

file
US-UK

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

To: Laura Tyson
cc: Lorraine Miller

From: Harold Ickes

Date: July 28, 1995

Re: Meeting with Mayor Granger of Fort Worth and Mayor Kirk
of Dallas concerning the US-UK aviation negotiations

Laura, Mayor Kay Granger of Fort Worth and Mayor Ron Kirk of Dallas will be in Washington on 7 August 1995. Assuming your schedule permits, will you please meet with them regarding the US-UK aviation negotiations.

Thank you for your assistance in this matter.

ROUTING SLIP

DATE: 7/12/95

FROM: STEPHEN B. SILVERMAN
Deputy Assistant to the President and
Deputy Secretary to the Cabinet

SUBJECT: US-UW Negotiation Outreach FYI

*file
US-UW
DOT
~~outreach~~
Arabian
agent*

John Angell	_____	Lorraine Miller	_____
Jeremy Ben-Ami	_____	Tom O'Donnell	_____
Erskine Bowles	_____	Leon Panetta	_____
Susan Brophy	_____	Jack Quinn	_____
Gabrielle Bushman	_____	Jake Siewert	_____
Barbara Chow	_____	Nancy Soderberg	_____
Michael Deich	_____	Patti Solis	_____
Rahm Emmanuel	_____	Doug Sosnik	_____
Mark Gearan	_____	Gene Sperling	_____
Pat Griffin	_____	George Stephanopoulos	_____
Marcia Hale	_____	Todd Stern	_____
Karen Hancox	_____	Stephanie Street	_____
Nancy Heinreich	_____	Ginny Terzano	_____
Alexis Herman	_____	Kim Tilley	_____
Kitty Higgins	<u>X</u>	Melanne Verveer	_____
Harold Ickes	_____	Ann Walley	_____
Tim Keating	<u>X</u>	Dan Wexler	_____
<i>Bruce Lindsey</i>	<u>X</u>	Jen O'Connor	<u>X</u>

FYI



U.S. Department of
Transportation

Office of the Secretary
of Transportation

Chief of Staff

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

FAX TRANSMISSION COVER

Date: 6, 9, 95

TO:

Steve Silverman

FAX:

FROM:

Ann Bormolini

Office: (202) 366-1103

FAX: (202) 366-3956

Number of pages transmitted, including this page: _____

MESSAGE:

FYI -- US-UK outreach efforts



U.S. Department of
Transportation

Office of the Secretary
of Transportation

Memorandum

Subject: US-UK Notification

Date: June 9, 1995

From: Steven O. Palmer, Assistant Secretary
for Governmental Affairs

Reply to
Attn. of

To: Steve Kaplan, General Counsel
Ann Bormolini, Chief of Staff

Per our earlier discussions, we are working with Members of Congress, Mayors, and Governors on focusing their support of the recent US-UK aviation agreement.

We are targeting those locations where United and USAir have a significant market presence. Specifically, we are focusing our contacts on the Illinois, Pennsylvania, Colorado, and Virginia congressional delegations, as well as several individual Senators who had earlier urged the Department to complete the mini-deal. We also are contacting the Governors of those states and Delaware and New Jersey, as well as the Mayors of Chicago, Philadelphia, Denver, and St. Louis.

Attached is a letter from Senator Simon (D-IL), the first letter received.

Letter to the Congress

As we outlined in our legislative strategy memo of April 6 (attached), I believe that we should send a letter to each Member of the Congress outlining the agreement, why it is good for the country, and any other argument that will help the Secretary. This letter will help many offices who have heard from our critics and give them ammunition in responding to those critics. Our office can process and distribute these letters once a draft has been completed.



U.S. Department of
Transportation

Office of the Secretary
of Transportation

Memorandum

Subject: Congressional Calls: US-UK
Aviation Agreement

Date: June 5, 1995

From: Steven O. Palmer, Assistant Secretary
for Governmental Affairs

Reply to
Attn. of:

To: The Secretary

There are several Members of Congress and other elected officials that we believe would be worthwhile for you to call to inform them of the US-UK aviation agreement. We have provided office numbers for Members of Congress. However, many of them may not have yet returned from the congressional recess; they can best be reached through the White House switchboard at 456-1414. For any callbacks you can leave either my number (366-4573) or Steve Kaplan (366-4702).

Members of Congress

Support the Agreement

Senator Larry Pressler (R-SD)	224-5842
Senator Paul Simon (D-IL)	224-2152
Senator Carol Moseley-Braun (D-IL)	224-2854
Senator John Warner (R-VA)	224-2023
Rep. William Clinger (R-PA)	225-5121
Rep. James Oberstar (D-MN)	225-6211
Rep. Bud Shuster (R-PA)	225-2431

Oppose Agreement

Senator Kay Bailey Hutchinson (R-TX)	224-5922
Senator John McCain (R-AZ)	224-2235
Rep. Richard Gephardt (D-MO)	225-0100

Helpful Senate Aviation Hearing

Senator Dan Rostenkowski (D-IL)	224-4343
(Opposed Agreement)	
Senator Daniel Inouye (D-HI)	224-3934

Other Elected Officials

Richard Daley, Mayor, Chicago	312-744-3300
Tom Carper, Governor, Delaware	302-739-4101
Ed Rendell, Mayor, Philadelphia	215-686-2121

FYI
Paul

United States Senate

WASHINGTON, DC 20510-1302

June 6, 1995

COMMITTEE
LABOR AND HUMAN
RESOURCES
JUDICIARY
FOREIGN RELATIONS
NOMINATIONS
INDIAN AFFAIRS

The Honorable Federico Pena
Department of Transportation
400 7th Street, S.W.
Room 10406
Washington, D.C. 20590

Dear Mr. Secretary *Paul*

Congratulations on the successful completion of the first phase of negotiations toward liberalizing our aviation agreement with the United Kingdom.

Your leadership throughout these often contentious negotiations is greatly appreciated, and is a testament to your effectiveness at DOT. I also want to acknowledge the diligence of DOT staff who have done such a fine job keeping my staff and me apprised of the status of these negotiations. You can take great pride in their professionalism.

I realize that not everyone is happy with this announcement, but I believe that the traveling public, regardless of their city of origin, will ultimately benefit from the increased competition and improved service this agreement will provide.

Thank you again for all you have done to make this agreement a reality.

My best wishes.

Cordially,

Paul Simon
Paul Simon
U. S. Senator

PS/K

402 DIKEMAN BUILDING
WASHINGTON, DC 20510-1302
202/224-3152
TDD: 202/224-3489

230 E. CHASPIN
KLUCKENBERG BLDG, 38TH FLOOR
CHICAGO, IL 60604
312/353-4852
TDD: 312/786-0308

3 WEST OLD CAPITOL PLAZA
SUITE 1
SPRINGFIELD, IL 62701
217/492-4800
TDD: 217/544-7524

260 WEST CH
ROOM 115
CANNONVILLE, IL
618/457-36



U.S. Department of
Transportation

Office of the Secretary
of Transportation

Memorandum

Subject: U.S. - U.K. Bilateral Situation

Date: April 6, 1995

From: Steve Palmer, Assistant Secretary
for Governmental Affairs

Reply to
Attn. of: Regina Sullivan
x 65704

To: The Secretary

Brief Synopsis of Current Hill Situation

As you are aware, the British aviation team is scheduled to visit the U.S. next week to continue the ongoing talks on the "mini-deal". The politics of this issue on the Hill are being driven by carriers concerns surrounding the mini-deal. Those groups essentially break down into two factions:

- 1) American/Delta/TWA - who oppose the mini-deal and are interested in maintaining the status quo. As you will recall from your meeting with this group of Senators, they strongly believe that going forward with the mini-deal would only further erode our leverage in moving toward an open skies agreement. Their leading supporters on Capitol Hill include, the Texas delegation, Senators Wendell Ford and Frank Lautenberg. In addition, TWA supported by House Democratic leader Richard Gephardt also oppose the signing of the agreement.
- 2) United/USAir - support the mini-deal and key Capitol Hill supporters include the Chicago, Pennsylvania and Virginia delegations. As you will recall from your meeting, these groups believe it is critical for United to gain access to Heathrow from Chicago and renew the BAA/USAir code share.

The attached ~~list~~ provide you with information on all Members of Congress who have written the Department on the negotiations.

Political Consequences

Scenario 1 - If you chose to instruct the negotiators to finalize the agreement next week there will be several Congressional actions as a result. It is very likely that Senator Kay Bailey Hutchison will introduce her legislation to move our international negotiating responsibilities to the Office of the Trade Representative. It is likely she will have the support of most of the Senators who attended your recent meeting with her. Senator McCain is planning a hearing to examine the deal the last week in April, they will ask you to explain the deal. On the Democratic side, Congressman Richard Gephardt has indicated that he will register his objections to the deal with the White House and ask for their assistance with the British.

Scenario 2 - If we chose to either delay the deal or pull away from it, the delegations who support United Airlines have not threatened any specific actions yet.

Next steps to consider:

- 1) Prepare a detailed letter to be sent to all Members of Congress before the talks are concluded, outlining the agreement and our rationale behind it. Hand deliver letter immediately upon conclusion of the talks.
- 2) In the letter, offer to once again meet with all affected Members of Congress to address their concerns and questions on the deal following the talks.
- 3) Prior to the conclusion of the talks next week, when the outcome is close to resolution, seek the support of the Members who will support the result of the talks. This should include a strong public showing of that support, through press activities and letters to the White House and Congressional leadership.
- 4) Apprise the White House of the level of Congressional interest in the mini-deal and ask for their public support of our actions.
- 5) Consider holding a press conference, which includes key Hill and local officials (i.e. Mayor Daley, if you are in Chicago next week) who benefit from the mini-deal. The press conference could also be held with the American/Delta group should the decision be to not go forward.

THE WHITE HOUSE
WASHINGTON

The negots we are doing
now can address TWA's
concerns b/c will
seek access to Gatwick
to Heathrow.

Only problem is
as low we can't
specify the carrier.

We can't promise
it will go to
you.

THE WHITE HOUSE

WASHINGTON

March 17, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Michael Deich
National Economic Council

SUBJECT: Background for Letter from Bob Crandall on International Aviation Issues

Bob Crandall would like the Administration to reject a proposed agreement with the United Kingdom (UK) unless additional benefits are secured for American Airlines. Crandall also would like the US to enter into immediate negotiations with Japan in order to secure new rights for American. This memorandum explains the status of current Administration efforts on these issues.

Background on American Airlines. American's international operations are more profitable than the international operations of any other US carrier. Between January 1992 and September 1994, American's international operations earned both operating profits and net profits that were greater than the profits on international operations of all other US airlines combined. American is the largest US carrier to Latin America and the Caribbean, and the second largest US carrier (after Delta) to Canada and Europe. American's greatest priority is to expand service to Japan, where it is only the fifth largest US carrier.

The Proposed US-UK Agreement. For the past two years the UK has periodically indicated an interest in concluding an incremental expansion of the US-UK aviation bilateral. Following reports of renewed UK interest in an incremental deal, Secretary Peña discussed with the UK Transport Minister the possibility of a limited agreement with the following elements:

- Chicago-Heathrow. United would be allowed to serve this route immediately. The existing treaty allows United to serve this market only after Chicago-UK traffic reaches 600,000 passengers per year. In the last few years, annual passenger traffic has been in the 575,000-585,000 range.
- Philadelphia-Heathrow. British Airways (BA) would be allowed to increase its service from one flight to two flights per day during the summer season. This proposal would benefit both BA and USAir, which codeshares with BA.
- Unrestricted codesharing for each country beyond the other country. This would grant US airlines their long sought right to code-share beyond London and other UK cities.

- Affirm US approval for unlimited BA-USAir codesharing. Although the existing treaty already provides for unlimited BA-USAir codesharing, the US has delayed approval for one of BA-USAir's code-sharing applications. Under the proposal, the US would process BA-USAir's application expeditiously.

At subsequent informal talks, the two governments tentatively agreed that this proposal could serve as the basis for formal negotiations. In addition, the UK government indicated a strong interest in following the present proposal with further agreements to liberalize the rules governing cargo service, charter service, and pricing -- issues that the US has pursued for some time.

Economic Consequences. The attached table shows the range of benefits that are estimated to accrue to US airlines (the table excludes consumer benefits, which have not been quantified). The proposed agreement would provide the US airline industry as a whole with added revenues of \$60-180 million per year. While *some US carriers* would be helped, other US airlines -- facing new competition -- *could be hurt*.

The new *route rights* would benefit only United and USAir. These carriers would use price competition and increased marketing efforts to attract new passengers that otherwise would not travel. In addition, these carriers would divert passengers from incumbent carriers, especially American (which would lose revenues of \$15-30 million along with its status as sole provider of US carrier nonstop Chicago-London service) and, to a far less extent, Continental (which would face greater competition at its Denver and Newark hubs). The economic effects on other US airlines would be minimal.

The new *code-share rights* would principally help American, United and USAir. The benefits noted in the table would be achieved only over time as airlines enter into and perfect their code-share arrangements. Over time, American could gain far more from code-sharing than it would lose due to increased competition from United on the Chicago-Heathrow route.

Congressional and State/Local Views. The proposal has generated unusually forceful reactions from Congress and from state and local officials. Most members of the Illinois and Pennsylvania delegations, along with the mayors of Chicago and Philadelphia, support the proposal. Most members of the Texas and New Jersey delegations strongly oppose the proposal.

Actions Sought by Crandall on the UK. Crandall believes that the USG should accept an agreement with the UK only if American is allowed to serve the Dallas-Heathrow market (American now serves Dallas-London via the less desirable Gatwick Airport). Other US airlines also have spoken of the need to have a "broad" agreement that provides new opportunities for all US carriers.

During 1993 and 1994, the US and the UK attempted to negotiate just such a broad agreement to liberalize the US-UK aviation regime. Last year, when the financial condition of USAir deteriorated and the value of British Airways' (BA) investment in USAir became questionable, the UK broke off negotiations until the BA/USAir relationship "stabilized." The UK has not

changed its basic negotiating position since then. State and DOT believe that the UK will not grant broad new access to Heathrow until BA wishes to secure US approval for further investment in USAir.

The economic and strategic arguments in favor of accepting the present proposal are as follows. Economically, US consumers and US airlines overall would benefit. Strategically, the proposal would allow the US to break the current impasse and achieve at least some of its aviation objectives with the UK. If the UK is serious about its professed desire also to conclude agreements on cargo, charters and pricing, then the US will have achieved all of its objectives except substantially greater Heathrow access. This would strengthen the US hand if and when the UK seeks negotiations to allow BA a greater investment in USAir.

The economic argument against accepting the current proposal is that the new competition -- though beneficial overall to both consumers and airlines -- could hurt, at least in the short run, American and perhaps other US carriers. In addition, opponents of the proposal suggest that making incremental progress on aviation issues eases pressure on the UK to achieve a broader agreement. No one in the Administration, however, believes that the US could force the UK to address the broader Heathrow access issues without renouncing the existing bilateral and taking down US-UK air traffic.

Actions Sought by Crandall on Japan. Crandall would like the USG to enter immediately into negotiations with the Government of Japan (GOJ). Crandall believes that the highest priority of the USG should be to secure new rights for American and other US carriers that now have only limited rights to Japan. Crandall recognizes that the Administration currently is seeking to resolve the dispute between Federal Express (Fedex) and Japan, so that Fedex will be able to exercise its existing bilateral rights to serve Japan.

The GOJ has long sought to renegotiate the US-Japan aviation bilateral. The current bilateral gives broad rights to United, Northwest and Fedex, and limited rights to some other US carriers. Under the existing bilateral, US airlines have secured nearly 70 percent of the passenger traffic and about 55 percent of the freight traffic in the lucrative US-Japan market.

The GOJ has made clear that it would be willing to provide limited new access for American and other US airlines, but only if the USG agreed to scale back the broad bilateral rights now enjoyed by United, Northwest and Fedex. To date, the USG has refused to enter negotiations with Japan on the grounds that US objectives could be achieved only at the unacceptable price of limiting the rights of incumbent US carriers. The NEC Deputies will meet soon, however, to consider a proposal by State and DOT that the USG agree to talks with the GOJ after the US has imposed some form of sanctions on Japanese air cargo carriers (the sanctions would be designed to avoid having the US "buy back" in future negotiations those rights that Fedex already enjoys under the current bilateral). It would be a matter of weeks before sanctions could be decided upon and put into place.

ECONOMIC BENEFITS

<u>A. New Route Rights</u>		<u>US airlines' revenue gain(loss)</u>	<u>UK gain(loss)</u>
1.	Chicago-Heathrow: allow new service by United even though annual passenger traffic remains just under the 600,000 required by the current treaty in order to allow new entry.	\$20 - \$43 m. ^{*/}	(\$7 - 13 m.)
2.	Philadelphia-London: allow additional summer service by BA to replace some of the service cancelled by American.	(\$5 - 0 m.)	\$10 m.
<u>Subtotal</u>		\$15 - 43 m.	(\$3) - \$3 m.
<u>B. New Codesharing Rights</u>			
1.	Unlimited codesharing for each country <u>beyond</u> the other country	\$60 - 150 m.	\$10 - 22 m.
2.	Affirm US approval for unlimited BA-USAir codesharing	(\$13 m.)	\$13 m.
<u>Subtotal:</u>		\$47 - \$137 m.	\$23 - \$35 m.
<u>TOTAL:</u>		<u>\$62 - \$180 m.</u>	<u>\$20 - \$38 m.</u>

^{*/} This figure is net of the \$15-30 m. in revenues that would be diverted from American to United.

THE WHITE HOUSE

WASHINGTON
March 17, 1995

MEMORANDUM FOR ALEXIS HERMAN

FROM: Michael Deich

SUBJECT: Background on Proposed US-UK Aviation Agreement

General Background. During 1993 and 1994, the Administration pushed hard to negotiate a broad, liberal agreement for the US-UK aviation regime. Last year, when the financial condition of USAir deteriorated and the value of British Airways' (BA) investment in USAir became questionable, the UK broke off negotiations until the BA/USAir relationship "stabilized." The UK has not changed its basic negotiating position since then. State, DOT and the NEC believe that the UK may grant very limited new rights to Heathrow in the near term, but will not grant broad access to Heathrow until BA seeks new rights to invest further in USAir.

The Current "Minideal". For the past two and a half years the UK has periodically indicated an interest expanding the US-UK aviation bilateral. After numerous direct discussions, Secretary Peña and Brian Mawhinney, the UK Transport Minister, have agreed in principle to the following arrangement:

- Chicago-Heathrow. United would be allowed to serve this route immediately. The existing treaty allows United to serve this market only after Chicago-UK nonstop traffic reaches 600,000 passengers per year. In the last few years, annual passenger traffic has been in the 575,000-585,000 range.
- Philadelphia-Heathrow. British Airways (BA) would be allowed to increase its service from one flight to two flights per day during the summer season. This proposal would benefit both BA and USAir, which codeshares with BA.
- Unrestricted codesharing for each country beyond the other country. This would grant US airlines their long sought right to code-share beyond London and other UK cities.
- Affirm US approval for unlimited BA-USAir codesharing. Although the existing treaty already provides for unlimited BA-USAir codesharing, the US has delayed approval for one of BA-USAir's code-sharing applications. Under the proposal, the US would process BA-USAir's application expeditiously.

- Fly America. Allow the USAir code on a limited number of flights, but only for the purpose of federal government procurement. This would allow USAir to bid for US government "Fly America" traffic, just as other US carriers bid for this traffic on their own code-share flights (e.g., Continental-Alitalia, Northwest-KLM, Delta-Virgin Airways, United-Lufthansa, etc).

This initial deal would be finalized only if significant progress were made on a second set of issues:

- Limited, mutual new opportunities at Gatwick and/or Heathrow. A US and a UK carrier each would get a new route right between the US and London. UK will consider, though in my judgment is unlikely to accept, more than one new route right.
- Liberalize restrictions on Cargo, Pricing and Charter Services. Lift limitations on the rights of US carriers to offer cargo and charter services and to compete in all services by offering lower prices.

Economic Consequences. The attached table shows the range of benefits that are estimated to accrue to US airlines from the initial agreement only (the table does not include either the value to the UK of Fly America or any benefits to US consumers). The proposed agreement would provide the US airline industry as a whole with added revenues of \$60-180 million per year. While *some US carriers* would be helped, other US airlines -- facing new competition -- *could be hurt*.

The new *route rights* would benefit only United and USAir. These carriers would use price competition and increased marketing efforts to attract new passengers that otherwise would not travel. In addition, these carriers would divert passengers from incumbent carriers, especially American (which would lose revenues of \$15-30 million along with its status as monopoly provider of US carrier nonstop Chicago-London service) and, to a far less extent, Continental (which would face greater competition at its Denver and Newark hubs). The economic effects on other US airlines would be minimal.

The new *code-share rights* would principally help American, United and USAir. The benefits noted in the table would be achieved only over time as airlines enter into and perfect their code-share arrangements. Over time, American could gain far more from code-sharing than it would lose due to increased competition from United on the Chicago-Heathrow route. BA would be able to bid on government contracts for Fly America traffic between London and one US city.

Industry Views. American believes that the USG should accept an agreement with the UK only if American is allowed to serve the Dallas-Heathrow market (American now serves Dallas-London via the less desirable Gatwick Airport). Other US airlines also have spoken of the need to have a "broad" agreement that provides new opportunities for all US carriers. Some carriers also object to "lining British pockets" with revenues from Fly America traffic.

Congressional and State/Local Views. The proposal has generated unusually forceful reactions from Congress and from state and local officials, each generally supporting the interests of the predominant airline within their jurisdiction. See attachments.

Strategic Issues. The proposed agreement raises some fundamental questions about US international aviation policy:

(1) Should the US conclude an aviation deal if only a limited number of carriers would benefit? This Administration has pushed hard to deregulate international aviation markets so that all US carriers can compete. The Administration has had significant success. In 1992, the US had only one "open skies" agreement (with the Netherlands). The President recently signed a new open skies agreements with Canada, breaking a decade long stalemate in US-Canadian aviation relations; next month the US will sign similar agreements with nine small European countries.

Unfortunately, many countries do not accept free trade in aviation. In these instances, the USG faces the choice of making incremental progress toward open markets or making no progress at all. Almost always, incremental progress means benefitting only one or two carriers at a time. **Nearly every carrier now objecting to the UK minideal either has been, and/or is seeking to become, the beneficiary of an aviation agreement that benefits only a limited number of carriers.** A few of many existing examples:

- Delta. Delta sought an exception to the US-UK bilateral in order to code-share with Virgin Airways. The exception, designed to help US consumers and Delta, was fiercely opposed by Delta's competitors on the grounds that would benefit only Delta. After trying without success to gain a broad opening of the US-UK market, DOT approved Delta's application.
- Continental. Continental sought permission to code-share with Alitalia. The arrangement would allow previously unserved cities to get new service to Italy, would lower prices, and would help Continental. Because the proposal would have helped only Continental, it was fought bitterly by other US carriers seeking to enter the US-Italy market. After trying without success to gain a broader opening of the US-Italy market, DOT approved a code-sharing arrangement.
- American. American seeks greater access to Japan, understanding that the price of such access may be accepting some limitations on the existing rights of the incumbent US carriers. The Administration has indicated its willingness to enter talks with Japan as soon as that country abides by the terms of the existing agreement.

In the context of US-UK relations, American and perhaps other opponents will continue to suggest that incremental progress on aviation issues can only ease pressure on the UK to achieve a broader agreement. No one in the Administration, however, believes that the US could force the UK to address the broader Heathrow access issues without renouncing the existing bilateral and taking down US-UK air traffic. A minideal instead would allow the US to break the current impasse and achieve at least some of its aviation objectives with the UK. If the second phase of negotiations concludes successfully, the US will have achieved all of its objectives except

substantially greater Heathrow access. This would strengthen the US hand if and when the UK seeks negotiations to allow BA a greater investment in USAir.

(2) Should the US allow British Airways to compete for Fly America traffic? Current law already allows US carriers and their international partners to carry Fly America traffic on code-sharing flights that carry the code of the US carrier. The proposed deal would allow the USAir code to be placed on a limited number of BA flights that already are operated on a code-share basis with USAir. The principal purpose of the Fly America Act is to ensure that the Defense Department has sufficient civilian reserves to help in military emergencies. As far as I know, DOD is satisfied with the proposed BA/USAir arrangement.

Option 1: Delay Minideal until a new route right is secured for at least one other US carrier. This would mute the opposition of at least one US carrier (most likely either TWA or Continental), and would allow time to repair relations with the Hill and with some carriers. The potential costs are that, in all likelihood, only one other carrier could be helped; other carriers would remain in opposition. American would have added time to continue its fight against any proposed agreement. Finally, any delay would lose the economic benefits to consumers and to United from opening the Chicago-London market during the upcoming summer season.

Option 2: Conclude Current Minideal. Announcing a decision and presenting a *fait accompli* would end efforts to derail the deal. US carriers and consumers would gain the economic benefits of having an agreement sooner rather than later (consumers and United would not lose the upcoming summer season). On the other hand, Congressional and constituent relations could be aggravated. Timing of an announcement: delaying an announcement would provide time to smooth Congressional and constituent relations. Until a final deal is announced, however, critics are likely to increase their efforts in one last push to stop the agreement.

Option 3: Do Not Conclude Any Agreement. The status quo offers smoother relations with those US carriers and their Congressional supporters that oppose the proposal. On the other hand, the status quo would: sacrifice the economic benefits of this deal; embolden carriers to fight incremental agreements with any country; embolden Congress to micromanage international aviation negotiations; and probably weaken Secretary Peña in his Congressional relations.

Talking points in the event that the US accepts a minideal.

- This course of action reflects a strategy of making incremental progress, route-by-route, towards opening the US-UK market. Mawhinney has committed to providing a new route in negotiations that are scheduled for [date]. We will conclude this second half of the deal and then continue to pursue further liberalization. After trying to open this market for two and one-half years we are convinced that the alternative to making incremental progress is making no progress at all. If this deal is not accepted, we will devote our limited resources to opening other aviation markets.

Added point for American:

- We want to work with you to open other markets, especially Japan. We have informed the government of Japan that we are willing to begin talks on a broad range of aviation issues, but only when the GOJ abides by its existing agreements. If necessary, we will impose sanctions on Japanese air carriers in order to enter talks on a level playing field and to avoid having to "buy back" in negotiations certain rights provided by the existing agreements. We believe strongly that your interests are better served by this deliberate approach than by a strategy of entering talks immediately without regard to other difficulties in the aviation relationship between ourselves and the GOJ.

Added for the Hill:

- We respect your right to hold hearings on any issue. However, we have examined this proposal and concluded that, overall, it is strongly in the interest of US consumers and the US airline industry. We believe that delaying this agreement would sacrifice some of its potential economic benefits (eg, new service in the Chicago-Heathrow market). Secretary Peña will come by today to brief you further.

Related Actions on Japan Sought by American Airlines. Crandall would like the USG to enter immediately into negotiations with the Government of Japan (GOJ). Crandall believes that the highest priority of the USG should be to secure new rights for American and other US carriers that now have only limited rights to Japan. Crandall wants the US to begin immediate talks with Japan.

The GOJ has long sought to renegotiate the US-Japan aviation bilateral. The current bilateral gives broad rights to United, Northwest and Fedex, and limited rights to some other US carriers. Under the existing bilateral, US airlines have secured nearly 70 percent of the passenger traffic and about 55 percent of the freight traffic in the lucrative US-Japan market.

The GOJ has made clear that it would be willing to provide limited new access for American and other US airlines, but only if the USG agreed to scale back the broad bilateral rights now enjoyed by United, Northwest and Fedex. In addition, the GOJ has stated that it will continue to deny both Federal Express (Fedex) and United the ability to exercise certain existing bilateral rights to serve Japan until the USG begins talks on aviation issues.

The USG has notified the GOJ that it will enter talks as soon as the GOJ abides by the existing aviation agreement and allows Fedex to begin new service. If Japan does not allow Fedex to offer new service, the Administration is likely to impose some form of sanctions on Japanese air carriers (the sanctions would be designed to avoid having the US "buy back" in future negotiations those rights that Fedex already enjoys under the current bilateral). These sanctions could be imposed anytime after next week.

ECONOMIC BENEFITS

<u>A. New Route Rights</u>		<u>US airlines' revenue gain(loss)</u>	<u>UK gain(loss)</u>
1.	Chicago-Heathrow: allow new service by United even though annual passenger traffic remains just under the 600,000 required by the current treaty in order to allow new entry.	\$20 - \$43 m. ^{*/}	(\$7 - 13 m.)
2.	Philadelphia-London: allow additional summer service by BA to replace some of the service cancelled by American.	(\$5 - 0 m.)	\$10 m.
<u>Subtotal</u>		\$15 - 43 m.	(\$3) - \$3 m.
<u>B. New Codesharing Rights</u>			
1.	Unlimited codesharing for each country <u>beyond</u> the other country	\$60 - 150 m.	\$10 - 22 m.
2.	Affirm US approval for unlimited BA-USAir codesharing	(\$13 m.)	\$13 m.
3.	Fly America -- allow USAir code on certain USAir/BA flights	(N.A.)	N.A.
<u>Subtotal:</u>		\$47 - \$137 m.	\$23 - \$35 m.
<u>TOTAL:</u>		<u>\$62 - \$180 m.</u>	<u>\$20 - \$38 m.</u>

^{*/} This figure is net of the \$15-30 m. in revenues that would be diverted from American to United.

ECONOMIC BENEFITS

The proposed agreement would **benefit both US consumers and US airlines**. Consumers would gain through greater service options and through limited new price competition. Airlines would benefit by being able to contest a larger share of the US-UK market. The table below shows the benefits that would accrue to US airlines as a whole. The table excludes consumer benefits, which have not been quantified. The agreement would lead to greater price competition and to increased marketing efforts by US airlines, both of which would bring new customers into the market. The larger numbers in the table below reflect DOT judgments about the extent of new traffic. The smaller numbers reflect CEA/NEC judgments about new traffic. CEA/NEC would concur with the higher DOT estimates if restrictions on price competition and capacity were removed from the US-UK bilateral; the UK has indicated that it might be willing to remove the price restrictions once the current proposal were accepted.

The new route rights would benefit United and USAir immediately. These carriers would gain both new passengers and passengers diverted from American (which would lose revenues of \$15-30 million along with its status as monopoly provider of US carrier nonstop Chicago-London service) and Continental (which would face greater competition at its Denver and Newark hubs). Northwest, Delta and TWA also would face slightly increased competition. The new code-share rights would principally help American, United and USAir. The benefits noted in the table would be achieved only over time as the airlines perfected code-share arrangements.

<u>A. New Route Rights</u>	<u>US airlines' revenue gain(loss)</u>	<u>UK gain(loss)</u>
1. Chicago-Heathrow: allow new service by United even though annual passenger traffic remains just under the 600,000 required by the current treaty in order to allow new entry.	\$20 - \$43 m. ^{*/}	(\$7 - 13 m.)
2. Philadelphia-London: allow additional summer service by BA to replace some of the service cancelled by American.	(\$5 - 0 m.)	\$10 m.
3. Open rights for UK carriers between UK regional airports and US (US already enjoys this right)	\$0 m.	\$0 m.
<u>Subtotal</u>	\$15 - 43 m.	(\$3) - \$3 m.
 <u>B. New Codesharing Rights</u>		
1. Unlimited codesharing for each country beyond the other country	\$60 - 150 m.	\$10 - 22 m.
2. Affirm US approval for unlimited BA-USAir codesharing	(\$13 m.)	\$13 m.
<u>Subtotal:</u>	\$47 - \$137 m.	\$23 - \$35 m.
<u>TOTAL:</u>	<u>\$62 - \$180 m.</u>	<u>\$20 - \$38 m.</u>

^{*/} This figure is net of \$15-30 m. in revenues diverted from American to United.

ECONOMIC BENEFITS

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<u>Subtotal:</u>		\$47 - \$137 m.	\$23 - \$35 m.
<u>TOTAL:</u>		<u>\$62 - \$180 m.</u>	<u>\$20 - \$38 m.</u>

^{*/} This figure is net of the \$15-30 m. in revenues that would be diverted from American to United.

cc: Jennifer O'Connor

THE WHITE HOUSE

WASHINGTON

June 28, 1995

INFORMATION

MEMORANDUM FOR BO CUTTER
ALEXIS HERMAN
HAROLD ICKES

FROM: Michael Deich

SUBJECT: Background for meeting with TWA Management and Labor

Today you will meet with Rep. Gephardt, Jeff Erickson (CEO of TWA), Bill Compton (representing TWA pilots), Victoria Frankovich (representing TWA flight attendants), and William O'Driscoll (representing TWA mechanics). This memorandum provides background on the status of US-UK aviation negotiations; TWA's priorities for the US-UK market; and a reminder about limitations on discussing the award of international route rights.

Background on US-UK Aviation Negotiations. On June 5, the US and the UK approved a "minideal" on civil aviation (see Appendix). The US concluded this agreement only after Secretary Peña secured a personal undertaking from UK Transport Minister Mawhinney that the two countries would move quickly to conclude a second, larger package with new opportunities for other US and UK airlines. The commitment seems credible given the UK's expressed willingness to gain limited new access for its own carriers by providing similar new access for one, or perhaps more, US carriers. (Note: the US Embassy in London believes it likely that Mawhinney will leave Transportation soon in a shuffle of the UK Cabinet.)

Negotiations on the second round began last week with preliminary talks; formal negotiating sessions are scheduled for July 17-21; August 7-11; and September 11-15. This second round will consider three sets of issues:

- Limited, mutual new opportunities at Gatwick and/or Heathrow. Probably this will mean one new route each for a US and a UK carrier.
- Liberalize restrictions on Cargo, Pricing and Charter Services. Lift limitations on the rights of US carriers to operate cargo and charter services, and lift limitations on the ability of US carriers to gain business by offering lower prices.
- New rights for USAir-BA to bid on "Fly America" traffic.

These talks probably will take 4-6 months to conclude.

TWA's Priorities. In 1991, United and American purchased the rights of TWA and Pan Am to fly into Heathrow. The UK allowed these rights to be transferred, however, only after the US granted new rights for UK airlines that operate to the US. St. Louis opposed that sale. TWA now believes that it must reenter the New York-London market in order to secure the long-term survival of this employee-owned airline. In letters from the President and from Secretary Peña, the Administration has recognized the importance that TWA attaches to re-entering the New York-London market, and stated its willingness to push hard in the coming months to secure new rights for US carriers to operate between the US and London.

TWA may ask that the Administration seek new rights for a US airline to operate between New York or Newark and Heathrow or Gatwick. This can be accomplished in two ways. First, the US could seek a "named" route right, under which a US carrier would be allowed to operate between London and a specified US city. The US-UK bilateral already has many named routes; a number of these rights are unused, for traffic patterns have changed since the right was negotiated. Alternately, the US could seek an "open" route, under which a US carrier could operate between London and an unspecified US city. The city would be chosen through a formal administrative proceeding in which DOT would determine the service that could best meet a broad public interest test. If traffic patterns later changed, DOT could switch the route to some other US city.

Limitations on your discussions. Steve Newirth tells me that there are no restrictions on your freedom to talk about the substance of this negotiation (how many new routes should the US seek; should those routes be open or at airports specified in the treaty?). Since route awards to specific airlines are made by DOT after an administrative proceeding, however, **it may be inconsistent with existing Executive Orders and with the practice of this Administration for you to discuss the prospect of awarding a route to a particular airline.**

APPENDIX: Elements of the US-UK "Minideal" on Civil Aviation. The recent agreement included the following elements:

- New US carrier to serve Chicago-Heathrow. United will join American and British Airways as the only airlines that provide nonstop service on this route.
- Unrestricted codesharing for each country beyond the other country. This grants US airlines their long sought right to code-share beyond London and other UK cities.
- Unrestricted rights for US and UK carriers to fly between U.K. regional airports (airports in cities other than London), as well as London's Stansted and Luton airports, and the US.
- Philadelphia-Heathrow. BA will be allowed to increase its service from one flight to two flights per day during the summer season.
- Fly America. USAir will be allowed to bid for ^{some} US government "Fly America" traffic on behalf of the USAir-BA alliance, just as other US carriers bid for this traffic on their own code-share flights (e.g., Continental-Alitalia, Northwest-KLM, Delta-Virgin Airways, United-Lufthansa, etc).

J,

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report



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

GENERAL COUNSEL

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

JUNE 7, 1995

MEMORANDUM TO:

Harold Ickes
Deputy Chief of Staff
to the President

FROM:

Stephen H. Kaplan *SK*
General Counsel

SUBJECT:

Update on Civil Aviation Negotiations with
the United Kingdom

First Phase Concluded

The first phase of negotiations with the United Kingdom concluded on Monday, June 5, 1995, with the signing of an agreement. The key elements of this agreement include: a Chicago Heathrow route for United; open rights for US and UK carriers to fly between UK regional airports (all airports except Heathrow and Gatwick) and the US; greatly expanded code-sharing rights for US carriers beyond London; limited access to US government traffic on a code-share basis for the US Air/British Airways alliances; and additional frequencies for British Airways in the Philadelphia/Heathrow market.

In addition, the first phase included an agenda and schedule for the second phase. The agenda includes liberalization of cargo, pricing, and charters, as well as very limited additional access to Heathrow and/or Gatwick and additional access for the US Air/BA alliance to carry US government traffic.

The schedule for phase 2 is as follows: Working group session will be held the week of June 19. Plenary sessions will then be held July 17-21, August 7-11, and September 11-15. It is hoped but certainly not assured that phase 2 can be completed by the end of September.

Phase 2 Issues and Alignment of Interests

Cargo: Federal Express is very supportive and interested. UPS is also interested but to a much lesser extent.

- Pricing: Consumers would benefit, and our carriers would also benefit because they are so competitive and efficient.

- Heathrow and/or Gatwick: New opportunities will be very limited. Any new routes will be awarded in a formal, administrative route award proceeding. Currently only two carriers, American and United, have authorization under the bilateral to serve Heathrow. We have been trying to end the "2 - Carrier Rule" for a long time. The following is a brief sense of our carriers' priorities on new London routes.

- o American - Dallas/Ft. Worth to Heathrow (current service is to Gatwick)
- o Continental - Newark to Heathrow (current service to Gatwick)
- o Delta - Atlanta and New York to Heathrow (current service to Gatwick, or to Heathrow on the recently approved Delta-Virgin Airlines code sharing alliance)
- o Northwest - perhaps from Detroit or Boston to Heathrow (current service to Gatwick), but seems less a priority for Northwest than some other carriers
- o TWA - New York to Heathrow (or perhaps Gatwick). This has been a difficult situation, beginning with TWA's sale of its Heathrow rights in 1991. Until fairly recently, TWA wanted to fly to Stansted from New York (which it can now do, but is not), or to Gatwick from New York. Now it seems to be focusing on Heathrow. The Missouri delegation and the Governor are starting to portray this one route as if the entire financial health, even the existence of TWA, depends on it. TWA is cutting back or ending its service to a number of foreign markets, most recently Paris.

Realistically, we should anticipate perhaps one or two routes to Heathrow and maybe one to Gatwick.

ELEMENTS OF THE SECOND-STAGE NEGOTIATIONS WITH THE UNITED KINGDOM1. PRICING LIBERALIZATION

Under the current "double approval" pricing regime, air carriers can only offer those air fares that have not been rejected by either government. Air fares for nonstop services are very competitive. However, the British routinely reject low-price initiatives from interior U.S. cities. The U.S. objective is to introduce a "double disapproval" pricing regime (i.e., both governments would have to disapprove a fare to prevent it from being charged) either immediately or on a phased-in basis.

2. CARGO LIBERALIZATION

The cargo regime between the United States and the United Kingdom is essentially deregulated. However, U.S. carriers can transport local traffic between the United Kingdom and only a limited number of third countries (fifth freedom rights). Moreover, the fifth freedom rights that do exist can be used by only three U.S. airlines. The U.S. objectives are to expand the number of available fifth freedom opportunities and to eliminate the restriction on the number of U.S. carriers that can use them.

3. CHARTER LIBERALIZATION

The regime for passenger charters is significantly more restrictive than what is allowed under U.S. domestic charter rules. For example, no one-way charters are allowed, sign-up time limits exist, and passenger substitutions are restricted. The U.S. objective is to eliminate as many of these restrictions as possible either immediately or on a phased basis.

4. NEW ACCESS TO LONDON'S HEATHROW AND/OR GATWICK AIRPORTS

Only two U.S. carriers can serve Heathrow Airport. In addition, U.S. gateway cities to either Heathrow or Gatwick are limited, and in most cases, only one U.S. carrier can operate in any city-pair market. Although our ultimate objective is broad new access for additional carriers and cities, the British are only prepared at this stage to talk about "very limited" new access. However, we would expect at least one new Heathrow opportunity since the British are interested in securing the right to move Virgin Atlantic's Boston service from Gatwick to Heathrow. Depending on how the whole package develops, we might also secure a new Gatwick opportunity.

5. FLY-AMERICA ACCESS

In the just concluded first-step package, U.S.-U.K. airline alliances received rights for the U.S. alliance partner to bid for Government travel contracts between five U.S. cities and the United Kingdom. The U.K. objective is to expand the number of those opportunities.



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

GENERAL COUNSEL

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

JUNE 9, 1995

MEMORANDUM TO: Kitty Higgins
Cabinet Secretary
White House

FROM: Stephen H. Kaplan *[Signature]*
General Counsel

SUBJECT: Elements of an Open Skies Air
Transport Services Agreement

In response to your request, I am providing a description of the elements we would consider necessary to establish an open skies aviation relationship with any country or group of countries. Of course, we would only offer open skies where it would be of strategic or economic value to the United States. The major elements that we require are as follows:

- o No limits on the number of airlines that can fly between the United States and the other country (or group of countries), on the aircraft type, or on the number of flights or seats that they can offer.
- o Complete routing flexibility for air carriers, with access to any point in both territories, as well as the ability to carry traffic to intermediate points (e.g., a U.S. carrier operating between New York and Rome could carry passengers between New York and Paris, and between Paris and Rome, on the same flight) and to "beyond" points (e.g., the same New York-Rome flight could carry passengers between New York and Athens and between Rome and Athens). Carriers could also change aircraft at intermediate points (e.g., at Paris) and the destination point (Rome).
- o Freedom for air carriers to set their own prices based on marketplace considerations: fares or rates could be rejected only when both Parties agree and only in limited circumstances.
- o Unrestricted charter operations with same routing flexibility, pricing freedom and unlimited capacity as scheduled flights.

- o Deregulated air cargo operations with opportunity for intermodal service (e.g., air-rail and air-truck transportation) providing maximum flexibility to facilitate seamless movement of cargo.
- o Fair and equal opportunity to compete.
- o Adequate treatment of "doing business" issues, including the ability to self-handle (e.g., airlines could operate their own ticket counters and perform their own baggage and cargo handling at foreign airports) and access to competitive providers of such ground-handling services, ability to remit revenues promptly at realistic exchange rates, and reciprocal exemptions from national fuel taxes and customs duties.
- o Just, reasonable and non-discriminatory airport and air navigation charges.
- o Carriers must have the ability to inform the public of their services in a fair and impartial manner through computer reservations systems.
- o Airlines may enter into cooperative marketing arrangements such as code-sharing or blocked-space arrangements with airline(s) of either Party or airline(s) of a third country, provided that all airlines in such arrangements hold the appropriate authority and meet the requirements normally applied to such arrangements.
- o Mutual recognition of licenses, certificates of airworthiness and certificates of competency issued by each Party, provided that such certificates and licenses at least equal minimum standards established pursuant to the Chicago Convention.



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

Chief of Staff

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

June 9, 1995

SUBJECT: Letter from Governor Carnahan
to Leon Panetta re: U.K. Negotiations

FROM: Ann Bormolini *AMB*

TO: John Emerson
Deputy Assistant to the President and
Deputy Director of Intergovernmental Affairs

In response to your inquiry concerning the status of the aviation negotiations between the United States and the United Kingdom, we have prepared the attached draft response to Governor Carnahan.

Please let us know if we can provide any additional information.

Attachment

The Honorable Mel Carnahan
Governor of Missouri
Jefferson City, Missouri 65101

Dear Governor Carnahan:

Thank you for your letter concerning the aviation negotiations with the United Kingdom.

The Administration certainly shares your position that opportunities should be expanded for all U.S. airlines in the U.S.-U.K. aviation market. We also recognize the importance that Trans World Airlines (TWA) attaches to expanding its presence in this very important transatlantic market. As you may be aware, the first step in what we intend to be a progressive liberalization of our aviation regime with the British was concluded on June 5. Although the specific opportunities contained in that deal did not include the authority for New York-London services that TWA is seeking, U.S. and U.K. negotiators are committed to intensive negotiations over the summer to continue the process of liberalization. One element of the upcoming negotiations, which will begin with a technical level meeting on June 20, is new, albeit very limited, access for U.S. carriers to London's Heathrow and/or Gatwick airports. A successful conclusion to the second stage negotiations could

address TWA's London interests, and we expect the airline to participate actively as the U.S. position for the upcoming talks is developed.

I look forward to continuing to work with you on this and other issues of importance to Missouri.

Sincerely,

16 June 1995

Mr. Sonny Hall
International President
Transport Workers Union of America, AFL-CIO
80 West End Avenue
New York, New York 10023

Dear Mr. Hall: *Sonny*

Thank you for your 10 May 1995 letter regarding the recent air negotiations between the United States and the United Kingdom, and for your views on the Fly America Act.

As you may know, on June 5, U.S. and U.K. negotiators reached agreement on a package of ~~commercially~~ valuable new service opportunities. The agreement, which contains economically important new rights for U.S. airlines, is a significant step toward liberalizing the U.S.-U.K. aviation relationship and provides a foundation for negotiating additional opportunities for services in this important transatlantic market.

With regard to the Fly America Act, although U.K. negotiators requested that U.K. airlines be able to compete directly for U.S. government-financed traffic, such authority was not included in the agreement. However, included were limited opportunities for U.S. carriers to compete for such traffic in cooperation with U.K. airline partners. This arrangement is consistent with the authority granted to other U.S. airlines which have cooperative arrangements with foreign airlines and are able to compete for U.S. government-financed traffic.

As we work to expand opportunities for U.S. airlines and keep our nation's aviation industry strong, I appreciate your support.

Sincerely,

Harold Ickes
Assistant to the President
and Deputy Chief of Staff

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slr/draft/flyamerica-anti
6.12.95

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COMMENTS: based on DOT draft; approved by Michael Deich, NEC

Thank you for your letter regarding the recent air negotiations between the United States and the United Kingdom, ~~and the Fly America Act.~~ ^{on the} I appreciate your input in this matter.

As you may know, on June 5, U.S. and U.K. negotiators reached agreement on a package of commercially valuable new service opportunities. The agreement, which contains economically important new rights for U.S. airlines, is an ^{important} ~~important~~ step in liberalizing the U.S.-U.K. aviation relationship and provides a foundation for negotiating additional opportunities for services in this important transatlantic market.

With regard to the Fly America Act, although U.K. negotiators requested that U.K. airlines be able to compete directly for U.S. government-financed traffic, such authority was not included in the agreement. However, ^{included in} ~~limited opportunities were included in~~ the deal for U.S. carriers to compete for such traffic in cooperation with U.K. airline partners. This arrangement is consistent with the authority granted to other U.S. airlines, ^{that which} ~~that which~~ have cooperative arrangements with foreign airlines and are able to compete for U.S. government-financed traffic.

As we work to expand opportunities for U.S. airlines and keep our nation's aviation industry strong, I appreciate your ^{support} ~~input~~.

Pls cc: Michael Deich, Room 233
on ltr to Ron Carey

dys

May 10, 1995

To: Harold Ickes

From: Debbie Willhite

Per our discussion.

6/16 w/w/m/c
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5/14

Jenn O'

Find out who (maybe you)
is involved in this. HI
should see any draft
response.

J.

J - 6/14/

Draft is
attached
-Jen

Call Silverman,
Kornack, Deich,
Liton, Bormolini



Transport Workers Union of America

Affiliated with American Federation of Labor and Congress of Industrial Organizations

80 WEST END AVENUE • NEW YORK, N.Y. 10023 • PHONE: 212 873-6000 • FAX: 212 721-1431

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MARSHA SPINOWITZ

May 10, 1995

The Honorable William Clinton
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

On behalf of the sixty thousand airline workers represented by the Transport Workers Union of America, I want to express my grave concern that the United States may be about to waive the Fly America Act in the largest international aviation market in the world -- the U.S. - United Kingdom. If true, this is a severe blow to our airline members and their families. I urge you in the strongest possible terms, to reverse this decision before it is finalized.

The Fly America Act exists to make certain that U.S. government employees fly on U.S. airlines whenever possible. This is a widely accepted policy that has helped U.S. carriers to maintain strength in the international markets which, in turn, benefits U.S. airline labor. Last month during intense negotiations, the United Kingdom demanded that its carriers be allowed to receive waivers from this requirement and participate in U.S. government traffic. At the time, we were pleased that the U.S. negotiators stood firm on this issue.

But now, apparently, the Departments of Transportation and State have backed down and are prepared to give the British the authority to bid for this traffic by using U.S. carrier codes. This obviously does not change the effect of the waiver. U.S. government tax dollars will be going to pay for services by British carriers when there are many U.S. carriers serving these markets that could handle the business--carriers that employ U.S. workers, and fly U.S. manufactured planes, maintained and serviced in the United States. This would so undercut the Fly America Act as to make it meaningless.

The Honorable William Clinton
May 10, 1995
Page 2

We simply can't believe that this represents the position of the Clinton/Gore Administration. Accordingly, we ask you to stop the negotiations with the British until this issue is off the table once and for all.

Sincerely,



Sonny Hall
President, Transport Workers
Union of America, AFL-CIO

SH:mjm

cc: The Honorable Federico Pena
Harold Ickes
Kitty Higgins

TRANSPORTATION
TRADES
DEPARTMENT
AFL-CIO



June 6, 1995

Mr. Steve Kaplan, General Counsel
U.S. Department of Transportation
400 7th Street, S.W.
Washington, D.C. 20590

Dear Mr. Kaplan:

In our letter to the President dated May 11, 1995, the Transportation Trades Department, AFL-CIO (TTD) responded to reports regarding the possible waiver of Fly America Act requirements in bilateral aviation negotiations between the U.S. and the United Kingdom. While our intention was to ensure the strong application and enforcement of the Fly America Act -- an aviation labor position dating back more than 20 years -- it appears that our letter may have caused some confusion and misunderstanding.

TTD is well aware that the U.S. has been involved in difficult and critically important negotiations with the U.K. We also took notice of the U.S.-U.K. so-called "mini-deal" announced this week. As you prepare to continue those negotiations in pursuit of a broader aviation pact, let me state clearly that TTD has not taken a position to date on the merits of any of the key issues involved in the U.S.-U.K. talks.

Transportation labor's sole objective thus far has been to respond to reports suggesting that U.S. negotiators were considering proposals to outright waive the Fly America Act. That single issue has been our Organization's major focus. To the extent that our earlier communication was interpreted differently, let me clarify TTD's position.

Last year TTD released a policy statement which called for, among other things, U.S. international aviation policy that fosters the interests of American carriers as well as workers in the aviation and aerospace industries. We also emphasized the need to pursue international aviation agreements that obtain equivalent benefits for U.S. carriers. Finally, we reaffirmed our vigorous opposition to any proposals to ease or lift existing "cabotage" prohibitions on foreign carriers.

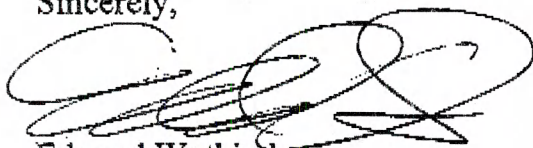
400 N. Capitol Street, NW, suite 861
Washington, DC 20001
phone 202.628.9262
fax 202.628.0391

Steve Kaplan
Page 2

It is our strongly held view that U.S. aviation policy should focus on maximizing U.S. carrier access to foreign markets, preserving U.S. employees' jobs and rights, and guarding against the outflow of U.S. jobs involved in operations, maintenance and manufacturing to overseas locations. While we are committed to protecting the Fly America Act, we in no way wish to see its enforcement applied unevenly to any U.S. air carrier.

I trust this letter clearly states a few of TTD's principal international aviation policy objectives. Please contact me personally (202/628-9262) if you have any questions or need additional information.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Edward Wytkind', with a large, stylized flourish extending from the end of the signature.

Edward Wytkind
Executive Director

cc: TTD Aviation Coordinating Committee
TTD Legislative Committee -- Aviation



U.S. Department of
Transportation

News:

Office of the Assistant Secretary for Public Affairs
Washington, D.C. 20590

FOR IMMEDIATE RELEASE
Monday, June 5, 1995

DOT 102-95
Contact: Bill Mosley
Tel.: (202) 366-5571

U.S., U.K. REACH AGREEMENT ON EXPANDED SERVICES

The United States and United Kingdom today announced an agreement that provides for additional services by the carriers of both countries as well as for further talks on liberalizing the bilateral aviation agreement.

The new agreement allows, among other opportunities, a second U.S. carrier service between Chicago and London's Heathrow Airport.

"We have long recognized the need to liberalize our aviation relationship with the United Kingdom, and this agreement represents an important first step," Secretary of Transportation Federico Peña said. "This agreement, while not yet providing all the market-opening opportunities we ultimately expect to attain, provides immediate and meaningful additional service opportunities that will enhance competition in the U.S.-U.K. market and provide additional access to the international air transportation system for travelers and shippers.

"Equally important, the British have agreed to begin talks this month aimed at further liberalizing our aviation agreement," the Secretary added.

Today's agreement provides:

- A Chicago-Heathrow route for a second U.S. airline.
- Open rights for U.S. and U.K. carriers to fly between U.K. regional airports (airports in cities other than London), as well as London's Stansted and Luton Airports, and the United States.

-more-

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- Greatly expanded code-sharing opportunities for all U.S. carriers.
- Limited access to U.S. government-financed traffic for the USAir-British Airways code-share alliance.
- Additional frequencies for British Airways in the Philadelphia-London market.

Both sides agreed to consider increased carrier access to London's Heathrow and Gatwick airports during the next phase of these talks, as well as cargo, charter and pricing liberalization. They also will discuss further access by U.S.-U.K. alliances to U.S. government-financed traffic.

Both sides agreed to adhere to an announced schedule for this phase of negotiations and to make every effort to complete them expeditiously. A working group session will be held the week of June 19 in Washington. Plenary sessions will be held July 17-21 in London, Aug. 7-11 in Washington and Sept. 11-15 in London. Other sessions as needed may be added within this time period.

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*An electronic version of this document can be obtained via the World Wide Web at:
<http://www.dot.gov/affairs/index.htm>*

THE WHITE HOUSE
WASHINGTON

FACSIMILE TRANSMISSION COVER SHEET

TO: Mr. Bob Goldner
ATTN:
FROM: Jennifer O'Connor
TELEPHONE: (202) 456-6350
FAX: (202) 456-7929
DATE: 15 June 1995
TOTAL PAGES (INCLUDING COVER SHEET): 6

The following is a 31 May 1995 note from Edward Faberman, Vice President of American Airlines for Government Affairs, to Harold Ickes.

Michael Deich suggested that I send this note to you for a draft response. Could you please have someone on your staff draft a response and return it to me at FAX# 456-7929?

If you have any further questions, please don't hesitate to contact me at 456-6350.

Thank you.

If there are any questions concerning this transmission, please contact Jennifer O'Connor at the telephone number listed above.

THE WHITE HOUSE
WASHINGTON

12 June 1995

MEMORANDUM FOR MICHAEL DEICH

FROM: Jennifer O'Connor

SUBJECT: U.S./U.K. bilateral airline deal; Fly America Act

Attached is a 31 May 1995 letter to Harold from American Airlines opposing the adoption of a "mini-deal" between the United States and the United Kingdom that would revise the Fly America Act, and a 10 May 1995 letter to the President from the Transport Workers Union of America which also expresses dissatisfaction with the proposed changes to Fly America.

Harold would like to respond to these letters. Do you have any material he could use, or could you draft appropriate responses to these letters?

Thanks for your help.

John O' 6/5

Are you involved
with this at
all? —

(John - keep
copy + return if
she is.)

American Airlines®

May 31, 1995

Mr. Harold Ickes
Assistant to the President and
Deputy Chief of Staff
The White House
Washington, DC 20500

Dear Harold:

As we have discussed, American Airlines' two highest international priorities have been additional access at London's Heathrow Airport and the opening of opportunities in Japan. Unfortunately, little has been done by DOT to help us obtain either of those goals. With respect to the U.K., we seem to be slipping backwards.

Last week, the Senate Aviation Subcommittee held a hearing on international negotiations with a focus on the proposed "mini-deal" between the United States and the United Kingdom. At that hearing, every witness, but one, argued against completion of the mini-deal.¹ These witnesses represented the full range of interests and frankly, rarely agree on any policy matter. Previously, the AFL-CIO weighed in against any changes to Fly America that are on the table.

The carriers, communities, and unions expressing their opposition are mystified by this mini-deal since both DOT and State have repeatedly stated over the last two years that definitive actions would be taken to secure equivalent opportunities. This is critically important to American since the U.K. is our largest international market. Moreover, unlike United and other U.S. carriers, we do not have the alliance/codesharing opportunities granted to them by DOT. Nor has there been any movement on our year-old request submitted to DOT for new Japanese authority -- DOT's actions continue to keep new U.S. competitors out of Asia. From all of these actions, it is clear that the Department of Transportation is telling us that we will not be given opportunities to compete unless we choose to align ourselves with foreign carriers. We don't believe such a policy is in the best interest of our employees, our customers, our shareholders, the cities we serve, or the economy of this country.

As to the U.S./U.K. mini-deal, the Department's own codesharing study issued last December, shows that the U.S./U.K. bilateral provides a \$42 million annual benefit to British Airways. At the hearing, GAO suggested that the benefits for BA are actually closer to \$100 million per year. British Airways'

¹ Joining Bob Crandall at the hearing in opposing the deal were Ron Allen of Delta, Jeff Erickson of TWA, Tom Widener of UPS and George Dowdy representing airport associations. Only United Airlines' Gerry Greenwald supported the deal -- since United will be the only airline that benefits from it.

officials have basically admitted that the benefits are at this higher level. The Department seems to have accepted that this benefit will continue in perpetuity. DOT apparently no longer has any interest in leveling the playing field.

During last week's hearing it was clear that all parties -- even including United Airlines' Chairman Gerald Greenwald -- believe that no bilateral amendment should be accepted unless the economic analysis demonstrates a clear benefit.² Harold, the Department of Transportation has shared no economic information with American or, as far as we can tell, with any other party, (perhaps other than United) on the proposal it will put on the table on June 1. This is clearly inconsistent with the objectives and standard procedures of this Administration and is contrary to the practices of the U.S. Trade Representative's office.

Neither we nor any of the other witnesses other than United Airlines believe that the proposed mini-deal will benefit the United States. The attached document discusses our views of the economics involved in this proposal.

Harold, if the Administration is going to allow this mini-deal to go forward, as a minimum, others in the Administration, particularly the NEC, should review the economic data that the Department is using as justification. Moreover, because of its huge negative impact on American's ability to compete internationally, I believe we're entitled to have someone in this Administration sit down and review the numbers and findings with us. It is unacceptable that a decision this important to our future cannot be explained and justified. Until the Department is prepared to do that, then it should not be permitted to implement any new "deal."

I hope that you will convey the flavor of this hearing and the lack of any economic justification to others within the Administration.

Very truly yours,



Edward P. Faberman
Vice President Government Affairs

Attachment

cc: Alexis Herman

² Gerry Greenwald in a May 5 American newspaper published in London discussed the need for a fair and thorough macroeconomic study by the U.S. government so that the industry is able to negotiate from the same common economic ground. "This single step would do more than any other policy change to ensure that the Department of Transportation and the U.S. airline industry speak the same language."

Economic Analysis of Mini-Deal

Although the Department of Transportation has refused to share with us any of the economic data it has concerning this mini-deal, it is clear that it cannot be a deal that favors the United States. The Department should be putting proposals on the table that significantly benefit the United States considering the amount of benefits flowing annually to British Airways. The following items are part of the mini-deal:

1. Fly America privileges for British Airways. Allowing BA to carry U.S. taxpayer-financed travel by government employees is a net win for the British and a net loss for U.S. carriers. Of course, the total revenue is dependent upon the number of gateway points granted to the U.K. A recently awarded government contract to Lufthansa to carry government employees between Atlanta (Delta's hub) and Frankfurt is an approximate \$10 million annual benefit for LH with an equivalent negative impact on Delta. That's a \$20 million spread. Since GSA estimates that there is more government travel between Washington and London and a significantly greater amount between Newark/New York and London, allowing BA to carry government traffic in these markets would have an even greater impact. Therefore, we would estimate the negative impact of giving BA two Fly America points (the British negotiators are insisting on as many as four or five) is roughly valued at \$30 million per year.
2. Second Philadelphia-London Flight for British Airways. Because BA will now have a monopoly in this market, their earnings in Philadelphia would nearly double. As explained by the GAO witnesses, many of these customers will shift from U.S. carriers to BA, thus negatively impacting other U.S. carriers in East Coast-London markets, like American and Continental. Our analysis shows a \$30 million annual benefit for BA.
3. An Additional U.S. Carrier in the Chicago-London Market. United has taken a cavalier approach to its justification of the benefit of another Chicago-London carrier. There is no validity to the claims made by United in support of this service. One thing that all parties agree on and as GAO emphasized during the hearing, is that most of the traffic earned by United from Chicago will be diverted from other United flights to London, or from other U.S. carriers, particularly American. Certainly, many of United's frequent Chicago travelers (United has been held into its dominant position at O'Hare because of the FAA's slot rules) will fly them to London. Thus, claims by UAL that this "new" service is valuable to

the U.S. are fallacious. UAL is simply redistributing U.K. destined traffic through diversion from us and from its own services.

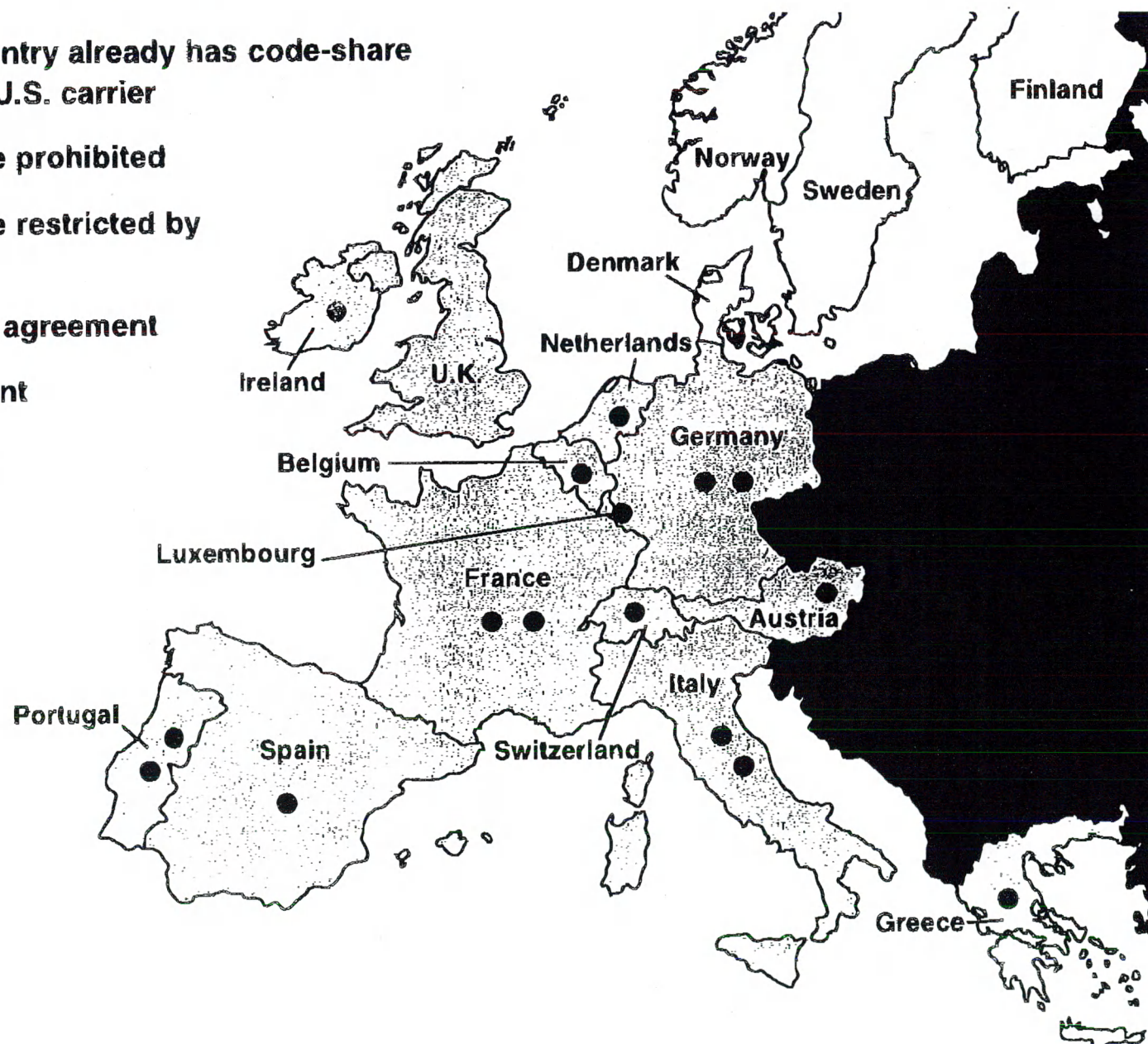
4. Codesharing Opportunities Beyond London. As you can see from the attached map, while on paper someone may claim that beyond London codeshare opportunities have some value, in reality -- as a result of actions taken by our government, other governments, and the lack of available partners -- this proposal is practically meaningless. The British have now stated that these codesharing opportunities will be limited to EU countries. Since we are prohibited by other governments from codesharing to the major European countries -- Germany, France, Italy, and Spain -- there is virtually no benefit to the U.S. from this proposal.

In addition to failing to provide the economics of the proposed transaction, DOT apparently has not measured the other impacts of a mini-deal. What data does the Department of Transportation have on the impact of not adding Heathrow service at Dallas/Fort Worth, or at other gateways? What are the economic impacts of failing to move the weaker London markets -- such as Nashville and Raleigh/Durham -- to Heathrow? What are the economics of closing these routes to the states of Tennessee and North Carolina and to the U.S.? Does the Administration care that failure to secure additional opportunities may force the abandonment of these services? We have seen no evidence that the Department considers or evaluates any of these issues.

By adding up all of these impacts, there cannot be an economic benefit of this deal to the U.S. The economic benefit would only result if Phase II is approved. Since BA is getting all that it needs in Phase I, that is unlikely to happen.

Beyond U.K. Code-sharing Restrictions – Western Europe

- Only major carrier in country already has code-share agreement with another U.S. carrier
- Third country code-share prohibited
- Third country code-share restricted by bilateral
- Renounced air transport agreement
- Shannon stop requirement
- Limited economic value





U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY

OFFICE OF THE ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS

Number of Pages including this Page: 2

Date: 6-21-95

TO: JENNIFER O'CONNOR

FROM: BOB GOLDNER

(202) 366-4551

FAX: (202) 493-2005

FAX MESSAGE:

ATTACHED IS OUR SUGGESTED RESPONSE TO ED FABERMAN AT AMERICAN AIRLINES.

Mr. Ed Faberman
American Airlines, Inc.

Dear Ed:

I appreciate your letter raising concerns about the "mini-deal" negotiated by the Departments of State and Transportation between the United States and the United Kingdom. I agree with you and all of the witnesses at the recent hearing that it is critical that such agreements be in the overall best interests of the United States and advance our aviation interests and policies. Furthermore, I particularly understand the major concern of American Airlines regarding this bilateral relationship given your position as the primary U.S. carrier in the market.

I want to reassure you on one point. The Department of Transportation (DOT) did share with NEC staff their analysis of various items under consideration in the mini-deal. As you know, such analysis depends heavily on key assumptions that must be made. Our staff reviewed the DOT work and, while there was room for debate regarding some of the assumptions, we felt that the analysis was comprehensive and plausible. Under those circumstances, we did not feel that there was any reason to question the DOT analysis. I can assure you that we gave careful consideration to the issues involved and the arguments raised in opposition to the "mini-deal," including the argument about code-sharing opportunities beyond London which American in the past had argued it needed.

The Administration recognizes the importance of sound economic analysis of international aviation issues. DOT has recently created an office to focus specifically on such analysis. The U.S. relationship with the U.K. has been intensely studied by that staff and the Department intends to increase its emphasis on analysis in the future.

You have followed our relationship with the United Kingdom for a long time and know the great difficulties the United States has had in trying to achieve an open air service regime in this primary market. I have no doubt that American Airlines with its demonstrated ability to compete aggressively and efficiently is anxious to see us move forward toward an open skies relationship with the U.K. Secretary Peña strongly believes that with the "mini-deal" behind us we can move forward toward further liberalization, and he is committed to making progress in the next round of negotiations. We at the White House will be following those developments closely and will work to ensure that future developments advance our international aviation interests.

If I may be of any further assistance, please let me know.

Sincerely,

USUK 9/25

Pera, Lindsey, Gertchuk, Deich, Tyson,
O'Donnell, Tarullo, O'Connor, Ickes

Pera: 3 b/c

- ① tough decision among 3
(NW & Delta not there
Delta got Virgin +s
NW got some other stuff)
- ② 50+ Senators have weighed in on it

Now 1+ on table

Continental - NS delay

Amer - TX delay

TWA - all Mo

some criticism = used to be ACT decision
If only got 2, Cong. may downed the judicial-like
decision

Current offer ≠ Cover TWA

BL - we have little to offer

Pera - very difficult to get 3, % no leverage
- they have 50% of market
- would prefer to renege → but knows he
can't

TWA - also against em - weakest carrier;
Amer - best for US traveling public → Cont =
larger airline

Could you threaten to remove?
They care much

Don - Tony first
want for offer
then see if Christopher call did help

Need pressure on Tony to make this
call

Bruce says $\rightarrow 0 = \text{better than } 2$

Centbank $\rightarrow$ we could offer "place" on
this issue

Laura - HI needs to talk to Tony

Could be done in 45 days

Lider
Sley pay
273-4251

Tamie
(718) 933-2204
(718) 931-5200

- Foza, dateline
- NW regional airport in Ark
- in booms
- thinking = it's for cargo, not commerc.
speculation - Tyson wanted it
for chickens
- Speculation is NW reg. Ark
airport, but it it, had Ark
political disagreement.

So felt Smith $\neq$ went it

- connect with to project

USole

THE WHITE HOUSE
WASHINGTON

September 28, 1995

MEMORANDUM FOR HAROLD ICKES

FROM: JENNIFER O'CONNOR *gmo*
SUBJECT: US-UK AVIATION NEGOTIATIONS

You are meeting today with Secretary Pena, Mark Gertchuck (Assistant Secretary of DoT), Laura Tyson, Michael Deich (NEC), Dan Tarullo (Assistant Secretary of State), Bruce Lindsey and me. This meeting follows up on a meeting between most of these players plus Bo Cutter last Friday. That meeting is described below. The purpose of today's meeting is twofold: 1) for the Secretary to be comfortable that you personally have heard his arguments as to why it is in the President's best interest for him to hold out for three routes and not compromise; and 2) for you to assure him that you know that he will take heat from the Hill Republicans for securing fewer than three routes, but that the White House and Administration are fully behind him and will support him in that decision.

Suggested approach for the meeting:

- Ask the Secretary to describe the **state of negotiations.**
- Ask the Secretary to describe the **offer** made by the British
- Discuss the **goals** (we all agree the goal is three new routes)
- Discuss the **strategy** (we all agree the strategy is to make a serious, visible effort to get three routes -- including calls from Tony Lake and Secretary Christopher)
- Discuss the **bottom line** -- what is the worst offer we will accept (here, Pena thinks it should be three new routes, everyone else in the Administration thinks it should be two new routes. If we don't even achieve two new routes, we need to discuss whether to renounce the treaty or just reevaluate and have more talks later. The Secretary would argue for renunciation and no one else in the Administration would ever agree to it.)

Background

On Thursday, September 21, Secretary Pena spoke with British Transportation Minister George Young and they agreed to resume aviation talks on October 16. Young, however, did not give any indication that there is any chance of agreeing on a deal that includes three new

Heathrow routes, in exchange for the extension of Fly America rights for all remaining British Airways flights.

Young has offered the following deal: in exchange for the US opening up all remaining Fly American traffic to British Airways, the UK will a) allow one carrier that currently flies both from city X to Heathrow and from city Y to Gatwick to switch those routes such that there would instead be a City X-Gatwick and a City Y-Heathrow route; and b) a different carrier than the one who receives benefits under part a) would receive a new route to Heathrow, but only to originate from a city that is currently allowed by treaty to connect to Heathrow. **(Note -- ask the Secretary if he thinks this would cover TWA from NY to Heathrow.)**

This deal is very poor from our perspective. Part a) requires no cost to the UK at all (the US origination city is switched, but there is no new route -- so it doesn't affect the UK in the least). In addition, American is one of only two airlines that could qualify for this switch. But it would force American to give up its LAX-Heathrow route in favor of a Dallas-Heathrow route. This will make American very unhappy. Part b) probably takes care of TWA, but that is unclear. Hence, it is possible that this deal will result in a new route for TWA and the ability for American to switch its origination city for a Heathrow route that it already possesses.

Based on this state of affairs, the Administration agrees it should hold out for more. On Friday, September 22, Laura Tyson, Bo Cutter and others met with Secretary Pena to discuss these talks. Pena expressed his very strongly held opinion that he should insist on three new US-Heathrow routes (including any switches from Gatwick -- switches are considered "new"). The Secretary holds this view for four main reasons: 1) He feels that the President has a wonderful record on his aviation negotiations, but that if we win fewer than three routes in these talks, no one will know of our good record and will only criticize us for losing in these negotiations; 2) because three US carriers, TWA, American and Continental, are pressing hard to get these routes, Pena does not want to win fewer than three routes -- if he wins fewer than three Heathrow routes, he will have to pick among the airlines and the loser will inevitably sue him; 3) Hill Republicans have been vocal in their view that the British do not play fair in these negotiations and Pena fears intense criticism from them if he "caves in;" and 4) he does not think the US has done enough to try to win the three routes; for instance he thinks Tony Lake and Secretary Christopher should be pressing their British counterparts to make this deal.

If the Secretary doesn't compromise, a possible move is to renounce the treaty. This is something Pena has expressed interest in (although he knows that Secretary Christopher would never allow this to happen, and thus knows it is not really an option). Renunciation would have the effect of freezing the current air route scheme in place.

The tricky part of this discussion is deciding what is minimally acceptable. During the Tyson-Cutter-Pena meeting, it became clear that the negotiators are not even convinced they can win two new US-Heathrow routes, never mind the three. They estimate they have very little chance of winning three and only a 50-50 chance of winning two.

Bo Cutter also makes the point that because of the odds on winning three routes, current expectations are a problem. If Pena insists on three routes as he enters the October 16 talks and only wins one, then he will be seen as weaker than if he asked for two and only won one. The pressure from the too-high expectations will make him more likely to press for a renunciation rather than accept a smaller deal. Hill Republicans, according to DoT, have been calling for a renunciation. Renunciation, however, means no new routes and a very unhappy TWA.

The decision that the Administration must make is what we should ask for, what our strategy is for achieving the best outcome, and what our bottom line is -- minimal requirements to conclude a deal. All players agree the goal should be three new unencumbered routes. All players agree the strategy should include 1) a call from Tony Lake to his counterpart saying this is important to us, 2) a call from Secretary Christopher to his counterpart saying we want one more route than what the British offer, 3) the Administration's visible call for three routes. When the last meeting ended, Bo Cutter agreed to approach Lake and Christopher regarding making these calls. In addition, Secretary Pena thinks the strategy should include a larger offer from us to the British. The problem is that in the last meeting no one could think of anything to offer -- in the foreign policy arena, the British are making great efforts for us, and in the trade arena, there is nothing to offer. On bottom line, everyone but Pena thinks we could live with two routes.

The decision may have to go to the President eventually, given the Secretary's strong feelings. But it is possible that he could be persuaded by a conversation with you. In particular, he needs to feel that we have done all we can to convince the British to give us three new routes. The purpose of your meeting with Pena will be to assure him that we have worked as hard as possible to get the three routes, to assure him that even if he is criticized by Republicans for accepting fewer than three routes, we will stand behind him, and to convince him to accept a smaller deal.

Pena: we did great job - should get credit but he won't it & get these 3 routes.
He's got - no one remembers past last deal

open skips of 9 small CCS, Canada sum Germany new Japan routes Philippine den

waiting on Dech

September 23, 1995

MEMORANDUM FOR HAROLD ICKES

FROM: JENNIFER O'CONNOR

SUBJECT: US-UK AVIATION NEGOTIATIONS

Background

On Thursday, September 21, Secretary Pena spoke with the British Transportation Minister and they agreed to resume aviation talks on October 16. The British Minister, George Young, however, did not give any indication that there is any chance of agreeing on a deal that includes three new Heathrow routes, in exchange for the extension of Fly America rights for all British Airways flights.

On Friday, Bo Cutter and others met with Secretary Pena to discuss these talks. Pena expressed his very strongly held opinion that he should insist on three US-Heathrow routes (including new any switches from Gatwick) and that if he cannot achieve them, he should "renounce" the entire treaty. Renunciation would have the effect of freezing the current air route scheme in place. He holds this view for three main reasons: 1) because three US carriers, TWA, American and Continental, are pressing hard to get these routes, Pena does not want to win fewer than three routes -- if he wins fewer than three Heathrow routes, he will have to pick among the airlines and the loser will inevitably sue him; 2) Hill Republicans have been vocal in their view that the British do not play fair in these negotiations and Pena fears intense criticism from them if he "caves in;" and 3) he does not think the US has done enough to try to win the three routes; for instance he thinks Tony Lake and Secretary Christopher should be pressing their British counterparts to make this deal.

During the meeting, it became clear that the negotiators are not even convinced they can win two US-Heathrow routes, nevermind the three. They estimate they have very little chance of winning three and only a 50-50 chance of winning two.

Because of the above odds on winning three routes, current expectations are a problem. If Pena insists on three routes as he enters the October 16 talks and only wins one, then he will be seen as weaker than if he asked for two and only won one. The pressure from the too-high expectations will make him more likely to insist on renunciation rather than accept a

Pena wants to renounce but knows he can't.

He's really concerned about himself. He wants to hear H. say if you get it, we take with him, it's ok.

He needs H. to hear his way it's bad & go ahead anyway & we'll back him up

for John Davis

smaller deal. Hill Republicans, according to DoT, have been calling for a renunciation. Renunciation, however, means no new routes and a very unhappy TWA, and American Airlines.

was in fact called for renunciation b/c if SO = from they're sitting pretty - due policy, not.

The decision that the Administration must make is, whether to: 1) negotiate for three new routes and hold fast, renouncing if we don't get three; 2) negotiate for one new route and two switched from Gatwick to Heathrow and hold fast, renouncing if we don't win all three; 3) negotiate for three but accept a minimum of one new route and one switch from Gatwick to Heathrow; 4) negotiate for three but accept one new route; 5) negotiate for two but accept one new route.

The decision may have to go to the President eventually, given the Secretary's strong feelings. But it is possible that he could be persuaded by a conversation with you. In particular, he needs to feel that we have done all we can to convince the British to give us three new routes. In order to placate him on this point. Bo said he would ask Secretary Christopher and Tony Lake to call their counterparts to press for three. He is not sure they will be willing to make these calls, however, because we have asked the British for a lot recently.

The purpose of your meeting with Pena will be to assure him that we have worked as hard as possible to get the three routes, to assure him that even if he is criticized by Republicans for accepting fewer than three routes, we will stand behind him, and to convince him to accept a smaller deal.

*unusual
b/c DoT hasn't
told us simply
what's been offered*

- Call Offara re Sperling
- Baer - needs to talk to asst candidate

Marshall Schulen - Oxford
Kinship Legist

adds
5 ppl
incl. her

TWA
Amer
United

- round 1 got
something

Mark Gertchuck

306 8834

Jodely Zuck
Alexis Pena
Lear
Pena
ell
Pena
in

67284
B12

37,000

Pena talked to Brit transport min. yesterday. They said we can complete next month. Oct 16. Prob = unwilling to suggest we'll come around to the 3 Heathrows & on return open Fly Amer traffic to B.A. (no direct FA traffic; but let code-shares do it)

let
em
do it
at 1/2

annoying
TWA really
wings
Heath

- orig was 2
- but TWA's fate hangs in the balance
- # get routes for U.S. criteria; cld be hearing
- it's poss that TWA wldnt get what wants

- Cont'l at Newark & Amer at Dallas
wld get 1st two

- laurel & Bedley for Conit

- whole TX dely = keep on Amer

- Delta will bitch → haven't heard much
- United got route already in last round

NW of Detroit = pressing
reas hard but
not going back

got
circle
w/ Virgin
Hank
a green
up
so ok

"even" chance of getting 2
likelihood goes down dramatically fr 3

2^{3/4} - get 3rd later - phase it in

~~Detroit~~ → ~~Amer~~

if 2+, might not walk away; straight 2 =
very

+
partly
std pt

treaty

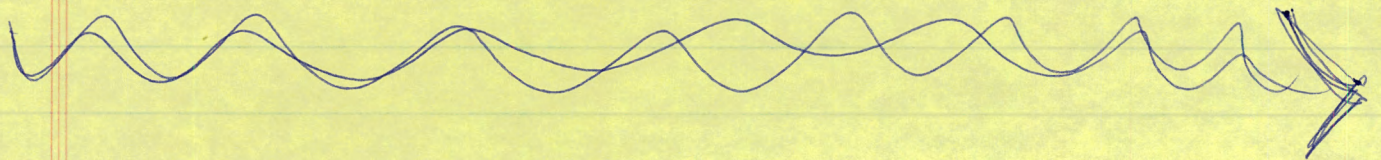
would rather renounce whole deal w/ British
than everyone = frozen where they are
"comity & reciprocity"
we did pull down fights w/ British

Delta wants renounced
Armen claims would support - ~~not~~ sure
TWA - no interest in remuneration
want a route

remuneration vs 2

(maybe
steal blame
Brits)
Well - both sides
claim to
presenter /
they are stealing
renounce

where 1 ~~claim~~ entity =
really bad)



may have to go to POTUS

if gone to TWA and it be sustained

~~Ames~~ ^{Ames} & Central
2 shifts, 1 new route

- Ames & Cent only wants shifts
- See what know - if we can get 2 routes or at 3, we want the 2, more than 3 or nothing

has to be: 1 new route NY-HRW
other = shift Gutwick to HRW

BRUCE L →

Says our Fly Am = quid pro quo

Bo - carried BL/Harg. ; but Peña = vy strong re 3;
≠ want to compromise → ≠ think we did enough (here
Lake/Christopher call) → thinks shld push.

Thinks if < 3, we'll be killed for no clout, ≠ know
how to negot; + have to say no to increase

Bo - we asked Brits to do alot & Major = 12% in polls; Peña
feels really strongly → Rs on Hill will want remuneration;
Treas → DOT think near 2
Geph called UK amb abt it; Oct hearing maybe on it

→ Mc Cann did stint yesterday, Kimberley
Bnb

- left by Bo: he'll chat w/ Christopher + Lake to
call + stress importance
- Oct 16 discussions

→ (may call Paul
no)

Deich -62801

Harold
Shed call
Peña

② allow add'l carrier $\Rightarrow$ How
but only for city that
treaty allows $\Rightarrow$ HKW

- treaty says carrier may fly fr.
HKW to following cities; only 8
can be served

takes care of TWA

designed to keep NW or Continental

6-28-95

Memo from Michael Derich

re: US, UK. Aviation
Negotiations & TWA.

action: unknown

THE WHITE HOUSE

WASHINGTON

June 28, 1995

June 28

6p leave

6:15 p Gephardt's
Ofc H204

INFORMATION

MEMORANDUM FOR BO CUTTER
ALEXIS HERMAN ✓
HAROLD ICKES

file
US UK

FROM: Michael Deich

SUBJECT: Background for meeting with TWA Management and Labor

Today you will meet with Rep. Gephardt, Jeff Erickson (CEO of TWA), Bill Compton (representing TWA pilots), Victoria Frankovich (representing TWA flight attendants), and William O'Driscoll (representing TWA mechanics). This memorandum provides background on the status of US-UK aviation negotiations; TWA's priorities for the US-UK market; and a reminder about limitations on discussing the award of international route rights.

Background on US-UK Aviation Negotiations. On June 5, the US and the UK approved a "minideal" on civil aviation (see Appendix). The US concluded this agreement only after Secretary Peña secured a personal undertaking from UK Transport Minister Mawhinney that the two countries would move quickly to conclude a second, larger package with new opportunities for other US and UK airlines. The commitment seems credible given the UK's expressed willingness to gain limited new access for its own carriers by providing similar new access for one, or perhaps more, US carriers. (Note: the US Embassy in London believes it likely that Mawhinney will leave Transportation soon in a shuffle of the UK Cabinet.)

Negotiations on the second round began last week with preliminary talks; formal negotiating sessions are scheduled for July 17-21; August 7-11; and September 11-15. This second round will consider three sets of issues:

- Limited, mutual new opportunities at Gatwick and/or Heathrow. Probably this will mean one new route each for a US and a UK carrier.
- Liberalize restrictions on Cargo, Pricing and Charter Services. Lift limitations on the rights of US carriers to operate cargo and charter services, and lift limitations on the ability of US carriers to gain business by offering lower prices.
- New rights for USAir-BA to bid on "Fly America" traffic.

These talks probably will take 4-6 months to conclude.

TWA's Priorities. In 1991, United and American purchased the rights of TWA and Pan Am to fly into Heathrow. The UK allowed these rights to be transferred, however, only after the US granted new rights for UK airlines that operate to the US. St. Louis opposed that sale. TWA now believes that it must reenter the New York-London market in order to secure the long-term survival of this employee-owned airline. In letters from the President and from Secretary Peña, the Administration has recognized the importance that TWA attaches to re-entering the New York-London market, and stated its willingness to push hard in the coming months to secure new rights for US carriers to operate between the US and London.

TWA may ask that the Administration seek new rights for a US airline to operate between New York or Newark and Heathrow or Gatwick. This can be accomplished in two ways. First, the US could seek a "named" route right, under which a US carrier would be allowed to operate between London and a specified US city. The US-UK bilateral already has many named routes; a number of these rights are unused, for traffic patterns have changed since the right was negotiated. Alternately, the US could seek an "open" route, under which a US carrier could operate between London and an unspecified US city. The city would be chosen through a formal administrative proceeding in which DOT would determine the service that could best meet a broad public interest test. If traffic patterns later changed, DOT could switch the route to some other US city.

Limitations on your discussions. Steve Newirth tells me that there are no restrictions on your freedom to talk about the substance of this negotiation (how many new routes should the US seek; should those routes be open or at airports specified in the treaty?). Since route awards to specific airlines are made by DOT after an administrative proceeding, however, **it may be inconsistent with existing Executive Orders and with the practice of this Administration for you to discuss the prospect of awarding a route to a particular airline.**

APPENDIX: Elements of the US-UK "Minideal" on Civil Aviation. The recent agreement included the following elements:

- New US carrier to serve Chicago-Heathrow. United will join American and British Airways as the only airlines that provide nonstop service on this route.
- Unrestricted codesharing for each country beyond the other country. This grants US airlines their long sought right to code-share beyond London and other UK cities.
- Unrestricted rights for US and UK carriers to fly between U.K. regional airports (airports in cities other than London), as well as London's Stansted and Luton airports, and the US.
- Philadelphia-Heathrow. BA will be allowed to increase its service from one flight to two flights per day during the summer season.
- Fly America. USAir will be allowed to bid for ^{some} US government "Fly America" traffic on behalf of the USAir-BA alliance, just as other US carriers bid for this traffic on their own code-share flights (e.g., Continental-Alitalia, Northwest-KLM, Delta-Virgin Airways, United-Lufthansa, etc).

THE WHITE HOUSE

WASHINGTON

7 June 1995

MEMORANDUM TO MARCIA HALE
ALEXIS HERMAN
BRUCE LINDSEY

FROM: Harold Ickes (11)

SUBJECT: Transworld Airlines -- Governor Carnihan

On 4 June, I spoke with Governor Carnihan of Missouri who is very concerned about the fact that TWA was not included in the first round of negotiations with the British government. He said that access to Hethrow from JFK was critical for the continued financial liability of TWA and that some 13,000 jobs might be at stake.

He urged, in the strongest terms possible, that TWA be granted that route.

Let's discuss.

Mr. R. Daniel Devlin
Vice President
Government Affairs
Trans World Airlines, Inc.
808 17th Street, N.W., Suite 520
Washington, D.C. 20006

Dear Mr. Devlin:

Thank you for your letter of June 30, 1995 concerning TWA's restructuring effort. I am glad to hear that your plan has the strong support of your creditors and that you believe it can be implemented quickly and with minimal disruption to the company and the traveling public.

I appreciate your efforts to keep me advised and look forward to hearing from you in the future.

Sincerely,

Harold M. Ickes
Assistant to the President
and Deputy Chief of Staff

I sent TWA
letter to Nick
Sarantis, he
said I try nuclear
& suggested this
response. J



Trans World Airlines, Inc.
Government Affairs
808 17th Street, NW, Suite 520
Washington, DC. 20006
(202) 457-4750

June 30, 1995

Mr. Harold M. Ickes
Assistant to the President
and Deputy Chief of Staff
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. Ickes:

This morning TWA took a major step towards the completion of our capital restructuring: we filed our prepackaged plan in bankruptcy court in St. Louis with the strong support of our creditors. This clears the way for the formal implementation of the plan by our target date of August 31, 1995.

Today's prepackaged filing ensures that TWA will operate on a normal basis as we complete our court-assisted restructuring. A prepackaged restructuring is different from other Chapter 11 proceedings. "Prepackaged" means that we have already reached agreement with our debtholders who are being impaired on the terms of the debt restructuring and that, in keeping with the debtholders' clear preference, we are simply using the Court's assistance to formally implement the agreement. This is the best way to ensure that our restructuring is implemented quickly and with minimal disruption to the Company -- in short, it saves us time and money.

Most importantly:

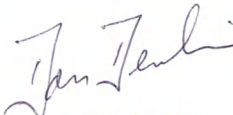
- This court filing will have no impact on employees: employee wages, salaries and benefits will be uninterrupted and normal operations at TWA will continue -- all employee policies and procedures will remain the same.
- Our suppliers will be paid on a normal basis for the products and services we purchase from them throughout the restructuring.

- Our passengers will not be affected in any way by the prepackaged filing -- flight schedules will remain the same and we will continue to honor purchased tickets and Frequent Flight Bonus Program® miles as we normally would.

This restructuring is a key element in our plan to regain full strength and to change for the better by improving the appearance, value and relevance of our product in the very competitive airline industry. The restructuring significantly improves our financial strength by reducing our debt burden by about \$500 million and eliminating about \$50 million per year in interest expense. Combined with the solid improvement we have already made in operating efficiency, the restructuring gives us the financial flexibility we need to invest in our future, including upgrading our aircraft fleet through the addition of new plane leases. As we reach our goal of becoming a truly low-cost, full-service carrier, we can now aggressively pursue our strategy of becoming the airline of choice for the value-conscious business traveler and the price-conscious leisure traveler.

I hope you will join me in looking forward to our bright new future.

Sincerely,



R. Daniel Devlin
Vice President
Government Affairs

FAX to Nick
Garafus ✓ 7/14
FAX
267 3227

Also arrange
dinner

John — 7/7
Find out if ✓
Alexis received a
similar letter +
if she responded.
Get copy.

✓ 7-11
Did not receive a J.
letter from TWA

file
US-UKfile
10/20**TWA Comments on United States/United Kingdom Negotiations**

TWA has been advised that the bilateral aviation negotiations between the United States and United Kingdom have been suspended. We are disappointed that TWA will not be able to institute its New York/Heathrow route in the near future. We are pleased however, that the U.S. Government has stood firm in rejecting the highly limited offer of routes for U.S. carriers and which would have precluded TWA from flying from its hub at JFK to London's Heathrow Airport.

We are most appreciative of the outstanding support that we have received from many persons who have urged that the U.S. Government obtain the JFK/Heathrow route for TWA. In particular, House Minority Leader Richard A. Gephardt and Governor Mel Carnahan have strongly supported TWA's efforts to gain the route. TWA Chairman Jeffrey Erickson stated that "It is reassuring for TWA and the State of Missouri to have such effective political leaders supporting Missouri businesses."

US UK

Gerchmeck

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- or ALJ process

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be an
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- Want Weather

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THP - can't compete internationally w/o

JKK/Weather