CERTAIN COMMUTER AIRPLANES FROM FRANCE AND ITALY

Determination of the Commission in Investigations Nos. 701-TA-174 and 175 (Preliminary) Under Section 703 (a) of the Tariff Act of 1930, Together With the Information Obtained in the Investigations

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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C O N T E N T S

Tables

Note.--Information which would reveal the confidential operations of individual concerns may not be published and, therefore, has been deleted from this report. Such deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISION
Washington, D.C. 20436

Investigations Nos. 701-TA-174 and 701-TA-175

CERTAIN COMMUTER AIRPLANES FROM FRANCE AND ITALY

Determination

On the basis of the record 1/ developed in investigations Nos. 701-TA-174 and 175 (Preliminary), 2/ the Commission determines, pursuant to section 703(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a)), that there is no reasonable indication that an industry in the United States is materially injured or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, 3/ by reason of imports from France and Italy of certain commuter airplanes, 4/ as provided for in item 694.41, of the Tariff Schedules of the United States (TSUS), upon which subsidies are alleged to be paid.

Background

On May 27, 1982, a countervailing duty petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce, respectively, by counsel on behalf of Commuter Aircraft Corporation, of Youngstown, Ohio. The petition alleged that certain commuter airplanes imported from France and Italy receive, directly or indirectly, bounties or grants within the meaning of section 701 of the Tariff Act of 1930 (the Act).

1/ The "record" is defined in sec. 207.2(i) of the Commission's Rules of Practice and Procedure (47 F.R. 6190, Feb. 10, 1982).

2/ It is the view of Commissioner Calhoun that the Commission's analysis of the impact of imports of these commuter airplanes should be given one investigation number, not two. The analysis concerns one imported product which will be exported from one country.

3/ Commissioner Frank determines that there is a reasonable indication that the establishment of an industry in the United States is materially retarded.

4/ For purposes of this investigation, "commuter airplanes" are airplanes having a seating capacity of less than 60 seats.

Accordingly, the Commission instituted a preliminary investigation under section 703(a) of the Tariff Act of 1930 to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded by reason of the importation of such merchandise into the United States.

Notice of the institution of the Commission investigations and of the conference to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register on June 9, 1982 (47 F.R. 25077). The conference was held in Washington, D.C. on June 23, 1982, and all persons who requested the opportunity were permitted to appear in person or by counsel. The Commission voted on these cases in public session on July 7, 1982.

VIEWS OF CHAIRMAN ALFRED E. ECKES AND COMMISSIONERS PAULA STERN, MICHAEL J. CALHOUN, AND VERONICA A. HAGGART

We have determined that there is no reasonable indication that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry in the United States is materially retarded, by reason of allegedly subsidized imports of commuter airplanes from France and Italy. 1/ The reasons for our determination are discussed below.

Domestic industry

Prior to consideration of the impact of the imports under investigation on the affected domestic industry, the Commission must first define the appropriate scope of that industry. According to section 771(4)(A) of the Tariff Act of 1930, the domestic industry consists of "the domestic producers as a whole of a like product or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product." 2/ The term "like product" is defined by statute as "a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation . . . ." 3/

A brief discussion of the market for the aircraft under consideration is essential for establishing a context for our definition of the appropriate

1/ Although the petition alleged material injury, threat of material injury, and material retardation of the establishment of an industry, the petitioner's case relied solely on the claim of material retardation. Transcript of staff conference at 7. For reasons to be discussed below, material injury and threat of material injury are not at issue in these cases.

2/ 19 U.S.C. § 1677(4)(A).

3/ 19 U.S.C. § 1677(10).

like product and the relevant industry. 4/ There are at present over 250 commuter airlines providing service in the United States. These airlines typically operate short-haul, low-passenger-density routes over distances from 100 to 300 miles, providing service to small- and medium-size communities not served by the larger airlines. The aircraft used vary greatly, depending in large part on the performance characteristics and size of airplane suited to the routes operated by each carrier. These airplanes differ significantly in size and in other ways from the larger aircraft, usually powered by jet engines, that are used by the major national and international air carriers.

The Airline Deregulation Act of 1978 (ADA) 5/ has greatly increased the market opportunities for commuter airlines. Passage of the ADA permitted the major airlines to reduce or abandon service to many air service markets that offer too little traffic to be profitable when using large jet aircraft. Commuter airlines have assumed service to many of these markets. Specifically, the ADA has aided in establishing a market for larger commuter aircraft capable of seating 30 to 60 passengers. Prior to 1978, Civil Aeronautics Board and Federal Aviation Administration regulations effectively limited the feasibility of operating commuter aircraft of this size. As a result, few manufacturers produced these aircraft. The ADA now permits commuter airlines to operate airplanes with up to 60 seats, and there is increasing interest among commuter air carriers in purchasing these airplanes.

Tremendous increases in the cost of fuel necessitate that any new aircraft designed to satisfy this market be efficient to operate. 6/

4/ Information on the commuter airline industry is derived generally from the Report, the petition, and the transcript of the Commission's staff conference held June 23, 1982.

5/ Pub. L. 95-504, 92 Stat. 1705 (Oct. 24, 1978).

6/ See Transcript of staff conference at 101.

Recently developed turboprop engines can provide better than 25 percent greater fuel efficiency than previously available engines. In addition, technological advances in the kinds of materials used in constructing the airframe and the techniques for bonding components together can reduce the weight of an aircraft, thus increasing fuel efficiency.

The allegedly subsidized import is the ATR-42, which is among the airplanes being developed to take advantage of this new market. It is being developed by a consortium of the French company Societe Nationale Industrielle Aerospatiale and the Italian company Societa Aerospaziale Italiana. 7/ It is a pressurized, twin-turboprop aircraft designed to carry 42 to 49 passengers, depending on seat placement and pitch. A stretched version of the airplane can increase the capacity to 54 and 58 passengers. The respondents allege that it utilizes advanced, highly efficient technology in its avionics system and in the construction of its airframe. In addition, its turboprop engines are of a modern design providing high fuel efficiency.

7/ The ATR-42 is still in the developmental stage, so no aircraft have actually been produced or imported. The producers of the ATR-42, however, have obtained commitments from three commuter airlines in the United States to purchase 17 airplanes. Respondents argue that the petition should be dismissed because, since there are no actual imports, the domestic industry cannot be injured (or its establishment materially retarded) "by reason of imports" within the meaning of section 701 of the Tariff Act of 1930, 19 U.S.C. § 1671. The Department of Commerce considered the same arguments in deciding the sufficiency of the petition, and nevertheless concluded that the investigation should proceed. The Commission has generally taken the position that it does not possess the discretion to reconsider Department of Commerce determinations regarding the sufficiency and scope of a petition. See Sodium Gluconate from the European Communities, Inv. No. 701-TA-79 (Preliminary), USITC Pub. 1169, at 8-9 (1981). Moreover, we believe this remedial statute ought to be construed to apply when sales have been made in the United States of allegedly subsidized articles to be imported in the future. In an industry--like the aircraft industry--in which sales are made well in advance of production and delivery, effective relief, if warranted, would be frustrated if an investigation could proceed only after the first imports have entered this country.

Petitioner Commuter Aircraft Corporation's projected product, the CAC-100, which is planned to be in production by late 1984, is a pressurized 50-passenger aircraft using four turboprop engines. A stretched version accomodating 60 passengers will also be available. The petitioner alleges that the CAC-100 will take advantage of technological advancements in avionics, engine design, and the techniques and materials used in the construction of the airframe.

Both the petitioner and the respondents are in general agreement on the characteristics and uses that they contend define a like product. 8/ The parties contend that 40- to 60-seat airplanes constitute a distinctly identifiable segment of the market and do not in any significant way compete with smaller commuter airplanes. Additionally, they contend that the like product would be pressurized and would incorporate advanced technology. Under the definition used by the parties only one U.S.-designed airplane--petitioner's CAC-100--would qualify as a like product, and therefore CAC would constitute the entire relevant U.S. industry. 9/

The record suggests that domestic aircraft other than the CAC-100 may also have characteristics and uses that make them competitive with the ATR-42 in the view of many potential purchasers. There is information available suggesting that smaller airplanes of from 30-40 seats may be competitive with

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8/ Petition at 31-34; Transcript of staff conference at 38-41, 57, 131; petitioner's post-conference brief at 11; respondents' post-conference brief at 5.

9/ While the two airplanes possess some obvious dissimilarities in design, the most prominent of which being the number of engines and the placement of the wings, these differences are not considered significant enough by the parties to make the CAC-100 unlike the ATR-42 for purposes of analysis under the statute.

the ATR-42. 10/ The seating capacity of an aircraft is a major consideration in a purchaser's decision. Other specifications, such as weight, power capability and other performance characteristics, dimensions, cargo capacity, and pressurization also play a part in determining whether the characteristics and uses of a particular aircraft are suitable for a buyer's needs. 11/ There is not sufficient information on the record to allow us to make an adequate comparison of various aircraft with the ATR-42 based on these specifications.

For the purposes of these preliminary investigations, 12/ we find the like product definition as developed by the parties to be appropriate based on the information available. Therefore, we determine that the domestic industry consists of CAC.

No material retardation of the establishment of a domestic industry

Petitioner's position in these investigations rests on the claim that sales of the ATR-42 in the United States have resulted in material retardation

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10/ A domestic producer of an airplane in that size range, Fairchild Industries, has expressed the opinion that "a simple demarcation line of 40-60 seats would not provide the Commission with an accurate picture of the domestic industry in the United States. The ATR-42 competes with our 34-passenger aircraft." Submission by George S. Attridge, Senior Vice President, Fairchild Industries (June 28, 1982). Asked at the staff conference whether a 36-seat aircraft would be competitive with the 42-seat ATR-42, counsel for petitioner responded that he "would suspect it would be." Transcript of staff conference at 56. The president of one U.S. commuter airline, testifying on behalf of the respondents, stated that his company considered nine different aircraft, with differing passenger capacities, before deciding to purchase the ATR-42. He stated that at the time his firm began its search for an appropriate airplane, it had not yet defined the size of airplane it needed. Transcript of staff conference at 89.

11/ Staff report at A-8; transcript of staff conference at 88; submission by George S. Attridge, Senior Vice President, Fairchild Industries (June 28, 1982).

12/ It is the view of Commissioner Calhoun that the Commission's analysis of the impact of imports of these commuter airplanes should be given one investigation number, not two. The analysis concerns one imported product which will be exported from one country.

of the establishment of an industry in the United States. Since the industry definition we have adopted includes only a single firm that has yet to begin production of commuter airplanes, material retardation, not material injury or threat of material injury, is the proper issue to be considered.

Commission precedent establishes that when a domestic industry has not yet undertaken production, it must show, as a threshold matter, that it has made a substantial commitment to commence production. 13/ We find that, based on the record developed, the nascent commuter airplane industry represented by CAC has made a substantial commitment to commence production of commuter aircraft in the United States. CAC has obtained substantial loans and loan guarantees from private lenders and federal, state, and local government agencies, and has negotiated for further financing for working capital. 14/ It owns 95 acres of land bordering the Youngstown, Ohio airport on which it plans to build its manufacturing facility, and has obtained rezoning and arranged for utility connections. Construction of the 225,000-square-foot plant, projected to cost $14 million, is now underway and is projected to be completed by the end of 1982. CAC employs a staff of engineers and technicians, and has contracted for assistance from outside consulting firms. Design specifications for the CAC-100 have been developed and published, and

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13/ Salmon Gill Fish Netting of Manmade Fibers from Japan, Inv. No. 751-TA-5, USITC Pub. 1234 (1982); Motorcycle Batteries from Taiwan, Inv. No. 731-TA-42, USITC Pub. 1228 (1982); Synthetic L-Methionine from Japan, Inv. No. 751-TA-4, USITC Pub. 1167 (1981); Regenerative Blower/Pumps from West Germany, Inv. No. AA1921-140, T.C. Pub. 626 (1974) (Views of Commissioner Moore). Cf. Certain Ultra-Microtome Freezing Attachments, Inv. No. 337-TA-10, USITC Pub. 771 (1976).

14/ The loan guarantee by the Economic Development Administration of the Department of Commerce is contingent on CAC's receiving at least 25 orders for the CAC-100. Report at A-15 and A-17.

CAC has begun initial efforts to market the airplane. Actual production of the airplane is slated to begin by 1984.

Although CAC has demonstrated a commitment to begin production, the record does not provide a reasonable indication of a causal link between the allegedly subsidized sales of the ATR-42 in the United States and any difficulties CAC may be experiencing in becoming established as a producer of a competitive aircraft.

In the aircraft industry, it is common for sales of a newly designed airplane, like the ATR-42 and the CAC-100, to take place far in advance of actual production. 15/ For example, orders have already been taken for the ATR-42, even though no models presently exist and none are projected to be completed until late 1984 or early 1985. Airlines must therefore make their purchase decisions on the basis of a number of factors in the absence of the actual performance experience of the airplane. Among these factors are the performance characteristics of the airplane, operational costs, pressurization, quality of technology used, reputation and proven record of the seller, the seller's ability to provide service, the acquisition cost, and

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15/ Commissioner Calhoun notes that commuter airlines, especially the successful ones, generally make their equipment acquisition decisions two to three years in advance of actual delivery of the equipment. Such decisions are most often based upon market forecasts and anticipated needs, the added assurance of equipment availability, and the likelihood of the manufacturer making price, warranty or some other concessions. The manufacturers of commuter airplanes make an effort to secure sales of their product several years prior to its delivery, largely to help finance the substantial capital outlay necessary for production and to test the marketability of the product.

financing. 16/ Because of the high debt-to-equity ratio of most commuter airlines, a new equipment decision can often determine the success or failure of a carrier. Often, the cost of a single aircraft exceeds the net worth of the airline itself.

The buyer's ability to evaluate the performance and quality of a new aircraft is therefore essential and is acutely dependent on the availability of detailed technical specifications regarding the airplane. Without such specifications a buyer could not be expected to commit itself to a purchase, and the negotiation of the sale would not proceed to the question of financing. A seller who does not provide detailed specifications cannot be said to be in head-to-head competition for the sale. 17/ 18/

Information obtained by the Commission establishes that to date CAC has made very limited efforts to market the CAC-100. Calls on potential customers

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16/ Although U.S. purchasers indicated that financing was not a major factor in their decisions to buy the aircraft, there is information on the record that indicates that variations in financing terms could result in significant differences in the overall cost of an airplane. Report at A-31 through A-37. Article entitled "Commuter Aircraft Ruling Nears" appearing in The Journal of Commerce on July 6, 1982, and submitted by Congressman Lyle Williams, 19th Ohio District. Commissioner Calhoun does not join in this footnote.

17/ Commissioners Calhoun and Haggart note that because of the industry custom of purchasing airplanes well in advance of production, a manufacturer, such as CAC, entering the market for the first time may face unique problems in achieving buyer acceptance. For example, the financial stability of the company may be more closely scrutinized by the buyer. In addition, the inability of the purchaser to evaluate the company's track record in constructing and servicing airplanes would be an important factor in determining whether to purchase a plane from a newly-established manufacturer. This is not to say that a well-designed and aggressively marketed airplane introduced by a new manufacturer could not be successful in the marketplace. However, in establishing causality, we must be careful not to attribute to imports the market entry difficulties typically faced by new entrants.

18/ Chairman Eckes notes that, with regard to causation of any material retardation, it remains unclear in this investigation as to the suitability of petitioner's product to the needs of the marketplace, notwithstanding the availability of specifications.

have been relatively few, and detailed specification documents have not been provided. CAC has informed the Commission that it did not have preliminary detailed specifications ready to supply to its customers until after May 15, 1982, a date subsequent to the orders from Wright, Ransome, and Command for the ATR-42. 19/ In addition, confidential marketing documents submitted by CAC indicate that as of early 1982 CAC was aware that other manufacturers were making better sales presentations and that CAC needed aircraft specification and performance documents in order to compete effectively. Representatives of the three U.S. airlines that have purchased the ATR-42 have all told the Commission that the CAC-100 was never seriously considered at the time of their purchasing decisions. Prominent among the reasons given for the lack of consideration was CAC's failure to provide specification documents. Responses to the Commission's purchaser questionnaires further confirm that other potential purchasers have not been provided with firm, reliable data on the CAC-100.

Based on the record of this investigation, we find no reasonable indication that the allegedly subsidized sales of the ATR-42 have resulted in material retardation of the establishment of CAC as a U.S. producer. The limited nature of CAC's sales efforts, particularly the unavailability of specification documents, has seriously restricted CAC's access to the market and has prevented it from competing for sales to date.

19/ See memorandum of July 9, 1982, from Woodley Timberlake, investigator, to the record.

Views of

Commissioner Eugene J. Frank

Based upon the record of Preliminary Investigations Nos. 701-TA-174-175 on Certain Commuter Airplanes from France and Italy, I have determined there is a reasonable indication that the establishment of an industry in the United States is being materially retarded, because of allegedly subsidized imports of commuter airplanes from France and Italy. The reasons for my determination are discussed in the following sections.

Domestic Industry

The appropriate scope of the industry is defined in large measure by agreement of both the petitioner and respondent in these preliminary investigations. Both parties have agreed that the industry considered in these investigations of certain commuter airplanes is essentially all 40- to 60- passenger seats commuter airplanes. Some information suggested by some authorities was: that seats are not the only criteria to be applied or that only 40- to 60-passenger seats commuter aircraft is too rigid an industry definition, I do not concur based on all factors I evaluated. I believe evidence presented indicates a segment of the market can be considered as an industry. Comments by some commuter airline executives indicate that this is the segment of the market they really considered in decisions to purchase aircraft for their airlines. They relied heavily on seats available being 40 to 60 seats.

The commuter aircraft industry management in the past has frequently underestimated the number of seats required according to the investigations' record. The Airline Deregulation Act of 1978 has stimulated commuter airline industry expansion into many of the smaller- and medium-sized cities or towns where major airlines abandoned their airline service. Major airlines generally wanted to concentrate on longer-haul markets served usually by their larger jet aircraft. However, all aircraft to a certain extent compete with one another just as all items purchased in the economy compete. Hence, even a "smaller" commuter aircraft with 34 or even fewer seats in a "theoretical" sense may compete with a 40 to 60 passenger seats larger commuter aircraft. However, with pilot and crew costs rising, continuing restrictions on number of flights because of air controller availabilities and aircraft technical or other advancements, it is my opinion that larger aircraft with at least 40 to 60 passenger seats represents the domestic industry. There is considerable interest shown by commuter airlines in stretched aircraft versions and extra space to ease in conversion to freight capacity. To have such capacity flexibility and interchangability, a larger 40- to 60- passenger seats aircraft is desirable or almost mandatory.

There is a considerable difference between listing many types of commuter aircraft when a commuter airline is considering purchase and is uncertain what criteria should be applied in a final selection. Each airline may list different requirements depending on intended routes. Some routes may require four-engine commuter aircraft because of air speed, power needs, take-off, safety, "over-water" regulations or other requirements, length of flights, airport and mountain elevations, servicing flexibility and flights to such service centers (even on three engines), and other features. In preliminary

investigations, frequently all the technical requirements or factors are not adequately evaluated or compared. Hence, this lack of data should not blemish preliminary determinations that are based on low threshold requirements.

Some airlines and aircraft manufacturers, especially in the evolving commuter aircraft industry since 1979, do not have rigid specifications for necessary planes. This does not mean that the overall commitment to competing in this industry is any less real on a low threshold definition of what is adequate competition or sales effort. In final investigations, more analysis can be completed of: technical matters, market sizes and definitions, injury and material retardation, foreign subsidies, and possible forthcoming minimum "allowable" interest rate "arrangements" and payment terms that may be agreed upon by certain European Community and North American continent exporters of commuter aircraft in their export sales efforts. It is imperative to note again that in these preliminary investigations, the petitioner (Commuter Aircraft Corporation - CAC) which is developing the 50-seat CAC-100 and the respondents (a consortium of the French company Societe Nationale Industrielle Aerospatiale and the Italian company Societa Aerospaziale Italiana) which is developing the ATR-42 that is a 42- to 49-seat aircraft are both agreed on the type of aircraft which represents the industry covered by these investigations. It is important to note there are plans to provide for "stretched" versions of each of these aircraft. The CAC-100 could possibly be expanded up to a 59- or 60-seat version, and the ATR-42 could be expanded to a 54- to 58 passenger seat capacity. Hence, commuter aircraft passenger revenues could be enhanced if there were more actual passengers per plane. Whether other commuter aircraft manufacturers in the United States will, in the future, stretch their existing aircraft or offer a new planned aircraft to fit this agreed industry definition is not the conjectural concern of the Commission.

I accept the industry definition which for some reasons was agreed upon in these investigations by both the petitioner and respondent.

Material retardation of the establishment of a domestic industry

I determine that there were sales of aircraft (the ATR-42) prior to the Commissioners' investigation, briefing, determination, and vote, on Wednesday, July 7, 1982, and the following factors were known or existed:

1. These are preliminary investigations where low-threshold criteria or "standards" apply according to numerous statements and Congressional intent. 1/
2. Retardation standards are still in a state of evolution relative to each industry and type of situation. 2/
3. Alleged interest rate "subsidies" implications were derived by staff research and were presented in the preliminary "staff" report which was to be reorganized according to staff comments to me and my involved staff. These comments were made to me prior to the Commission's final vote on this investigation. There were what I now consider to be major errors in the texts and tables related to ATR-42 interest payment differentials and

1/ See my views on low-threshold preliminary determinations in U.S. I.T.C. Publication 1259, June 1982, Frozen French Fried Potatoes from Canada, pp. 12-15.

2/ General Counsel U.S.I.T.C. Memorandum GC-F-215 to the Commission of July 2, 1982, including discussion of views of Commissioner Moore in Investigation No. 337-TA-10 (1976) and the Salmon Gill Fish Netting of Manmade Fibers from Japan, Investigation No. 751-TA-5 U.S.I.T.C. Publication 1234 (1982). I conclude that it has been demonstrated that CAC has taken substantial steps and made an affirmative commitment toward establishing production.

related statistics which were only found, noted, and corrected by the Commission staff after the July 7, 1982 Commission vote on this preliminary investigation. These corrections, I believe, now should be included in the staff report which should become the (Commission) Report if accepted as corrected by the Commission. The transcript of the Preliminary Hearing conducted on June 23, 1982, on pages 121 and 122 indicated, according to Mr. Walker, that the respondent (consortium) offered 10.4 percent interest over eight years to "people who have signed options before November 15 (1981) and entered into contract before May 15 (1982). The current rates of interest that are being offered are 12.75 percent, not 10.4 percent in keeping with the contested arrangement."

4. There had been a CAC first class mailing of a very large specification booklet on the CAC-100. This mailing began on or about May 1, 1982, and went to 30 to 40 commuter airlines. Hence, commuter airlines had reasonably adequate information on the CAC-100 and could evaluate it more fully if they desired and needed to do so.

5. It is understood that the CAC-100 actually has an "internal" stretching capacity in terms of passenger seats. The present version of the CAC-100 by changing passenger seating arrangements can accommodate up to 59 seats.

6. Both planes it is understood rely on: Pratt and Whitney turboprop engines, technical advances in materials utilized to construct the airframe and bond the components together. Essentially, based upon details provided in a June 28, 1982, post-conference brief filed on behalf of CAC and containing confidential business information, there was considerable documentation illustrating, in my estimation, that the CAC-100 technology was not based on "old" technology. Hence, I conclude both planes (the CAC-100 and ATR-42) are similar in the use of advanced technology and avionics. These are some of the factors repeatedly stated as necessary for an aircraft to be seriously considered by purchasing commuter airlines. Other lists of factors to be evaluated in reaching conclusion and decisions in commuter aircraft purchases seem to be now equally available and indicative of advanced technologies being utilized in both planes. On June 14, 1982, the Commission recorded receipt of Copy No. 60 of "Preliminary Detailed Specifications" for the CAC-100, attached to Mr. Graham's letter of June 9, 1982. This is the full revised May 1, 1982, (but Confidential) detailed specification. However, the May 1, 1982, booklet referred to above was a shorter technical details booklet of approximately 50 or 60 pages according to CAC. Based on all of the above, I conclude adequate details for this type of aircraft at this stage of development were available to numerous commuter airlines on or shortly after May 1, 1982. The fact that some commuter airlines did not have <u>detailed</u> specifications earlier

did not preclude these airlines from re-evaluating their options to purchase the ATR-42 and/or to enter into discussions relative to the CAC-100 for first time or to supplement or replace their purchases of or options on the ATR-42. Hence, some or all of the estimated 21 ATR-42 planes "sold" to U.S. airlines might have been reconsidered if the actual contract dates and terms permitted. The fact that some U.S. commuter airlines had options, etc. to purchase the ATR-42, in my opinion, materially reduced the potential for sales of the CAC-100 to other U.S. airlines on or after May 15, 1982. These U.S. commuter airlines' decisions, if U.S. and/or world market size for the 40-to 60- passenger seat commuter aircraft is as restricted as some experts contend, materially retarded CAC establishment of a U.S. 40- to 60-passenger commuter aircraft industry. CAC has shown its substantial commitment to building the CAC-100 and has made adequate investment and sales efforts based upon standard approaches used by private enterprise companies engaged in the overall aircraft manufacturing industry. It is realized that when a new U.S. industry is being created, the strength of the new entrants(s) will be questioned if such a corporation(s) is not a major established corporation. Capital, in my opinion, will probably be available for well-conceived products where experienced management exists. Such experience can come from management at other aircraft companies or in consortiums.

7. It is of little value to indicate to a petitioner that more sales efforts should have been made, more detailed specifications should have been provided, or that such efforts should now be made and to refile with the appropriate U.S. Government Commissions and/or Departments later. In the interim, additional orders and time will be lost to this potential industry's establishment which is allegedly materially injured by reason of alleged subsidies resulting from below U.S. market interest rates offered to U.S. commuter airlines. Foreign interest rates for similar credit risk situations, in my opinion, may also be alleged to be subsidized and may preclude potential CAC-100 sales in foreign markets. These foreign sales are not particularly discussed in this investigation or my opinion, but are involved in the viability of CAC under the circumstances described above.

Conclusion

The negative determination in this case will probably result in the loss of a potential 1,100 construction jobs and an eventual potential 1,600 jobs in the Youngstown, Ohio, area not including indirect jobs. This, in my opinion, results from comments or decisions to end or retard further these preliminary investigations and not allow them to answer fundamental questions which I believe beg to be answered. No shield on the sufficiency and timing of sales information can, in my judgment, be raised in these particular preliminary investigations, which should have been judged on a low-threshold basis.

I determine that there is a reasonable indication that the establishment of an industry in the United States is being materially retarded because of allegedly subsidized imports of commuter airplanes from France and Italy.

INFORMATION OBTAINED IN THE INVESTIGATIONS

Introduction

On May 27, 1982, a petition was filed with the U.S. International Trade Commission and the U.S. Department of Commerce on behalf of Commuter Airline Corp. alleging that producers, manufacturers, or exporters in France and Italy receive, directly or indirectly, bounties or grants on their production and/or exportation of certain commuter airplanes within the meaning of the U.S. countervailing duty laws. The Commission instituted preliminary countervailing duty investigations, effective May 27, 1982, under section 703(a) of the Tariff Act of 1930 (19 U.S.C. 1671b(a)) to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded by reason of imports from France and Italy of certain commuter airplanes, provided for in item 694.41 of the Tariff Schedules of the United States (TSUS), upon which the petitioner alleges bounties or grants are being paid. The Commission must make its preliminary determinations within 45 days of its receipt of the petition, or in this case, by July 12, 1982. Notice of the institution of the Commission's investigations and of a public conference to be held in connection therewith was duly given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register of June 9, 1982 (47 F.R. 25077). 1/ The public conference was held in Washington, D.C., on June 23, 1982. 2/ The Commission voted on these investigations on July 7, 1982.

Request for Dismissal

Subsequent to the filing of the countervailing duty petition on behalf of Commuter Aircraft Corp. (CAC), the U.S. Department of Commerce (the administering authority) was petitioned by counsel representing Societe Nationale Industrielle Aerospatiale (Aerospatiale) and joined by counsel for Direction General d'Aviation Civile, an agency of the Government of France, to dismiss the petition. Aerospatiale, together with Societa Aerospaziale Italiana, is the foreign manufacturer and exporter of the product which is the subject of the petition. Commerce found CAC's petition sufficient.

1/ A copy of the Commission's notice is presented in app. A.
2/ A list of witnesses appearing at the conference is presented in app. B.

The Product

Description

Commuter airplanes are civil airplanes powered by piston, turboprop, turbojet or turbofan engine(s), having a seating capacity of 8 to 60 passengers, and a payload capacity for all cargo not to exceed 18,000 pounds. The establishment of the market for 30-to-60 seat commuter airplanes was significantly aided by the Airline Deregulation Act of 1978. Prior to 1978, CAB and FAA regulations greatly restricted the feasibility of operating airplanes in the 30 to 60 seat range. Although individual commuter airplanes in this category vary in passenger seating capacity, interior and exterior finishings, and speed at which they are normally operated, all are of similar design and may be assembled from parts and equipment which are essentially alike.

The CAC-100 aircraft 1/, produced by the petitioner, Commuter Aircraft Corp., is a pressurized 50 seat (32-inch seat pitch 2/) airplane, utilizing four Pratt and Whitney of Canada Pt6 turboprop engines. The 73 foot 2-inch long CAC-100 will have a cabin length of 45 feet 2 inches and will accommodate 50 passengers in a 4 abreast seating arrangement with 6 feet 4 inches of headroom in the center 20-inch aisle. The cabin may be converted to either passenger and cargo or all cargo configurations. 3/ The airplane has a normal cruising speed of 300 knots and a maximum takeoff weight of 34,000 pounds.

The CAC-100 airplane was initially designed in 1968 by a now defunct company known as General Aircraft Corp. as a short takeoff and landing (STOL) aircraft, with a seating capacity of 44 passengers. The design was acquired from GAC and has been altered to increase the passenger capacity to 50 and incorporate current and advanced technology in such major areas as power plant and wings. Plans have also been made for a 60-seat CAC-100.

Commuter airplanes currently assembled or produced in the 30-to-60 seat range include the Dash 7 (Canada), the F-27 (the Netherlands), the BA-748 (the United Kingdom), the Gulfstream G-1C (United States), and the SD-330 (Northern Ireland). Future aircraft, currently under development, includes the ATR-42 (France/Italy), which is the subject of these investigations as well as CAC-100 (the United States), the CN-235 (Spain/Indonesia), the Dash 8 (Canada), the SD-360 (Northern Ireland), the Saab/Fairchild 340 (Sweden/United States), the EMB-120 Brasilia (Brazil), and the Ahrens 404 (United States). (See tables 1 and 2 for more information about individual planes.)

Both the petitioner and the respondents contend that for the purposes of these investigations the domestic industry is comprised only of producers of aircraft with seating capacity of 40-60 seats. There is no current domestic production or assembly of such an aircraft. The only future domestic aircraft, currently under development, in this category is the CAC-100.

1/ A picture of the CAC-100 is contained in app. C.

2/ Seat pitch is the distance between the back of an airplane seat and the seat directly behind it.

3/ "1982, the Year of Commitment for U.S. Commuter/Regional Carriers," Commuter Air, February 1982, p. 27.

Table 1.--Commuter airplanes: Commuter airplanes currently produced or under development in the 30-to-60 seat range

Aircraft	Manufacturer	Average equipped price (in 1981 constant)	Passenger seating capacity	Pressurized	Normal cruise speed (knots)	When available
		Million of dollars				
Current aircraft:						
Dash 7	De Havilland (Canada)	$4.96	50	Yes	234	1977
F-27	Fokker (the Netherlands)	5.30	50	Yes	256	1958
BA 748	British Aerospace (the United Kingdom).	6.00	50	Yes	234	1962
Gulfstream G-1C	Gulfstream Corp. (United States).	3.50	32	Yes	260	1980
SD-330	Short Brothers (Northern Ireland).	2.40	30	No	189	1976
Future aircraft:						
CAC-100	Commuter Aircraft Corp. (United States).	5.00	50	Yes	300	1984-85
ATR-42	Aerospatiale/Aeritalia (France/Italy).	5.00	42-49	Yes	277	1984-85
CN-235	Casa/Nurtanio (Spain/Indonesia).	3.85	38	Yes	250	1984
Dash 8	De Havilland (Canada)	3.93	36	Yes	270	1984
SD-360	Short brothers (Northern Ireland).	3.25	36	No	210	1982
SAAb/Fairchild 340	Saab Scandia/Fairchild Swearigen (Sweden/United States).	3.75	34	Yes	274	1984
EMB-120 Brasilia	Embraer (Brazil)	3.20	30	Yes	287	1984-85
Ahrens 404	Ahrens Aircraft Corp. 1/ (United States).	1.80	30	No	175	1982

1/ Company currently in bankruptcy proceedings.

Source: Compiled from industry and trade association statistics.

Table 2.--Commuter airplanes: Performance characteristics of principal commuter airplanes under development

Item	Aerospatiale ATR-42	CAC CAC-100	Gulf-stream G-1C	Saab/ Fairchild 340
Powerplant:				
Number of engines	2	4	2	2
Manufacturer	Pratt & Whitney	Pratt & Whitney	Rolls Royce	General Electric
Model	PW 100/2	PTG-A	1/	CT7-5A
Takeoff power	1,800	1,173	1,910	1,630
Weights:				
Maximum takeoff--pounds	31,994	2/ 37,500	36,000	26,000
Maximum landing--do	31,355	2/ 37,500	34,285	26,000
Maximum zero fuel--do	30,385	2/ 35,250	32,250	23,000
Fuel capacity--gallons	1,480	1,150	1,550	880
Performance characteristics:				
Runway required--				
Take off--feet	3,250	4,020	4,850	3,550
Landing--do	2,725	4,050	4,540	3,740
Range--miles	805	3/ 1,200	3/ 440	1,150
Payload--passengers	42	50	37	34
Reserves	4/	5/	6/	7/
Cruise speed--mph	317	345	345	315
Seat miles--per hour	9,450	10,700	8,538	6,955
Seat miles--per gallon	50.8	59.1	37.3	54.3

1/ Dart R. DA, 7 mark 529-8X.
2/ Gross weight.
4/ 45 minutes.
3/ Nautical miles.
5/ Not available.
6/ 100 nautical miles plus 45 minutes.
7/ 100 statute miles.

With an expected production start in the second half of 1983, Commuter Aircraft Corp. aims for certification in mid-1984 and deliveries beginning in early 1985. According to company officials, initially all production work on the CAC-100 airplane is to be subcontracted, with all components except the engines subcontracted to U.S. manufacturers. The estimated delivery price is $5.0 million. 1/

Several studies 2/ have indicated that the CAC-100, as specified in the designs, will be a viable contender in the commuter airplane market. However, in discussions with airframe manufacturers, commuter airlines and trade associations, several issues were cited that may hinder the CAC-100 marketability. These include the belief that the airframe and engines are "old technology," the fact that the plane has four engines when the industry trend is toward two, and the fact that the plane is being built by an "unproven" company with no known service capabilities. Concerning the industry trend towards two engines, CAC (Petitioner) believes a four engine airplane is particularly well suited for operating in high altitute airports; meets the Federal Aviation Administration's (FAA) "over-water" requirement; and, provides an extra margin of safety (a four engine airplane can be ferried on three engines whereas a two engine airplane cannot be ferried on a single engine).

Advanced technology

Incorporation of the latest technology to improve the efficiency and productivity of any new commuter aircraft is an important factor in the marketing success of the aircraft. However, due to the safety and control requirements an aircaft must meet, technology utilized on an airplane must be proven technology. In this regard, technological advancements are phased in over time in order to assure safety and reliability. Technological advancements are taking place in three major components of an aircraft: the airframe, the engine, and the avionics.

In regard to the airframe, the basic configuration presently used by commuter aircraft manufacturers is expected to remain essentially the same in the near future. One area of advanced technology which is currently being utilized by many manufacturers concerns the techniques and materials used in the actual construction of the airframe. Aluminum will continue to be the primary material used in the manufacture of commuter aircraft; however, there is expected to be a significant increase in the use of composite materials such as carbon, glass, and graphite fibers in noncritical areas of the airframe. Utilizing these composites in the construction of an airframe allows significant weight savings. Additionally, a trend is developing toward the use of adhesive-bonding techniques for aluminum components in lieu of mechanical fasteners for fastening. Bonded airframe structures provide

1/ In constant 1981 U.S. dollars.

2/ CAC-100 Marketability Study, Kimbrier and Associates, Inc., July 1981; A Review of the Commuter Aircraft Corporation, Simat, Helliesen and Elchner, Inc., Aug. 18, 1981; and Commuter Aircraft Corporation, Economic Feasibility Study of the CAC Business Plan, Kearney Management Consultants, October 1980.

particular benefit in reducing stress concentration and structural fatigue. 1/ Both the CAC-100 and the ATR-42 airplanes will utilize composites (carbon and/or graphite) and bonding techniques in the construction of their airframes.

Because of the significant increases in fuel costs, economic factors demand that the next generation of engines must be more fuel and operationally efficient. Turboprop engines currently under development are expected to achieve more than 25 percent greater fuel efficiency compared with present power plants. Additionally, these engines will continue to improve in efficiency and longevity as a result of the availability of materials allowing use of higher temperatures in the power generating sections of the engine. 2/ The CAC-100 and the ATR-42 airplanes both have power plants which are more fuel efficient than present engines. However, industry sources indicate that the ATR-42 incorporates the more modern of the two Pratt and Whitney engine models.

The avionics systems of commuter aircraft in the near future will include, in addition to the conventional navigation and communication functions, the monitoring of power plants and the optimum management of fuel. Electronic displays are expected to increase in popularity, displacing complex electromechanical devices. Industry officals indicate that the use of cathode ray tube (CRT) and adaptive displays will also increase. The trend in avionics appears to be towards simpler pilot presentations for improved safety. 3/ Both the CAC-100 and the ATR-42 airplanes are expected to utilize advanced avionics systems.

U.S. tariff treatment 4/

Commuter airplanes included in this investigation are classified for statistical purposes under TSUSA item 694.4155 (Civil airplanes, new, other

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1/ Charles B. Husick, "A Realistic Approach to Technology Improvements In General Aviation," May 25, 1982.

2/ Ibid.

3/ Ibid.

4/ The rates of duty in rate of duty column numbered 1 are most-favored-Nation (MFN) rates, and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUSA. However, such rates would not apply to products of developing countries since they are granted preferential tariff treatment under the Generalized System of Preferences (GSP) or under the "LDDC" rate of duty column.

The preferential rates of duty in the "LDDC" column reflect the full U.S. MTN concession rates implemented without staging for particular items which are the products of least developed developing countries, enumerated in general headnote 3(d) of the TSUS. Where no rate of duty is provided in the "LDDC" column for a particular item, the rate of duty provided for in column numbered 1 applies.

The rates of duty in rate of duty column numbered 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(f) of the TSUSA.

The GSP, enacted as title V of the Trade Act of 1974, provides duty-free treatment for specified eligible articles imported directly from designated beneficiary developing countries. GSP, implemented by Executive Order No. 11888 of November 24, 1975, applies to merchandise imported on or after Jan. 1, 1976, and is scheduled to remain in effect until Jan. 4, 1985.

than single engine planes and helicopters, 10,000 to 33,000 pounds, inclusive, empty weight), and item 694.4165 (Civil airplanes, new, other than single engine planes and helicopters, over 33,000 pounds empty weight). Through negotiations at the Tokyo round of the Multilateral Trade Negotiations in 1979, all customs duties and any similar charges of any kind on civil aircraft, aircraft parts, 1/ and repairs on civil aircraft, imported into the United States from all sources except certain Communist countries not entitled to most-favored-nation treatment were eliminated as of January 1, 1980. Prior to this date, the customs duty on commuter airplanes imported into the United States was 5 percent ad valorem for column 1 countries and 30 percent ad valorem for column 2 countries. The column 2 rate of duty has remained unchanged.

Prior to 1980, the rates of duty applicable to all civil aircraft parts were 5 percent ad valorem (column 1) and 27.5 percent ad valorem (column 2). Beginning in 1980, the rates for civil aircraft parts (if the parts are not certified in accordance with headnote 3) are 3.1 percent ad valorem (col. 1); free (LDDC rate); and 27.5 percent ad valorem (col. 2). Prior to 1980, the rate of duty assessed on the "cost of equipment, or any part thereof, purchased, of repair parts or materials used, or of repairs made in a foreign country with respect to United States civil aircraft" was 50 percent ad valorem for all countries under section 466 of the Tariff Act of 1930 (19 U.S.C. 1466). Commuter airplanes are not eligible for duty-free treatment under the GSP; however, imports of parts of commuter airplanes under TSUS item 694.61 are eligible for such duty-free treatment under the GSP.

Nature and Extent of Alleged Subsidies

The petition alleges that certain commuter airplanes, specifically the ATR-42 airplane, exported from France and Italy are being sold and offered for sale in the United States under financing terms that offer U.S. purchasers preferential or below market interest rates. These below market interest rates, alleged to be as much as 10 percentage points below the prevailing commercially available U.S. interest rate, are also alleged to be the result of "official export credits or of other official or private programs" offered by the governments of the countries in question. 2/

The U.S. Commuter Airline Industry

Commuter airlines (also known as regional airlines) are the predominant users of the aircraft covered in this report. These carriers utilize a wide variety of commuter aircraft, differing in size and capability, according to their route structures and passenger load. Commuter airlines operate frequent, low density, short-haul routes, typically over a distance of between

1/ Parts of civil aircraft are duty-free only if certified for use in civil aircraft in accordance with headnote 3, part 6C, schedule 6, TSUSA.

2/ The petitioner requested the assistance of the Department of Commerce in determining the origin of the subsidy.

100 and 300 miles. The principal function of these airlines has been to provide small-and medium-size communities with access to the Nations primary transport system. There are presently over 250 commuter airlines operating in the United States. In 1981, these airlines transported an estimated 15.2 million passengers 1/, employing approximately 1,463 aircraft. 2/ Much of the recent growth in passenger traffic has been among the larger commuter airlines. These carriers have been expanding the number of markets served as a result of short-haul service reductions and abandonments by the larger airlines. To take advantage of these opportunities, these airlines have been purchasing larger, more fuel efficient airplanes; approximately 60 percent of the new orders placed by the top fifty commuter carriers have been for airplanes capable of carrying 30 or more passengers. 3/

In determining whether to purchase a particular airplane, commuter airline officials indicate that the major factor considered is the suitability of the aircraft for the individual carrier. Suitability takes into account the size, speed, pressurization, and operating costs of an airplane. Because of the high debt-to-equity ratio of most commuter airlines, a new equipment decision can often determine the success or failure of a carrier. Additional factors taken into account include price, financing, availability, servicing and availability of spare parts, and supplier reputation, not necessarily in that order.

Currently, three U.S. commuter airlines have signed contracts to purchase ATR-42 commuter airplanes: Wright Airlines (Cleveland, Ohio) has ordered eight airplanes; Ransom Airlines (Philadelphia Pa.) has ordered six planes; and Command Airways, Poughkeepsie, New York, has ordered five planes. 4/ To date, Commuter Aircraft Corp. has not received any orders for the CAC-100 commuter airplane.

Aftermath of deregulation

The Airline Deregulation Act of 1978 (enacted into law on Oct. 24, 1978) significantly expanded the role of commuter airlines in the Nation's transportation scheme. Several provisions of deregulation, while written into the legislation primarily for the direct benefit of the major airlines, have provided tremendous marketing opportunities for the small-and medium-size commuter airline.

One key provision of deregulation allows for the free entry into and exit from markets by national and local airlines. As a result of this provision, national airlines quickly withdrew from uneconomical short-haul markets to the

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1/ Total passengers transported by all airlines in 1981 was approximately 300.9 million passengers.

2/ Regional Airline Association, 1981 Annual Report, Regional/Commuter Airline Industry, February 1982, p. 124.

3/ Impact of advanced Air Transport Technology, part III-Air Service to Small Communities, Office of Technology Assessment, U.S. Congress, 1982, p. 39.

4/ "Wright Airlines Orders Eight ATR42s," Aviation Daily, May 14, 1982, p. 77, and "ATR42-The Real Take-off," Interavia, June 1982, p. 604.

more profitable cost-effective long-haul markets. Commuter airlines immediately stepped in to provide replacement service in these vacated markets. A second key provision of deregulation which benefited commuter airlines was the provision that raised the number of passenger seats commuters are permitted to operate from 20 to 60. This change was a recognition of the anticipated need by commuters for larger aircraft to service a newly created medium-size market.

Other provisions of deregulation which have helped commuter airlines obtain a larger share of the air transportation market are the Essential Air Service Program (EAS) and the inclusion, for the first time, of commuter carriers as eligible participants in the Federal Aviation Administration Equipment Loan Guarantee Program. The EAS program basically provides for the continuation of air service to small- and medium-size markets vacated by the last remaining air carrier. As an inducement to provide replacement service, air carriers entering these markets are subsidized by the Federal Government to offset losses incurred in providing needed air service. The guaranteed loan program is discussed elsewhere in this report. However, in brief, the guarantee covers 90 percent of the purchase price of the aircraft, spare parts, and engines, and the term of the loan may not exceed 15 years.

The industry today

There exist today some 250 U.S.-based commuter airlines. 1/ This figure has remained virtually unchanged since 1978; however, the composition of the industry is in a constant state of change. It is estimated that the top 5 commuter airlines carry some 37 percent of all commuter airline passengers while the top 50 carry 85 percent. The remaining market share is accounted for by small "mom and pop" type commuters operating with one or two aircraft having fewer than 10 seats and serving communities having limited passenger traffic.

The total number of passengers carried by commuter airlines increased significantly in 1978 and 1979. The number of passengers carried continued to increase in 1980, but at a reduced rate, as shown in the following tabulation:

	Passengers carried (thousands)	Percentage Change
1978----------	11,026	20.0
1979----------	13,972	26.7
1980----------	14,810	6.0

1/ Regional Airline Association, 1981 Annual Report, Regional/Commuter Airline Industry, Washington, D.C., February 1982, p. 46.

The number of commuter aircraft powered by turboprop engines in service at the end of 1981 totaled 606 airplanes. 1/ As of August 1981, 13 percent of all commuter airlines operated airplanes with seat capacity in the 31 to 50 seat range, as shown in the following tabulation:

	Total	31-50 seats	31-50 seats as a percent of the total
Airplanes in service 1/--	1,676	117	7.0
Commuter airlines--------	259	33	12.7
Seats----------	22,966	5,582	24.3

1/ Includes airplanes smaller than 31 seats.

A closer examination of individual airplanes, i.e., airplanes capable of carrying 30 to 50 passengers, currently available to commuter carriers is presented in table 3. All but 2 of the aircraft shown in the table (the Fairchild F-27/FH-227 and the Gulfstream G-1C) are manufactured by foreign firms. In the 30 to 39 seat range, only two aircraft were actively in use in 1981. Indeed, carriers seem to have a preference for aircraft in the 40 to 50 seat range. In this group, the Convair 440/580 and 600 showed the highest frequency of operation in both 1980 and 1981. The aircraft exhibiting the most growth in terms of numbers in operation between 1980 and 1981 was the Canadian built de Havilland Dash 7. The number of Dash 7's in operation increased from 15 in 1980 to 33 in 1981, up by 120 percent.

Table 3.--Commuter airplanes: Major commuter aircraft in operation by seating capacities, and by types, 1980 and 1981

Item	Typical seating capacity	Number in operation		Percentage change
		1980	1981	
Aircraft:				
Convair 440/580/600 1/----------	40-50	76	68	(10.5)
de Havilland Dash 7----------	50	15	33	120.0
Fairchild F-27/FH-227 1/---------	46	13	12	(7.7)
Fokker F 27----------	50	7	6	(14.3)
Gulfstream G-1C----------	37	0	2	-
Martin 404 1/----------	44	20	21	5.0
Shorts 330----------	30	35	44	25.7
Total----------	-	166	186	12.0

1/ No longer in production.

Source: Aviation Consulting Inc., Commuter Airline Aircraft of America (1981 ed.), p. 6.

1/ Regional Airline Association, 1981 Annual Report, Regional/Commuter Airline Industry (Washington, D.C. February 1982), p. 127.

Financing U.S. Commuter Airplanes

The selling price of currently available commuter airplanes in the 30 to 60 seat range may vary from $2.4 million to $5.0 million. Similarly, the asking price for similar aircraft presently under development, and for which orders are now being taken by the manufacturer, range from $1.8 million to $5.0 million. For the vast majority of carriers, 80 percent or more, such prices exceed, by many times over, the net worth of the firm. Consequently, for these carriers, the acquisition of new aircraft under suitable financing terms is critical to their survival. Even for the remaining 20 percent of carriers, those on a stronger financial footing and with easier access to equipment replacement capital, prevailing high interest rates and overall economic uncertainty combine to temper long-term acquisition commitments.

Commuter airlines in the United States finance their purchases of new aircraft in several different ways, more typically, however, through commercial banks, leasing arrangements, and through seller financing. This section of the report will describe the basic forms that financing new aircraft may take, although the terms of sale and the final specifications of the plane may be different for each individual transaction.

The expected prices of the airplanes that are the subject of the petition are $4.8 million for the ATR-42 and $5 million for the CAC-100. The prices of the planes are included in financial packages that are currently being negotiated. These packages are discussed here in lieu of price data because the planes have not yet been produced.

The purchase agreement

A commuter aircraft purchase may begin at one of three levels of commitment on the part of the buyer: a firm order, an option to buy, and a letter of intent to purchase. A firm order is placed when the buyer and seller sign a purchase agreement detailing the duties of each party, with respect to the delivery and acceptance of aircraft(s) under the terms and conditions of the agreement. A firm order generally requires the buyer to make a nonrefundable down payment, usually 15 to 20 percent of the selling price of the aircraft. However, interviews with manufacturers and purchasers suggest that, given today's market conditions, this requirement may not always be imposed.

An option to buy is like a firm order except that the purchase agreement has not been completely negotiated and the parties are not fully committed to the sale. An option may provide the buyer with a commitment from the seller that the base price of the plane will be fixed as of the date the option is signed.

A letter of intent is a nonbinding agreement between the buyer and the seller. As the name implies, it is nothing more than a preliminary statement of the buyer's interest in the seller's aircraft. The letter of intent may be more important to the seller than to the buyer if the seller must convince his own financial backers that a potential market for the aircraft exists.

Once negotiations are completed, each purchase agreement between buyer and seller will be different from any other purchase agreement. Usually the seller begins negotiating with a potential buyer by introducing a standard purchase agreement form. The standard form will be modified during the lengthy negotiations which follow. Some of the clauses that are often contained in such a document (and subject to negotiations) are price and price escalator clauses; clauses for payment terms such as the interest rate (seller financing), prepayment percentages, schedules of payments; performance-guarantee clauses; and clauses that address changes in the aircraft's specifications. After the purchase agreement is signed, the buyer must then arrange for suitable financing.

Methods of financing

Sales of aircraft in the United States have traditionally been financed by the airline that buys the plane. An airline rarely has sufficient cash on hand to buy a plane without financing. Airlines may choose from several methods of financing their aircraft purchases. It can be arranged through commerical banks at market interest rates, through government guaranteed loans, though lease-purchase arrangements, and through the seller.

U.S. commuter airlines have typically financed purchases of new aircraft through commercial banks. Few airlines are able to negotiate commercial loans at the prime rate, more often the airline must settle for an interest rate that may be several percentage points above prime. Commuter airlines, historically, are high risk borrowers.

To assist commuter airlines that otherwise could not obtain loans in the marketplace under favorable conditions, the Federal Aviation Administration Equipment Loan Guarantee Program was made a part of the Airline Deregulation Act of 1978. This program, administered by the FAA, was expanded to include commuter air carriers for the first time. Under the program, only 90 percent of the loan and 100 percent of the unpaid interest are guaranteed. The loan itself may not exceed 90 percent of the purchase price of the aircraft, spare parts, and engines, and the loan term may not exceed 15 years. The loan will be guaranteed only if the FAA finds that the airline (1) would be unable to obtain any other loan at reasonable terms, (2) needed planes to improve service and efficiency, (3) is likely to repay the loan, and (4) has sufficient security to protect the U.S. interest.

The terms and conditions of the guaranteed loan are generally determined by negotiations between the airline and the lender. The FAA guarantee will usually allow the airline to obtain a loan at a rate of interest below that which the airline is able to obtain without the guarantee.

Airlines may increasingly turn to leasing as a means of acquiring new aircraft. For some airlines, particularly the small commuter carriers, leasing provides the only means by which the airline can replace obsolete equipment or add new aircraft to an existing fleet. Leasing allows a financially strapped carrier to conserve available resources for much needed working capital. Under a leasing transaction, an airline locates investors that are willing to purchase the aircraft from the manufacturer (seller) and

then lease the airplane to the airline. Under a capital or finance lease, the airline records the acquisition of the airplane as an asset and thus is entitled to depreciate the plane over the life of the lease, usually 10 years or longer. At the end of the lease period the airline may acquire the airplane from the lessor for a predetermined value, usually less than the fair market value of the aircraft. For their part, the investors or lessors will recoup their investment (the purchase price of the airplane) plus profit in the form of rents or lease payments made by the airline or lessee. The passage of the Ecomomic Recovery Tax Act of 1981, which significantly broadens the tax aspects of leasing, may induce more capital-intensive industries, such as airlines, to enter into "sale-leaseback" arrangements.

Seller financing is relatively new in the U.S. market and is practiced primarily by foreign producers. The foreign producers may obtain help from their country's export-import bank. Seller financing is apparently, in part, a response to the buyer's demand for fixed-rate financing that commercial banks are unwilling to provide in today's market.

The French Government has two methods of export credit financing. 1/ For loans less than or equal to 7 years, the seller generally will obtain a loan from a commercial bank. The commercial bank will, after receiving an endorsement from the Banque Francais du Commerce Exterieur (BFCE), refinance up to 85 percent of the loan with the Bank of France at the current preferential discount rate. The discounting will reduce the rate paid by the seller below the market rate. The lower rate is then passed on to the buyer. For loans greater than 7 years, the BFCE will fund the loan directly. BFCE will receive a subsidy from the French Treasury that permits the interest rate to be less than the market rates. BFCE borrows at market rates and the French treasury covers the difference. 2/

The standard purchase agreement used by Aerospatiale indicates that all payments made by buyers of the ATR-42 will be to its account with BFCE. The interest rate that Aerospatiale offered to purchasers before May 15, 1982, was 10.4 percent, and their current rate is 12.75 percent. Both of these rates are below current prevailing market rates. See appendix D for a comparison of the net effects of various rates of interest on the cost to an airline of purchasing an ATR-42 airplane.

1/ See John M. Duff, "The Outlook for Official Export Credits," Law and Policy In International Business, vol. 13, No. 4, 1981, pp. 931-932.

2/ Export credit financing is not limited to the French Government. According to the Office of Technology Assessment, ". . . the Canadian goverment has given de Havilland an $85 million loan to finance exports. This in turn allows the manufacturer to offer U.S. buyers up to 100 percent financing on orders for its forthcomming Dash 8 at 8 percent interest." See Impact of Advanced Air Transport Technology, Part 3-Air Service to Small Communities, Office of Technology, 1982, p. 41.

The Foreign Product

The ATR-42 commuter airplane is the product of a joint venture between Societe Nationale Industrielle Aerospatiale (Aerospatiale) of France and Societa Aerospaziale Italiana (Aeritalia) of Italy. Production plans call for a 50-50 division of labor between the two companies, with Aerospatiale responsible for the wings and final assembly, and Aeritalia providing a fully equipped fuselage. Production of the tail section is to be subcontracted to a European manufacturer. 1/ Both producers are state owned, and the French and Italian Governments will provide approximately $225 million in development costs for the project. 2/ The organization of the consortium will be similar to the arrangement used by Airbus Industrie (of which Aerospatiale is a major partner) in developing the product line.

The plane itself will be a high wing, T-tail, pressurized aircraft that will seat 42 passengers at a 32-inch seat pitch (46 or 49 passengers at a 30-inch seat pitch) in a 4 abreast seating arrangement. Cabin length is 45 feet, 4 inches and cabin height is 6 feet, 3 inches. Two Pratt and Whitney of Canada PW120 turboprop engines will give the airplane a normal cruising speed of 277 knots.

Design engineers are also considering a family of aircraft designs from the basic proposed aircraft structure, including a mixed cargo/passenger version, a quick change version from passenger to full cargo loads, and a cargo version with a built in rear loading door. Additionally, a stretched fuselage able to carry up to 60 passengers is contemplated. Planned first flight of the ATR-42 is August 1984. Both European and U.S. certification is expected in mid-1985. Initial airline delivery dates are set for late 1985. 3/ The initial production rate at the Toulouse, France assembly facility is expected to be two planes per month. The consortium projects production of 36 planes in 1986 and 52 the next year, eventually reaching 6 per month. 4/ Estimated delivery price (in 1981 constant U.S. dollars) is $5.0 million.

Industry sources indicate that the success of the ATR-42 is, in part, dependent on the advanced support and maintenance system the French and Italians offer. Prior to the introduction of the Airbus there was a long history of inadequate spare parts support from the French. However, their experience in the production of the Airbus has enhanced their reputation in the industry. Additionally, Aerospatiale officals indicate that immediate plans call for the establishment of a U.S. sales unit and, in the long run, the creation of a separate company division here.

The Domestic Industry

With the passage of the Airline Deregulation Act of 1978, a whole new U.S. market was created for "large, high-performance new design commuter

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1/ "Seat Capacity Increase Key to ATR42 Design," Aviation Week and Space Technology, May 7, 1981, p. 55.

2/ "A Commuter Plane Swoops Up Orders," Business Week, May 3, 1982, p. 45.

3/ "Commuter Airliners," Flight International, May 15, 1982, p. 1224.

4/ "1982, the year of Commitment for U.S. Commuter/Regional Carriers," Commuter Air, February 1982, p. 27.

aircraft." Prior to deregulation, U.S. commuter airlines were prohibited from operating commuter aircraft having more than 30 seats. Deregulation raised passenger seating capacity for commuter aircraft to 60 seats, creating the need for larger and more technically advanced aircraft to meet the needs of this expanded market.

Presently, there are three principal U.S. companies that are developing commuter airplanes in the 30 to 60 seat range. Commuter Aircraft Corp. (Youngstown, Ohio), Fairchild Swearigen Aviation Corp. (San Antonio, Tex.), and Gulfstream American Corp. (Savannah, Ga.). With the possible exception of Gulfstream American, the other two firms report that they are developing new generation airplanes based on the latest technological advances.

CAC was established in 1979 and is licensed in the State of Ohio as an airplane manufacturer. The company was initially financed by a $38 million loan placed with the Chemical Bank of New York. This loan is guaranteed by the Economic Development Administration of the Department of Commerce and is contingent upon CAC receiving 25 orders for the CAC-100 airplane. In addition, * * * . CAC also has raised more than * * * in equity capital through the sale of CAC shares to residents in the surrounding Youngstown area; two other public offerings are slated to provide an additional * * *.

CAC began construction of what will be its primary plant facility on a 94-acre site in Youngstown, Ohio in September 1981. The plant is not expected to be completed until the end of 1982. Initial plans call for this plant to function only as an assembly operation, i.e., all component parts for the CAC-100 (including the airframes) will be manufactured by unaffiliated firms on a contract basis and CAC will perform the actual assembly of the airplane. Initial deliveries of the CAC-100 are scheduled to begin in 1985.

Fairchild Swearigen Aviation Corp. was formed in 1972 and is a wholly owned subsidiary of the U.S. firm, Fairchild Industries, Inc. In January 1980, Fairchild Swearigen and Saab Scandia A.B. of Sweden entered into a joint venture agreement to develop and manufacture the Saab/Fairchild 340 commuter airplane. The agreement calls for the two firms to share equally all costs associated with the development of this airplane. Most of the manufacture of component parts for the 340 will be done by divisions of the parent firms (Fairchild Industries) located in Farmington, N.Y. and Hagerstown, Md. Final assembly of the airplane is scheduled to be completed in Sweden. The Saab/Fairchild 340 will not be the only commuter airplane produced by Fairchild Swearigen. Other airplanes now being manufactured by the firm include the Metro II and III, which are commuter airplanes in the 19-seat capacity range, and the Merlin executive airplane. As of August 1981, there was a combined total of approximately 127 of these airplanes in service.

The last of the three U.S. firms that are developing a commuter airplane targeted specifically for the 30 to 60 seat market is Gulfstream American Corp. Gulfstream American, originally a division of the Grumman Corp., was purchased from Grumman in 1978 and since has operated as a wholly independent entity. The firm's principal output is the G-3 executive turbofan airplane. In addition to the G-3, Gulfstream American embarked on a program to convert

its G-159 airplane (a turboprop executive airplane, first introduced in 1978) into a 32 to 38 seat commuter airplane. Although two customers have placed orders for * * * of the converted airplanes, referred to as the G-1C, only * * * such conversions have actually been completed.

U.S. Production

Only Fairchild Swearigen has actually started production of its Saab/Fairchild 340 aircraft. Commuter Aircraft Corp. is scheduled to commence production on the CAC-100 in January-March 1983. Gulfstream's program of refitting the G-159 aircraft to the newer version G-1C is presently in doubt due to the lack of interest shown so far by commuter airlines; only * * * such conversions have been completed. This program could be kept alive, however, * * *.

Projected annual production of the CAC-100 and the Saab/Fairchild 340 is expected to be in the neigborhood of * * * airplanes in 1984, * * * in 1985, and * * * airplanes in 1986. Output by individual firm is projected as follows:

	Total aircraft	CAC	Fairchild Swearigen
1984----------	***	***	***
1985----------	***	***	***
1986----------	***	***	***

U.S. Employment

Commuter Aircraft Corp. expects to employ some * * * production and related workers when it is in full production. Fairchild Swearigen estimates that it will employ a total of * * * production and related workers in 1984. Final assembly of the Saab/Fairchild 340 will take place in Sweden. This fact accounts for the difference in the number of employees projected by both firms.

Research and Development and Capital Expenditures

Combined research and development expenditures reported by CAC (* * *) and Fairchild (* * *) totaled * * * as of June 1, 1982. The majority of this amount (* * * percent) was reported by * * *.

Of the three producers responding to the Commission's questionnaire only CAC reported actual or estimated expenditures for plant and equipment. As of June 1, 1982, CAC reported * * * for such expenditures. Further, the company estimates that such expenditures will equal * * * by the end of 1982, the time its plant facility is scheduled for completion.

Financial Resouces

It is alleged that Commuter Aircraft Corp. is severely undercapitalized with respect to developing the CAC-100. 1/ The costs associated with the development and certification of a new airplane of the size of the CAC-100 are alleged to be in excess of $150 million. 2/ When plant and tooling are added in, total non-recurring and recurring costs could equal or exceed $200 million.

In support of its estimate of $160 million in development costs, CAC provided the Commission's staff with a cash flow projection for the CAC-100. 3/ * * *.

Import Penetration

There have been no imports of the ATR-42 airplane to date so there is no historic data on import penetration. First customer delivery of the ATR-42, CAC-100, and the Saab/Fairchild 340 are scheduled for late 1984 and early 1985.

Lost Commitments

As shown in table 4, data obtained from questionnaire responses of U.S. commuter airlines revealed that Commuter Aircraft Corp. has not obtained one letter of intent, option, or firm order for the CAC-100. 4/ Gulfstream Corp. has received * * * firm orders for the G-1C, and Saab/Fairchild has received * * * firm orders for the Saab/Fairchild 340. These three firms are the only U.S.-based producers of aircraft having seating capacity in the 30-to-60 seat range. The foreign-based producer, Aerospatiale, has received commitments from U.S. air carriers in the form of 2 letters of intent, 2 options to buy, and 17 firm orders for the ATR-42.

Table 4.--Commuter airplanes: Letters of intent, options to buy, and firm orders placed by customers for selected commuter aircraft

(Number of airplanes)

Aircraft	Letters of intent	Options to buy	Firm orders
Gulfstream G-1C	***	***	***
CAC-100	***	***	***
ATR-42	2	2	17
SF-340	***	***	***
Total	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U. S. International Trade Commission.

1/ See transcript of the Conference at p. 85.
2/ Ibid. pp. 17 and 108.
3/ See Post-Conference Brief of the petitioner, at pp. 16-19 and "Exhibit I" at p. 13.
4/ CAC's $38 million EDA loan is contingent upon its receiving 25 firm orders representing approximately * * * in sales.

The presidents of two of the three U.S. airlines that have firm orders for the ATR-42 were interviewed by the Commission's staff. * * * said that his firm selected the ATR-42 because it employed the latest technology, was fuel efficient, and had sufficient seat capacity, given * * * route structure and perceived future needs. 1/ The CAC-100 was not considered, * * * stated, because he had not received a detailed specification document on the airplane and he was reluctant to consider buying an airplane that may never be built. * * * noted that he would not want to buy a plane from a producer who may go out of business, thus reducing the resale value of the plane. Further, he noted that if a producer failed to deliver a plane, he would be forced to seek a plane from another producer, and thus incur costly delays to improving his fleet.

* * * said that * * * decided not to purchase the CAC-100 because the plane had four engines, which * * * felt would lead to higher maintenance costs. He also felt that because CAC had no established record and no detailed specification document of the CAC-100, the firm could not expect prospective customers to give serious consideration to the aircraft or the firm. 2/ * * * said the de Havilland Dash 8 was their second choice, but they both felt the Dash 8 was not large enough for their needs.

During the Director of Operation's Conference, the President of Ransom Airlines, Mr. Dawson Ransom, indicated that the CAC-100 was not considered by Ransom. 3/ Ransom Airlines is the third U.S. commuter airline to place firm orders for the ATR-42. Ransom flies four-engine aircraft, but only those with STOL capability. Mr. Ransom preferred two-engine planes for non-STOL missions. Mr. Ransom also stated that Ransom had prior experience with Aerospatiale, and that Aerospatiale's product support, dependability, and technical support had been excellent. He further noted that Aerospatiale had guaranteed the fuel burn for the ATR-42. Mr Ransom was not confident that CAC would become a viable producer and had not received a detailed specification document on the CAC-100.

Purchaser responses to questionnaires also revealed limited marketing efforts by CAC. * * * responded that the ATR-42 was too slow for long-range flights (over 250 miles) and that the CAC-100 was a possible aircraft for its fleet if the airplane had sufficient power for high altitude flying. However, * * * had no commitments to purchase any aircraft from any producer as of June 1, 1982.

* * * responded that the CAC-100 was too large for their projected needs. An executive with * * * also told the staff that his firm would not buy the CAC-100 because it had four engines and because he doubted CAC could provide the logistical support he would need after purchasing the airplane. Both airlines had firm orders for the SF-340. * * * also responded that the CAC-100 was too large, and that the airline has firm orders for the EMB-120.

1/ Staff interview with * * *.

2/ Staff interview with * * *.

3/ Statement and comments by Mr. Dawson Ransom, President of Ransom Airlines, during the Director of Operation's Conference, June 23, 1982. See pp. 97 to 103 of the transcript.

* * * responded that the de Havilland Dash 7 best met its needs in terms of technical support, supplier confidence, availability, quality, and estimated breakeven rate.

* * * responded that the Dash 7 met its present needs and the CAC-100 did not. This airline has signed letters of intent for the Dash 8. * * * currently flies de Havilland airplanes; it needs airplanes capable of flying into and out of high altitude airports and prefers STOL airplanes.

* * * responded that it had no firm, reliable data on the CAC-100, which it labeled a paper airplane, and that the ATR-42 fits best its perceived needs after 1984 for airplanes having 41 to 50 seats. The three most important reasons * * * gave for its commitment to the ATR-42 were its estimated breakeven rate, its superior performance, and supplier confidence. * * * has signed letters of intent for the ATR-42.

APPENDIX A

COMMISSION'S NOTICE OF INSTITUTION OF PRELIMINARY COUNTERVAILING DUTY INVESTIGATIONS

Issued: June 3, 1982.
Donald K. Duvall,
Chief Administrative Law Judge.
[FR Doc. 82-15613 Filed 6-8-82; 8:45 am]
BILLING CODE 7020-02-M

[Investigations Nos. 701-TA-174 and 175 (Preliminary)]

Certain Commuter Airplanes From France and Italy

AGENCY: International Trade Commission.

ACTION: Institution of preliminary countervailing duty investigations and scheduling of a conference to be held in connection with the investigations.

SUMMARY: The U.S. International Trade Commission hereby gives notice of the institution of investigations Nos. 701-TA-174 and 175 (Preliminary) to determine, pursuant to section 703(a) of the Tariff Act of 1930 (19 U.S.C. Part 1673b(a)), whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from France and Italy of certain commuter airplanes, provided for in item 694.41 of the Tariff Schedules of the United States, upon which subsidies are alleged to be paid. For purposes of this investigation, "commuter airplanes" are airplanes having a seating capacity of less than 60 seats.

EFFECTIVE DATE: May 27, 1982.

FOR FURTHER INFORMATION CONTACT: Woodley Timberlake, Office of Investigations, U.S. International Trade Commission; telephone 202-523-4618.

SUPPLEMENTARY INFORMATION:

Background.—On May 27, 1982, a petition was filed with the Department of Commerce by counsel for Commuter Aircraft Corporation alleging that producers, manufacturers, or exporters in France and Italy of certain commuter airplanes receive, directly or indirectly, bounties or grants within the meaning of section 701 of the Tariff Act of 1930 (the Act).

The Commission must make its determination in the investigations within 45 days after the date on which the Commission and the Department of Commerce receive a petition filed under section 702(b) of the Act, or by July 12, 1982 (19 C.F.R. 207.17 (1981)). The investigation will be subject to the provisions of part 207 of the Commission's Rules of Practice and Procedure (19 C.F.R. 207.17 (1981), as amended by 47 FR 6190 (Feb. 10, 1982)), and particularly subpart B thereof.

Written submissions.—Any person may submit to the Commission on or before June 28, 1982, a written statement of information pertinent to the subject matter of these investigations. A signed original and fourteen copies of such statement must be submitted. In the event that confidential treatment of the document is requested under § 201.6, at least one additional copy shall be filed in which the confidential business information shall have been deleted and which shall have been marked "nonconfidential" or "public inspection".

Any business information which a submitter desires the Commission to treat as confidential shall be submitted in conformance with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 C.F.R. 201.6 (1981)). Each sheet of information for which confidential treatment is desired must be clearly marked at the top "Confidential Business Data".

All written submissions, except for confidential business data, will be available for public inspection at the Office of the Secretary, U.S. International Trade Commission.

Conference.—The Director of Operations of the Commission has scheduled a conference in connection with these investigations for 10:00 a.m., e.d.t., on June 23, 1982, at the U.S. International Trade Commission Building, 701 E Street, NW., Washington, D.C. Parties wishing to participate in the conference should contact the Supervisory investigator for the investigations, Mr. John MacHatton, telephone 202-523-0439, not later than June 18, 1982, to arrange for their appearance. Parties in support of the imposition of countervailing duties in these investigations and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference.

For further information concerning the conduct of the investigations and rules of general application, consult the Commission's Rules of Practice and Procedure, part 207, subparts A and B (19 C.F.R. 207 (1981), as amended by 47 FR 6190 (Feb. 10, 1982), and part 201, subparts A through E (19 C.F.R. 201 (1981)), as amended by 47 FR 6190 (Feb. 10, 1982)). Further information concerning the conduct of the conference will be provided by Mr. MacHatton.

This notice is published pursuant to § 207.12 of the Commission's Rules of Practice and Procedure (19 C.F.R. 207.12 (1981)).

Issued: June 4, 1982.
By order of the Commission.
Kenneth R. Mason,
Secretary.
[FR Doc. 82-15614 Filed 6-8-82; 8:45 am]
BILLING CODE 7020-02-M

APPENDIX B

LIST OF WITNESSES APPEARING AT THE CONFERENCE

CALENDAR OF PUBLIC CONFERENCE

Investigation Nos. 701-TA-174 and 175 (Preliminary)

CERTAIN COMMUTER AIRPLANES FROM FRANCE AND ITALY

June 23, 1982

In support of the imposition of countervailing duties

Kilpatrick & Cody--Counsel
Washington, D.C.
on behalf of

Commuter Aircraft Corporation,
Youngstown, Ohio

Kornel J. Feber, President and Director

Allison Wade)
Thomas R. Graham) --OF COUNSEL

In opposition to the imposition of Countervailing duties

Mudge Rose Guthrie & Alexander--Counsel
New York, N.Y.
on behalf of

Societe Nationale Industrielle Aerospatiale
Paris, France

Societe Aerospaziale Italiana
Naples, Italy

J. Dawson Ransome, President,
Ransome Airlines

Kingsley Morse, President,
Commercial Airways Inc.

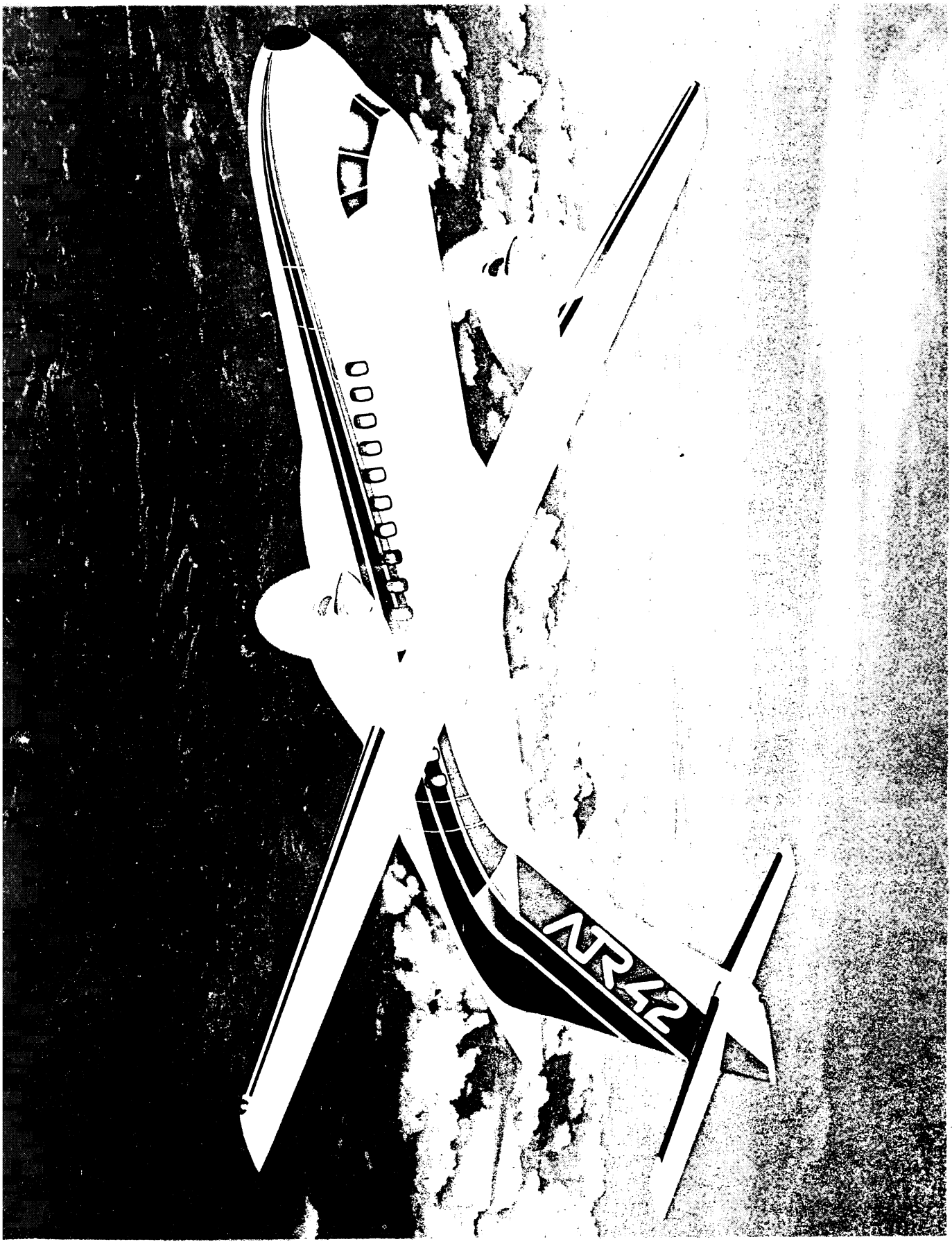
John Reilly, ICF

William N. Walker)
David Vaughn) --OF COUNSEL

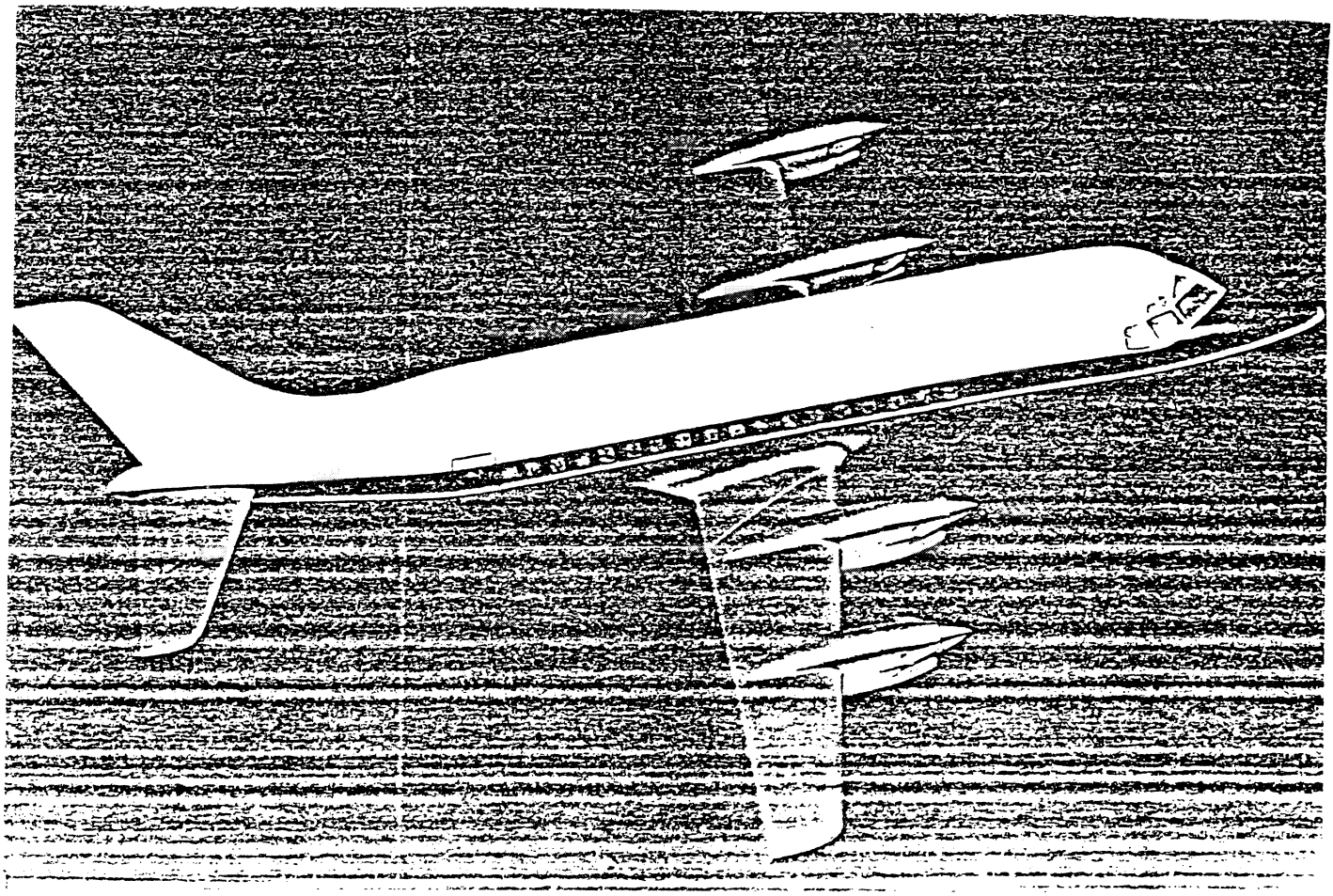
APPENDIX C

PICTORIAL DESCRIPTION OF AIRCRAFT UNDER DEVELOPMENT

ATR-42

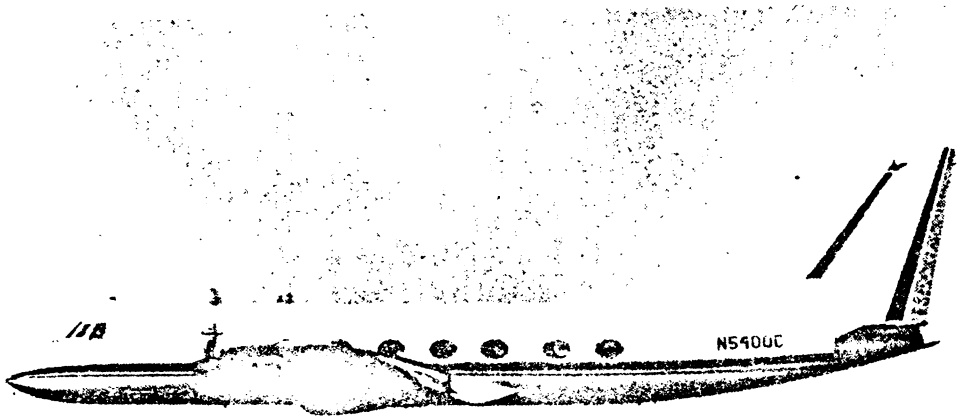


CAC-100



SAAB/Fairchild 340

Gulfstream G-1C



APPENDIX D

EFFECTS OF DIFFERENCES IN INTEREST RATES

This appendix indicates the general effects that differences in interest rates will have on the cost of purchasing an aircraft. It will compare the cost of an ATR-42 financed at 10.4 percent, the rate Aerospatiale gave in its three contracts, to the cost had it been financed at 17.0 percent and 18.0 percent. Had domestic purchasers financed the ATR-42 at a 17.0 percent interest rate their first payment on their loan would have been * * * percent higher than that payment at a 10.4 percent interest rate; their final payment would have been * * * percent higher; the total cost of an airplane would have been * * * percent higher. Had domestic purchasers financed the ATR-42 at an 18.0 percent interest rate their first payment of their loan would have been * * * percent higher; their final payment would have been * * * percent higher; the total cost of an airplane would have been * * * percent higher.

This example uses 17.0 and 18.0 percent rates of interest to approximate the market interest rates the more creditworthy commuter airlines currently pay. Executives of two carriers that have ordered the ATR-42 stated that their firms usually borrow funds at rates * * * percent above the prime rate. 1/ The prime rate recently has varied from 16.0 to 17.0 percent.

This comparison of Aerospatiale's interest rates with these higher rates of interest does not necessarily represent a comparison with the financing terms available on a domestic airplane. Because CAC has received no firm orders for the CAC-100, the terms at which purchasers would finance this plane are unknown. The staff contacted two airlines that intend to buy the Saab/Fairchild 340 to ask how they would finance those purchases, but neither airline will arrange specific financing terms until they are much closer to the delivery date of the airplane. Currently, we do not know the specific terms under which a domestic airplane would be financed.

The effects of interest rate differences on the cost of an aircraft will depend on such other terms of a contract as the size of the down payment and the number of years over which payments are made. The examples in this section are based on the terms in * * * contract to buy the ATR-42. This contract called for * * *

The * * * payments on an ATR-42 given interest rates of 10.4, 17.0, and 18.0 percent, are shown in tables D-1 and D-2. 2/ * * *.

The effects of interest rate differential on the total cost of buying an airplane can also be estimated. The most common measure used to compare the costs of two different contracts with purchase equipment is the present value. The present value is the amount of money that if paid today would be equivalent to a schedule of future payments, assuming that the firm faces a

---

1/ Less creditworthy airlines may be able to get similar interest rates by using the FAA's Aircraft Loan Guarantee Program described earlier in the report.

2/ The contract between * * * and Aerospatiale * * *.

given market rate of interest. 1/ A firm can determine the present value of the payments required by two contracts of very different terms, and by comparing these present values determine the relative costs of each contract.

Present value can be thought of in the following way. Suppose an airline were given a choice of paying for an airplane by making either a series of payments or by making one lump-sum payment. The lump-sum payment that leaves the airline indifferent between one payment and the series of payments is the series' present value.

The present value is a weighted sum of a series of payments. Before the payments are summed up to find the present value, each is divided by $(1+r)^t$ where: r is the market rate of interest and t is the number of time periods that will have passed between the time the decision is made and the time the payment is made. The term $1/(1+r)^t$ is the weight attached to each payment when the decision is made. Because this term's denominator grows increasingly larger, these weights are lower the farther in the future the payment will take place. Payments that are further away in time receive lower weights because if an airline can postpone payments for its equipment, it may be able to reduce its other borrowings or to retain its earnings in interest bearing accounts for a longer period of time. Thus, airlines will prefer financing packages that allow them to postpone payments for as long as possible. As a result, the full cost of a purchase will depend not only on the price and interest rate but also on other factors affecting the timing and size of the payments. The benefits airlines receive from postponing payments depend on the market interest rates, because were payments not postponed then the firm would have to reduce its lending or increase its borrowing at these rates. Therefore, present value will also depend on the market interest rate.

To show the effects of differences in interest rates on the cost of equipment purchases, the present value of the payments called for in the * * * contract to buy the ATR-42 were computed. 2/ The present value of these payments can be compared with the present value of payments had the contract called for interest rates of 12.5 percent and the market rate. A 12.5-percent interest rate is used because Aerospatiale has indicated that 10.4 percent financing is no longer available and it will now try to negotiate contracts at interest rates between 12.0 and 13.0 percent. 3/

The effects of changes in the interest rate are shown in tables D-3 and D-4. If the ATR-42 had been financed at a market interest rate of 17 percent rather than the 10.4 in the contract, its cost in present value terms would have been * * * percent higher. If the ATR-42 had been financed at a market interest rate of 18.0 percent its cost would have been * * * percent higher.

1/ The role of present value in business decisionmaking and the reasons for preferring this method to other techniques are discussed in R. E. Pritchard and T. J. Hindelang, The Strategic Evaluation and Management of Capital Expenditures (New York, AMACOM, 1981), Ch. 7.

2/ The present value calculations include all payments * * * will make on an ATR-42. * * *.

3/ All firm orders Aerospatiale now has for the ATR-42 are at a 10.4 percent interest rate.

Table D-1.--ATR-42: Interest payments per airplane, assuming contract interest rates of 10.4 and 17.0 percent

* * * * * * *

Table D-2--ATR-42: Interest payments per airplane, assuming contract interestrates of 10.4 and 18.0 percent

* * * * * * *

Table D-3.--Present value of payments on an ATR-42 Airplane, assuming a 17.0-percent market interest rate

* * * * * * *

Table D-4.--Present value of payments on an ATR-42 Airplane, assuming an 18.0 percent market interest rate

* * * * * * *