

**Remarks of**  
**Congressman William O. Lipinski**  
at the International **Aviation Club**  
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Thank you very much. I am very happy to be here today at the International Aviation Club to discuss what I believe is a very important issue.

There is a looming crisis facing America's aviation industry. The United States has long been the world's leader in aviation. However, European nations are joining together to challenge our nation's prominent position in aviation. In fact, Europe appears to have developed an industrial policy that promotes European aviation and aviation products, most often at the expense of U.S. aviation.

The most obvious example, of course, is Airbus. Throughout its history, Airbus has benefited from substantial government assistance. It is difficult to know exactly how much government support Airbus has received because Airbus does not publish financial statements. However, the U.S. Department of Commerce estimates that over 30 billion dollars has been provided to Airbus by the partner governments of France, Germany, Spain, and the United Kingdom. In addition, according to the United States Trade Representative, the Airbus partner governments have paid 75 to 100 percent of the development costs of all major lines of Airbus aircraft. As a result of this substantial government aid, Airbus was able to diversify its product and is now able to offer a "full family" of aircraft. In addition, Airbus is able to sell its aircraft at extremely low prices because it does not have to pass the cost of development along to its customers. In other words, Airbus' success is possible only because of significant government assistance.

My friends at Airbus, as well as their government supporters, defend the substantial government assistance given to Airbus by arguing that the aid is in the form of repayable loans. Yet, a subsidy is still a subsidy. The World Trade organization defines a subsidy as money or anything of value provided to a manufacturer or exporter at a cost less than would have been charged at a commercial rate. It would cost Airbus much, much more to raise money in the private market and it would be nearly impossible for a private company to obtain aircraft development funds at a government-borrowing rate. In addition, although Airbus must repay the government loans with interest, Airbus only has to pay as aircraft are sold. Therefore, Airbus assumes no risk when it develops new products because, if customers do not buy the new product, Airbus does not have to repay the loan. This gives Airbus a tremendous advantage over Boeing because it has the luxury of making business decisions with very little risk. Boeing must defend its business decisions to questioning stockholders. Airbus only has to answer to supportive government officials.

This may explain why Airbus is about to launch a massive development project, the A3XX. The A3XX will be a super jumbo jet that will be able to carry over 650 passengers. Despite serious doubts about the market demand for a super jumbo aircraft, Airbus has decided to go forward with this multi-billion dollar project. For most aircraft manufacturers, this would be a major gamble. However, Airbus, because it has the substantial government support of its partner countries, can launch new aircraft without fear of failure. In fact, Airbus has already publicly requested that its partner governments provide several billion dollars in financial support for the A3XX. Airbus is a mature company with a full product line and a market share of nearly 50 percent. Yet it still relies on government aid to launch new aircraft. This simply cannot be justified.

Yet, there is no end in sight to the government support for Airbus. In fact, the subsidies to Airbus have now been extended to include European suppliers to Airbus.

For example 2 the European Commission approved a French government subsidy to an avionics manufacturer for the development of a -Right maintenance system for Airbus aircraft, the development of which, according to the Commission, "would not be possible without aid. The Commission approved the subs' for the sole purpose of displacing Honeywell, an U.S. company, as the supplier of the system to Airbus. Not only does Airbus benefit from government support, but European suppliers to Airbus also benefit from direct government aid, most often at the expense of U.S. suppliers to Airbus.

In addition to substantial financial support, the Airbus partner governments also provide important political support to Airbus. The EU and its Member States often apply political pressure to "persuade" air carriers and their national governments to purchase Airbus aircraft. For example, in Croatia, it was suggested that if Croatian Airlines purchased Airbus aircraft, then Croatia's application to join the Council of Europe would be viewed more favorably. In France, the government instructed Air France to be the launch company for the Airbus A340-600 aircraft. Because of the political pressure applied by the ETJ and its Member States, there is now a feeling throughout Europe that it is impolite for European air carriers to buy Boeing aircraft. This helps explain why British Airways, a long-time Boeing customer, recently announced that the carrier would buy Airbus aircraft to replace its older Boeing 757s.

Although the U.S. government does occasionally assist Boeing in its marketing to foreign governments and their air carriers, the U,S. government does not, in any way, try to influence the type of aircraft U.S. carriers buy. U.S. carriers are free to decide between Boeing aircraft and Airbus aircraft without undue pressure from the U.S. government. However, I believe that the U.S. government should begin to get involved in these decisions. There should be a feeling here in the U.S. that it is impolite to buy Airbus aircraft.

Today, it appears that the U.S. government actually rewards domestic carriers that buy Airbus aircraft. I am referring, of course, to the Department of Transportation's recent decision to award JetBlue Airways Corporation the 75 slots it requested at New York's JFK International Airport. The Department of Transportation awarded the valuable slots to JetBlue despite the fact that JetBlue decided to equip its entire fleet with Airbus aircraft. JetBlue decided to buy Airbus aircraft even though, prior to its certification, the new carrier told officials at the Department of Transportation and the FAA that it intended to buy Boeing aircraft. I was disappointed by JetBlue's decision to buy Airbus aircraft but I was even more disappointed by the Department of Transportation's decision to subsequently reward JetBlue with an unprecedented 75 slots. By providing the new carrier with exactly everything it wanted, the Department of Transportation missed an important opportunity to let JetBlue know that it is impolite to buy Airbus. I am not saying that JetBlue should be punished because of its decision to buy Airbus. I am saying that JetBlue should not be given special treatment, such as an unprecedented 75 slots, because of its decision to buy Airbus aircraft.

The U.S. should not sit idly by as Airbus continues to thrive because of the financial and political support provided by its partner governments. The U.S. government should give similar political support to Boeing and send the message to U.S. carriers, such as United, USAirways, JetBlue and Frontier, that Boeing aircraft are preferred to Airbus aircraft. In addition, the U.S. should, without hesitation, take full advantage of the tools provided by the World Trade Organization and file a comprehensive challenge to the European subsidies Airbus. The World Trade Organization would, no doubt, find that Europe has blatantly and repeatedly violated international standards of fair trade.

Government aid for Airbus and its European suppliers is just one example of Europe's policy of promoting its own aviation industry at the expense of the U.S.

aviation industry. A more egregious example is the European regulation to ban hushkitted and reengined aircraft.

On April 29, 1999, the European Council of Ministers adopted a regulation that will, in effect, ban the operation of former Stage 2 aircraft that have been modified, either with hushkits or new engines, to meet Stage 3 international noise standards. The Europeans claim that the hushkit regulation is needed to provide noise relief to residents living around airports in crowded European cities. However, the European Union has not provided any technical evidence that would demonstrate an improved noise or emissions climate around airports as a result of this rule.

This is not an environment regulation, as the Europeans suggest. Rather, this regulation is an unfair, unilateral action that discriminates against U.S. products and severely undermines international noise standards set by ICAO, the International Civil

Aviation Organization- By unilaterally establishing a new regional standard for noise, the EU is taking local control over an international issue- In addition, the EU has done this in such a way that the regulation most adversely impacts U.S. carriers, U.S. products, and U.S. manufacturers.

The House of Representatives has already expressed its strong objection to this misguided regulation by passing H.R. 661, the bill introduced by my good friend and colleague, Mr. Oberstar, which would ban the operation of the Concorde in the U.S.. Passage of H.R. 661, I believe, showed the Europeans that the United States is serious about protecting U.S. aviation interests against unfair, unilateral trade actions. As a result, the effective date of the EU regulation was postponed to May 2000 in an attempt to accommodate the concerns of the United States.

Yet, although the implementation date was delayed for a year, the regulation was adopted and is now law. As a result, the regulation is already having a negative

economic impact on U.S. aviation. The regulation has raised serious doubts about the future market for hushkitted and reengined aircraft, which, in turn, has already lessened the value of these aircraft and has put a Wt to new hushkit orders. This is why the EU regulation must be completely withdrawn.

My understanding is that the European Parliament will not consider withdrawing the regulation until 5-gnifcant progress is made on Stage 4, the next generation noise standard. The U.S. is already working with the EU, through ICAO, on defining and implementing a Stage 4 noise standard. However, the on-going discussions and negotiations could continue for months, if not Years- Yet each day that the EU hushkit regulation remains on the books costs the U -S aviation industry more money.

The U.S. must send a clear signal that it will not allow Europe to set international standards on its own. For this reason, the House of Representatives also passed House Concurrent Resolution 187 which expresses the Sense of Congress that the U.S. government should act quickly and decisively if the EU hushkit regulation is not withdrawn. In particular, the U.S. government should use the Article 84 process provided by the Chicago Convention to resolve disputes between two or more states. The U.S. should file an Article 84 complaint at ICAO asking the international organization to determine whether the EU hushkit regulation violates its standards.

A ruling by ICAO in favor of the U.S. would carry tremendous weight. An ICAO ruling **in** favor of the U.S., or just the threat of such a ruling, is more likely to get the attention of the European Parliament than an action taken by the U.S. government alone. It would, no doubt, provide the EU with the political motive to repeal the hushkit regulation altogether. That is why the Administration must act now -- immediately -- and file an Article 84 complaint today.

The Europeans also use their complex regulatory process to tip the balance of aviation-related trade in their favor. The European Joint Aviation Authorities, or JAA,

represent the civil aviation authorities of several European states, which have agreed to cooperate in developing and implementing common aviation safety regulations and procedures. However, the JAA, because of its close relationship with the European aviation industry, also works to promote the aviation industry of its member states. As a result, the JAA often acts more like a trade association than a regulatory agency.

One of the primary functions of the JAA is to cooperate with foreign safety authorities especially the FAA, on the certification of products. Despite this primary purpose, the JAA has made the process for JAA approval of U.S. manufactured aviation products excessively bureaucratic and time consuming. Because JAA approval of U.S. aviation products is necessary before the products can be exported to the European market, the excessive and unnecessary delay caused by the JAA has an immediate and negative impact on the sale of U.S. products in Europe. It is obvious that the JAA is abusing the validation process to negatively effect the balance of trade between the U.S. and Europe.

The bureaucratic hassle that Gulfstream has endured in its attempt to get IAA approval for the Gulfstream V is a prime example. The Gulfstream V is an award winning aircraft that has accumulated considerable service experience. Yet, Gulfstream has spent over five million dollars **since** 1994 in pursuit of JAA approval of the Gulfstream V.

Because of the thoroughness of the FAA's certification process, JAA approval is simply supposed to be a validation, or "audit", of FAA's work. Therefore, manufacturers do not have to bear the expense and delay of a second certification program. But, that is exactly what the JAA has tuned its approval process into a second certification program. In fact, the JAA gives little recognition to the work of the FAA.

Instead, the JAA forms its own large certification teams made up of representatives of JAA member states to validate FAA-certified aircraft. These team members charge user fees to the manufacturers for time spent on the project. This costs U.S. manufacturers a great deal, especially since teams are often padded with more people than are necessary who take longer than necessary in order to inflate the user fees.

In regard to the Gulfstream V, Gulfstream has expended over 20,000 engineering man-hours and one million dollars in direct user fees in pursuit of JAA validation. Unlike the FAA, which has established a long working relationship with Gulfstream (as well as other U.S. S - manufacturers), the JAA is unfamiliar with Gulfstream and team members have little or no detailed knowledge of Gulfstream's design philosophy or service history. As a result, little or no credit is given for the successful service history of designs carried forward from previous Gulfstream models. Although the JAA should rely on their FAA co-counterparts for this information, it does not.

Gulfstream has been very cooperative with the JAA. They have invested hundreds of thousands of man-hours. They have also made changes to the Gulfstream V to resolve concerns of the JAA. These changes, which were otherwise unnecessary, were made in the spirit of cooperation and compromise to move the validation process forward. Yet, Gulfstream estimates that it will take another five years, and millions more dollars, before the JAA approval is granted to the Gulfstream V. In the meantime, sales of the aircraft in Europe are being lost to foreign competitors.

Yet, this is precisely what the JAA wants to happen. They want their validation process to be a lengthy and costly "second certification" process so that U.S. manufacturers will be at a competitive disadvantage to European manufacturers who can access the market faster and easier. How else can you explain the difference between the time the FAA spends to validate an aircraft and the time spent by the

JAA? On average, it takes the FAA only 15 percent of the original certification time to validate a foreign certified aircraft. It takes the JAA over 50 percent of the original certification time to validate a FAA-certified aircraft. The issue is clear. The FAA uses its time to validate the safety of European aviation products. On the other hand, the JAA uses its time to "recer6fy", and, in effect, stall, U.S. aviation products, giving European manufacturers an unfair advantage in the European marketplace.

The U, S. aviation industry has already addressed this issue with the JAA. For years, U.S. industry and the FAA have worked with the JAA to harmonize regulations and create reasonable and workable validation principles. Yet, little progress has been made. The U.S. must let the JAA and the national leaders of its member states know that the U.S. will no longer tolerate the deliberate waste of time and resources associated with JAA approval.

The evidence is clear. Europe is engaged ill a concerted effort to protect and promote its aviation industry at the expense of the U.S. aviation industry. The U.S. government must respond by protecting and promoting our own aviation industry. To begin with, we must use the tools provided by the World Trade Organization and other international agencies to fight unfair European actions such as unilateral trade restrictions and illegal subsidization practices. We must do so quickly and decisively so that the Europeans know that the United States is serious about protecting its aviation industry against unfair, unilateral trade actions. The time to act is now. Aviation is a global industry but it cannot continue to be if the Europeans continue to promote their own interests at the expense of the U.S. aviation industry.

For those of you who are interested, I have written a paper, which further examines the issues that I have addressed today. Please leave your name and address at the door or with Colleen Corr of my staff and I will make sure you receive a copy as soon as possible- Thank you very much.