services. Our primary and overriding objective is to achieve an international environment in which privately owned and operated U.S. air carriers have a fair and equal opportunity to compete for benefits at least as great as those available to foreign carriers.

The United States will continue to endorse the exchange of air transport rights and privileges through the system of bilateral air transport agreements. We have considered multilateral agreements and alternative approaches to the inherent problems of the bilaterals, but have not yet seen any evidence that another system would work more effectively. While particular problems, such as fare and rate regulation, may require multilateral discussion, we can work within the basic structure of bilateral agreements which provides that flexibility required to accommodate most circumstances.

Emphasis on Major Trunk Routes. Major traffic flow patterns and trunk routes between the United States and four principal areas of the world--Europe, Africa, Central/South America, and Asia/Oceania--are clearly discernible. U.S. carrier operations over these trunk routes form the backbone of the intercontinental air transport system. U.S. carrier participation on these routes is essential to the maintenance of a U.S. flag system. Aside from transborder and adjacent island operations, major trunk routes and markets should be identified by the U.S. air carriers and given priority negotiating attention by the U.S. Government. Reciprocal operations provided by foreign carriers with supporting secondary traffic should be expected on such routes. As the quality and quantity of foreign flag air service between foreign air traffic hubs improves, U.S. flag carriers should emphasize third and fourth-freedom scheduled services, even while recognizing that fifth-freedom traffic is important for their economic viability.

Viable airline routes, particularly long-haul trunk routes, draw upon a variety of traffic flows for support. Many cities in foreign countries are situated ideally to serve as gateways, or conduits, through which foreign carriers have attracted traffic flows and thus improved their



competitive position relative to U.S. carriers. In negotiating international route patterns for U.S. carriers, the U.S. Government should structure routes in a way that enables our carriers to draw upon natural traffic flows and, thereby, compete effectively with foreign carriers.

Relationship to Domestic System. The U.S. international route system is not completely separate from the domestic system, and should not be viewed as a separate system, even though recognition must be given to the differences between domestic and international air transportation. The growing volume of international traffic, both passenger and freight, has resulted in expansion of direct international scheduled services at many American cities. A number of cities are seeking new direct and nonstop services to points in Europe, Asia, and South America. The United States-Canada routes already resemble natural extensions of the domestic networks in both countries; the United States-Mexico routes increasingly reflect extensions of the domestic route structures.

Closer integration of international and domestic route systems is in the public interest, as the channeling of passengers and freight through gateway points inconveniences passengers and shippers and ignores, in some instances, natural traffic flows, market requirements, and the economics of modern aircraft. The following steps will lessen the artificial, regulatory distinctions between domestic and international traffic categories. They will result in greater convenience for the public and operating efficiency and competitive opportunity for the carriers.

- . Services to Canada, Mexico, and the Caribbean should be extensions of the domestic route system.
- . Authority to carry local traffic on domestic segments of international flights, both passenger and freighter, should be granted, as regulatory restrictions on the local traffic authority of U.S. international air carriers no longer serve the public interest. Such authority will increase the economic viability of domestic extensions of international flights, thereby supporting more direct services for the shipping and traveling public.
- . Blocked space agreements on domestic segments of international flights and equipment interchange agreements should be considered by the carriers and the Civil Aeronautics Board as means to increase the economic viability of behind-the-gateway segments, and hence to benefit the public with more direct service at more American cities.



- . All U.S. international carriers should be permitted to have domestic traffic systems to feed traffic to their international operations.

Consideration should also be given (1) to the competitive and public service benefits that might be achieved in major international markets by authorizing different U.S. carriers to serve a single foreign point or area from different cities or regions of the United States, and (2) to lessening the emphasis on the traditional intercontinental gateways, by granting direct service authority at more domestic points. The need to gather traffic at "gateways" in order to have the high load factors in widebodied equipment that permit low fares and fuel savings, however, must be taken into account.

Competition

A basic tenet of U.S. economic philosophy is that market-place competition results in improved service and lower total costs to the consumer. This is as true in aviation as it is in other areas of commercial activity. However, it does not follow that on international routes there must be multiple U.S. flag carriers. Foreign carriers are sophisticated competitors for U.S. carriers in most markets; the foreign competition needs to be taken into account as we determine whether more than one U.S. carrier should be designated for a particular route or market area. Too many U.S. carriers on a route may undercut the economic viability of U.S. flag service without benefiting the public.

In addition to competition between the carriers on a route, area competition is an important characteristic in international air transportation. This kind of competition among carriers should be recognized in designating U.S. carriers for international routes, because tourists who are flexible as to destination constitute a large share of intercontinental air passengers. Beach resorts in Acapulco, Costa del Sol, and Hawaii (and the carriers serving them) often compete, for example, for the same tourists. The Alps and the Rockies may compete as destinations for skiers. Even within Europe, Amsterdam, Brussels, Copenhagen, and Luxembourg compete with Frankfurt, London, Paris, and Rome as the start-points for European holidays. The air carriers serving these points, both charter and scheduled, compete in arranging and offering tourist opportunities, both group and individual, to the destinations they serve. Air carrier service, both pre-flight and in-flight, is an integral part of the total tourist package.



Furthermore, the service benefits, stimulated by U.S. carrier competition on an area basis for the destination-flexible tourist traffic, are of course available to the destination-inflexible traveler.

If the U.S. Government authorizes more air carriers than a particular international market will support, predatory pricing or market restrictions by other governments may result. The United States should authorize competition between U.S. flag airlines in scheduled international markets only if they can operate profitably, taking into consideration the presence of competition from both foreign scheduled airlines and domestic and foreign charter airlines.

Relative Roles of Scheduled and Charter Passenger Operations

There are generally two kinds of international air passengers: those who are time-sensitive and relatively insensitive to price, and those who are price-sensitive and relatively insensitive to time. In most cases, time-sensitive travelers have fixed engagements at foreign points; they rely primarily upon scheduled air service available on short notice. For the benefit of these passengers, the Government has the responsibility to assure that essential levels of regularly scheduled service can be economically maintained. Restraints on charter services should not go beyond what is needed for this purpose.

Travelers, who are primarily concerned with price, generally are willing and able to accept advance purchase requirements. Since many of these passengers have considerable flexibility in the day and time of their travel, they usually can adjust their schedules to fit efficient patterns of capacity. Therefore, they should enjoy the price benefits that result from the inherent efficiency of high load factor or planeload movements and the flexibility realized by the carriers in scheduling capacity for maximum utilization. Bringing the benefits of such efficiencies to the traveling public offers the best opportunity for increasing traffic in the price-elastic sectors of the market. Thus, there is a substantial public need for charter-type passenger operations in international markets.

The 1970 Statement of International Aviation Policy recognized the value of competitive, yet complementary, scheduled and charter passenger services. The basic policies articulated there will be continued. However, the regulatory structure at the Civil Aeronautics Board and within the International Air Transport Association, as it affects



scheduled and charter services, requires substantial alteration to improve the efficient utilization of equipment and energy resources, thereby assuring the lowest possible fares over the long term. Considerations of economic efficiency, service innovation, responsiveness to market factors, competitiveness, and profitability should be foremost as the relative roles of scheduled and charter passenger operations are assessed.

The industry should continue to have the primary responsibility for adapting its air transport product to public demand. Regulatory regimes imposed by governments should not stifle the flexibility of the international air carrier industry to respond to this demand, nor should it remove incentives to keep costs low. This is particularly true in the area of charter transportation where regulatory structures traditionally have been restrictive. In particular, the United States will use all appropriate means to prevent restrictions by foreign governments on the competitiveness of passenger charter operations by all U.S. carriers.

Charter Services

Regulations. Consistent with the foregoing principles, the administrative regulations constraining the availability and operation of charter services should be modified to make more low-cost services available to the traveling public. This government is presently developing new charter program types to replace some existing types that have not served the public well, either because they are discriminatory or overly-restricted. Our objective is to reduce a multiplicity of charter types to a smaller number, with simplified regulations to facilitate their use by the public and the travel industry. As discussed below, we request other governments to accept U.S.-origin charters of these basic types.

A year ago the Civil Aeronautics Board took an important step in broadening the availability of low cost travel opportunities by announcing the One-Stop Tour Charter (OTC) programs.

The Civil Aeronautics Board has proposed regulations for a charter type new to the United States--the Advance Booking Charter (ABC). Final ABC regulations should be promulgated at the earliest opportunity, with conditions that will assure their viability in the market place.

Charter regulations that impose requirements not related to cost or quality of service, such as prior-affinity requirements or three-stop requirements should be eliminated as soon as viable alternatives are in place. The overly-restrictive Travel Group Charters should be eliminated.



Although empty seats are an inevitable product of any on-demand, scheduled transportation system, they represent an inefficient and wasteful use of resources, if some of the seats might be filled without turning away on-demand traffic. The scheduled carriers should have the flexibility of carrying advance-purchase charter groups on either their regularly scheduled flights or on flights dedicated to charter movements. However, it is important that neither the financial soundness of the scheduled carriers, nor the operations of the supplemental carriers, be unduly harmed by this new authority.

In the long-term it would be desirable to achieve as much commonality among nations as possible on the regulatory principles governing charter traffic. However, because the specifics of charter regulations must be adapted to the particular economic and marketing circumstances of the country in which the traffic is organized, it cannot be expected that complete international commonality can be achieved. Accordingly, the United States will continue to advocate the "country of origin" concept, enabling each country to adopt those requirements that meet its unique needs.

Landing Rights. The United States will continue to pursue landing rights for charter services that are as free from restrictions as possible, and will seek the negotiation of agreements wherever appropriate. At issue in such negotiations will be the continuation of charter rights held by foreign carriers, and the nature of such rights. While charter service landing rights should be negotiated on their own merit, U.S. policy should provide sufficient flexibility to take into account the present and future realities of the marketplace, including the relationship between scheduled and charter operations. The United States will continue to insist that U.S. scheduled and supplemental carriers be treated alike with regard to charter services.

Authority for Charter Services. While they may have had some regulatory value in the past, distinctions between on-route and off-route charters for scheduled carriers and geographic restrictions on the charter authority of supplemental carriers reduce competitive flexibility and the availability of charter services.

In place of the present on-route/off-route distinctions for international charters by scheduled carriers, U.S. international carriers should have unrestricted charter authority within the regions where they provide scheduled



services. The supplemental carriers already have authority on a regional basis. Both international scheduled and supplemental carriers should have liberal opportunity to operate charter flights outside their authorized regions.

Expansion of Supplemental Carriers

That a carrier started as a supplemental should not bar it, as a matter either of law or of regulation, from acquiring a scheduled certificate, so long as it meets the same requirements that a scheduled carrier must meet.

Since 1963, mergers, bankruptcies, and other adjustments have caused a substantial reduction in the number of supplemental air carriers. Of the thirteen U.S. carriers originally granted supplemental certificates, only six are currently active operators of charter authority. In the past decade the supplemental carriers have proven to be an effective, valuable competitive spur. They have fostered market development and introduction of new price/quality options that have benefited the traveling public and the tourist industry here and abroad. While the number of supplemental carriers is not an index of the quality of the competitive stimulus provided by this important segment of the air transport industry, there may now be opportunities for additional supplemental carriers to initiate economically viable operations. The ranks of the supplementals should be opened to new entrants where this is the case.

Cargo Services

International air cargo operations respond to the need of commerce and the shipping public for fast, reliable transport of relatively high-value and/or short-life goods. The 1970 Policy Statement recognized the impact of wide-bodied aircraft on passenger services. Now U.S. policy must be cognizant of their impact on freight service and development. Freight and passenger service characteristics differ in important areas; where they do, freight issues merit separate consideration.

Because of the inherent cost advantage and energy efficiency of surface transportation, air freight is and always will be a premium transportation service, while for international passenger service air travel is the low cost option. A great many commodities cannot be attracted to air, except in a relatively few cases of compelling time urgency. While surface transport provides for the regular flow of most goods, air freight is and must be available for urgent shipments to respond to peak requirements, to compensate for underestimates of product demand, and to remedy untimely shipping delays. Air freight needs to be viewed as a part of the total freight transportation system, which inevitably involves truck transport, and often



rail or water movement as well. Thus, we view air transport as an important component of an expedited intermodal freight delivery system. The air carriers should seek to improve the quality of the total transport by effective, direct linking of the ground and air transport segments. The key objectives are to lessen total transit time, improve shipment security, and lower transport costs.

Much of the growth of international air cargo service is attributable to the competitive stimulus of all-cargo scheduled air carriers, whose existence depends upon innovation, efficiency, and dedication to air freight development. Combination carriers have responded with all-cargo operations of their own and increased efforts to exploit the large cargo holds of wide-bodied aircraft.

Route Authority. All-cargo and intermodal services provide a distinct benefit to shippers; their expansion should be encouraged where economically justified. In granting authority for all-cargo operations, recognition should be given to the need for routing and scheduling flexibility, which may differ considerably from passenger routing and scheduling patterns.

At present, if an all-cargo carrier wishes to obtain route authority, it must make a public convenience and necessity (PC&N) argument based on freight operations alone. A passenger carrier, however, can make its PC&N argument based on passenger traffic only or on a combination of passenger and freight traffic, initiate passenger (and combination freight) service, and then, at its option, initiate freighter service as the air freight market develops without any regulatory PC&N requirement or hearing before the Civil Aeronautics Board. In such a regulatory cycle the cargo specialists, who have been the spur of cargo development, have little opportunity to compete for new markets and to speed freight market development. Thus to stimulate competition for entry into new air freight markets, the Board should grant separate certificates for combination passenger/cargo authority and for freighter authority, after making separate determinations of PC&N.

To stimulate further competition in the development and service of air freight markets, the Board should consider granting the U.S. all-cargo carriers authority for international scheduled freighter services on a regional basis. Such authority would enable the all-cargo carriers to institute new scheduled freighter services in their service region at their option without the need for and the delays

inherent in successive regulatory "public convenience and necessity" investigations. The authority for the combination carriers to institute freighter services on any of their routes which now serve passengers predominantly would remain unchanged.

Rights for all-cargo routes should be incorporated into existing bilateral agreements, rather than being made the subject of separate agreements.

Service Considerations. Because shippers place a high value on the availability and timeliness of delivery, the primary service considerations for the international freight shipper are departure time and arrival time. Freight generally seeks the on-demand availability characteristic of scheduled service. Indeed, small shippers do not even have access to charter services. Consequently, it is important for air freight traffic development to provide substantial service improvements for those shippers, large and small, who desire or require the premium transportation service offered by reliable, frequent, extensive schedules of freighter aircraft. The greater the volume moving on scheduled services the more extensive can be the scheduled route network and, by increasing the load factor, the lower the cost to the shipper. The availability of charter services is especially important for off-route freight shipments and for freight requiring peculiar handling or security arrangements.

Split Charters. Passenger charter operators are permitted to carry separate charter groups on the same flight, but currently are prohibited from carrying passenger and cargo charter traffic on the same flight; this may result in inefficient aircraft utilization. The economic efficiency of charter operations would be enhanced by removing this prohibition, and permitting separate cargo charters to be carried on passenger charter flights.

III. VIABILITY OF THE U.S. INTERNATIONAL AIR TRANSPORTATION SYSTEM

The United States supports a private U.S. international air transportation industry that is viable, efficient, and capable of generating sufficient earnings to attract private capital and provide job opportunities.

GOALS

In pursuit of this objective, the United States will support vigorously:

- . A strong, viable system of international routes.
- . A modernized regulatory structure within which carriers can respond to changing market conditions.
- . Fare structures that respond to consumer demand, offer price and quality of service alternatives, enable long-term market growth, and permit profitable operations by efficient carriers.
- . Innovation in developing services that expand markets and attract passengers and cargo shipments.
- . Efficient use of fuel and other resources.
- . Prevention of predatory or monopolistic practices.

POLICY

Capacity

Because international routes are determined by government agreements and tariff structures are determined within the International Air Transport Association (IATA) forum, capacity has been the principal competitive medium. However, in recent years excess capacity, caused by commitment to too many aircraft and by declining traffic, has been a severe economic burden to the industry. Many carriers have chosen to compete through illegal fare discounting or excessive payments to middlemen rather than risk the loss of market share by reducing capacity. Although perceptions may differ, it appears that the industry managers attach significant value to market share. Of particular relevance to government policy is the fact that many foreign governments attach great importance to market share and are thus willing to underwrite the costs of excess capacity in order to preserve or improve the market share of their national carriers or to generate additional foreign exchange earnings.

In adjusting capacity to changes in traffic, carriers must contend with the relatively low frequency of long-haul international flights, the number of carriers in any given market, and the size of efficient modern long-range aircraft, all of which impede scheduling flexibility and aggravate attempts to rationalize capacity. Carriers on only four or five intercontinental routes operate more than once-daily service. In many international markets, direct services are operated only two or three times a week. Bilateral exchanges have led to the authorization of at least two air carriers on most international routes even though the optimum number of daily flights is much lower on many international routes than on domestic routes. Long route segments, multiple time zone changes, and airport curfews inhibit carrier flexibility in arranging intercontinental schedules.

Three principal international capacity issues that require attention are excess capacity, market share, and sixth freedom capacity.

Excess Capacity. Even under circumstances of extreme financial distress, the preferred approach to excess capacity is unilateral reductions by the carriers. However, in the recent past, in a marked departure from fundamental U.S. policy, limited and temporary carrier agreements on capacity have been permitted. This exception was made because of the serious level of excess capacity (i.e., capacity in excess of traffic demand at a reasonable load factor) in the international aviation system and the resulting financial distress of the U.S. carriers. This excess capacity resulted from the purchase of equipment in anticipation of continued traffic growth which failed to occur during the fuel crisis and worldwide recession. As the economic recovery continues and demand catches up with capacity, such agreements may no longer be necessary. The recovery of the world economy should absorb the present excess over the next several years, and market-based decisions will again be adequate to establish rational levels. Nevertheless, because of the importance of economically viable operations, we should support CAB approval of temporary carrier agreements if the following standards apply:

- Excess capacity is having a serious, adverse impact on the viability of operations on the route system in question.
- The public interest is served by assuring adequate scheduled service on the route by a U.S. carrier.
- Unilateral reductions, or other more competitive alternatives, are shown by clear and convincing evidence of past practice to be infeasible, and, if undertaken in the current context, would put the carrier making them at a significant competitive disadvantage.

Carrier agreements should be temporary and subject to approval, monitoring, and evaluation by the Civil Aeronautics Board. Any renewal of such agreements should be subject to the foregoing standards.

Capacity agreements arrived at between governments generally do not have the benefit of exposure to public reaction and response as carrier agreements do. Government intervention should be used only where there is a clear need for capacity reduction, as defined above, and attempts at unilateral cutbacks and carrier agreements have been ineffective.

Market Share. The second capacity issue is market share. The United States has traditionally espoused the Bermuda system, under which each carrier determines for itself the level of capacity it believes is warranted, subject only to ex post facto review by governments. The United States is faced with increasing criticism of the Bermuda system by foreign governments whose perceptions of competitive principles differ from our own. The preservation of the underlying competitive concept behind the Bermuda system is vital, because systems under which carriers or governments predetermine capacity for market share reasons can introduce artificial restraints unrelated to carrier efficiency or traffic demand. When capacity disputes arise, the United States must weigh carefully each situation to determine overall U.S. interests. Special procedures to deal with capacity disputes may be appropriate in some instances. In some markets, provisions for greater flexibility in pricing competition may warrant less flexibility in capacity competition.

Sixth Freedom Capacity. The third capacity issue arises from situations where carriers rely excessively on traffic having its origin or destination behind the homeland of the carrier. Such reliance is contrary to the provisions

of our bilateral air transport agreements, and these operations have severely distorted traffic distribution in certain markets. The United States will seek bilateral review of foreign carrier operations considered to be in violation of such provisions and will attach high priority to resolution of this matter.

Cooperative Agreements

The United States will continue to have a flexible policy with respect to operating arrangements, such as interline agreements, equipment interchanges, and blocked space agreements. Arrangements of these kinds can help to promote efficiency and improve service. They may also allow economically viable operations in markets that might otherwise go unserved, and may meet other international aviation policy objectives as well. Such arrangements may be permitted and even encouraged in cases where their service benefits clearly are more substantial than their anticompetitive impact. On the other hand, economic agreements such as revenue or traffic pools generally are contrary to the public interest and will be discouraged. Pooling proposals should be disapproved unless there is clear and convincing evidence that the pool would achieve significant U.S. policy objectives and more competitive alternatives are not available. Strict reporting and fare/rate conditions must be integral to such agreements to assure that they are not contrary to the public interest.

Fares and Rates

The preferred means of assuring economic efficiency is through the operation of free-market forces. However, fundamental restraints limit the operation of free competition in international air services. In support of an economically sound and efficient air carrier industry, therefore, the United States must continue a system of government oversight and regulation of international passenger fares and cargo rates.

International fares and rates should to the maximum degree feasible, be cost-related, responsive to consumer demand, and established on the basis of competitive market forces. The tariff structure, based on these principles, should substantially benefit passengers, shippers, and carriers alike. Within such a structure we would expect to achieve fares and rates that are:

- . Set at the lowest levels that permit an efficient carrier to earn a reasonable return.
- . Greatly simplified compared with the present proliferation of discount arrangements, yet sufficiently flexible to provide genuine price/service options.

A more simplified fare structure, including simplified construction rules, stopover provisions, and circuitry allowances, would facilitate adherence to and enforcement of the agreed fares.

The compulsion of some carriers to pursue traffic at any cost on a total market share basis, whether to maintain market share or to support unneeded capacity, has resulted in special, low nonproductive fares. It also led to unlawful discounting. Such practices obviously have aggravated the carriers' financial difficulties in the past. In the last analysis, however, carriers cannot expect to achieve profitable operations unless capacity is related to demand.

Role of IATA. Most other governments are unwilling to accept a system in which fares are established by carriers unilaterally. The alternative of establishing fares by intergovernmental agreement, whether bilaterally or multilaterally, would be complex and unwieldy. Moreover, it is not a desirable alternative because governments should not be involved in fixing international fares as a general practice. Therefore, the United States will continue to accept the International Air Transport Association as the principal vehicle for intercarrier negotiation of scheduled tariffs. At the same time IATA and its member carriers should revise their tariff-setting structure, so that it can be more responsive to market forces and innovative fare programs, including greater flexibility for rate setting by individual carriers. IATA has taken steps in two important directions:

- . Reform of the unanimity rule
- . Reduction in the size of regional traffic conferences.

These steps should be implemented promptly, and monitored carefully to assure that the anticipated benefits are realized. Further revisions in the IATA structure may be desirable or required.

Role of CAB. The Civil Aeronautics Board (CAB), in reviewing both agreements and individual tariffs, should provide a meaningful opportunity for public hearings or other public review. Board action on IATA agreements should be taken in a timely fashion, so that the member carriers of IATA can give reasonable public notice of new tariff schedules prior to their implementation.

To assist in achieving a cost-based tariff structure and maximum pricing efficiency, the Board should identify the costs that it will apply in determining whether to approve rate agreements or individual tariff filings. Generally, these should be the costs of the most efficient carrier. The Board should publish its cost data well in advance of IATA traffic conferences or the likely dates of significant new individual tariff filings.

Passenger Fares. The present international fare structure contains fares that are largely unrelated to the costs of providing the service, and aggregate revenues are inadequate as a result. Because of its unwarranted complexity, the present fare structure also is unfair to the traveling public, as it results in frequent misquotation and misconstruction of fares.

The United States also has serious reservations as to the practice of charging normal-fare passengers fares that are unreasonably in excess of fully allocated costs, in order to subsidize the carriage of other passengers at fares unreasonably below cost. Since today only about twenty percent of North Atlantic travel is at undiscounted fares, the point of departure for rationalization of the fare structure lies with the promotional fares. Across-the-board percentage fare increases will not solve this fundamental problem. The United States supports a narrowing of the gap between normal economy fares and promotional fares and the rationalization of the present charter-competitive fares on a cost-related basis. These fares, as well as any new promotional fares, must be justified on their respective economic merits. In evaluating any new proposals for promotional fares, the CAB should take into account the relationship to scheduled service costs. Further, the entire question of the validity of the present highly differentiated North Atlantic passenger fare structure should be explored in depth in the North Atlantic Passenger Fare Investigation, presently before the CAB.

A more rational relationship between normal and promotional fares is not inconsistent with the use of price-flexibility as a means of achieving a satisfactory balance between traffic and capacity levels. As noted earlier, the nature of the long-haul international markets confounds



the carriers' ability to adjust capacity to meet daily and seasonal fluctuations in demand. Pricing policy can be an important tool for lessening these fluctuations by encouraging traffic to adjust to efficient schedules of capacity. Increased efficiency in capacity utilization means higher average load factors, which can then permit lower fares, stimulating still more traffic. As much of the international air travel market is composed of price-sensitive, destination-flexible vacation travelers, the traffic stimulus of lower fares is large, as has been demonstrated in the transatlantic market in the past decade with the major expansion of charter services. Such traffic expansion, of course, results in greater revenues for the carriers and in greater tourism receipts for the destination countries. The carriers, however, need to exercise some restraint in their pricing practices. In seeking charter-competitive fares, the carriers have paid insufficient attention to demand peaking, incurred major losses, and attempted to offset these losses by increasing the regular fares. Peak/off-peak pricing and charter groups on scheduled service should, to the contrary, enable carriers to lower the regular fares by attracting additional traffic to utilize otherwise unused capacity. While some carriers will argue that the result is to dilute yield -- i.e., revenue per revenue-passenger-mile -- the actual result is to increase total flight revenue, meaning that the regular fare passenger has a lower expense burden per aircraft mile. Governments, however, must prevent predatory price competition.

Charter Rates. Charter rates, for both passenger and freight, should be subject to the same criteria and policies as fares for scheduled air services, particularly their relationship to costs. The CAB proposed several years ago a system of minimum passenger charter rates related to costs. While the courts held that this proposal exceeded the Board's powers, the Board should publish its cost data against which particular charter rates are to be judged, as is recommended above for scheduled service fares. There is no fundamental reason why charter rates should not be subject to the same scrutiny as scheduled service fares, particularly when much of the promotional fare structure is designed to be charter competitive.

Cargo Rates. Cargo rates should be responsive to shipper demand and related to actual costs. The CAB should prevent the use of scheduled cargo rates below the costs of the most efficient all-cargo carrier, whether the rates are offered by all-cargo or combination carriers.

With the further introduction of wide-bodied all-cargo aircraft, appropriate weight breaks reflecting large volume cost savings should be permitted.

The present structure of specific commodity rates (SCRs) is, as the Civil Aeronautics Board has stated, unfair both to the shipper (and hence, the consumer) and to the carrier. Rate differences among commodities do not reflect inherent carrier cost differences, and so result in cross-subsidization -- one commodity paying, in part, for the transport of another. Unduly low SCRs invite misclassification of commodities, thereby sapping carrier revenues or posing a burdensome tariff enforcement requirement. Continued reliance on moving two-thirds to three-quarters of the tonnage at promotional specific commodity rates based on marginal costs is incompatible with developing a sound economic structure for air freight service.

To encourage the long-term growth of the air freight industry, general commodity rates should be established at reasonable levels; the specific commodity rates as they exist today should be abandoned. The introduction or maintenance of a limited number of specific commodity rates, where considered essential to attract new traffic would be desirable. These rates should not remain in the structure indefinitely, but should be increased over a period of time to the general commodity levels. Special commodity rates may also continue to be appropriate for commodities that have special handling or shipping requirements.

Mail Rates. The Civil Aeronautics Board should act expeditiously on proposed changes in rates for the international air transportation of mail. The Board should provide for temporary rates, which cover the costs of U.S. carriers, until final Board resolution of the issue. The Board, as provided by the International Air Transportation Fair Competitive Practices Act of 1974, should give proper consideration to the cost-related elements of the Universal Postal Union (UPU) rates. In addition, the Congress has directed that the Board consider the competitive disadvantage of U.S. flag carriers resulting from their foreign competitors' receiving the UPU rates for carriage of foreign mail.

Tariff Integrity

The existence of a tariff structure is of little value if there is widespread deviation from the published tariffs. In the past few years, the practice of undercutting published tariffs has become common in international operations, and is now of considerable economic significance. We are concerned about this erosion of tariff integrity and the harmful discrimination that results from it. The general public suffers from higher fares, and the carriers from reduced net revenues. A basic consideration in this area is the need to relate fares more closely with costs and to eliminate the excess capacity which encourages undercutting.

Role, Compensation, and Regulation of Middlemen

Transportation middlemen-- travel agents, tour operators, air freight forwarders, cargo agents and others -- perform a valuable service for the traveling and shipping public. The majority of international traffic is handled through the thousands of businesses that compete in arranging not only air transportation services, but the ancillary services that facilitate the efficient flow of passengers and goods.

Since middlemen are an integral part of the international air transport system, it is essential that reasonable standards for consumer protection be observed. Federal licensing or certification of middlemen should be considered only to the extent necessary to ensure minimum consumer protection standards. Those middlemen that operate as indirect air carriers (air freight forwarders, inclusive tour charter operators, and military charter operators) should continue to be regulated by the Civil Aeronautics Board only to the extent necessary to protect the consumer. Self-regulation is more appropriate for the remainder of the industry which should establish standards and conditions of operation, subject to Government review.

The compensation of travel agents by commissions has become a subject of considerable controversy. Rather than having IATA involved in the establishment of commission levels, we recommend that each carrier establish its commission structure independently. This will promote additional competition and allow each carrier to tailor its approach to commission structure independently. It would also permit each carrier to relate the level of commissions to the value of the middlemen's services.

To help ensure consumer awareness and to permit the CAB to take commission costs into account in determining total carrier costs as a basis for fare decisions, carrier commission structures should be filed for public inspection at the Civil Aeronautics Board. However, the Board should not regulate the level of commission rates. As long as travel agent commissions are a part of the air ticket price, the public should be informed as to the arrangement between the carrier and the middlemen. This will guard against undue preference or advantage being given to any particular agency or individual.

Government Procurements

U.S. Government procurement of foreign and overseas air transportation services from U.S. flag carriers helps to sustain the U.S. international route system, and thereby to assure the continuing availability of U.S. flag service for the transport of U.S. mail, U.S. Government personnel, and U.S. citizens.

We should make better use of civil capacity to meet Department of Defense and other Government air transportation needs. Specifically, we should minimize the economic impact on commercial air carriers of large scale operations by the Military Airlift Command (MAC) fleet by utilizing civil capacity rather than MAC capacity to the extent practicable in peacetime. However, this policy recognizes the need to maintain an effective MAC capability and to use efficiently the MAC airlift capacity resulting as a by-product of training.

U.S. carriers are encouraged to continue participation in the Civil Reserve Air Fleet (CRAF) program. The airlift capability maintained by normal civil air carrier operations and, therefore, available for national emergency use is a major contribution to the preparedness of the United States and makes military duplication of that capacity unnecessary. A viable U.S. flag industry is essential to make the program effective; any diminution of U.S. flag capability would reduce the effectiveness of the CRAF program.

As set forth in the International Air Transportation Fair Competitive Practices Act of 1974, U.S. Government-financed air transportation must be performed on U.S. flag carriers to the extent such services are available. The Government should pay the same tariff rates as the general public for all its procurements of air transport service except where a separate rate is established on the basis of costs incurred by the airlines in providing specific services to the U.S. Government.

In the event that U.S. flag scheduled flights are not available for the timely transport of U.S. mail, the Postal Service should attempt to transport the mail on charter flights of U.S. carriers, route or supplemental. To the extent that the CAB determined international mail rates are below UPU rates, this practice would offer cost savings to the Postal Service.

The International Competitive Environment

The United States opposes unfair, discriminatory, or restrictive practices by foreign countries that limit the competitive capability of U.S. flag carriers. Section 2 of the International Air Transportation Fair Competitive Practices Act of 1974 specifically directs Departments and Agencies of this Government to seek elimination of these practices; this policy will be pursued vigorously.

The United States also opposes discriminatory or inequitable, charges imposed on U.S. flag carriers, for the use of airway and airport properties, and we will utilize to the maximum extent feasible Section 3 of the International Air Transportation Fair Competitive Practices Act of 1974, or Section 301 of the Trade Act of 1974, to correct inequities. This Government clearly recognizes the need to recover from users the costs of the services provided. We believe, however, that in imposing such charges, care should be taken to ensure that they are not discriminatory and that the level of the charge is related to cost.

On both of these issues, U.S. policy will be to seek change through negotiation. As a last resort, however, the United States may take unilateral action to correct the problem.

IV. SAFETY, ENVIRONMENTAL, AND OTHER CONSIDERATIONS

It is the objective of the United States to achieve an advanced, safe, and efficient system of airports and airways to support international air transport.

GOALS

In support of the foregoing objective, the United States will pursue the following goals:

- . Full and fair allocation of the costs of operating airports and airway systems among users.
- . Prevention of hijacking, air piracy, and terrorism.
- . Maintenance and development of high quality aircraft, airports, and navigational systems and development and implementation of technological improvements that enhance energy and economic efficiency in air transportation.
- . Enforcement of regulations to protect the U.S. environment.

POLICY

International Organizations

The United States will continue to support the International Civil Aviation Organization (ICAO) and its efforts to adopt and implement international standards. A fundamental policy principle is to promote, through ICAO, common requirements and practices regarding technical, facilitation, and legal matters affecting international civil aviation.

In this respect, the United States believes that ICAO should continue to direct its activities towards those issues where solutions customarily have been sought through multilateral governmental action.

A basic strength of ICAO has been its ability to focus on the technical aspects of international aviation and the willingness of its members to minimize political influences on the work of the organization. The United States will resist the injection of non-aviation issues into ICAO proceedings; we urge other governments to adopt a similar position.

Certification and Operation of Aircraft

We will continue the present U.S. policies concerning safety, security, the environment, and fuel availability.

Safety. With respect to safety (including the air movement of hazardous materials), the United States supports the development of uniform international regulations governing flight safety, airspace systems, operations, and airworthiness. To advance this objective, the United States has embarked upon comprehensive biennial reviews of its safety regulations to ensure that its aircraft are produced and operated safely as air navigation technology advances. These reviews are being conducted in cooperation with other nations with the intention of achieving more general agreement on common standards.

Availability, Allocation, and Cost of Fuel. Nations should treat their own carriers and foreign carriers the same in any system of fuel allocation and pricing for international air transport. The United States intends to adhere to this principle and expects other countries to do likewise.

Environmental Objectives and Their Impact. The United States encourages agreement on international environmental issues through the ICAO forum. This should promote equal treatment for foreign and domestic carriers through international regulations and preclude any unwarranted economic advantages or disadvantages for competing carriers which would otherwise have to satisfy diverse national requirements.

While the environmental needs and resources of the United States may differ from those of other nations, every effort will be made to obtain international acceptance of U.S. requirements. The actions taken by the U.S. Government must be responsive to the legislative mandates that seek to protect the public health and welfare of American citizens. If it proves impossible to obtain international agreement on environmental problems such as noise and pollution, the United States may then find it necessary to develop U.S. national standards more stringent than those which can be developed through ICAO, in order to protect human health and environmental quality.

[Add here a para from the aircraft noise/retrofit policy as it affects international aircraft]

Security Objectives and Their Impact. Travel on all air carriers must be safe and secure from unlawful acts. The Anti-Hijacking Act of 1974 and the Air Transportation Security Act of 1974 strengthened the U.S. domestic and international civil aviation security program, which is based upon the sharing of responsibilities among air carriers, airports, and the Federal Government. The basic objective of these Acts is to prevent the carriage of weapons, explosives, and incendiary devices on board U.S. carrier aircraft, and unauthorized access to aircraft on the ground. Security responsibilities are clearly delineated in the Acts.

Airport operators and air carriers are required to develop and implement acceptable security programs. The Federal Aviation Administration provides advisory technical assistance to operators of U.S. air carriers and airports, enforces Federal security regulations, and evaluates the program to assure effectiveness.

There has been substantial improvement in security measures throughout the world since 1970 resulting in increased protection of civil aviation and its users from criminal acts that threaten their safety. Nevertheless, the United States supports and seeks adoption by ICAO of even stronger security standards and recommended practices. We shall also continue bilateral programs to provide technical assistance to, and exchange information with, foreign nations to improve security at foreign airports having a direct impact on safety of U.S. citizens abroad.

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Executive Committee



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

AUG 2 1976

MEMORANDUM FOR: Economic Policy Board
Executive Committee

FROM: Charles M. Walker *CW*
Assistant Secretary for Tax Policy

SUBJECT: Treasury regulations concerning bonds
issued "on behalf of" a State or
political subdivision

Last fall there was discussion of the need to develop new tax regulations dealing with the situation where bonds are issued by a nonprofit corporation or other entity "on behalf of" a State or political subdivision. After some general discussion as to whether the bond interest should be tax exempt, the question focused specifically on proposals for organizing municipal power pools on a regional basis.

The Treasury was asked to take a restrictive position in proposed regulations to prevent the proliferation of tax-exempt bonds issued by nonprofit corporations or other entities having no specific authorization from, and very little connection with, the political subdivision. There also was concern that the growth of public power pools financed with tax-exempt bonds would place private electric utilities at a competitive disadvantage and lead to the expansion of municipal systems at the expense of investor-owned utilities. Based on these considerations, it was decided that the regulations would provide that an issuer cannot act "on behalf of" more than one municipality.

I. The Proposed Regulations and State and Local Response.

In February, Treasury proposed regulations establishing detailed requirements for qualification as an "on behalf of" issuer. The regulations required specific State authorization for the issuer and its bonds. We also provided that the issuer could not act on behalf of more than one State or political subdivision. As applied to the regional power

pools, this additional requirement meant that municipalities in a given region could not band together and use a non-profit corporation for tax-exempt financing of a large electric generating plant serving the entire region.

On April 26, a public hearing was held on the proposed regulations. The Governor of one State, a Congressman from another, and numerous State and local representatives and bond counsel laid down a heavy barrage against the proposed regulations. The basic complaint was that our proposals disrupted long-standing State and local financing arrangements, wholly apart from the regional power pool questions, and amounted to an unwarranted intrusion on State and local affairs.

As frequently occurs after regulations are proposed, we learned that there were many situations in various States which would be adversely impacted by the proposal. In California, for example, in order to avoid stringent referendum requirements, public projects such as court houses, municipal buildings and schools have frequently been financed through "on behalf of" issuers. In Oklahoma, so-called public trusts have been used for similar purposes.

We learned also that regional water quality systems and other environmental agencies have been organized with a view to issuing bonds for projects on behalf of more than one political subdivision. The larger the area subject to the system, the better the overall control can be.

II. Recommended Revision of the Regulations.

The development of such regional environmental arrangements strongly suggests that, if an issuer is adequately authorized to act for more than one governmental unit, we should permit this under our tax regulations. Furthermore, the requirement in the proposed regulations that there be specific legislative authorization seems to provide an adequate safeguard for regional power pools or similar arrangements. We understand that in several cases State legislation specifically authorizing the issuer in question has been obtained or is now being sought in connection with the power pools. On the other hand, a plan calling for participation by municipalities in Iowa, South Dakota and Minnesota in a regional pool was submitted to each of the

three State legislatures but approved only in Minnesota. The requirement of legislative authorization thus has forced proponents of regional arrangements to bring their proposals before the legislatures. If the appropriate legislatures give specific consideration to the desirability of such regional projects, this should be satisfactory from a tax standpoint regardless of the State legislative decision ultimately made. This requirement also prevents unauthorized expansion of public power at the expense of private power.

In view of the foregoing, we recommend EPB concurrence in our decision to delete the proposed rule that an "on behalf of" issuer can issue bonds for only one political subdivision.

III. Other Changes in the Proposed Regulations.

The proposed regulations have now been revised to provide considerably more flexibility for financing of authorized municipal projects. Special rules have been added to permit "on behalf of" issuers to finance buildings which will be leased for public purposes. We also provide greater flexibility in the types of boards which authorities issuing the bonds may have. The regulations now permit the issuance of tax-exempt bonds by authorities organized under a home-rule ordinance, thus reflecting the way in which issuers are established in many instances. Finally, there is a provision whereby an entity which complies substantially with the requirements of the regulations, but does not satisfy all of them, may nevertheless qualify as an "on behalf of" issuer if an advance ruling is obtained from IRS. This should insure flexibility in the administration of the regulations.

IV. ACIR Consultation.

The Intergovernmental Assistance Act of 1968 provides that representatives of State and local groups shall have the right to consult with Federal departments and agencies before the promulgation of regulations dealing with such matters as State and local financing. Pursuant to this Act and OMB Circular A-85, we have been conferring with representatives of the Advisory Commission on Intergovernmental Relations for the purpose of obtaining their comments on the revised regulations. Treasury plans to make whatever further changes seem appropriate to us in light of the ACIR input and then issue the revised regulations.

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your
information.



THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

August 13, 1976

MEMORANDUM FOR EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

SUBJECT: Bank Regulatory Reform Task Force

Attached is a memorandum describing a plan to carry out the instructions of the Board with respect to further action on this matter. It suggests that a major flaw in the earlier effort was the absence of continuous high-level participation. Accordingly, we recommended that a policy level Treasury/OMB/CEA group be established to participate on an ongoing basis. Bob Gerard will be our representative, and will be in touch with the other agencies.

George H. Dixon 

August 13, 1976

MEMORANDUM TO: DEPUTY SECRETARY DIXON

SUBJECT: Bank Regulatory Task Force - EPB Request for Follow-Up

Specifically, the EPB has requested that Task Force "expand its consideration of the impact of the present structure of divided regulatory responsibility" on:

- (1) promotion of innovation; and
- (2) fostering of duplication and overlap.

In addition, it has been suggested that the Task Force take a closer look at the interrelationship of bank regulatory structure and monetary policy and at the feasibility of making the Federal Reserve "discount window" available to a wider variety of financial institutions.

Finally, it would be useful to take a broader look at current levels of regulation from two perspectives:

- (1) whether current levels of regulation strike an appropriate balance between the Government's interest in oversight and the benefits of unfettered competitive activity; and
- (2) how the regulatory and enforcement policies of the banking agencies compare to the policies of other regulators of financial intermediaries.

1. Composition of Task Force -- The greatest deficiency in the Task Force to date has been the lack of direct input from individuals sufficiently well-versed in banking and regulatory reform matters. As a result, the initial Task Force report fails to reflect an adequate depth of understanding and/or analysis of the basic facts and issues underlying the bank regulatory reform controversy.

With this in mind, we recommend that the composition of the Task Force be modified to include direct, on-going participation from high-level officials of Treasury, OMB, and the Council of Economic Advisors. In addition, for technical support in the early stages, representatives of the Office of the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation should be available.

2. Objectives of Task Force -- As a first step, the modified Task Force should consider what seems to be an underlying shortcoming with respect to the Administration's bank regulatory analysis to date. Specifically, there appears to be a great deal of fuzziness as to what the term "bank regulatory reform" actually means, and what practical goal or result is sought to be accomplished through such reform. In this regard, it seems that at least three interpretations of the term "bank regulatory reform" have been adopted by the Administration:

(a) that such reform means an attempt to modify or restructure bank regulation so as to make banks more directly responsive to the needs of consumers;

(b) that such reform means an attempt to modify or restructure bank regulation so as to make banks more directly responsive to the objectives of the regulators (and through the regulators to the Congress); and/or

(c) that such reform means an attempt to modify or restructure bank regulation so as to make banks more directly responsive to economic policy makers. (This interpretation is suggested by the recommendations concerning the interrelationship of bank regulation and economic policy, and the possibility of broader utilization of the Federal Reserve "discount window").

It is conceivable that all three of these interpretations might be embodied in the Administration's concept of "bank regulatory reform" but to my knowledge such a position has not been verbalized. A further consideration is whether or not the term "bank regulatory reform" suggests by definition or widely accepted use a simplification of banking regulation. If so, such an interpretation should be brought into balance with what appears to be the likelihood of increased regulation if the third interpretation of "bank regulatory reform" set forth above is indeed subscribed to by the Administration.

Before any meaningful action can be taken in addressing specific issues of bank regulatory reform, a consensus as to the general definition and goals of such reform must be reached within the Administration. Once general guidelines have been established, specific issues can be approached in a more organized fashion.

3. Specific Issues -- As noted above, the EPB has requested that the Task Force take a closer look at the manner in which the present bank regulatory system has: (1) promoted regulatory innovation, and (2) fostered regulatory duplication and overlap. With respect to these issues, both the Comptroller of the Currency and the Federal Reserve Board have previously compiled examples of both innovations and duplication.

4. Timetable -- Although the EPB has set no specific deadline, the modified Task Force should begin its assignment as soon as possible, that interim deadlines be established and enforced, and that a written report be prepared for submission to the EPB no later than November 15, 1976.

5. Administration's Regulatory Reform Proposals -- In view of the fact that the Administration has recently developed a timetable for regulatory reform in a wide variety of subject matter areas, including bank regulatory reform, coordination should be established with the parties responsible for the overall regulatory reform effort.


Robert A. Gerard



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

August 18, 1976

MEMORANDUM FOR: EXECUTIVE COMMITTEE--EPB

SUBJECT: EEC Complaint Against U.S. Phosphate Industry

There have been indications that some members of the EPB are interested in information regarding recent complaints lodged against the U.S. phosphate industry by the EEC.

The excess supply situation for phosphates this past year has apparently made it difficult for European firms to compete with exports of phosphatic fertilizers from the U.S. and Eastern Europe. The French further claim that the U.S. is pricing rock phosphate (the main raw material used to manufacture phosphatic fertilizer) higher in Europe than in the U.S. Current information does not support the allegation. The Europeans are also raising concerns about U.S. industry efforts to acquire assets of foreign firms.

J. DAWSON AHALT
Chairman, Interagency
Fertilizer Task Force

Enclosure: Paper on "EEC Complaint Against U.S. Phosphate Industry"

EEC COMPLAINT AGAINST U.S. PHOSPHATE INDUSTRY

Background

Current economic conditions in world fertilizer markets and the impact on the European phosphate industry have apparently prompted the EEC to complain that the U.S. phosphate industry is conducting discriminatory pricing practices. It is alleged that exports of U.S. manufactured phosphate-fertilizers are being sold in Europe at prices below which the French are able to compete with. On the other hand the Europeans claim that the U.S. industry is charging higher prices for phosphate rock (the basic raw material for manufacturing phosphatic fertilizers) in export markets than to U.S. customers. The European industry further says that U.S. companies have offered access to phosphate rock at low prices as an inducement to gain control of European firms.

Analysis of Present Situation

The problems facing the European phosphate industry are heavily influenced by internal economic policies. Prices of manufactured fertilizers in Europe are isolated from world levels through price controls and subsidies. This of course has hurt the European industry. It has made it difficult for the industry to respond to changes in raw material prices such as rock phosphate which is purchased in the spot market. Moreover, the Government's interference with the market has resulted in the European industry being less efficient. As a result U.S. and Eastern European exporters have sharply expanded shipments of finished fertilizer materials into Europe. (See attached table.)

The allegation that U.S. producers are charging higher prices (\$33 to European customers versus \$15 per ton to U.S. buyers) may be an exceptional case. However, there is a basis for the price differential. First, most U.S. firms are vertically integrated; i.e., they mine rock phosphate and produce finished phosphatic fertilizers. As a result there is the issue of transfer pricing of phosphate rock. Additionally, those fertilizer manufacturers that do not have their own rock supplies generally have long-term contracts with rock producers. A number of these contracts were signed prior to the explosion in fertilizer prices in 1974; thus prices are below spot quotes which are in a rather thin market. Finally, the industry indicates that freight charges to Western Europe are currently about \$10 per ton. Hence, any comparison of prices must be based on delivered rather than f.o.b. prices at the mine or the port.

Two export associations handle phosphate materials. They are: Phosrock which exports phosphate rock and Phoschem which is organized to ship abroad manufactured phosphatic fertilizers. Both organizations are registered with the FTC under the Webb-Pomerene Act and are exempt from U.S. antitrust laws in their export activities. However, the law forbids members of these associations to interfere with exports of nonmembers or to take joint action in domestic marketing activities. The associations may agree on export prices but they are not allowed to do so in collusion with international cartels.

With regard to world phosphate rock prices, it is significant to point out that although the U.S. is the world's largest phosphate rock producer,

its reserves are second to those held by Morocco. Moreover, Morocco leads the U.S. both in total exports as well as exports to Western Europe. The Soviet Union is the third largest exporter followed by several North African countries. In recent years Morocco has accounted for slightly less than half of the rock exports to Western Europe, while U.S. shipments have represented between 15-20 percent of the total. However, not all U.S. exporters belong to Phosrock. Of the total U.S. trade to Western Europe, only a little over half is represented by Phosrock. The remaining shipments abroad are accounted for primarily by Mobil, Swift, and Texas Gulf. Further evidence that the U.S. is not the pace-setter in world phosphate markets is supported by the fact that Morocco was the first exporter to boost prices in the 1974 period of surging prices. Morocco's prices peaked at \$68 per ton while the high for Phosrock was \$60 per ton. Currently, Moroccan quotes to Europe are averaging about \$40 per ton, although some prices are down to about \$25. Trade sources indicate one U.S. supplier will now offer rock for about \$20 a ton for sale abroad.

The allegation that the U.S. fertilizer industry is using discriminatory pricing techniques to acquire ownership of European firms stems from recent moves by the Williams Companies (Agrico Chemical Company). Recently, Agrico and Cofaz (a French fertilizer firm) came to an agreement that will result in substantial quantities of phosphate rock being shipped to France. Although the agreement has not been signed, it calls for plans for Cofaz to set up a U.S. subsidiary to purchase part of Agrico's phosphate rock reserves. In return Agrico would obtain 40 percent ownership in the French firm. Recently, Agrico acquired a 50 percent share of Goulding Chemicals, an Irish firm that has been operating at a loss. The Irish company controls

about half of the Irish fertilizer market and has recently been buying large quantities of phosphate rock from Morocco. These mergers reflect an effort on the part of Agrico to expand its markets in the face of a depressed fertilizer situation. While on the other hand, the European firms are looking toward obtaining interests in Florida phosphate supplies. Industry sources indicate that raw materials will be made available to the French affiliate at prices which will represent a "substantial savings." Recently, Becker Industries signed a similar agreement with an Italian company. Becker is already operating in West Germany. A large phosphate processing plant is expected to come on stream in 1977. This facility will receive government subsidies. It is expected that Becker will make available from the U.S. "low priced raw materials." This activity is apparently causing concern among German producers already facing difficulties from imported materials from the U.S. and Eastern Europe.

Acquisitions, of course, occur on a two-way street. During the early 1970's when the U.S. fertilizer industry was incurring substantial losses, a French firm, Gardinier, purchased the large U.S. integrated phosphate facilities of the Tennessee Corporation. Following this transaction most of the output from Gardinier's facility was tied up through long-term contracts in the U.S. market. Recently, however, this firm has begun to export although the destination of its shipments are unknown at this time.

The Department of Justice has had the U.S. fertilizer industry under a grand jury investigation for more than 18 months. This activity led to the indictment of the 8 major potash producers in late June on charges of conspiring to restrict production to stabilize prices. A new Federal grand jury has been convened by Justice to look specifically at the

phosphate industry. The Justice lawyers indicate that initial evidence gathered thus far does not indicate any antitrust violations by either Phosrock or Phoschem. However, Justice is continuing to explore the question of possible collusion between Phosrock and Moroccan cartel (OCP). The Justice Department has been involved in helping analyze the allegations raised by the EEC delegation. EEC representatives have been to Washington to discuss this matter and have asked the Chief of the Foreign Commerce Unit in the Antitrust Division to come to Brussels in September to discuss activities of the U.S. phosphate industry and the phosphate export associations.

Future Developments

The possibility exists that individual EEC countries may resort to GATT Article 19 which allows for an emergency action to halt imports in order to protect a particular domestic industry. Such a move would, of course, require prior consultation between exporting and importing countries. The State Department, however, feels that the EEC is likely to try to defer any member countries from attempting such a move. In the meantime the State Department is transmitting a cable to embassies in Brussels and Paris outlining the situation along the lines described above.

The Interagency Fertilizer Task Force will continue to monitor activities and report any significant developments to the EPB.

Exports--Phosphate Rock and Phosphatic Fertilizers from the
United States and Morocco to France

Year	UNITED STATES ^{1/}			MOROCCO ^{1/}
	Phosphate Rock	Ammonium Phosphate	Concentrated Superphosphate	Phosphate Rock
	--Short Tons-- (000)			--Metric Tons-- (000)
1960/61	---	---	---	1,121
1961/62	---	---	---	1,096
1962/63	30	10	---	---
1963/64	19	10	9	1,417
1964/65	61	10	22	1,696
1965/66	77	6	7	1,820
1966/67	155	7	2	1,736
1967/68	150	23	15	---
1968/69	292	26	52	1,756
1969/70	327	24	2	---
1970/71	494	68	49	1,639
1971/72	516	80	31	1,501
1972/73	544	88	15	1,546
1973/74	386	142	91	1,792
1974/75	270	96	38	2,403
1975/76	799	227	124	1,225

^{1/} United States figures are for fiscal years; Morocco figures are for calendar years.