

March 14, 1946

MEMORANDUM TO THE DIRECTORS:

Re: Eximbank policy and program for air transport financing.

When the proposed loan to TWA was brought up for discussion with the National Advisory Council in January there was considerable difference of opinion as to the necessity for and advisability of such a loan. The NAC referred the matter back to the Bank with the following statement:

No action shall be taken on the proposed Export-Import Bank loan of \$100 million to TWA until the Bank brings information and policy recommendations on the particular loan and on the general question of Government financing of international transport.

Details of the NAC discussion are contained in the minutes of their meeting on January 15, the background for which was contained in NAC Document No. 41. The discussion seemed to boil down essentially to differences of opinion as to two points: (1) what amount of total capital expenditures for foreign air transport may be required in the next three to five years regardless of financing sources; and (2) what proportion of these expenditures can be privately financed.

Following this action Mr. Taylor, and later Mr. Martin, asked me to pursue the matter and try to assemble such data and information as would be useful to the Directors in formulating such a program and, further, to make a specific recommendation in regard to TWA and any other similar projects before the Bank. The only other known request at the time involving flight equipment was one from Panair do Brasil for about

\$3.5 million to assist in the financing of five Constellations.

It was evident that the Bank could give no immediate answer to the applicants and they were so notified informally.

At Mr. Taylor's suggestion, I took the matter up first with Mr. George Burgess, who is Chairman of the Air Coordinating Committee and is Mr. Burden's assistant for aviation matters in the Department of Commerce. Mr. Burgess has sent us a letter containing the best guess he can give, a copy of which is attached hereto together with a tabulated summary of the letter which I prepared to facilitate simple exposition.

Following receipt of this information I discussed our problem with Mr. Russell Adams, one of the Directors of the Civil Aeronautics Board. Mr. Adams felt that the Board could add no additional information which would be helpful. The Director of the Board's Statistical Division is in the process of assembling certain of his impressions, but this information is not expected to furnish much further light on the problem.

The immediate question, therefore, is whether the Bank should rely solely on the estimates of the Department of Commerce or whether to supplement these with some outside checking of our own before taking any further action.

It should be borne in mind that the Air Coordinating Committee is interested in the matter from many angles including that of military defense. To what extent this should enter into the Bank's policy considerations should be carefully weighed. A policy document was prepared last August by the Air Coordinating Committee dealing with the coordination

of aviation financing with the national aviation policy. (Document ACC 26/2 August 4, 1945 and amended January 3, 1946.) The A.C.C. strongly recommended that the Export-Import Bank should lend liberal financial assistance where private financing is not available. Member agencies of the A.C.C. are the War, Navy, State and Commerce Departments, and the Civil Aeronautics Board. On a "Special Subcommittee on Financing Export of Aeronautical Equipment" I represent the Bank as an "observer".

Since any well-informed person in the industry is undoubtedly already aware of the trial balloon applications now before the Bank, I think we could seek data from plane manufacturers and carriers as to the probable capital expenditures for overseas transportation in the next few years and opinions from private bankers as to the extent of possible private capital participation, without creating any inference as to what position the Bank may finally decide upon. I am very doubtful that we will get much additional information. The primary value of further efforts would be to broaden the sources of our information in order to strengthen such decision as the Bank may make.



Richard N. Johnson

CAPITAL REQUIREMENTS FOR NEXT FIVE YEARS
FOR FOREIGN AIR TRANSPORT EXCLUSIVE OF RUSSIA

(Tabulated from data and estimates supplied by C.A.A.)
 All figures in millions of dollars

I.

Total Expenditures Required

	<u>American Flag Carriers</u>	<u>Foreign Flag Carriers</u>	<u>Total</u>
Flight equipment	175	200	375
Ground equipment (outside U.S.)	25	100	125
Navigation, airport & other equip.	—	100	100
	—	—	—
Total	200	400	600

II.

Purchases of Foreign Flag Carriers in U.S.

	<u>U.S. Purchases</u>	<u>Foreign Purchases</u>	<u>Total</u>
British Empire (flight & ground)	50	100	150
Other foreign (flight & ground)	75	75	150
Navigation, airport & other equip.	<u>50</u>	<u>50</u>	<u>100</u>
Total	175	225	400

III.

Financing of Total Expenditures

	<u>American Flag</u>	<u>Foreign Flag</u>	<u>Total</u>
Foreign capital for purchases outside U.S.	—	225	225
Carrier equity & debt (private) Manufacturers & banks, etc.	100	—	100
participation with Eximbank	30	45	75
Calls on Eximbank	<u>70</u> (35%)	<u>130</u> (32½%)	<u>200</u> (33%)
Total	200	400	600