COPY

THE ASSISTANT SECRETARY OF COMMERCE

Washington 25

February 25, 1946

Mr. Richard N. Johnson
Export-Import Bank
Washington, D. C.

Dear Mr. Johnson:-

This is written in partial reply to your letter of February 6, 1946, in which you request our opinion concerning the probable extent to which the bank will be called upon to finance purchases of aeronautical flight and ground equipment for foreign operations of American flag and foreign flag airlines. Obviously, any estimates that are made in this regard are subject to the ordinary hazards of any forecast, together with variables in foreign and domestic government policies and progress of aviation as a common means of transportation.

In making the following very rough estimates we have not delved into the subject deeply, and make them only against a background of knowledge of what foreign and domestic airlines have ordered in the way of flight equipment in this country and our rough estimate of what may be expected in the way of travel by air at the end of five years.

It appears that our United States flag airlines operating abroad will require roughly $150,000,000 to $175,000,000 of flight equipment for their operations during the next five years, plus upwards of $25,000,000 of ground equipment for placement outside of this country.

Foreign flag airlines (including United States airline subsidiaries incorporated and operated under foreign flags), exclusive of Russia, may well require upwards of $200,000,000 of flight equipment, another $100,000,000 of ground equipment, and either foreign governments or the foreign airlines, depending on how the purchase and operation of such ground equipment is handled, may need another $100,000,000 for air navigation equipment and airport construction and operating equipment.

Thus, there is the possibility of an expenditure over the next five years for flight and ground equipment for airline operations outside this country of roundly $200,000,000 by our American flag operators, and $400,000,000 for foreign flag operations.

Of the $200,000,000, it appears unlikely that it will be necessary for the Export-Import Bank to provide more than $100,000,000. The rest can probably be raised through equity financing, funded debt, or commercial bank or insurance company loans.

It is to be expected that over one-half of the airline flight and ground equipment investment of the foreign flag airlines will be on the part of British Empire companies, of which the Export-Import Bank can hardly be expected to finance more than a maximum of $50,000,000. (This statement is made on the presumption that the recently negotiated British loan will be approved by Congress.)

Of the remaining $150,000,000 for airline flight and ground equipment, it is to be hoped that American flight equipment will bulk large, but this can hardly be expected in the case of airline ground equipment. Hence, these export sales to other than British Empire purchasers will probably not exceed $75,000,000.

In regard to the $100,000,000 for air navigation and airport equipment, while it is hoped that most of the air navigation equipment will be of American manufacture, the airport equipment will probably be largely of foreign manufacture. Thus, we may sell for export roundly $50,000,000 of both types of equipment, a part of which the Export-Import Bank will no doubt be expected to finance.

Were all of these sales to foreign customers, both private and public, financed by Export-Import Bank, the amount of the Bank's capital required would vary to some degree in accordance with the Bank's policy in regard to private capital participation. That is, whether the Bank guarantees the private loan, consents to private participation in earlier maturities only without guarantee, or merely permits "across-the-board" participation without guarantee. It is presumed that such variations in policy could make a difference between a 25% and 10% participation in Export-Import Bank loans by private capital.

Two other factors that could be expected to reduce the Bank's share of loans of this nature would be participation on the part of the manufacturer to the extent of 10% to 15% of the sales value of the product and the participation in loans to foreign companies of the commercial or central banks of the country of import.

With the above factors in mind, it appears that the Bank could obtain an average private participation in its loans to American flag and foreign flag companies operating outside this country of roughly 25% to 30%, including loans to those foreign governments which will purchase and operate their own airnavigation and airport facilities. Thus, the Bank's share of loans to American flag operators might well be reduced from $100,000,000 to $70,000,000, and the Bank's loans to foreign companies and countries might well be reduced from $175,000,000 to $130,000,000, for a total of approximately $200,000,000.

Another factor to be considered is that affecting the amount of the Bank's capital and guarantees that might be utilized at one time for loans of the above category, namely, the period such loans are allowed to run, as well as the period of time over which they are granted. As you know, it has been common to regard a 5 year term as appropriate for the financing of flight equipment, and we therefore presume that the Bank's loans for aeronautical equipment will be 5 year loans granted over a period of 5 years. Under such circumstances, it appears unlikely that more than 70% to 75% of the amounts involved in all the loans in question would be outstanding at any one time.

In conclusion, therefore, while it appears that American flag and foreign flag airline operations may require roughly $600,000,000 of capital investment during the next five years, it would seem reasonable to expect that the total amount of the loans, which the Export-Import Bank may be called upon to make, will not exceed $200,000,000, of which no more than $150,000,000 would be expected to be outstanding at one time.

Sincerely yours,

/S/ GEORGE W. BURGESS

George W. Burgess
Assistant to Mr. Burden